Creating an Enabling Environment for Inclusive Growth in Kenya

KENYA ECONOMIC REPORT 2020

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Creating an Enabling Environment
for Inclusive Growth in Kenya

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

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Bishops Garden Towers, Bishops Road

P.O. Box 56445-00200, Nairobi, Kenya

Tel: +254 20 2719933/4; fax: +254 20 2719951

Cellphone: +254 724 256078, 736 712724

Email: admin@kippra.or.ke

Website: http://www.kippra.org

Twitter: @kipprakenya

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CONTENTS

Statement By Cabinet Secretary, the National Treasury and Planning xi

Foreword xii

Preface xiii

Acknowledgements xiv

Abbreviations and Acronyms xv

Executive Summary xix

1. Introduction 1
2. Macroeconomic Performance 3
3. Growth And Inclusivity in a Devolved System of Government 38
4. Medium-Term Economic Prospects for Kenya 53
5. Enhancing Financial Inclusion for Inclusive Growth 64
6. Inclusivity and Trade 82
7. Contribution of Agriculture to Food and Nutrition Security and Inclusive Growth 96
8. Enabling Inclusive Growth through Access to Affordable, Reliable, Sustainable and Modern Energy Sources 121
9. Promoting Social Mobility and Inclusive Growth: The Role Of Social Protection 146
10. Governance In Inclusive Growth 166
11. Partnerships for Inclusive Growth 200
12. Conclusions and Recommendations 217

References 224

Annex 230

FIGURES AND TABLES

Figures

Figure 2.1: Annual real GDP and real GDP per capita growth and poverty rates 4
Figure 2.2: Overall poverty at national level and by residence, 1997/98-2015/16 5
Figure 2.3: Trends in hardcore poverty at national and residence level 5
Figure 2.4: Poverty by age groups: 2015/16 6
Figure 2.5: Overall poverty by sex of household head 6
Figure 2.6: Consumption expenditure share by quintiles (%) 7
Figure 2.7: Employment and real GDP growth 8
Figure 2.8: Employment to population ratio (%) 9
Figure 2.9: Share of employment by sector 9
Figure 2.10: Share of wage employment by industry, 2019 (%) 10
Figure 2.11: Wage employment by industry and gender, 2019 (%) 10
Figure 2.12: Labour productivity growth 11
Figure 2.13: Kenya labour productivity gap analysis: 2000-2018 12
Figure 2.14: Unemployment by age category, and by gender and residence, 2015/16 13
Figure 2.15: Quarterly economic growth rates (%) 14
Figure 2.16: Kenya's supply side growth analysis 15
Figure 2.17: Sectoral quarterly growth rates (%), 2018-2019 16
Figure 2.18: Contribution of demand side to growth (%) (2-year averages) 17
Figure 2.19: CFC Stanbic Purchasing Managers' Index, Kenya 18
Figure 2.20: Monthly inflation rates, 2018-2019 20
Figure 2.21: Inflation trends across income groups in Nairobi (%) 21
Figure 2.22: Inflation trends by region 22
Figure 2.23: National Government expenditure by selected functions (% of total expenditure) 24

Figure 2.24: Social protection spending by categories, 2013/14-2018/19 25
Figure 2.25: Debt service and social spending, 2014/15-2018/19 27
Figure 2.26: Trade in goods and services, US$ millions 29
Figure 2.27: Kenya's major exports and remittances 29
Figure 2.28: Kenya's major exports and remittances (% of GDP) 30
Figure 2.29: Balance of payment cumulative flows (US$ millions) 31
Figure 2.30: Trends in months of import cover and official reserves (US$ millions) 32
Figure 2.31: Trend of interbank rate and CBR (%), 2015-2020 33
Figure 2.32: Trend in commercial banks' interest rates 33
Figure 2.33: Annual growth rate of credit (%) 34

Figure 3.1: Average real GCP growth rate, 2014-2017 (%) 39
Figure 3.2: County real GCP, 2017 (Ksh millions) 39
Figure 3.3: County average contribution to GDP, 2014-2017 (%) 40
Figure 3.4: Average real GCP per capita growth rate, 2014-2017 (%) 40
Figure 3.5: Real GCP per capita, 2017 (Ksh) 41
Figure 3.6: Economic activities at county level (% share), 2017 42
Figure 3.7: Population size by county 42
Figure 3.8: County population growth rates 43
Figure 3.9: Household size by county, 2019 43
Figure 3.10: County population proportion by gender (%) 44
Figure 3.11: Overall poverty headcount across counties, 2015/16 45
Figure 3.12: Food poverty by county 2015/16 45
Figure 3.13: Hardcore poverty rate by county, 2015/16 46
Figure 3.14: Actual number of hardcore poor by county ('000) 46
Figure 3.15: County share of equitable transfers (%), 2013/14-2018/19 47
Figure 3.16: County share of conditional grants to total transfers (%), 2013/14-2018/19 48
Figure 3.17: County own source revenue share 48
Figure 3.18: Share of county spending by economic classification (%), 2013/14-2018/19 49
Figure 3.19: County Government expenditure by function (% of total expenditure) 50
Figure 3.20: County and National Government spending (% of GDP) 50

Figure 4.1: County average growth rates, 2014-2017 ... 58
Figure 4.2: County annual growth rates, 2015-2017 ... 59
Figure 4.3: County growth projections ... 61

Figure 5.1: Financial access by gender, youth and counties ... 69
Figure 5.2: Nearest financial institution ... 73
Figure 5.3: Banks branch network per county as at December 2018 ... 74
Figure 5.4: Distribution of micro-finance institutions ... 75
Figure 5.5: Distribution of savings and credit cooperative societies ... 75
Figure 5.6: Most trusted financial provider ... 76
Figure 5.7: Financial literacy ... 77
Figure 5.8: Average cost to the nearest financial provider, bank, and mobile money agent ... 78

Figure 6.1: Kenya's balance of trade, 2014-2019 ... 83
Figure 6.2: Trade in services, 2018-2019 ... 84
Figure 6.3: Modern sector employment by gender (%) ... 86
Figure 6.4: Wage employment by industry and gender, 2019 (%) ... 87
Figure 6.5: Wage employment in wholesale and retail trade by gender, 2010-2019 ... 87
Figure 6.6: Wage employment in the agriculture sector by gender, 2010-2019 ... 88
Figure 6.7: Wage employment in the manufacturing sector by gender, 2010-2019 ... 88

Figure 7.1: Real agricultural growth rate, 2014-2019 ... 98
Figure 7.2: Trend of growth agricultural output, 2015-2019 ... 99
Figure 7.3: Proportion of input use, 2011-2019 ... 100
Figure 7.5: Amount of pesticide use in agriculture ... 103
Figure 7.6: Proportion of crop pesticides use by type, 2011-2018 ... 103
Figure 7.7: Manufactured feeds, 2011-2018 ... 105
Figure 7.8: Proportion of animal pesticide use by type, 2011-2018 ... 105
Figure 7.9: Marketed agricultural production at current prices, 2014-2018 ... 111
Figure 7.10: Food poverty estimates by county ... 118
Figure 7.11: County poverty head count (%) and GCP per capita ... 118

Figure 8.1: Map of targeted counties under Kenya Off-grid Solar Access Programme (K-OSAP) ... 123
Figure 8.2: Percentage share of electricity generated capacity, 2008-2019 (GWh) ... 125

Figure 8.3: Percentage share of electricity installed capacity, 2008-2019 (MW) ... 125
Figure 8.4: Percentage share of electricity effective capacity, 2010-2019 (MW) ... 126
Figure 8.5: Transmission and distribution losses, 2008-2019 (GWh) ... 127
Figure 8.6: Transmission and distribution losses as a percentage of generated capacity (GWh) ... 128
Figure 8.7: Power outages and related losses across firms in Kenya with comparators ... 128
Figure 8.8: Electricity demand across various end-user categories, 2008-2018 ... 131
Figure 8.9: Share of total physical energy use at household level for various sources, 2019 ... 132
Figure 8.10: Quantity of fuelwood and charcoal sold, 2014-2018 ('000 stacked cubic metres) ... 133
Figure 8.11: Percentage distribution of households by primary energy source for lighting at national level ... 134
Figure 8.12: Percentage distribution of households by primary energy source for lighting in urban areas ... 134
Figure 8.13: Percentage distribution of households by primary energy source for lighting in rural areas ... 135
Figure 8.14: Percentage distribution of households with access to electricity as the primary energy source for lighting across counties ... 135
Figure 8.15: Percentage distribution of households with usage of kerosene as the main source for lighting across counties ... 136
Figure 8.16: Percentage distribution of households by primary energy source for cooking at national level ... 137
Figure 8.17: Percentage distribution of households by primary energy source for cooking in rural areas ... 137
Figure 8.18: Percentage distribution of households by primary energy source for cooking in urban areas ... 138
Figure 8.19: Percentage distribution of households using firewood as the primary source for cooking across counties ... 138
Figure 8.20: Percentage distribution of households with using charcoal as the primary resource for cooking across counties ... 139
Figure 8.21: Percentage distribution of households with using kerosene as the primary resource for cooking across counties ... 139
Figure 8.22: Percentage distribution of households with using LPG as the primary resource for cooking across counties ... 140
Figure 8.23: Mean monthly per adult equivalent energy consumption expenditure by income groups (quantiles) across rural and urban areas (%) ... 141
Figure 8.24: Mean weekly time spent in acquiring various energy sources by women, men and children ... 143

Figure 9.1: Percentage of individuals aged 3 to 24 years who have ever attended school by household income quintile 147
Figure 9.2: Percentage of individuals aged 3 to 24 years who ever attended school for the highest and lowest quintile by county 147
Figure 9.3: Educational attainment of 15-year-olds by parent educational background 148
Figure 9.4: Educational attainment of 19-year-old young adults by parents' educational background 149
Figure 9.5: Proportion of 15-year olds having KCPE qualification by parents' education 149
Figure 9.6: Education status for young adults aged 21-23 years by income group of households (low, middle and high) 151
Figure 9.7: Percentage of young adults aged 21-22 years not attending school or academic institution by income group of household (low, middle and high) 151
Figure 9.8: Percentage of individuals working for a wage, salary or in internship by age and income (low, middle and high) of household 152
Figure 9.9: Proportion of individuals self-reported to be able to read and write in any language by county 153
Figure 9.10: Proportion of individuals sick or injured in the last four weeks and place of diagnosis–by income group (quintile) 154
Figure 9.11: Proportion of individuals reporting illness/injury covered by health insurance and proportion that received free medical care in the last 12 months by income group 155
Figure 9.12: Proportion of individuals covered by health insurance in the last 12 months by county 155
Figure 9.13: Proportion of individuals that received free medical care in the last 12 months by county and income status 156
Figure 9.14: Proportion of extremely poor households and other households by number of orphans 159
Figure 9.15: Proportion of extremely poor households and other households with OVC receiving cash transfers to OVC from the Government 160
Figure 9.16: Overall poverty and food poor households by age group of household head 161
Figure 9.17: Distribution of the number of elderly in households 161

Figure 10.1: Total CDF allocations by county, 2013-2018 175
Figure 10.2: Status of representation of PWDs by Job Grade, 2018-2019 191
Figure 10.3: Gender representation by service sector and level, 2016/17 194
Figure 10.4: Gender representation at various job group levels, 2018/19 194

Figure 11.1: Disentangling partnerships 206

Tables

Table 2.1: Kenya's key macroeconomic and inclusive growth indicators 3
Table 2.2: Gini index for select countries (%) 7
Table 2.3: Total investments and savings, current prices (Ksh millions) 18
Table 2.4: Overall PPI and inflation rates 22
Table 2.5: Government revenue for 2017/18 and 2018/19 (Ksh millions) 23
Table 2.6: Government expenditure for 2016/17-2018/19 (Ksh millions) 24
Table 2.7: Kenya's public debt, 2017/18-2018/19 26
Table 2.8: Kenya's debt by holder 26
Table 2.9: Debt sustainability indicators (%) 28

Table 4.1: Economic projections for 2019-2022 55

Table 4.2: Economic projections for 2019-2022 (with risks materializing) 57
Table 4.3: Projections for GCP 2018-2022 60
Table 4.4: County sectors with high value added, 2017 61

Table 5.1: Access to savings 70
Table 5.2: Access to credit/loans 71
Table 5.3: Access to insurance 72
Table 5.4: National Government initiatives 78
Table 5.5: County Government initiatives 79

Table 6.1: Contribution of wholesale and retail trade to GDP and employment, 2014-2018 86
Table 6.2: Females with disability by economic activity and domain 89
Table 6.3: Males with disability by economic activity and domain 90
Table 6.4: Women-owned or managed exporting firms (%), by country, 2010-2014 92
Table 6.5: Women-owned or managed exporting firms, by country, 2010-2014 92
Table 6.6: Priority services liberalization in various RECs 93

Table 7.1: ASTGS focus areas and mid-term targets 97
Table 7.2: Source of fertilizer at household level by type (%) 101
Table 7.3: Source of fertilizer at household level by type for smallholders (0-5 ha) (%) 101

Table 7.4: Source of seed used by households by type of smallholder (0-5ha) (%) 102

Table 7.5: Farm structure in the country 106

Table 7.6: Proportion of farm structure by county 107

Table 7.8: Gross marketed production from large and small farms, 2012-2018 110

Table 7.9: Membership of cooperative societies by type of society, 2013-2018 (%) 112

Table 7.10: Trends in food availability per capita, 2014-2018 114

Table 7.11: Food losses 115

Table 7.12: Causes of food losses at household level (%) by county 116

Table 7.13: Causes of food losses during storage at household level (%) by county 117

Table 8.1: Components of K-OSAP programme 124

Table 8.2: Tracking progress in inclusivity of the retail electricity tariff structures for domestic and small commercial consumers, 2013-2019 129

Table 8.3: Number of customers connected to electricity, 2008-2018 131

Table 8.4: Mean monthly per adult equivalent energy consumption expenditure among poor and non-poor across counties 141

Table 9.1: Type, objective, eligibility criteria, eligible population and coverage of the main social protection programmes in Kenya 157

Table 9.2: Mean cash transfers received from the National Government by extremely poor households and other households in the last 12 months 162

Table 10.1: County budget estimates, 2015-2018 171

Table 10.2: NGAAF funds disbursed since inception, 2014-2017 (Ksh millions) 177

Table 10.3: Policies and legislation on inclusivity and representation within the public service 179

Table 10.4: Institutional frameworks on representation and inclusivity 181

Table 10.5: Ethnic representation in the public service 182

Table 10.6: Counties that complied with the County Governments Act in new recruitments, 2013-2016 185

Table 10.7: Counties that contravened the County Governments Act in new appointments, 2013-2016 185

Table 10.8: Ethnic composition in County Governments 186

Table 10.9: Representation of PWDs in the Public Service by service sector, 2016-2018 190

Table 10.9: Gender representation by service sector in the Public Service, 2016-2018 193

Table 11.1: Private sector associations in Kenya 209

STATEMENT BY CABINET SECRETARY, THE NATIONAL TREASURY AND PLANNING

The Kenya Economic Report (KER) 2020 is the twelfth in a series of the Kenyan economy annual reports prepared by the Kenya Institute for Public Policy Research and Analysis (KIPPRA), pursuant to the KIPPRA Act No. 15 of 2006. The theme of the KER 2020 is "Creating an Enabling Environment for Inclusive Growth in Kenya". The overriding objective of the Report is motivated by the Government's quest for a strong foundation for broad-based economic growth and development, as envisioned in the Constitution of Kenya, the Kenya Vision 2030, the Third Medium-Term Plan and the "Big Four" agenda. The emphasis on inclusive growth is reflected in Kenya's global and regional development commitments, namely: the Sustainable Development Goals (SDGs), the Africa Union Agenda 2063, and the East African Community (EAC) Vision 2050.

Kenya has been experiencing a strong and stable economic growth in the recent past. The country registered an economic growth rate averaging 5.6 per cent for the period 2014 to 2019. This is a strong recovery from the 1.5 per cent growth recorded in 2008. This recovery is a result of a sound macroeconomic environment, political stability, heavy infrastructural public investments and growth in domestic demand. Growth in the last four years was 5.9 per cent in 2016, 4.9 per cent in 2017, 6.3 per cent in 2018 and 5.4 per cent in 2019. To cushion the economy against major shocks arising from uncertain weather, desert locusts and other global challenges such as coronavirus pandemic, it is imperative to strengthen efforts towards maintaining macroeconomic stability, fiscal prudency, and political stability.

Additionally, Kenya has made notable progress in poverty reduction in the last two decades, with poverty rate dropping from 52.3 per cent in 1997/98 to 36.1 per cent in 2015/16. This has been driven by a robust growth averaging 3.9 per cent during that period. Despite the good progress, inequality levels remain high across gender and regional dimensions. Females face higher unemployment and poverty rates than their male counterparts. Poverty is more pronounced in rural areas than in urban settings. The country cannot attain sustained growth without structural transformation to create productive employment opportunities in the economy, which is crucial for poverty reduction.

With devolution, County Governments will continue to play a critical role in enhancing inclusion. Some of the devolved functions such as health, early childhood education and agriculture are important for inclusive growth. It is, therefore, important that County Governments increase spending in these sectors. However, counties still face revenue mobilization challenges and depend heavily on exchequer releases. In 2018/19, only seven (7) counties managed to collect more than Ksh 1 billion, implying that own source revenue collections are low. To ensure adequate revenue collection by counties, it is important to ensure full automation of revenue collections systems to seal revenue leakages.

From the foregoing, it is evident that the Government requires to take deliberate actions to deliver inclusive and sustainable growth. It is my hope that this Report will contribute to policy discourse in the country and beyond.

Hon. (Amb.) Ukur Yatani, EGH
Cabinet Secretary
National Treasury and Planning

FOREWORD

Every year, KIPPRA assesses the country's economic performance and provides medium-term prospects for the next three-years. To ensure quality control while conducting this exercise, KIPPRA engages stakeholders at various stages of drafting the Kenya Economic Report. In addition, the Report is shared with both statutory and other stakeholders to capture their views and validate the report.

The Kenya Economic Report 2020 centres on "Creating an Enabling Environment for Inclusive Growth in Kenya". The theme of the Report is motivated by the Government's quest for a wide shared economic growth, as envisioned in the Constitution of Kenya, Kenya Vision 2030, Third Medium-Term Plan and the "Big Four" agenda. The report also takes into consideration global and regional development frameworks such as Sustainable Development Goals, the African Union Agenda 2063 and the East African Community Vision 2050.

On behalf of KIPPRA Board of Directors and on my own behalf, I wish to sincerely commend the Executive Director and KIPPRA staff for their devotion, dedication and timely production of this report. It is evident that time and resources have been spent towards this process. I also wish to express our gratitude to all the stakeholders who participated in any stage of the development of this report for their treasured comments and suggestions, which went a long way in enriching the report.

Lastly, I wish to take this opportunity to more sincerely thank the Government of Kenya and the National Treasury and Planning for their continued financial support to KIPPRA. This has enabled the Institute to fulfil its mandate as stipulated in the KIPPRA Act 2006.

Dr Linda Musumba Chairperson
KIPPRA Board of Directors

PREFACE

The KIPPRA Act 2006, under Part V Section 23 (3), requires the Institute to produce an annual Kenya Economic Report that analyses Kenya's economic performance and the country's economic prospects for the next three financial years. Annually, the Kenya Economic Report revolves around a central theme aligned to the Government's development agenda and analyzed from various sectoral focal points. The report provides evidence-based policy proposals to the Government to support it in addressing the development issues at national and county level and provide input into evidence-based decision making.

The theme of the Kenya Economic Report 2020 is "Creating an Enabling Environment for Inclusive Growth". The objective is to provide insights into the foundations for broad-based economic growth and development. Inclusive growth aims at advancing equal economic opportunities to all stakeholders in development processes, thus promoting pro-poor approaches anchored on participation and contribution of all members of society. The theme of the Kenya Economic Report 2020 is motivated by the Government's quest for shared prosperity, as envisioned in the Kenya Vision 2030, which promotes implementation of policies that promote broad-based inclusive growth. This is further stated in the Third Medium-Term Plan (MTP III) and the "Big Four" agenda. The emphasis of inclusive growth is reflected in the global and regional development commitments, namely: the Sustainable Development Goals (SDGs), Africa Agenda 2063 and the EAC Vision 2050.

Kenya has made notable progress in poverty reduction in the last two decades, indicating that the country's economy has continued to grow since independence. However, this growth has not resulted in reduced inequality; instead, there has been growing inequality, with the gap between the poor and rich increasing. Labour underutilization is now a growing concern particularly among the youth compared to other age cohorts. This is compounded by the increasing rural-urban divide, gender and social inequalities, and regional disparities. This calls for Government action to make deliberate, targeted, resolute and systematic interventions that will deliver the desired growth, which is inclusive and sustainable. A conducive environment is important as it provides the foundation and structures for the realization of the Government's agenda for inclusive growth.

In considering the totality of aspects that are critical to the realization of inclusive growth, the report assesses inclusivity in economic growth and in a devolved system of government. It delves into the role of financial inclusivity in promoting inclusive growth, and inclusivity in domestic and international trade. The report also looks at how social protection interventions can be used to enhance social mobility, equity and inclusivity. Further, it analyses how access to affordable, reliable, sustainable and modern energy sources can be harnessed as a key infrastructural input for economic growth, and the contribution of agriculture and food security. Lastly, the report reviews the importance of governance as a prerequisite for inclusive growth, and the contribution of partnerships for economic development.

The report recommends that Government efforts be supported by an enabling policy environment through appropriate sectoral policies, laws and regulations, and strong institutional frameworks that create a conducive environment for shared growth.

Dr Rose W. Ngugi
Executive Director KIPPRA

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The preparation and publication of the Kenya Economic Report (KER) 2020 benefited from inputs of different individuals and key institutions.

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

The Kenya Economic Report 2020 report was prepared by a Technical Committee comprising Mr James Ochieng' (Chairman), Ms Beverly Musili (Secretary), Mr Muleli Mutuku, Mr Boaz Munga, Ms Nancy Laibuni, Ms Charity Mbaka and Dr Eliud Moyi. The committee was supported by Dr Christopher Onyango and Mr Benson Kiriga who drafted two of the chapters at the initial stages. Special thanks go to KIPPRA researchers from all research departments for their contributions to various chapters of the report, and for actively participating in quality control seminars. Appreciation also goes to the Finance, Human Resources, Supply Chain Management and Knowledge Management and Transport Departments for providing valuable support to ensure timely completion of the report.

KIPPRA also wishes to extend, most sincerely, special appreciation to all Ministries, State Departments and Government Agencies that availed the data and information used in this report. We are particularly grateful for the expert advice by statutory partners including The National Treasury and Planning, Central Bank of Kenya, Kenya Revenue Authority, and Kenya National Bureau of Statistics. To all other stakeholders who participated in the various workshops and in different capacities, your contributions are highly appreciated. The preparation of this report was made possible through financial support to KIPPRA by the Government of Kenya and development partners.

ABBREVIATIONS AND ACRONYMS

ACP-EU	African Caribbean Pacific - European Union
ADF	African Development Fund
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AGPO	Access to Government Procurement Opportunities
AIA	Appropriations-in-Aid
AIDS	Acquired Immune Deficiency Syndrome
AMISOM	African Union Mission in Somalia
APRM	African Peer Review Mechanism
ASAL	Arid and Semi-Arid Land
ASDS	Agricultural Sector Development Strategy
ASTGS	Agriculture Sector Transformation and Growth Strategy
AU	African Union
BoP	Balance of Payment
CARE	Care International Kenya
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CDA	Coast Development Authority
CDD	Community-Driven Development
CDF	Constituency Development Fund
CED	Community Economic Development
CoG	Council of Governors
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CPSBs	County Public Service Boards
CRA	Commission for Revenue Allocation
CSO	Civil Society Organizations
CT-OVC	Cash Transfers to Orphans and Vulnerable Children
CT-PwSD	Cash Transfers to Persons with Severe Disabilities
DFRD	District Focus for Rural Development
DFS	Digital Financial Services
EAC	East Africa Community
ENNDA	Ewaso Ng'iro North Development Authority
ENSDA	Ewaso Ng'iro South Development Authority
EPA	Economic Partnership Agreement
EPRA	Energy and Petroleum Regulatory Authority
EPZ	Export Processing Zone
ERS	Economic Recovery Strategy
EU	European Union
FAO	Food and Agriculture Organization
FAOSTAT	FAO Statistics
FBO	Faith-Based Organizations
FDI	Foreign Direct Investment
FEC	Fuel Energy Cost
FKE	Federation of Kenya Employers
GCP	Gross County Product
GDP	Gross Domestic Product

GNI	Gross National Income
GoK	Government of Kenya
HIV	Human Immunodeficiency Virus
IBEC	Inter-Governmental Budget Economic Council
ICDC	Industrial and Commercial Development Corporation
ICT	Information and Communication Technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IGAD	Inter-Governmental Authority on Development
IGRTC	Inter-Governmental Relations Technical Committee
ILO	International Labour Organization
ILOSTAT	ILO Statistics
IMF	International Monetary Fund
IOR-ARC	Indian Ocean Rim-Association of Regional Cooperation
IPP	Independent Power Producers
IRCK	Inter-Religious Council of Kenya
ISFM	Integrated Soil Fertility Management
KAINET	Kenya Agricultural Information Network
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KDF	Kenya Defense Forces
KEEP	Kenya Electricity Expansion Project
KEPOFA	Kenya Poultry Farmers Association
KEPSA	Kenya Private Sector Alliance
KER	Kenya Economic Report
KIHBS	Kenya Integrated Household Budget Survey
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
K-OSAP	Kenya Off-grid Solar Access Programme
KPLC	Kenya Power and Lighting Company
Ksh	Kenya Shilling
KTMM	KIPPRA Treasury Macroeconomic Model
KVDA	Kerio Valley Development Authority
LASDAP	Local Authority Service Delivery Action Plan
LATF	Local Authority Transfer Fund
LBDA	Lake Basin Development Authority
LED	Light-Emitting Diode
LMCP	Last Mile Connectivity Project
LPG	Liquified Petroleum Gas
MDA	Ministries, Departments and Agencies
MFI	Micro Finance Institution
MoALF	Ministry of Agriculture, Livestock and Fisheries
MPs	Members of Parliament
MSMEs	Micro, Small and Medium Enterprises
MTP	Medium-Term Plan
NCCK	National Council of Churches of Kenya
NCIC	National Cohesion and Integration Commission
NCPWD	National Council for Persons with Disability
NEPAD	New Partnership for Africas Development
NES	National Electrification Strategy
NGAAF	National Government Affirmative Action Fund
NG-CDF	National Government Constituencies Development Fund
NGEC	National Gender and Equality Commission
NGO	Non-Governmental Organization
NHIF	National Hospital Insurance Fund
NIB	National Irrigation Board

NSSF	National Social Security Fund
ODA	Overseas Development Assistance
OECD	Organization for Economic Co-operation and Development
OPCT	Older Persons Cash Transfer
OSR	Own Source Revenue
OVCs	Orphaned and Vulnerable Children
PBO	Public Benefit Organizations
PFM	Public Finance Management
PMI	Purchasing Managers Index
POPs	Persistent Organic Pollutants
PPD	Public-Private Dialogue
PPI	Producer Price Index
PPPs	Public-Private Partnerships
PPRA	Public Procurement Regulatory Authority
PSC	Public Service Commission
PWDs	Persons with Disabilities
RDAs	Regional Development Authorities
RDF	Rural Development Fund
RECs	Regional Economic Communities
REP	Rural Electrification Programme
REREC	Rural Electrification and Renewable Energy Corporation
RISE	Regulatory Indicators for Sustainable Energy
SACCOs	Savings and Credit Cooperative Societies
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SEZ	Special Economic Zone
SFR	Strategic Food Reserve
SHS	Solar Home Systems
SMEs	Small and Medium Enterprises
SRDP	Special Rural Development Programme
SUPKEM	Supreme Council of Muslims of Kenya
TARDA	Tana and Athi River Development Authority
TB	Tuberculosis
UFA	Universal Financial Access
UHDR	Universal Declaration of Human Rights
UK	United Kingdom
UN	United Nations
UNCRPD	United Nations Convention on the Rights of Persons with Disability
UNDP	United Nations Development Programme
UNSC	United Nations Security Council
USA	United States of America
VAT	Value Added Tax
WARMA	Water Resource Management Authority
WEF	Women Enterprise Fund
WGB	World Bank Group
WSSD	World Summit on Sustainable Development
WTO	World Trade Organization
YEDF	Youth Enterprise Development Fund

EXECUTIVE SUMMARY

Macroeconomic Performance

Kenya has made remarkable progress in poverty reduction in the last two decades. However, there is need to accelerate the pace of poverty reduction in achieving inclusivity. The economy experienced a robust growth averaging 3.9 per cent between 1997 and 2016. Poverty rate dropped from 52.3 per cent in 1997/98 to 46.8 per cent in 2005/06 and eventually to 36.1 per cent in 2015/16. Thus, poverty reduction rate averaged 0.8 per cent per year as compared to 3.9 per cent growth rate realized between 1997 and 2016.

Rural poverty level remains higher, with poverty reduction pace slower than in peri-urban and core urban areas. As of 2015/16, rural poverty was 40.0 per cent compared to the national average of 36.1 per cent, and poverty in peri-urban and core urban areas was at 27.5 and 29.4 per cent, respectively. Between 1997/98 and 2015/16, rural poverty dropped by 12.8 percentage points compared to 21.5 and 19.8 percentage points for peri-urban and core urban areas, respectively, implying that poverty reduction in rural areas is slow. Nationally, child poverty is higher than any other age cohort and more pronounced in rural areas. In 2015/16, national child poverty rate was 41.5 per cent, and higher than the youth and the non-youth categories with poverty rates of 29.1 per cent and 32.5 per cent, respectively. In rural areas, child poverty was 43.9 per cent, which is above the national average of 41.5 per cent and higher than in peri-urban and core urban areas at 30.2 per cent and 37.9 per cent, respectively. The high poverty level in rural areas is mainly driven by over-reliance on agriculture, compounded by low productivity. As such, there is need to improve agricultural productivity to fast-track the pace of rural-and national- poverty reduction.

Inequality in household consumption is higher in peri-urban areas. According to the Basic Report on Well-Being in Kenya 2015/16, the richest households consume 159 times more than the poorest households. At national level, the richest households' consumption expenditure is 17 times higher than the poorest households. However, inequality in household consumption is less severe in rural households, where the share of consumption of the richest households is just 4 times that of the poorest. With a Gini index of 40.8 per cent, Kenya ranks lower than other low middle-income countries in terms of income distribution. High inequality levels in a country may slow the growth momentum.

Labour is concentrated in sectors with low productivity. For instance, with the agricultural sector, which exhibited declining productivity between year 2000 and 2019, employing the largest proportion. The share of agricultural labour productivity in total factor productivity decelerated from 64.0 per cent in 2000 to 41.0 per cent in 2019, while its employment share increased from 49.0 per cent in 2000 to 55.0 per cent in 2019. The industrial and services sectors, whose productivity grew from 169.0 and 124.0 per cent, in 2000 to 249.0 and 156.0 per cent, respectively, in 2019, had a significant fall in employment levels. As such, structural economic transformation is necessary to lift workers from the less-productive agricultural sector to the more-productive industrial sector.

Domestic revenue mobilization remained a challenge to adequately finance the growing development needs. In 2018/19, the deviation from the targeted revenue collection was 7.6 per cent. Further, actual collections as a share of Gross Domestic Product (GDP) dropped from 18.2 per cent in 2017/18 to 17.8 per cent in 2018/19. The deviation from the targeted

revenue was partially attributed to shortfalls in other income taxes, which dropped by 12.3 per cent. Measures to enhance domestic revenue collections are crucial to minimize shortfalls in the budget.

There was significant improvement in Government's share of pro-poor spending between 2015/16 and 2018/19. However, high debt servicing costs could crowd-out pro-poor spending. The share of education and social protection spending in total national spending increased from 15.3 and 3.7 per cent in 2015/16 to 21.5 and 6.7 per cent, respectively, in 2018/19 while debt servicing costs rose from 21.5 per cent of Government revenue in 2015/16 to 42.8 per cent in 2018/19. Additionally, debt servicing costs accounted for 24.9 per cent of Government spending in 2018/19, more than the combined spending on health, social protection and housing. More concessional borrowing and leveraging on public private partnerships is critical in reversing the debt servicing costs.

Kenya's public debt stock has been on an upward trajectory, rising by 4 percentage points in 2017/18 to stand at 61.1 per cent of GDP in 2018/19. The gross public debt stock increased by Ksh 761.8 billion to stand at Ksh 5.8 trillion in 2018/19. This was reflected in increases in stock of both domestic and external debt stocks, which stood at 29.3 and 31.8 per cent of GDP in 2018/19, from 28.0 and 29.0 per cent of GDP in 2017/18, respectively. The increase in stock of debt is mainly driven by increased public spending on infrastructure, compounded by inadequate domestic resource mobilization. To contain the path of the debt, fiscal consolidation momentum needs to be maintained and sustained in the medium-term.

Growth and Inclusivity in the Counties

Counties recorded a robust growth between 2014 and 2017 with real Gross County Product (GCP) and real GCP per capita growing at an average of 5.6 and 2.8 per cent respectively. During the period, 22 counties had their real GCP per capita growing at a faster pace than the county average. As of 2017, 10 counties had their real GCP per capita above the national GDP per capita of Ksh 96,799.8. These are counties with relatively well-established industrial sectors. While counties such as Mandera, West Pokot and Turkana had the least GCP per capita of Ksh 28,602, Ksh 38,021 and Ksh 38,592, respectively. These counties are in arid and semi-arid lands with minimal economic activities.

Slow pace of structural transformation is reflected at the county level, with agriculture being the dominant economic activity. Most counties are heavily reliant on agriculture, with only 7 counties having significant manufacturing activities. It is important for the counties to deepen structural transformation by creating an enabling environment to attract investments in manufacturing.

Huge disparities exist in county Own Source Revenue (OSR) collections, counties with significant share of industry and service sectors collect more revenue compared to counties that are heavily reliant on agriculture. A total of Ksh 200.5 billion was collected by counties between 2013/14 and 2018/19, 32.2 per cent of this was collected by Nairobi County. Further, the top 4 counties in OSR collections account for more than half of the total OSR collections annually. This implies that some counties have well established revenue streams than others, hence collecting more.

Overall poverty incidence varies widely among counties, from as low as 16.7 per cent in Nairobi County, to a high of 79.0 per cent in Turkana County. It is also evident that counties with the lowest GCP per capita have the highest poverty rates and are mostly in arid and semi-arid lands. Poverty is also aggravated by large household sizes among the poorest counties. For example, the largest households are in Mandera (6.9), Wajir (6.1) and Garissa (5.9), where poverty rates are 77.6, 62.6 and 65.5 per cent respectively.

The Government has made some significant effort to address inequalities across the counties through the budget. The poorest counties have received the largest shares of equitable transfers, mainly driven by the poverty factor in the Commission on Revenue Allocation (CRA) formula, accounting for 18 per cent of the revenue allocations through equitable transfers. Turkana and Mandera received, 3.9 per cent and 3.4 per cent respectively between 2013/14 and 2018/19. It is also notable that most of the poor counties allocated significant share of their spending on development. However, 60.0 per cent of the counties did not meet the PFM Act 2012 requirement that counties should spend at least 30.0 per cent of their total budget on development.

Increased spending on development is critical for accelerating growth and pace of poverty reduction.

Medium Term Prospects

The medium-term prospects depict an economy growing at a rate below that recorded in 2019. This implies that more strategic efforts are required for the country to spring back to the desired growth trajectories and retain the already acquired lower middle-income status. However, several risks factors threaten this forecast, including the desert locusts, fiscal pressures from high budgetary demands particularly implementation of the Building Bridges Initiative (BBI) and high public debt, security concerns, commodity prices, and the coronavirus pandemic. These risks without timely and adequate interventions will reduce economic growth to an average of 4.0 per cent in the medium-term.

Counties have the potential of upscaling the economic growth to the desired levels and improve inclusivity significantly. In all the counties, three sectors are most significant given their size of the value added. These are agriculture, manufacturing and wholesale and retail trade. Although agriculture is the highest in size, the other two have at least 10.0 per cent of total value added. It is important that more budget is allocated to these three sectors and their respective value chain systems enhanced to deliver the desired outcomes.

Enhancing Financial Inclusion for Inclusive Growth

Access to financial products and services, including savings, payment for services, and loans, has the potential to contribute to inclusive growth. Overall, national access to financial inclusion is at 82.9 per cent, an improvement from 26.7 per cent over the past decade. This means about 17 per cent of the population is still excluded from access to formal financial services and therefore cannot participate effectively in the economic activity. Disaggregation of data by counties shows that counties with most access to finances, either credit, savings or insurance, are mainly counties with big urban areas. A further disaggregation of data by gender shows a wide gender disparity between males (85.6%) and females (80.3%). However, this gap has been reducing since 2006, when it was at 12 percentage points - (Males at 33.0%) and (females at 21.0%). This means that over time, females have been gaining more in terms of financial access compared to males. For the youth, a significant proportion of them (23.5% male) and (25.4% female) did not have formal financial access especially in insurance and credit aspects.

The main barriers to greater financial inclusion include: proximity to financial providers, level of trust of financial providers, excessive documentation, financial literacy and the cost of accessing financial services. It is noted, however, that while these barriers have persisted over the last decade, the advent of mobile-based financial services has transformed financial systems in Kenya, helping more people to access financial services.

The National Government and some County Governments have initiated interventions to deepen financial inclusion among the population. The initiatives offering financial and capacity support to women and youth could be scaled up, in addition to addressing their challenges to ensure sustainability. Additionally, establishment of the proposed Biashara Fund encompassing the - Uwezo Fund, Youth Enterprise Development Fund and the Women Enterprise Fund - can play a key role in enhancing self-sustaining and appropriate targeting. This would ensure the challenges facing the individual Funds are adequately addressed and necessary impetus gained to provide financial and capacity support to the women and youth and thus deepen financial access.

Moreover, mobile money agents present a potential solution for many of the barriers to closing the financial inclusion gap and reaching the excluded. This is because they employ mobile phones and agents to deliver financial services, without the high costs of construction and bank staff that underlie traditional brick-and-mortar banking institutions, improving accessibility to existing customers and new ones.

Contribution of Agriculture to Food and Nutrition Security and Inclusive Growth

Smallholder farmers constitute a huge portion of the population therefore, are important stakeholders to consider in realizing the broader goals of food and

nutrition security and inclusive growth. The land area in the country is finite and therefore the potential to realize increased agricultural productivity lies in the adoption of appropriate technology and innovation which will increase output and bringing down costs of food. The adoption of technology, however, should be coupled with complementary investments in training for farmers such as agronomic practices, soil fertility, efficient use of fertilizer, integrated pest management, post-harvest handling to enhance productivity and competitiveness.

Smallholders are not fully integrated into value chains, which negates their opportunities for value addition and marketing. Encouraging their participation in farmer organisations could foster economic inclusion and increase their market power-thereby raising their incomes and productivity.

It is evident that a huge proportion of Kenyan population suffer from food poverty though with varying intensities across and within counties. At household level, reduction of food losses is critical in maintaining food supply and therefore reducing food poverty. This can be achieved by investing in storage facilities at household level supported by training on the management of produce in storage.

The agriculture sector has significant potential to contribute to inclusive growth because it is the main economic activity for most households living in the rural areas. For this to be achieved, enhanced use of all factors of production (land, labour and capital) are required in addition to an enabling policy environment. This should be supported by complementary investments to support provision of extension services, provision of market infrastructure and use of information and communication technology.

Enabling Inclusive Growth through Access to Affordable, Reliable, Sustainable and Modern Energy Sources

Access to affordable, reliable, sustainable and modern energy sources is recognized as a key input for economic growth as well as inclusive growth. Inclusive growth is premised on the multidimensional aspects of stable energy supply systems, equity in access and affordability for all. Significant progress registered in increasing the share of renewable energy in the total energy mix and electricity connectivity across the country is a major boost towards inclusivity. However, the sector has witnessed substantial increase of transmission and distribution losses which impact negatively on the end-user's prices. Reduction in losses by incorporating innovative measures such as grid modernization through inclusive smart metering programme for all end-users across and monitoring solutions is crucial in establishing a stable and efficient energy supply system.

Despite the high number of electricity connections for domestic and small consumers, the demand is still low. Besides, using electricity for lighting, households need to be sensitized on productive uses of electricity whereby, energy access programmes can incorporate strategies for boosting income generating activities that are unique across counties.

Wide disparities are evident in access to clean energy sources for lighting and cooking at national level, rural/ urban areas and across the counties. All regions registered a high dependency on non-clean energy sources for cooking and low reliance on clean and efficient fuels for cooking purposes. To enable scale-up of

clean cooking solutions, awareness campaigns on the benefits of clean energy solutions should be incorporated in the energy access programmes. There is also need to enhance affordability of clean energy through inclusive approaches such as pay as you go model and subsidy for the upfront cost of Liquefied Petroleum Gas (LPG), bioethanol and biogas.

Women play a significant role in energy systems as part of their subsistence and productive tasks. However, they are disproportionately affected by lack of access to clean energy sources, as searching for firewood consumes considerable time; limits other productive activities; and its use enhances their risk to respiratory illness due to indoor pollution. For this reason, engendering energy projects, programs, and policies through gender mainstreaming will ensure that women and men participate and benefit from access to clean energy sources.

Social Mobility and Inclusive Growth: The Role of Social Protection

Upward social mobility, the movement of individuals, families, households, or other categories of people

within or between social strata, is important for sustainable development and inclusive growth. Upward social mobility can enhance social cohesion, create feelings of inclusion among disadvantaged groups and diffuse extremism. In a progressive society, access to education, health, and social protection and employment should not hinge on endowments of parents - such as parental income, health, education and employment.

For Kenya, there are a set of findings that indicate that access to education and health by individuals hinges on the income and education of the parents. Individuals with more educated parents and those in the highest income group enjoy greater access to all levels of education. Access to health services seems to be lower for the lowest income group who are less likely to be diagnosed in a health facility relative to the higher income groups. Coverage of health insurance for the highest income quintile at 42.5 per cent is ten times greater than that of the lowest income quintile. With respect to the labour market, individuals from the high-income households aged 20 through 29 years are more likely to work for a wage or a salary (including internship opportunities). The labour market disadvantage for the lower income groups are most likely linked to their prior inferior outcomes in education and a possible lack of information and relevant networks. The disadvantage is likely to translate into lower productivity, lower incomes and supressed social mobility.

Despite these disparities, the lowest income quintile may not be receiving larger forms of social protection/assistance in education, health and other social services. As examples, the lowest and highest income groups are equally likely to benefit from education bursaries and the proportion who received free medical care was about equal across the groups at just about 13.0 per cent. The lack of positive discrimination implies that the lowest income groups may face greater risks of downward inter-generational mobility.

Despite progressive policy and institutional reforms, the role of the social protection sector in enhancing social mobility and a more inclusive growth process is curtailed by several challenges. These include weak targeting systems and outcomes, lack of adequate coordination, low programme coverage, and duplication of benefits which have lowered the expected impact of the social protection programmes. Other challenges include possibility of ghost beneficiaries, and lack of an integrated system that links all social assistance programmes across Ministries, Departments and Agencies (MDAs) in one easily accessible online portal.

To address the problems associated with social protection interventions, it is important to incrementally develop a more integrated social assistance system that transfers all the dispersed social assistance programmes and processes to an electronic platform - that is shared across MDAs. Such a system can effectively manage all steps associated with the social assistance processes; for instance application, assessment of eligibility, registration, investigation, payment, auditing, reporting and monitoring. Such system has the potential to: get rid of duplication of benefits, efficiently manage targeting, save on time and resources in delivery of social assistance, and economies of scale in all services including payments. Other interventions include expanding the programme coverage, appropriate registration of targeted persons, a shift in focus on beneficiaries to individuals rather than households and enhance resource allocation to the sector by strengthening partnerships and linkages with development partners, County Governments, civil society and private sector players among other stakeholders.

Governance in Inclusive Growth

The Constitution introduced major reforms in governance, resource allocation and the structure of the public service with the intention of redressing the regional socio-economic inequalities and skewed resource distribution that were inherent in the centralized system that existed prior to devolution. In fostering inclusivity in governance, the objectives of devolution include to ensure equitable sharing of national and local resources throughout Kenya, to give powers of self-governance to the people and enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them. In addition, for inclusivity to be attained the representation of diverse groups, communities and individuals of society in the public service is key. This is to ensure the public service is a representation of individuals of various backgrounds, ethnic communities, genders and Persons with Disabilities (PWDs).

The equitable revenue sharing formula is aimed at ensuring equitable resource allocation to County Governments. To facilitate effective budget implementation and delivery of public services, timely disbursement is important in addition to prudent utilization of these resources. This should be complemented by concerted efforts by counties to improve on Own Source Revenue (OSR) collection and reduce on revenue leakages. In addition, capacity building is crucial in entrenching prudent public finance management.

The ideals of ethnic diversity and inclusivity are yet to be realized both at national and county levels. For example, while the Constitution requires the State to ensure that at least 5 per cent of the members of the public in elective and appointive bodies are Persons with Disabilities, in 2018/19, the Public Service Commission (PSC) reported that only 1.2 per cent of officers in the public service were Persons with Disabilities (PWDs). Also, the PSC reported that although the principle of not more than two-thirds of either gender had been met at the ratio of 63.2 per cent male to 36.8 per cent female, the male gender still dominates positions in the public service with gender inequality more pronounced at higher job grade levels.

Some of the issues in achieving and realizing the statutory quotas imposed on public institutions on representation include weak oversight and enforcement mechanisms for non-compliance, weak institutional frameworks in institutions mandated to oversee matters concerning representation, cohesion, values and diversity, lack of sanctions for non-compliance, and lack of incentives to diversify. To enhance inclusivity and representation within both levels of government, stronger sanctions and penalties should be imposed on non- compliant institutions. This should include pursuing court remedies and legal redress for non-compliance with the legal requirements on representation.

To enhance inclusion of PWDs, it is of paramount importance to establish a framework for maintenance of data on PWDs in all sectors in a consistent and prescribed format which may be achieved by ensuring that all PWDs register with the National Council for Persons with Disabilities. The Kenyan Sign Language Bill, 2019 should be enacted to promote the use of Kenya Sign language and enhance inclusion of deaf persons while the Persons with Disabilities Act, 2003 ought to be reviewed to align it to the entitlements in the Constitution.

Despite an existing legal framework requiring public participation in policy making processes, public participation initiatives are conducted in a haphazard manner, and there is lack of consensus on what amounts to sufficient public participation. To clarify the process on public participation, clear guidelines should be established through enactment of the Public Participation Bill.

Partnerships for Inclusive Growth

Partnerships are voluntary agreements between government, private sector and civil society actors. At the global level, the concept of "partnership for development" has been reinforced since the 2000 Millennium Summit of the United Nations (UN) which adopted Agenda 2015 containing the 8 Millennium Development Goals. This concept was also popularised by the 2002 World Summit on Sustainable Development (or the Earth Summit) and the 2002 International Conference on Financing for Development. In 2015, the UN General Assembly coalesced around the "leave-no-one-behind" principle in adopting Agenda 2030 containing 17 Sustainable Development Goals with Goal 17 stating that partnerships will be required to facilitate the achievement of the other 16 goals.

Following in the steps of the global community, Kenya has embraced partnerships at both the local, regional and global levels as one of the keys to unlock sustainable development. Locally, the policy and legal frameworks affecting partnerships include the Sessional Paper No. 1 of 2006 on NGOs, Constitution of Kenya 2010, Public-Private Partnerships Act 2011), Kenya External Resources Policy (2015), Policy on Devolved System of Government (2016), the Kenya Vision 2030 and its Third Medium-Term Plan (2018-2022) which includes the "Big Four" agenda, Kenya Foreign Policy, Public Debt and Borrowing Policy, among others.

Governance in Kenya is exercised at various levels following the principle of consultation and cooperation. At the national level, the main intra-governmental partnerships include collaborations between the executive, the legislature and the national assembly. The main inter-governmental relations are

between the National and County Governments. At the county level, there are collaborations between the Executive and the County Assembly. This system of governance has worked well but there remain gaps in terms of alternative dispute resolution, legislating the Council of Governors (CoG) Secretariat and sectoral committees, granting borrowing powers to counties, harmonizing cross-county taxation and licencing, aligning economic planning at the national and county levels, and formulating benefit sharing frameworks.

Kenya has established a dense network of bilateral and multilateral partners. While these partnerships have attracted budgetary resources, technical assistance and markets, there have been cases of interference in domestic affairs, conditionalities, asymmetric power and lack of national ownership. Some of these arrangements exclude the private sector and civil society, hence going against the "leave-no-one-behind" principle.

Engagements between the Government and the private sector in Kenya take two formats: Public Private Partnerships (PPPs) and Public-Private Dialogue (PPD). PPPs are becoming more popular in financing public investments with about sixty-four (64) bankable projects in the pipeline. However, there are several factors curtailing the smooth implementation of PPPs including failure to realize value-for money, corruption, inflated costs of capital, low competition during bidding, political interests, lack of skills to manage PPPs and risk and lack of transparency. There are also concerns that the process does not involve local communities during the project cycle. The Public-Private Dialogue (PPD) in Kenya is spearheaded by the Kenya Private Sector Alliance (KEPSA) through four platforms namely: Presidential Roundtable, Ministerial Stakeholder Forums, Speaker's Roundtable Meetings and the Council of Governors' Forum. Whereas, this structure has given voice to the private sector, there are concerns that the private sector lacks to broaden their scope and influence at the sub- national level.

At the local level, the weakest link in partnerships in Kenya is the relationship between civil society and the Government. This emanates from lack of self- regulation especially in the Non-Governmental Organizations (NGOs) sector. The NGO Council, which is supposed to ensure self-regulation has been dysfunctional for a long time while the NGO Co-ordination Board, which is mandated to regulate the sector is ill-equipped in terms of finances and personnel to perform this function. These factors have made it difficult to put in place formal structures for engagement as is the case in the private sector.

To enhance the effectiveness of partnerships to promote inclusive growth, the Government needs to be more proactive in pushing for reforms in north-south cooperation towards equality, respect for national sovereignty, non- conditionally and national ownership. Existing gaps in devolution can be dealt with by designing new policies and laws. Measures to strengthen public-private partnerships include a review of the PPP policy and law to accommodate public participation throughout the project cycle. To enhance PPD, the finance and lobbying capacity of private sector associations at the county level should be strengthened. To mitigate confidence rifts between the Government and NGOs, the regulatory capacity of the NGO Co-ordination Board should be enhanced and the self-regulation within the sector should be strengthened by expediting the review and gazettement of the Public Benefit Organizations Act (2013).

1 INTRODUCTION

The theme of this Kenya Economic Report (KER) 2020 is *"Creating an Enabling Environment for Inclusive Growth in Kenya".* The objective is to provide insights on the foundation for broad-based economic growth and development. Inclusive growth aims at advancing equal economic opportunities to all stakeholders in development processes, thus promoting pro-poor approaches anchored on participation and contributions of all stakeholders. This is echoed in the Government's long-term blueprint, the Kenya Vision 2030, which promotes implementation of policies for broad-based inclusive growth. This is further stated in the Third Medium-Term Plan (MTP III) which includes the "Big Four" agenda. The emphasis on inclusive growth is reflected in global and regional development commitments, namely: the Sustainable Development Goals (SDGs) - Goal 8 which promotes inclusive and sustainable economic growth and Goal 10 which targets to reduce inequality within countries and among countries; the Africa Union Agenda 2063; and the East African Community Vision 2050.

Kenya's economy grew by 5.4 per cent in 2019, which was a decrease by 0.9 percentage points from 2018 (KNBS, 2020). The Kenya Vision 2030 target is to achieve a 10.0 per cent GDP growth and reduce the number of people living in absolute poverty to the 'tiniest proportion of the total population'. Under the first MTP I, the target was to reduce the number of those living below the poverty line from 46.0 per cent to 28.0 per cent. However, according to the Kenya Integrated Household Budget Survey - KIHBS (2016), poverty levels stood at 36.1 per cent in 2016, implying that poverty reduction efforts need to be beefed up to realize the development agenda. Inequalities persist, where nationally more than half (59.4%) of total expenditure is controlled by the top-most quintile while the bottom quintile controls the least share (3.6%) (KNBS, 2016).

In the Second Medium-Term Plan (MTP II), the target was to achieve a 10.0 per cent growth by 2017 but the country achieved an average growth of 5.5 per cent during the 2013-2017 period. The medium-term growth prospects under MTP III is for the economy to grow by 7.0 per cent by 2022. The critical challenge remains that of attaining high and sustainable levels of growth and development and translating the growth to be socially and economically inclusive. When growth and development policies are not inclusive, they are likely to trigger social conflict and derail the development trajectory. Therefore, creating a conducive environment that ensures a productive employment, low poverty levels, reduced inequality, and environmental sustainability is paramount.

The theme of the Kenya Economic Report 2020 is motivated partly by the recommendations of the Kenya Economic Report 2019 and the Government's quest for shared prosperity, as envisioned in the Kenya's long-term development blueprint the Kenya Vision 2030, the "Big Four" agenda and the Constitution of Kenya. This report assesses economic performance against the backdrop of policies and institutional frameworks that support balanced and pro-poor growth strategies.

In the medium-term, the Government intends to achieve inclusive growth by ensuring food security; expanding the manufacturing sector to create jobs; providing universal health care to enhance the human capital; and providing affordable housing to increase access to the low-income earners. The Government has also put in place policies to enhance youth empowerment, gender equality and equal opportunities for persons with disabilities.

Whereas there is no universal definition for inclusive growth (Organization for Economic Co-operation and Development - OECD, 2015), different authors and international organizations define inclusive growth in diverse ways. According to the World Bank[1], inclusive growth denotes both the pace and pattern of economic growth, which are interlinked and assessed together. The definition emphasizes linkages between the micro and macro determinants of economic growth. The Asian Development Bank (2008) views inclusive growth as a growth episode that meets two criteria: (1) creates new economic activities; and (2) ensures equal access to opportunities created for all segments of the society, especially the poor. Such economic growth is non-discriminatory (allows participation of all members) and disadvantage-reducing (associated with declining inequality in non-income dimensions of well-being). The United Nations Development Programme (UNDP) defines inclusive growth as a process whose benefits are shared equitably and ensures that everyone participates in the growth process, and in decision-making. When an economic growth episode creates opportunities for all segments of the population and distributes the benefits of economic prosperity, then it is denoted inclusive (OECD, 2015). Further, the International Monetary Fund (IMF) defines inclusive growth as broad sharing of the benefits of and the opportunities for, economic growth, that is robust and broad-based across sectors, promotes productive employment across the labour force, embodies equal opportunities in access to markets and resources and protects the vulnerable (IMF, 2017).

Inclusiveness is a concept that encompasses equity, equality of opportunity and protection in market and employment transitions. Therefore, inclusive growth entails increasing employment, reducing poverty and inequality, and promoting private sector activity and diversification. First, by creating jobs, inclusive growth helps reduce poverty and inequality. Second, it increases labour force participation and employment, especially for those facing higher obstacles in accessing labour markets (women and the youth). Third, inclusive growth encourages private sector activity by providing equal opportunities to access markets and resources. Fourth, inclusive growth is broad-based across sectors, entailing greater economic diversification and reducing vulnerability to external shocks.

The KER 2020 assesses the status of inclusive growth in Kenya along different dimensions. The rest of the report is organized as follows: Chapter Two reviews the macroeconomic performance of the country. Chapter Three discusses growth and inclusivity at county level while the medium-term prospects are analyzed and discussed in Chapter Four. Chapter Five discusses how financial inclusion can be enhanced for inclusive growth while Chapter Six analyses inclusivity and trade in Kenya and international context. In Chapter Seven, the contribution of agriculture to food and nutrition security and inclusive growth is examined. Chapter Eight discusses how inclusive growth can be enabled through access to affordable, reliable, sustainable and modern sources. In Chapter Nine, the role of social protection in enhancing social mobility and inclusive growth is analysed. Chapter Ten covers issues of governance in inclusive growth and Chapter Eleven, the role of partnerships in achieving inclusive growth. In the last chapter, Chapter Twelve, conclusions and policy recommendations of the report are presented.

Endnotes

1 See <https://blogs.worldbank.org/developmenttalk/category/tags/inclusive-growth>

2 MACROECONOMIC PERFORMANCE

Kenya has made significant progress in poverty reduction in the last two decades, with poverty rate dropping from 52.3 per cent in 1997/98 to 46.8 per cent in 2005/06 and eventually to 36.1 per cent in 2015/16. The rate of decline is however not commensurate with the growth in GDP, and income and consumption inequalities persist. Poverty levels are higher in rural areas, among the elderly and the youth. Employment growth has lagged GDP growth and while agriculture is the main employer, the sector faces low and declining productivity, which has implications on the welfare of those employed in the sector. Food constitutes the highest expenditure among the poor and, therefore, food-related inflationary pressures tend to push some of the poor to below the poverty line. While pro-poor expenditures have increased, the rising debt servicing costs threaten their sustainability. As such, it is important to focus attention on economic transformation with emphasis on expanding the industrial sector; increasing agricultural productivity; addressing gender gaps; equipping the youth with appropriate skills; maintaining the fiscal consolidation path; and ensuring a supportive monetary policy.

Table 2.1: Kenya's key macroeconomic and inclusive growth indicators

Indicator	Value/Status
GDP, 2019 (Ksh millions)	9,740,360.0
Real GDP growth, 2019 (%)	5.4
Real GDP per capita, 2019 (Ksh)	106,244.4
GNI per capita, Atlas Method, 2018 (US$)	1,620
Public debt as a % of GDP, 2018/19 (%)	61.1
Average overall inflation, 2019 (%)	5.2
Unemployment rate, 2015/16 (%)	7.4
Female unemployment rate, 2015/16 (%)	9.6
Male unemployment rate, 2015/16 (%)	5.3
Population size, 2019 (millions)	47.6
Overall poverty level, 2015/16 (%)	36.1
Rural poverty, 2015/16 (%)	40.1
Peri-urban poverty, 2015/16 (%)	27.5
Core-urban poverty, 2015/16 (%)	29.4
Child poverty, 2015/16 (%)	41.5
Youth poverty, 2015/16 (%)	29.1

Female poverty, 2015/16 (%)	30.2
Male poverty, 2015/16 (%)	26.0
Poverty gap, 2015/16 (%)	10.4
Inclusive development index score, 1-7 (best), 2017	3.23
Labour productivity growth, 2018 (%)	2.1
Net income Gini, 0-100 (0-perfect equality), 2018	41.6
Wealth Gini, 0-100 (0-complete equality), 2018	77.2

Source: KNBS (2019; 2020), Economic Survey; KNBS (2019), Population and Housing Census; KNBS (2016), KIHBS (2015/16); and World Economic Forum (2018)

2.1 Economic Growth and Poverty Status

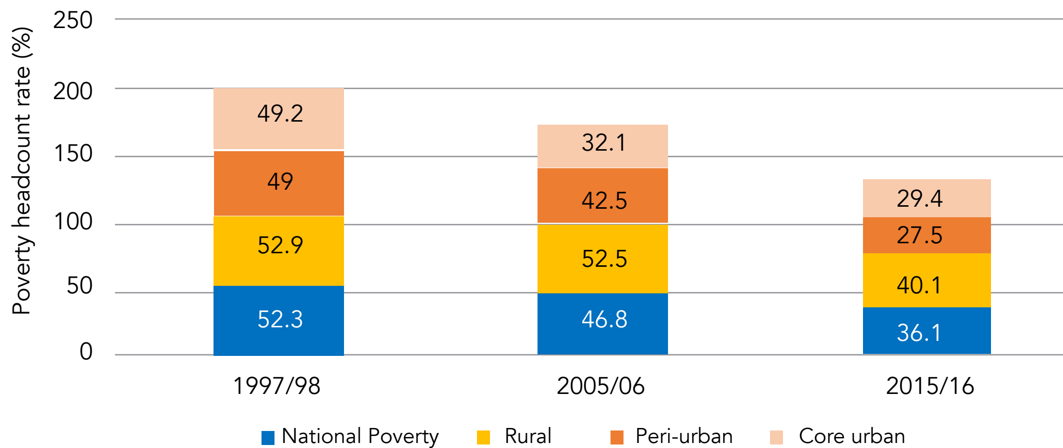
Kenya has made remarkable progress in poverty reduction in the last three decades. Poverty levels dropped from 52.3 per cent in 1997/98 to 46.8 per cent in 2005/06 and to 36.1 per cent in 2015/16, meaning that poverty dropped by 0.9 percentage points per year. Kenya's economy grew at an average of 3.9 per cent between 1997 and 2016 despite recording a downward trend from 2.3 per cent in 1997 to -0.2 per cent in 2000 as a result of decline in all key sectors of the economy due to droughts, deterioration of infrastructure and low aggregate demand. Real GDP per capita recorded a meagre growth, averaging 1.2 per cent between 1997 and 2016. Significant improvement in real GDP per capita growth was witnessed between 2010 and 2019, averaging 2.9 per cent. It is notable that Kenya's economic growth rate is commensurate with real GDP per capita growth, which means that enhanced economic activity is crucial in improving economic welfare.

Figure 2.1: Annual real GDP and real GDP per capita growth and poverty rates

Data Source: Kenya National Bureau of Statistics (Various), Economic Survey

Rural poverty level has remained high, and the pace of poverty reduction has been slower than in peri-urban and core urban areas. Rural poverty fell by 12.8 percentage points from 52.9 per cent in 1997/98 to 40.1 per cent in 2015/16, implying that rural poverty fell by only 0.7 percentage points for the year. Poverty levels in peri-urban and core urban areas dropped by 21.5 and 19.8 percentage points, respectively, to stand at 27.5 and 29.4 per cent in 1997/98 and 2015/16.

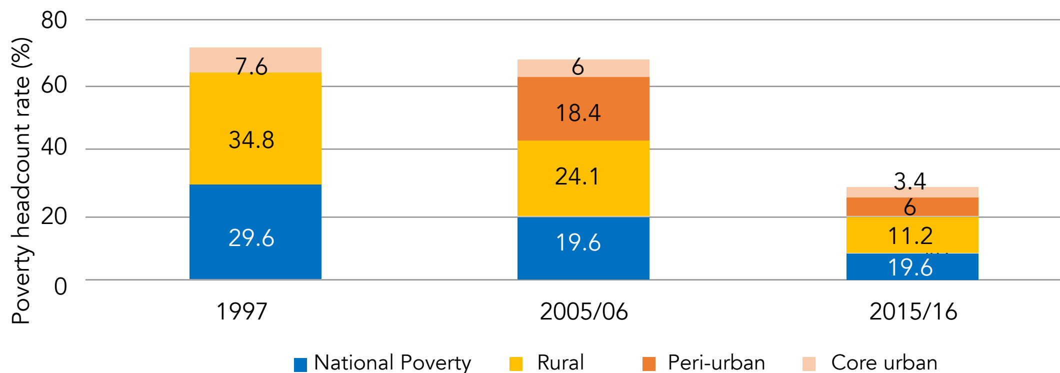
Figure 2.2: Overall poverty at national level and by residence, 1997/98-2015/16



Data Source: KNBS (2006; 2016), KIHBS 2005/06 and 2015/16

Hardcore poverty[2] has significantly declined nationally but is still higher in rural areas. Hardcore poverty in the rural areas was 11.2 per cent in 2015/16, above the national average of 8.6 per cent (Figure 2.3). However, hardcore poverty in peri-urban and core urban areas was below the national level.

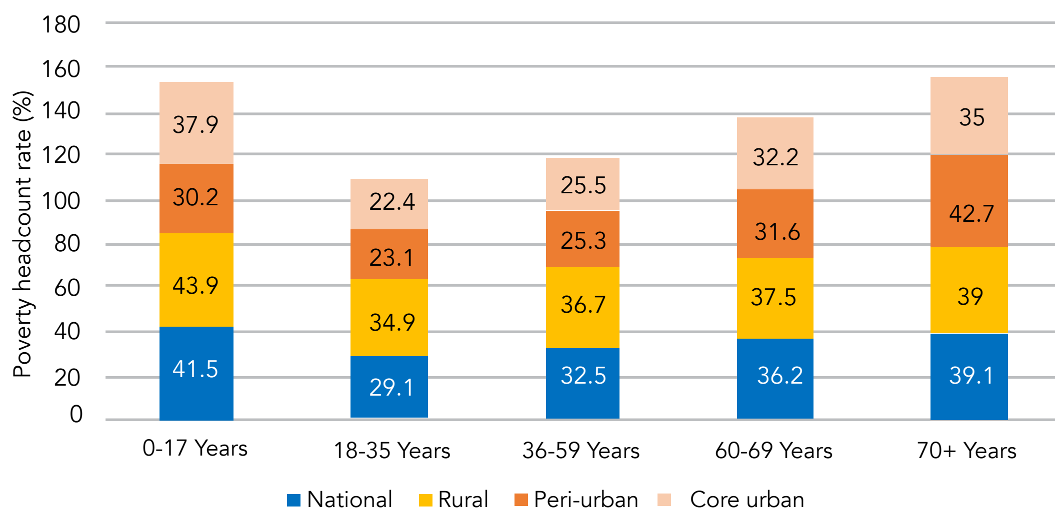
Figure 2.3: Trends in hardcore poverty at national and residence level



Data Source: KNBS (2006; 2016), KIHBS 2005/06 and 2015/16

At national level, child poverty is relatively higher than for other age cohorts.[3] Rural child poverty was 43.9 per cent in 2015/16, higher than the national average of 41.5 per cent and other age cohorts (Figure 2.4). Poverty is also more pronounced among the elderly (above 70 years) who reside in peri-urban areas compared to those in rural and core-urban areas.

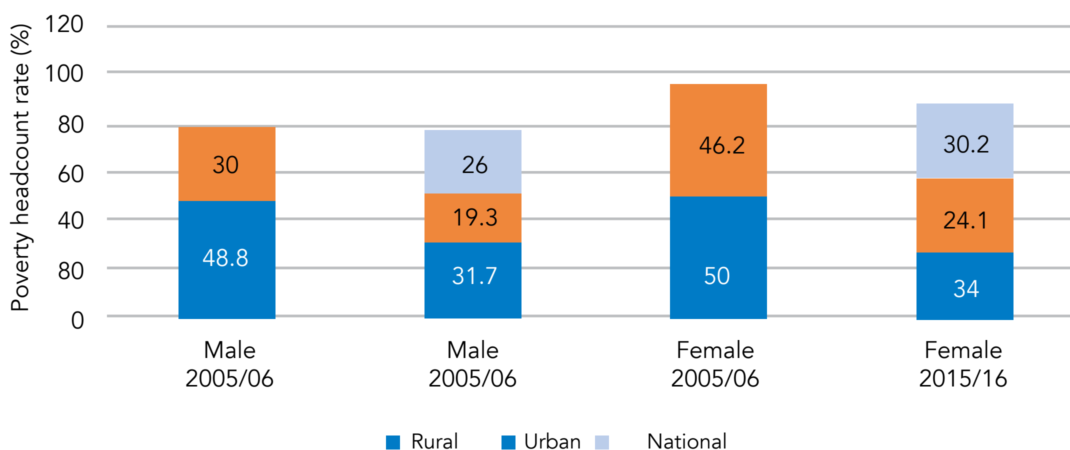
Figure 2.4: Poverty by age groups, 2015/16



Data Source: KNBS (2016), KIHBS 2015/16

Generally, female-headed households are poorer compared to the male counterparts, both at national and residence levels. In 2015/16, female- and male-headed household poverty rates were 30.2 and 26.0 per cent, respectively (Figure 2.5). Also, both female- and male-headed households residing in rural areas were poorer than their counterparts in urban areas.

Figure 2.5: Overall poverty by sex of household head



Data Source: KNBS (2006; 2016), KIHBS 2005/06 and 2015/16

2.2 Consumption and Income Distribution

The level of inequality in income distribution in Kenya is comparatively high and has worsened over time.[4] Kenya's Gini index increased from 45 per cent in 1997 to 46.5 per cent in 2005 before dropping to 40.8 per cent in 2015. In comparison to the East African Community partner states, Kenya is performing better than Rwanda and Uganda but is below Burundi and Tanzania with Gini indices of 38.6 per cent and 40.5 per cent, respectively. In the Sub-Saharan Africa region, Ethiopia has the most equal income with a Gini index of 35.0 per cent as of 2015. Kenya also trails several Lower Middle-Income Countries (LMICs) such as Bangladesh and Egypt (Table 2.2).

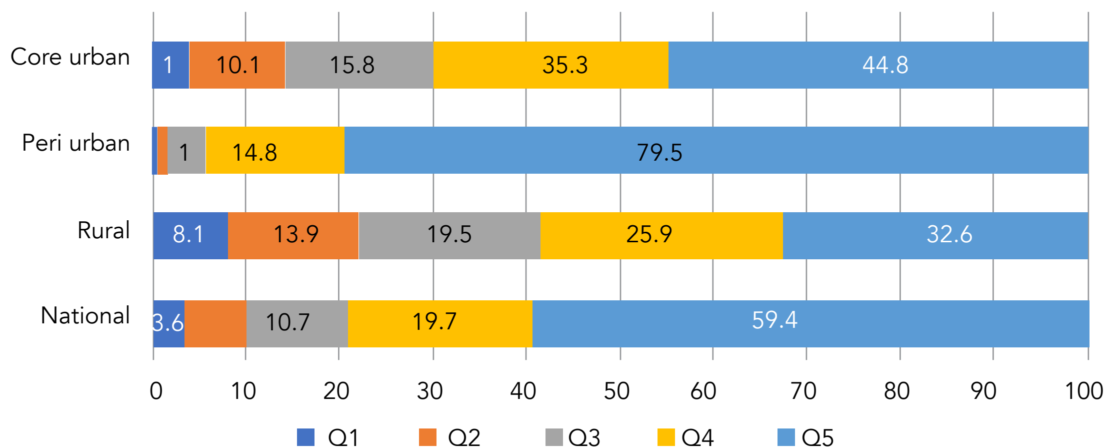
Table 2.2: Gini index for select countries (%)

SSA- Region	Latest Year Available	Gini-Index
Botswana	2015	53.3
Burundi	2013	38.6
Ethiopia	2015	35.0
Ghana	2016	43.5
Kenya	2015	40.8
Mauritius	2017	36.8
Rwanda	2016	43.7
South Africa	2014	63.0
Tanzania	2017	40.5
Uganda	2016	42.8
Lower Middle-Income Countries		
Bangladesh	2016	32.4
Egypt	2017	31.5
Moldova	2018	25.7
Myanmar	2017	30.7

Data Source: World Bank (2020), World Development Indicators

Inequality in household consumption is even more pronounced (Figure 2.6). At national level, the top-most income quintile (fifth quintile) controls 59.4 per cent of consumption expenditure, 16.5 times that of the first quintile. In peri-urban areas, the consumption share of the fifth quintile is 159 times that of the first quintile.[5] In rural areas, inequality is less pronounced, and consumption share of the fifth quintile is only 4 times that of the first.

Figure 2.6: Consumption expenditure share by quintiles (%)

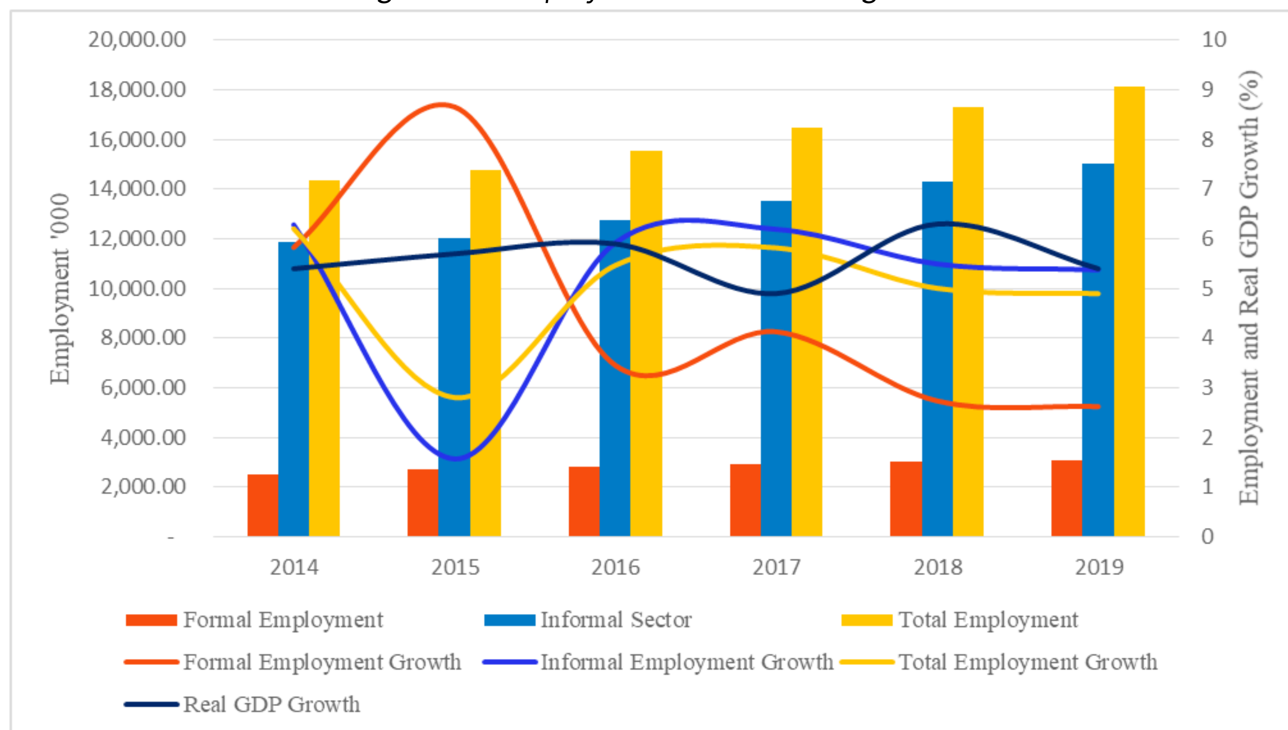


Data Source: KNBS (2016), KIHBS 2015/16

2.3 Employment

Employment growth in Kenya is slower compared to the GDP growth rate. Total employment growth reveals a downward trend between 2014 and 2019. Overall growth in employment fell from 6.2 per cent in 2014 to 4.9 per cent in 2019 while economic growth averaged 5.6 per cent and increased from 5.4 per cent in 2014 to 6.3 percent in 2018, before decelerating to 5.4 per cent in 2019 (Figure 2.7). The greatest decline was in formal employment, which decreased by 3.2 percentage points from a 5.8 per cent growth in 2014 to 2.6 per cent in 2019. The decline in employment is mainly attributed to a freeze in formal employment by the Government in 2015 to cut on the public sector wage bill. This restricted employment to only essential services such as health, education and security.

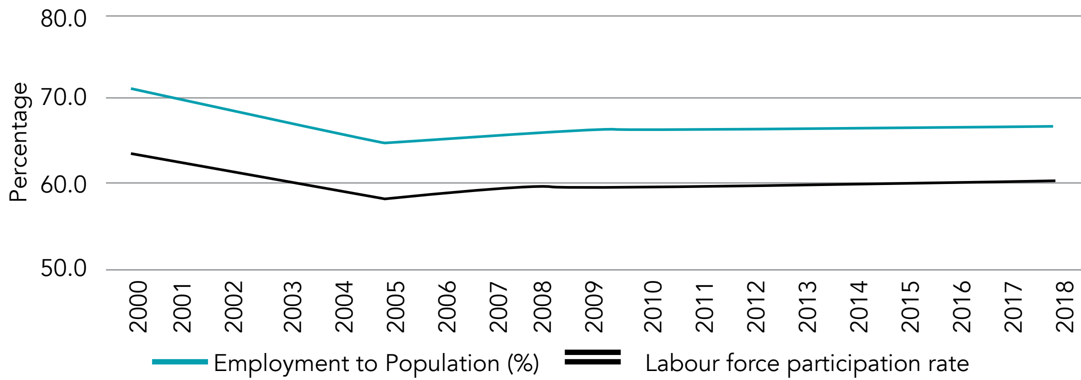
Figure 2.7: Employment and real GDP growth



Source: Author's computation using data from KNBS (2020), Economic Survey

The share of employment to population ratio and labour force participation rate[6] have stagnated at about 60.0 and 67.0 per cent, respectively, in the last decade (Figure 2.8). In addition, the share of employment to population dropped from 63.5 per cent in year 2000 to 58.5 per cent in 2005.

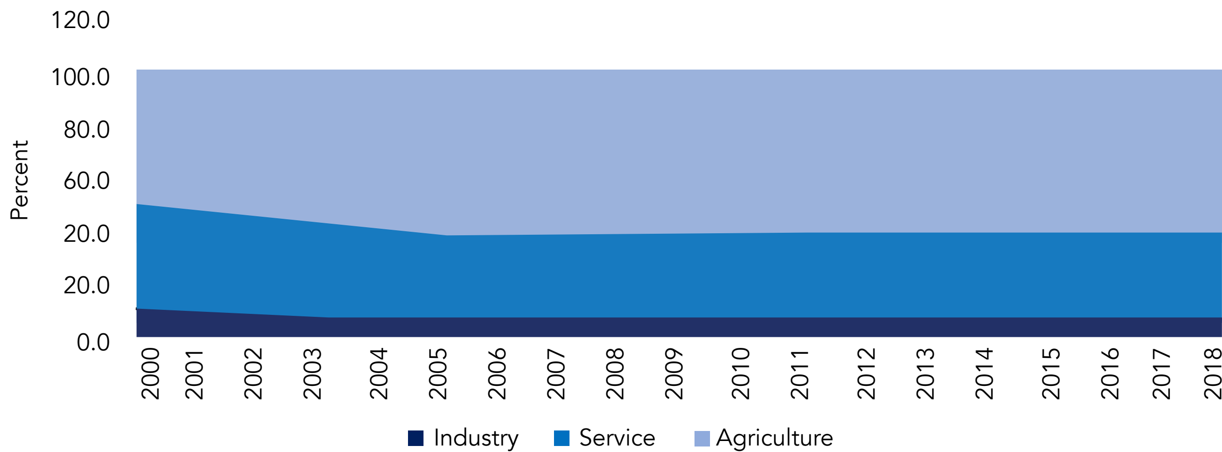
Figure 2.8: Employment to population ratio (%)



Source: ILOSTAT

Agriculture is the dominant employer, accounting for 57.5 per cent of total employment as of 2018 (Figure 2.9). The share of agricultural employment increased from 57.2 per cent from 2000-2009 to 58.6 per cent from 2010-2018. The second largest employment sector is services, accounting for 35.0 per cent of employment in 2018. The industry sector has the least share of employment, with employment share dropping slightly from 8.0 per cent from 2000-2009 to 7.3 per cent from 2010-2018.

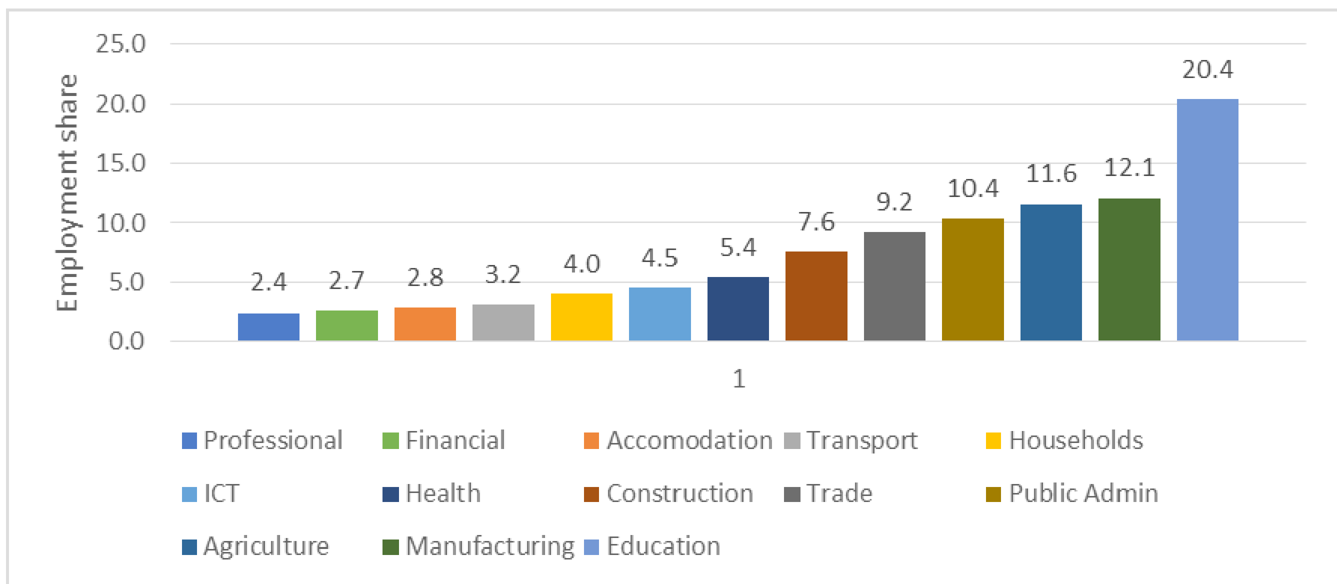
Figure 2.9: Share of employment by sector



Source: ILOSTAT

As of 2019, the largest wage employment was in the education sector. The share of wage employment in the education sector constituted 20.4 per cent of total wage employment followed by agriculture at 12.2 per cent (Figure 2.12). The share of wage employment in the manufacturing sector was 11.1 per cent.

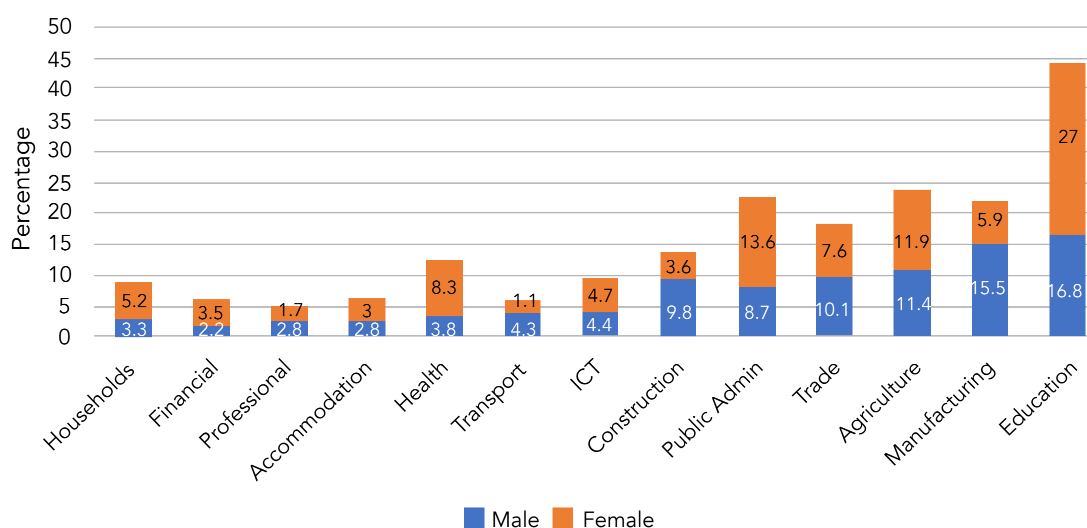
Figure 2.10: Share of wage employment by industry, 2019 (%)



Source: Author's computation using data from KNBS (2020), Economic Survey

The education sector employs more women while the manufacturing sector[7] employs more men (Figure 2.11). The proportion of women is also predominant in public administration and health sectors at 13.6 and 8.3 per cent, respectively. There is minimal disparity in employment in agriculture, Information and Communication Technology (ICT) and accommodation sectors. For an economy to generate more productive jobs, more employment should be concentrated in the manufacturing and ICT sectors.

Figure 2.11: Wage employment by industry and gender, 2019 (%)

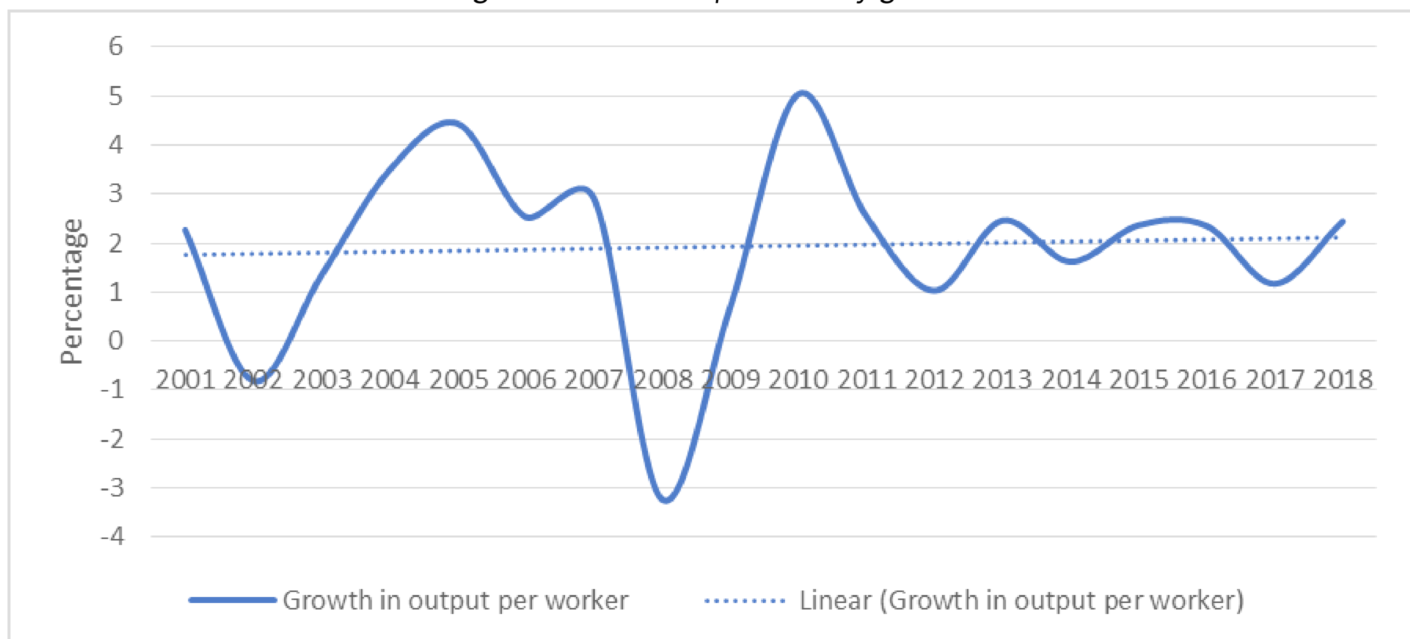


Source: Author's computation using data from KNBS (2020), Economic Survey

2.4 Productivity of the Labour Force

Kenya's labour productivity[8] growth increased marginally from an average of 1.5 per cent between 2001 and 2009 to an average of 2.3 per cent between 2010 and 2018 (Figure 2.12). A rise in productivity was experienced between 2002 and 2005 with implementation of the Economic Recovery Strategy (ERS), which led to improved performance of the economy. A sharp decline in productivity witnessed in 2008 was a result of the post-election crisis which led to contraction of GDP. Increasing the productivity of the economy is critical to ensuring sustainable economic growth, supported by robust job creation. If labour productivity remains unchanged, workers will not be able to earn enough to reduce the population of Kenyans living below the poverty line.

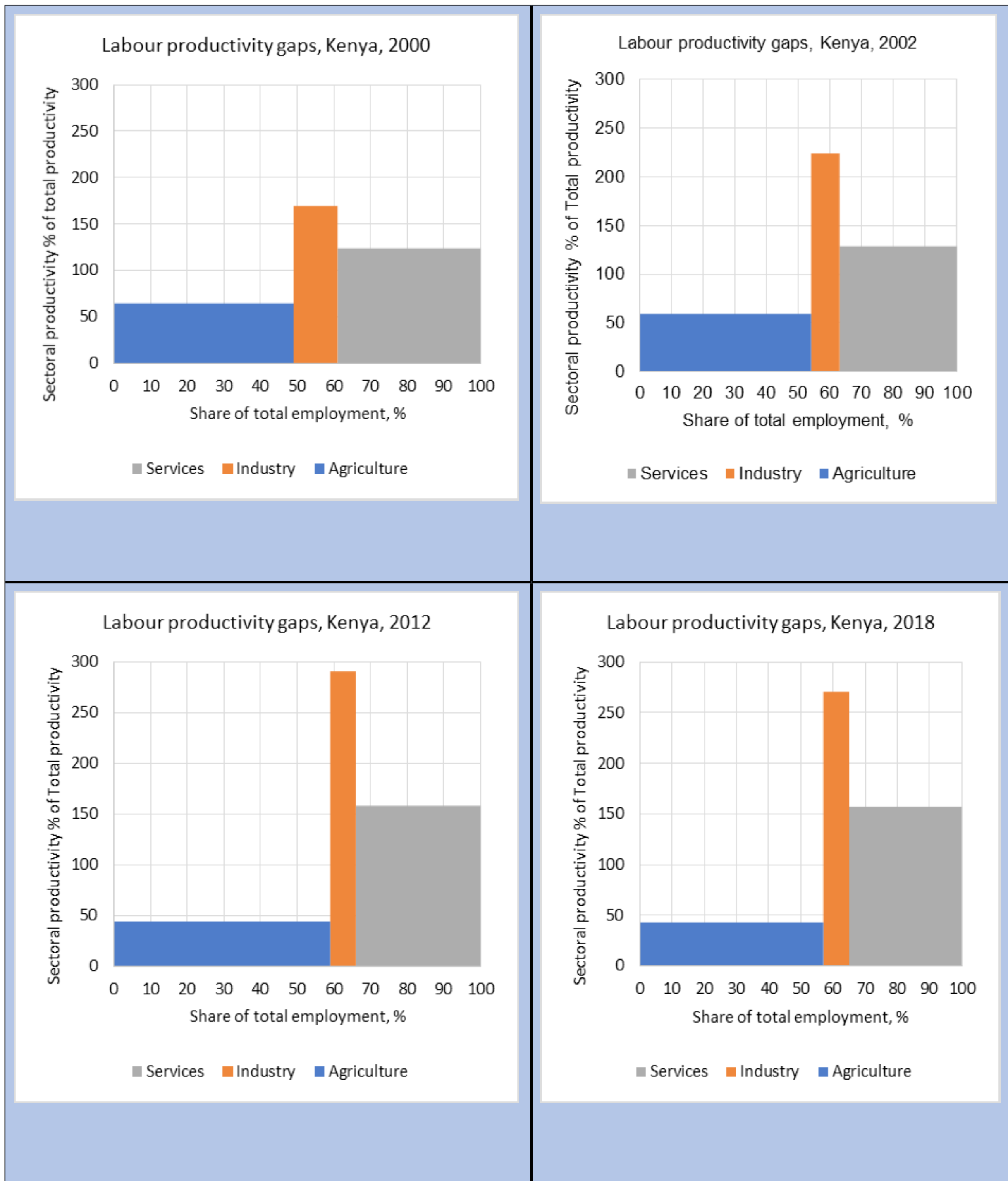
Figure 2.12: Labour productivity growth



Source: ILOSTAT

There is misallocation of labour across the sectors as majority are employed in the least-productive agriculture sector. There was a shift in employment towards the least productive sectors in the economy. The agriculture sector, whose productivity dropped during the review period, employed more people than the other sectors. The industrial and services' sectors, which witnessed some growth in productivity, had a significant fall in employment. The share of the labour force in the agricultural sector grew from 49.0 per cent in 2000 to 57.0 per cent in 2018, while the share of those employed in the industry and services' sectors dropped from 12.0 and 39.0 per cent in 2000 to 8.0 and 35.0 per cent in 2018, respectively. The share of agricultural labour productivity in total factor productivity decelerated from 64.0 per cent in 2000 to 43.0 per cent in 2018 while that of the industrial sector grew from 169.0 per cent in 2000 to 271.0 per cent in 2018. The productivity share of the services sector grew from 124.0 per cent in 2000 to 157.0 per cent in 2018 (Figure 2.13).

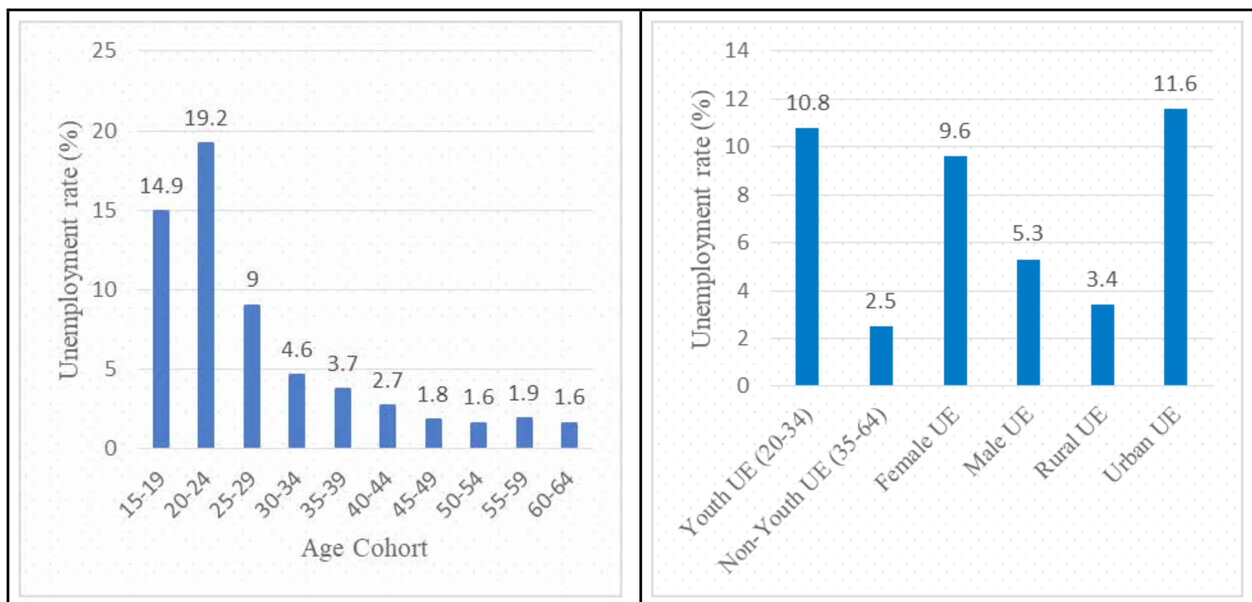
Figure 2.13: Kenya labour productivity gap analysis: 2000-2018



Source: World Bank (2019)

Unemployment is more severe among the youth and female populations than in non-youth and male populations. As of 2015/16, unemployment was highest among the age cohort 20-24 years at 19.2 per cent (Figure 2.14a). In addition, youth unemployment stood at 10.8 per cent compared to the non-youth at 2.5 per cent (Figure 2.14b). Although unemployment was highest among the age-cohort 20-24 years, this group comprises mainly college students, hence the high unemployment rates. Similarly, unemployment is higher among females at 9.6 per cent compared to 5.3 per cent for males. Therefore, unemployment among the youth and women is higher than the overall unemployment rate of 7.4 per cent. In addition, significant disparities exist in urban and rural areas. More unemployment is experienced in urban areas at 11.6 per cent compared to 3.4 per cent in rural areas.

Figure 2.14: Unemployment by age category, and by gender and residence, 2015/16

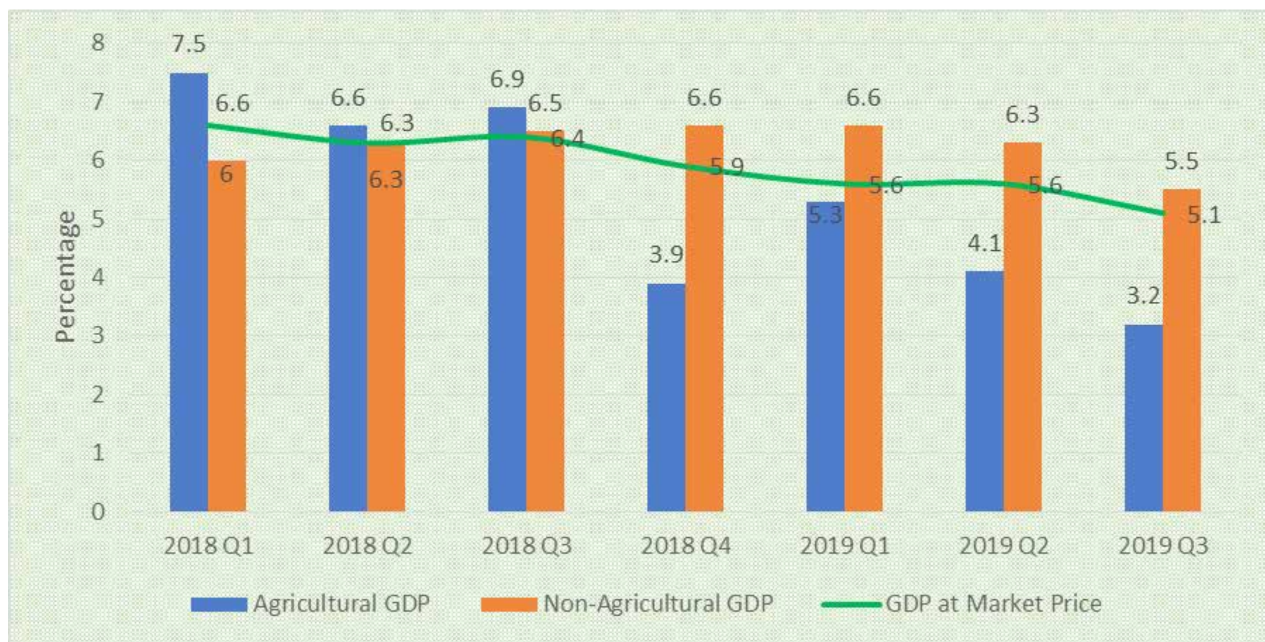


Data Source: Author's computation using KNBS (2018), Labour Force Basic Report 2015/16

2.5 Sectoral Analysis of Growth

Economic growth remained strong although with a decline in 2019. Economic growth dropped to 5.6 per cent in the first and second quarters of 2019 compared to 6.3 and 6.6 per cent in similar quarters in 2018 (Figure 2.15). In the third quarter of 2019, growth decelerated to 5.1 per cent compared to 6.4 per cent in the corresponding quarter of 2018. The decline in growth is linked to a drop in agricultural GDP growth from an average of 7.0 per cent in the first three quarters of 2018 to an average of 4.2 per cent in similar quarters in 2019. The slowdown in the agriculture sector is mainly attributed to delay in onset of long rains in the first quarter of 2019 and a decline in production of key crops in the third quarter of 2019. Non-agricultural GDP remained stable, averaging 6.1 per cent in the first three quarters of 2019 compared to an average of 6.3 per cent in a similar period in 2018.

Figure 2.15: Quarterly economic growth rates (%)

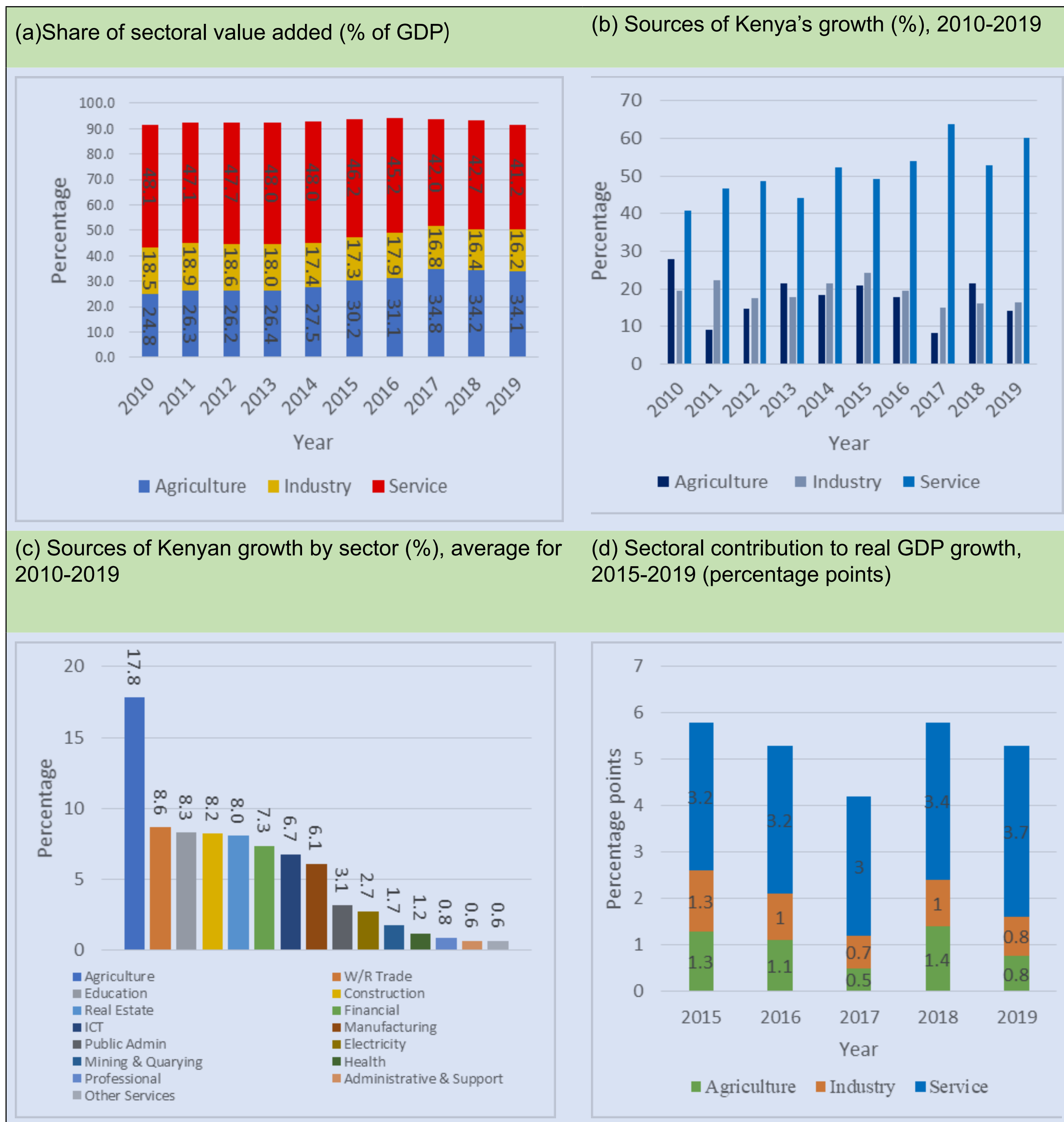


Data Source: KNBS (2019), Quarterly Gross Domestic Report, Third Quarter 2019

Kenya is experiencing a slow pace of industrialization constraining structural economic transformation. The services sector is the largest contributor to GDP while the contribution of the industrial sector is dwindling. Although the share of value added of the services sector declined from 48.1 per cent of GDP in 2010 to 41.2 per cent in 2019, it is the largest contributor to GDP (Figure 2.16a). The contribution of the industry sector, which includes manufacturing, portrays a downward trend, declining from 18.5 per cent in 2010 to 16.2 per cent in 2019. The decline in the performance of the manufacturing sector is partially attributed to high production costs, competition from imported goods and poor performance of the sugar industry in the recent past. The contribution from the agriculture sector rose by 9.3 percentage points between 2008 and 2018. Structural transformation has implications for employment and poverty reduction; that is, slow or lack of structural transformation can lead to high unemployment rates.

The services sector has driven Kenya's economic growth in the last decade (Figure 2.16b). The services sector accounted for an average of 51.3 per cent of growth between 2010 and 2019, followed by industry at 19.2 per cent. The agriculture sector, which suffered from weather shocks in 2011 and 2017 hence affecting its productivity, accounted for 17.8 per cent of the growth. The industry sector is the most resilient compared to agriculture and services sector. The contribution by the industry sector to GDP growth deviated from an average 3 percentage points between 2010 and 2019. Agriculture and services had, respectively, 6 and 7 percentage point deviations from the average contribution to growth.

Figure 2.16: Kenya's supply side growth analysis

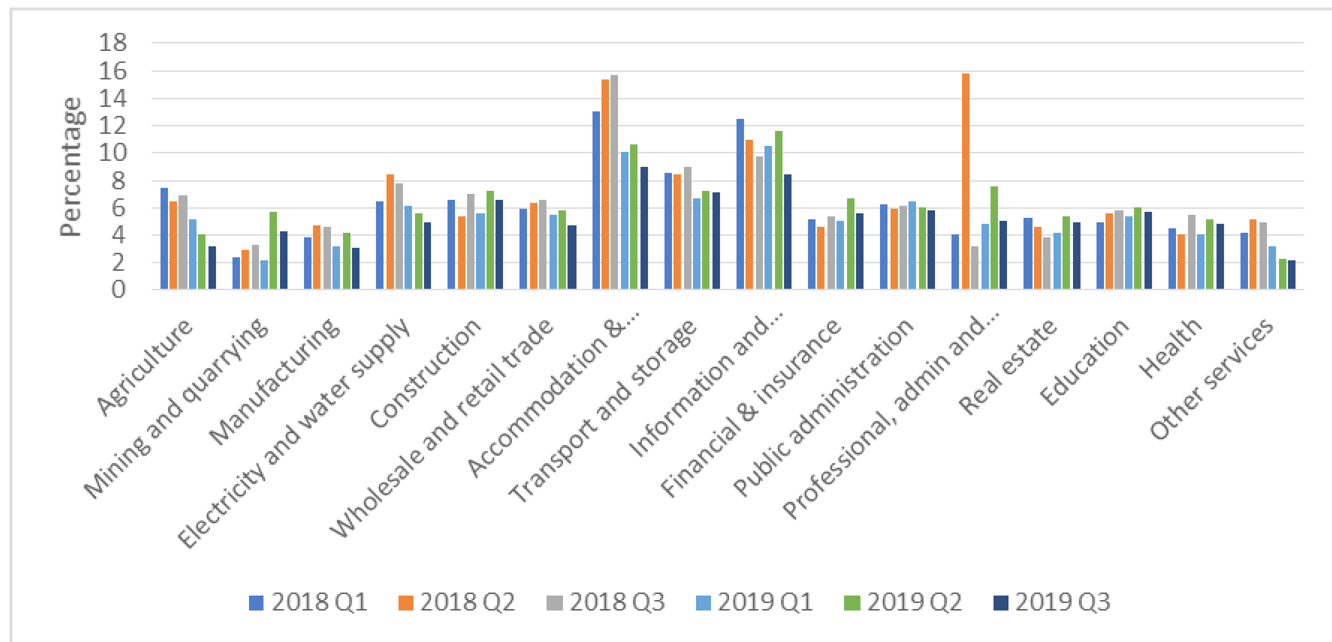


Source: KNBS (Various), Economic Survey

The services sub-sectors experience faster growth than other sectors. In the first three quarters of 2019, information and communication, accommodation and food services, and transport and storage had the highest growth, averaging 10.2, 9.9 and 7.0 per cent, respectively. This reflects a deceleration in growth compared to the corresponding quarters in 2018 in which the sectors recorded average growth rates of 11.1, 14.7 and 8.6 per cent, respectively (Figure 2.17). The decline in growth is partially attributed to a decline in credit to transport and storage sector and a decrease in number of tourist arrivals through various points of entry in the first two quarters of 2019 for accommodation and food services sector. In the first three quarters of 2019, agriculture recorded an average growth of 4.2 per

cent compared to 7.0 per cent in 2018. The decline in performance of the agriculture sector was driven by a drop-in production of key crops such as tea, cane and vegetable and fruit exports. Growth in the manufacturing sector dropped to 3.5 per cent compared to 4.4 per cent in 2018. Growth in the manufacturing sector was curtailed by a slowdown in manufacture of food products, mainly manufacture of sugar, processing of tea, processing and preservation of fish and manufacture of biscuits. For the non-food sub-sector, there was a decrease in production of cement and manufacture of galvanized iron sheets, particularly in the third quarter.

Figure 2.17: Sectoral quarterly growth rates (%), 2018-2019



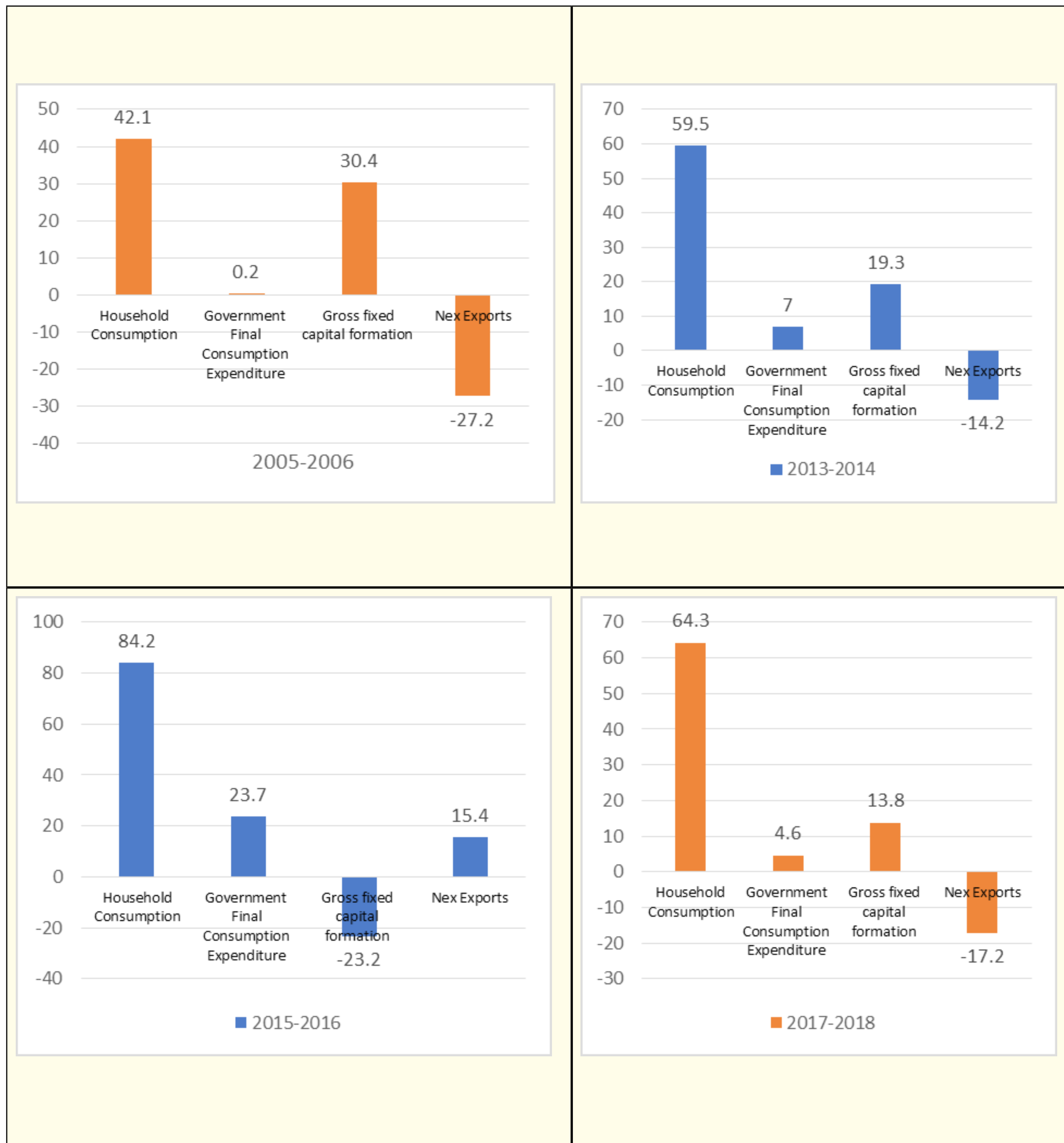
Data Source: KNBS (2019), Quarterly Gross Domestic Product Report, Third Quarter, 2019

Household consumption is the main driver of aggregate demand in Kenya. Between 2005 and 2018, household consumption contributed an average of 62.5 per cent to real GDP growth (Figure 2.18). The contribution increased from an average of 42.1 per cent in 2005-2006 to an average of 84.2 per cent in 2015-2016, before declining to an average 64.3 per cent in 2017-2018. Government consumption explained an average of 11.3 per cent of the growth in 2005-2006, increasing to 23.7 per cent in 2015-2016 as a result of implementation of the new Constitution which led to roll-out of devolution.

Investments were largely dominated by public investments. Public spending on infrastructure accounted for 10.1 per cent of the growth in the period 2005 and 2018. However, there was a significant decline in investments in 2016 due to substantial decline in investments in transport equipment, civil works and residential buildings.

Net foreign demand (net exports) has remained negative. It averaged -18.5 per cent between 2005 and 2018. However, in 2015 and 2016, there was significant increase in exports and decline in imports growth, resulting in positive net exports. The drop in imports was driven by slow growth in value of imports in 2015 and a decline in importation of transport equipment in 2016.

Figure 2.18: Contribution of demand side to growth (%) (2-year averages)



Source: Author's computation using data from KNBS (Various), Economic Surveys

The savings-investment gap widened to 8.3 per cent of GDP in 2019 from 7.1 per cent in 2018. This is attributed to a relatively faster growth in investments by 2.4 per cent from Ksh 1,543,650 million in 2018 to Ksh 1,631,870.7 million in 2019 (Table 2.3). This was mainly driven by increase in value of buildings other than dwellings and other structures. However, as a percentage of GDP, investments marginally fell from 17.3 per cent in 2018 to 16.3 per cent in 2018 while savings fell from 10.2 per cent in 2018 to 8.0 per cent in 2019.

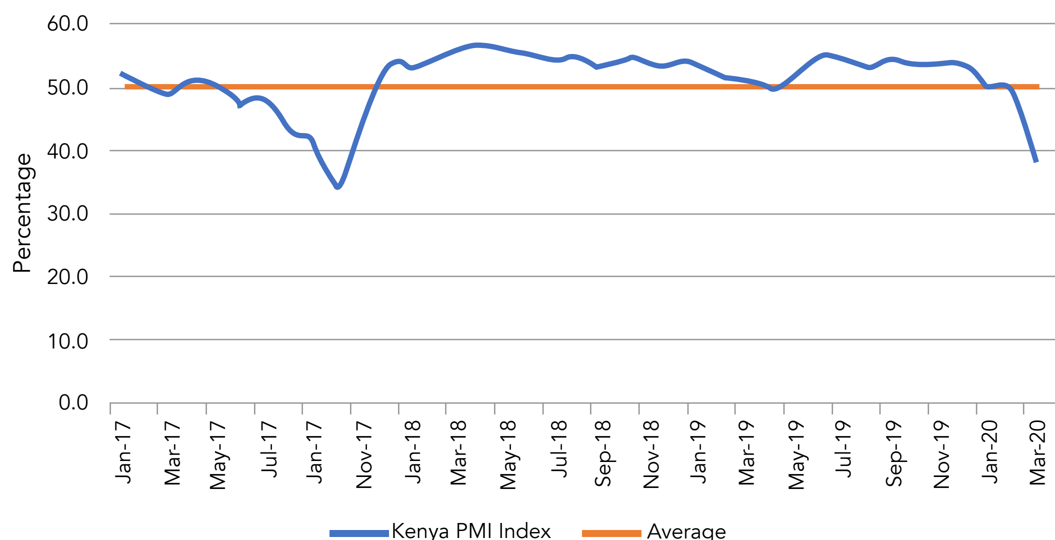
Table 2.3: Total investments and savings, current prices (Ksh millions)

	2014	2015	2016	2017	2018	2019
Investment	1,236,107	1,358,366	1,238,164	1,469,650	1,543,417	1,631,870.7
Gross national savings	569,320.9	715,658.6	866,710.8	854,163.4	907,412.7	776,104.8
Investments as % of GDP	22.9	21.6	17.6	18.0	17.3	16.3
Savings as % of GDP	10.5	11.4	12.3	10.5	10.2	8.0
Savings-investments gap (% of GDP)	-12.4	-10.2	-5.3	-7.5	-7.1	-8.3

Source: KNBS (2020), Economic Survey

Business conditions reflected the weather conditions. The Purchasing Managers Index (PMI) dropped from an all-time high of 56.4 in April 2018 to a low of 49.3 in April 2019 before increasing to 53.3 per cent in December 2019. The drop below 50 signalled a deterioration in business conditions attributed to poor weather conditions, which affected some firms. However, the headline figure rose by 5 index points from 49.3 in April 2019 to 54.3 in June 2019, the highest since April 2018 (Figure 2.19). In the third and fourth quarters of 2019, there were stable manufacturing activities as the index averaged 53.7 and 53.2 per cent, respectively. The rise in the index signals steady improvement of the business environment in Kenya, with firms producing more output and experiencing increase in new orders driven by both domestic and external demand. In January and February 2020, the headline index dropp=ed to 49.7 and 49.0, respectively, signalling declining business conditions. This was mainly attributed to poor weather conditions, which affected output of businesses and low demand from households. The index dropped to 37.5 in March 2020, reflecting a decline in business activity due to the COVID-19 pandemic.

Figure 2.19: CFC Stanbic Purchasing Managers' Index, Kenya



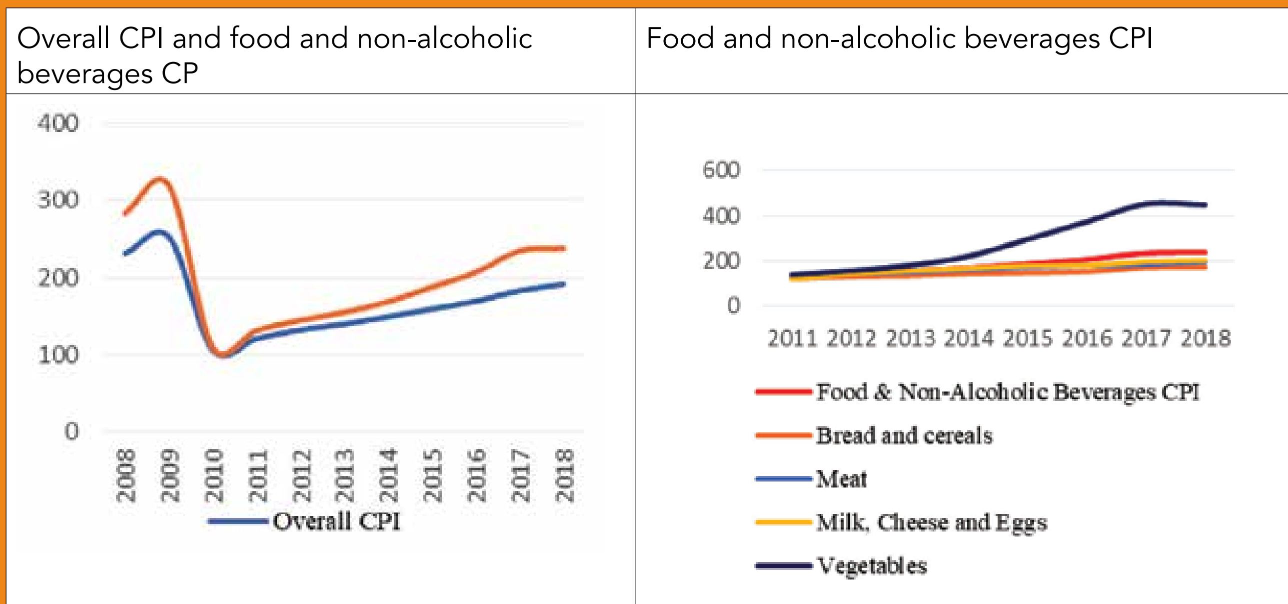
Data Source: CFC Stanbic (2020)

2.6 Inflation

Kenya has enjoyed a relatively stable macroeconomic environment with a stable inflation. Overall inflation has remained within the Government's range of 5±2.5 per cent. Fuel inflation has maintained a downward trend, dropping from 13.8 per cent in December 2018 to a low of 2.5 per cent in December 2019 (Figure 2.20). Food inflation rose from a low of 2.6 per cent in December 2018 to 9.6 per cent in December 2019 owing to unfavourable weather conditions, leading to increase in food prices. Increase in food prices affects the poor more than those in higher income categories. Core inflation was generally below 5.0 per cent in 2018 and 2019. In addition, it had been on a downward trend, from 4.2 per cent in December 2018 to 2.7 per cent in December 2019. Bread and cereals account for the largest share of food and non-alcoholic beverages CPI at 10.5 per cent while meat; milk, cheese and eggs; and vegetables account for 5.7, 4.9 and 5.7 per cent, respectively, in the food and non-alcoholic beverages CPI.

Box 2.2: Food inflation, cost of living and the poor

Overall CPI and food and non-alcoholic beverages CPI tend to move together while vegetables CPI drives food and non-alcoholic beverages CPI. The prices of food and non-alcoholic beverage carry the largest weight (36.04) in consumer baskets used to compute the CPI in Kenya. Therefore, food inflation and overall CPI inflation are strongly correlated. The prices of vegetables are likely to drive food and non-alcoholic beverages, hence overall food inflation in Kenya.



Data Source: Kenya National Bureau of Statistics (Various), Economic Surveys

According to KNBS (2016), KIHBS 2015/16, the following are the vegetables highly consumed by households:

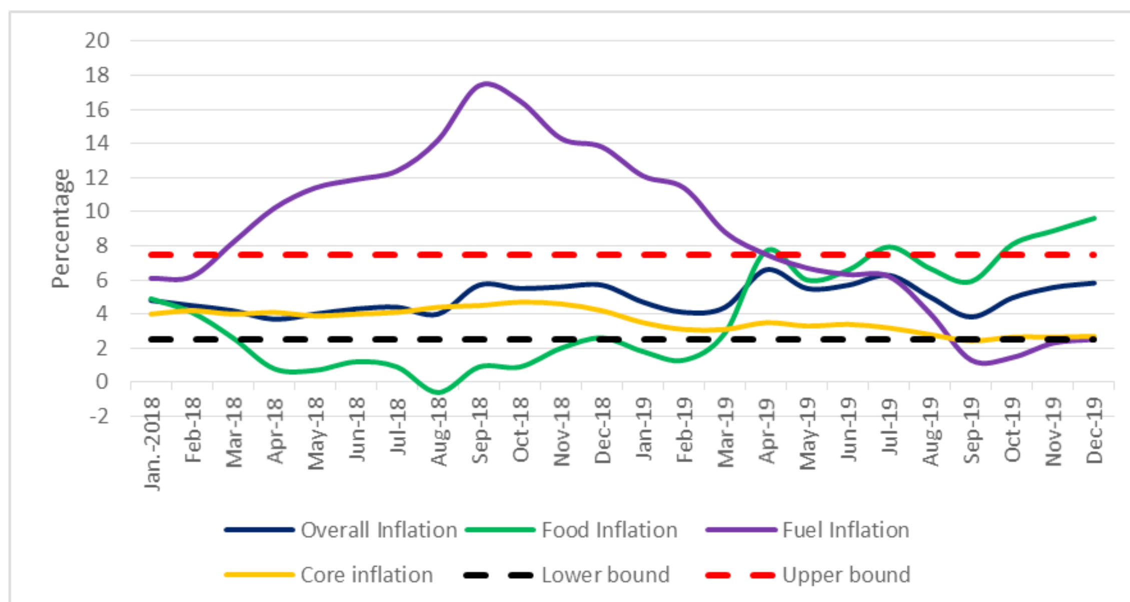
Main vegetable consumption by households in Kenya

Vegetable	
Tomatoes	20.33
Kale (Sukuma Wiki)	17.14
Onion (Bulbs)	15.69
Traditional Vegetables	13.65
Cabbages	11.87
Onion (Leeks)	7.81
Spinach	5.13
Carrots	4.66
Others	3.72

Source: KIHBS 2015/16

Since food CPI and overall CPI move together, persistent food inflation can be a threat to macroeconomic stability. In addition, the poor spend a larger share of their incomes on food, and therefore high food inflation is likely to affect the poor more than other segments of the population. High food prices have the potential to push some households back to below poverty lines.

Figure 2.20: Monthly inflation rates, 2018-2019



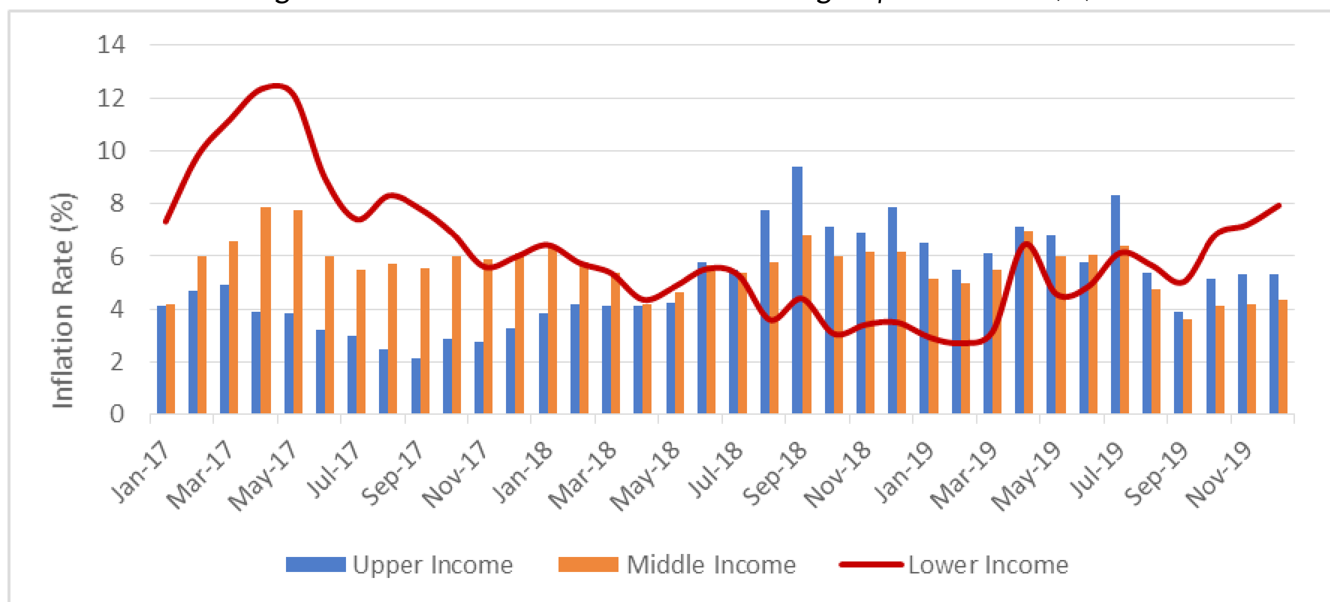
Data Source: Central Bank of Kenya (2019), Monthly Economic Indicators, December 2019

Given the weight taken by the food and non-alcoholic beverages in the basket used to compute Kenya's CPI, high inflation will be reflected in food prices, thereby affecting the poor. VAT taxes are levied at 16.0 per cent in Kenya. Therefore, taxing such commodities imposes a heavy burden on poor households. To lower the tax burden and the cost of living for the low-income households, the Government has either zero-rated or exempt several commodities in the food and non-alcoholic beverages CPI.[9]

Households from lower-and middle-income groups

in Nairobi are likely to experience high cost of living due to drought (Figure 2.21). Between January 2017 and June 2018, households from lower-and middle-income experienced higher inflation rates. The year 2017 was characterized by widespread drought, which led to low agricultural output and high food prices. High food prices led to increase in annual inflation from 6.3 per cent in 2016 to 8.0 per cent in 2017. The food and non-alcoholic beverages index increased by 13.4 per cent in 2017, with fruits and vegetables recording the highest inflation rates of 22.5 and 21.1 per cent, respectively. Therefore, the poor were affected more by high food prices. However, in 2018, overall inflation rate averaged 4.7 per cent, with food inflation averaging 1.8 per cent due to good weather conditions that led to bumper harvests. As a result, inflation for the lower income households was relatively low at an average of 4.6 per cent. Due to relatively poor weather conditions experienced in 2019, food inflation rose to an average 6.1 per cent, with lower income households experiencing an average inflation of 5.3 per cent.

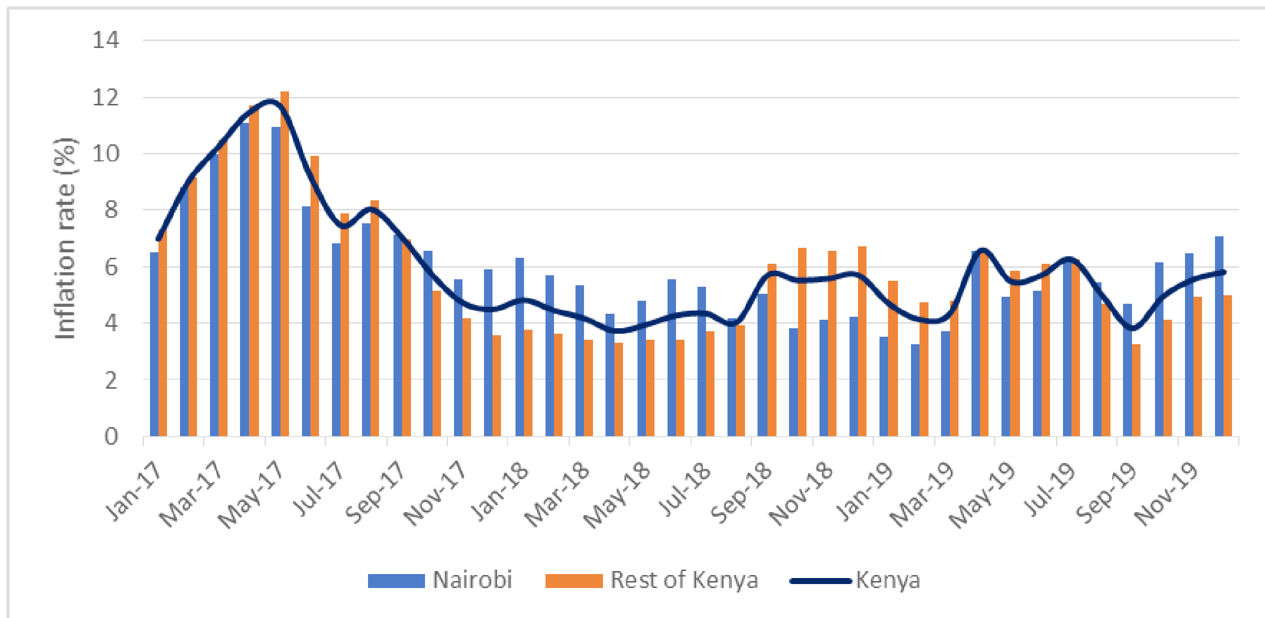
Figure 2.21: Inflation trends across income groups in Nairobi (%)



Data Source: Central Bank of Kenya (2019), Monthly Economic Indicators, December 2019

On average, inflation in Nairobi does not display significant disparities with inflation in other regions in the country, except under conditions of high fuel prices (Figure 2.22). There is no significant variation in inflation trends across regions in Kenya. Inflation in Nairobi averaged 5.3 per cent in 2019 compared to 5.2 per cent for the rest of Kenya. However, between January 2018 and July 2018, higher inflation was witnessed in Nairobi, mainly due to increase in housing, water, electricity, gas and other fuels index due to increase in price of cooking fuels; and increase in transport index due to increase in petrol and diesel pump prices.

Figure 2.22: Inflation trends by region



Data Source: Central Bank of Kenya (2019), Monthly Economic Indicators, December 2019

Overall Producer Price Index (PPI) marginally dropped from 120.61 in December 2018 to 120 in December 2019, leading to a drop in PPI inflation rate from 1.3 per cent to negative 0.5 per cent during the same period. However, the index fell from 120.99 in June 2019 to 120.80 in September 2019, resulting from a fall in prices of sugar and tea. In addition, in December 2019, the index dropped to 120.00 from 120.80 in September 2019, leading to a drop in PPI inflation rate to -0.51 per cent (Table 2.4). The decline was reflected in a decrease in PPI of electricity and manufacture of paper and paper products by 6.4 and 3.8 per cent, respectively. The decrease in PPI index resulted in a decline in general cost of living for many households, hence improving their welfare.

Table 2.4: Overall PPI and inflation rates

Month/Year	Indices	PPI-Inflation Rate (%)
2018 March	119.38	1.53
June	119.37	-0.04
September	120.17	0.54
December	120.61	1.33
2019 March	118.95	-0.36
June	120.99	1.35
September	120.80	0.53
December	120.00	-0.51

Source: Kenya National Bureau of Statistics (2019)C, Producer Price Index Fourth Quarter 2019

2.7 Fiscal Performance

Domestic resource mobilization challenges persist, with revenue shortfalls experienced in 2018/19. Total revenue (inclusive of grants) as a percentage of GDP has remained below the Kenya Vision 2030 targets of 25.0 per cent. Total revenue inclusive of grants was 17.8 per cent of GDP in 2018/19 compared to 18.2 per cent in 2017/18 (Table 2.5). The drop-in revenue collection was as a result of shortfalls in ordinary revenue collection, mainly the income tax and other revenue. Income and VAT taxes constituted the largest shares of total revenue and GDP at 41.0 and 7.2 per cent and 25.0 and 4.3 per cent, respectively. Overall, deviation of ordinary revenue in 2018/19 was 5.7 per cent. Kenya's tax revenues are less buoyant; despite stable economic growth being experienced, tax revenues as a ratio of GDP have either stagnated or declined in the last decade.

Table 2.5: Government revenue for 2017/18 and 2018/19 (Ksh millions)

	2017/18			2018/19				Growth in Revenue (%)
	Actual	% of Total Revenue	% of GDP	Actual	% of Total Revenue	% of GDP	Deviation (%)	
Import Duty	99,215	6.5	1.16	107,702	6	1.13	-0.74	8.55
Excise Duty	162,484	10.7	1.91	194,289	12	2.04	-2.05	19.57
Income Tax	640,593	42.08	7.51	685,389	41	7.21	-7.66	6.99
VAT	356,856	23.44	4.19	413,186	25	4.34	-2.89	15.79
Investment Revenue	24,123	1.58	0.28	24,575	1	0.26	-33.07	1.87
Others	81,793	5.37	0.96	71,789	4	0.75	-6.55	-12.23
Ordinary Revenue	1,365,063	89.66	16.01	1,496,930	90	15.74	-5.74	9.66
Appropriation in Aid	157,356	10.34	1.85	174,140	10	1.83	-15.53	10.67
Total Revenue	1,522,419	100	17.86	1,671,071	100	17.57	-6.87	9.76
Grants	26,484	1.74	0.31	19,702	1	0.21	-43.29	-25.61
Total Revenue and Grants	1,548,903	-	18.17	1,690,773	-	17.78	-7.56	9.16

Source: National Treasury (2019), Quarterly Economic and Budgetary Review: Fourth Quarter 2018/19

Government expenditure as a percentage of GDP marginally rose to 25.3 per cent of GDP in 2018/19 from 25.2 per cent of GDP in 2017/18. Total Government spending in 2018/19 grew by 12.1 per cent to Ksh 2.4 trillion but was 5.3 per cent below the targeted Ksh 2.5 trillion due to low absorption of operations and maintenance by the National Government. Recurrent expenditure constitutes the largest share of National Government expenditure at 60.0 per cent. Development expenditure and allocation to County Governments constitute 23.0 and 15.0 per cent, respectively (Table 2.6).

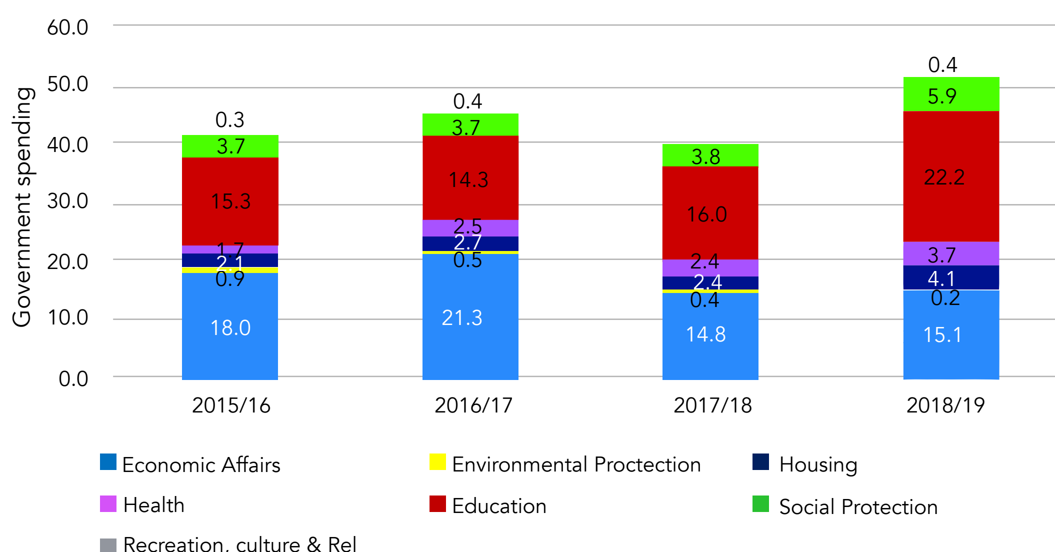
Table 2.6: Government expenditure for 2016/17-2018/19 (Ksh millions)

Expenditure	2016/17	2017/18		2018/19			Growth (%)
	Actual	Actual	Share of Total Expenditure (%)	Actual	Share of Total Expenditure (%)	Target	
Recurrent	1,142,412	1,312,082	61.12	1,454,984	60.47	1,528,546	10.9
Development	645,771	469,673	21.88	542,007	22.53	598,094	15.4
County Governments	284,708	327,274	15.25	360,740	14.99	364,958	10.2
Parliamentary Service	24,215	25,678	1.20	28,525	1.19	32,088	11.1
Judicial Service	11,846	11,944	0.56	12,713	0.53	13,495	6.4
Equalization Fund	6,000	-	-	6,962	0.29	4,700	-
Total Expenditure	2,114,952	2,146,651	100	2,405,933	100	2,541,881	12.1

Source: National Treasury (2019), Quarterly Economic and Budgetary Review: Fourth Quarter 2018/19

Government's share of pro-poor expenditure significantly increased between 2015/16 and 2018/19. The share of education expenditure in total national expenditure increased from 15.3 per cent in 2015/16 to 22.2 per cent in 2018/19, accounting for the largest share of total Government spending (Figure 2.23). Similarly, the share of expenditure on health and social protection increased from 1.7 and 3.7 per cent in 2015/16 to 3.7 and 5.9 per cent, respectively, in 2018/19. Government expenditure on housing shows an upward trend, with share of expenditure on housing increasing from 2.1 per cent in 2015/16 to 4.1 per cent in 2018/19.

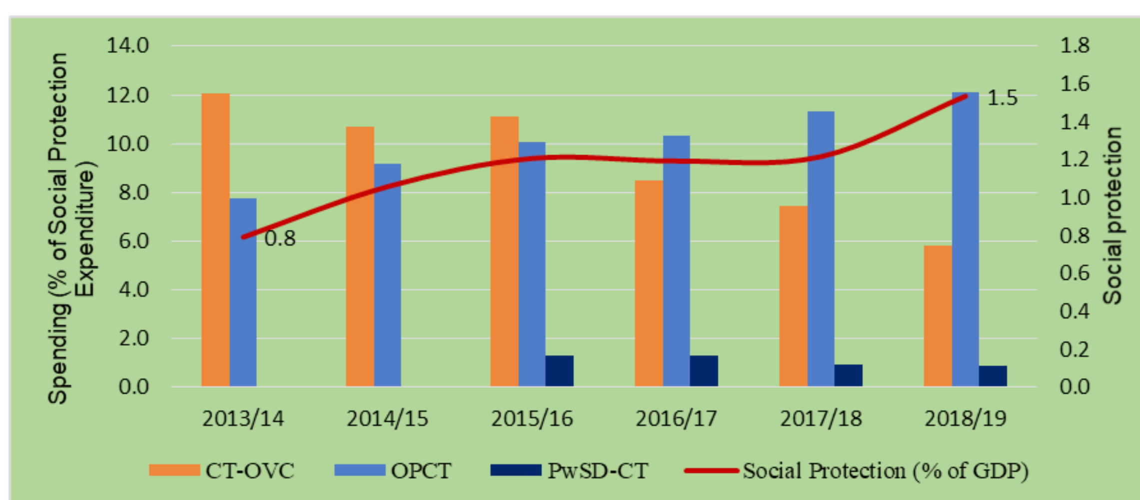
Figure 2.23: National Government expenditure by selected functions (% of total expenditure)



Source: Author's computation using data from KNBS (2020), Economic Survey

Government spending on social protection increased from 0.8 per cent of GDP in 2013/14 to 1.5 per cent in 2018/19. Similarly, spending on older persons through the Older Persons' Cash Transfers (OPCT) increased from 7.8 per cent of total social protection spending in 2013/14 to 12.1 per cent in 2017/18. However, Cash Transfers to Orphans and Vulnerable Children (CT-OVC) reduced from 12.0 per cent of total social protection spending to 5.8 per cent in 2018/19. Persons with Severe Disabilities Cash Transfers (PwSD-CT) dropped from 1.3 per cent in 2015/16 to 0.9 per cent in 2018/19 (Figure 2.24).

Figure 2.24: Social protection spending by categories, 2013/14-2018/19



Source: Author's computation using data from KNBS (Various), Economic Survey

Low domestic resource mobilization coupled with increased public spending on infrastructure has led to high fiscal deficit in Kenya. Fiscal deficit in 2018/19 was above the targeted 6.8 per cent of GDP and higher than in 2017/18. The country's fiscal deficit in 2018/19 stood at Ksh 721.1 billion, representing 7.7 per cent of GDP compared to Ksh 624 billion in 2017/18, which was 7.1 per cent of GDP. The share of development and infrastructure spending in total spending was 22.5 per cent in 2018/19, representing a 15.4 per cent growth from 2017/18 to Ksh 542 billion in 2018/19. The share of development spending in total Government spending averaged 27.8 per cent between 2013/14 and 2018/19.

2.8 Public Debt

Kenya's public debt stock as a percentage of GDP increased by 4 percentage points to stand at 61.1 per cent in 2018/19 (Table 2.7). The increase is attributed to increased spending on infrastructure projects, which are financed mainly through external borrowing. Kenya's gross public debt stock increased by Ksh 761.8 billion from Ksh 5.0 trillion in 2017/18, equivalent of 57.1 per cent of GDP, to Ksh 5.8 trillion in 2018/19, which is 61.1 per cent of GDP. The stock of domestic debt grew by 12.4 per cent to Ksh 2.8 trillion in 2018/19 from Ksh 2.5 trillion in 2017/18, an increase of over Ksh 300 billion. As a percentage of GDP, domestic debt increased to 29.3 per cent of GDP in 2018/19 from 28.0 per cent of GDP in 2017/18. The increase is reflected in rise in share of Treasury bonds from 61 per cent of total domestic debt in 2017/18 to 63 per cent in 2018/19.

External debt stock as a percentage of GDP increased from 29.0 per cent in 2017/18 to 31.8 per cent in 2018/19, an increase of Ksh 454.7 billion. Further, the share of commercial debt in external debt stock was dominant. The share of external debt in total debt rose to 52.0 per cent in 2018/19 from 50.9 per cent in 2017/18. The increase is reflected in increases in both commercial and bilateral debt stocks as shares of external debt by 2.0 and 1.7 percentage points, respectively. Commercial debt stock constituted 36.2 per cent of the external debt in 2018/19.

Table 2.7: Kenya's public debt, 2017/18-2018/19

Debt	2017/18	2018/19	Change
Domestic Debt			
Nominal value (Ksh millions)	2,478,835	2,785,936	307,101
Domestic debt (% of GDP)	28.0	29.3	1.3
Share in total debt (%)	49.1	48.0	(1.1)
Treasury bills (% of domestic debt stock)	35.4	34.0	(1.4)
Treasury bonds (% of domestic debt stock)	61.0	63.0	2.0
External Debt			
Nominal value (Ksh millions)	2,568,398.70	3,023,139.47	454,740.77
As % of GDP	29.0	31.8	2.8
Share in total debt (%)	50.9	52.0	1.1
Multilateral (% of external debt stock)	33.9	30.2	(3.7)
Bilateral (% of external debt stock)	31.2	32.9	1.7
Commercial (% of external debt stock)	34.2	36.2	2.0
Public Debt			
Nominal Value (Ksh millions)	5,047,234	5,809,074	761,840
Nominal public debt (% of GDP)	57.1	61.1	4

Data Source: National Treasury (2018), Annual Public Debt Management Report 2018 and National Treasury (2019), Quarterly Economic and Budgetary Review: Fourth Quarter, 2018/19

Commercial banks are the largest holders of Kenya's domestic debt at 50.8 per cent as of 2018/19. Non-bank financial institutions and non-residents are second at 44.3 per cent. For external debt, China's share of bilateral debt increased from 67.4 per cent in 2017/18 to 72.0 per cent in 2018/19, the largest in the bilateral category. France rose to be the second largest lender at 7.9 per cent, overtaking Japan whose share dropped from 12.3 per cent in 2017/18 to 6.9 per cent in 2018/19 (Table 2.8).

Table 2.8: Kenya's debt by holder

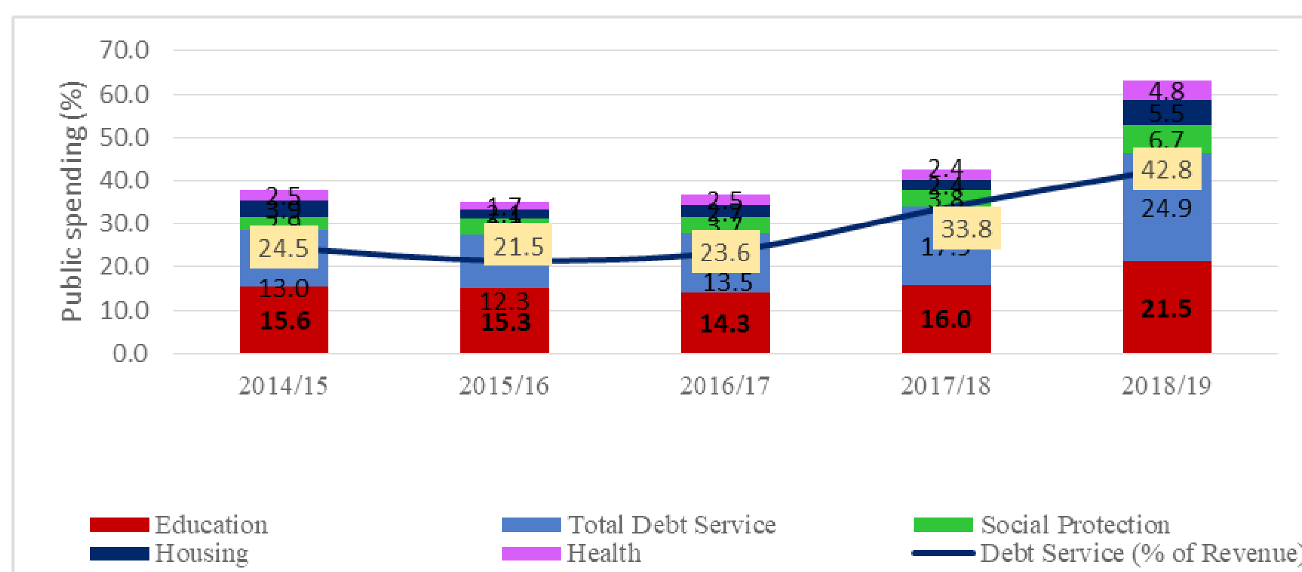
Debt	2017/18	2018/19	Change
Domestic Debt			
Commercial banks (% of domestic debt)	51.1	50.8	(0.3)
CBK (% of domestic debt)	4.5	3.9	(0.6)
NBFIs (% of domestic debt)	43.4	44.3	0.9
External Debt			
Bilateral (main creditors)			
China (% of bilateral)	67.4	72.0	4.6
Japan (% of bilateral)	12.3	6.9	(5.4)

France (% of bilateral)	7.4	7.9	0.5
Germany (% of bilateral)	4.2	3.3	(0.9)
Multilateral			
IDA/IFAD (% of multilateral)	63.4	62.5	(0.9)
ADB/ADF (% of multilateral)	25.1	25.2	0.1
IMF (% of multilateral)	8.8	5.4	(3.4)

Data Source: National Treasury (2018), Annual Public Debt Management Report 2018 and National Treasury (2019), Quarterly Economic and Budgetary Review: Fourth Quarter, 2018/19

Debt servicing cost consumes a significant amount of Government revenue and higher than combined spending on social protection, housing and health. Total debt service increased from 24.5 per cent of total revenue in 2014/15 to 42.8 per cent in 2018/19 (Figure 2.25). In 2018/19, total debt service amounted to Ksh 640,829 million while in 2017/18, total debt service was Ksh 460,135 million, representing 33.8 per cent of total revenue. The increase in debt servicing was attributed to higher stock of commercial debt, which matured in 2017/18 and 2018/19.

Figure 2.25: Debt service and social spending, 2014/15-2018/19



Source: Author's computation using data from KNBS (Various), Economic Survey, and National Treasury (2019), Annual Public Debt Management Report

Kenya faces a moderate risk of debt distress, although the external debt sustainability indicators are projected to remain sustainable. Kenya breached external debt service-to-export ratio in a baseline scenario and the three external debt indicators under extreme shock: external debt service-to-export ratio, external debt service-to-revenue ratio and the present value (PV) of external debt to export ratio. However, in PV terms, total public debt to GDP is below the threshold. Kenya, being a low middle-income country, is subjected to a threshold of 70 per cent of GDP (Table 2.9).

Table 2.9: Debt sustainability indicators (%)

Indicator	Threshold	Actual						Projections
External Debt	Kenya	2016	2017	2018	2019	2020	2021	2022
PV ED/GDP	55	23.7	25.9	31.4	32.3	29.1	25.6	24.3
PV ED/Exports	240	163.8	165.4	191.1	191.4	168.5	146.9	139.6
PPG ED Service/Exports	21	9.0	16.5	19.9	26.2	25.6	24.9	13.1
PPG ED Service/Revenue	23	7.1	13.3	16.2	21.6	22.0	21.6	11.2
Public Debt								
PV of PD/GDP	70	50.6	55.4	60.6	59.9	56.9	54.3	53.1
PV of PD/Revenue	300	275.9	285.0	299.6	292.9	282.1	269.7	261.5
PD Service/Revenue	22	36.3	42.7	44.8	49.4	49.3	48.9	37.6

Source: IMF (2018), Country Report No. 18/295

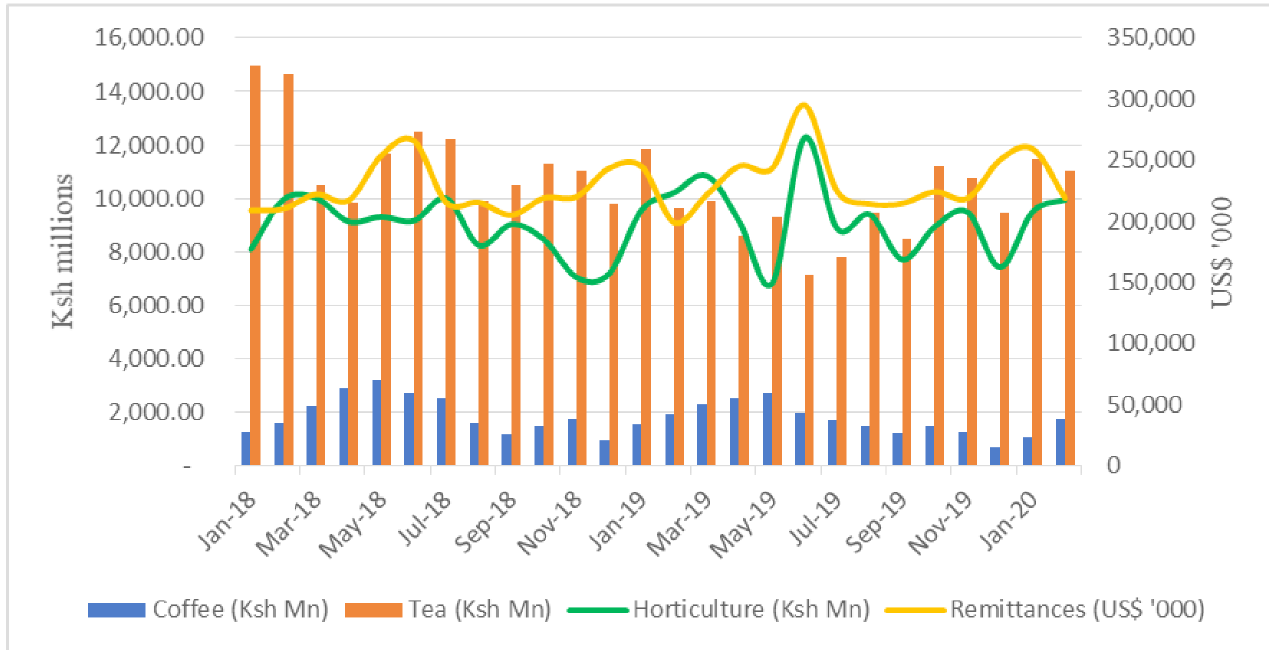
NB: PV = Present Value; ED = External Debt; PPG = Public and Publicly Guaranteed; PD = Public Debt

2.9 External Sector Developments

Kenya's trade in goods experiences deficits and a surplus in services. The value of domestic exports goods fell by 4.3 per cent from US$ 6,152.5 million in December 2018 to US$ 5,890.7 million in December 2019 (Figure 2.26). During the same period, the value of goods imports fell by 0.8 per cent from US$ 16,324.5 in December 2018 to stand at US$ 16,191.6 million in December 2019. The decline in imports is attributed to reduced food imports due to favourable weather conditions in 2019. Trade in goods deficit grew by 1.3 per cent from December 2018 to US$ 10,300 million in December 2019.

Kenya is a net exporter of services. However, the value of service exports fell by 2.7 per cent between December 2018 and December 2019 while services imports fell by 1.7 per cent over the same period. Trade in services surplus dropped by 5.0 per cent to US$ 1,612 million in December 2019. Overall export earnings grew by 1.1 per cent from US$ 11,750 million in January 2019 to US$ 11,875 million in May 2019 before declining to US$ 11,312 million in December 2019. This reflected a 3.5 per cent decline compared to US$ 11,723.4 million recorded in December 2018, attributed to reduced quantity of agricultural exports. Total export earnings in 2019 amounted to US$ 139,683 million.

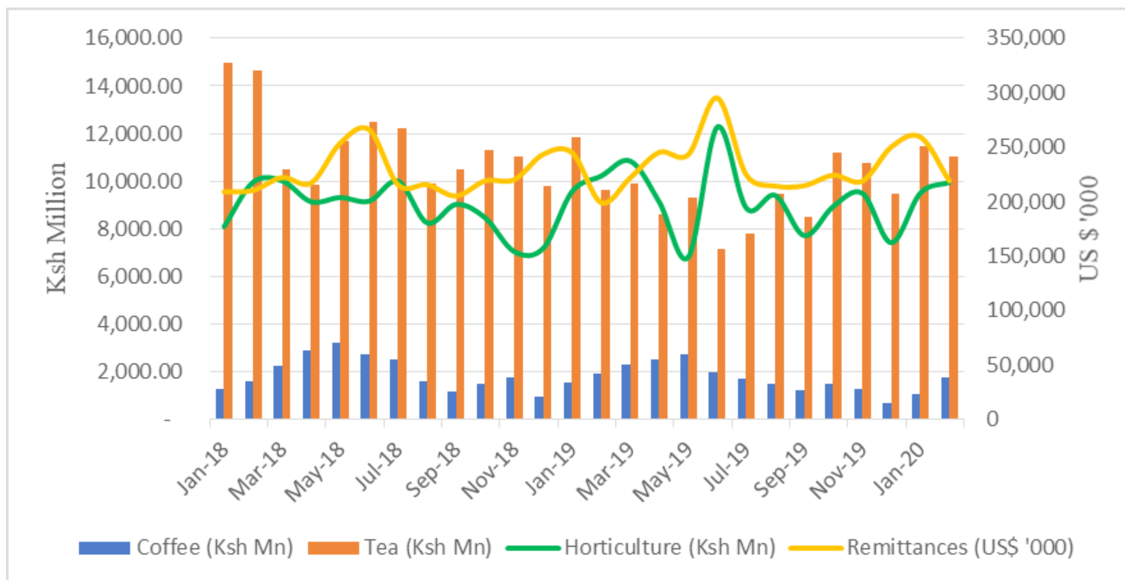
Figure 2.26: Trade in goods and services, US$ millions



Data Source: Central Bank of Kenya (2019), Monthly Economic Indicators, December 2019

The value of coffee exports fell by 8.3 per cent from Ksh 1,910.22 million in February 2019 to Ksh 1,751.84 million in February 2020 while tea exports grew by 14.4 per cent. Horticultural exports dropped by 2.6 per cent from Ksh 10,221.16 million in February 2019 to Ksh 9,958 million in February 2020. Diaspora remittances recorded a 10 per cent growth from US$ 199.1 million in February 2019 to US$ 219.0 million in February 2020 (Figure 2.27).

Figure 2.27: Kenya's major exports and remittances



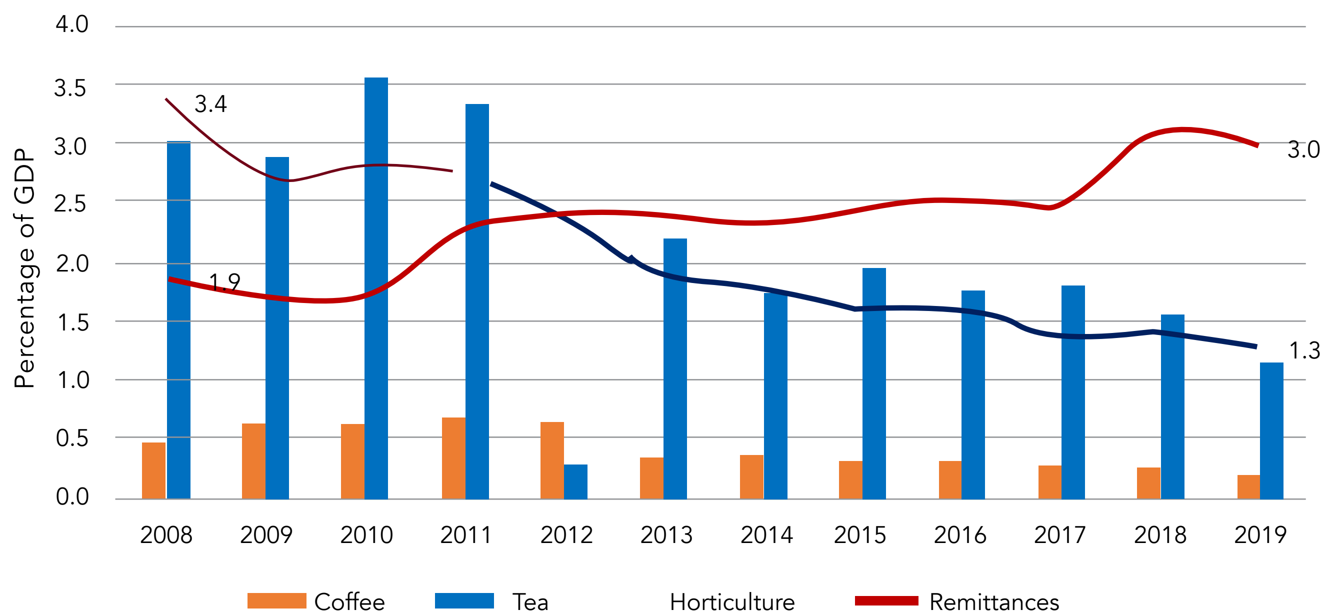
Source: Central Bank of Kenya (2019)

Diaspora remittances have grown over time to surpass earnings from traditional exports. In the last decade, diaspora remittances grew from 1.9 per cent of GDP in 2008 to 3 per cent of GDP in 2019. Earnings from horticulture and tea show a downward trend from 3.4 and 3.0 per cent of GDP in 2008 to 1.3 and 1.2 per cent of GDP in 2019, respectively. Exports from coffee constitute an average of only 0.4 per cent of GDP (Figure 2.28). Diaspora remittances are important as they finance consumption and investments.

In 2019, the current account deficit worsened in absolute terms, it remained at 5.8 per cent of the GDP as in 2018. This is attributed to reduced growth in exports by 2.9 percent while imports increased by 2.3 percent due to increase in import of petroleum and machinery and other capital equipment.

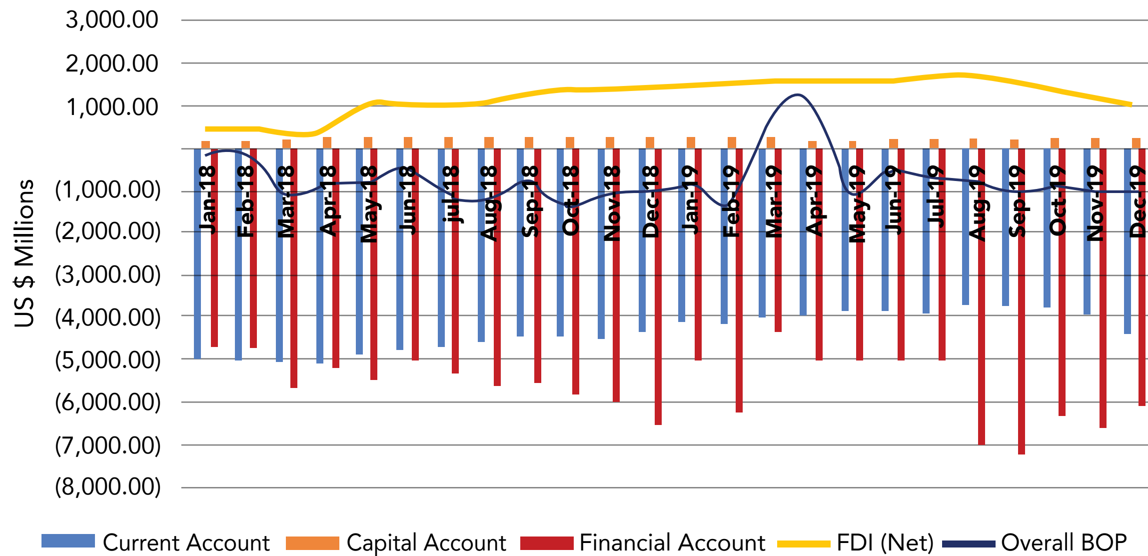
Between December 2018 and December 2019, net Foreign Direct Investments (FDI) dropped by 27 per cent to US$ 1,066.2 million. The surplus in the capital account fell by 18.6 per cent from US$ 262.5 million in December 2018 to US$ 213.6 million in December 2019 (Figure 2.29).

Figure 2.28: Kenya's major exports and remittances (% of GDP)



Source: KNBS (2020), Economic Survey

Figure 2.29: Balance of payment cumulative flows (US$ millions)



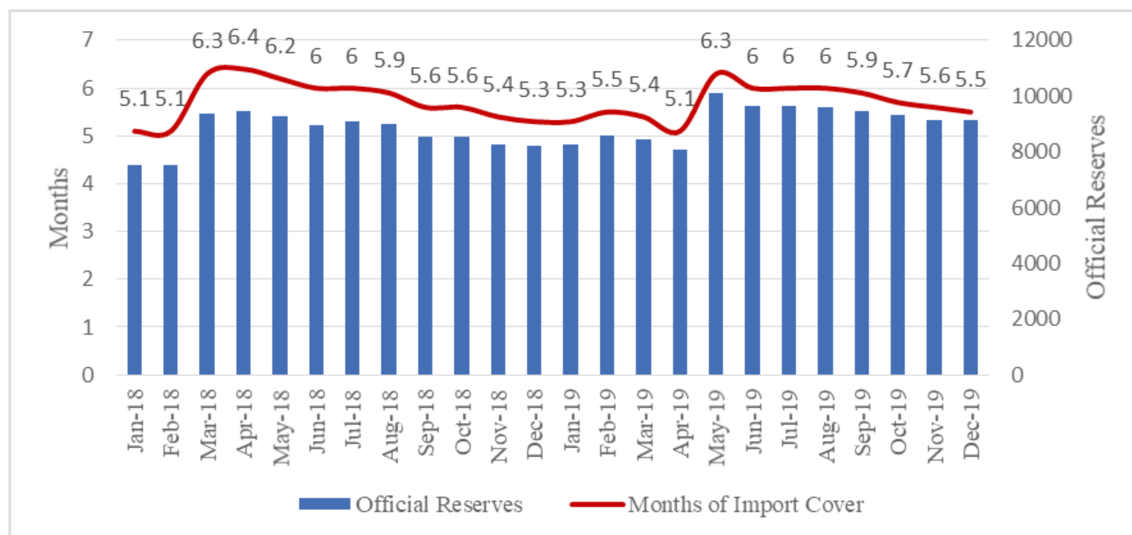
Source: Central Bank of Kenya (Various), Monthly Economic Indicators

The financial account surplus recorded 6.5 per cent drop between December 2018 and December 2019. The financial account surplus decreased from US$ 6,548.4 million in December 2018 to US$ 6,199.8 million in December 2019. The surplus in the financial account is partly driven by Government financing of infrastructure projects from external sources.

Deficits dominate overall Balance of Payment (BoP) position. However, surpluses were recorded in March and April 2019. The BoP position improved from deficits of US$ 1,054.3 million and US$ 837.2 million in March and April 2018, respectively, to surpluses of US$ 721 million and US$ 1,184.7 million in March and April 2019, respectively, before declining to a deficit of US$ 997.3 million in May 2019. As of December 2019, overall BoP deficit stood at US$ 1,055.2 million compared to US$ 1,044.3 deficit in December 2018.

Official reserves grew by 7.2 per cent between January 2019 and January 2020. Official reserves rose from US$ 8,241.6 million (5.3 months of import cover) in January 2019 to US$ 8,880.2 million (5.4 months of import cover) in January 2020, representing a 7.2 per cent growth (Figure 2.30). In May 2019, the official reserves stood at US$ 10,122.2 million (6.3 months of import cover), the highest level attained in 2019.

Figure 2.30: Trends in months of import cover and official reserves (US$ millions)



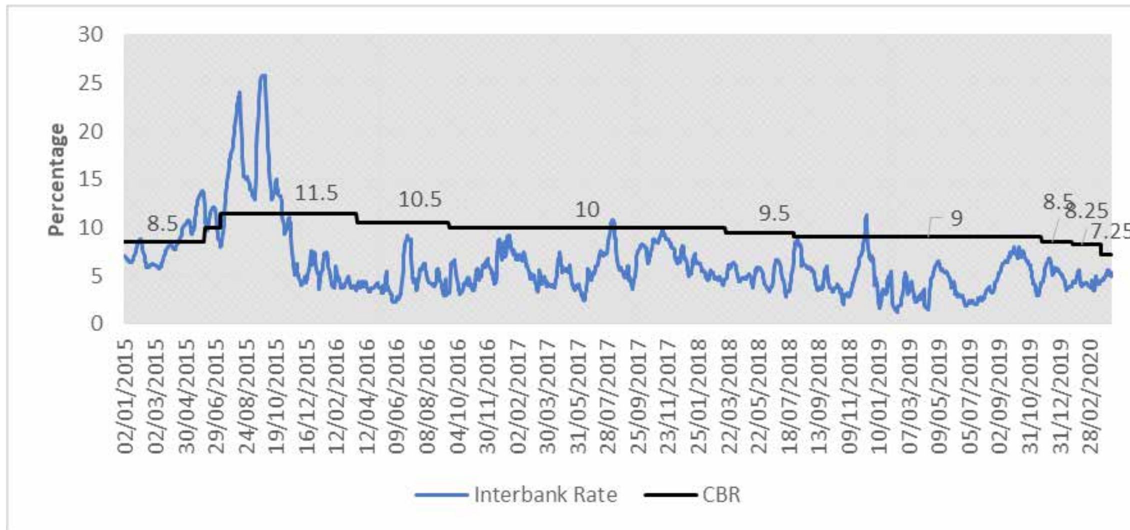
Source: Central Bank of Kenya (Various), Monthly Economic Indicators

2.10 Monetary Policy and Financial Sector Performance

The Central Bank of Kenya (CBK) has relaxed the monetary policy stance since 2015, cutting the benchmark rate by 300 basis points between 2015 and 2019. The Central Bank Rate (CBR) from 11.5 per cent in July 2015 to 10 per cent in January 2018; 9.5 per cent in March 2018 and maintained the same level up to May 2018 (Figure 2.30). In July 2018, it was reduced to 9.0 per cent and thereafter maintained at 9.0 per cent up to November 2019. The CBR was further reduced to 8.50 per cent in November 2019 and further by 25 basis points to 8.25 per cent in January 2020 to ease liquidity conditions in the market. To expand economic activities and cushion the public from the effects of COVID-19 pandemic, the CBR was reduced to 7.25 per cent in March 2020 and further to 7.0 per cent in April 2020.

The movement in interbank rate shows significant decline from a highest of 25.9 per cent in September 2015 to a lowest of 1.2 per cent in February 2019 (Figure 2.31). In the first quarter of 2019, the interbank rate averaged 3.2 per cent before slightly rising to an average of 4.1 per cent in the second and third quarters of 2019. However, in the fourth quarter of 2019, the interbank rate averaged 5.7 per cent, indicating tightening liquidity conditions among banks. In 2019, the interbank rate ranged between 1.2 and 8.0 per cent. In the first quarter of 2020 the interbank rate averaged 4.4 per cent but increased to an average of 5.3 per cent in April 2020.

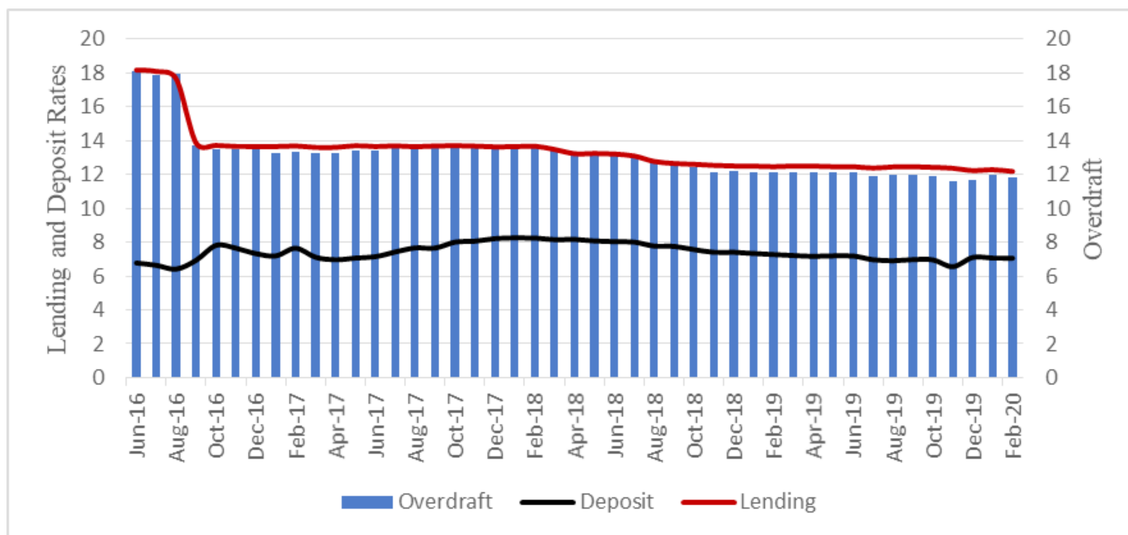
Figure 2.31: Trend of interbank rate and CBR (%), 2015-2020



Source: https://www.centralbank.go.ke/rates/interbank-rates/

The lending rates in the interest cap regime were relatively low and stable with narrow interest rate spreads (Figure 2.32). However, the interest rate cap was repealed in November 2019 following enactment of the Finance Bill 2019. The lending rates marginally fell from 12.47 per cent in February 2019 to 12.19 per cent in February 2020 owing to the easing of monetary policy stance. Similarly, overdraft rate fell from 12.13 per cent to 11.82 per cent in the same period. The interest rate spread averaged 5.4 per cent between February 2019 and February 2020.

Figure 2.32: Trend in commercial banks' interest rates

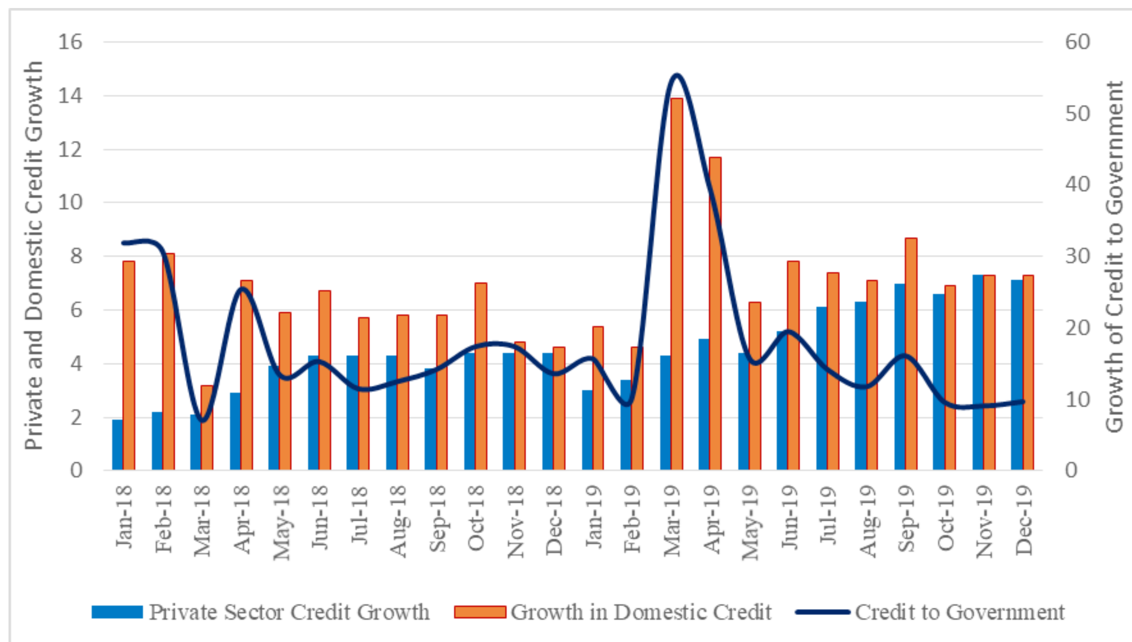


Data Source: https://www.centralbank.go.ke/commercial-banks-weighted-average-rates/

The annual growth rate of domestic credit reveals more preference to Government lending in the period under review. The growth rate of credit to Government was relatively faster than that of the private sector. Growth in domestic credit to Government in 2018 averaged 17.5 per cent. This slightly increased to an average of 18.8 per cent in 2019 (Figure 2.33). Domestic credit to the

private sector grew at an average of 3.6 per cent in 2018 before increasing slightly to an average of 5.5 per cent in 2019. Between December 2018 and December 2019, credit to Government grew by 9.7 per cent to reach Ksh 941.2 billion, accounting for 26 per cent of domestic credit. Credit to the private sector grew by 7.1 per cent to reach Ksh 2,594.6 billion, accounting for 72.0 per cent of domestic credit as at December 2019. Domestic credit grew by 7.3 per cent from Ksh 3,381.1 billion in December 2018 to Ksh 3,628.1 billion in December 2019.

Figure 2.33: Annual growth rate of credit (%)



Source: Central Bank of Kenya (Various), Monthly Economic Indicators

2.11 Key Messages and Recommendations

2.11.1 Key Messages

1.) Kenya has made remarkable progress in poverty reduction in the last three decades. However, the pace of poverty reduction has been slow. The poverty rate dropped from 52.3 per cent in 1997/98 to 46.8 per cent in 2005/06 and eventually to 36.1 per cent in 2015/16. This implies that, on average, between 1997/98 and 2005/06, poverty dropped by 0.7 percentage points per year while, between 2005/06 and 2015/16, poverty dropped by 1 percentage point annually as GDP growth rate averaged 2.8 per cent between 1997 and 2006 and 5.0 per cent between 2007 and 2016.

2.) Rural poverty level remains higher, with the pace of poverty reduction slower than in peri-urban and core urban areas. In 2015/16, rural poverty was 40 per cent, above the national average of 36.1 per cent and 27.5 and 29.4 per cent in peri-urban areas and core urban areas, respectively. Rural poverty dropped by an average of 0.7 percentage points per year between 1997/98 and 2015/16 compared to 1.2 and 1.1 percentage points for peri-urban areas and core urban areas, respectively.

3.) Nationally, child poverty is higher than any other age cohort and more pronounced in rural and core urban areas. In 2015/16, national

child poverty was 41.5 per cent, higher than the youth and the non-youth categories. Child poverty in rural areas was 43.9 per cent, which is above the national average, and higher than in peri-urban and core urban areas, which were at 30.2 and 37.9 per cent in a similar period. In terms of gender, female-headed households face a higher poverty rate of 30.2 per cent compared to male-headed households at 26.0 per cent.

4.) Inequality in household consumption is more pronounced in peri-urban areas. In peri-urban areas, the richest households consume 159 times higher than the poorest households in the first quintile, while at national level, the richest household's consumption level is 17 times higher than the poorest. However, inequality in household consumption is less severe in rural households, where the share of consumption of a household in the fifth quintile is just 4 times that of the first.

5.) High inequality level in a country may diminish growth. Income inequality is also high and indicates slow progress; the Gini index dropped from 46.5 per cent in 2005 to 40.8 per cent in 2015.

6.) Employment creation in Kenya is growing at a slower pace compared to economic growth. Despite the strong economic growth experienced in recent years, overall employment growth was on a downward trend between 2014 and 2019. In addition, the share of employment to population ratio has stagnated at 60 per cent in the last decade.

7.) Agriculture is the dominant employer in the economy, signifying slow pace of structural transformation. As of 2019, employment in the agriculture sector accounted for 56.0 per cent of total employment, while the services sector employs 36.0 per cent of the labour force. The industrial sector, which is expected to contribute more in terms of productive employment, employs only 8.0 per cent of the country's labour force.

8.) The services and agriculture sectors are the largest contributors to GDP. As of 2019, the services and agriculture sectors accounted for 41.2 and 34.1 per cent of GDP. The contribution of the industry to GDP stood at 16.2 per cent, having dropped from 18.5 per cent in 2010.

9.) There is misallocation of labour across sectors, as majority are employed in the least productive agriculture sector. The share of agricultural labour productivity in total factor productivity decelerated from 64.0 per cent in 2000 to 41.0 per cent in 2019 while its employment share increased from 49.0 per cent in 2000 to 55.0 per cent in 2018. The industrial and services sectors, whose productivity grew from 169.0 and 124.0 per cent, respectively, in 2000 to 249.0 and 156.0 per cent, respectively, in 2019 had a significant fall in employment.

10.) Youth and female unemployment is more severe in the economy. As of 2015/16, youth unemployment was 10.8 per cent, higher than the overall unemployment level of 7.4 per cent. Further, compared to the male counterparts whose unemployment level was 5.3 per cent, female unemployment was 9.6 per cent in 2015/16.

11.) Persistent food inflation can be a threat to macroeconomic stability and affects the poor more than other segments of the population. High food prices have the potential to push some households back to below the poverty line. In addition, droughts lead to higher food prices, which aggravates the cost of living for the low-income households who spend a larger share of their incomes on food. However, to protect the poor from higher cost of living, the Government has zero-rated tax on several food-related commodities such as maize flour, cassava flour, wheat flour, milk, among others.

12.) Domestic revenue mobilization is a challenge for the Kenyan economy. In 2018/19, total revenue as a percentage of GDP dropped to 17.8 per cent compared to 18.2 per cent in 2017/18. In addition, the deviation from the targeted revenue was 7.6 per cent. This was partially attributed to shortfalls in other revenue collections, which dropped by 12.3 per cent.

13.) There was a significant rise in Government's share of pro-poor spending between 2015/16

and 2018/19. However, debt servicing costs have been rising and could crowd-out pro-poor spending. The share of education and social protection spending in total national spending increased from 15.3 and 3.7 per cent in 2015/16 to 21.5 and 6.7 per cent, respectively, in 2018/19. Debt servicing costs rose from 21.5 per cent of Government revenue in 2014/15 to 33.8 per cent in 2017/18. Additionally, debt servicing costs accounted for 17.9 per cent of Government spending in 2017/18, more than the combined spending on health, social protection and housing.

14). Kenya's public debt stock rose by 4 percentage points to stand at 61.1 per cent of GDP in 2018/19. Kenya's gross stock of public debt increased by Ksh 761.8 billion to stand at Ksh 5.8 trillion in 2018/19. This was reflected in increases in the stock of both domestic and external debt stocks, which stood at 29.3 and 31.8 per cent of GDP in 2018/19, respectively, from 28.0 and 29.0 per cent of GDP in 2018/19. The share of commercial debt in external debt stood at 36.2 per cent in 2018/19 while debt from China accounted for 72 per cent of the bilateral debt. The increase in stock of debt is mainly due to increased public spending on infrastructure, which is largely foreign financed. In 2018, Kenya's risk of debt distress increased from low to moderate, having breached three indicators (external debt service-to-export ratio, external debt service-to-revenue ratio, and PV of external debt to export ratio).

15.) Diaspora remittances have grown significantly to surpass earnings from commodity exports. In 2019, diaspora remittances constituted 3.0 per cent of GDP, having grown from 1.9 per cent of GDP in 2008. On the contrary, earnings from horticulture and tea were 1.3 and 1.2 per cent of GDP in 2019 compared to 3.4 and 3.0 per cent of GDP in 2008. Earnings from coffee have also contracted over time to 0.2 per cent of GDP in 2019.

16.) The foreign reserves recorded a 7.2 per cent growth from US$ 8,241.6 million (5.3 months of import cover) in January 2019 to US$ 8,880.2 million in January 2020 (5.4 months of import cover).

17.) The Central Bank of Kenya (CBK) has relaxed the monetary policy stance since 2015, cutting the benchmark rate by 300 basis points between 2015 and 2019. To ease the liquidity conditions in the market, the CBK lowered the CBR from 11.5 per cent in July 2015 to 8.5 per cent in November 2019. Further, in April 2020, the benchmark rate was lowered to 7.0 per cent.

2.11.2 Recommendations

1.) Sustained economic growth is one of the channels through which the Government can enhance inclusivity. A sustained period of structural transformation and diversification is critical in sustaining growth and creating productive jobs for the population. There is need to enhance the development of the manufacturing sector to promote structural transformation in Kenya.

2.) Maintaining macroeconomic stability is critical for sustained economic growth to propel the pace of poverty reduction.

3.) Better educational and health outcomes will be realized with more investments in health and education. This will go a long way in boosting the productivity of the workforce and the entire economy to enhance growth and job creation.

4.) Increased agricultural productivity will not only increase incomes, but also create more employment opportunities. This can be achieved through targeted fertilizer subsidy programmes, mechanization of agriculture, and proper water management to enhance irrigation. Further, there is need to increase spending on agricultural research and investments in rural infrastructure to reduce loss of agricultural output and to facilitate access to markets.

5.) Gender gaps need to be addressed for more inclusive growth and to encourage more female labour force participation. The skills of women need to be enhanced through more

education, and the cultural constraints women face need to be given much more attention. Women can be empowered through civic education, awareness creation, ensuring access to information on their rights and ensuring their participation in decision making.

6.) Equipping graduates with marketable skills and enhancing labour market reforms to promote flexible job schedules could lower high unemployment rates among the youth. The Government internship programme could be expanded to equip graduates with relevant skills needed in the market. Flexible forms of employment can be achieved through employment on a temporary basis, part-time and on call. Such measures will provide the unemployed youth with opportunities to enter the labour market and gain some experience.

7.) Promote fiscal consolidation in the medium-term to keep a check on debt sustainability. Domestic revenue mobilization could be enhanced and public spending made more efficient to contain the current debt trajectory. There is also need to shift from non-concessional borrowing to more concessional loans, and capitalize on public-private partnerships to tap private sector capital.

Endnotes

2 According to KNBS (2018) Economic Survey, households and individuals are extremely poor if monthly adult equivalent of total consumption expenditure per person is < Ksh 1,954 in rural and urban areas and < Ksh 2,551 in core urban areas.

3 According to KNBS (2018), children are considered as poor if they live in households that are considered as poor based on the absolute poverty lines.

4 These are estimates based on World Development Indicators (WDI) by the World Bank.

5 The first quintile (Q1) refers to households whose consumption expenditure fall below Ksh 3,159, for Quarter 2 consumption ranges Ksh 3,159-4,801, Quarter 3 = Ksh 4,802-7,037, Quarter 4 = 7,038-10,859, and Quarter 5 = above Ksh 10, 859.

6 Labour force participation rate measures the share of employed in the economically active part of the population.

7 Kenya's manufacturing sector comprises: Food products; beverages and tobacco; rubber and plastic products; basic metals; electrical equipment; motor vehicle, trailers and semi-trailers; and cement production.

8 Productivity measures the efficiency with which an economy transforms inputs into output.

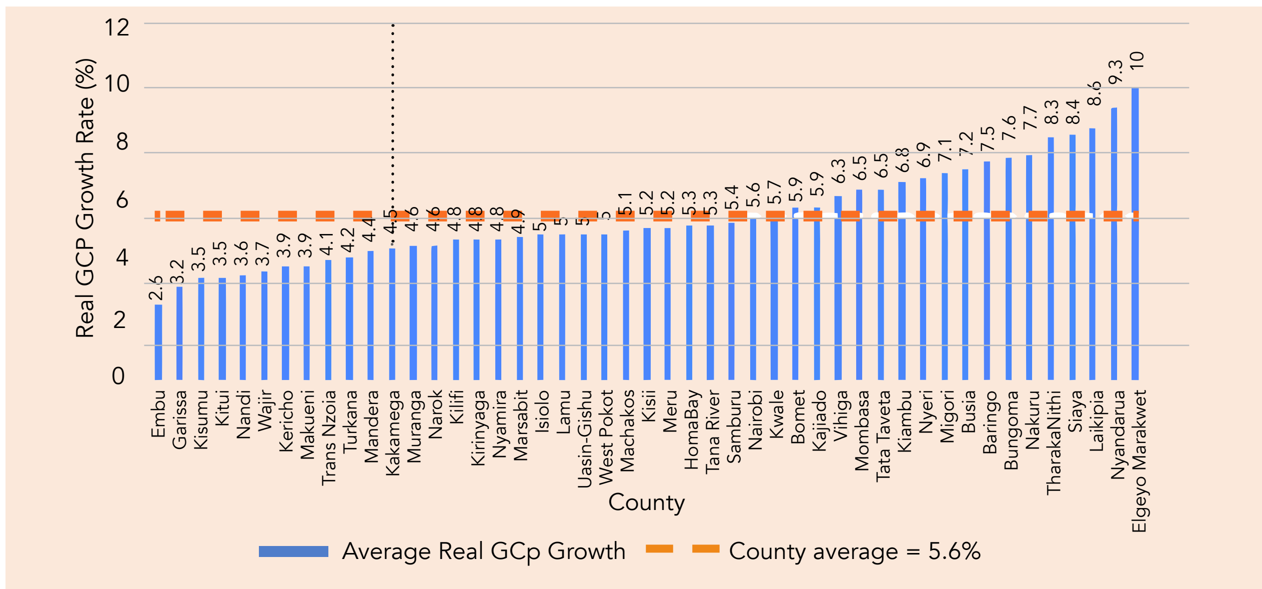
3 GROWTH AND INCLUSIVITY IN A DEVOLVED SYSTEM OF GOVERNMENT

Counties experienced a robust growth, with real GCP and real GCP per capita growth averaging 5.6 and 2.8 per cent, respectively, between 2014 and 2017. Huge disparities exist across counties, with poverty rates at 16.7 per cent for Nairobi County and as high as 79.4 per cent for Turkana County. In addition, counties in arid and semi-arid areas contribute less to GDP, have low GCP per capita, and high poverty rates. Most counties are heavily reliant on agriculture, with only seven (7) counties having significant manufacturing activities. Whereas the Government has made significant efforts to address poverty and inequality through equitable transfers, County Governments need to diversify their economic activities and align more spending towards development to expand the capacity for economic activity, resulting in poverty reduction. More emphasis is needed to enhance collection of own source revenue by promoting private sector activity. Moreover, increasing the share of protection spending is important in protecting the hardcore poor.

3.1 County Economic Performance, 2014-2017

Real GCP growth rate for counties averaged 5.6 per cent between 2014 and 2017 with 18 counties growing faster than the overall county average (Figure 3.1). Elgeyo Marakwet attained an average growth of 10.0 per cent, the highest for the period under review, while Embu County had an average growth rate of 2.6 per cent, the lowest for the period under review. Other fastest growing counties include Nyandarua, Laikipia, Siaya and Tharaka Nithi, having attained average growth rates of 9.3, 8.6, 8.4 and 8.3 per cent, respectively. Some of the counties that attained higher growth rates started from a relatively low real GCP base. Real GCP growth rate is reflective of the national GDP growth rate; during the period, the country also attained an average GDP growth of 5.6 per cent.

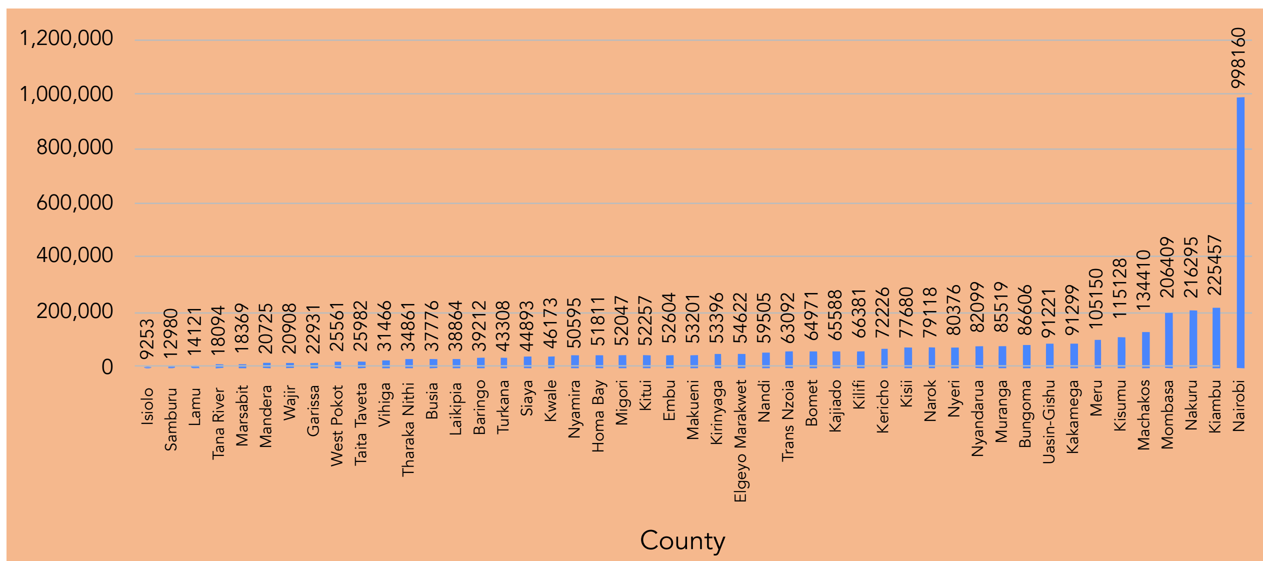
Figure 3.1: Average real GCP growth rate, 2014-2017 (%)



Data Source: KNBS (2019), Gross County Product

Counties with higher GCP levels have a relatively well-developed industrial sector. As of 2017, Nairobi County had the highest GCP of Ksh 998,160 million. Kiambu, Nakuru and Mombasa counties had GCP levels of Ksh 225,457, Ksh 216,295 and Ksh 206,409 million, respectively. Most counties in the Arid and Semi-Arid Lands (ASALs) whose main economic activity is pastoralism have low GCP levels. Isiolo, Samburu and Lamu counties have GCP levels of Ksh 9,253, Ksh 12,980 and Ksh 14,121 million, respectively (Figure 3.2).

Figure 3.2: County real GCP, 2017 (Ksh millions)

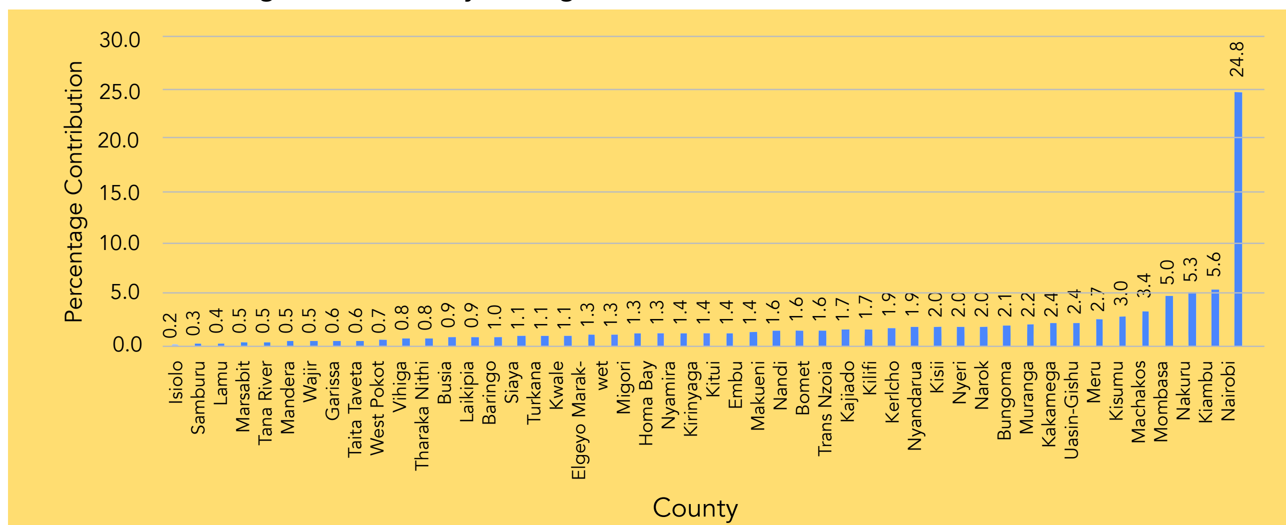


Data Source: KNBS (2019), Gross County Product

Counties that have relatively well-developed urban centres and higher populations contribute more to the country's GDP. Between 2014 and 2017, Nairobi County accounted for an average of 24.8 per cent of the country's GDP. Other counties such as Kiambu and Nakuru that have higher concentration of agricultural activities and agro-processing industries contributed more to the country's GDP, with shares

of 5.6 and 5.3 per cent, respectively. Due to the strategic economic activities in these counties, they have larger population size, which has implications on the availability of labour. Counties with less productive economic activities such as Isiolo, Lamu and Samburu have low shares of GDP (Figure 3.3)

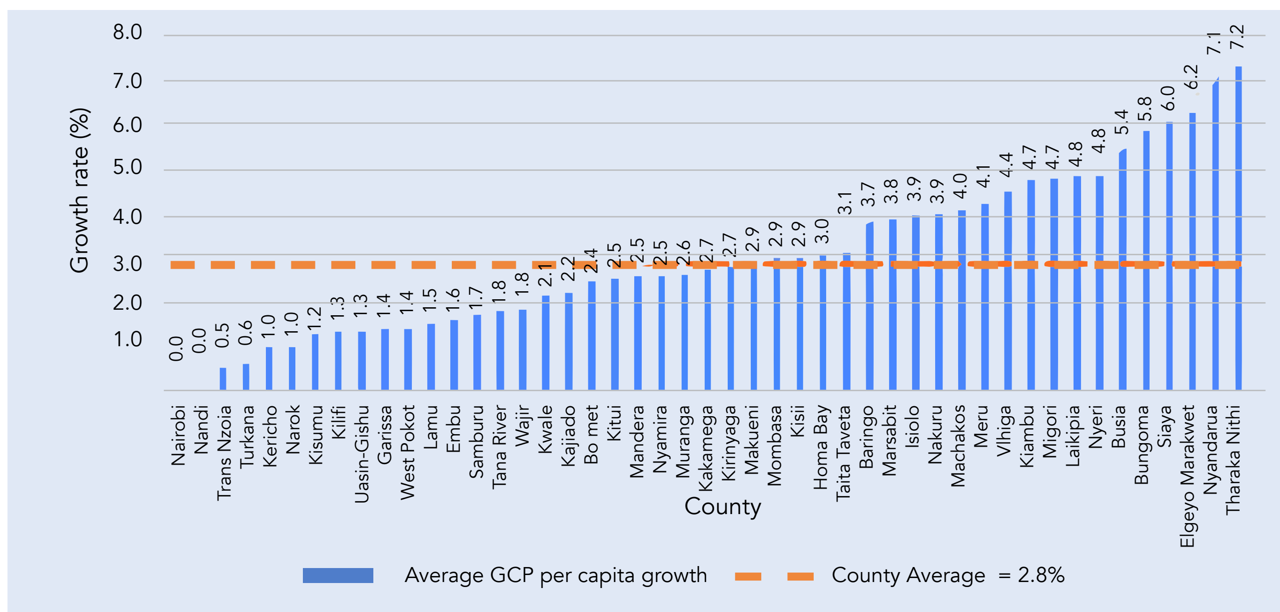
Figure 3.3: County average contribution to GDP, 2014-2017 (%)



Data Source: KNBS (2019), Gross County Product

Between 2014 and 2017, counties real GCP per capita grew by an average of 2.8 per cent. Only 22 counties grew faster than the overall average of 2.8 per cent (Figure 3.4). Tharaka Nithi, Nyandarua and Elgeyo Marakwet counties had the highest real GCP per capita growth rates of 7.2, 7.1 and 6.2 per cent, respectively. However, Nairobi and Nandi counties did not have a significant change in real GCP per capita between 2014 and 2017.

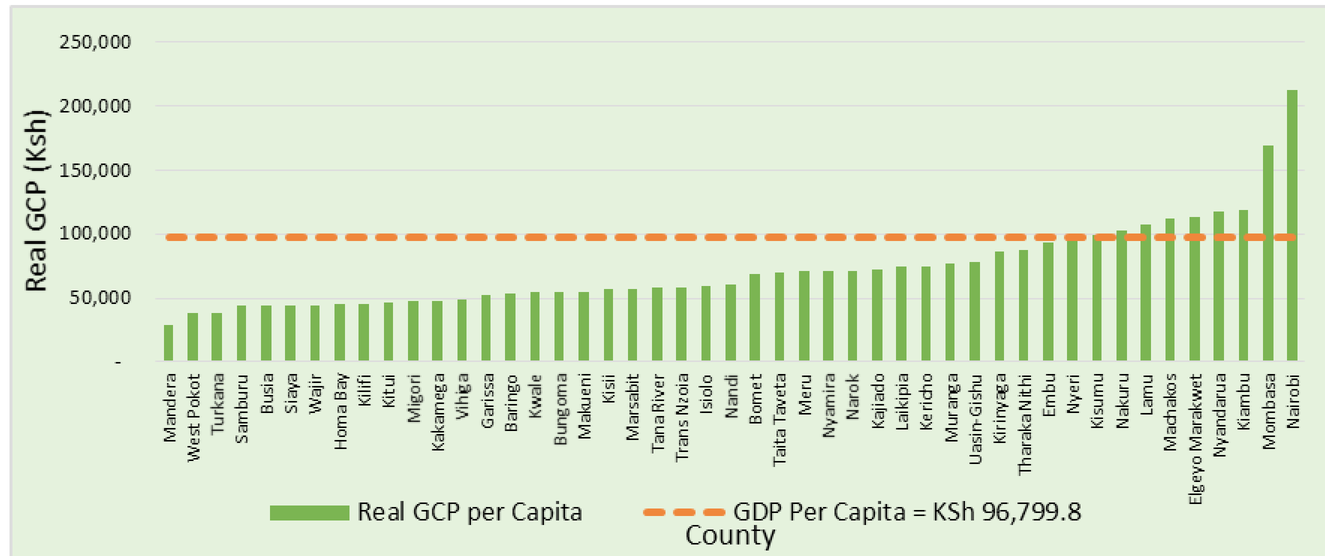
Figure 3.4: Average real GCP per capita growth rate, 2014-2017 (%)



Data Source: KNBS (2019), Gross County Product

As of 2017, only 10 counties (21 % of the counties) had real GCP per capita above the national GDP per capita of Ksh 96,799.8, with counties in arid and semi-arid areas having lowest real GCP per capita. Nairobi and Mombasa had the highest real GCP per capita of Ksh 212,498 and Ksh 168,448, respectively (Figure 3.5). Mandera and West Pokot had the lowest GCP per capita of Ksh 38,021 and Ksh 28,602, respectively. The wide range between the GCPs indicates large disparities in economic activity and demographic characteristics among the counties.

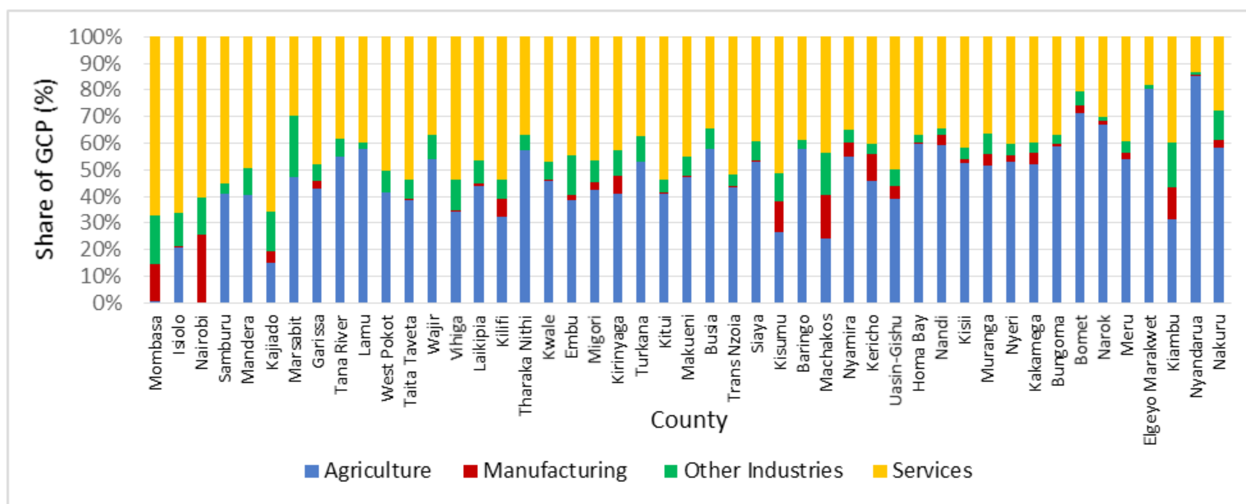
Figure 3.5: Real GCP per capita, 2017 (Ksh)



Data Source: KNBS (2019), Gross County Product

Majority of county economies are heavily dependent on agriculture, with only 7 counties (15.0% of the counties) having significant manufacturing activities (Figure 3.6). Only 7 counties (Nairobi, Kiambu, Mombasa, Machakos, Kisumu, Nakuru and Kericho) have manufacturing contributing at least 0.2 per cent of the country's GDP. This further explains limited structural transformation at county level. A robust manufacturing sector is expected to generate productive employment opportunities at national and county level. The small share of manufacturing sector indicates limited productive employment opportunities at county level. Because of the important employment opportunities created, counties with robust manufacturing and agricultural sectors attract larger populations. For example, Nairobi, Kiambu and Nakuru have relatively established industrial sectors, hence the large population size.

Figure 3.6: Economic activities at county level (% share), 2017

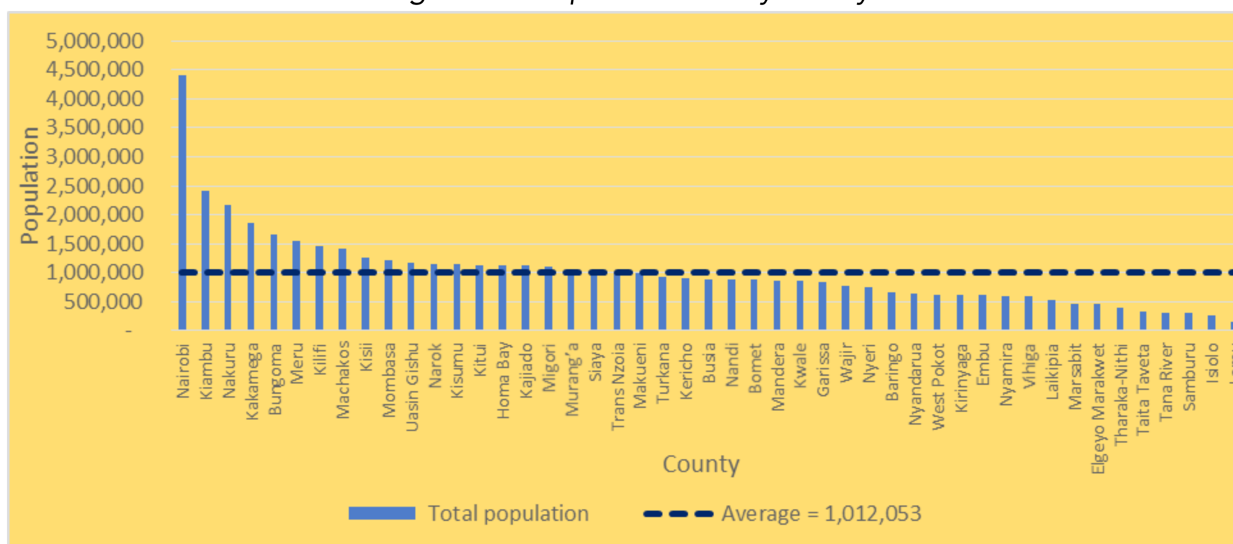


Data Source: KNBS (2019), Gross County Product

3.2 County Population Structure

As per the 2019 census, Nairobi is the most populous county with a population of 4,397,073 while Lamu is the least populated with a population of 143,920 (Figure 3.6). Other counties with higher population include Kakamega, Kiambu and Nakuru, each having a population of 2,417,735, 2,162,202 and 1,867,579, respectively (Figure 3.7).

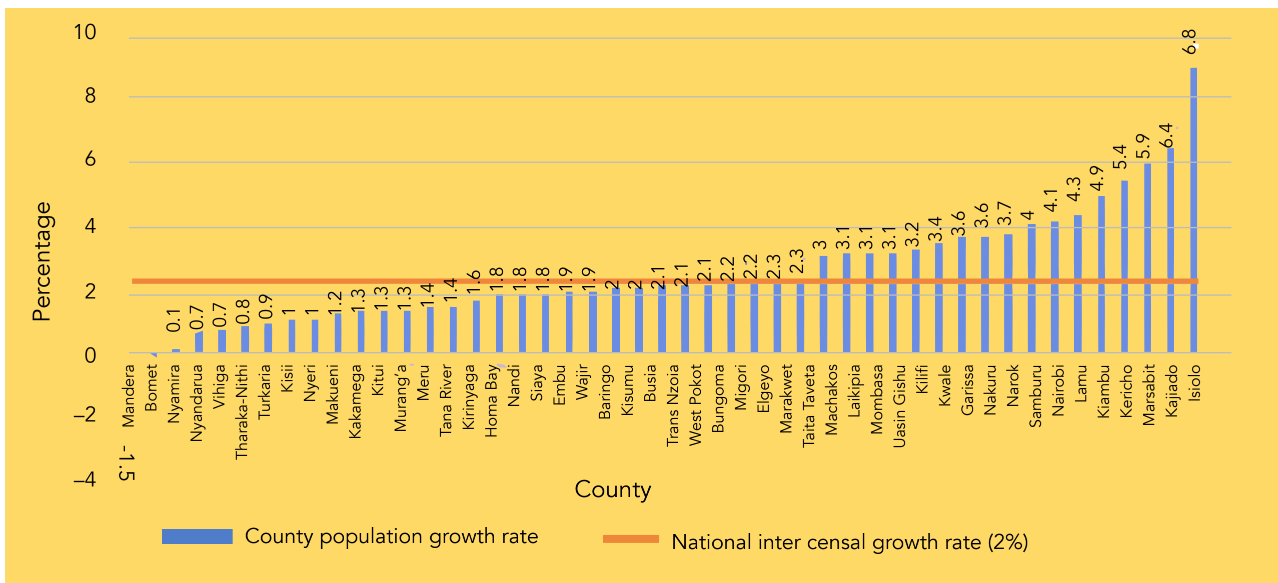
Figure 3.7: Population size by county



Source: KNBS (2019), Kenya Population and Housing Census

The population growth rate in 19 counties was faster than the national growth rate of 2.2 per cent. However, the growth rates were mixed and do not display any unique economic or cultural patterns. Isiolo County had the highest population growth rate of 8.9 per cent while Mandera County had the lowest of negative 1.5 per cent. Nairobi County, the most populous, had a population growth rate of 4.1 per cent (Figure 3.8).

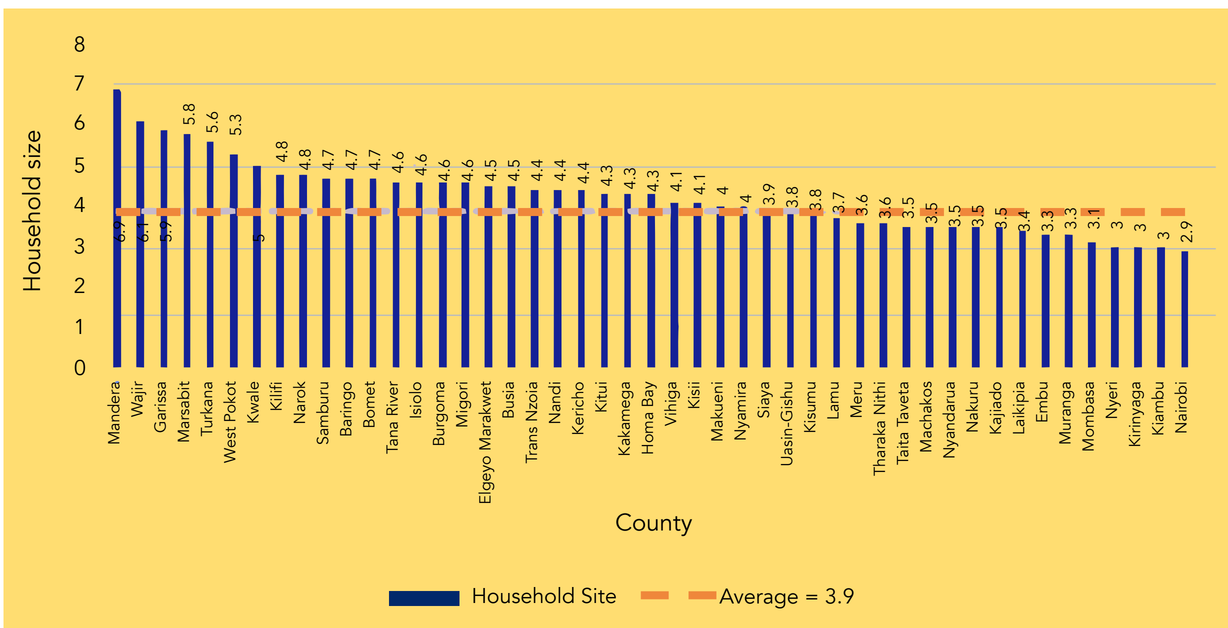
Figure 3.8: County population growth rates



Source: KNBS (2019), Kenya Population and Housing Census

Counties in the ASAL regions have larger household sizes. Mandera, Wajir, Garissa and Marsabit, all in ASALs, have the largest household sizes of 6.9, 6.1, 5.9 and 5.8, respectively. Household size is lower in counties such as Kirinyaga, Kiambu and Nairobi, each having a household size of 3.0 and 2.9, respectively (Figure 3.9).

Figure 3.9: Household size by county, 2019

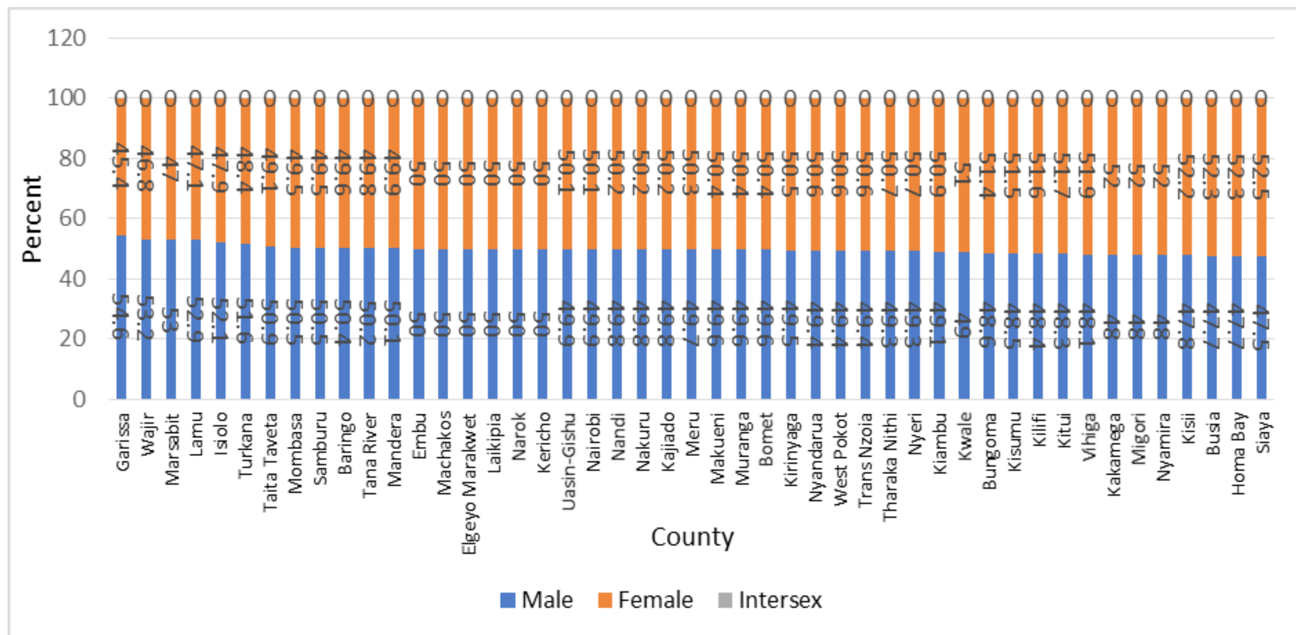


Source: KNBS (2019), Kenya Population and Housing Census

There are minimal variations in terms of population proportion by gender for most counties, although counties in ASALs have relatively higher proportion of males while those in the lake region have a higher proportion of females. Counties such as Garissa, Wajir and Marsabit have male proportions of 54.6, 53.2 and 53.0 per cent, respectively. Counties in the

lake region have higher proportions of females than males. Siaya, Homa Bay and Busia counties have proportions of female populations of 52.5, 52.3 and 52.3 per cent, respectively. The proportion of the inter-sex in the total population was low across all counties (Figure 3.10).

Figure 3.10: County population proportion by gender (%)

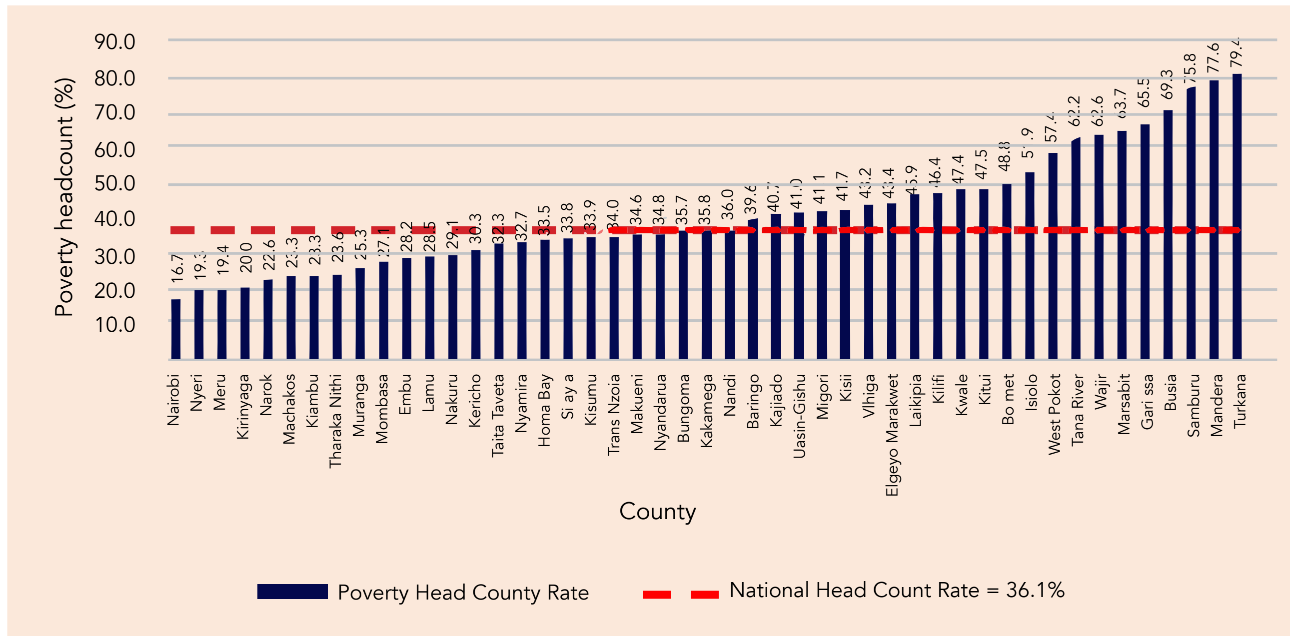


Source: KNBS (2019), Kenya Population and Housing Census

3.3 Poverty at County Level

At county level, significant disparities exist in overall poverty incidence, from a low of 16.7 per cent in Nairobi County to a high of 79.4 per cent in Turkana County. Counties in arid-and semi-arid areas, which tend to have the lowest real GCP per capita, also have the highest incidences of poverty. For example, Nairobi, Mombasa and Kiambu, which have the highest GCP per capita, have low poverty rates of 16.7, 23.3 and 27.1 per cent, respectively, while Turkana, Mandera and Samburu have one of the highest poverty rates at 79.4, 77.6 and 75.8 per cent, respectively. The latter also have low GCP per capita of Ksh 36,592, Ksh 28,602 and Ksh 44,147, respectively. In comparison to the national level, 53.0 per cent of the counties fall below the national poverty rate of 36.1 per cent (Figure 3.11).

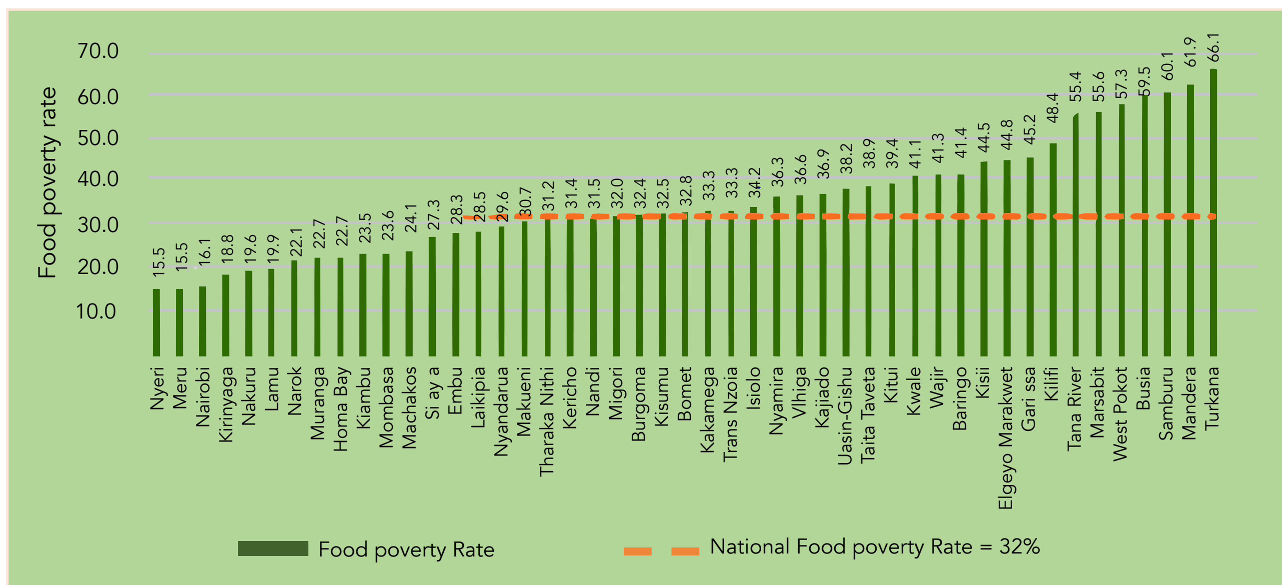
Figure 3.11: Overall poverty headcount across counties, 2015/16



Data Source: KNBS (2018), KIHBS 2015/16

Food poverty[10] is highly prevalent in counties in ASALs, including Turkana, Mandera and Samburu at 66.1, 61.9 and 60.1 per cent, respectively. As of 2015/16, half of the population of seven (7) counties (Turkana, Mandera, Samburu, Busia, West Pokot, Marsabit and Tana River) were food poor (Figure 3.12). Nyeri, Meru and Nairobi have the lowest proportion of food poor at 15.5, 15.5 and 16.1 per cent, respectively.

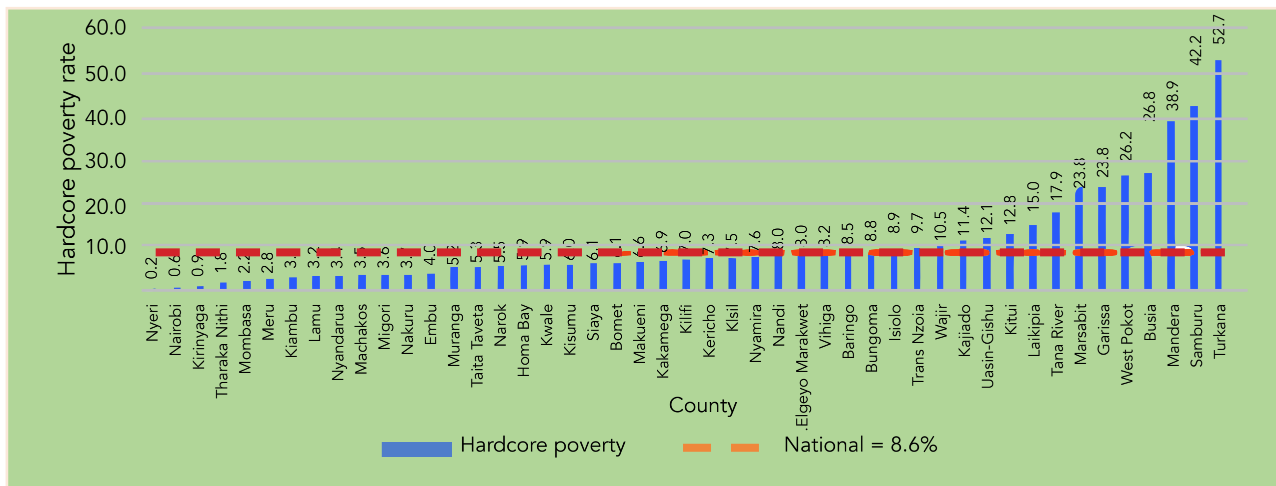
Figure 3.12: Food poverty by county 2015/16



Data Source: Kenya National Bureau of Statistics (2018), KIHBS 2015/16

Sixteen (16) counties (34%) fall below the national hardcore poverty[11] line of 8.6 per cent (Figure 3.13). Fourteen (14) out of the 16 counties also fall below the national poverty rate of 36.1 per cent. It is only Trans Nzoia and Bungoma that fall above the national overall poverty rate but fall below the national hardcore poverty rate.

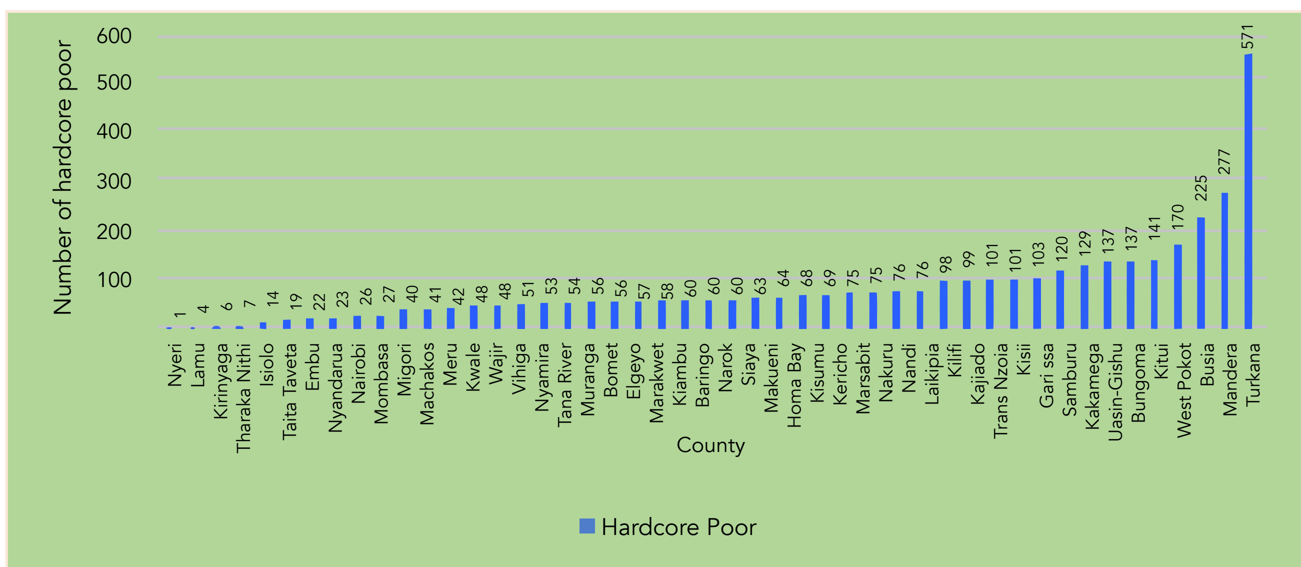
Figure 3.13: Hardcore poverty rate by county, 2015/16



Data Source: Kenya National Bureau of Statistics (2018), KIHBS 2015/16

Turkana has the highest number of hardcore poor, accounting for 15 per cent of the total hardcore poor in the country. In terms of the actual numbers of the hardcore poor, counties in arid and semi-arid lands still dominate. The highest number of the actual poor are in Turkana, with 571,000 individuals followed by Mandera and Busia with 277,000 and 225,000 individuals, respectively. The top ten counties with the highest number of hardcore poor account for 51.0 per cent of the total hardcore poor nationally. Nyeri has the least number of hardcore poor, with only 1,000 individuals (Figure 3.14).

Figure 3.14: Actual number of hardcore poor by county ('000)



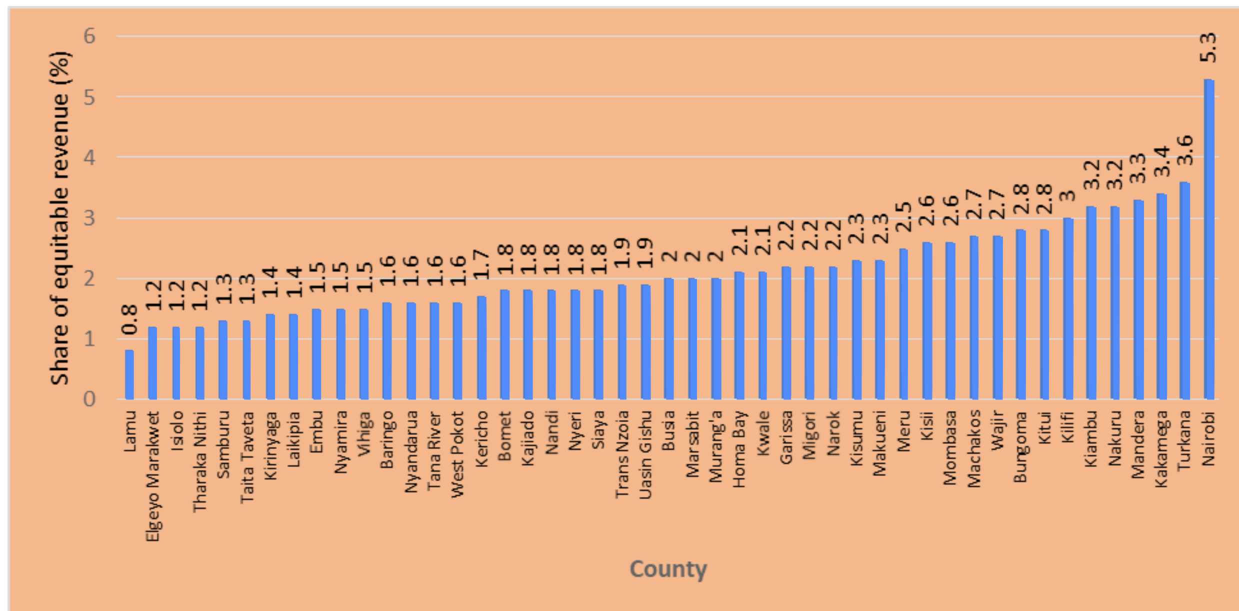
Data Source: Kenya National Bureau of Statistics (2018), KIHBS 2015/16

From the analysis, there is a strong positive correlation between household size at county level and poverty rates. Counties in arid-and semi-lands, which also have high poverty incidences, have the largest household sizes. The top three counties in terms of household size are Mandera, Wajir and Garissa, with household sizes of 6.9, 6.1 and 5.9, respectively. These counties also have relatively higher poverty rates at 77.6, 62.6 and 65.5 per cent, respectively. Nairobi and Nyeri counties with the smallest household sizes of 2.9 and 3.0, respectively, have the lowest poverty headcount rates at 16.7 and 19.3, per cent, respectively.

3.4 County Fiscal Performance

The Government has made significant effort to address poverty and inequality across counties using equitable transfers. Between 2013/14 and 2018/19, a total of Ksh 1.7 trillion was disbursed to counties in terms of equitable transfers. The Commission on Revenue Allocation (CRA) formula is used in calculation of the allocations, of which population factor accounts for 45 per cent of the allocation while poverty factor accounts for 18 per cent. Nairobi County, the most populous, received 5.3 per cent of the transfers, the largest share of the equitable transfers between 2013/14 and 2018/19. Turkana County received the second largest share, 3.9 per cent, largely driven by high poverty rates in the county, the highest in the country. Mandera, being the second poorest county received the third largest share of 3.4 per cent. Lamu County received the least share of 0.8 per cent. It is the least populated county and has relatively low poverty rates (Figure 3.15).

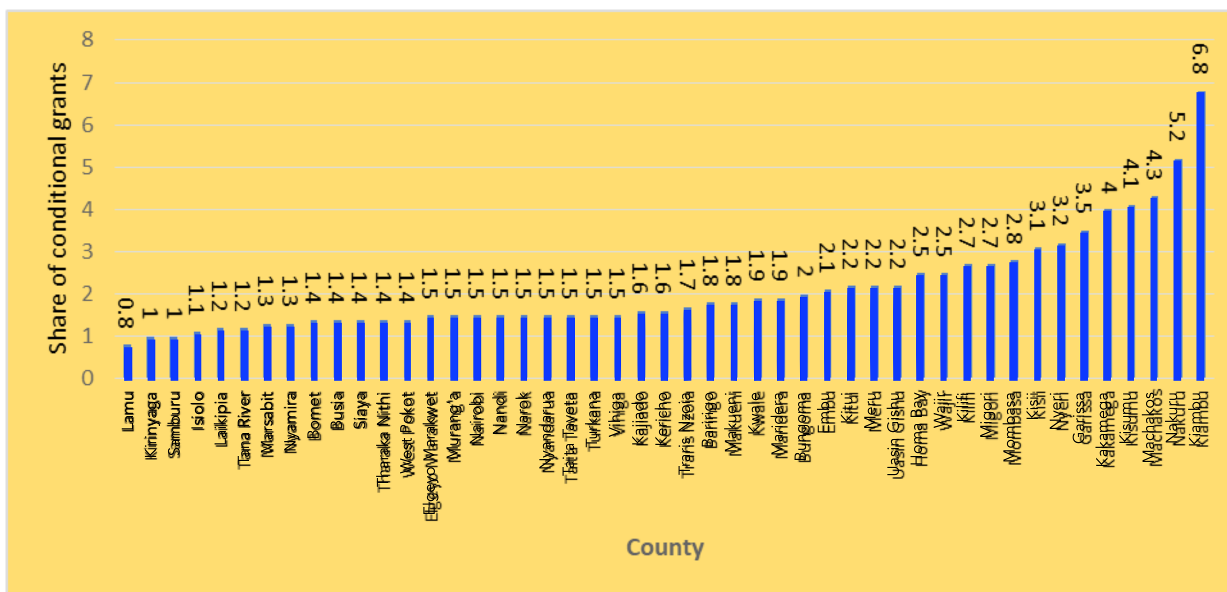
Figure 3.15: County share of equitable transfers (%), 2013/14-2018/19



Source: Office of the Controller of Budget (Various) Reports

A total of Ksh 119.7 billion was issued between 2013/14 and 2018/19 in form of conditional grants. Kiambu, Nakuru and Machakos received the largest share of 6.8, 5.2 and 4.3 per cent, respectively. Lamu and Kirinyaga received the least shares of 0.8 and 1.0 per cent, respectively (Figure 3.16). The conditional grants to counties are meant to implement specific national policies in different sectors such as health. For example, a larger share of conditional grants went to Level Five Hospitals and Free Maternal Health Care for the period under review.

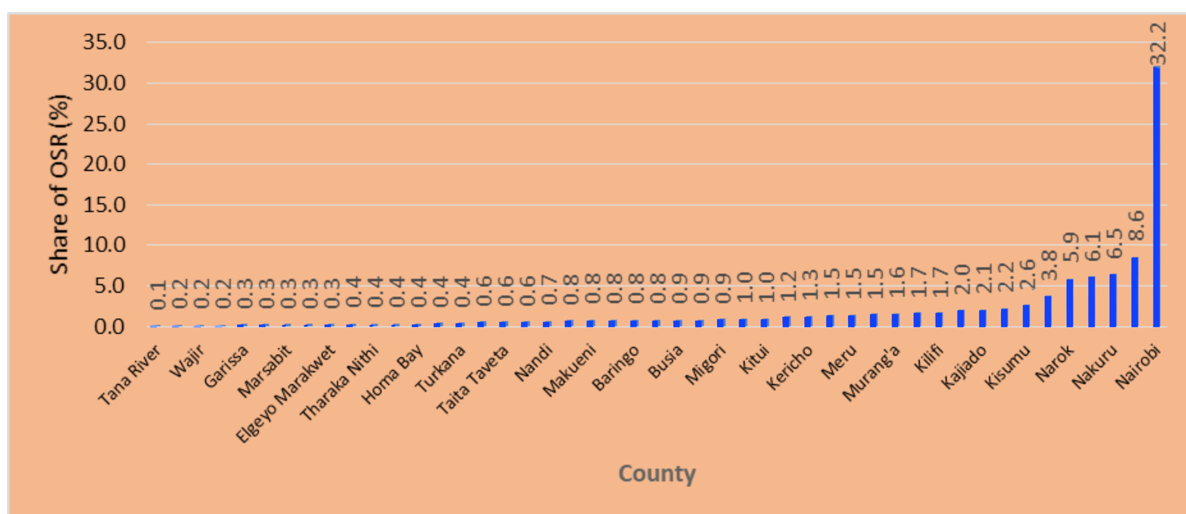
Figure 3.16: County share of conditional grants to total transfers (%), 2013/14-2018/19



Source: Office of the Controller of Budget (Various) Reports

Own Source Revenue (OSR) collections remain low, with huge disparities existing in county revenue bases and potential. As of 2018/19, only seven (7) counties (Nairobi, Mombasa, Narok, Nakuru, Kiambu, Machakos and Kajiado) collected more than Ksh 1 billion in OSR collections. Between 2013/14 and 2018/19, a total of Ksh 200.5 billion was collected as county OSR. Out of this, Ksh 64.5 billion (32.2 %) is from Nairobi County while Tana River collected only Ksh 239.7 million (0.1%). Other counties with significant share of OSR include Mombasa, Nakuru and Kiambu with 8.6, 6.5 and 6.1 per cent, respectively (Figure 3.17). Counties with relatively well-established industry and service sectors collect more revenue.

Figure 3.17: County own source revenue share

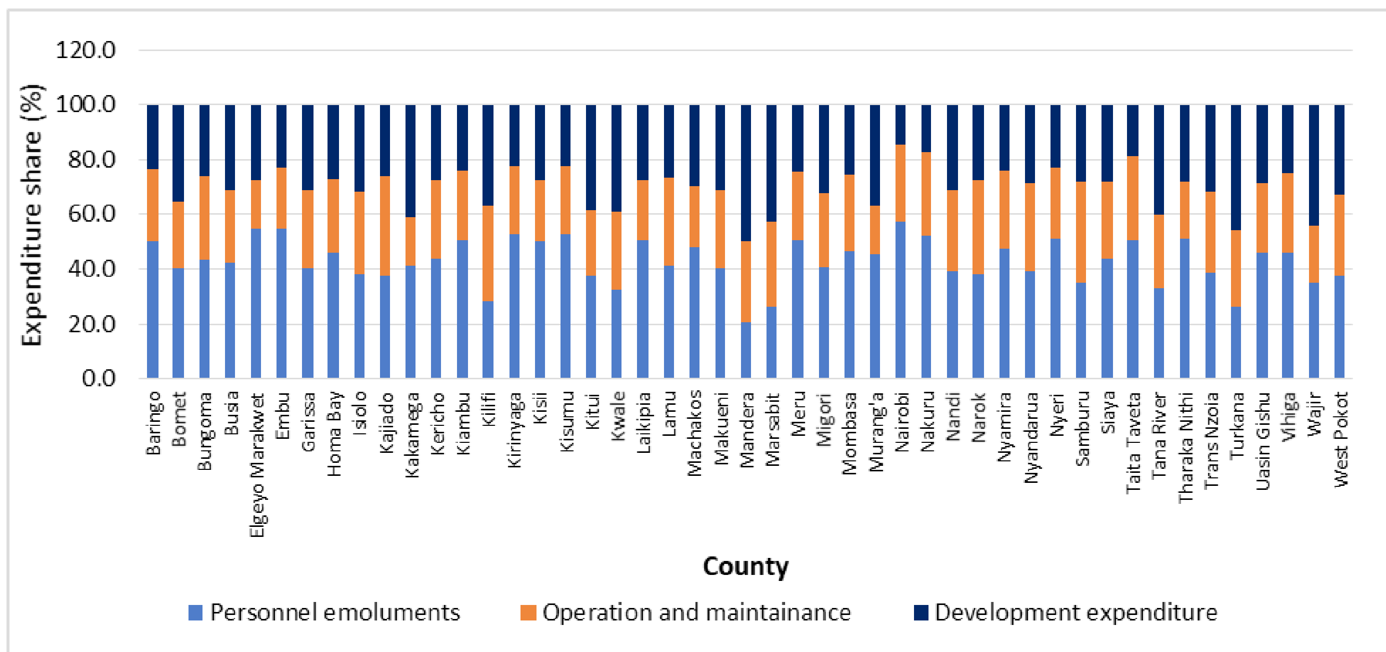


Source: Author's computation using data from Office of the Controller of Budget (Various) Reports

Counties with the highest poverty rates spent larger shares of their revenues on development between 2013/14 and 2018/19. Mandera, Turkana and Wajir, some of the poorest counties, spent 49.8, 45.8 and 44.1 per cent, respectively, on development (Figure 3.18). Such spending is expected to stimulate economic activities at county level and uplift the population from poverty. Counties that are relatively well-off spent the least share of revenue on development. For example, Nairobi, Nakuru and Kisumu spent only 14.5, 17.2 and 22.4 per cent, respectively.

The Public Finance Management (PFM) Act 2012 requires that at least 30 per cent of the spending should be on development over a medium-term. 59.6 per cent of the counties (28 counties) did not meet this requirement. Majority of these counties spent more than 50.0 per cent of their revenue on personal emoluments, with Nairobi County leading at 57.4 per cent.

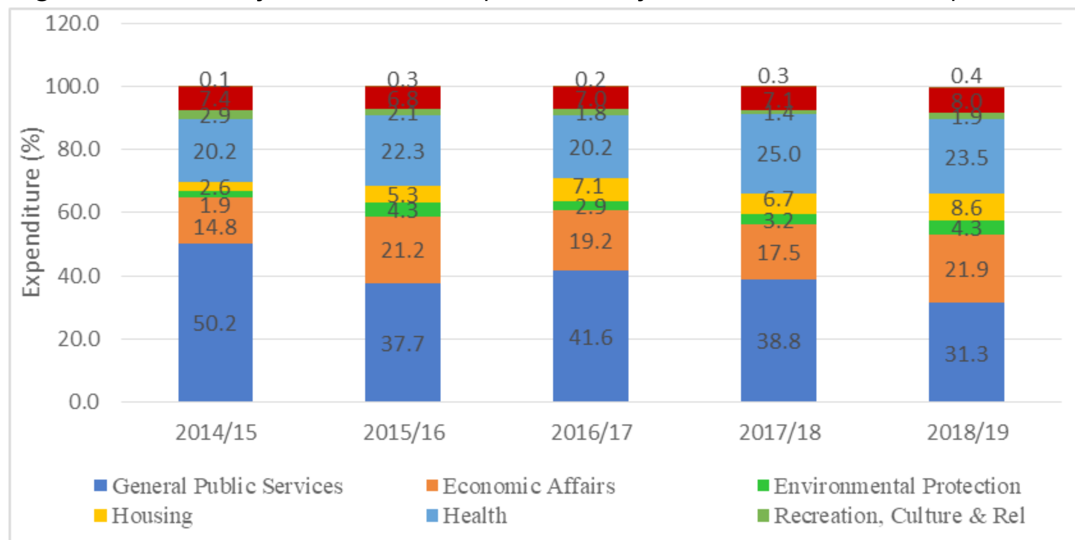
Figure 3.18: Share of county spending by economic classification (%), 2013/14-2018/19



Source: Office of the Controller of Budget (Various) Reports

At county level, there was a significant increase in spending in housing between 2014/15 and 2018/19 but spending on social protection is important but limited. The share of housing expenditure rose by 6 percentage points from 2.6 per cent in 2014/15 to 8.6 per cent in 2018/19 (Figure 3.19). Health and early childhood education are devolved functions. The share of health expenditure in total spending marginally increased from 20.2 per cent in 2014/15 to 23.5 per cent in 2018/19. The share of education expenditure increased from 7.4 per cent in 2014/15 to 8 per cent in 2018/19. The share of expenditure on social protection is the lowest at county level, and marginally increased from 0.1 per cent in 2014/15 to 0.4 per cent in 2018/19.

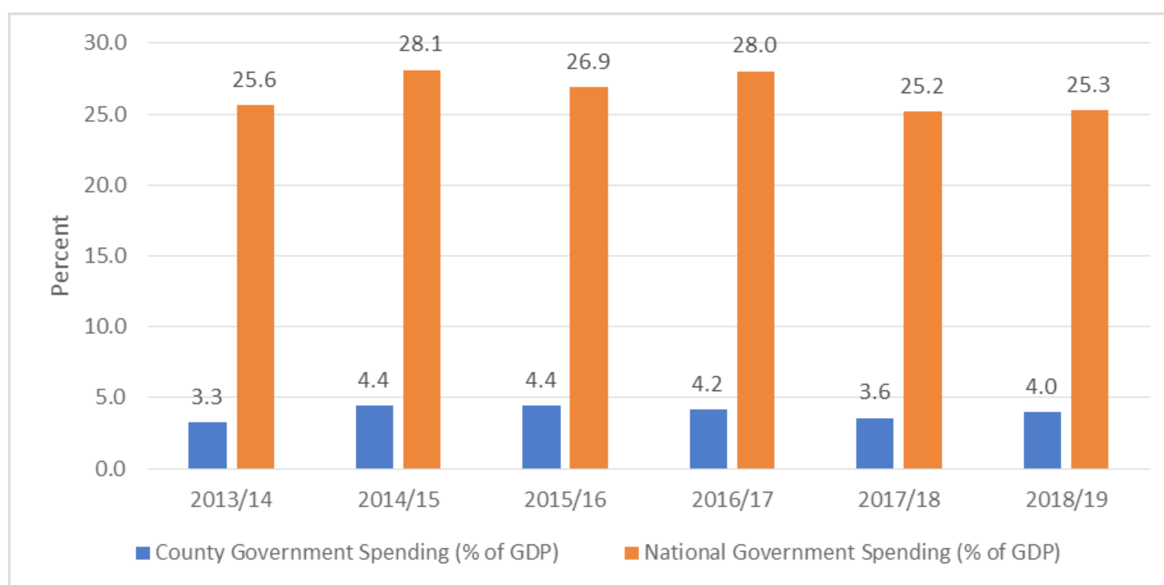
Figure 3.19: County Government expenditure by function (% of total expenditure)



Source: Author's computation using data from KNBS (2020), Economic Survey

Counties spend about 4.0 per cent of the GDP, on average. Total county spending as a percentage of GDP averaged 4.0 per cent between 2013/14 and 2018/19 compared to an average of 26.5 per cent for the National Government (Figure 3.20).

Figure 3.20: County and National Government spending (% of GDP)



Source: Office of the Controller of Budget (Various) Reports and National Treasury (2019), Quarterly Economic and Budgetary Review: Fourth Quarter 2018/19

3.5 Key Messages and Recommendations

3.5.1 Key messages

1.) Counties real GCP per capita grew at an average of 2.8 per cent between 2014 and 2017, with only 47 per cent of the counties (22 counties) attaining above average growth rate. In addition, counties such as Nyandarua and Tharaka Nithi had the highest average growth rates of 7.2 and 7.1 per cent, respectively, while counties such as Nairobi and Nandi did not have a significant change in real GCP per capita.

2.) Counties in ASALs contribute less to GDP and have the least real GCP per capita. Nairobi and Kiambu account for the largest share of GDP at 24.8 and 5.6 per cent, respectively, while Isiolo and Samburu have the least contribution to GDP at 0.2 and 0.3 per cent, respectively. Only 21.0 per cent of the 47 counties have real GCP per capita above the national GDP per capita of Ksh 96,799.8. Mandera and West Pokot counties have the least GCP per capita of Ksh 38,021 and Ksh 28,602, respectively. Nairobi and Mombasa have the largest GCP per capita of Ksh 212,498 and Ksh 168,448 respectively; they have relatively well-established industrial sectors.

3.) Only 15.0 per cent of the 47 counties have significant manufacturing activities, with most counties heavily dependent on agriculture. Agriculture is the key economic activity of most counties followed by activities in the services sector. Counties with relatively well-established manufacturing and agriculture sectors have larger population size.

4.) Disparities exist in poverty rates in counties, ranging from a low of 16.7 per cent in Nairobi County, to a high of 79.0 per cent in Turkana County. Even though the national poverty level is 36.1 per cent, 22 out of the 47 counties still fall below the national level. Furthermore, 16 counties still fall below the national hardcore poverty rate of 8.6 per cent.

5.) Counties with low GCP per capita are mainly in the ASALs; they have the highest poverty rates in Kenya. For example, Mandera, West Pokot and Turkana have real GCP per capita of Ksh 28,602, Ksh 38,021 and Ksh 38,592, respectively; their poverty rates were 77.6 per cent, 57.4 per cent and 79.4 per cent, respectively. Nairobi, Mombasa and Kiambu counties have relatively low poverty rates at 16.7 per cent, 23.3 per cent and 27.1 per cent, respectively. Food poverty is also highly prevalent in the ASALs.

6.) There is a strong positive correlation between household size at county level and poverty rates. Counties in ASALs, with high poverty incidences, have the largest household sizes. The top six counties in terms of household size have an average of 5.9 members.

7.) The Government has made notable effort to address poverty and inequality across counties through the budget. Turkana and Mandera, one of the poorest counties, received relatively larger share of revenue allocation of 3.9 and 3.4 per cent between 2013/14 and 2017/18, largely influenced by the poverty factor in the CRA formula, which accounts for 18 per cent of the revenue allocation.

8.) Huge disparities exist in county own source revenue bases and thus, the OSR collections. In 2018/19, only seven (7) counties managed to collect an excess of Ksh 1 billion. County OSR collections amounted to Ksh 200.5 billion between 2013/14 and 2018/19, 32.2 per cent of this from Nairobi County while counties such as Tana River and Lamu accounted for only 0.1 and 0.2 per cent of the total county collections, respectively. This indicates huge differences in OSR potential at county level.

9.) Between 2013/14 and 2018/19, counties with the highest poverty rates devoted a significant share of their spending on development. Mandera, Turkana and Wajir, some of the poorest counties, spent 49.8, 45.8 and 44.1 per cent, respectively, on development. Such spending is expected to stimulate economic activities at county level and uplift the population from poverty.

10.) On average, between 2013/14 and 2018/19, 60 per cent of the counties (28 counties) did not meet the PFM Act 2012 requirement that at least 30 per cent of the total county spending be on development.

3.5.2 Recommendations

1.) Promote GCP growth through increased spending on development to accelerate the pace of poverty reduction in the counties. Development spending serves to expand the capacity for economic activity. Ensure adherence to the PFM Act by fast-tracking its implementation on the 30 per cent allocation of total budget to development projects through the Controller of Budget at county level. The Commission on Revenue Allocation (CRA) could impose penalties on counties that do not comply with the PFM Act 2012 requirement on development spending.

2.) Establish tanneries, leather and meat processing factories to empower the pastoralist communities that live in the arid and semi-arid lands to expand their production, increase incomes and lower poverty.

3.) Establish and revive agricultural-related cooperative societies to mobilize and aggregate financial capital at the county level to promote a more inclusive growth in the counties.

4.) Support industrialization in the rural areas to absorb rural labour. This can be achieved by diversifying economic activities by creating an enabling environment with, for example, infrastructure development to attract investments in manufacturing activity by the private sector.

5.) Provide guidelines and standards on OSR collection and usage to counties to enhance county revenue base to boost development and inclusive growth at county level.

6.) Enhance OSR collections by full automation of revenue collection systems to seal revenue leakages and promote private sector growth. This will facilitate in mobilizing adequate resources to finance development needs at the county level.

7.) Increase spending on social protection to protect the hardcore poor.

Endnotes

10 According to KNBS (2018), households and individuals are food poor if monthly adult equivalent food consumption expenditure is < Ksh 1,954 in rural and peri-urban areas and < Ksh 2,551 in core-urban areas.

11 According to KNBS (2018), households and individuals are extreme poor if monthly adult equivalent of total consumption expenditure per person is < Ksh 1,954 in rural and urban areas and < Ksh 2,551 in core urban areas.

MEDIUM-TERM ECONOMIC PROSPECTS FOR KENYA

Kenya's economy registered an average growth of 5.6 per cent in 2014 to 2019, depicting a stable economy on a path to achieving the objectives of the Kenya Vision 2030. To cushion the economy against major exogenous shocks, including uncertain weather conditions, invasion of desert locust and the coronavirus, efforts towards maintaining macroeconomic stability, growth-enhancing and prudent fiscal policy, supportive monetary policy, and political stability are crucial. In addition, Kenya could strategically prepare to exploit opportunities with the coming to effect of the AfCFTA. Further, counties are core in delivering the required economic growth and need to invest more to strengthen agriculture and manufacturing, which are crucial in achieving economic transformation.

4.1 Introduction

Kenya has experienced a stable economic growth in the recent past, which is attributable to a favourable macroeconomic environment, political stability, heavy infrastructural public investments and growth in domestic demand. The economy registered a steady economic growth averaging 5.6 per cent per annum for the period 2014 to 2019. This was a strong recovery from the 1.5 per cent growth rate recorded following the financial crisis in 2008. The growth was also slightly higher than the 5.1 per cent average recorded between 2008 and 2013. The annual economic growth recorded for the last four years had 2019 growing by 5.4, 2018 by 6.3 per cent, 2017 by 4.9 per cent and 2016 by 5.9 per cent, which were impressive growth rates given a period of drought and highly contested general elections. The sectors that recorded high growth rates in 2019 were accommodation and food services (10.3%), information and communication (8.8%), public administration and defence (8.1 per cent), electricity supply (7.9%), arts, entertainment and recreation (7.9%) and transport and storage (7.8%).

The economy grew by 5.4 per cent in 2019, which is lower than 6.3 per cent in 2018 but higher than 4.9 per cent in 2017. The slow growth in 2019 can be attributed to the slowdown in the sectors of accommodation and food services, agriculture, manufacturing and transportation, which were affected by delay in the long rains, and the upsurge of crude oil prices. The slowdown in the manufacturing sector was due to low performance in manufacture of tobacco products and processing and preservation of fish.

For the external sector, the current account deficit stood at Ksh 567.0 billion 2019, representing 5.8 per cent of the GDP compared to a deficit of Ksh 511.3 billion in 2018. The deterioration of current account by 10.9 per cent was as a result of a 2.9 per cent decline in merchandise exports in 2019 and growth in merchandise imports due to increased importation of petroleum products.

Inflation remained stable for the period January to December 2019, averaging 5.2 per cent which was within the policy target. This was mainly attributed a continued stability of prices for food and non-alcoholic drinks during the period. The lowest inflation level was in September 2019 at 3.83 per cent while the highest was in April at 6.58 per cent. Apart from April and July, all the other months registered inflation levels of below 6.00 per cent, which indicates a general stability in price levels throughout the year.

Actual revenue collections remained lower than the targets. As at December 2019, total revenue collection including Appropriations-in-Aid (AIA) was Ksh 920.6 billion (8.9% of GDP), which was lower than the target of Ksh 1,059.3 billion (10.2% of GDP). The shortfall was Ksh 138.7 billion and was attributed mainly to under-performance in ordinary revenue by Ksh 88.4 billion and AIA by Ksh 50.3 billion. This under-performance was mainly attributed to low performance of all tax heads and AIA, where the main contributor was income tax, basically due to lower than targeted performance in both Pay As You Earn (PAYE) and Other Income taxes.

Actual expenditures were also below the target. Total expenditure and net lending as at December 2019 was Ksh 1,144.9 billion, which was below the target by Ksh 163.1 billion. Recurrent expenditure amounted to Ksh 772.5 billion, while development expenditure and transfer to County Governments (equitable share only) were Ksh 250.2 billion and Ksh 112.0 billion, respectively. The recurrent expenditure was below the target by Ksh 24.8 billion, which was attributed to lower than targeted pensions payments. Development expenditures were below target by Ksh 98.0 billion mainly due to lower than expected absorption of foreign and domestically financed development expenditures. This resulted to an overall deficit of Ksh 228.3 billion, which was an improvement as it was lower than the target of Ksh 232.2 billion. This deficit was financed mainly through net domestic borrowing of Ksh 152.9 billion while net foreign borrowing was Ksh 73.8 billion.

The level of formal employment in 2018 was 2.8 million, of which 1.9 million was in the private sector, 0.8 million in the public sector, and 0.2 million in formal self-employed and unpaid family workers. The informal sector engaged 14.9 million people with majority in wholesale and retail trade (8.9 million) followed by manufacturing at 3.0 million and community social and personal services at 1.4 million. Therefore, three sectors held the bulk of informal sector jobs at 89.3 per cent of total informal sector employment.

4.2 Growth Forecasts for Kenya

Considering inclusivity in the country, economic growth creates economic opportunities, which are widely distributed across all segments of the society. Macroeconomic stability is a prerequisite for sustainable and inclusive growth. It ensures that there is a conducive environment for Government and private sector to invest. Fiscal and monetary policies play a stabilization and redistribution role and are critical in achieving more inclusive growth.

A fair economic growth is expected for Kenya given the stable macroeconomic environment so far registered in the economy. The forecast scenario was based on a stable macroeconomic environment, together with the political goodwill generated from several Government initiatives that are ongoing, including the 'handshake'. The general prices have been stable in the medium-term, coupled by stable crude oil prices which are on a downward trend (an effect of coronavirus on demand especially from China). The current rains are expected to yield better outcomes for the agricultural sector, which will further provide inputs/raw materials for the agro-processing industries and are expected to create more job opportunities. It is worth noting that the prioritization of expenditures into more productive economic activities is also yielding good fruits in the country. It is also assumed that development partners' funding will materialize to fight the desert locusts and the coronavirus pandemic. More so, trade is expected to benefit a lot with the ongoing African Continental Free Trade Area (AfCFTA) negotiations to improve trade within the continent. However, it is not yet known for how long the coronavirus will be with us and the extent of the damage it will cause.

The resource mobilization from development partners and other sources to counter desert locusts and the Coronavirus leads to no major, if any, budget reallocation would be expected for Kenya. The World Bank Group has committed to provide US$ 60 million to counter desert locusts and the coronavirus. The Covid-19 Financing Facility will avail US$ 50 million (Ksh 5.15 billion) and the Contingency Emergency Response Component of Transforming Health Systems for Universal Care Project an additional US$ 10 million (Ksh 1.03 billion). The World Bank has also activated the disbursement of US$ 14 million (Ksh 1.4 billion) to enhance control of desert locust invasion in Kenya. The funds are drawn from the Contingency Emergency Response Component of Kenya Climate Smart Agriculture Project.[12] Table 4.1 gives the forecast for the baseline scenario, which assumes that external funding will cushion the country from the adverse effects of coronavirus, the business as usual scenario.

Table 4.1: Economic projections for 2019-2022

	2016	2017	2018	2019	2020	2021	2022
Rates (%)							
GDP Growth	5.9	4.8	6.3	5.4	4.8	6.1	6.3
Inflation	6.3	8.0	4.7	5.2	5.0	5.1	5.1
Interest Rate	8.5	8.4	7.8	6.9	7.0	7.2	7.2
Volumes (%)							
Private Consumption	7.0	7.4	7.0	4.6	5.7	6.6	6.6
Government Consumption	5.6	3.9	5.6	4.9	3.1	3.7	4.2
Private Investments	-7.2	8.3	2.4	3.1	2.3	3.8	4.0
Government Investments	7.8	-3.1	-8.4	-1.0	1.9	5.0	4.5
Export Goods and Service	-2.2	-6.2	3.9	-0.2	3.4	3.6	3.7
Imports Goods and Services	-3.4	8.6	2.5	-2.0	3.7	4.2	5.0
%GDP							
Current Account Balance	-5.8	-7.2	-5.8	-5.8	-4.0	-3.2	-3.4
Fiscal Deficit	-5.4	-6.1	-6.3	-5.3	-5.1	-4.8	-4.0
Expenditures	25.1	26.8	26.2	25.9	26.4	26.5	27.8
Index							
Ksh per Dollar	101.5	103.4	101.3	102.1	103.5	103.9	103.4

Source: KIPPRA (2020), KIPPRA Treasury Macroeconomic Model (KTMM)

In this scenario, it is expected that the current economic growth momentum will be maintained in the medium-term, based on the 2018 economic growth rate of 6.3 per cent. This projects a gradual economic growth of 4.8 per cent in 2020, with a slight recovery in 2022, which is expected to deliver a 6.3 per cent economic growth rate. Inflation is expected to remain within the policy scenario of 5.0 per cent and, at most, below that level, on average. Given the stable general prices, household consumption is expected to thrive and grow at the level of 6.6 per cent for 2021 and 2022.

4.3 Risk Factors in Medium Term Forecasting

Currently, the world is dealing with the coronavirus pandemic whose dynamics are yet to be fully understood. A protracted scenario will have significant economic repercussions in the medium-term. For the medium-term prospects, there are both downside and upside risks that need to be taken into consideration in the forecasting period.

4.3.1 Downside risks

Among the downside risks include enhanced fiscal pressure, with rising budgetary demands coupled with a narrowing fiscal space. The fiscal demands include the high public debt levels with rising debt servicing costs; demands emanating from the coronavirus pandemic, and misappropriation of public funds. In addition are exogenous shocks including the weather conditions and the invasion by desert locusts.

The rising debt servicing costs is a risk in the medium-term forecasting, mainly due to possible reallocation of funds away from delivery of public service. Public debt is currently Ksh 6.2 trillion, with the levels of debt servicing estimated at 30 per cent of total revenue. The estimate of ordinary revenue performance, according to the Budget Policy Statement (BPS) 2020 is Ksh 1.8 trillion and, therefore, debt servicing approximates to about Ksh 540.0 billion every year, compared to the country annual development budget of Ksh 730.8 billion for 2019/20 (National Treasury, 2020).

The uncertainty in weather conditions is a key exogenous shock impacting on the agricultural sector, the biggest contributor to GDP in the country. A KIPPRA study documents that during drought episodes, the country losses about 2.0 percentage points in GDP growth. This shows that the losses incurred mainly in the agricultural sector and any other adverse effects in the economy are equivalent to 2.0 per cent of GDP in the country in one year.

The desert locust is wreaking havoc across various countries, being one of the most destructive species. Its greatest asset is the agility and endurance, enabling it to remain in the air for long periods of time. The desert locust can cover 150km per day at a speed of 16km/hr, destroying everything in its path. A single swarm, up to 150 million insects, can consume enough food to feed 35,000 people. The swarms that entered the country were in the adult stage, but immature, meaning, they are ready to mate and lay eggs, and it is estimated that should these eggs hatch successfully, then the swarm will be double what is being witnessed. Aerial spraying to beat back a plague of locusts swarming across Kenya will cost US$ 70 million (Ksh 7.0 billion), according to UN estimates. The price tag for the spraying comes from the UN Food and Agricultural Organization (FAO), which leads international efforts to fight hunger.

The impact of the coronavirus (COVID-19) in Kenya is attributable to internal and external developments. The virus was first reported from Wuhan, China on 31st December 2019. Kenya reported its first confirmed case on 13th March 2020 and by 4th May 2020 the number of confirmed cases had increased to 490. The most affected region in addition to China is Europe, which is a big export market for Kenya, and Sub-Saharan Africa is starting to feel the heat. China is a major global economic player, the second largest importer of goods and the largest exporter of goods. Projections show that China could lose one per cent of GDP in 2020, while the world economy is set to lose 0.4 per cent of GDP. Kenya's economic growth is likely to be affected adversely as it trades heavily with China. The exports are likely to reduce while imports that include finished and intermediate goods will affect manufacturing, construction and MSE sectors in Kenya as China closes most of her factories.

The Government has instituted various preventive measures in the wake of Covid-19. These include personal hygiene measures such as: regular washing of hands with soap, sanitizing, maintaining a social distance for all and maintaining good respiratory hygiene. Further, the Government, through a Presidential Directive, introduced a curfew (from 7.00pm to 5.00am), suspended all public gatherings, meetings and events and all inter-school events. To that effect, all learning institutions have been temporarily closed. Similarly, prison visits were suspended for 30 days, beginning 13th March 2020. In addition, Kenyan's have been urged not to spread misinformation through social media that could cause fear and panic.

The Government has also instituted fiscal, monetary and financial policies to support the most vulnerable. These include tax reliefs, enhanced expenditure for social protection, easing of monetary policy, and financial policy related to bad debt. The Government is also supporting production of protective gear including face masks locally.

On the external factor, security risk is a key concern to Kenya, especially through terrorist attacks. As a proxy for the cost of terrorism, we consider the budget on Kenya Defense Forces (KDF) expenditure to be refunded by AMISOM. Where possible, one can estimate the risk factor through assumption of the cost associated with travel bans issued during threats of terrorism.

4.3.2 Upside risks-opportunities

There are various opportunities to exploit in the medium-term. These include the removal of interest rate cap, which allows appropriate pricing of credit risk; and the coming to effect of the AfCFTA in July 2020, thereby creating a single continental market for goods and services, with free movement of business persons and investments, and thus paving way for accelerated establishment of a Customs Union.

The declining oil prices due to reduced demand with coronavirus will have a favourable effect on imports bill in Kenya. It will cushion inflationary pressures that may arise from reduced production activity at the domestic market level. It is anticipated that oil prices could go as low as US$ 30 per barrel.

Kenya securing a non-permanent seat in the UN Security Council (UNSC) is an opportunity that can be exploited to improve economic development. The UNSC has the primary responsibility of maintaining international peace and security. It enjoys robust powers, including the imposition of sanctions and authorization of military action when international peace is threatened. Given the Council's pre-eminent role in international affairs, it is not surprising that most States aspire to get the membership. Should Kenya get the seat in the UN Security Council, there are possibilities that are likely to be direct advantages. One, there will be an opportunity of bargaining for more resources to maintain peace with her neighbours, Somalia and South Sudan. Two, there will be a possibility of resolving the coastline border conflict between Kenya and Somali with urgency and the weight it deserves. These will free resources that Kenya would have spent without any influence in the UN Security council. An estimate of Ksh 110.0 billion under the AMISOM can be spared when border dispute is resolved, and Kenya would be able to exploit the resources that are within that border region.

Table 4.2 presents a forecast that incorporates all the risks and opportunities at domestic and international level. The impact of the risks, in case they materialize, can be disastrous given the country is still recovering from several other previous risks that affected the Kenyan economy.

Table 4.2: Economic projections for 2019-2022 (with risks materializing)

	2016	2017	2018	2019	2020	2021	2022
Rates (%)							
GDP Growth	5.9	4.8	6.3	5.4	1.7	3.1	4.2
Inflation	6.3	8.0	4.7	5.2	6.1	6.4	6.5
Interest Rate	8.5	8.4	7.8	6.9	7.0	7.2	7.2
Volumes (%)							
Private Consumption	7.0	7.4	7.0	4.6	1.8	3.2	4.1
Government Consumption	5.6	3.9	5.6	4.9	2.9	3.1	4.2
Private Investments	-7.2	8.3	2.4	3.1	-7.9	2.6	3.4
Government Investments	7.8	-3.1	-8.4	-1.0	-11.2	2.8	4.5
Export Goods and Services	-2.2	-6.2	3.9	-0.2	-9.4	1.8	2.6
Import Goods and Services	-3.4	8.6	2.5	-2.0	-8.2	2.7	3.5
% GDP							
Current Account Balance	-5.8	-7.2	-5.8	-5.8	-2.3	-3.1	-2.3
Fiscal Deficit	-5.4	-6.1	-6.3	-5.3	-6.5	-5.8	-5.4
Expenditures	25.1	26.8	26.2	25.9	23.5	24.1	24.6
Index							
Ksh per Dollar	101.5	103.4	101.3	102.1	106.1	106.2	106.1

Source: KIPPRA Treasury Macroeconomic Model (KTMM)

The occurrence of the many specified risks gives a dim scenario for Kenya economic growth given that it is projected to decelerate to 1.7 per cent in 2020 and thereafter a slight pick to reach 4.2 per cent in 2022. This is attributed to low performance in exports and total investments, which were assumed to be affected by the dimming Chinese markets and slippage of Government investments due to misappropriation of funds. The exchange rate has the Kenya shilling weakening mainly due to low performance of exports and the inflationary pressures expected to occur in the economy. Private

consumption is also adversely affected due to increasing inflation, leading to reduced disposable incomes of the households.

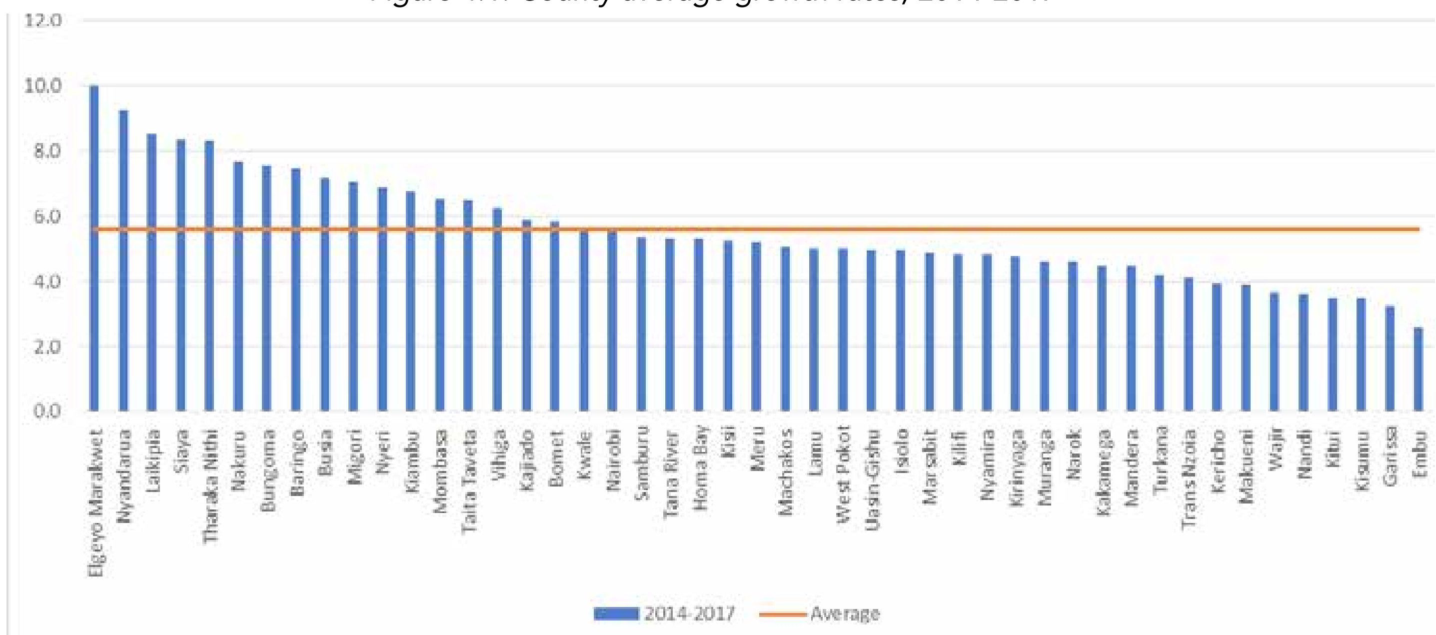
4.4 County GCP and Medium-Term Prospects

The Gross County Product (GCP) is a measure of how much each county contributes to Kenya's GDP, hence a "county GDP". It gives the value of total product (GDP) by each county and, therefore, is a disaggregation of the overall GDP into counties. The GCP estimates were computed to be consistent with the national GDP estimates. The GCP for the 47 counties should ideally sum up to Kenya's GDP. However, this was affected, but minimally, by the impossibility to distribute taxes (less subsidies) on products, which eventually distorts the relative sizes of GCP.

From the estimated GCP, the average performance for all the counties was 5.6 per cent for 2014-2017, which is the national GDP growth (Figure 4.1). Elgeyo Marakwet had the highest GCP growth with an average growth rate of 10.0 per cent for the four years followed by Nyandarua at 9.3 per cent. The marked performance was also exhibited by the fact that nine (9) counties had an average growth rate of over 5.6 per cent. These were mainly the former provincial headquarters.

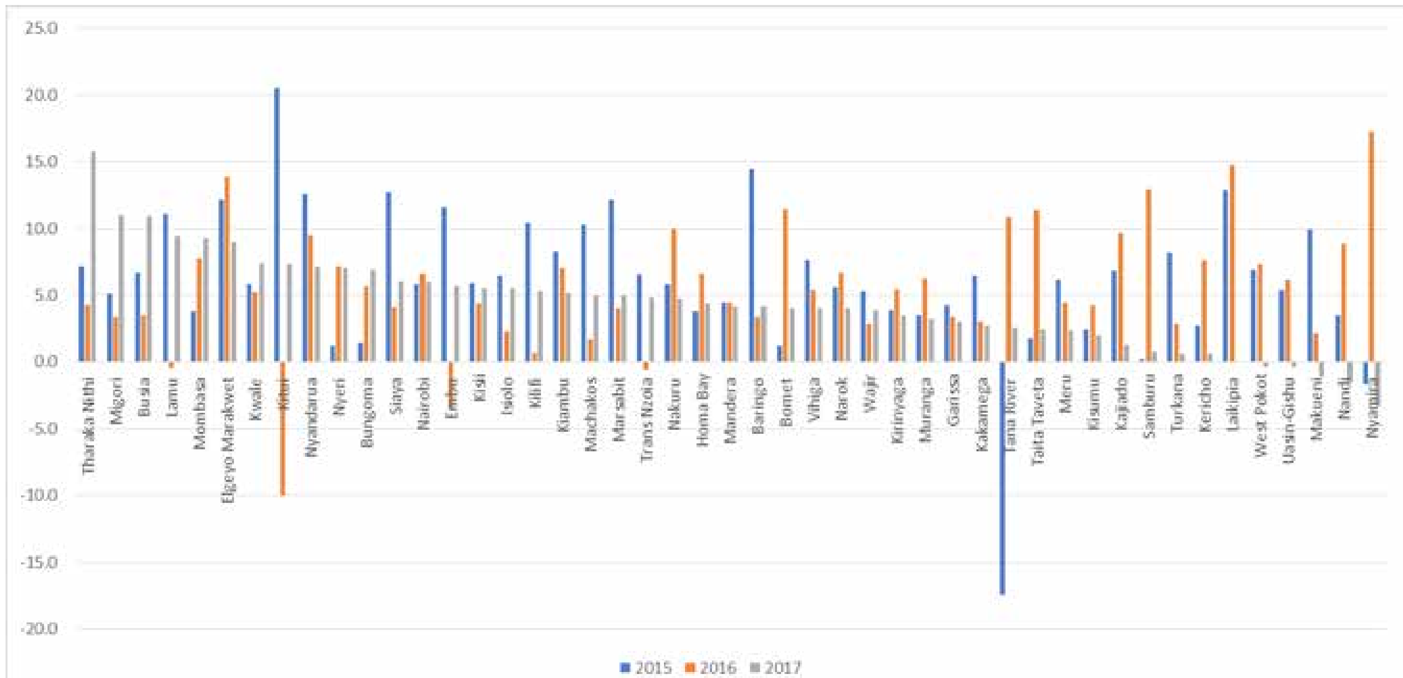
Of the nine (9) counties that registered an average growth rate of below 4.0 per cent, Embu and Garissa were at the tail end with 2.6 per cent and 3.2 per cent, respectively. All the counties save for Nairobi and Mombasa derive their GCP growth mainly from agriculture and services sectors..

Figure 4.1: County average growth rates, 2014-2017



Source: KNBS (2019), GCP 2019

Figure 4.2: County annual growth rates, 2015-2017



Source: KNBS (2019), GCP 2019

From the annual growth rates, Figure 4.4, there are some counties registering huge growth rates in different years, especially Kitui at 20.5 per cent in 2015, Nyamira at 17.3 per cent in 2016, Tharaka Nithi at 15.8 per cent in 2017, Laikipia at 14.8 per cent in 2016 and Baringo at 14.5 per cent in 2015 to mention but a few. However, some counties also recorded negative growth rates in GCP (a contraction) for different years, namely: Tana River at -17.4 per cent in 2015, Kitui at -10.0 per cent in 2016, Embu at -3.5 per cent in 2016 and Nyamira at -1.7 per cent and -3.3 per cent in 2015 and 2017, respectively. This can be partly attributed to data compilation method, which utilized implicit deflators for the value added at the national level and basically assumed that price changes were substantially similar in all counties even where it may not be the case. In Nyamira County, the contraction in 2017 can be explained by three sectors whose value added per cent of total were the lowest compared to the Lake region counties, namely: wholesale and retail trade (2.6% against 6.3%); transport and storage (3.2% against 7.0%); and public administration (5.1% against 5.9%). The huge positive growth rates can be attributed to lower bases and mainly data estimation challenges with this first round of estimation of GCP. The same applies to the high negative growth rates, which imply a decline in value added in constant prices when there is no major calamity reported in any of the affected counties.

4.4.1 County GCP projections

The GCP was estimated for 2013 to 2017 using a top-down approach where the national GDP was allocated to all counties by means of a distribution key as a weight to the county's contribution to an economic activity. The distribution key was derived from data on output, employment, wages, salaries and populations for the counties to ensure consistency between national and county estimates. Though this is a very good attempt, an improvement is required to obtain an accurate measure of the level of economic activity at the county level.

This gives a challenge on attempting to provide projections based on the estimates of the county economic activities. However, a simple framework has been applied to forecast county GCP by using a number of assumptions. This include that counties need to grow by a minimum of 7.0 per cent, a similar growth projection as specified in the Third Medium-Term Plan (MTP III) for the years 2018 to 2022. Also, that the counties that had a growth rate of

above 7.0 per cent in 2017 will maintain the growth momentum in the medium-term and in a consistent manner. Thus, it is assumed that counties such as Elgeyo Marakwet and Nyandarua with high growth rates of 10.0 per cent and 9.3 per cent, respectively, will maintain the momentum up to 2022 (Table 4.3). If this assumption would have actualized in 2018, then the Kenyan economy would have grown by 7.2 per cent instead of the recorded 6.3 per cent in the 2019 Economic Survey. Eventually, even in 2019, the growth would also have been 7.2 per cent as opposed to the current projection of 5.8 per cent in the baseline scenario.

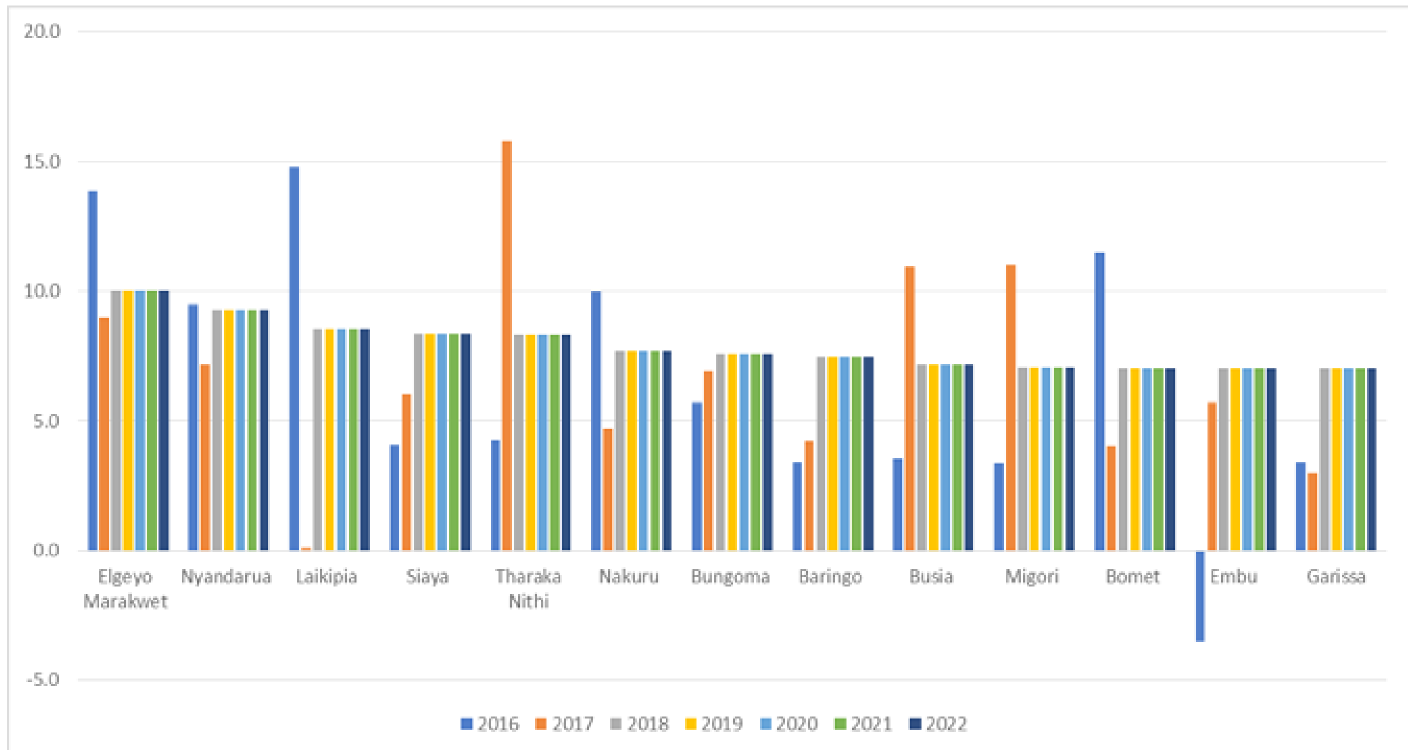
Table 4.3: Projections for GCP 2018-2022

County	2018	2019	2020	2021	2022
Elgeyo Marakwet	10.0	10.0	10.0	10.0	10.0
Nyandarua	9.3	9.3	9.3	9.3	9.3
Laikipia	8.6	8.6	8.6	8.6	8.6
Siaya	8.4	8.4	8.4	8.4	8.4
Tharaka Nithi	8.3	8.3	8.3	8.3	8.3
Nakuru	7.7	7.7	7.7	7.7	7.7
Bungoma	7.6	7.6	7.6	7.6	7.6
Baringo	7.5	7.5	7.5	7.5	7.5
Busia	7.2	7.2	7.2	7.2	7.2
Migori	7.1	7.1	7.1	7.1	7.1
Bomet	7.0	7.0	7.1	7.2	7.3
Embu	7.0	7.0	7.1	7.2	7.3
Garissa	7.0	7.0	7.1	7.2	7.3
Total	**7.2**	**7.2**	**7.3**	**7.4**	**7.5**

Source: Authors' Compilation from KNBS (2019), GCP 2019 Data

If all the counties were to grow by a minimum of 7.0 per cent in 2020 up to 2022, the Kenyan economy would grow by 7.3 per cent in 2020, and up to 7.5 per cent in 2022. Since growth mainly is from sectors of agriculture and services for all counties, save for Nairobi and Mombasa, strategic interventions are required targeting the two broad sectors to deliver this desired growth, which was only witnessed during the Economic Recovery Strategy (ERS) period from 2003 to 2007. This calls for an improvement in county resources, and heightening prudent utilization of available resources in the targeted sectors to realize such growth.

Figure 4.3: County growth projections



Source: Author's computation. Figure 4.3 shows the projections of GCP by counties with a sustained constant growth for the 2018 up to 2022 in all counties. The total for all shows that Kenya can grow by 7.5 per cent by the year 2022, with all the counties registering high annual growth rates.

In the counties, the sectors with high value added and therefore the potential for delivering high economic growth rates are agriculture, manufacturing, wholesale and retail, finance and insurance, transport and storage, real estate, construction, public administration and education (Table 4.4). These are nine (9) economic sectors where agriculture is the highest with a proportion of 37.7 per cent of the county value added. This is followed by manufacturing with 8.6 per cent and wholesale and retail trade with 8.2 per cent, These sectors have high levels of value added that amount to close to 10 per cent and above, out of the total value added in each county (Annex Table 4.1). Some counties such as Nairobi have five (5) huge sectors while Kiambu and Kisumu have four (4) major sectors. The others have three (3) and two (2) major sectors that they can count on while Nyandarua, Nakuru, Bomet and Elgeyo Marakwet have only one major sector which is agriculture, which includes forestry and fishing.

Table 4.4: County sectors with high value added, 2017

Code	County	Sector1	Sector2	Sector3	Sector4
1	Mombasa	Transport and Storage	Manufacturing	Real Estate	
2	Kwale	Agriculture*	Real Estate		
3	Kilifi	Agriculture	Real Estate		
4	Tana River	Agriculture	Wholesale and Retail	Public Administration	
5	Lamu	Agriculture	Transport and Storage		
6	Taita Taveta	Agriculture	Public Administration	Finance and Insurance	

Code	County	Sector1	Sector2	Sector3	Sector4
7	Garissa	Agriculture	Public Administration	Education	
8	Wajir	Agriculture	Public Administration		
9	Mandera	Agriculture	Public Administration		
10	Marsabit	Agriculture	Public Administration		
11	Isiolo	Agriculture	Construction	Wholesale and Retail	
12	Meru	Agriculture	Finance and Insurance		
13	Tharaka Nithi	Agriculture	Wholesale and Retail		
14	Embu	Agriculture	Transport and Storage		
15	Kitui	Agriculture	Finance and Insurance	Education	
16	Machakos	Agriculture	Manufacturing.	Real Estate	
17	Makueni	Agriculture	Education		
18	Nyandarua	Agriculture			
19	Nyeri	Agriculture	Finance and Insurance		
20	Kirinyaga	Agriculture	Transport and Storage		
21	Muranga	Agriculture	Finance and Insurance		
22	Kiambu	Agriculture	Construction	Real Estate	Finance and Insurance
23	Turkana	Agriculture	Education		
24	West Pokot	Agriculture	Education		
25	Samburu	Agriculture	Wholesale and Retail	Public Administration	
26	Trans Nzoia	Agriculture	Finance and Insurance		
27	Uasin Gishu	Agriculture	Wholesale and Retail	Finance and Insurance	
28	Elgeyo Marakwet	Agriculture			
29	Nandi	Agriculture	Finance and Insurance		
30	Baringo	Agriculture	Finance and Insurance		
31	Laikipia	Agriculture	Wholesale and Retail		
32	Nakuru	Agriculture			
33	Narok	Agriculture	Finance and Insurance		
34	Kajiado	Agriculture	Real Estate,	Finance and Insurance	
35	Kericho	Agriculture	Finance and Insurance	Manufacturing	
36	Bomet	Agriculture			
37	Kakamega	Agriculture	Education		
38	Vihiga	Agriculture	Finance and Insurance	Education	
39	Bungoma	Agriculture	Education		
40	Busia	Agriculture	Education		
41	Siaya	Agriculture	Education		
42	Kisumu	Agriculture	Wholesale and Retail	Manufacturing	Real Estate
43	Homa Bay	Agriculture	Education		
44	Migori	Agriculture	Education		
45	Kisii	Agriculture	Finance and Insurance		
46	Nyamira	Agriculture	Finance and Insurance		
47	Nairobi	Manufacturing	Wholesale and Retail	Transport and Storage	Construction & Real Estate

**Agriculture sector refers to Agriculture, Forestry and Fishing*

4.5 Key Messages and Recommendations

4.5.1 Key messages

1.) Secure the stability of the macroeconomic environment. A stable macroeconomic environment supports in delivering on inclusive growth. This includes internal stability with low and stable inflation and fiscal sustainability; and external stability with favourable current account balance.

2.) Kenya faces significant downside risks that could see a slowdown in economic activity. These include rising fiscal pressures with increased debt servicing costs and fiscal measures to cushion the economy from the effects of Covid-19; weather conditions; desert locust invasion; impact of Covid-19 on the economy. This is expected to have implications on economic activity.

3.) There are also opportunities that Kenya can exploit in pushing ahead the development agenda. These include the coming into effect of the AfCFTA in July 2020; the declining oil prices that will see a reduced import bill; and Kenya getting the UN Security Council seat.

4.) The projected economic growth may not deliver on the desired inclusive economic growth in the country. Taking timely intervention to avert the adverse effects of the downside risks is necessary in putting the country on a high growth trajectory.

5.) The counties can play a significant role in meeting the targeted medium-term growth of 7.0 per cent. This requires greater support in the economic sectors of agriculture, manufacturing and wholesale and retail trade to deliver a minimum of 7.0 per cent in GDP growth annually.

4.5.2 Recommendations

1.) Secure and sustain macroeconomic stability. It is important that supply of adequate food is sustained, including through enhanced agricultural productivity to maintain low and stable inflation. In addition, there is need to address transport costs, which have implications on all sectors by reviewing the pricing of key fuel products. Further, is to emphasis on prudent public finance management to reduce wastage of resources.

2.) Maintain a growth-enhancing fiscal policy. This includes cushioning the most vulnerable to the exogenous shocks; enhanced management of public debt to ensure the debt servicing costs do not crowd-out financing of priority public services; and enhanced public investment management so that projects with high social and economic returns are prioritized.

3.) Take advantage of the AfCFTA opportunities in diversifying trade at regional level. This includes actively and strategically identifying areas that Kenya has comparative advantage in exploiting the opportunities offered by participation in the AfCFTA; and enhancing bilateral trade agreements and improving value addition for exports to fetch higher foreign exchange earnings.

4.) Support key drivers of growth at county level by enhancing the business environment within priority county investment programmes. This includes in sectors such as agriculture, manufacturing and wholesale and retail trade, which are key in delivering the desired economic growth in the medium-term.

Endnote

12 https://www.standardmedia.co.ke/business/article/2001364472/world-bank-to-give-kenya-sh8-billion-to-counter-coronavirus-locusts; 16th March 2020.

5 ENHANCING FINANCIAL INCLUSION FOR INCLUSIVE GROWTH

Access to financial products, such as savings, loans and payment of services, has the potential to contribute to inclusive growth. Overall, national access to financial inclusion is at 82.9 per cent, while about 17 per cent of the population is still excluded from access to formal financial services and therefore cannot participate effectively in the economic activity. Disaggregation of data by counties shows that counties with most access to finances, either credit, savings or insurance, are mainly counties with big urban areas. A further disaggregation of data by gender shows a wide gender disparity between males (85.58%) and females (80.33%). For the youth, a significant proportion of them (23.47% male and 25.36% female) did not have formal financial access especially in insurance and credit aspects. Moreover, proximity to financial services providers, level of trust of financial services providers, excessive documentation, financial literacy and the cost of accessing financial services play a pivotal role in ensuring financial access. Finally, mobile money agents present a potential solution for many of the barriers to closing the financial inclusion gap and reaching the excluded as they employ mobile phones and agents which are accessible to most of the population, to deliver financial services, improving accessibility to existing customers and new ones.

5.1 Introduction

Financial inclusion has been identified as a key plank in the Kenya Vision 2030, the country's long-term blueprint, the Third Medium-Term Plan (MTP III) and the "Big Four" agenda. It is further singled out as an enabler for 7 of the 17 Sustainable Development Goals.[13] In the Kenya Vision 2030 and its Medium-Term Plans, the Financial sector under the Economic Pillar sets out priority objectives that include the need to enhance financial inclusion. The realization of this objective is premised on widening both the access of affordable financial services and products by a wider section of the Kenyan population. This is essentially the case with the poor and low-income households as well as the youth and women, who largely comprise those segments that are un-served by the financial sector.

Expanding financial access to all is vital in providing people with basic financial services, such as savings, loans, and insurance. Inclusive financial systems allow the poor to smooth their consumption and insure themselves against the many economic vulnerabilities they face, from illness and accidents, to theft, to unemployment. It enables poor people to save and borrow to build their assets and to make educational and entrepreneurial investments to improve their livelihood. Inclusive finance is particularly important to disadvantaged groups: the poor, women, youth and Persons With Disabilities (PWDs). For these reasons, financial inclusion has gained prominence as a policy objective to improve the lives of the poor.

The relationship between financial development and inclusive economic growth is well documented. In the policy circles, the importance of an inclusive financial system is widely recognized and seen as a policy priority in many countries. An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day-to-day management of finances. An inclusive financial system can help reduce the growth of informal sources of credit, which are often found to be exploitative. Thus, an all-inclusive financial

system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

The effectiveness of a financial system depends on its ability to source funds from surplus units and finance deficit units. This challenge becomes more pronounced when the units that experience the deficit do not have access to the formal sources of finance. Financial inclusion initiatives highlight the concerted efforts undertaken by the financial system or any constituent thereof to bring on board sections of the economy that have been excluded from access to affordable credit and other financial services. It is, therefore, important to address constraints that exclude the poor from participating in the financial sector. Additionally, a properly developed financial system accessible to all, reduces information and transaction costs, influences savings rates, investment decisions, technological innovations and long run growth rates.

Moreover, financial inclusion to all segments of the economy would lead to increasing economic activities and employment opportunities for rural households with a possible multiplier effect on the economy. It could enable a higher disposable income in the hands of rural households leading to greater savings and a wider deposit base for banks and other financial institutions. Financial inclusion will enable the Government to provide social development benefits and subsidies directly to the beneficiary bank accounts, thereby reducing leakages and pilferages in social welfare schemes. In a nutshell, there have been many objectives related to the need for financial inclusion such as:

i. *Economic Objectives:* Financial inclusion aims at promoting economic growth and equitable distribution of income.

ii. *Mobilization of Savings:* In the process of financial inclusion the weaker sections of the society can be linked to the banking services which will create high level of national savings and later these savings can be used for investment and economic growth.

iii. *Social Objectives:* Through financial inclusion, social problems like poverty can be reduced in the form of giving bank loans to create income and improve livelihoods.

iv. *Sustainable Livelihood:* If the bank loans are given to weaker sections of the society, they will create their own business and that can lead to sustainable livelihood of those weaker sections.

v. *Larger Market for the Financial System*: A larger market for the financial system can be created through the creation of high level of savings. This market will meet the demand of the larger section of the society.

Box 5.1: Measuring Financial Inclusion

The initial step towards determining the extent of financial inclusion is to identify the dimensions or indicators that measure the level of accessibility of financial services in a country. Reliable information about the extent of inclusiveness prevalent currently is necessary in order to formulate policies and action points to overcome barriers.

First, there is no universally accepted definition or consensus on standard of measuring financial inclusion. Financial inclusion has been defined differently by different authors and institutions (see Box 5.1 and 5.2). Having access to a financial account or products is equal to financial inclusion, as defined by World Bank and other institutions/authors. Others use a combination of various aspects to allude to financial inclusion, for instance, access and usage; impact; and quality of the services/ products provided.

S/ No.	Institution/Author	Financial Inclusion	Dimensions included
	World Bank/FINDEX World Bank/Global Findex, 2017	Defined as access to a regulated account.	Access
	Central Bank of Kenya/FSD/KNBS	Access to an account/product/service from either a prudentially regulated Institution/ Non-Prudentially Regulated Institution/ Formally Registered.	Access and/usage
	Demirguc Kunt and Klapper, 2013	Financial Inclusion measures focused on single product measures such as: ownership of an account, saving or loan product.	Access
	Hannig and Jansen, 2010	Financial inclusion can be measured through various lenses in order of complexity, that is, access, usage, quality and impact.	Access, Usage, Quality and Impact
	Amidžić, Massara, and Mialou (2014)	Incorporates product usage concept which characterizes the modern day consumer.	Usage
	Sarma (2008)	Measures financial inclusion based on a combination of various indicators using macroeconomic data based on banking sector outreach. Accessibility proxied using bank penetration is measured using the number of bank accounts per 1000 adult population The ratio of credit plus deposit to GDP measured usage.	Access and Usage
	Honohan (2008)	Uses the ratio of Micro Finance accounts and bank accounts to the total population, household survey-based access and the average deposit size and the per capita GDP for more than 160 countries.	Access

Drawn from various sources

Studies have omitted one or other dimensions of financial inclusion for various reasons, and especially regarding the availability of data. However, where possible, it is important to incorporate as many dimensions as possible when looking at financial inclusion. This Chapter 5 of the Kenya Economic Report 2020 will look at financial inclusion from the access dimension drawing from Finaccess data and other sources. Using this data, those who have access to various products or providers - savings, credit, insurance, Banks, Micro Finance Institutions (MFIs), SACCOs, Groups/*Chamas* and other financial services - are also implied to be using them. This section reviews financial inclusion by tracking access by gender, youth and the counties. Moreover, barriers to financial inclusion are explored.

5.2 Financial Access in Kenya

Access to finance connects people into the formal financial system, making it easier to run daily activities, build savings, mitigate shocks from unforeseen events and make investments. Globally, the share of adults having financial access is 69 per cent (World Bank, 2017). These are adults who have gained access to financial products or services from regulated financial institutions. In Kenya, significant progress has been realised in fostering financial access. The 2019 Finaccess household survey shows that formal financial access is at 82.9 per cent, while exclusion from formal financial access is about 17 per cent of the population. There has been significant progress since 2006 when the Finaccess surveys started, as only 26.7 per cent of the population had formal financial access. This achievement could be partly attributed to the introduction of mobile financial services in 2007 and extensive uptake of the services thereafter. In addition, innovations such as agency banking, mobile banking and digital finance which ride on this platform have contributed to this progress.

5.2.1 Financial access by gender, youth and counties

a) *Access by gender*

The gender gap in financial access is persistent worldwide and in the country. Globally, only 37.0 per cent of women have formal access compared with 46.0 per cent of men, and the difference is experienced in all developing countries across all groups. In Kenya, there is a disparity in financial access between males and females as highlighted in Figure 5.1a. Women continue to lag behind men; 80.3 per cent of women have access compared to 85.6 of men, with a gender gap at about 5 percentage points in 2019. This represents a significant improvement since 2006, where the gender gap stood at about 12.0 per cent, with males' access at 33.0 per cent and females' access at 21.0 per cent. This means that over time, females have gained significantly in terms of financial access compared to males.

Box 5.2: Definitions of financial inclusion

Defining Financial Inclusion

Financial inclusion is generally defined as broad access to and use of financial services, where individuals and businesses have access to useful and affordable financial products and services that meet their needs that are delivered in a sustainable way. The key is to ensure that all households and businesses, regardless of income level, have access to, and can effectively use, the appropriate financial services they need to improve their lives.

Other Definitions:

"Full financial Inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients" Alliance for Financial Inclusion, 2011.

The World Bank Group (WBG) with private and public sector partners set an ambitious target to achieve Universal Financial Access (UFA) by 2020. The UFA goal envisions that, by 2020, adults globally will be able to have access to a transaction account or electronic instrument to store money, send and receive payments. Financial access is the first step toward broader financial inclusion, where individuals and firms can safely use of a range of appropriate financial services, including savings, payments, credit and insurance.

The UFA goal is that by 2020, adults, who currently aren't part of the formal financial system, are able to have access to a transaction account to store money, send and receive payments as the basic building block to manage their financial lives.

The availability to a given person of affordable and appropriate financial services – Centre for Financial Inclusion, Accion.

Financial inclusion refers to "the process of promoting affordable, timely and adequate access to regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches, including financial awareness and education, with a view to promote financial wellbeing as well as economic and social inclusion" - OECD.

Financial Inclusion is defined as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost" - the report of the Committee on financial inclusion in India.

b) *Access by youth*

According to FinAccess 2019, overall access by male and female youth (15-34 years) is 76.5 per cent and 74.6 per cent, respectively. This means that a significant proportion of the youth (23.5% male and 25.4% female) do not have formal financial access, which could help them participate in the economy. This is partly due to their inability to access various financial products/services given low or lack of income. This relatively low access by both male and female youth may be contributed by being in school or unemployment for those who have completed their studies. When the data on youth is further disaggregated, the youth group between 25 and 29 years have more financial access for both male and female, compared to other youth sub-groups. The youth sub-group between 15-19 years have higher levels of exclusion, perhaps denoting their inability to access financial services on account of their age. For example, those less than 18 years lack the national identity card, which is a necessary documentation to access financial services (Figure 5.1b).

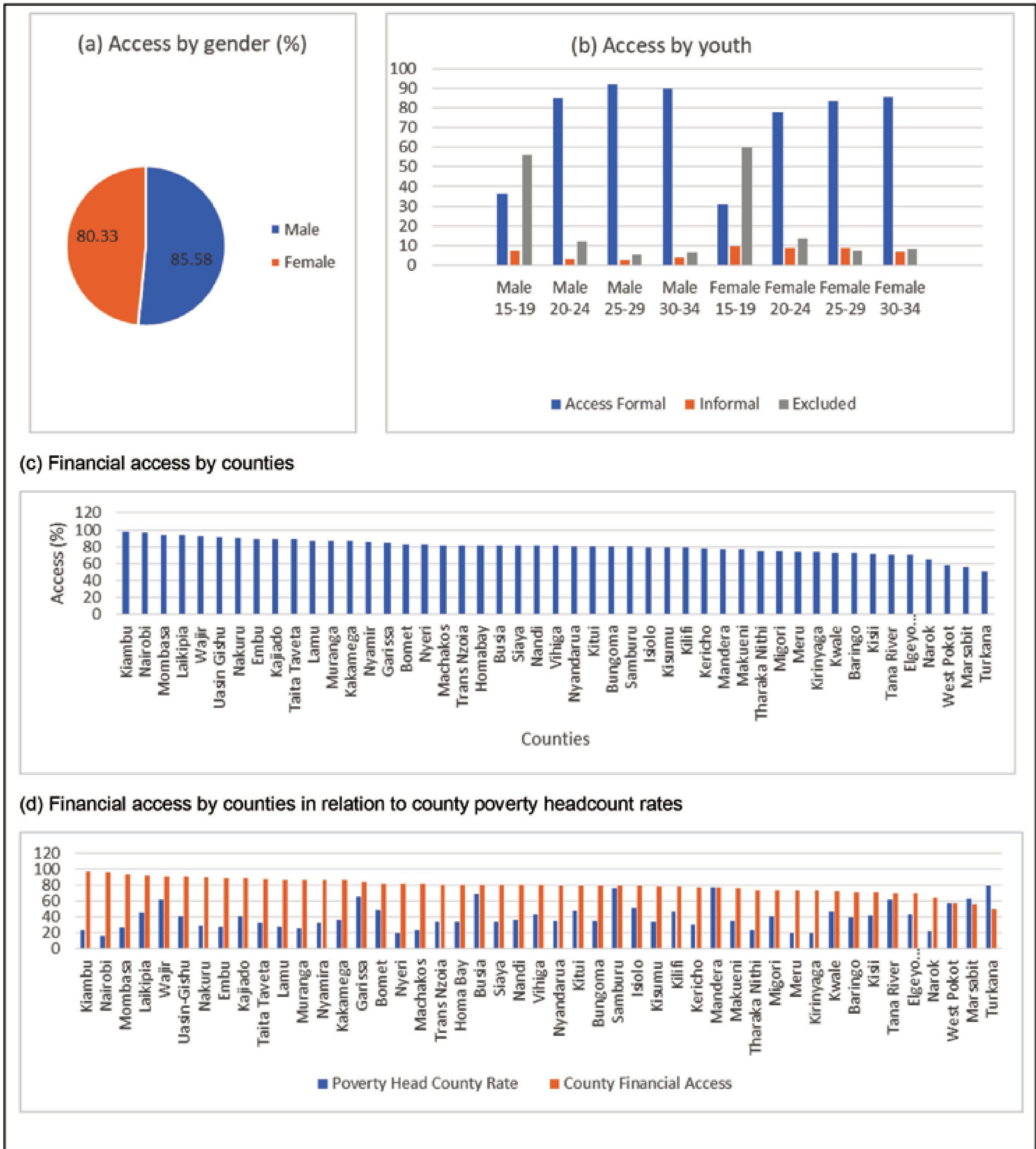
c) *Access to finance by counties*

Overall, Kiambu and Nairobi counties lead in terms of financial access at 97.39 per cent and 96.42 per cent respectively as depicted in Figure 5.1c. Other counties with more than 90 per cent financial access include Mombasa, Laikipia, Wajir, Uasin Gishu and Nakuru. On the flipside, counties with the least access to financial services include Turkana (50.7%), Marsabit (55.9%), West Pokot (57.9%), and Narok (64.3%). This is partly explained by the time it takes to reach a financial provider. For example, when asked, the average time it takes to reach a service provider, 85.6% and 94.3% of Kiambu and Nairobi county residents, respectively, take less than 10 minutes to reach a given service provider. The proportions for other counties were Turkana 36.7 per cent, Marsabit 30.5 per cent, West Pokot 27.7 per cent and Narok 44.2 per cent for the same ten minutes.

d) *Financial access by counties in relation to poverty headcount rates*

It is noted that counties with highest financial access, for instance Kiambu, Nairobi and Mombasa, also have the least poverty rates as highlighted in Figure 5.1d. Garissa County, however, has relatively higher financial access compared to other counties but also significantly higher rates of poverty. Turkana and Marsabit counties have the least levels of access and higher levels of poverty rates compared to other counties. These results though, do not necessarily imply causality between financial services and economic development.

Figure 5.1: Financial access by gender, youth and counties



Source: Author's computation using data from FinAccess Household Survey (CBK, KNBS, FSD (K) (2019) and KNBS (2019), Economic Survey

5.2.2 Access to financial products

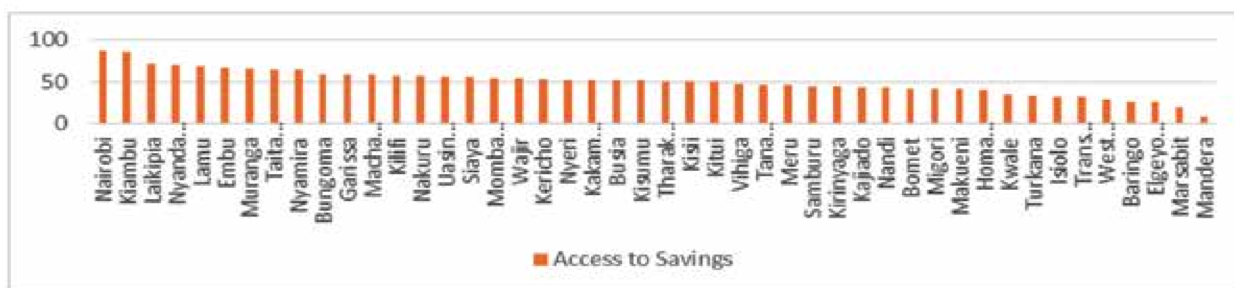
Overall, access to financial products by males is higher compared to females. Access to mobile money is the highest among the financial products, with male access at 81.3 per cent and women at 74.6 per cent. Access to life insurance policy is the least for both male and female at 1.4 per cent and 0.8 per cent, respectively. Further, men had more access to loans from banks at 4.4 per cent compared to women at 2.0 per cent. This could be as a result of lack of collateral to access loans from a formal financial institution or cultural barriers which impede women from accessing formal financial services.

a) *Access to savings*

The overall formal access to savings in Kenya is 55.0 per cent, which is more than the global average of 36.0 per cent. In Sub-Saharan Africa, only 40.0 per cent of the adult population reported to have saved or set money aside in the last 12 months (World Bank, 2017). When Kenya's data is disaggregated by male and female, access to savings to these groups is 60.2 per cent and 50.0 per cent respectively, denoting a relatively wide gender gap in access to savings. Moreover, when the data is further disaggregated by youth (Table 5.1), access to savings by Mobile Money Providers is the preferred mode at 46.3 per cent for youth male between 20-24 years and 43.9 per cent for female youth from the same age cohort. Savings with Micro-Finance Institutions (MFIs) is the least from all youth cohorts, with female youth accessing relatively more compared to their male counterparts. Generally, the youth in all given cohorts have relatively bigger challenge in savings compared to the rest of the population. When disaggregation is done at the county level, savings are highest in Nairobi, Kiambu, Laikipia and Nyandarua counties, and least in Mandera, Marsabit and Elgeyo Marakwet as highlighted in Table 5.1.

Table 5.1: Access to savings

Gender	MFIs	Mobile Banking (Mswari, M-Coop Cash)	Mobile Money Provider (e.g. M-Pesa)	SACCO	Saving at Group/Chama	Savings with Family or Friends
Overall (%)	**1.42**	**13.39**	**40.47**	**9.71**	**27.79**	**4.38**
Male **(%)**	*1.23*	*16.57*	*44.14*	*12.09*	*20.28*	*4.26*
Female **(%)**	*1.56*	*11.07*	*37.77*	*7.97*	*33.28*	*4.47*
Male 15-19 **(%)**	*0.0*	*4.09*	*17.9*	*1.02*	*2.05*	*5.63*
Male 20-24 **(%)**	*0.0*	*28.1*	*46.28*	*4.96*	*14.33*	*5.23*
Male 25-29 **(%)**	*0.97*	*28.57*	*56.17*	*9.93*	*23.49*	*4.36*
Male 30-34 **(%)**	*0.93*	*26.05*	*53.95*	*10.93*	*26.74*	*5.35*
Female 15-19 **(%)**	*0.0*	*1.86*	*12.47*	*0.53*	*3.18*	*5.84*
Female 20-24 **(%)**	*0.46*	*16.28*	*43.93*	*2.76*	*17.67*	*5.22*
Female 25-29 **(%)**	*1.61*	*20.54*	*46.71*	*6.58*	*37.72*	*4.97*
Female 30-34 **(%)**	*2.43*	*15.41*	*46.08*	*11.08*	*42.43*	*3.65*



Source: Computed from CBK, KNBS, FSD (K) (2019), FinAccess Household Survey

b) *Access to credit/loans*

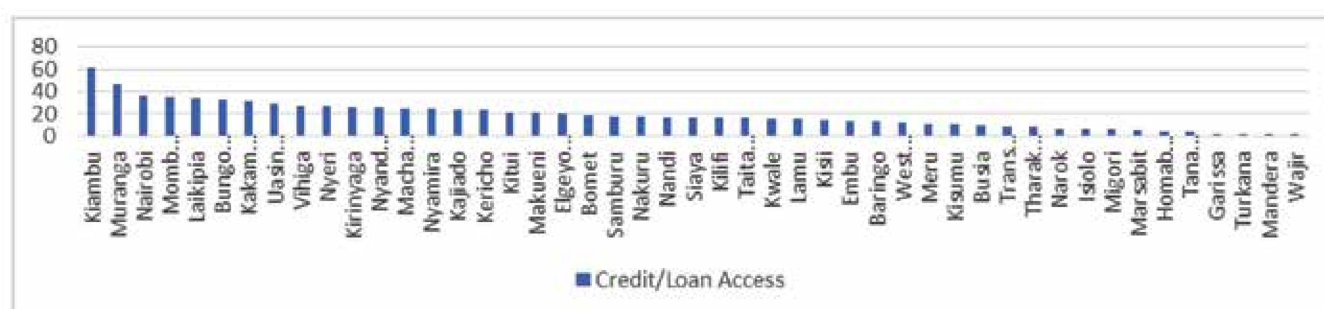
Overall access to formal credit is 22.9 per cent. Access by gender shows male at 27.3 per cent and female at 18.7 per cent. Women have more access to informal sources, for example, groups/*Chamas*, at 9.5 per cent compared to men at 5.2 per cent. The same pattern is reflected among the female youth at various sub-groups (Table 5.2). For instance, the cohorts between 20-24 years (5.68%); 25-29 years (8.3%); and 30-34 years (12.0%) compared to 3.0 per cent; 4.8 per cent; and 6.7 per cent male counterparts for the same age groups, respectively. When the data is disaggregated by counties, the results are shown in the Table 5.2. Kiambu, Murang'a, Nairobi and Mombasa counties have the most access to credit while Wajir, Mandera, Turkana and Garissa counties have the least access.

Table 5.2: Access to credit/loans

Access to credit/loans

Gender	Loan from Banks	Loan from Mobile Banking	Loan from SACCO	Loan from MFIs	Loan from Group/*Chama*	Digital Loans	Credit Card
Overall (%)	**2.99**	**7.42**	**3.76**	**0.83**	**7.67**	**6.45**	**0.35**
Male **(%)**	4.4	9.86	5.24	0.55	5.19	7.15	0.52
Female **(%)**	1.96	5.63	2.68	1.04	9.49	5.93	0.22
Male 15-19 **(%)**	0	0.77	0.26	0	0.26	4.86	0
Male 20-24 **(%)**	1.1	10.47	0.83	0	3.03	12.67	0.55
Male 25-29	2.18	15.5	2.66	0.24	4.84	12.83	1.45
Male 30-34 **(%)**	5.12	10.02	4.19	0.7	6.74	9.07	0.23
Female 15-19 **(%)**	0.27	0.53	0	0	0	1.86	0
Female 20-24 **(%)**	0.77	5.68	0.31	0.46	5.68	9.06	0.15
Female 25-29 **(%)**	1.88	8.99	1.61	0.81	8.32	7.25	0.27
Female 30-34 **(%)**	2.7	9.32	3.78	1.89	12.03	6.22	0.27

Access to credit/loans by counties



Source: Computed from CBK, KNBS, FSD (K) (2019), FinAccess Household Survey

c) *Access to Insurance*

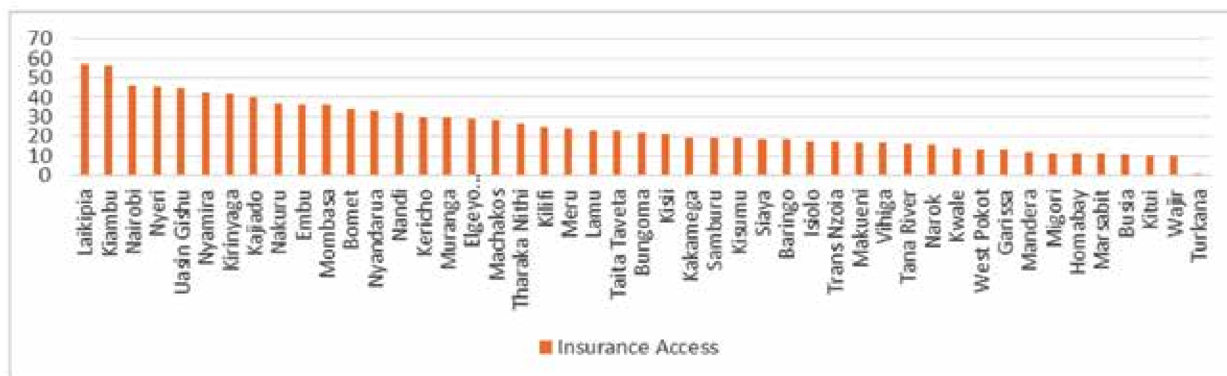
Access to overall insurance, including the National Health Insurance Fund (NHIF) and National Social Security Fund (NSSF) is 29.05 per cent. Access by the male population is 35.0 per cent while the female population is 23.4 per cent. Disaggregation of the data by different youth cohorts (Table 5.3) shows NHIF and NSSF as the most used forms of mitigating risks, compared to car, crop and livestock insurance. This could mean that the youth are not engaged in agriculture as a form of generating income. Further, disaggregation of the data by counties shows Laikipia, Nairobi and Kiambu leading in access to insurance. The counties with least access include Turkana, Wajir, Kitui and Busia as shown in Table 5.3.

Table 5.3: Access to insurance

Access to insurance

Gender	Car Insurance	Crop Insurance	Livestock Insurance	NHIF	NSSF	Other Insurance
Overall (%)	**1.58**	**0.16**	**0.06**	**23.19**	**9.09**	**0.63**
Male **(%)**	2.38	0.19	0.05	28.04	13.35	0.68
Female **(%)**	1.0	0.14	0.06	19.64	5.97	0.6
Male 15-19 **(%)**	0.51	0	0	7.42	0	0
Male 20-24 **(%)**	1.1	0	0	18.46	12.12	1.38
Male 25-29 **(%)**	0.73	0	0	29.78	9.13	0.48
Male 30-34 **(%)**	2.56	0	0	32.09	20.23	0.23
Female 15-19 **(%)**	0	0	0	6.9	0.27	0.27
Female 20-24 **(%)**	0	0	0	13.21	5.22	0
Female 25-29 **(%)**	0.67	0.13	0.14	22.01	9.4	0.4
Female 30-34 **(%)**	0.95	0	0	23.11	9.05	1.08

Access to insurance by counties



Source: Computed from CBK, KNBS, FSD (K) (2019), FinAccess Household Survey

5.3 Barriers to Financial Inclusion

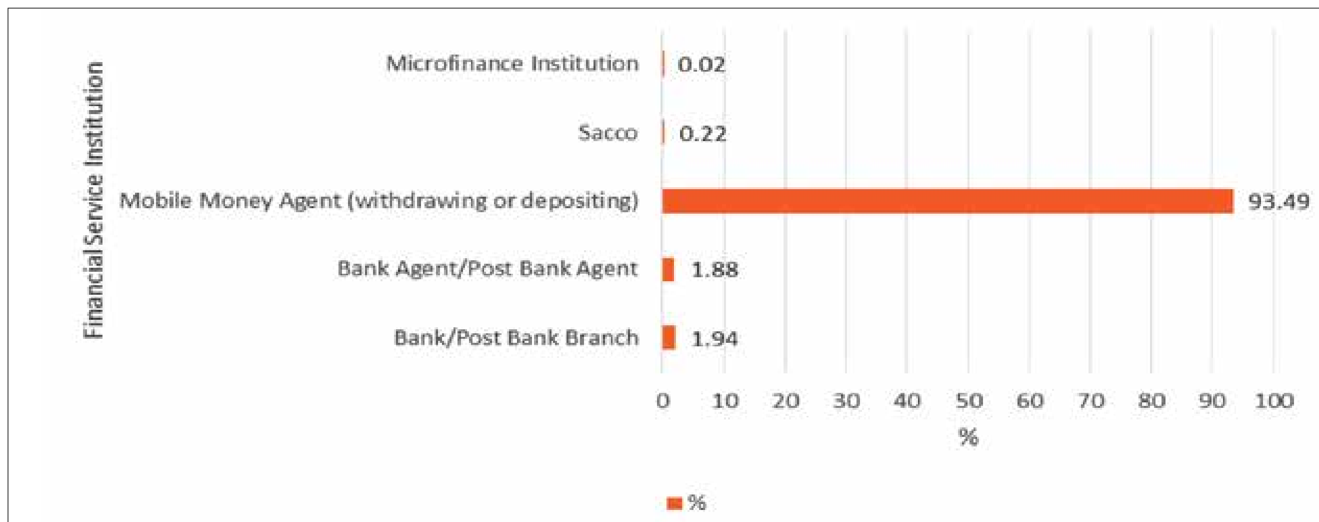
This section reviews some of the main barriers to greater financial inclusion. It is noted, however, that while these barriers have persisted over the last decade, the advent of mobile-based financial services has transformed financial systems and payments in Kenya, helping more people to access financial services. These include:

a) *Access of physical amenities*

Proximity to financial institutions is important to access financial services. Studies show that, for instance, proximity of borrowers to lenders can avail local information which can affect accessibility to credit and other services. Further, greater distance between borrowers and financial providers can worsen the availability of services. However, the introduction of information technology and mobile agent banking has the potential to reduce the operational distance between providers and their customers. In Kenya, financial institutions are widely distributed as highlighted in Figures 5.3, 5.4 and 5.5 (see Annex 5.1 for county codes). But the distribution is heavily around Nairobi, Central and Western regions of Kenya. The distribution in coastal areas (with exception of Mombasa County) and northern regions are generally sparse.

In the same vein, when a Finaccess survey was conducted to establish access to the nearest financial institution, about 93.5 per cent of the respondents cited mobile money agents as their nearest financial service institution as shown in Figure 5.2. This was followed by Banks/Post Bank branches at a paltry 1.9 per cent; Banks Agent/Post Bank Agent (1.9%); SACCO (0.2%) and Microfinance Institutions (0.02%). In fact, about 57.0 per cent of the respondents noted they would take less than 10 minutes to access the nearest financial provider (mobile money agents), compared to banks (22.4%) for the same time. Further, 78.51 per cent noted that the mobile money agents were close enough to walk to and hence no need to spend to access them compared to banks (33.8%). This shows that other than mobile money agents, for the rest of financial providers, it takes more time and cost to access them, and hence could contribute to financial exclusion.

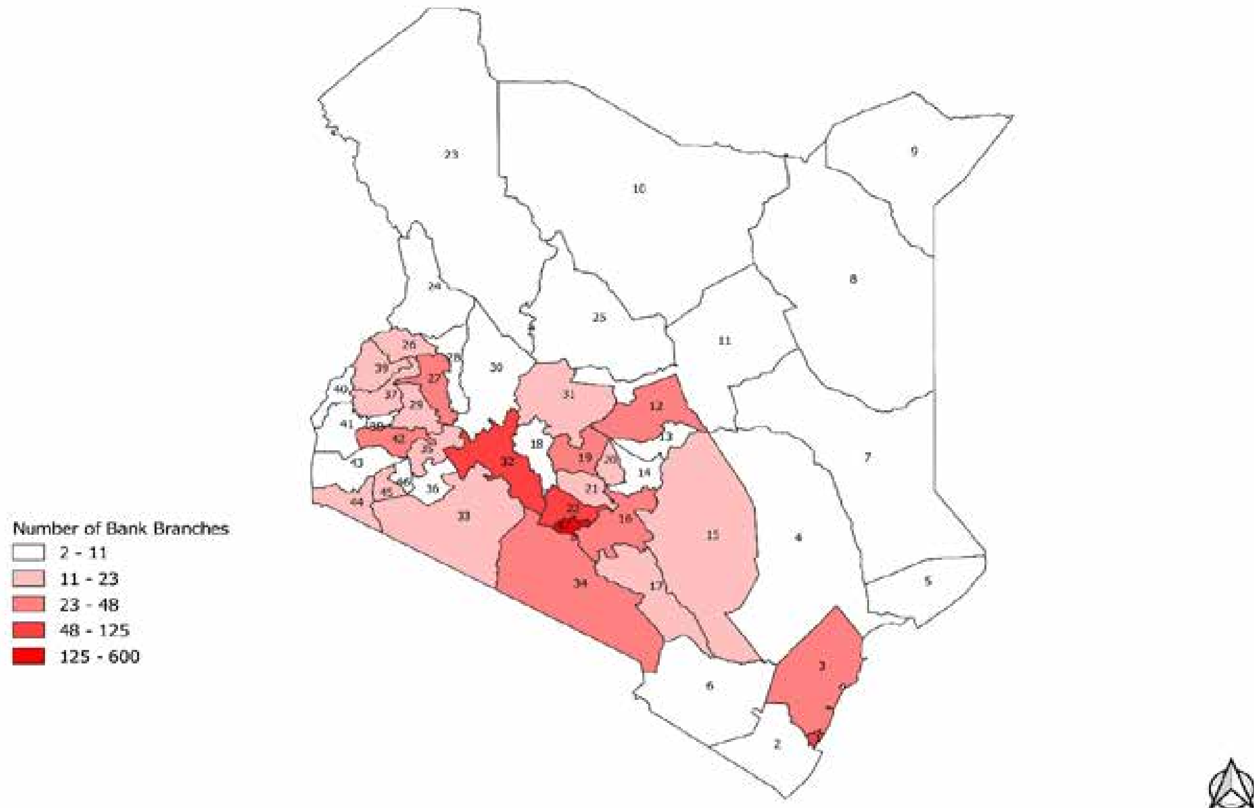
Figure 5.2: Nearest financial institution



Source: Computed from CBK, KNBS, FSD (K) (2019), FinAccess Household Survey

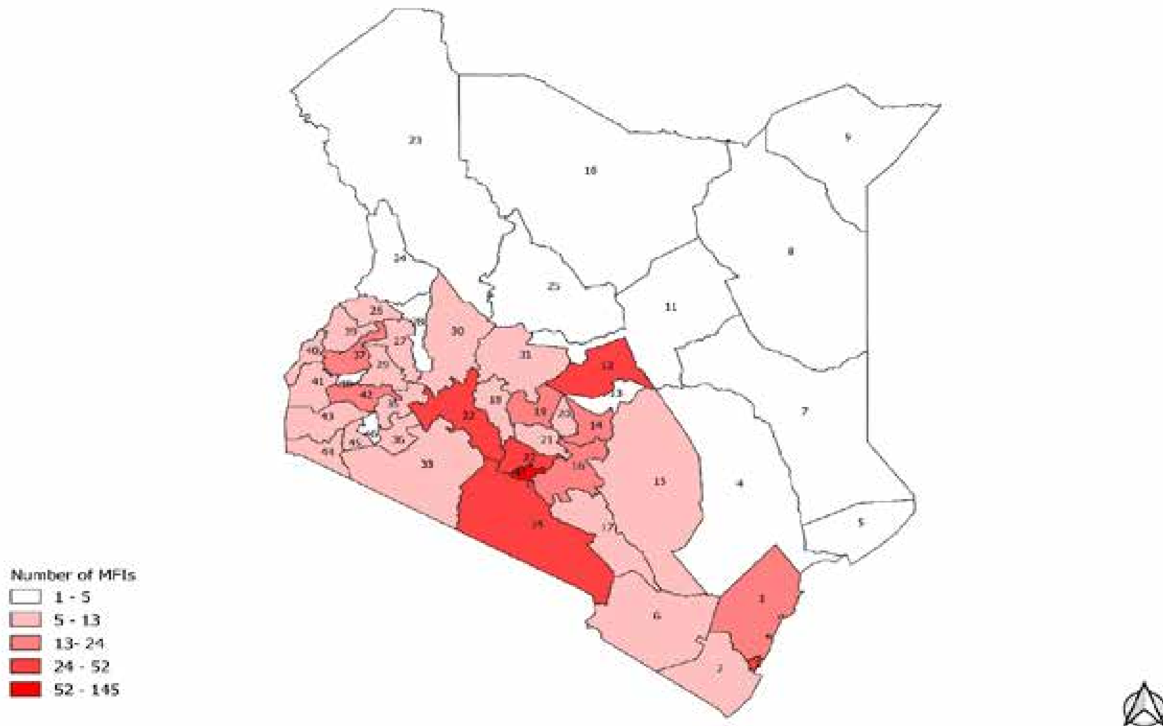
By December 2018, there were 61,604 agents contracted by 19 commercial banks and microfinance banks who undertook approximately 157.3 million banking transactions (CBK, 2018). The value of banking transactions undertaken increased from Ksh 1 trillion in 2017 to Ksh 1.18 trillion in 2018. The increase in both number and value of the transactions shows Kenyans increasing confidence and acceptability of the agency banking model by banks and public. This presents an important channel for financial inclusion since agents are distributed across the country.

Figure 5.3: Banks branch network per county as at December 2018



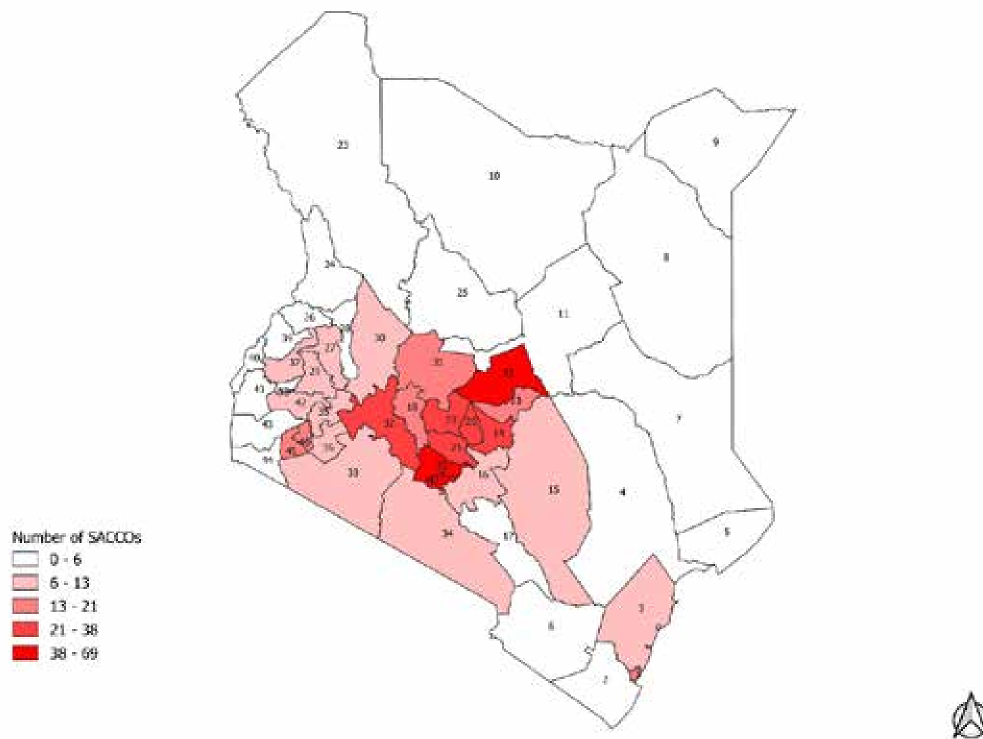
Source: Author's computation from Central Bank of Kenya (2018)

Figure 5.4: Distribution of micro-finance institutions



Source: Author's computation from Sector Report on the Micro Finance Sector in Kenya, 2014

Figure 5.5: Distribution of savings and credit cooperative societies

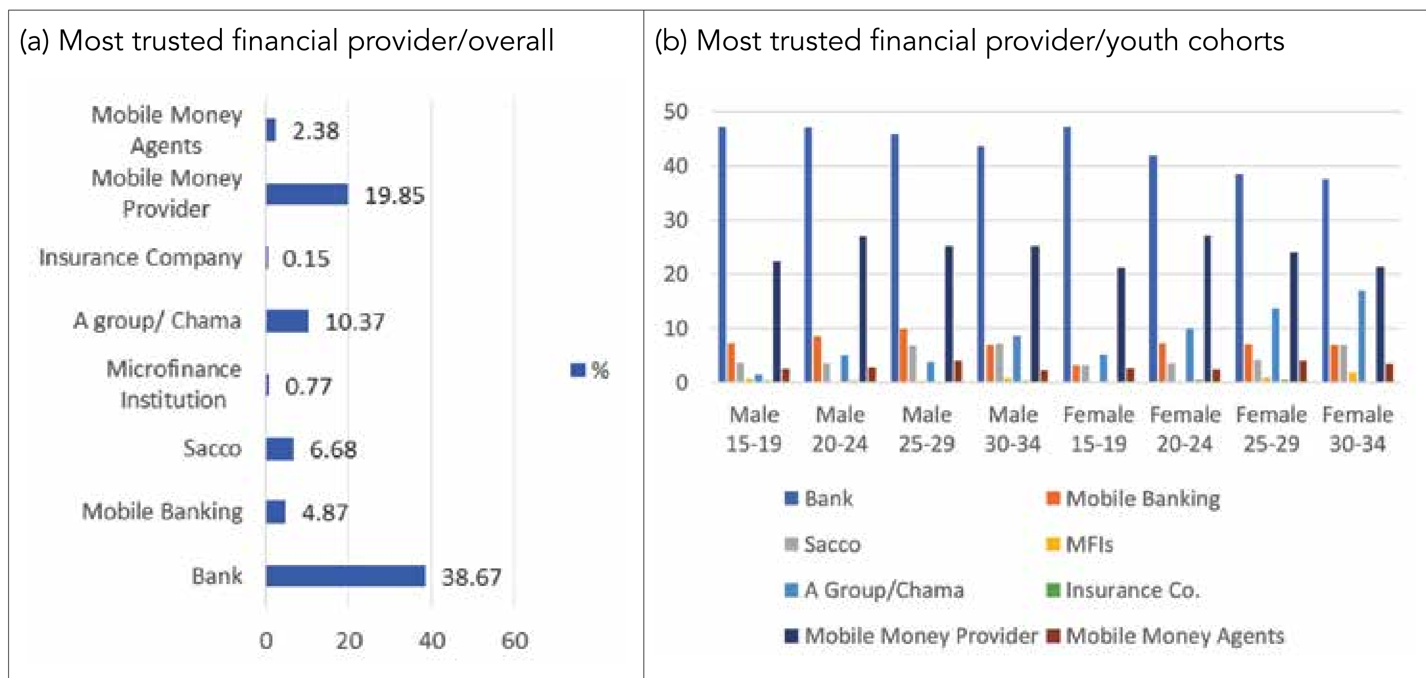


Source: Author's computation from SASRA (2019)

b) Lack of trust

Negative perceptions or experiences with financial institutions or products could lead to self-exclusion from the formal financial institutions. This could be caused by improper supervisory mechanism in financial institutions leading to the loss of customer trust. When Kenyans were asked which financial provider they trusted the most, majority of the population indicated their trust in banks as a financial provider, at about 39 per cent as shown in Figure 5.6a. This is followed by Mobile Money Providers (19.9%); A group/chama (10.4%); SACCO (6.7%); Mobile Banking (4.5%); Mobile Money Agents (2.4%); MFIs (0.8%); and Insurance Company (0.2%). Among both males and females, banks are most trusted at 43.4 per cent and 35.2 per cent, respectively, with Insurance Companies being the least trusted providers at 0.2 per cent and 0.1 per cent respectively. Even among all the male and female youth cohorts (Figure 5.6b), banks are the most trusted. It is worth noting that Mobile Money Agents are the least trusted yet they are the most accessible. This means they could potentially enhance more access if they addressed trust issues that include loss of money to fraud. Banks are the most trusted among all the groups as indicated above. Hence, they could play a key role in enhancing financial access if they increased more physical presence at relatively affordable prices.

Figure 5.6: Most trusted financial provider



Source: Computed from CBK, KNBS, FSD (K) (2019), FinAccess Household Survey

c) Excessive documentation

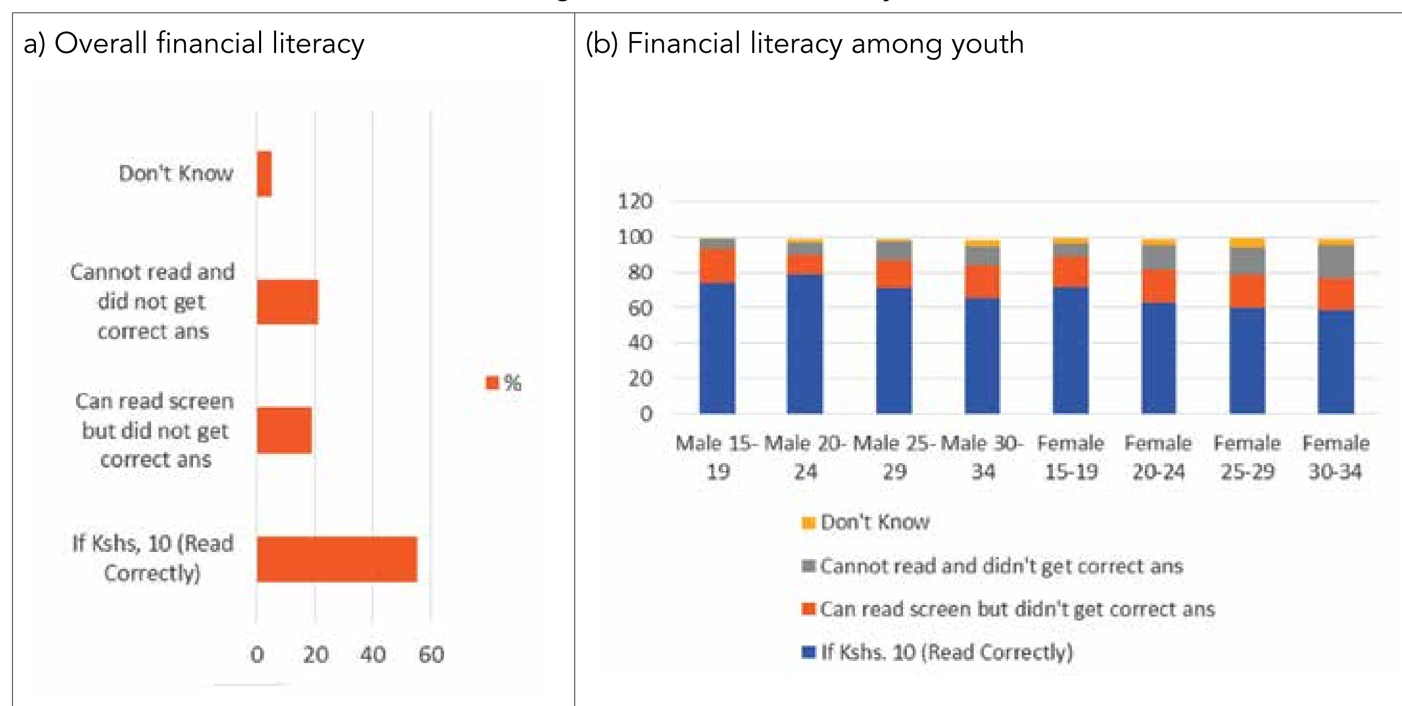
Excessive documentation is one of key hinderances to accessing finance. World Bank's Global Findex shows that over 300 million adults worldwide cite excessive documentation as a major obstacle to accessing finance. One way of addressing this obstacle is to simplify documentation requirements or adding exceptions for certain applicants and especially the low-income groups or products which are of small value and low risk while still adhering to sound prudential requirements.

d) Financial literacy

Greater financial numeracy skills and awareness of formal financial products and services increase the probability of being formally banked and helps to overcome information asymmetry. Studies have established that low levels of financial literacy are negatively related to savings, credit and investment practices. Additionally, greater understanding of the benefits of financial services can lead to greater demand for formal banking and other formal financial institutions, and lead to financial inclusion.

A survey on financial inclusion in Kenya (FinAccess, 2019) asked those who could read a Short Messaging Service (SMS) provided on a given screen and give the correct answer, as an indicator of financial literacy. Overall, 55.3 per cent of the population could read and gave the correct answer while 21.1 per cent of the population could not as depicted in Figure 5.7a. When disaggregated between male and female, 61.5 per cent of males and 50.8 per cent of females could read and give the right answer. This shows relatively low literacy rates for the overall population, with also a wide gap between males and females. This could possibly mean low levels of education among both male and females. A similar trend of low financial literacy rates is observed among the youth cohorts as depicted in Figure 5.7b.

Figure 5.7: Financial literacy

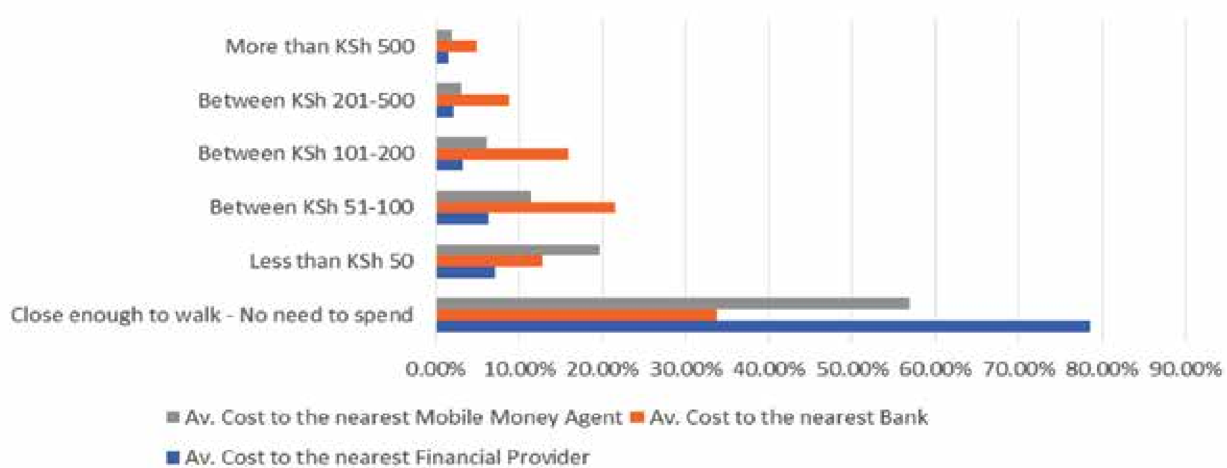


Source: Computed from CBK, KNBS, FSD (K) (2019), FinAccess Household Survey

e) Cost

High transaction costs for accessing financial services and products could exclude the population from either accessing or increasing their assortment of financial services. For instance, people living in underdeveloped areas may face difficulties reaching financial providers due to transportation costs or they may fail to access due to lack of technology connectivity that could enable them to use phones or internet, and hence exclude them from financial access. About 78.5 per cent of the Kenyan population are close enough on average to reach the nearest financial provider (Figure 5.8). About 12.0 per cent would need to spend so as to access the nearest financial provider. About 57.0 per cent of population would not need to spent to access mobile money agent while 34.0 per cent would need not spent to access banks. This means to majority of the population, cost is a factor in accessing financial services. This could partly explain the reason majority of the population use mobile money agents.

Figure 5.8: Average cost to the nearest financial provider, bank, and mobile money agent



Source: Computed from CBK, KNBS, FSD (K) (2019), FinAccess Household Survey

5.4 A Review of Government Interventions to Increase Financial Access

The National and some County Governments have been addressing financial inclusion initiatives by providing financial support to youth and women to raise their incomes. To achieve this, several initiatives such as Joint Loan Board Credit Scheme; development financial institutions such as Kenya Industrial Estates; Industrial and Commercial Development Corporation (ICDC); affirmative platforms such as the Uwezo Fund, Women Enterprise Fund (WEF), and the Youth Enterprise Development Fund (YEDF) have been established (Table 5.4). Additionally, County Governments have initiatives for enhancing financial access among the same groups as highlighted in Table 5.5.

Table 5.4: National Government initiatives

S/No.	Initiative	Target group	Objectives	Challenges
1.	Kenya Industrial Estates Ltd (1967)	MSMEs	Kenya Industrial Estates Ltd was established to champion the development of Micro Small and Medium Enterprises (MSMEs) throughout the country with focus on clustering of industries, and value addition to locally available raw materials	Inadequate budgetary allocation; Low repayment rate, which can be attributed to several factors, including politics.
2.	Industrial and Commercial Development Corporation (ICDC) (1954)	SMEs	ICDC offers financial boost to SMEs and start ups Supports SMEs and start-ups with financial solutions such as business advisory services, equity partnerships and debt financing.	Administrative and bureaucratic challenges; Competition from increase in commercial banks and micro finance institutions.

S/No.	Initiative	Target group	Objectives	Challenges
3.	Women Enterprise Fund (WEF) (2007)	Women, MSMEs	Women Enterprise Fund (WEF) was established in 2007 to provide accessible and affordable credit to support women start and/or expand business for income generation and employment creation. The Fund was therefore set up to benefit women aged above 18 years, meaning any woman can apply, whether she is part of a group or as an individual.	Most groups lack book-keeping skills, have no knowledge on how to prepare business plans and loan expenditure plans and have no avenues of receiving training on financial management; and there is limited knowledge amongst the groups on administration of the WEF and the application procedures.
4.	Uwezo Fund (2013)	Women, Youth, PWDs, MSMEs	The Uwezo Fund aims at enabling women, youth and persons with disabilities' access finances to promote businesses and enterprises at the constituency level, thereby enhancing economic growth. It also provides mentorship opportunities to enable the beneficiaries take advantage of the 30% Government procurement preference through its Capacity Building Programme.	Lack of feasible ideas; Lack of skills to run a business; poor attitude towards loans; and Lack of adequate information about the fund.
5	Youth Enterprise Development Fund (YEDF) (2006)	Male and Female Youth	Established to address unemployment among the youth through entrepreneurship and encouraging them to be job creators. It does this by providing affordable financial and business development support services to youth who are keen on starting or expanding businesses.	Slow processing of loans, Young people lack entrepreneurial skills and mentorship that would allow them to effectively participate in the YEDF. Inadequate support structures also exclude young people from the YEDF.

Source: Computed from various sources

Table 5.5: County Government initiatives

County	Initiative	Target group	Objectives	Challenges
Kiambu	Kiambu County Jijenge Fund (2018).	Youth, Women, and PWDs	This programme, which is interest free, is aimed at promoting and developing new and existing micro and small market enterprises among youth, women, people living with disabilities (PWD) and vulnerable men and women.	Beneficiaries not returning money borrowed, hence affecting its revolving ability; Limitation in identifying credible and viable applicants
Kajiado	*Mbuzi Moja Afya Bora* (2018)	All county residents	The *Mbuzi Moja Afya Bora* initiative is a concept by County Government of Kajiado that allows local residents to offer one goat for sale in a public auction. The proceeds are deposited with NHIF for a family's medical insurance for one year. This initiative provides its beneficiaries with a readily available alternative to affording health insurance. In this sense, registration into the programme or renewal of registration is done at an exchange of a goat.	Sustainability of the initiative

County	Initiative	Target group	Objectives	Challenges
Makueni	Makueni County Empowerment Fund (*Tetheka* Fund) (2016)	Youth, Men, Women and PWDs	This Fund provides access to capital and financing facilities to micro and small enterprises owned by youth, men, women and PWDs resident in the County. A minimum of Ksh 50,000 and a maximum of Ksh 200,000 at a time; the funds are distributed on a first come first served basis for all the 30 wards within Makueni County.	Sustainability challenges Potential loan default
Wajir	Wajir County Revolving Fund (2014)	Youths, Women and PWDs, and Co-operative Societies, any business involved in value addition of products.	The revolving fund is sharia compliant, aims to promote self-employment and promote entrepreneurship. Loans from the fund are payable within two years, through monthly instalments. The beneficiaries have a three-month grace period before commencement of repayment.	Low levels of education; poor management practices.
Mandera	County Trade Development Fund (2014)	Youth, PWDs and Women	The no-interest sharia compliant kitty aims to promote creative business ventures.	Loan repayment challenges; sustainability of the enterprises
Garissa	Revolving Fund (2019)	Youth, Women and PWDs	The Ksh 150 million revolving fund provides interest-free loans to the youth, women and persons with disabilities. It intends to expand access to finances, generate self-employment and generally reduce poverty levels it the community.	Loan repayment challenges; sustainability of the enterprises

Source: Computed from various sources

5.5 Key Messages and Recommendations

5.5.1 Key messages

1.) The national access to financial inclusion is at 82.9 per cent, which means about 17.0 per cent of the population is still excluded from access to formal financial services and therefore cannot participate effectively in the economy. Disaggregation of data by counties shows that counties with most access to finances, either credit, savings or insurance, are mainly counties with big urban areas like Nairobi, Mombasa, Nakuru, and Kiambu.

2.) A further disaggregation of data by gender on financial access shows a wide gender disparity between males (85.6%) and females (80.3%). However, this gap reduced significantly since 2006, when it was at 12 percentage points with males at 33.0 per cent and females at 21.0 per cent. This means that over time, females have gained in terms of financial access compared to males.

3.) For the youth, a significant proportion of them (23.5% male and 25.4% female) have no formal access, which could hinder their effective participation in the economy. This could be due to cost of accessing the various financial products/services which may be occasioned by lack of income, partly due to unemployment especially for those who have completed their studies.

4.) The main barriers to greater financial inclusion include proximity to financial providers, level of trust of financial providers, excessive documentation, financial literacy and the cost of accessing financial services. It is noted, however, that while these barriers have persisted over the last decade, the advent of mobile-based financial services has transformed financial systems and payments in Kenya, helping more people to access financial services.

5.) The National Government and some County Governments have initiated interventions to deepen financial inclusion among the population. These initiatives, offering financial and capacity support to the women and youth could be scaled up, in addition to addressing their challenges in order to ensure sustainability.

6.) Mobile money agents present a potential solution for many of the barriers to closing the financial inclusion gap and reaching the excluded. About 57.0 per cent of population would not need to spend to reach the nearest mobile money agent. This is because they employ mobile phones and agents to deliver financial services, without the high costs of construction and bank staff that underlie traditional brick-and-mortar banking institutions, improving accessibility to existing customers and new ones.

5.5.2 Recommendations

The following key recommendations are proposed:

1.) Continued expansion of agent-based banking and other cost-effective delivery channels is important to reach the financially excluded. Regulatory approaches can help overcome this obstacle by allowing for the use of low-cost delivery channels such as local retail shops serving as agents for financial service providers. Such approaches can cost-effectively expand the physical presence of financial services providers while providing meaningful benefits to those reached.

2.) Promote financial literacy to allow individuals to know their financial circumstances. To this end, a financial curriculum could be developed by the the National Treasury, in collaboration with the Central Bank of Kenya, to build capacity in this area.

3.) The Government to consider establishment of the Biashara Fund, consolidating the Uwezo Fund, Youth Enterprise Development Fund and the Women Enterprise Fund. This would ensure the challenges facing these funds are adequately addressed especially in achieving self-reliance and adequately target women, youth and PWDs.

4.) The National Treasury and Ministry of ICT could play a critical role in strengthening financial infrastructure, which serves as the underlying foundation to support financial inclusion.

5.) To address the challenge of high transaction costs and outreach, formal financial institutions can use information technology-based solutions such as mobile phones for efficiency in service provision as well as penetration.

Endnote

13 These include SDG1, on eradicating poverty; SDG 2 on ending hunger, achieving food security and promoting sustainable agriculture; SDG 3 on profiting health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality.

6 INCLUSIVITY AND TRADE

Domestic and international trade play an important role in economic transformation by linking products and markets, enhancing efficiency in production, increasing access to diverse products through distribution processes, and creating opportunities for employment. Increased participation of women, youth and persons with disabilities in trade would be a boost to inclusive growth sustainability, with reduced poverty and income inequality. Specifically, unlocking markets for these vulnerable groups would enhance their access to employment and entrepreneurship and break down the legal and cultural barriers that restrict them from achieving their full economic potential. Moreover, facilitating access to finance, market information and networks, and building capacity through training is critical in exploiting trade opportunities. Therefore, public policy should foster greater transparency in regulations and lower non-tariff barriers to trade beneficial to small firms, particularly to the type of firms typically owned by women, youth and persons with disabilities. Specifically, the agricultural sector, manufacturing and services have huge potentials for trade expansion.

6.1 Introduction

The Government has put in place measures for empowerment of women, youth and persons with disabilities in the pursuit of the economic growth goals envisaged in the Kenya Vision 2030 and its Medium-Term Plans, and the "Big Four" agenda. For instance, the affirmative action funds such as *Uwezo* Fund, Youth Enterprise Development Fund and Women Enterprise Development Fund. The consolidation of the three funds into the *Biashara Kenya Fund* is expected to increase efficiency and eliminate overlaps and seek to give special priority to businesses owned by youth, women and persons with disabilities. It is also expected to enhance their self-sufficiency and targeting of beneficiaries. In addition, the Public Procurement and Disposal Act 2015 requires that 30 per cent of Government tenders be awarded to enterprises owned by youth, women and persons with disabilities in a bid to integrate them in the value chain. Nevertheless, much more is required to bring about the much-needed empowerment and inclusivity necessary for sustainable development.

Women tend to be concentrated in the informal sector, accounting for 70 to 80 per cent of persons engaged in petty and informal trading. Female-owned businesses accounted for 61.8 per cent of unlicensed establishments in 2015. According to Kenya's National Trade Policy (2017), the formal trade sector does not offer equal opportunities to both men and women. Most female-owned businesses are micro small and medium enterprises (MSMEs). Effective trade and investment programmes for economic and social development of the country cannot be effectively implemented without participation of women in the formal trade sector.

About 2.2 per cent of the Kenyan population has some form of disability as per the 2019 Census, compared to 3.5 per cent recorded in the 2009 census. Out of this, 2.6 per cent live in rural areas while 1.4 per cent are in the urban centres. Women constitute the largest share of the number of persons with disabilities (PWDs) at 57.0 per cent compared with 43.0 per cent for men. The most common form of disability was mobility (42%), followed by visual (36%) while persons with albinism constitute 1.1

per cent of PWDs. Majority of female PWDs (19.8%) were self-employed in the informal sector and smallscale agriculture (16.3%) compared to 17.0 per cent and 13.9 per cent of male PWDs, respectively. One in five children with disabilities attending school had physical disability, followed by those with speech impairment (19.4%) and hearing impairment (19.3%). In addition, only a small proportion of PWDs reached secondary (2.4%) or tertiary/college (2.6%) level. More males than females reached secondary and tertiary education level, and more females with disability never attended school compared to their male counterparts.

The youth exude both energy and talent and can be nurtured to contribute even more by helping them acquire basic skills needed in the labour market. There is need for specific interventions and incentives to ensure that this huge category of the population is not left behind.

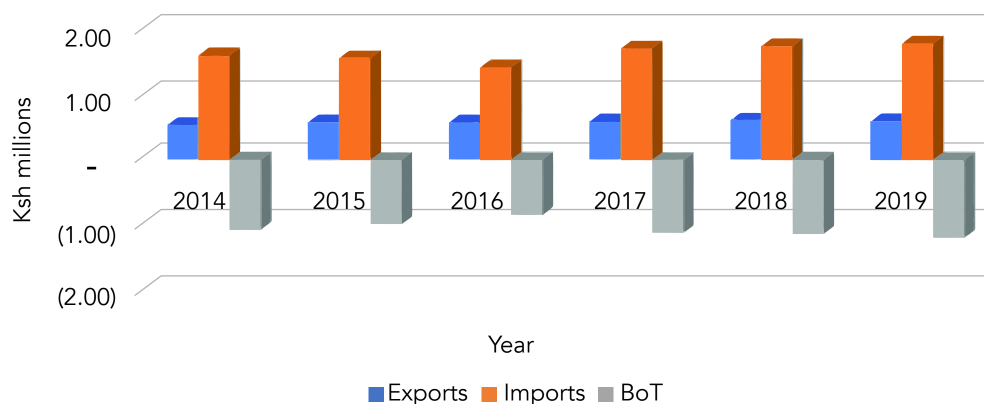
6.2 Balance of Trade

The external trade sector has been characterized by declining overall trade balance, low shares of trade in global markets, low levels of diversification of export products and export markets, and high costs of production. The volume of trade increased by 1.0 per cent in 2019 compared to 2.3 per cent growth in 2018. The slow growth of volume of trade was a result of a decline in value of exports due to deterioration of terms of trade for the major exports during that period. The values of domestic exports fell by 2.9 per cent, from Ksh 613 billion in 2018 to Ksh 595 billion in 2019 while that of imports rose by 2.3 per cent from Ksh 1,760 billion in 2018 to Ksh 1,801 billion in 2019 (KNBS, 2020). Re-exports grew by 6.2 per cent compared to a 12.5 per cent growth recorded in 2018.This accounted for 12.7 per cent of total exports earnings in 2019.

The leading exports were tea, coffee and horticulture, collectively accounting for 46.8 per cent of total domestic export earnings in 2019. In terms of broad economic categories, food and beverages and industrial supplies (non-food) accounted for an average of 65 per cent of total export earnings. The structure of exports and distribution of employment in these sectors have implications on inclusivity.

Total imports rose from Ksh 1,760 billion in 2018 to Ksh 1,801 billion in 2019. The leading import products were industrial supplies (33.6%), fuel and lubricants (18.3%) and machinery and capital equipment (18.1%). Notable during the year was a marginal increase in imports of food and beverages from 9.3 per cent in 2018 to 10.3 per cent in 2019, mainly due to delays in receipt of long rains, which affected agricultural produce.

Figure 6.1: Kenya's balance of trade, 2014-2019

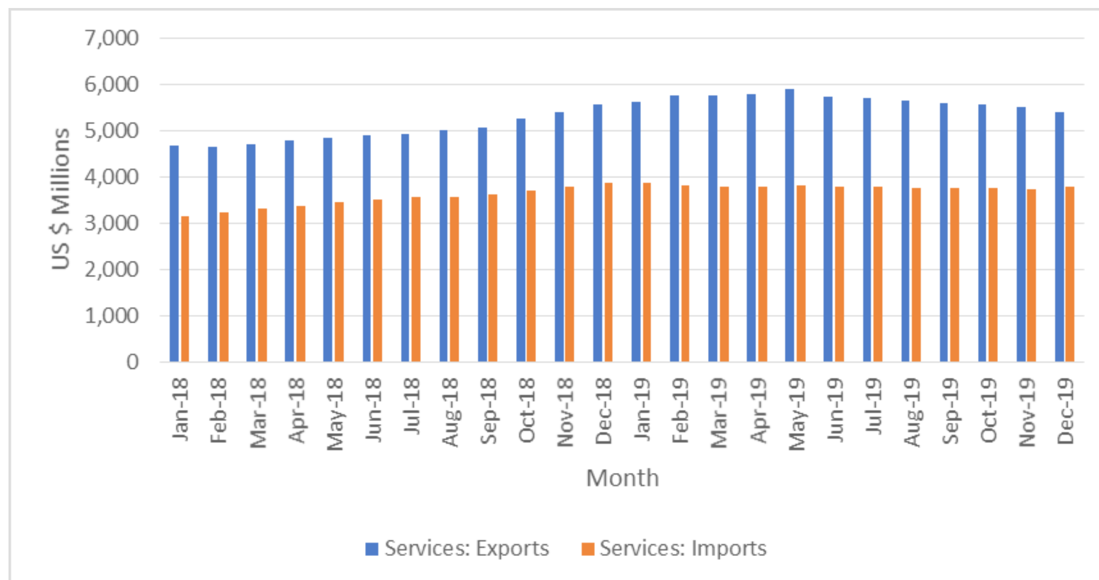


Source: Kenya National Bureau of Statistics (2020), Economic Survey

The balance of trade for all trade items deteriorated by 75.1 per cent in 2019 compared to 1.4 per cent recorded in 2018. This was due to a higher growth in price index of all imports compared to that of all exports. Besides, the continued increase in imports relative to total exports resulted to worsening of the trade deficit from Ksh 1,147.3 billion in 2018 to Ksh 1,205.5 billion in 2019.

The services exports grew by 14 per cent from US$ 59,925 million in 2018 to US$ 68,133 million in 2019. Services imports recorded a slower growth of 8 per cent from US$ 42,289 million in 2018 to US$ 45,583 in 2019. Trade in services surplus grew by 28 per cent in 2019 (Figure 6.2).

Figure 6.2: Trade in services, 2018-2019



Data Source: CBK (2019), Monthly Economic Indicators, December 2019

6.3 Role of Trade in Empowering Women, Youth and Persons with Disability

Trade has the potential to open more employment opportunities and economic empowerment. Greater access to domestic, regional and international markets can help the vulnerable groups expand their businesses and be more productive and innovative. Furthermore, lowering trade costs is particularly important for countries seeking to take advantage of the fragmentation of production through global value chains, which offer new opportunities to generate growth and income gains through trade (WTO, 2015). According to the World Trade Organization - WTO (2010), keeping trade open and lowering trade costs are key to increasing efficiency and can increase the competitiveness of the goods and services traded by vulnerable groups and lower the costs of key inputs in production. Pursuing strategies for economic integration in ways that address the challenges faced by the extreme poor and vulnerable groups can help maximize the gains from trade. For example, there is evidence across the world that trade has contributed to women moving out of agriculture into manufacturing and especially services, and this has brought with it higher incomes and more formal employment.

While there has been significant progress towards gender equality and empowerment of women in Kenya, gender disparities remain. Female informal cross-border traders, in particular, face disproportionately higher trade barriers, which include: limited access to markets and information, difficulties in complying with regulatory and procedural requirements, higher risk of abuse, including corruption and harassment at the border, lack of awareness of their rights, poor sanitation facilities, and price differentiation/ cheating associated with cross-border currency and

exchange rates. Likewise, constraints confronting female-owned businesses in the formal sector include: limited access to finance, inadequate skills development, and costly and cumbersome licensing procedures. Gender discriminatory social norms, and lack of childcare facilities further constrain female-owned businesses.

A study by KIPPRA in 2019 on factors that determine choice of products' market for businesses in the informal sector in Kenya revealed that business, entrepreneur and microeconomic factors significantly influenced the choice of a product market among informal businesses. Market places create strategic location for access to customers compared to commercial and residential premises. Female-owned businesses have a limited scope and do not access wider markets, and mostly access individual customers as the main buyers of their products. Mobile phones were found to be the most reliable source of market information by businesses in the informal sector.

Kenya's services sector has huge potential for job creation for the youth and therefore economic growth, especially if supported with digitization and the creatives arts industry. A study by the United Nations Conference on Trade and Development – UNCTAD (2010) indicated that Africa's share of the global creative economy is less than one per cent. The creative economy encompasses films, television, literature, advertising, art, crafts, design, fashion, music, performing arts, publishing and video games. Indeed, there is growing international interest in the potential of the cultural and creative industries to drive sustainable development and create inclusive job opportunities. According to Onyango et. al (2017), the creative arts and sports industries have great potential to create gainful employment for the youth. However, the contribution of arts, entertainment and recreation in Kenya is less than 0.1 per cent of GDP, and the numbers gainfully employed in the creative industry are still negligible. Yet, worldwide, the cultural and creative industries generate US$ 250 billion in revenue a year and create 29.5 million jobs worldwide, according to United Nations Educational, Scientific and Cultural Organization (UNESCO).

The International Labour Organization - ILO (2007) guidelines indicate that unemployment and under-employment of persons with disabilities was closely related to physical and mental disabilities of the persons concerned. Apart from Government policies put in place to eliminate discrimination, trade unions play important roles in employment or economic engagement of people with disability. Regardless of the sector, trade union actions on disability are directly contributing to achieving decent work by promoting employment; improving work-place conditions; assuring protections for workers with injuries and disabilities; ensuring the representation of workers; and ensuring implementation of legislation and standards related rights (ILO, 2017).

In 2013, Public Procurement and Disposal Amendment Regulations was enacted, it requires that all public procurement entities should set aside at least 30 per cent of their procurement spending for purposes of procuring goods, works and services from micro and small enterprises owned by youth, women and persons with disabilities (PWDs). The scheme aims at empowering youth, women and PWDs by linking them with Access to Government Procurement Opportunities (AGPO). A study conducted by KIPPRA and Public Procurement Regulatory Authority (PPRA) in 2019 revealed that on average, 93.1 per cent of youth, 92.8 per cent of women and 94.2 per cent of PWDs had applied and won various tenders with public procurement entities across the country. However, some of the key challenges the targeted group experiences include delays in payment, lack of transparency in award of tenders and lack of sufficient capital.

6.3 Participation of Women, Youth and PWDs in the Labour Force

Kenya's domestic and international trade sectors play a significant role in economic growth and employment creation. The sector employs 60.0 per cent of informal sector employees and is an important source, with a growth rate of 6.6 per cent in 2019 (KNBS, 2019). The contribution of the wholesale and retail trade sector to GDP and employment during the period 2014-2019 is shown in Table 6.1. The contribution to GDP has remained more or less stagnant in the recent past, while the total number of persons engaged in informal trade sector, and in the wholesale and retail trade, has been growing.

Table 6.1: Contribution of wholesale and retail trade to GDP and employment, 2014-2018

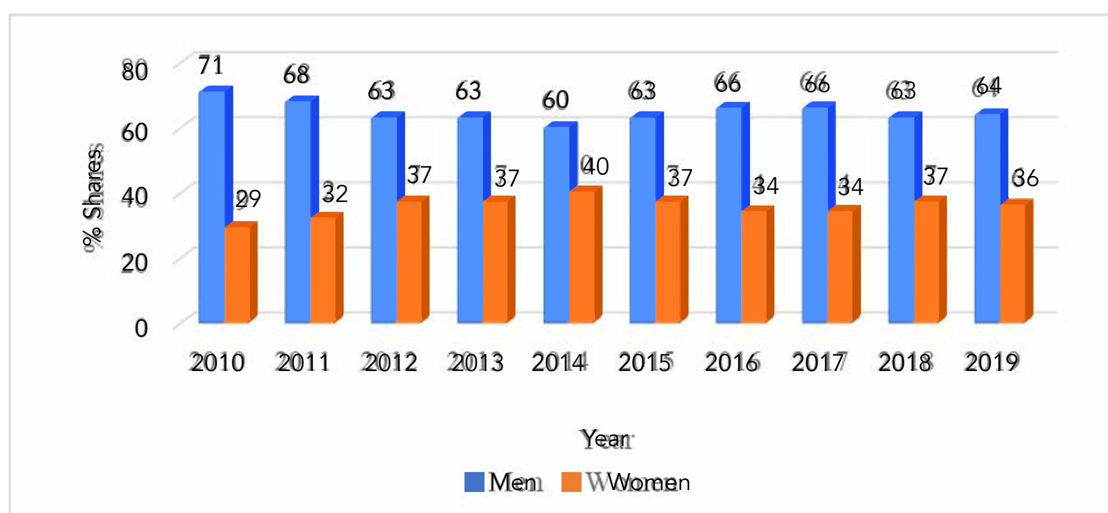
Year	2014	2015	2016	2017	2018	2019
Contribution to GDP (%)	8.0	7.5	7.2	7.4	7.5	7.6
Total number of persons engaged in the informal trade sector (No. millions)	11.8	12.6	13.3	14.1	14.9	15.1
Number of persons engaged in the informal sector in the wholesale and retail trade (No. millions)	7.1	7.2	7.6	8.1	8.6	9.0

Source: KNBS (2019), Economic Survey

6.5 Gender and Employment

Regarding distribution of employment by gender, women have been significantly under-represented in both formal employment and employment in the more lucrative industries, including manufacturing and professional, scientific and technical activities (KNBS, 2019). For instance, in 2019, out of a total 2.9 million jobs in the formal sector, women workers constituted about 1 million workers or 36 per cent of all formal sector employment in Kenya (Figure 6.3).

Figure 6.3: Modern sector employment by gender (%)

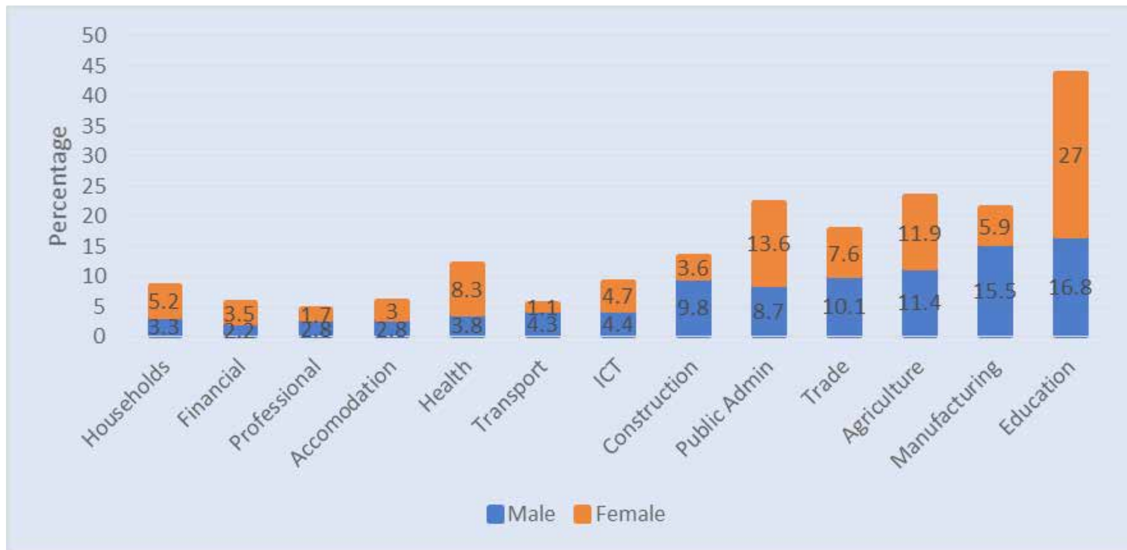


Source: KNBS (Various), Economic Survey

In terms of employment by sector, available statistics indicate that the share of women employed in trade and manufacturing was significantly lower than that of men (Figure 6.4).

Gender inequalities can be attributed to limited access to and control of productive resources, access to financial services, insufficient access to education, inadequate skills, limited access to technology, cultural impediments, gender roles and other constraints limiting employment options and participation of women in decision-making (State Department of Gender, Strategic Plan 2018-2022). In addition to the many cultural, social and economic barriers, these constraints limit women's ability to effectively participate in, and benefit from, economic development.

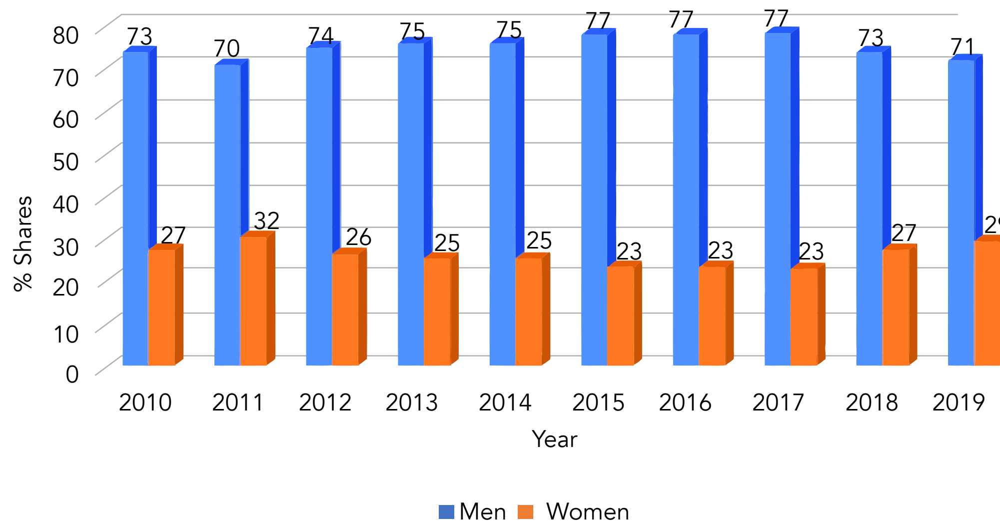
Figure 6.4: Wage employment by industry and gender, 2019 (%)



Source: Author's computation using data from KNBS (2019), Economic Survey

Similarly, the participation of women in domestic trade is highly skewed against women. Over the years, women represent hardly 30.0 per cent of total wage employment in the wholesale and retail trade. Some of the identified obstacles hindering full participation of women include inadequate legal framework to address discriminatory practices against women; inadequate access to capital by women-owned enterprises (due to lack of collateral since women rarely own property); and lack of requisite skills, information and networking to enable engagement in productive business-related activities. Besides, other significant challenges facing female traders in the informal sector are management of time as they are involved in other household chores, and the relatively high costs of doing business.

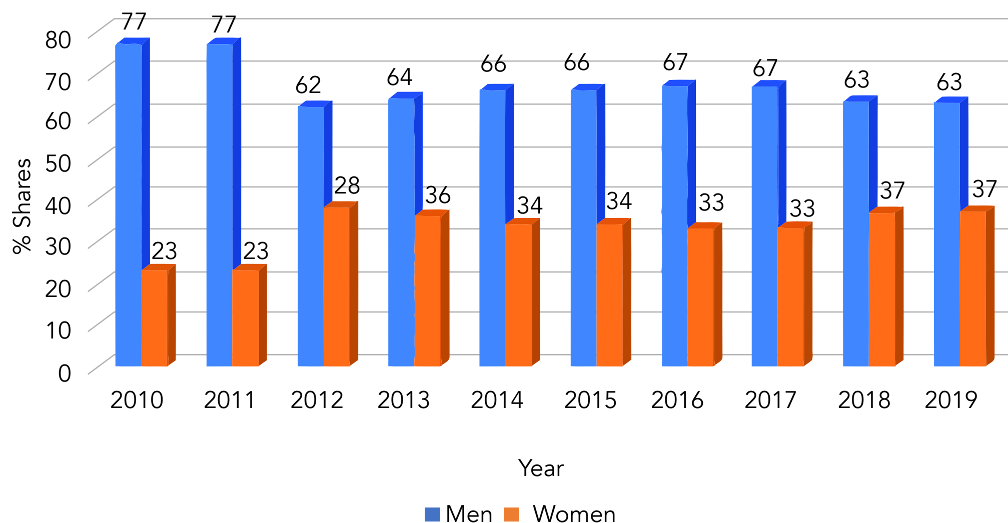
Figure 6.5: Wage employment in wholesale and retail trade by gender, 2010-2019



Source: KNBS (2020), Economic Survey

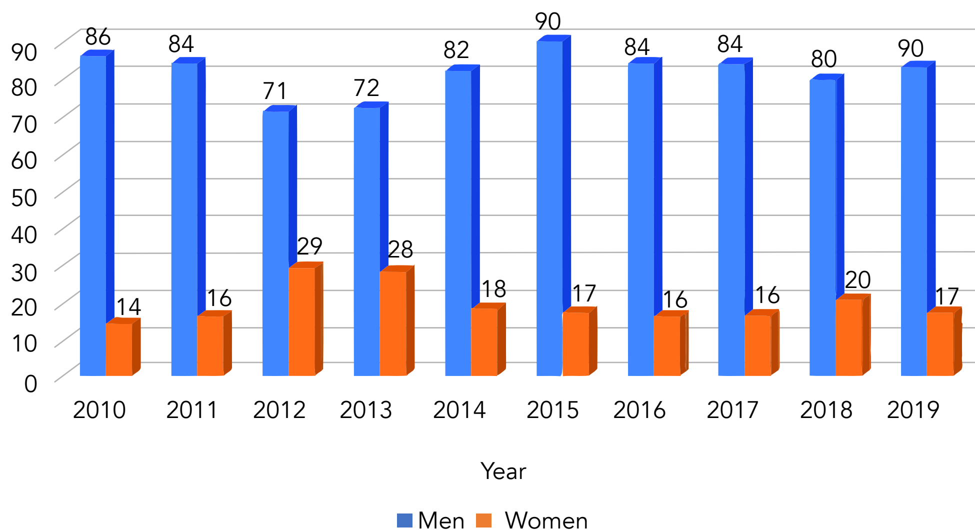
A similar situation of inequality in employment is exhibited in the agriculture and manufacturing sectors as indicated in Figures 6.6 and 6.7, respectively.

Figure 6.6: Wage employment in the agriculture sector by gender, 2010-2019



Source: KNBS (2020), Economic Survey

Figure 6.7: Wage employment in the manufacturing sector by gender, 2010-2019



Source: KNBS (2020), Economic Survey

A study by Oiro et al. (2019) revealed that the existence of skills gap among women hinders their employability in the manufacturing sector. There is a low likelihood of women getting employed in the manufacturing sector due to their deficiency in skills, especially in the technical stages of the manufacturing process. Most of the manufacturing industries such as dairy products, textiles and manufacture of roofing sheets demand technical labour, which most women lack. In addition, the labour intensive nature of the manufacturing processes is a hindrance to the employment of women in the sector. The low level

of automation and mechanization of the production process prevents women from participating because of the physical demands of the job. The menial jobs are more favourable for men due to their physique as opposed to women.

The youth face a myriad of challenges, some of which include high unemployment levels, inadequate technical skills for the job market, poor representation in policy making platforms and limited access to credit by youth-run enterprises. It is imperative to note that some of the challenges affect both youth and women, but some are more specific to a given cohort.

Regarding PWDs, there are mixed results depending on the nature of disability and the type of economic activities. The KNBS (2012) statistics show that majority of females with disabilities were engaged in own family agricultural holding (30.3%), followed by full time students (14.7%), incapacitated (12.7%) and homemakers (10.6%). Only 6.6 per cent of PWDs worked for pay.

Table 6.2: Females with disability by economic activity and domain

Economic Activity	Domain of Disability								
	Visual	Hearing	Speech	Physical	Mental	Self-Care	Others	None	Total PWDs
Worked for Pay	8.6	5.6	7.4	6.2	5.2	3.4	6.8	8.6	6.6
Sick Leave	1.1	1.3	1.3	1.5	2.2	2.4	1.5	0.9	1.5
Own - Family Business	9.7	7.9	7.7	9.4	6.1	4.9	9.3	8.6	8.5
Own - Family Agriculture Holding	32.6	34.0	24.7	32.3	25.5	17.7	34.0	25.7	30.3
Intern/Apprentice	1.0	1.2	1.3	1.1	1.9	1.8	1.1	1.0	1.2
Volunteer	0.9	1.2	1.2	1.1	1.8	1.7	1.0	0.9	1.2
Seeking Work (Action Taken)	0.8	0.5	0.8	0.6	0.5	0.3	0.8	0.9	0.6
Seeking Work (No Action Taken)	0.4	0.3	0.4	0.4	0.5	0.3	0.4	0.5	0.4
No Work Available	4.7	4.1	2.8	4.8	5.4	6.6	3.6	2.5	4.5
Retired	0.7	0.5	0.1	0.6	0.2	1.4	0.4	0.1	0.5
Homemaker	11.8	11.3	7.7	10.7	10.3	8.2	10.9	8.9	10.6
Full Time Student	14.9	19.9	24.9	10.4	14.6	4.5	16.7	26.9	15
Incapacitated	9.0	6.6	3.7	14.7	19.1	44.4	7.0	0.4	12.7
Other		0.5	0.5	0.4	0.5	0.6	0.7	0.5	0.3
Not Applicable	2.2	4.0	14.1	4.5	4.2	0.0	5.2	12.7	4.6

Source: KNBS (2012), Economic Survey

Regarding males with disability, 26.0 per cent were engaged in own family agricultural holding, followed by full time students (20.1%), incapacitated (10.0%) and homemakers (2.6%). Only 14.0 per cent of males with disability worked for pay, but is more than double the respective proportion of females.

Table 6.3: Males with disability by economic activity and domain

Economic Activity	Domain of Disability								
	Visual	Hearing	Speech	Physical	Mental	Self-Care	Others	None	Total PWDs
Worked for Pay	18.1	12.6	14.3	14.1	9.5	6.8	14.1	17.5	14.0
On Leave	1.2	1.2	1.4	1.2	1.8	1.8	1.1	1.1	1.4
Sick Leave	1.1	1.3	1.3	1.8	2.2	2.6	1.6	0.9	1.5
Own - Family Business	10.2	9.0	8.3	10.4	6.3	6.3	8.7	9.2	8.6
Own - Family Agriculture Holding	28.7	30.2	21.4	27.4	23.7	18.6	26.0	20.8	26.0
Intern/Apprentice	1.0	1.3	1.4	1.1	1.8	1.6	1.1	1.0	1.3
Volunteer	1.0	1.2	1.3	1.1	1.9	1.7	1.2	1.0	1.3
Seeking Work (Action Taken)	1.2	0.9	1.0	1.1	1.0	0.6	1.2	1.3	1.0
Seeking Work (No Action Taken)	0.6	0.5	0.5	0.6	0.9	0.5	0.6	0.6	0.6
No Work Available	4.7	4.1	2.8	5.3	6.7	7.0	3.5	2.6	4.6
Retired	1.5	0.8	0.2	1.0	0.3	2.3	0.8	0.3	0.9
Homemaker	2.6	2.3	1.6	2.7	3.7	3.2	2.4	1.3	2.6
Full Time Student	17.8	24.8	26.5	13.5	14.4	8.3	22.8	28.7	20.1
Incapacitated	7.0	4.4	3.9	12.5	20.9	37.8	6.7	0.3	10.0
Other	0.5	0.6	0.4	0.6	0.7	0.9	0.6	0.4	0.6
Not Applicable	2.9	4.7	13.5	5.6	4.2	0.0	7.7	13.2	5.6

Source: KNBS (2012), Economic Survey

6.6 Strategic Sectors for Women's Economic Empowerment through Trade

(a) Agriculture

Women, including those with disabilities, are confronted by prevailing gender inequalities in the agricultural sector. A 2017 report by the Kenya National Bureau of Statistics titled 'Women and Men in Kenya – Facts and Figures 2017' notes that women provide 80.0 per cent of Kenya's farm labour and manage 40.0 per cent of Kenya's smallholder farms, yet they own only about 1.0 per cent of agricultural land and receive just 10.0 per cent of available credit'.

According to a study by KIPPRA in 2019, an estimated 16.0 per cent of women have access to finance from institutions offering both formal and non-formal prudential services and products. 66.0 per cent of the women living in rural areas are excluded, compared to 51.0 per cent of those living in urban areas. The main source of financial information for women living in both urban and rural areas is family and friends, at an average proportion of 40.0 per cent, followed by their own personal decision, implying that communal channels of communication are critical for the information to spread among the female folk. Even when the proportion of "*chama*" ranks low, it is still implied because usually the members of the "*chama*" are friends and family.

The expanded markets for exports (arising from regional trade blocs) create opportunities for women to enhance agricultural productivity through integration into regional agricultural value chains, value added agro-processing and other upstream

and downstream activities. For women to leverage these opportunities and benefit from expanded trade integration in the agricultural sector, it will be necessary to address existing gender-based inequalities by designing measures aimed at improving agricultural production, agribusiness and value chain advancement. In addition to livestock and fisheries, coffee, tea, vegetables and pulses, fruit and nuts, and floriculture are priority sectors for enhanced value addition and exports in the agricultural sector.

While these sectors are likely to offer significant growth and value chain potential for women, a comprehensive approach, including a regional agricultural value chain analysis that considers employment and empowerment opportunities for women within sectoral value chains – from production, processing and final market prospects – should be undertaken. As part of a comprehensive approach, it will be necessary to consider interventions that open up access for women to productive resources such as finance, markets, land, technology, extension support and quality inputs. This would increase the yields - particularly of female smallholder farmers - and facilitate their transition from subsistence agriculture to higher value crops for exports. Likewise, women in the agricultural sector need to be provided with requisite skills and knowledge of product packaging and marketing to avoid limiting their participation to the lowest nodes of the value chain.

For women to leverage the benefits of intra-African agricultural trade, they require targeted support in the form of agricultural trade policies that respond to Regional Economic Communities (RECs), buttressed with context-specific complementary measures. Interventions that build upon existing strategic actions to increase the participation of women in productive agriculture activities and trade must be pursued. Agricultural policies and proactive complementary measures to promote agricultural productivity and gender-inclusive agricultural trade under the RECs may include support for:

(i) Addressing gender-specific challenges that constrain agricultural productivity and other economic activities. There is need for targeted gender-sensitive rural financial services, and access to land and security of land tenure to facilitate the effective participation of women in agriculture;

(ii) Enhancing women's access to regional markets for export, by providing support for tailored capacity building and training programmes, including on quality standards, links to input distribution networks;

(iii) Targeted studies to identify high-value cash crops and other priority sectors and industries in the agricultural sector identified for export development, with significant potential for income generation and employment creation for women. Corresponding strategies to advance these objectives to be designed accordingly;

(iv) Value chain analysis and identification of economic opportunities in selected regional agricultural value chains with positive socio-economic impact (particularly for smallholder female farmers). Skills training and entrepreneurship support programmes, to be designed accordingly;

(v) Female co-operatives and producer organizations that enable women to reach more scale in their enterprises and have greater influence on decision-making in a particular sector Facilities include marketing and storage facilities for women's produce. Attention should be given to issues of location and transport, which may pose access challenges for women in remote rural areas;

(vi) Increased access to extension services, particularly training programmes and information on time and labour-saving technologies that boost productivity.

(b) Manufacturing

In formal employment, manufacturing accounted for 49 per cent of women employed in industry. But women also dominate in the formal workforce of important labour-intensive export sectors such as cut flowers (65-75% of workers), textiles (75% of workers) and tourism (33% of workers). However, they are often employed in low-skilled jobs such as sewing and finishing), while men often act as supervisors.

The development of Kenya's manufacturing sector brings with it strong opportunities to absorb a large number of women, both as workers and as entrepreneurs. Gender-specific interventions, however, are required to ensure that as the country seeks to promote industrialization through targeted

support for small- and large-scale manufacturing industries, that women's manufacturing employment is promoted as part of this process. Priority manufacturing sectors for Kenya include: textiles and apparel; agro-processing; leather and leather products; pharmaceuticals; plastic and plastic products; metals and allied products; chemicals and allied Industries; light engineering; furniture and furnishings industry; and automotive and automotive parts. Kenya's handicraft industry, and the following 10 sub-categories, are priority exports: handmade/ hand decorated fabrics, leather crafts, basketry, woodwork and crafts, metalwork and crafts, jewelry, stone carvings, pottery and ceramics, beads and traditional artifacts.

For instance, taking into account the export business structure in the Eastern Africa region, Kenya to some extent performs better than her neighbours in regard to women participation, though it is important to appreciate that the countries in the Eastern Africa are heterogeneous. They include countries with a large share of women-owned or managed exporting firms such as Kenya at 46.0 per cent and Madagascar at 36.0 per cent, and the opposite with Malawi at 7.0 per cent and the United Republic of Tanzania at 8.0 per cent (Table 6.4)

Table 6.4: Women-owned or managed exporting firms (%), by country, 2010-2014

East Africa	**24.0**	**76.0**
Kenya	46.0	54.0
Madagascar	36.0	64.0
Malawi	7.0	93.0
Mauritius	22.0	78.0
Rwanda	27.0	73.0
Tanzania (United Republic of)	8.0	92.0

Source: International Trade Centre (ITC) Non-Tariff Measures (NTM) Surveys in 20 developing countries, 2010 to 2014. Available at: www.ntmsurvey.org

Regarding employment in exporting firms, the picture is mixed, with very low female participation in the United Republic of Tanzania where only 4.0 per cent of companies employ more women than men; and Malawi (7.0%) but high levels in Madagascar (52.0%) and Mauritius (47.0%).

Table 6.5: Women-owned or managed exporting firms, by country, 2010-2014

	Up to 20%	**21-50%**	**51-100%**
East Africa	42%	30%	28%
Kenya	41%	37%	22%
Madagascar	25%	23%	52%
Malawi	61%	32%	7%
Mauritius	23%	30%	47%
Rwanda	19%	38%	43%
Tanzania (United Republic of)	72%	24%	4%

Source: International Trade Centre (ITC) Non-Tariff Measures (NTM) Surveys in 20 developing countries, 2010 to 2014. Available at: www.ntmsurvey.org

There is significant potential for formal employment for both skilled and unskilled women in the identified manufacturing sectors and sub-categories. Further analysis, however, is required to identify entrepreneurship and empowerment opportunities for women in both identified export-oriented and other non-traditional manufacturing sectors that emerge as potential growth drivers. In addition, it will be necessary to undertake a gender-sensitive value chain analysis for specific sectors that identify productive employment and decent work opportunities for women along the value chain.

Central to the design and implementation of measures to advance women's manufacturing employment is the need to ensure that women benefit in equal measure to men, and that the creation of employment opportunities is not accompanied by new patterns of inequality and vulnerability, including poor working conditions and wages. Skills training and other support programmes should be designed accordingly. Gender-specific interventions and proactive complementary measures to leverage the benefits of the economic integration for women in manufacturing may include:

(i) Promoting women in traditional manufacturing sectors that offer enhanced value addition and export-generating opportunities, and in non-traditional export sectors that emerge as potential growth drivers;

(ii) Integrating women in priority regional value chains that offer high employment potential, including in female-intensive sectors and in the more capital-intensive sectors;

(iii) Providing targeted support for women participating in manufacturing as small scale home-based producers: facilitate local women manufacturing entrepreneur groups to form marketing consortiums; identify buyers of products, promote local marketing units for women's products (through trade and/or marketing associations);

(iv) Access to on-the-job training, re-training, ICT, technical education and skills development in sector-specific manufacturing activities for women to undertake value addition processes to take advantage of higher-skilled jobs in the manufacturing sector.

(c) Services sector

Services play an important role in employment generation and GDP. They represent almost 50 per cent of world exports in value added terms. Services are an essential ingredient for increasing efficiency and productivity, facilitate participation in value chains, overcome market access barriers both when importing and investing, and as a strategy for the manufacturer to increase the value of products to consumers, strengthen customer relationship and to differentiate products from competitors.

A greater share of women was employed in the services sector than men. In 2017, 74.5 per cent of women were employed in the services sector in comparison to 64.2 per cent of men. Regarding women in the services sector, 36 per cent of women were in education, 12.0 per cent were in public administration, 11.0 per cent were in health/social work, 10.0 per cent were in household activities as employers and 9.0 per cent were in wholesale/ retail trade. The World Bank Diagnostic Study (2016) indicates that women account for about one-third of formal tourism employment, and most tourism-related informal jobs such as selling of curios, clothes and providing beauty and salon services.

Kenya is negotiating services liberalization across various RECs as indicated in Table 6.6. Adopting a gender-sensitive approach to prioritization of trade sectors under the various RECs will ensure that Kenyan women benefit from increased opportunities of an expanded services sector, which includes increased job creation and integration in regional and global value chains. While liberalization of services trade has the potential to generate further employment and income opportunities for women, it does not automatically lead to improved outcomes for women. Concerns regarding the effect of services trade liberalization have been raised, including with respect to the concentration of women in lower-skilled jobs

Table 6.6: Priority services liberalization in various RECs

EAC	COMESA	AfCFTA
1. Business services	1. Communication	1. Business services
2. Education	2. Financial	2. Communication
3. Financial	3. Tourism	3. Financial
4. Tourism and related services	4. Transport	4. Tourism
5. Transport	5. Business services	5. Transport
6. Communication	6. Construction	
7. Distribution	7. Energy	

Source: Author

As Kenya negotiates to open up trade in services, due consideration should be given to advancing productive employment and decent jobs for women within services trade. Ensuring that women can take advantage of higher-skilled service jobs in the five identified priority sectors requires an inclusive approach in formulation of regulatory and policy frameworks, supported by complementary measures. These may include: providing access to financial services and technology, business networks, and practical skills development and other demand-driven training programmes.

By and large, women share many disadvantages commonly shared by women and young people. Industrialization and structural transformation result in job creation, which require skills beyond the basic numeracy and literacy acquired in primary school. While African countries have made good progress in terms of increasing primary school enrolment, completion rates remain low, which translates into lower transition rates to secondary school (Economic Commission for Africa - ECA, 2015). Gender and

income inequalities in education persist; in Sub-Saharan Africa, for instance, poor rural girls are seven times less likely to complete school than non-poor urban boys. The learning outcomes can be weak, with students not attaining a minimum level of competency in writing and mathematics (World Bank, 2018).

The limited skills acquired especially by girls makes it difficult to attain formal employment. Accordingly, young people in Africa may not be able to access the full range of opportunities created by the African Continental Free Trade Area (AfCFTA) and will more likely resort to finding employment in the informal sector or remain either under- or unemployed. Vulnerable employment, underemployment and unemployment are higher for young people when compared to the general adult population (AfDB et al., 2012). Meanwhile, most women are in vulnerable self-employment, almost exclusively in the informal sector. This is true for rural and urban areas. Outside North Africa, women are twice as likely as men to be contributing family workers (ECA, forthcoming).

6.7 Strategic Sectors for Youth Empowerment in Trade

The ICT-aided sectors present the biggest opportunities for youth employment. These span across various sectors from communications, finance, transport, health, business services and the sports, arts and creative industries. The sports economy is among the largest in the global economy, with several ancillary-related activities necessary for doing sports. Sports organizations have many sources of income, including club fees and ticket sales, advertising and sponsorship, television and media rights, re-distribution of income within the sport federations, merchandising, public support, etc. Among the visible sports-related sectors are health, education, entertainment, tourism, businesses and physical infrastructure. Some of the leading sports in Kenya are football, athletics, volleyball, swimming and rugby. In the global scene they include baseball, basketball, American football, ice hockey (US), football (Europe), athletics, tennis, rugby, golf, motor rallies, boxing, wrestling, among others. In fact, a great number of sports disciplines have been tailored to suit PWDs, with international competitions such as athletics, bicycle riding, soccer, volleyball, among others. In addition, PWDs have opportunities to engage in creative arts and all other forms of occupations, depending on the nature of disability.

6.4 Key Messages and Recommendations

This analysis reveals that despite measures to end discrimination against vulnerable groups, there are several constraints inhibiting equitable access by these populations to fully exploit their potential in various economic activities. These constraints include weak or ineffective implementation of prioritized programmes, lack of access to credit facilities, cultural/societal beliefs, and lack of information. Domestic and foreign trade offers ample opportunities to growth and development of the vulnerable groups. Specifically, increased participation of women and the youth and people with disability in domestic and foreign trade has potential to generate a boost to growth of the economy, poverty reduction and inclusive development in line with the aspirations of the Kenya Vision 2030, the Third Medium-Term Plan, and the "Big Four" agenda.

6.4.1 Key messages

1.) Domestic and international trade play an important role in economic growth and sustainable development. This is made possible through the linkages of production and markets, enhancing efficiency in production, increasing access to more varieties of products through the distribution process, and creating opportunities for employment.

2.) Increased participation of women, youth and PWDs in trade has potential to boost the growth of the economy, poverty reduction and inclusive development in line with the aspirations of the Kenya Vision 2030, the Third Medium-Term Plan, and the "Big Four" agenda.

3.) The Government of Kenya has made efforts to address inequalities and mainstream gender in trade-related policies and regulations. For instance, enactment of the Public Procurement and Disposal Act 2015 requires 30 per cent of Government tenders to be awarded to enterprises owned by youth, women and

persons with disabilities. Nevertheless, much more is required to bring about the much-needed empowerment and inclusivity.

4.) There are gender disparities in participation in trade (domestic and international trade) and employment in various sectors. Over the years, women hardly constitute 30 per cent of total wage employment in the wholesale and retail trade. Similarly, wage employment in agriculture and manufacturing were 37 per cent and 20 per cent, respectively, during 2018. In the manufacturing sector, women dominate in the formal workforce of important labour-intensive export sectors such as cut flowers (65-75% of workers), textiles (75% of workers) and tourism (33% of workers). However, they are often employed in low-skilled jobs such as sewing and finishing while men often act as supervisors.

5.) Key identified obstacles hindering full participation of women include inadequate legal framework to address discriminatory practices against women; inadequate access to capital by women-owned enterprises (due to lack of collateral since women rarely own property); and lack of requisite skills, information and networking to enable engagement in productive business-related activities. The youth face inadequate technical skills for the job market, weak representation in policy making platforms, and limited access to credit by youth-run enterprises.

6.) The strategic sectors that can foster women and youth empowerment through domestic and external trade include agriculture, manufacturing and services sectors. These sectors have high potential for value addition and integration of SMEs in their production value chains. Besides, there is potential for expanded markets within RECs.

7.) Gender-based interventions to encourage inclusivity include legislative reforms to address discriminatory practices against women and the youth; facilitating access to finance and other productive resources; improvement of the business environment, market information and networks; and relevant skills development and trainings.

6.4.2 Recommendations

1.) Enhance access by youth, women and PWDs to regional markets for export, by providing support for tailored capacity building and training programmes, including on quality standards and links to input distribution networks.

2.) Empower women through awareness creation, civic education and access to information on their rights as this is critical to alleviating gender inequality. This would also ensure that women are able to participate effectively particularly in trade and the general economy.

3.) Youth, women and PWDs face the challenge of access to credit hence hindering their participation in manufacturing and trade. There is need to reverse the trend of low participation of youth and women by enhancing access to credit to leverage on more opportunities for growth.

4.) Eradicate barriers preventing youth, women and PWDs from owning a business and participating in trade. This can be enhanced by leveraging technology by encouraging the use of mobile phones to report abuse at border crossings.

5.) Promote transparency of rules and increase awareness of all actors at the border, to reduce misunderstandings and complaints. This will shorten processing times, facilitate trade and ultimately make the border a friendly environment for youth, women and PWDs.

6.) The Government can promote more transparency in regulations and lower non-tariff barriers to trade beneficial to small firms, particularly to the type of firms typically owned by women, youth and PWDs. This will unlock markets for these vulnerable groups and facilitate their access to employment and entrepreneurship.

7.) Build the capacities of counties to steer the agriculture, manufacturing and trade sectors to benefit the youth, women and PWDs.

8.) Strengthen the existing county regional blocs for inter-county trade.

7 CONTRIBUTION OF AGRICULTURE TO FOOD AND NUTRITION SECURITY AND INCLUSIVE GROWTH

Smallholder farmers constitute a huge proportion of the population in the agricultural sector, and are therefore important stakeholders in realizing the broader goals of food and nutrition security and inclusive growth. The agriculture sector can contribute to inclusive growth because it is the main economic activity for most households living in rural areas. For this to be achieved, enhanced use of all factors of production (land, labour and capital) including nucleated land settlement is required in addition to an enabling policy environment. This should be supported by complementary investments to support provision of extension services, provision of market infrastructure and use of information and communication technology.

7.1 Introduction

Kenya has had rather limited success in increasing smallholder agricultural production by enhancing productivity and competitiveness, despite numerous agricultural programmes that have been implemented to achieve this goal. This is due to several challenges, including climate change, which had led to increased frequency of severe droughts and floods and outbreak of pests and disease. Land sizes are increasingly becoming uneconomic due to continued land sub-division. This has been compounded by low adoption of technology and innovation. Investments in the sector by both public and private sector have remained low; for instance, public spending is estimated at 3 per cent of total Government expenditure (Government of Kenya, 2018; 2020).

The Government in the Third Medium-Term Plan (MTP III) has put in place the "Big Four" agenda to guide development from 2018 to 2022. The agenda includes targets to enhance smallholder productivity under the food security and nutrition pillar, which includes establishment of 1,000 small and micro enterprises using performance-based incentive model along the entire value chain. Second is to improve access to credit/ input for farmers through Warehouse Receipt System and strengthening commodity fund. Under the manufacturing pillar of the "Big Four" agenda, potential for agriculture lies in textile/apparel/cotton, leather, agro-processing and market access.

The agriculture sector is guided by the Agriculture Sector Transformation and Growth Strategy (ASTGS) 2019-2029. This strategy was preceded by the Agricultural Sector Development Strategy (ASDS) 2010-2020, which focused on transformation of smallholder agriculture from subsistence to an innovative, commercially-oriented and modern agricultural sector. The ASDS achieved mixed results over the last decade because double digit economic growth has not been achieved. The national food poverty is at a headcount rate of 32 per cent, and food and nutrition security is still a challenge. Regarding commercialization of smallholder farming, achievements were realized through the Government subsidy programme that promoted the use of certified seed and fertilizers to improve the yields. This saw an increase in productivity from 4 bags to 20 bags per acre, and consumption of fertilizer increased by 61,720 tonnes and certified seed by 4,930 tonnes from zero. In addition, the distance to access farm inputs reduced from 15-35 km to 3.9 km; this was done through engagement of village level farm input stocks (Ministry of Agriculture, Livestock and Fisheries - MoALF, 2018).

The ASTGS envisions an agricultural transformation that involves modernization of on-farm production, shifting production towards more value addition. It is envisioned that by transforming agriculture, the country can reduce the cost of food, alleviate poverty and deliver 100 per cent food and nutrition security. This policy direction for the agriculture sector is necessary for achieving inclusive growth because the discourse is moving from not only supporting farmers at the bottom of pyramid to achieving and maintaining subsistence agriculture, but also considering the medium and large-scale farmers who have a greater potential to be competitive by employing economics of scale. Table 7.1 summarizes the key priority policy areas in driving the transformation.

Table 7.1: ASTGS focus areas and mid-term targets

Focus area	Detailed initiatives	2017/18 baseline	2022 target
Increased small-scale farmer, pastoralist and fisherfolk	Increase incomes for 3.3 million Kenyan farming households	Ksh 465/day	Ksh 625/day
Increase agricultural output and value add	Expand agricultural Gross Domestic Product (GDP)	Ksh 2.9 trillion	Ksh 3.9 trillion
	Grow contribution of agro-processing to GDP	Ksh 130 billion	Ksh 261 billion
Increase household food resilience	Reduce the number of food-insecure Kenyans in the ASALs	2.7 million persons	0
	Reduce the cost of food and improving nutrition	Restructure governance and operations of the Strategic Food Reserve	

Source: Government of Kenya (2018)

The ASTGS prioritizes three anchors to drive the first five years (2019-2023):

Anchor 1: Increase small scale farmer, pastoralist and fisherfolk incomes: This will be achieved by working with 1 million farmers in an estimated 40 zones. These farmers will generate a demand for inputs, equipment, processing and post-harvest aggregation which will be serviced by an estimated 1,000 micro-small and medium enterprises (MSME)s. In addition, the National Subsidy Programme will use the e-vouchers with digital service delivery to reach out to an estimated 1.4 million registered vulnerable farmers and provide them with access to a wide range of inputs (seeds, crop protection, fertilizer, equipment).

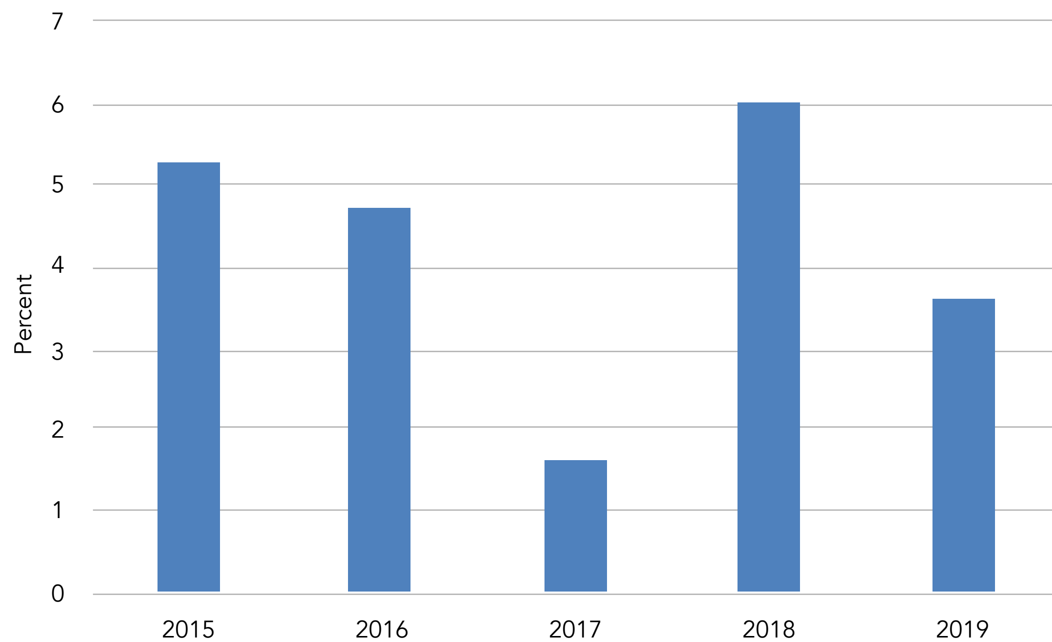
Anchor 2: Increase agricultural output and value add. This will be achieved by establishing 6 large-scale agro- and food processing hubs and putting into production additional 50 large-scale private farms (>2,500 acres each) with an estimated 150,000 acres under irrigation.

Anchor 3: Increase household food resilience: Among the initiatives that will assure resilience include the re-structuring of the Strategic Food Reserve (SFR) and introduction of the warehouse receipting system. This will be supported by price stabilization policies and social protection programmes. In addition, community-driven interventions will be promoted in the ASAL areas, coupled with coordination among and between Government, development partners and private sector initiatives. The three anchors mentioned above will be supported by enablers, namely: knowledge and skills programmes, research and innovation and monitoring of the food system.

Agriculture is the largest sector in the Kenyan economy, generating a third of Gross Domestic Product (GDP) and more than half of export earnings (KNBS, 2019). Domestic production is dominated by food staples, including maize, rice and wheat, while export production is dominated by horticulture and tea, which contributed 48 per cent of export earnings in 2018.

The sector experienced improved growth in 2018 where it grew by 6.6 per cent compared to 2017 at 1.8 per cent (Figure 7.1). This can be attributed to favourable weather conditions in 2018, which increased the output in crops and livestock production. Most of the production in the country is carried out by smallholder farmers.

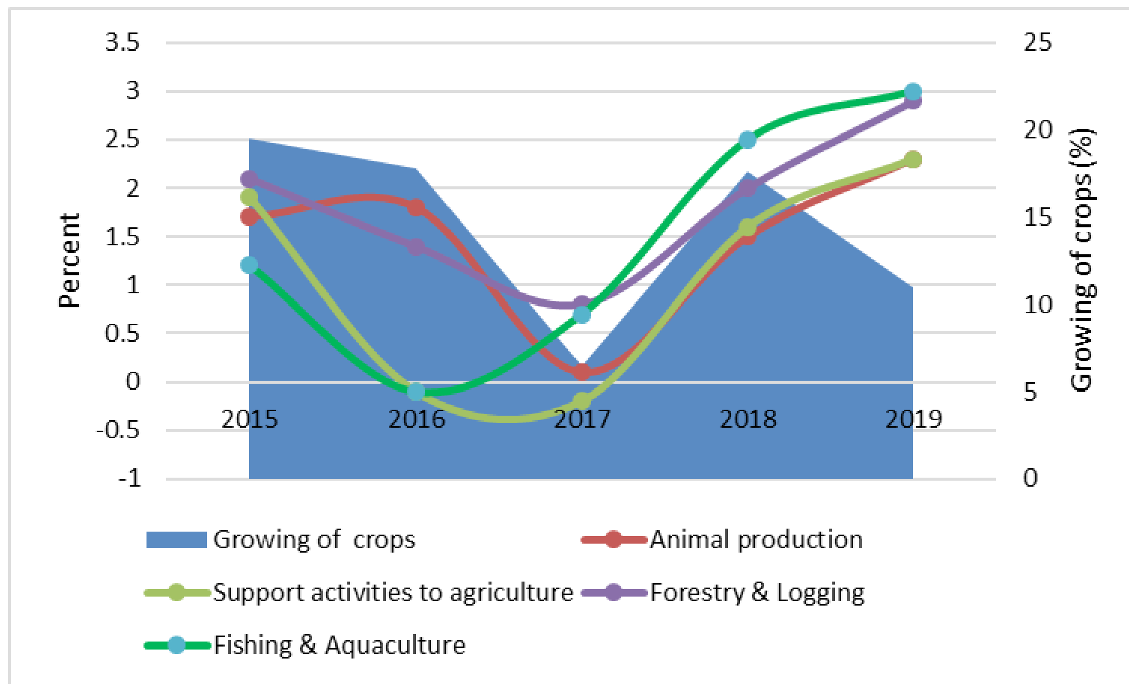
Figure 7.1: Real agricultural growth rate, 2014-2019



Data Source: KNBS (2020), Economic Survey

There has been erratic growth in total value of aggregate agricultural output over the period under review. Generally, crop production contributes the largest share of agricultural growth, recording double digits except in 2017 when the country experienced an episode of drought followed by floods, which affected the sector growth. Fisheries, however, has recorded mixed growth stimulated by the intermittent restocked water bodies with appropriate fingerlings to increase productivity. Livestock production recorded almost stagnated growth over the years (Government of Kenya, 2020) Figure 7.2.

Figure 7.2: Trend of growth agricultural output, 2015-2019

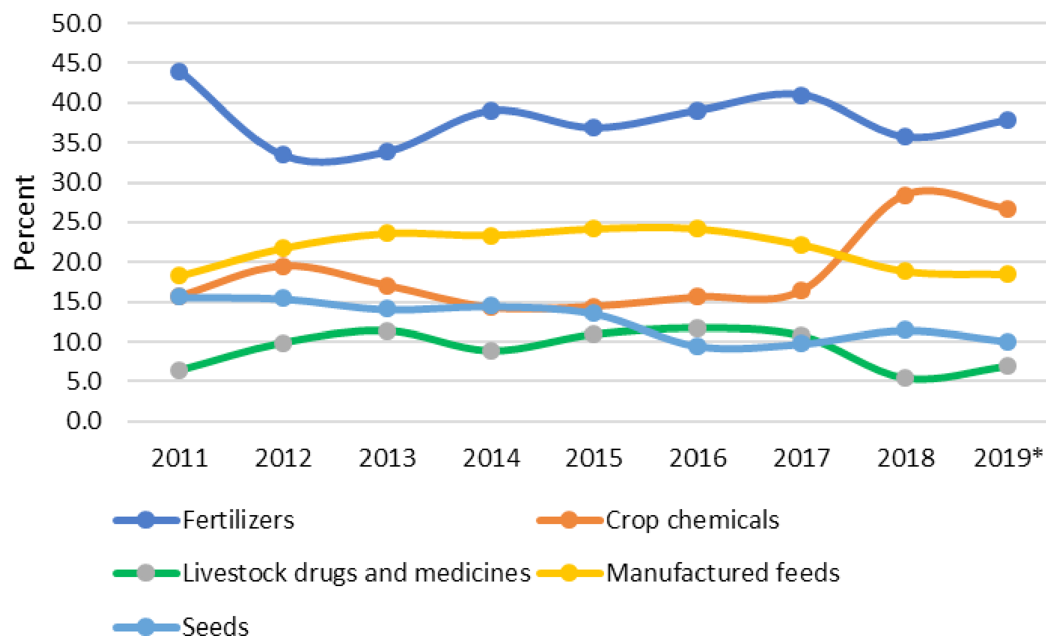


Data Source: KNBS (2020), Economic Survey

7.2 Trends in Input Use

Despite the growing aggregate value agricultural output, the yield gap for most crops has been widening over the last five years. For instance, there is an estimated 50 per cent yield gap in maize production, and 70 per cent yield gap in legume production (van Loon et al., 2018; KIPPRA, 2020). To reduce this yield gap, input use and adoption of technological factors such as irrigation, fertilizers, pesticide use, improved seeds, and agricultural mechanization needs to be increased. Figure 7.3 shows the proportion of inputs used in the sector over the last eight years. Fertilizer accounts for 38 per cent, manufactured feeds 22 per cent, crop chemicals 18 per cent, and livestock vaccines and drugs 9 per cent. This points towards continuous efforts that the Government had made through the fertilizer subsidy programme. However, the gains on this investment are yet to be realized due to several challenges, including weather variability which has resulted in frequent drought and floods, and high pest and disease incidences. Notwithstanding, there are other factors that affect the amount of inputs used for production, including: production system, technical knowhow, supply, quality and the cost of the inputs.

Figure 7.3: Proportion of input use, 2011-2019



Data Source: KNBS (2020), Economic Survey

7.2.1 Input use for crop production

1. Fertilizer use for improved productivity

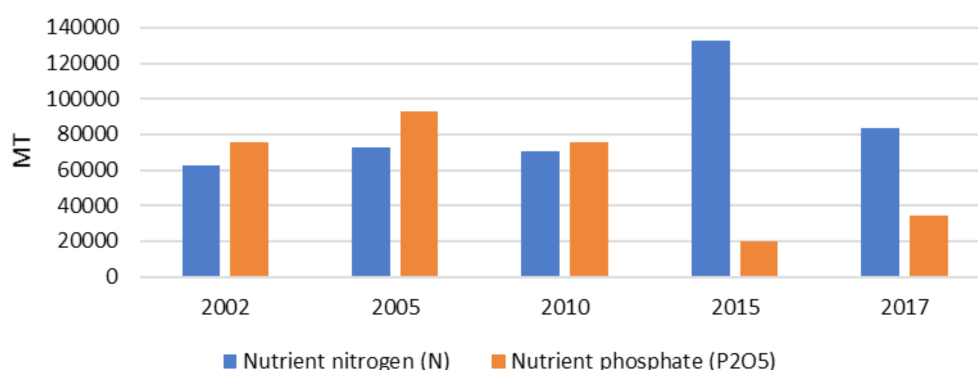
Farmers in the country use an average of 30kg/ha fertilizer, which is far below the 50kg/ha recommended under the Abuja Declaration of 2006. Empirical evidence suggests that fertilizer use is rising rapidly, although this trend is concentrated in certain agro-ecological regions. There is increasing use of nitrogen-based fertilizer (Figure 7.4). Despite increased fertilizer use, the yields from smallholder farmers has been stagnant and well below what is obtained by many commercial farmers. Most farmers lack the financial resources to purchase enough mineral fertilizers to replace soil nutrients. The situation is further aggravated by the fact that even the farmers using the inorganic inputs hardly use the recommended rates (60 kg/ha) with most of them applying less than 20 kg/ha (Marenya and Barrett, 2009; Mutegi et al., 2012).

According to the Kenya Integrated Household Budget Survey (KIHBS) 2015/16 (KNBS, 2016), 47 per cent of households use inorganic fertilizer, while 14 per cent use organic fertilizer and a further 14 per cent use both inorganic and organic fertilizer to produce their crops. Intuitively, it is clear that commodity grants (tea, coffee and horticulture) are the largest distributors of fertilizer; they constitute 52 per cent, followed by the private sector who distribute 12 per cent with the Government distributing only one per cent. This indicates, to some extent, the level of use, which points towards higher consumption of fertilizer in cash crops production compared to food crops. These findings highlight the role of the private sector in the distribution of fertilizer, which could be upscaled to increase accessibility and use of fertilizer.

Table 7.2 shows where households buy their fertilizer. It is evident that the private stockists and companies and farmers associations distribute most of the inorganic fertilizers. However, the Government and farmer associations distribute the largest share of both inorganic and organic fertilizers. When smallholder farmers are considered (Table 7.3) the Government and NGOs stand out as the main distributor of fertilizer. Most of the distribution is part

of the subsidy programmes. As is expected, most of the organic fertilizer used is from own production or from other farmers. The use of both inorganic and organic fertilizer coupled with Integrated Soil Fertility Management (ISFM) approaches can contribute to increased soil fertility, which results in increased yield, and thus closing in the yield gap (Roobroeck et al., 2015).

Figure 7.4: Trends in fertilizer use, 2002-2017



Data Source: Ministry of Agriculture, Livestock and Fisheries - MoALF (2018)

Table 7.2: Source of fertilizer at household level by type (%)

Fertiliser type	Private stockists and companies	Other farmers	Cooperatives Societies/ Farmers Associations	Government subsidized	NGOs	Commodity grants	Own Production
Inorganic	51.6	6.4	43.2	37.1	37.7	32.8	4.8
Organic	4.3	62.5	4.3	3.0	11.5	45.2	68.2
Both	18.6	5.8	38.5	20.1	13.4	0.0	9.2
None	8.7	12.2	3.1	17.1	8.0	22.0	13.2
N/A	16.7	13.1	11.0	22.8	29.5	0.0	4.6

Data Source: KNBS (2016), KIHBS 2015/16

Table 7.3: Source of fertilizer at household level by type for smallholders (0-5 ha) (%)

Fertiliser Type	Private stockists and companies	Other farmers	Cooperatives Societies/Farmers Associations	Government subsidized	NGOs	Commodity grants	Own Production
Inorganic	77	16	57	80	76	0	6
Organic	3	75	4	1	2	67	80
Both	19	5	37	18	21	0	10
None	1	2	1	0	1	33	4
N/A	1	0	0	0	0	0	0

Data Source: KNBS (2016), KIHBS 2015/16

Under the "Big Four" agenda for 100 per cent food security in Kenya, there is a goal to have 50 per cent of fertilizer blended. Blending fertilizer enables the production of fertilizer that is specific to certain areas and with the needed nutrients according to the soil types. The most common fertilizers used in dry blends include urea, triple super phosphate (TSP), diammonium phosphate (DAP), and potassium

chloride (KCl) (Government of Kenya, 2018). Most farmers apply only DAP in small amounts of secondary and micronutrients, making soil acidic, due to inherent soil factors, fertilizer acidification, and lack of corrective liming, a challenge in many parts of the country (Roobroeck et al., 2015).

County Governments need to step up efforts to provide integrated soil fertility management as part of their extension packages, including soil analysis and mapping, supported by recommendations on soil fertility management from the national research institutes. Usually, the large commercial farmers can get their soil and plant analysis done, with professional recommendation before they buy fertilizers. This is not the case for smallholders who grow a multiple number of crops using blanket fertilizer recommendations because they cannot afford soil and plant analysis (Marenya and Barrett, 2009; Mutegi et al., 2012).

2. Seed use for improved productivity

Farmers are involved in multiple seed systems, depending on the crop or animal that they intend to produce, and in most cases participate in both formal and informal seed systems. The formal seed system has most of the activities, i.e, breeding, seed production and distribution organized and undertaken by public institutions and large corporate entities and in most cases the seed is classified as certified (Government of Kenya, 2010; Munyi and De Jonge, 2015). This seed is guaranteed to produce higher yields when compared to other seed types.

According to the KIHBS 2015/16 data, over 90.0 per cent of certified seed is distributed by the Government and NGOs and 87.0 per cent of the uncertified seed is based on the farmers own production. The smallholder farmers get their certified seed from Government (92.0%) and NGOs (94.3%); these, intuitively, are subsidy programmes. The farmer cooperatives and seed stockists also play an important role in distribution of certified seed. The direct importations (41.0%) and under contract (80.0%) are horticultural crops, specifically vegetables for export (Table 7.4).

Kenya is only self-sufficient in the production of certified seed maize, and is wanting in the production of seed for other crops such as wheat, potatoes and horticultural crops (Government of Kenya, 2010; Funk and Karimi, 2012). Several initiatives have been undertaken to increase the availability of certified seed since 2010 but the situation remains largely the same.

Vegetative and open pollinated varieties are mainly seedlings, cuttings and suckers which tend to be more delicate regarding quality control because they are easy to propagate. A lot of horticultural crops fall in this bracket. In this case, concerted efforts are required in providing extension services and training farmers to facilitate production of clean planting material that are high yielding.

To enable the development of the seed industry in the country, there is need to revise and harmonize several Acts that govern the sector, and which cause duplication and conflict of mandates. The revision will allow for issues such as market liberalization, Sanitary and Phytosanitary (SPS) regulation and even provide for bio-science innovations such as genetically modified seed.

Table 7.4: Source of seed used by households by type of smallholder (0-5ha) (%)

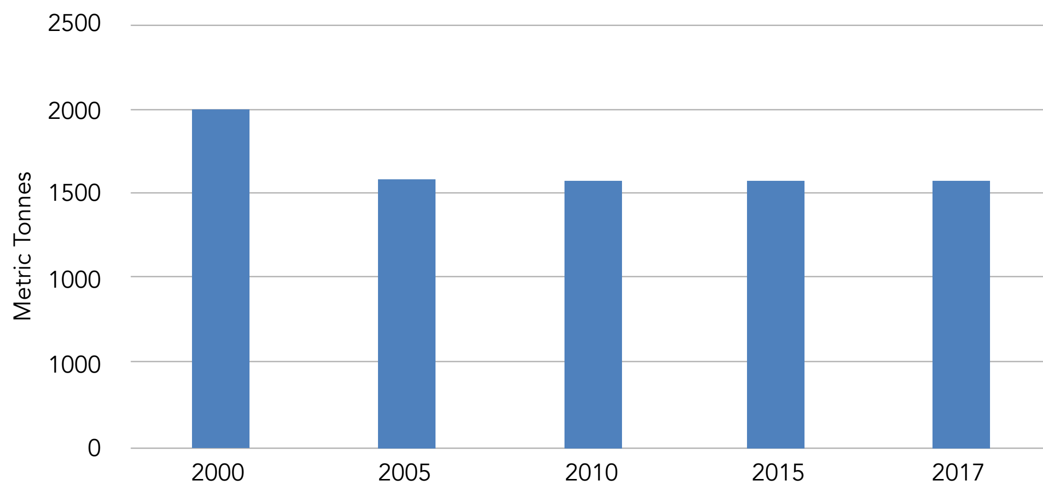
	Stockist/ Retailer	Other farmers	Nursery	Cooperative society	Government	NGO/ FBO	Own Production	Direct Import	Under contract	Other
Certified seed	73.4	2.8	7.6	81.2	92.0	94.3	2.1	40.9	80.4	15.0
Uncertified seed	25.8	84.2	3.5	5.2	4.0	4.6	88.1	40.9	10.0	77.6
Seedlings	0.6	2.1	85.1	9.5	1.5	0.2	2.0	9.7	0.0	1.8
Cuttings	0.1	7.3	0.9	1.7	2.0	0.1	4.8	8.5	9.5	5.1
Suckers	0.1	3.6	2.9	2.4	0.5	0.7	2.9	0.0	0.0	0.4
DK	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1

Data Source: Kenya National Bureau of Statistics (2016), KIHBS 2015/16

3. Pesticide use for crop production

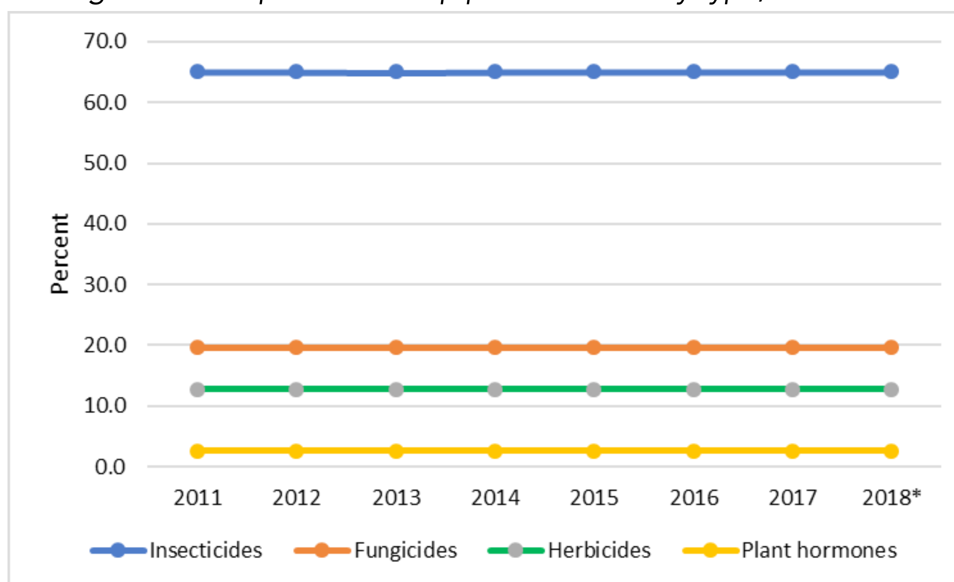
About 25-35 per cent loss in agricultural produce is caused by pests and diseases, which can be controlled by use of pesticides. Over-use of pesticides can lead to dangerous levels of hazardous chemicals entering the food chain. Fresh fruit and vegetables are being consumed in increasing quantities and it is this fresh produce that is most susceptible to pesticide residues. Figure 7.6 shows that the most commonly used pesticides are insecticides, implying that insect pests are a challenge. Figure 7.6 also shows the total amount of pesticide used in agriculture.

Figure 7.5: Amount of pesticide use in agriculture



Data Source: FAOSTAT (2019)

Figure 7.6: Proportion of crop pesticides use by type, 2011-2018



Data Source: KNBS (2019), Economic Survey

There are various policies and regulations about the import, export, registration, distribution, manufacture, and disposal of obsolete pesticides. However, implementation of most of the policies and regulations is rather weak. There are gaps that require attention to prevent the accumulation of obsolete pesticides, although disposal of obsolete pesticides requires huge investments (Kaigwara et al., 2002; Loha et al., 2018).

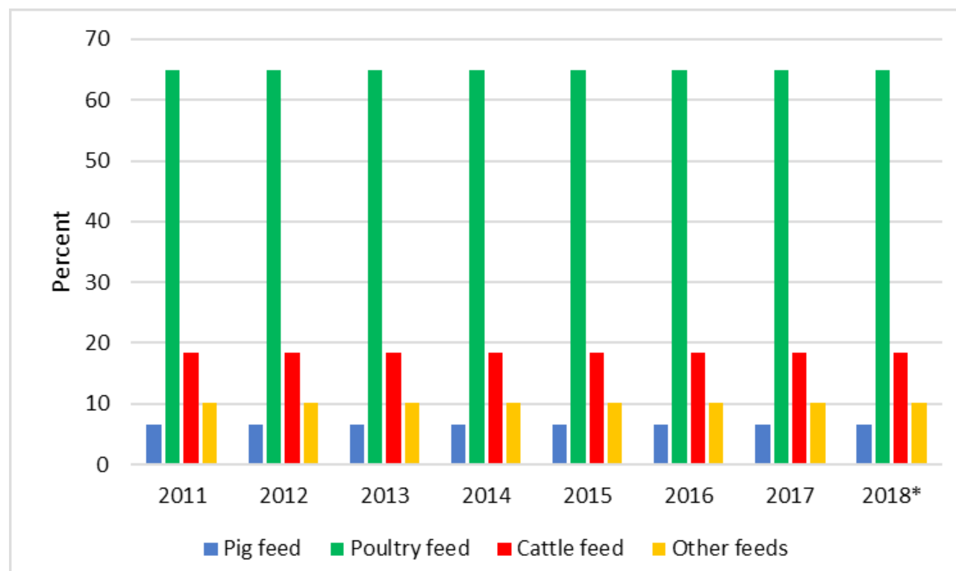
Stakeholders (pesticide importers, distributors, and retailers, farmer associations) make efforts to seek ways that would ensure the sector can promote and implement self-regulation (USAID, 2014). The Stockholm Convention is a global agreement whose objective is to protect human health and the environment from Persistent Organic Pollutants (POPs). POPs are a group of organic chemicals that have been intentionally or inadvertently produced and introduced into the environment. Due to their stability and transport properties, they are now widely distributed around the world, and are even found in places where they had never been used and are known to effect toxicity. Given their long half-lives and fat solubility, they tend to bio-magnify along the food chain in living organisms, particularly in long-lived species at the top of the food chain. POPs appear at higher concentrations in fat-containing foods, including fish, meat, eggs and milk (Kanja, nd).

7.2.2 Input use for livestock production

1. Manufactured feeds

The use of manufactured feed is gaining traction in commercial intensive production systems such as poultry because these feeds assure uniformity of quality, and thus give the nutrient balance needed for optimal growth (Figure 7.7). Empirical literature shows that poultry are among the affordable livestock for the poor, and improving their production level can improve the livelihood of the village farmers, and thus serve as a stepping stone out of extreme poverty (Byarugaba, 2007; Kryger et al., 2010; Magothe, et al., 2012; Dessie, 2013). However, the majority of poultry are still kept by smallholders in less intensive systems. The advantages of these systems are the low levels of inputs that they require and the unique products they produce. These systems are practiced by people who have few other options and it is important that they survive as long as they are needed for social reasons, food security and livelihood support. The paper utilizes a Sustainable Livelihoods Framework to review how smallholder poultry contributes to households and livelihoods. It finds that social-capital aspects of smallholder poultry production have been given little attention in research and or in devel- opment projects. Poultry has played, and still plays, important social and cultural roles in the life of rural people, not least for building social relations with other villagers. Institutional structures are not favourable to smallholder poultry production. The interventions that could enhance productivity are well recognized, but the animal health services needed to promote these interventions are, in general, poorly developed. Models for developing animal health services for smallholders are also well known, but the regulatory reforms needed are not implemented. We hope this report will provide accurate and useful information to its readers and any feedback is welcome by the author and the Animal Production Service (AGAP. Indigenous poultry are the most popular and common farm species. According to the Kenya Poultry Farmers Association (KEPOFA), the poultry population stands at 32 million, of which 6 million are commercial hybrids and the rest are indigenous birds. They contribute significantly to the socio-economic and nutritional needs of an estimated 21 million people, many living in rural areas.

Figure 7.7: Manufactured feeds, 2011-2018



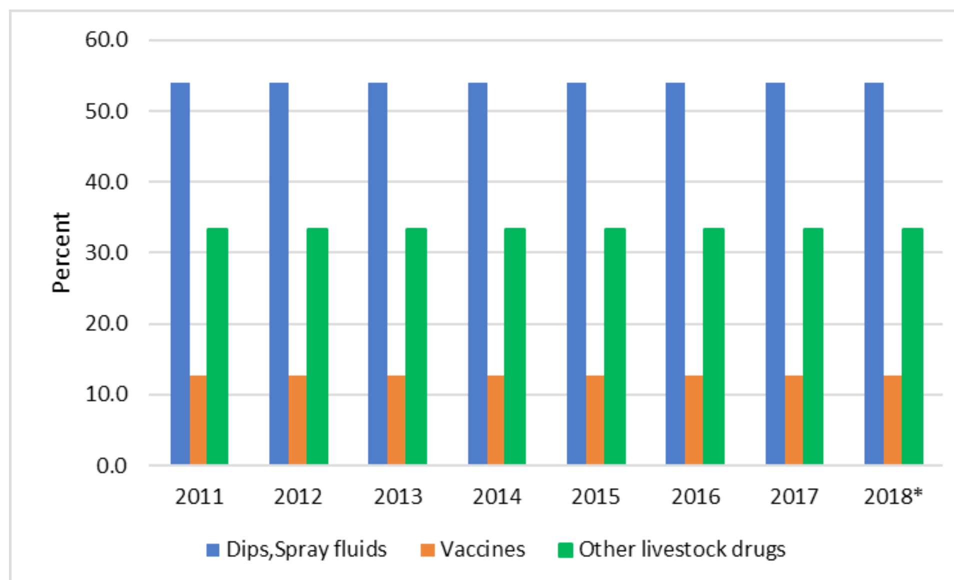
Data Source: KNBS(2019), Economic Survey

2. Pesticide use in livestock production

Many animal diseases have mortality rates of between 50 and 90 per cent in susceptible animals, depending on the species, age, nutrition and breed of the animal. The most common diseases are Anthrax, Brucellosis, Rift Valley Fever (RVF), Avian Influenza, Avian Tuberculosis, Foot and Mouth disease, and Rinderpest. Common pests include tick, tsetse fly, horn flies and horse bot.

In livestock production systems, it is evident that dip, and spray fluids are the most commonly used (Figure 7.8). This implies that insect pests such as tick are predominant and are a problem because they transmit diseases, produce paralysis or toxicosis, and cause physical damage to livestock. Most farmers use handheld spraying machines as the community managed dips are not operational is most areas.

Figure 7.8: Proportion of animal pesticide use by type, 2011-2018



Data Source: KNBS (2019), Economic Survey

Issues of animal health, such as sale of veterinary medicines and vaccines, and provision of clinical services or vaccinations have largely become private sector-driven. Surveillance, early warning, laboratory diagnostic services, planning, regulation and management of disease-control programmes and assurance of the quality and safety of animal products is managed by both the National and County Government. However, challenges exist since devolution mainly in the management of epidemic and trade-related diseases due to the 'broken' chain of veterinary command that requires a systematic and coordinated notification of disease outbreaks, and response to disease emergencies and management of national disease-control programmes (FAO, 2018; Njehu et al. 2018).

7.3 Land Use Patterns and Inclusive Growth

Land is important as a factor of production; the agricultural land holding sizes are becoming smaller, implying that for any productivity gains to be achieved, technology that promotes intensification of production systems must be applied. Comparisons of three household-based surveys show the increase in importance of small scale holdings. There has been a 55 per cent growth in the number of smallholder farms (0- 5 ha) from 2.22 million in 1994 to 7.63 million in 2015/16, and a 71 per cent reduction in the number of farms between 5 and 10 hectares from 93,871 to 15,821. For farm holdings that are more than 10 hectares, there has been a reduction of 86 per cent from 92,498 to 6,714 (Table 7.5). There is need to implement the county spatial plans on land use to facilitate the development and use of the land resource in a sustainable manner. Small parcels of land negate economies of scale, thus increases the cost of production and makes agricultural enterprises less competitive.

Table 7.5: Farm structure in the country

Size of holding	Number			
	1994	**2005/06**	**2015/16**	**% change in numbers**
0 -5 ha	2,217,706	2,972,031	7,638,834	55
5 -10 ha	93,871	17,451	15,821	-71
more 10 ha	92,498	19,493	6,714	-86
Total	**2,404,075**	**3,008,975**	**7,661,369**	

Data Source: KNBS (Various), KIHBS 1994, 2005/06 and 2015/16

Despite this transformation in land holding size, there are 422,513 parcels of agricultural holding that are more than 10 hectares and are not being used for productive purposes. Table 7.6 shows the distribution of land parcels at county level. Meru and Kakamega have the largest proportion of smaller land parcels. The population density in these two counties is 220/km^2 and 618.4/km^2, respectively, compared to the national population density of 94/ Km^2 (KNBS, 2020). The counties that have the largest proportion of idle land include Nairobi County (mainly because of the National Park, which cannot be considered for agricultural use) Kilifi, Homa Bay, Bungoma, Nakuru and Kakamega counties. This is an interesting mixture of counties, and further investigation is required (KIHBS, 2015/16) to ascertain this finding.

Table 7.6: Proportion of farm structure by county

No.	County	Operated Parcels (Ha)			Not Operated Parcels (Ha)
		0 - 5	**5 - 10**	**> 10**	**> 10**
1	Meru	**6.08**	8.51	0.00	0.84
2	Kakamega	4.68	0.00	0.00	**9.22**
3	Murang›a	4.64	0.00	0.00	0.71
4	Makueni	3.90	**14.84**	0.00	1.16
5	Migori	3.88	0.00	0.00	0.42
6	Homa Bay	3.88	0.00	0.00	**8.10**
7	Kitui	3.84	0.00	0.00	2.51
8	Nakuru	3.78	0.00	0.00	**5.25**
9	Siaya	3.58	0.00	0.00	1.47
10	Bungoma	3.56	0.00	0.00	**11.85**
11	Machakos	3.36	**17.35**	0.00	1.32
12	Kisii	3.24	0.00	0.00	2.23
13	Nyeri	3.12	0.00	0.00	0.41
14	Kisumu	3.07	0.00	0.00	0.74
15	Kericho	2.62	0.00	0.00	2.60
16	Kilifi	2.51	0.00	4.95	**13.46**
17	Nandi	2.44	6.08	3.75	0.60
18	Nairobi City	2.39	0.00	0.00	**14.40**
19	Trans Nzoia	2.39	**20.47**	0.00	0.62
20	Nyamira	2.29	0.00	0.00	2.65
21	Nyandarua	2.26	0.00	0.00	0.58
22	Kirinyaga	2.20	0.00	0.00	0.87
23	Narok	2.18	10.79	**14.42**	2.41
24	Kiambu	2.18	0.00	0.00	0.00
25	Baringo	2.17	1.18	0.00	0.06
26	Kwale	2.07	0.00	0.00	0.68
27	Bomet	2.02	0.00	3.64	0.04
28	Embu	2.00	0.00	1.20	0.22
29	Uasin Gishu	1.99	9.62	2.88	3.04
30	Tharaka Nithi	1.83	0.00	1.83	1.16
31	Vihiga	1.74	0.00	0.00	0.51
32	West Pokot	1.56	0.00	0.00	0.10
33	Busia	1.50	0.00	4.66	3.51
34	Elgeyo Marakwet	1.47	5.41	4.31	0.51
35	Taita Taveta	1.09	0.00	2.19	0.35
36	Laikipia	0.85	0.00	0.00	1.03
37	Kajiado	0.43	4.89	6.21	0.86
38	Tana River	0.31	0.79	0.00	0.78
39	Turkana	0.26	0.00	1.40	0.51
40	Lamu	0.23	0.08	0.00	0.03
41	Mombasa	0.17	0.00	0.00	1.62

No.	County	Operated Parcels (Ha)			Not Operated Parcels (Ha)
42	Samburu	0.14	0.00	0.00	0.18
43	Marsabit	0.05	0.00	0.00	0.08
44	Isiolo	0.02	0.00	0.00	0.29
45	Garissa	0.02	0.00	1.59	0.00
46	Wajir	0.00	0.00	0.95	0.00
47	Mandera	0.00	0.00	**46.04**	0.00
	Total	100	100	100	100

Data Source: KNBS (2016), KHIBS 2015/16

7.4 Enablers for Inclusive Agricultural Growth

7.4.1 Irrigation for increased production

Kenya is a water-scarce country, with varied water resources in time and between regions. Generally, there are two rainy seasons, with the total yearly water withdrawal estimated to be over 2.7km^3, or less than 14.0 per cent of resources thus the need to use these limited water resources prudently (UN, World Water Assessment Report 2006).

As a result of climate change, there is increasing variability in weather patterns resulting in frequent drought seasons, making reliance on rain-fed agriculture a challenge and necessitating the need for irrigated agriculture. There are three categories of irrigation schemes in the country, namely: private schemes - these are usually part of commercial run enterprises usually and are developed, owned and managed by the companies; smallholder community irrigation schemes owned, operated and managed by communities; and finally the public schemes which are managed by the National Irrigation Board (NIB).

Data from four NIB-managed schemes shows that they are mainly used for rice production and are modelled such that smallholders can participate by leasing plots in the scheme. In many cases, these plots are used for horticultural and rice production, a good example being the Mwea Irrigation Scheme. This scheme has recorded growth in several areas including: area under irrigation, number of small-scale holders involved, output and resultant incomes. The scheme is considered a success because when compared with the other three schemes (Ahero, Bunyala and West Kano), Mwea records the largest proportions in all aspects (Table 7.7).

The provision and management of large scale irrigation by Government agencies and allowing smallholder farmers to lease plots as is the case of Mwea Irrigation Scheme is an example of inclusivity. It allows for several farmers to participate in the rice value chain. In addition, there is technology on water use efficiency that allows farmers to deliver water directly to the plant thus, enabling the farmer to control the time, location, and quantity of water applied. Examples include: drip irrigation systems, water harvesting ponds, dam lining, use of gravity and solar pumps and greenhouse management, etc. These technologies coupled with drought resistant crop varieties ensure that productivity is enhanced.

Table 7.7: Productivity indicator for different irrigation schemes, 2013/14-2017/18 (%)

Mwea	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18***
Hectares cropped (ha)	54.8	76.0	72.9	78.1	84.3
Number of plots-holders	45.4	55.0	55.0	44.0	54.8
Paddy yields (tonnes)	73.3	78.7	77.6	73.0	79.9
Gross value of output (Ksh millions)	85.4	85.3	83.3	81.0	87.9
Payments to plot-holders (Ksh million)	75.4	86.8	85.8	83.7	91.5
Ahero					
Hectares cropped	6.4	12.1	6.4	3.3	2.4
Number of plots-holders	6.0	7.2	4.3	5.5	6.4
Paddy yields (tonnes)	7.7	6.8	6.4	9.5	4.1
Gross value of output (Ksh millions)	5.5	3.9	4.0	7.6	2.6
Payments to plot-holders (Ksh millions)	5.3	6.1	3.4	7.7	2.3
Bunyala					
Hectares cropped	3.2	5.0	4.8	3.0	2.3
Number of plots-holders	1.6	1.9	10.7	8.5	9.9
Paddy yields (tonnes)	4.5	3.9	4.5	4.5	3.3
Gross value of output (Ksh millions)	3.7	2.7	2.8	3.1	2.0
Payments to Plot-holders (Ksh millions)	3.5	2.4	2.3	3.2	1.7
West Kano					
Hectares cropped	2.0	2.8	4.6	4.1	2.7
Number of plots-holders	4.9	6.0	6.3	5.0	5.8
Paddy yields (tonnes)	4.5	1.8	4.6	5.0	4.0
Gross value of output (Ksh millions)	4.9	4.9	2.9	3.3	2.3
Payments to Plot-holders (Ksh millions)	5.0	5.8	2.4	2.4	1.9

Data Source: KNBS (2019), Economic Survey

7.4.2 Agricultural marketing

Marketing is critical for stirring derived demand for agricultural products. Further, an efficient agricultural marketing system leads to optimization of resources use and output management, implying that if intensification process such as the expansion of the technical innovations and improving efficiencies in the production system (Benin and Nin -Pratt, 2016) were employed then it would be possible for the producers to experience increased outputs.

Small farms continue to produce 73.0 per cent of total marketed production, emphasizing that the countries' agriculture is predominantly based on small farms, which can produce surplus that goes to the market in basic form without any value added (KNBS, 2019) (Table 7.8). There are efforts to facilitate the transition of small farms into commercial farms that are integrated along different value chains to facilitate some level of value addition.

Table 7.8: Gross marketed production from large and small farms, 2012-2018

	Large farms		**Small farms**		**Total**		**%**
Year	Ksh million	Annual change	Ksh million	Annual change	Ksh million	Annual change	Share of small farms (%)
2012	93,867	0.7	250,725	5.1	344,612	3.9	72.8
2013	90,375	(3.7)	244,468	(2.5)	334,843	(2.8)	73.0
2014	87,998	(3.0)	239,131	(2.5)	327,129	(2.7)	73.1
2015	101,219	15.0	272,238	13.9	373,502	14.2	72.9
2016	111,591	10.4	301,709	11.0	413,300	10.8	73.0
2017	119,328	6.9	327,593	8.6	446,921	8.1	73.3
2018*	133,933	12.2	363,959	11.1	497,891	11.4	73.1

Data Source: KNBS (2019), Economic Survey

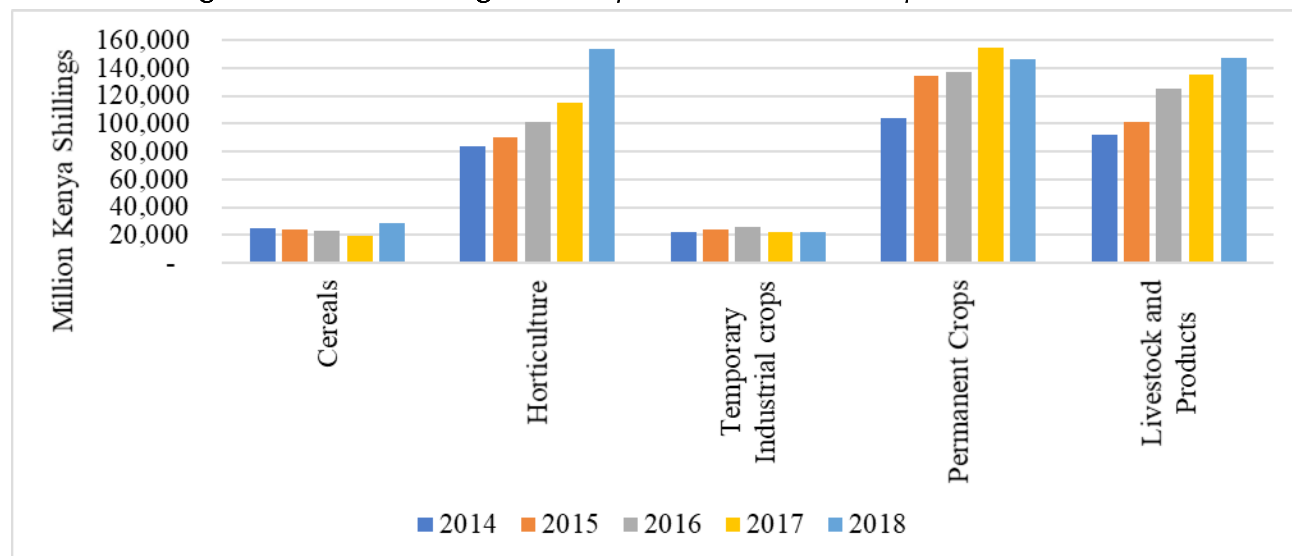
(a) Cereals

Generally, the value of marketed agricultural produce for all the broad categories has been increasing steadily over time. Cereals (maize, wheat, etc) have, however, stagnated (Figure 7.9). This can be attributed in part to market failure for these commodities, occasioned by Government in both the input and output markets. Wheat has a similar structure where market failure has resulted in stagnated growth of the commodity, necessitating the continued need for imports to meet domestic demand. A study carried out by KIPPRA in 2010 on price control (Odour, et al., 2010) recommended that for cereal products to thrive, there is need to liberalize the storage and bulk handling of these products in addition to providing an enabling environment that facilitates competition and curtails monopolies.

(b) Horticultural production

Horticultural production, characterized by a vertically integrated value chain facilitated by institutional innovations and investments that support smallholder production, has continued to record increased production and exports. Smallholders have proven that it is possible to meet the stringent consumer-driven standards that are a perquisite to their participation in the exports market. These customer-driven standards are stringent and complex; however, they assure food safety, protect worker's health and the environment (Agriculture and Food Authority - AFA, 2019).

Figure 7.9: Marketed agricultural production at current prices, 2014-2018



*Horticulture is fresh exports data only

Data Source: KNBS (2019), Economic Survey

(c) Temporary industrial crops

Temporary industrial crops include sugarcane, pyrethrum, sisal and cotton. These commodities have declined in production and the country continues to import their by-products to satisfy domestic demand. Kenya will continue importing sugar for the foreseeable future. Proposals have been made to revive these commodities but none is showing positive results. For instance, there have been proposals to privatize sugar factories to improve their competitiveness. For all the commodities, there is need to adopt new varieties that are more yielding to improve the return to the farmers.

(d) Permanent crops

The role of coffee in the sector has fallen steadily over time with the volatile world market prices compared to that of tea. Tea and coffee dominate permanent industrial crop production. Tea currently appears to be a success story. Production is at record levels, prices are high, and there have been recent investments in expanding the number and capacity of smallholder factories. Kenya is among the world's largest exporter of black tea.

(e) Livestock and livestock products

The livestock industry has a high degree of vertical linkages with upstream and downstream industries. It is a significant user of products from feed, drugs, vaccines and equipment manufacturing industries and is a provider of raw materials (milk, skins and hides) for agro-processing industries, thereby creating opportunities for employment and improving household incomes.

7.4.3 Smallholder participation in markets

Smallholders participate in domestic food markets and international markets as suppliers of raw material, despite these markets being highly diverse. In the case of international markets, the raw food material is processed and traded by a third party. Facilitating smallholders to participate in these value adding processes can help to create employment and contribute to local, social and economic development. These benefits of value addition will go a long way in improving their livelihoods (Poole and Poole, 2017).

Vertically integrated value chains offer vast opportunities to generate income, but there are also

risks associated with longer food value chains in which external factors play a bigger role and smallholder farmers have less control over input and output prices. Internationally traded commodities such as tea, horticulture and coffee generate demand, offer lower margins for smallholders, and are affected by speculation necessitating the use of both loose and bidding contracts with actors involved in upstream marketing activities (CFS, 2016; Poole and Poole, 2017; Sara, 2010; Simo, 2013).

Empirical evidence shows that producer organizations have recorded relative success in assisting smallholders navigate the marketing system by providing an array of services, including improved market information and food safety guidelines, and focusing on value-added production and marketing. In Kenya, however, the results are mixed; cooperatives previously handled over 72.0 per cent of coffee sales, 95.0 per cent of cotton sales, 76.0 per cent of dairy produce sales, and 90 per cent of pyrethrum sales. However, with the exception of dairy cooperatives whose share in the total market has remained stable (examples include Githuguri Dairy, a successful cooperative that is involved in the milk production value chain both downstream and upstream) most of the other cooperatives are struggling to stay float (Government of Kenya, 2018; Wanyama, 2009). Table 7.9 shows that most of the cooperatives in the sector were coffee (40%) followed by diary (27.0%).

Table 7.9: Membership of cooperative societies by type of society, 2013-2018 (%)

Type of Society	2013	2014	2015	2017	2018*
Coffee	44.9	43.7	42.7	40.6	40.3
Dairy	22.7	24.5	25.3	26.9	27.4
Multi-purpose	8.2	8.3	8.5	9.3	9.7
Other agricultural	8.6	8.6	8.7	9.3	9.6
Pyrethrum	4.4	4.2	4.1	3.9	4.0
Sugar	3.0	2.8	2.8	2.2	2.2
Farm purchase	3.9	3.8	3.8	3.7	3.7
Fisheries	2.2	2.3	2.3	2.2	2.3
Cotton	2.0	1.9	1.8	1.9	1.9

Data Source: KNBS (2019), Economic Survey

7.4.4 Information technology communication and agriculture production

Digital platforms allow for several actors to be reached and included along the value chain by delivering different services, and is thus an indicator for inclusivity. Most agriculture-ICT initiatives in Kenya are ran by Government-led projects or programmes. The Kenya Agricultural Information Network (KAINET, 2012) is an information network set up to promote information exchange among stakeholders in the agricultural sector to support decision making, promote innovation in agriculture and subsequently improve livelihoods. It aims to modernize and increase productivity of the agricultural sector. KAINET was initiated in April 2006 in response to demand from the national and international community to promote information exchange and access among stakeholders in the agricultural- sector. There are broadly five types of digital services (CTA, 2019; FAO, 2013) that are available namely:

1. Advisory and information services

Digitally delivered information on topics such as agronomic best practices, pests and diseases, weather and market prices, and more sophisticated digital advisory services and farm management software tailored to the specific farmer, farm or field that enable smallholder farmers to make decisions

that maximize output from their land, improve the quality of agricultural production and maximize farm revenues and profits through lower costs of production, improved ability to identify markets and/or better price realization.

2. Market linkages

Digitally-enabled solutions that link smallholder farmers to high-quality farm inputs (e.g., seeds, fertilizers, herbicides/pesticides), production and post-harvest machinery and mechanization services (e.g., irrigation, tractors, cold storage), or off-take markets, including agro-dealers, wholesalers, retailers, or even to end-consumers. Digital market linkage solutions allow smallholder farmers to lower their costs of production through access to lower-cost and/or higher-quality inputs, reduce the costs and risks of finding and transacting with buyers, and ultimately increase their yields and incomes.

3. Supply chain management

Digital supply chain management solutions are business-to-business services that help agribusinesses, cooperatives, nucleus farms, input agro-dealers and other smallholder farmer value chain intermediaries to manage their smallholder relationships in ways that lower costs through greater efficiency, improve value chain quality through better traceability and accountability and ultimately increase smallholder farmer yields and incomes by making it easier for more commercial players to formally engage with large numbers of smallholder farmers.

4. Financial access

Digital Financial Services (DFS) relevant for smallholder farmers, such as digital payments, savings, smallholder credit, and agricultural insurance, which increase financial access and equip smallholder farmers to improve yields and incomes and invest in the longer-term growth of their farms (e.g., via better inputs, mechanization and expansion to new crops). Also includes business-to-business digitalization and data analytics services for financial institutions that enable such institutions to serve smallholder farmers at substantially lower cost and risk.

5. Macro agricultural intelligence

Data analytics solutions and digital decision support tools that integrate a variety of data sources on smallholder farmers, farms and markets and convert this information into useful country- and value-chain level insights and decision tools for Government policy makers, extension agencies, agronomists, agribusinesses and investors.

7.5 Food and Nutrition Security and Inclusive Growth

Overall, the food supply situation as monitored through the Food Balance Sheet (KNBS, 2019) reflected an improving situation, considering the population growth. The energy supply improved from 2,202 kilo calories in 2014 to 2,288 kilo calories in 2015 before declining to 2,242 kilo calories in 2018. The food Self Sufficiency Ratio (SSR) improved from 74.4 per cent in 2014 to 75.2 per cent in 2015 and increased to 89.0 per cent in 2018. In terms of per caput (per head) supply, there are improvements for most food groups except sorghum and products, sugar crops, milk and milk products (excluding butter), eggs and products, fruits (excluding wine), vegetables (tomatoes, onions, others), nuts and products and groundnuts (shelled equivalent) (Table 7.10). This implies that going forward, considerations need to be made to increase the production of these commodities, which contribute to nutrition security through provision of vitamins and micro-nutrients.

How food is produced is not the only facet of the food production system impacting the sustainability and equity of food security but how it is consumed has implications as well. Three consumption-side issues of relevance are food loss and waste, over-consumption, and competing uses of food. Due to data challenge, we expound more on food loss and waste.

Table 7.10: Trends in food availability per capita, 2014-2018

Commodity	Per caput /Year supply of Food (Kg)					Per Caput/ Day Calories				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Maize and products	68.2	60	58.6	64.2	69.5	527	524	510	497	547
Wheat and products	31.3	34.3	32	39.1	41.3	227	247	231	280	307
Rice and products (milled equivalent)	19.9	18.1	19.6	22.7	20.6	125	114	123	142	129
Millet and products	0.7	0.5	0.5	1.2	1	6	4	4	11	9
Sorghum and products	2.1	2.3	1.4	2.2	1.9	18	20	12	19	16
Pulses	27.4	29.5	27.9	29.5	28.4	253	272	257	271	262
Starchy roots	80.8	86.1	70.6	72.4	68.2	199	209	177	180	166
Sugar crops	54.2	61.1	64	11.7	13	45	50	53	10	11
Stimulants (tea, coffee, cocoa)	0	0	0	0	1.1	0	0	0	0	1
Meat	13.3	15.7	16.2	17.9	19	65	79	79	88	94
Milk and products (excluding butter)	100.2	122.3	101.5	89.4	93.3	178	216	180	158	165
Fish and sea food	4.5	4.1	3.5	4.1	4	8	7	6	7	7
Eggs and products	1.3	1.8	1.5	1.5	1.6	4	6	5	5	6
Fruits (excluding wine)	72.7	81.1	54.4	55.9	70.5	116	128	79	80	104
Vegetables (tomatoes, onions, others)	51.1	49.1	32.7	30.5	41.8	32	30	21	19	25
Nuts and products	0.9	0.9	30	0.8	1.7	9	9	0.7	6	8
Groundnuts (shelled equivalent)	2.1	2.1	3.5	0.4	0.4	25	23	6	5	4

Data Source: KNBS (2019), Economic Survey

7.5.1 Food loss and waste

Food loss and waste can occur during any stage of the food value chain, including production or harvest, handling and storage in the form of food degraded by pests, fungus, and disease.

Accurate data on the scale of food loss and waste along the different supply chain are not available. This is primarily due to lack of a universal method of measuring food loss and wastage at the country level and across the different stages of the food production and consumption chain (FAO, 2019). Table 7.11 gives an indication of the amount of food lost (extracted from the Food Balance Sheet, KNBS, 2019). As expected, losses are higher for foods that are consumed fresh such as milk, fruits and vegetables.

Table 7.11: Food losses

	Losses (1000MT)				
	2014	**2015**	**2016**	**2017**	**2018**
Maize and products	606	688	404	600	86
Wheat and products	29	33	32	41	42
Rice and products (milled equivalent	6	4	6	5	2
Millet and products	10	7	9	23	15
Sorghum and products	31	32	20	44	34
Pulses	127	150	145	162	166
Starchy roots	275	345	279	299	262
Sugar crops	0	0	0	0	0
Stimulants (Tea, coffee, cocoa)	12	7	11	5	0
Meat	0	0	0	0	0
Milk & Prod (Excluding Butter)	354	402	369	345	335
Fish & sea food	0	0	0	0	0
Eggs and products	11	15	13	2	0
Fruits (Excluding Wine)	130	119	115	137	193
Vegetables (tomatoes, onions, others)	165	166	79	79	395
Nuts and products	1	1	0	1	0
Groundnuts (shelled Equivalent)	0	0	0	0	1

Data Source: KNBS (2019), Economic Survey

(a) Food losses at household level

Reducing food losses at household level is among the instruments that can be used to improve food security, therefore identifying the cause of the loss helps in developing measures to mitigate them. Given that most households in the country are small holders any losses at household level has far reaching consequences. Losses at household level are not homogenous, therefore, to get an indication of the magnitude a sample of the counties was assessed to account for over 70.0 per cent of the losses by type using the available variables in the KIHBS 2015/16 (Table 7.12). Storage related and transport related loses account for over 90 per cent of losses for quantity larger than half a tonne. Regarding storage related losses Nyeri County (53.0%) and Trans Nzoia County (22.0%) reported the bulk of these losses for quantities above half a tonne. These counties are predominantly agricultural-based economies. Counties that reported high transport-related losses for quantities over half a ton were Migori (25.0%), Kajiado (21.0%), Bungoma (24.0%) and Nyamira (19.0%). These findings require further investigation to establish the correlation between the food losses and the production system in these counties.

Table 7.12: Causes of food losses at household level (%) by county

	Storage related				Transport related			
	<50kg	50-<100 kg	100-<500 kg	>500kg	<50kg	50-<100 kg	100-<500 kg	>500kg
Kitui	-	3	-	-	-	36	9	-
Kisumu	19	7	-	-	4			
Siaya	9	-	-	-	8	-	-	-
Migori	2	-	-	6	-	-	-	25
Meru	1	4	4	-	-	-	-	-
Kwale	13	5	-	-	13	-	-	-
Makueni	1	-	-	-	4	-	-	-
Kiambu	-	-	12	-	-	-	-	-
Uasin Gishu	1	2	4	-	2	-	9	
Kilifi	1	-	-	-	4	-	-	-
Nyeri	1	2	2	53	-	-	-	-
Murang›a	10	3	4	8	4	-	-	-
Trans Nzoia	1	5	5	22	-	-	9	-
Baringo	5	34	29	-	-	-	9	8
Nakuru	4	-	4	-	20	-	11	-
Kajiado	6	1	-	-	6	-	-	21
Kakamega	-	-	2	6	-	-	-	-
Bungoma	1	9	12	-	-	-	-	24
Nyamira	4	2	-	-	9	28	23	19
Total	**78**	**76**	**77**	**95**	**73**	**64**	**70**	**97**

Data Source: KNBS (2016), KIHBS 2015/16

(b) Household level loss during storage

It is estimated that weevils, a storage pest, accounts for an estimated 94.0 per cent of the losses for stored grains over 500kg, and over 80.0 per cent for grain between 100kg and 500kg. For the smaller quantities the losses are at about 70 per cent. This implies that measures including integrated pest management for storage pests are needed to improve storage of grains at household level. The counties most affected for quantities over half a tonne are Kiambu (57.0%), Kericho (18.0%), Tharaka Nithi (9.0%), Tana River (7.0%) and Baringo (4.0%) (Table 7.11).

Rodents account for an estimated 70.0 per cent of the loss for grains up to 500kg. Uasin Gishu County reported that 43.0 per cent of the losses between 100kg and 500kg and 27.0 per cent of losses between 50kg and 100kg were as a result of rodents. Other counties which recorded losses of between 50kg and 100kg include Kilifi with 25.0 per cent and Nakuru with 14.0 per cent (Table 7.13).

Table 7.13: Causes of food losses during storage at household level (%) by county

County	Weevils				Rodents		
	<50kg	50-<100kg	100-<500kg	>500kg	<50kg	50-<100 kg	100-<500 kg
Kitui	13	11	8		1	-	6
Kisumu	27	4	1		24	-	-
Siaya	9	4	1		15	-	-
Migori	3	1	3		2	-	-
Meru	1	4	11		-	-	-
Kwale	5	13	8		13	-	-
Makueni	2	2	5		-	-	-
Kiambu	-	-	22	57	1	-	-
Uasin Gishu	2	15	13		3	27	43
Kericho	1	4	5	18			
Tharaka Nithi	3	2	2	9			
Tana River	1	2	2	7			
Kilifi	1	3			2	25	-
Trans Nzoia					-	-	8
Baringo	1	2	2	4	3	6	-
Nakuru	1				-	14	-
Kajiado	1	3			1	-	-
Kakamega	1	3			5	-	13
Total	**74**	**73**	**82**	**94**	**70**	**72**	**70**

Data Source: KNBS (2016), KIHBS 2015/16

The estimation of the quantities of food loss and wastages from the food balance sheet and from the household level are useful indicators of how much the food security situation at household level can be improved if storage of food would be managed in an improved manner from the current situation (baseline 2015/16). On average, most households lost more than one year per caput supply of food in storage and up to seven times the annual per caput supply of food in transportation. This calls for concerted effort to encourage investment in storage and transport infrastructure for food.

7.5.2 Food poverty

Traditionally, poverty is defined in either relative or absolute terms. "Absolute poverty" measures poverty in relation to the amount of income necessary to meet the basic needs of a household, such as food, clothing, and shelter. Food poverty is argued to be driven by a variety of factors, including rapid urbanization, climate change, natural disasters, and inappropriate urban food system responses to global food system changes (KNBS, 2018).

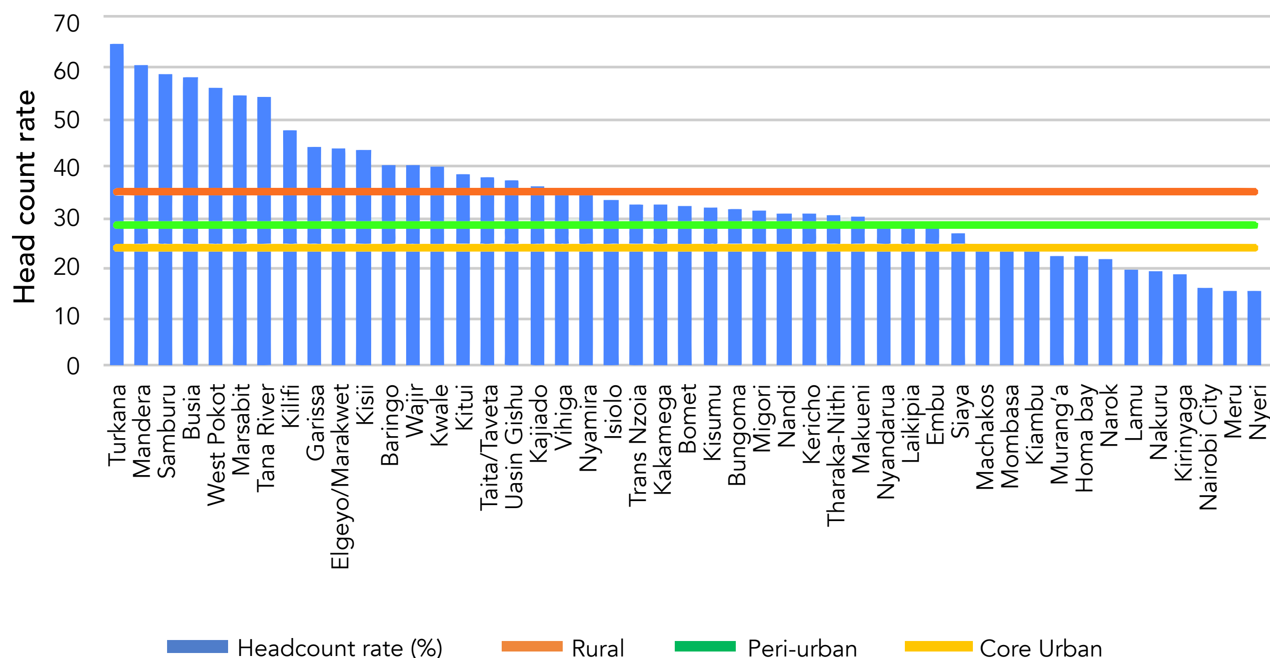
Access to food is a key dimension of food poverty. Food poverty is complex in nature: it depends not only on the buying capacity of citizens, but also on the ability to transport, store, preserve, and cook the foods they can afford to buy (FAO, 2009). Figure 7.10 gives a snapshot on the distribution of food poverty across counties in the country. It is evident that a huge proportion of Kenyans suffer from food poverty, though with varying intensities across and within counties.

Food and nutrition security requires a combination of coordinated actions in various sectors such as finance, health, energy and infrastructure. Likewise, economic growth alone will not solve the problem of food poverty (Figure 7.11). Empirical evidence shows that a 10.0 per cent increase in economic growth reduces chronic malnutrition by only 6.0 per cent (Valenti, 2015). This asymmetry illustrates that economic growth by itself will not resolve the

problem of chronic malnutrition, which is a key variable in any food and nutrition security strategy.

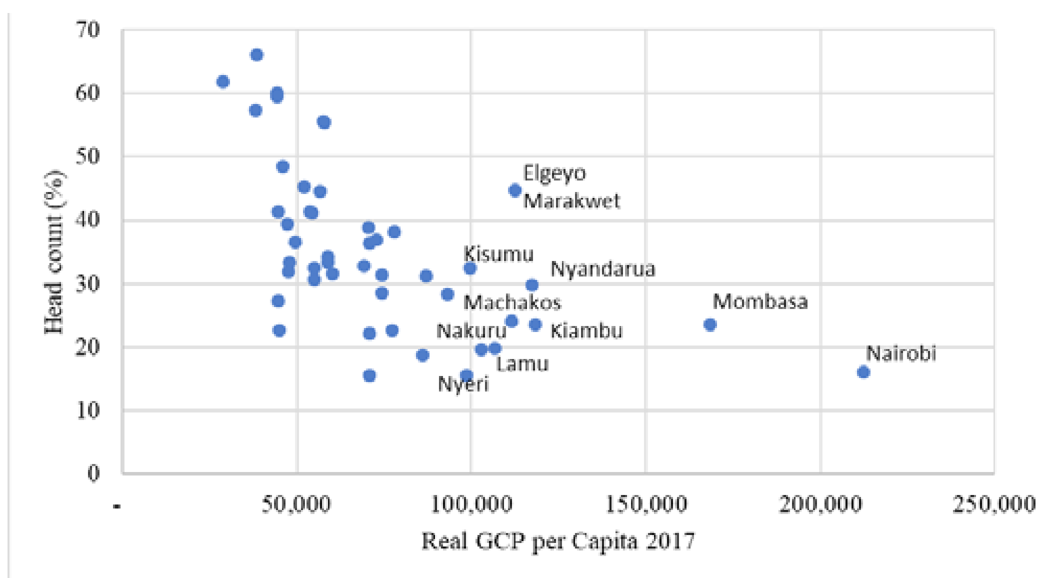
The counties that have higher gross county product per capita recorded lower food poverty head count percentage, indicating that economic growth contributes to reduction in food poverty. However, most of the counties in the county recorded less that Ksh 80,000 per capita GCP, which is low. This is worrying because agriculture is the main economic activity in almost all the counties, implying that if the sector is transformed, then food poverty will be addressed.

Figure 7.10: Food poverty estimates by county



Data Source: KNBS (2016), KIHBS 2015/16

Figure 7.11: County poverty head count (%) and GCP per capita



Data Source: KNBS (2016), KIHBS 2015/16

Smallholder farmers are the largest demographic in the agriculture sector, most of them based in the rural areas and more increasingly in the peri-urban areas. They are faced with challenges of competition for land and water, dynamic agricultural markets, rising cost of inputs and climate variability. There is need for continued support and investment in the provision of extension services to smallholders because this will help them navigate through these challenges.

Smallholders are not fully integrated into value chains and this negates their opportunities for value addition and marketing. Encouraging their participation in farmer organizations could foster economic inclusion of smallholders and increase their market power, thereby raising their incomes and productivity.

Empirical evidence shows that counties that have lower country product per capita (less that Ksh 50,000) have the highest food poverty head count rate. Food poverty is complex and considers several aspects, including aspects that are indirectly necessary in supporting agricultural productivity and competitiveness, such as transport, storage and access to markets. However, intuitively, it is difficult to establish a relationship between the counties that have high food loss and waste due to storage and transportation and high food poverty with further rigorous analysis.

Nonetheless, it is evident that small scale farmers need to adopt appropriate technology and innovation to remain competitive and improve their livelihoods. This will contribute to their food and nutrition security thus reduce food poverty.

7.6 Key Messages and Recommendations

7.6.1 Key messages

1.) The agriculture sector contributes a third of the country's Gross Domestic Product (GDP), and is the driver of growth for the economy. The sector is the source of income and employment for most households in rural areas. There has been erratic growth in total value of aggregate agricultural output between 2014 and 2018.

2.) The profitability of fertilizer use could be enhanced by improving the aggregate crop yield response rates to fertilizer application. This requires making complementary investments in training for farmers on agronomic practices, soil fertility, and efficient use of fertilizer.

3.) Pesticides provide protection of crop quality and yield, prevent large crop and animal losses, thus raising agricultural output and farm income. However, issues of safe use of pesticides and minimum pesticide residue levels need to be considered.

4.) The number of small farm sizes (0-5ha) have increased by 55.0 per cent based on a comparison between the KIHBS of 1994 and of 2015/16. This shows a growth in the number of smallholder farms (0-5ha) from 2.22 to 7.63 million. And a significant reduction in the number of farms between 5-10 hectares (-71.0%) from 93,871 -15,821 and more than 10 hectares (-85.0%) from 92,498 to 6,714. This implies that agriculture intensification is inevitable.

5.) The provision and management of the large-scale irrigation project by Government agencies that allows smallholder farmers to lease plots will enhance economic inclusion. This needs to be coupled with water use efficiency technology and drought resistant crop varieties to enhance productivity.

6.) Technological improvements will increase agricultural output and bringing down costs of food. These technologies need to be supported by digital technologies to reduce the cost of generating and exchanging information. For instance, big data, global positioning system (GPS), drones, and high-speed communication can be used to deliver extension services, optimize irrigation, pesticide and fertilizer use. Communication technologies also provide a platform for connecting farmers to markets much more effectively through innovative methods for aggregation, logistics and supply chain management.

7.) Smallholders are not fully integrated into value chains, thus incur high production costs and reduces small farmers' competitiveness. Participation in farmer organizations could

foster economic inclusion of smallholders and increase their market power, thereby raising their incomes and productivity.

8.) Reducing food losse s at household level is one instrument that can be used to improve food security and is critical for maintaining food supply. This can be achieved by investing in storage facilities at household level, supported by training on the management of produce in storage.

9.) Food poverty is evident across all counties in the country. A huge proportion of Kenyans suffer from food poverty, though with varying intensities across and within counties.

7.6.2 Recommendations

1.) Promote the adoption of better farming technologies to increase agricultural productivity and improve livelihoods. This will involve concerted efforts of both levels of Government. County Governments must reconsider agriculture development plans and put in place adequate resources in terms of human and infrastructure to support and the provision of extension services.

2.) Enhance data management for agriculture. This will provide information for the different actors along the value chain to make informed decisions. The system should include production, price, weather, pest and disease management, etc. ICT can be used to facilitate the process of collection and dissemination. Communication technologies also provide a platform for connecting farmers to markets much more effectively through innovative methods for aggregation, logistics and supply chain management.

3.) Promote nucleated land settlements for the effective management of land resources. This will allow for provision of services to support both human and agricultural development, and in the long run reduce the sub-division of agriculture land into small land parcels.

4.) Recognize that food and nutrition security is dependent on the sustainability of food supply, therefore concerted efforts are needed to reduce food losses and promote value addition to increase the shelf life of most agricultural products.

5.) Transform the agriculture sector from subsistence into commercial enterprises that can support livelihoods, reduce food poverty and contribute to economic growth. Include agricultural insurance to support the farmers by stabilizing their income, through the provision of instruments that will allow them to manage their production cycles and cushion them from risks such as price, natural disasters, weather variability, pest and disease damage.

ENABLING INCLUSIVE GROWTH THROUGH ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY SOURCES

Access to affordable, reliable, sustainable and modern energy sources is recognized as a key input for inclusive growth. Inclusive growth is premised on the multidimensional aspects of stable energy supply systems, equity in access and affordability for all. The significant progress registered in increased share of renewable energy in the total energy mix and electricity connectivity across the country is a major boost towards inclusivity. Despite the high number of connections for domestic and small consumer categories, consumption is still low and the transmission and distribution losses remain high. Wide disparities are evident in access to clean energy sources for lighting and cooking at national level, rural/urban areas and across the counties. All regions registered a high dependency on non-clean energy sources for cooking and low reliance on clean and efficient fuels for cooking purposes. To enable scale-up of clean cooking solutions, awareness campaigns on the benefits of clean energy solutions should be incorporated in the energy access programmes and affordability enhanced through inclusive approaches such as pay as you go model and subsidy for the upfront cost of Liquefied Petroleum Gas (LPG), bioethanol and biogas. An integrated planning for energy projects is important to ensure productive utilization, gender mainstreaming and reduced losses. Similarly, there is need to create awareness on the economic, social, and health benefits of clean energy access programmes to encourage acclerating uptake.

8.1 Introduction

Energy is a key infrastructural input for economic growth as well as an integral component for inclusive growth. Access to affordable, reliable, sustainable and modern energy sources serves as a benchmark in measuring inclusivity in relation to human development, welfare and productive gains. Access to clean energy sources is also recognized as key in realization of the national development agenda such as the Vision 2030 and the "Big Four" agenda. The role of energy in promoting inclusivity is also closely linked to goals and targets underlined in the Sustainable Development Goal (SDG) (7). In particular, SDG 7 advocates for universal access to electricity and clean cooking fuels for all by 2030. In addition, achievement of SDG 7 is expected to spur progress across other interconnected SDGs that touches on poverty eradication, gender equality, climate change, food security, health, education, clean water and sanitation, environment, jobs, innovation, transport, and displaced people. Therefore, the role of energy in enabling inclusivity is premised on multidimensional aspects of provision of reliable and sustainable energy supply systems, equitable access and affordability for all. Equally, supportive and effective legal, policy and institutional frameworks play a key role in achieving inclusive growth.

8.2 Legal, Policy and Regulatory Environment and Government Initiatives for the Energy Sector

The legal policy and regulatory environment in Kenya have advanced, with major reforms and restructuring of the sector taking place in the 1990s and early 2000s. Following the enactment of the Electric Power Act 1996, policy and regulatory functions were separated from commercial activities. The generation function was separated from transmission and distribution; cost-reflective tariffs were introduced; and generation liberalized through the introduction of Independent Power Producers. Due to drawbacks with the law, the Electric Power Act 1996 was repealed by the Energy Act 2006, which came into force in 2007. The law lifted electricity transmission and distribution function from KPLC and paved way for entry of other players. The 2006 Act also provided for establishment of the Electricity Regulatory Board (ERB) the now Energy and Petroleum Regulatory Authority to regulate the sub-sector and the Energy Tribunal.

In the recent past, key policies have been instrumental in enabling inclusive growth. For example, the National Energy Policy 2018 focuses on establishing mechanisms to foster access to affordable, competitive, sustainable and reliable supply of energy at the least cost to attain universal access. The policy stipulates the role of National and County Governments in delivery of energy needs in an inclusive approach. The policy provides for the formulation of the National Electrification Strategy 2018-22, which defines the roadmap towards universal electricity access for households and businesses across the country in fast-tracking connectivity. It also recommends for promotion of alternative sources of energy such as Liquified Petroleum Gas (LPG), biogas, and solar solutions as biomass accounts for about 69 per cent of the total primary energy consumption. The policy emphasizes on mainstreaming issues of gender, youth and persons with special needs in energy policy formulation, planning, production, distribution and use. Similarly, the Energy Gender Policy 2019 provides for equal opportunities of using energy services in closing the development gaps. Further, the Energy Act 2019 provides for establishment of functions and clear mandates for institutions in the energy sector, and further exploration and production of energy from diverse energy sources such as geothermal, solar, wind and natural gas.

The Government has various initiatives geared towards inclusivity by addressing the energy access gap through grid-extension, off-grid and clean cooking solutions for across all counties. The initiatives focus on enhancing access to biogas, electricity connectivity and solar, and increasing efficiency, reliability and quality of power.

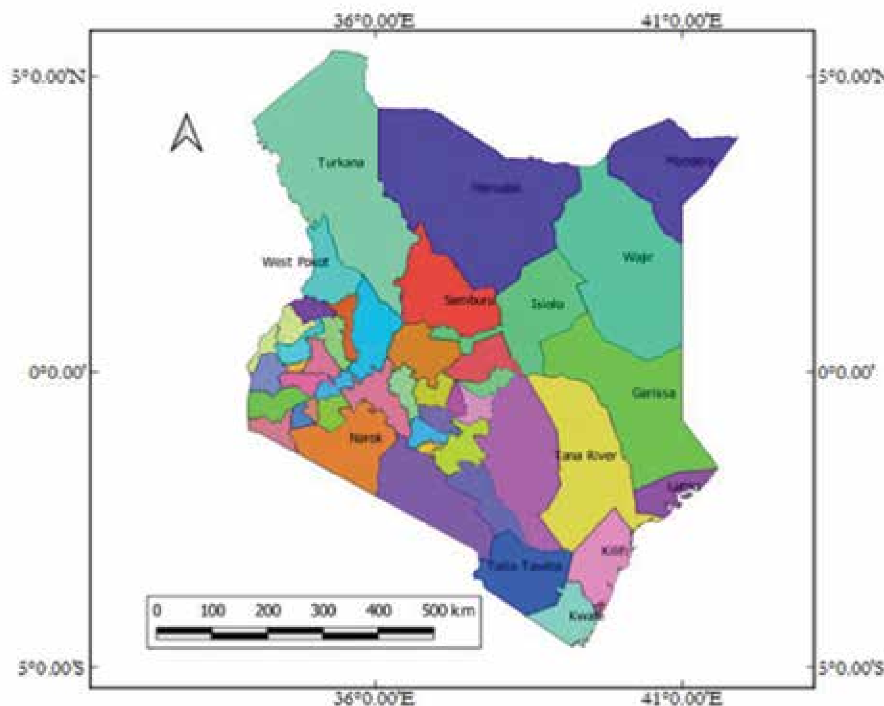
In promoting the use of biogas among households and institutions across the country, the Ministry of Energy, supported by the Dutch Government, commenced implementation of the Biogas Programme in 2009. Since then, a total of 20,000 biogas plants have been installed against a target of 38,500 biogas plants, accounting for only 10 per cent of the potential market. Besides low uptake, other challenges facing the programme include constant breakdown of bio-digestors and low operating capacity. Therefore, there is need to adopt new technological options such as prefabricated plants for sustainability and reliability of the biogas plants and create awareness on uses of biogas among the target population.

For electricity connectivity, the Rural Electrification Programme was initiated in 2006 with the aim of increasing electricity connectivity in rural areas by connecting public facilities and households within the proximity of transformers and development of mini grids in off-grid areas. By 2018, the programme had connected a total of 22,175 public primary schools, 61,728 public facilities and 1.33 million households. The Last Mile Connectivity Project was rolled out in the year 2017 as an initiative by the Government of Kenya and the African Development Bank (AfDB) to accelerate electricity connectivity in rural and peri-urban areas at a subsidized fee of Ksh 15,000 from Ksh 35,000. The project aims at closing the affordability gap by considering a one-off fee or in instalments paid alongside their monthly bills for a period of 36 months to cater for the low-income households. The programme targets to connect 5 million new households and 15,739 public facilities by 2022. In addition is the Slum Electrification Project targeting to connect 150,000 people living in slums where residents pay a minimal charge of Ksh 1,160 for connection. The project has connected over 1 million households in urban low-income areas and rural areas to the national grid through implementation of a subsidized connection fee.

On solar energy, Kenya Off-grid Solar Access Programme (K-OSAP) commenced in 2017 and is expected to run for five years as an initiative by the Government, with the support from the World Bank and other development partners. The programme focusses on increasing access to clean and modern energy sources in the 14 underserved counties of Kenya[14] (Figure 8.1). The project targets 430,000 households, by connecting 28,000 through mini-grids, 250,000 households through solar home systems and clean cooking solutions, 1,100 community facilities to stand alone solar systems and 620 solar water pumps (Table 8.1). The key inclusive measures taken in implementing the project include provision of incentives for solar off-grid companies currently operating in the more densely populated areas of Kenya to expand to underserved counties and provide services to off-grid households in these counties. In addition, exemption from import and value-added taxes for solar products and the adoption of international standards has spurred import market across the entire solar value chain.

To increase efficiency, reliability and quality of power on the grid network through the Kenya Electricity Expansion Project (KEEP), various stations, substations and distribution lines have been constructed targeting counties with weak distribution network and increased energy demand. The ongoing work includes installation of automatic metering infrastructure, which will enable Kenya Power to monitor and control electricity metering installations. Automation of the distribution network and implementation of live-line maintenance will be crucial in reducing the transmission and distributive losses.

Figure 8.1: Map of targeted counties under Kenya Off-grid Solar Access Programme (K-OSAP)



Source: Author

Table 8.1: Components of K-OSAP programme

Component	Implementing agencies	Funding	Targets
Mini- grids	KPLC REREC	Implemented under PPP agreement at a cost of US$ 40 million.	Construct 120 green-field mini-grids and construction of distribution network. Connect 28,000 households.
Solar home systems (SHS) and cooking solutions for households.	Ministry of Energy	US$ 42 million for SHS US$ 6 million for the cooking energy.	250,000 households.
Stand alone solar systems and solar pumping for community facilitiess.	KPLC and REREC	Private-sectors contractors competitively selected to supply, install, and maintain standalone solar systems at a cost of US$ 40 million.	Electrification of 1,100 community facilities including health centres and schools. Provision of 620 solar water pumps.
Implementation support and capacity building.	Ministry of Energy	US$ 22 million.	Consumer education and awareness for the beneficiaries of the various components across the 14 counties. Implementation support and capacity building for the sector across the counties.

Source: K-OSAP (2017), Procurement Strategy for Development, 2017

From the foregoing, Kenya has been at the forefront in creating an enabling environment for inclusive growth in the energy sector. According to Regulatory Indicators for Sustainable Energy (RISE), 2018, Kenya attained an overall score of 82 per cent for policies and regulatory frameworks that support the SDG 7 on access to electricity, clean cooking fuels and renewable energy. Electricity access policy framework attained a score of 75.0 per cent which was mainly attributed to the existence of comprehensive policy and regulatory frameworks. Incentives and regulatory support for renewable energy attained a score of 88.0 per cent. However, network connection and use recorded a score of 25.0 per cent which indicates that the country is lagging in policies that support renewable energy connections and policies that promote renewable energy outside of the electricity sector such as cooling, heating and transport. The policies on standards and labelling of clean cooking fuels attained a score of 50.0 per cent. This is an indication that there is need to establish standards on efficiency, emissions, safety of clean cooking solutions and checking the credibility of various devices. In addition, more needs to be done in creating awareness on the benefits of clean cooking solutions.

8.3 Energy Supply

The total electricity capacity generated from renewable and non-renewable energy sources increased from 6,455.6 GWh in 2008 to 11,408.6 GWh in 2019 (Figure 8.2). Cumulatively, electricity generation from the renewable energy sources including; geothermal, hydro, solar, wind and co-generation accounted for 66.8 per cent in 2008 and 88.0 per cent in 2018. In particular, the share of electricity generated from geothermal energy, accounted for 16.1 per cent and 45.9 per cent of the total generation in 2008 and 2019 respectively. This indicates that geothermal continues to be a leading energy source for electricity as it surpassed hydro in 2015 (Figure 8.2). Geothermal is considered as a highly reliable source of electricity and key in ensuring a stable baseload[15] for electricity generation and that power is availed to the end users in an efficient and reliable way. Percentage of electricity generated from hydro reduced from 50.6 per cent in 2008 to 28.1 per cent in 2019. Electricity generated from wind power also increased from 0.2 per cent in 2010 to 13.7 per cent in 2019. The increase was mainly attributed to additional wind power projects especially from Lake Turkana power plant which has a capacity of

376 MW. Notably, electricity generation for the grid from Garissa solar power was first introduced into the national grid in 2018 and accounted for 0.8 per cent of the total generation in 2019. Garissa County has a high potential for solar power given the high irradiation levels available throughout the year.

Notably, the percentage of electricity generated from thermal declined considerably from 33.2 per cent in 2008 to 11.5 per cent in 2019. This was mainly instigated by the substantial growth in generation of electricity from geothermal, hydro, wind and solar energy and a progressive path towards renewable energy mix. It's worth noting that the cost of electricity generated from thermal power plants is estimated at Ksh 21 per unit compared to the cost of geothermal and hydro at Ksh 7 per unit and Ksh 3 per unit, respectively. Reduced reliance on thermal generation is expected to impact positively on the end-user prices as the Fuel Energy Cost (FEC) on electricity bills is reflective of the cost of operating the thermal power plants. From the foregoing, the country is on the right track on phasing out thermal power and is on a progressive path towards clean energy and replacing it with other sources such as natural gas which is an untapped energy source. The potential for renewable energy sources is supported by Kenya's vast natural resources which translates to low-cost clean energy technologies. For instance, solar and wind power are key for electricity access for both grid and off-grid solutions.

Figure 8.2: Percentage share of electricity generated capacity, 2008-2019 (GWh)

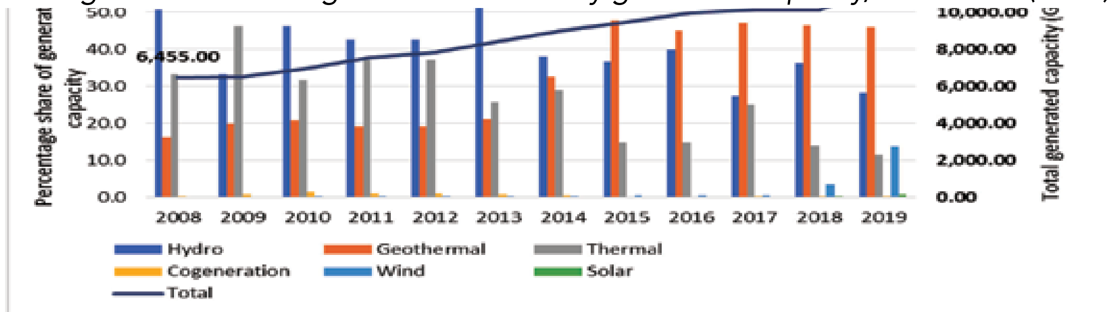


Figure 8.3: Percentage share of electricity installed capacity, 2008-2019 (MW)

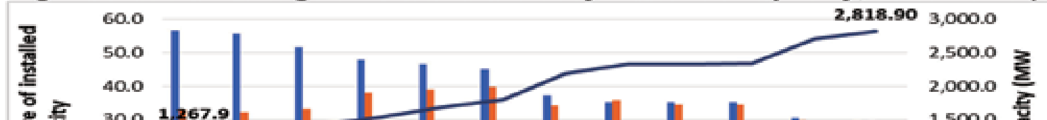


Figure 8.3: Percentage share of electricity installed capacity, 2008-2019 (MW)

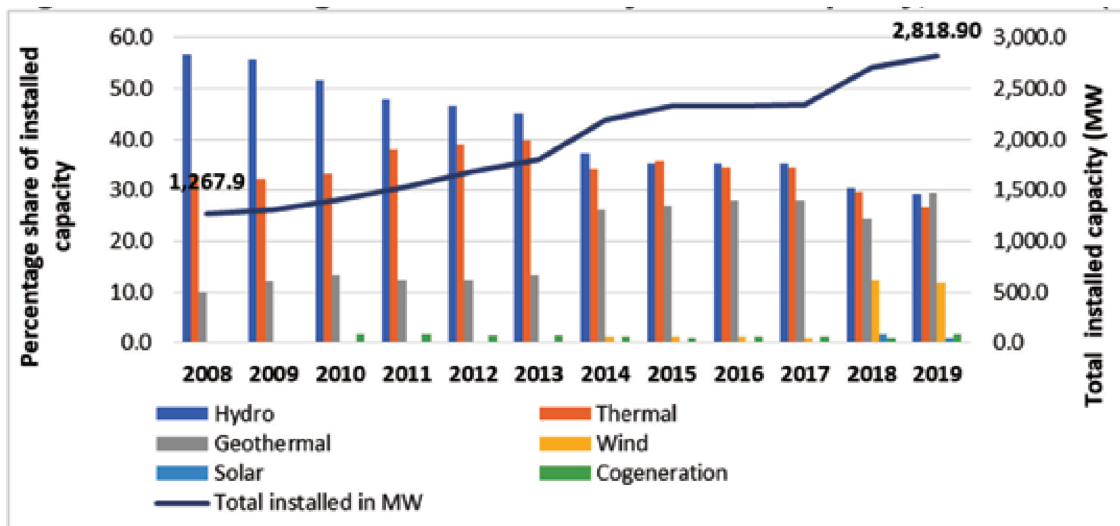
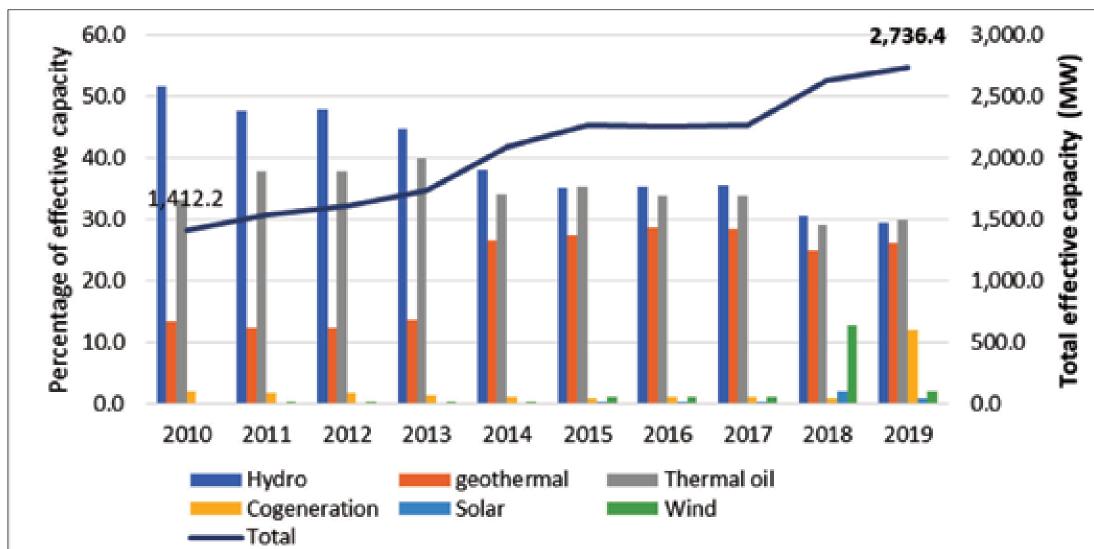


Figure 8.4: Percentage share of electricity effective capacity, 2010-2019 (MW)



The total installed capacity from renewable and non-renewable energy sources increased from 1,267.9 MW in 2008 to 2,818.9 MW in 2019 (Figure 8.3). The rise was mainly attributed to increased share of geothermal capacity.

Cumulatively, electricity installed[16] capacity from renewable sources, including geothermal, hydro, wind, solar and co-generation stood at 67.0 per cent in 2008 and 73.4 per cent in 2019 with only 26.6 per cent of installed capacity from non-renewable sources. The increase was partly attributable to injection of electricity generated from wind and solar into the grid in 2012 and 2018, respectively. Specifically, the share of installed capacity for geothermal increased from 10.0 per cent in 2008 to 29. per cent in 2019 (Figure 8.3), which was a slight increase from 24.4 per cent in 2018 while hydro registered a decline from 56.7 per cent in 2008 per cent to 29.3 per cent in 2019. The installed capacity from co-generation plants increased from 0.2 per cent in 2008 to 1.8 per cent in 2019 while in 2019, wind and solar stood at 11.9 and 1.0 per cent, respectively. Thermal installed capacity decreased from 33.0 per cent in 2008 to 26.6 per cent in 2019. This indicates that thermal is still considered as key in meeting the peak loads and supply power during the dry seasons when hydropower output is low. Therefore, geothermal remains the most significant source as the country focuses on increasing geothermal capacity and weaning off thermal sources.

The total effective[17] capacity increased from 1,412.2 MW in 2010 to 2,736.4 MW in 2019. Cumulatively, the percentage share of effective capacity from renewable sources stood at 66.8 per cent in 2008 and 70.2 per cent in 2019. For geothermal, the share of effective capacity increased from 13.4 per cent in 2010 to 26.4 per cent in 2019 while the effective capacity for hydro declined from 51.6 per cent to 29.4 per cent. The effective capacity for solar, wind and co-generation stood at 0.9, 1.8 and 11.9 per cent, respectively, in 2019. Thermal also registered a decline from 33.2 per cent in 2008 to 29.8 per cent in 2019.

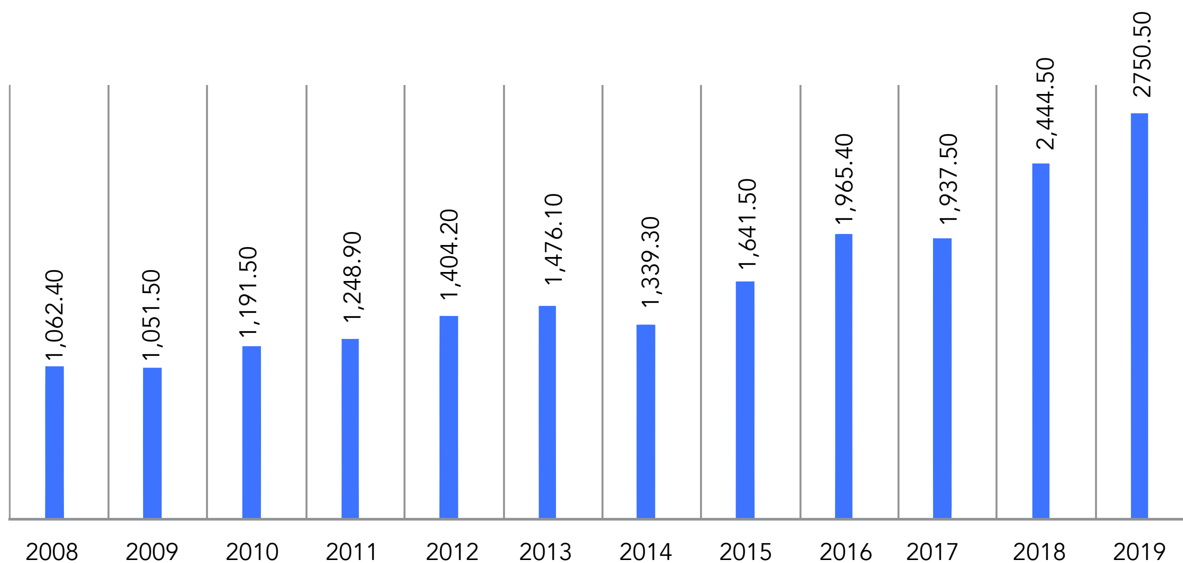
From the foregoing, the country has made progress in establishing a more reliable power supply system by increasing the share of renewable energy in the total energy mix in a move to achieve 100 per cent renewable energy generation by 2030. Notably, wind and solar which were introduced recently have shown a great potential in their contribution to the total energy mix. Similarly, there lies a great potential for geothermal which has a capacity of 10,000 MW but still unexploited. Similarly, the new developments in off-grid, renewable hybrid mini-grid solutions and solar home systems are key in boosting energy access countrywide.

Power system losses: Transmission and distribution

Power losses refer to the amounts of electricity injected into the transmission and distribution grids that are not paid for by users. Efficiency in transmission and distribution of electricity is a key aspect that affects the demand side. Electricity transmission and distribution losses increased by 61.4 per cent from 1,062.4 GWh to 2,750.5 GWh in 2008 and 2019 (Figure 8.5). The transmission and distribution losses recorded in 2019 accounted for 24.1 per cent of the total generation, which increases the cost of power (Figure 8.6). The losses are mainly attributed to technical causes which occur during transfer of energy across transmission and distribution networks, especially due to poorly maintained grid infrastructure. Notably the aging transmission and distribution networks largely contribute to approximately 13.0 per cent system loss of the power generated. Non-technical losses arise from unidentified and uncollected revenue, arising from meter tampering, illegal connections, metering errors, shortfalls in billing and revenue collection. Power losses have serious effects on the quality of power delivered to customers and have an adverse effect in meeting the expected revenue targets.

Besides inefficiency losses, poor maintenance and ageing grid infrastructure cause electricity outages which reduce the profitability and disrupt and increase the costs of production (Figure 8.7). According to Enterprise Survey (2018), Kenya experienced an average of 3.8 number of power outages which is relatively low compared to the average of 9.1 in Sub-Saharan Africa and 8.3 for lower-middle income countries. Similarly, the percentage losses due to power outages stood at 4.3 per cent in Kenya which was slightly above the lower middle-income countries (3.1%) and lower compared to Sub-Saharan Africa (5.4). Improvement of the grid infrastructure will ensure that power losses are minimized and improve the reliability of power from the grid for domestic and commercial and industrial consumers. Therefore, the power utility needs to minimize the losses by addressing the technical and non-technical losses through modernizing of the grid system, smart metering and ensure maximum collection of electricity bill.

Figure 8.5: Transmission and distribution losses, 2008-2019 (GWh)



Data Source: KNBS (Various), Economic Survey

Figure 8.6: Transmission and distribution losses as a percentage of generated capacity (GWh)

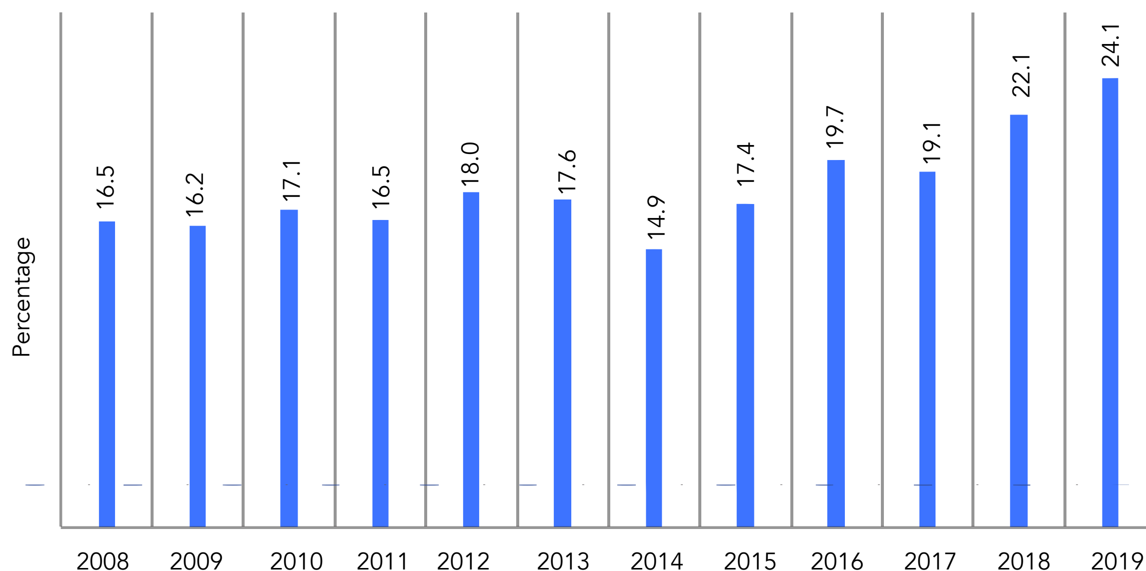
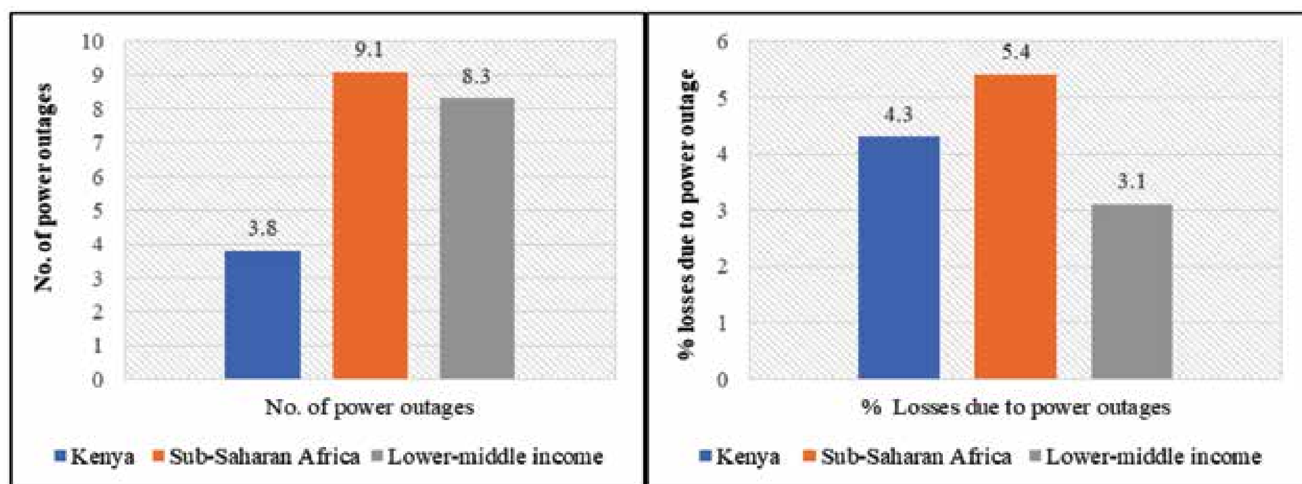


Figure 8.7: Power outages and related losses across firms in Kenya with comparators



Source: World Bank (2018)

8.4 Inclusivity of Electricity Tariff Structures

Section 11 (b) of the Energy Act, 2019 mandates EPRA to set, review and adjust electric power tariffs and tariff structures that satisfy key policy objectives on economic, financial and social well-being. Key components of electricity bill that impact on end-user prices include; energy charge; fuel cost charge which caters for the generation of electricity from thermal power plants; inflation adjustments made every six months; a levy of 0.05 cents / kWh for hydropower generation of above 1 MW passed on to the Water Resource Management Authority (WARMA). Other costs include EPRA which gets 3 cents per kWh to cover its operational costs while REREC gets 5 per cent of the units consumed and a 16 per cent Value Added Tax on the total cost except for WARMA, EPRA and REREC levies.

The tariffs bands are broadly categorized into domestic, small commercial and industrial/ commercial consumers. Of keen interest in relation to inclusivity is the domestic lifeline tariff which caters for the lower income segment of the households who are prone to high prices of electricity. The lifeline tariff band has undergone several iterations over time. For instance, the monthly fixed charge which was a key component of the electricity tariff which stood at Ksh 120 and was later hiked to Ksh 150 was abolished in August 2018 (Table 8.2). The lifeline

threshold was consistent up to December 2017 covering consumers within the 0-50 kWh per month consumption band. Another key development was the abolishment of the fixed charge of Ksh 150 for lifeline and all other consumer categories in August 2018 to ensure equity and customers only pay for power when consumed and reduce the component of the electricity bill. The current lifeline tariff which commenced in November 2018 is set at Ksh 10 per kWh for 0-100 kWh which accommodates 91 per cent of the domestic consumers. This indicates that all low-income households that are connected fall under this tariff band.

Table 8.2: Tracking progress in inclusivity of the retail electricity tariff structures for domestic and small commercial consumers, 2013-2019

November 2018-date

Code	Customer	Energy Limit kWh/month	Energy charges (KSh/ kWh)
Domestic Consumers (DC, 240 or 415)	Domestic Lifeline (DC1)	0-100	10.00
	Domestic Ordinary (DC2)	101-15,000	15.80
Small Commercial (SC, 240 or 415)	Small Commercial (SC1)	0-100	10.00
	Small Commercial (SC1)	101-15,000	15.60

August 2018 to 31st October 2018

Code	Customer	Energy Limit kWh/month	Energy charges (KSh/ kWh)
Domestic Consumers (DC, 240 or 415)	Domestic Lifeline (DC)	0-10	12.00
	Domestic Ordinary (DC)	>11	15.80
Small Commercial (SC, 240 or 415)	Small Commercial (SC)	0-100	15.60
	Small Commercial (SC1)	101-15,000	

December 2017 to July 2018

Code	**Customer**	**Fixed Charge**	**Energy Limit (kWh/ month)**	**Energy charges (KSh/ kWh)**
Domestic Consumers (DC, 240V)	Domestic Consumers	150	0-50	2.50
		150	50 - 1 ,500	12.75
		150	>1,500	20.57
Small Commercial (SC, 240V)	Small Commercial (SC)	150	0-100	13.50

Code	**Customer**	**Fixed Charge**	**Energy Limit (kWh/ month)**	**Energy charges (KSh/ kWh)**
DomesticConsumers (DC, 240V)	Domestic Consumers	150	0-50	2.50
		150	50 - 1 ,500	12.75
		150	>1,500	20.57
Small Commercial (SC, 240V)	Small Commercial (SC)	150	No limit	13.50

Code	**Customer**	**Fixed Charge**	**Energy Limit (kWh/month)**	**Energy charge (KSh/ kWh)**
Domestic Consumers (DC, 240V)	Domestic Consumers	150	0-50	2.50
		150	50 - 1 ,500	13.68
		150	>1,500	21.57
Small Commercial (SC, 240V)	Small Commercial (SC)	150	No limit	14.00

Code	**Customer**	**Fixed Charge**	**Energy Limit (kWh/month)**	**Energy charges (KSh/ kWh)**
Domestic Consumers (DC, 240V)	Domestic Consumers	120	0-50	2.50
		120	50 - 1 ,500	11.62
		120	>1,500	19.57
Small Commercial (SC, 240V)	Small Commercial (SC)	150	No limit	12.00

Source: Energy and Petroleum Regulatory Authority Schedule of Tariffs 2017-2019

Box 8.1: Inclusive approaches incorporated in the electricity retail tariff for domestic and small commercial categories

December 2017 to July 2018

- Reduction in lifeline threshold from 50 kWh to 10 kWh
- Removal of the fixed charges for all the consumer categories

August 2018 to October 2018

1) Fixed charge of Ksh 150 was abolished
2) Establishment of two major categories for domestic consumers; domestic lifeline and domestic ordinary. This was to target lower income groups consuming up to 15 kWh which accounts for 3.6 million customers.
3) However, the domestic lifeline energy limit reduced from 50kWh to 10 kWh with an eenergy charge of Ksh 12.
4) Domestic lifeline increasing from targeting consumers of ≥ 11 kWh at Ksh15.80/ kWh. This was deemed as unaffordable for most households.

November 2018 to date

1) Increase in the domestic lifeline threshold from 10 kWh to 100 kWh. The energy cost charge for lifeline was revised from Ksh12/kWh to Ksh 10 /kWh. This was meant to accommodate more households in informal settlements, urban, peri-urban, and rural areas and cushion them from the increased cost of living.
2) Two distinct categories under the small commercial were introduced were classified as;
   i. SC1-Small commercial category of consumers consuming less than 100 kWh/ month energy charge rate reduced from Ksh 15.60/ kWh to Ksh 10/ kWh.
   ii. SC2-Small commercial category consuming 101-15,000 kWh maintained an energy charge of Ksh 15.60 /kWh

Source: Energy and Petroleum Regulatory Authority Schedule of Tariffs 2017-2019

From the foregoing it is worth noting that domestic lifeline tariff band has been inclusive by accommodating majority of low-income earners especially in the informal settlements, rural, urban and peri-urban areas who consume less than 100 kWh. Essentially, it ensures that households are receptive to legal connections as they can afford to pay for basic energy services hence reduction in the commercial losses due to minimized illegal connections while enhancing access and improving safety for slum dwellers. There is need for equilibrium on the structure of the tariffs by first ensuring that electricity is affordable to the end-users and financially viable for power companies as they are expected to recoup their costs of supply which would otherwise lock the power sector into a cycle of low revenue, high debt, inadequate maintenance, under-investment and poor quality of service.

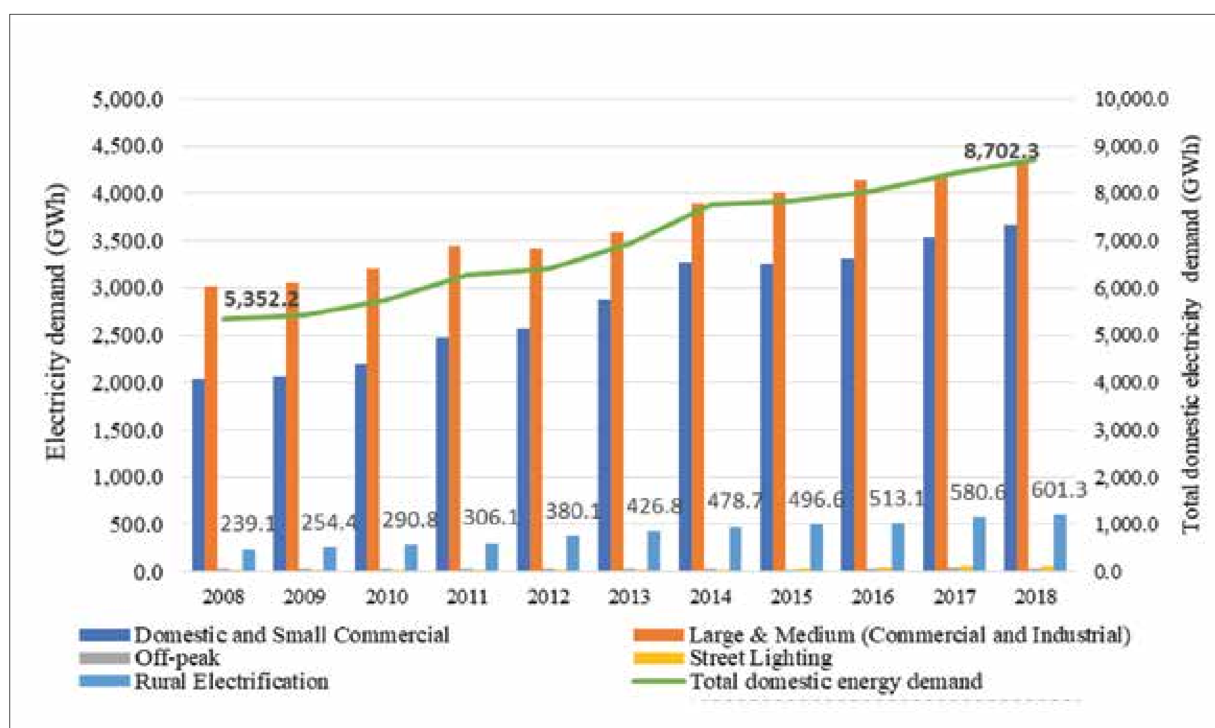
8.5 Energy Demand and Use

Besides energy supply, energy demand is equally a critical measure for sustained energy access. As it brings along a balanced system that is needed in achieving scale and long-term interventions. Focusing too much on supply can lead to future problems with sustainability, as exemplified by the case with low electricity consumption in many grid extensions programmes.

Over the years, the electricity demand increased among all end-users apart from the off-peak category which declined by 28.0 per cent from 42.2 GWh in 2017 to 30.4 GWh in 2018 (Figure 8.8). In 2018, domestic and small commercial consumers accounted for 42.1 per cent of total domestic demand while large and medium (commercial and industrial) end-user category accounted for 49.8

per cent of total domestic demand. Off-peak, street lighting and rural electrification stood at 0.3, 0.8 and 6.9 per cent, respectively. Notably, demand for electricity under rural electrification increased by 43.0 per cent from 239.1 GWh in 2008 to 601.3 GWh in 2018, indicating a significant growth in access to grid electricity in rural areas. Despite the high number of electricity connection for the domestic and small consumer categories accounting for 80.0 per cent of connected customers (Table 8.3), the demand was lower as compared to large commercial and industrial consumers, accounting for only 42 per cent of electricity demand (Figure 8.8).

Figure 8.8: Electricity demand across various end-user categories, 2008-2018



Source: KNBS (2019), Economic Survey

Table 8.3: Number of customers connected to electricity, 2008-2018

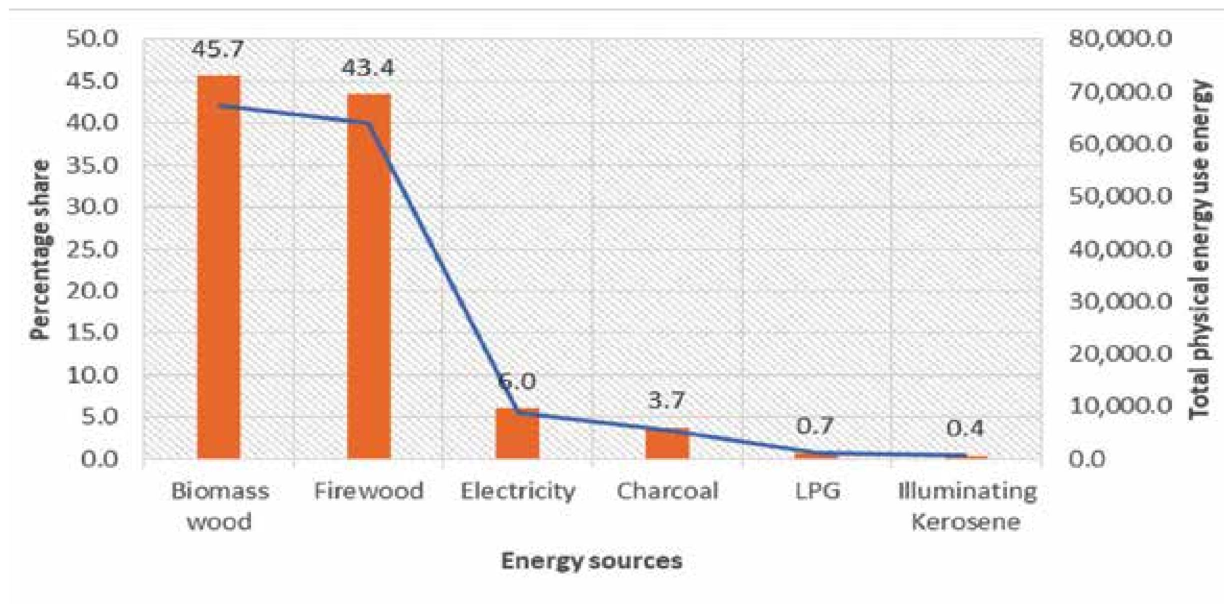
Year	Domestic	Off-peak	Large Commercial & Industrial	Small Commercial	Street Lighting	Rural Electrification	Total
2008	779,856	659	4,196	112,595	1,723	161,354	1,060,383
2009	931,442	631	2,533	125,418	1,887	205,287	1,267,198
2010	1,071,342	622	2,685	135,849	2,085	251,056	1,463,639
2011	1,286,310	566	2,803	151,953	2,429	309,287	1,753,348
2012	1,485,292	537	2,842	164,397	2,926	382,631	2,038,625
2013	1,691,482	826	2,948	179,095	3,067	453,544	2,330,962
2014	2,045,288	785	3,115	187,071	3,172	528,552	2,767,983
2015	2,704,792	794	3,384	194,875	4,869	703,190	3,611,904
2016	3,704,032	796	3,556	203,947	6,024	972,018	4,890,373
2017	4,685,877	791	3,662	213,396	9,046	1,269,510	6,182,282
2018	5,188,398	1,110	3,887	225,749	9,845	1,332,101	6,761,090

Source: KNBS (2019), Economic Survey

1Voltage losses in power transmission lines

The physical energy use for various energy sources at the household level in 2019 amounted to 147,623.4 Terajoules (Figure 8.9). Cumulatively, the share of energy use from clean sources including electricity and LPG stood at 6.7 per cent. Evidently, majority of households rely on biomass wood (45.7%) followed by biomass wood (43.4%). The sector can tap into the biomass potential by converting biomass into clean energy sources such as bioethanol, biodiesels, and biogas which can be utilized at the household level.

Figure 8.9: Share of total physical energy use at household level for various sources, 2019



Source: KNBS (2019), Economic Survey

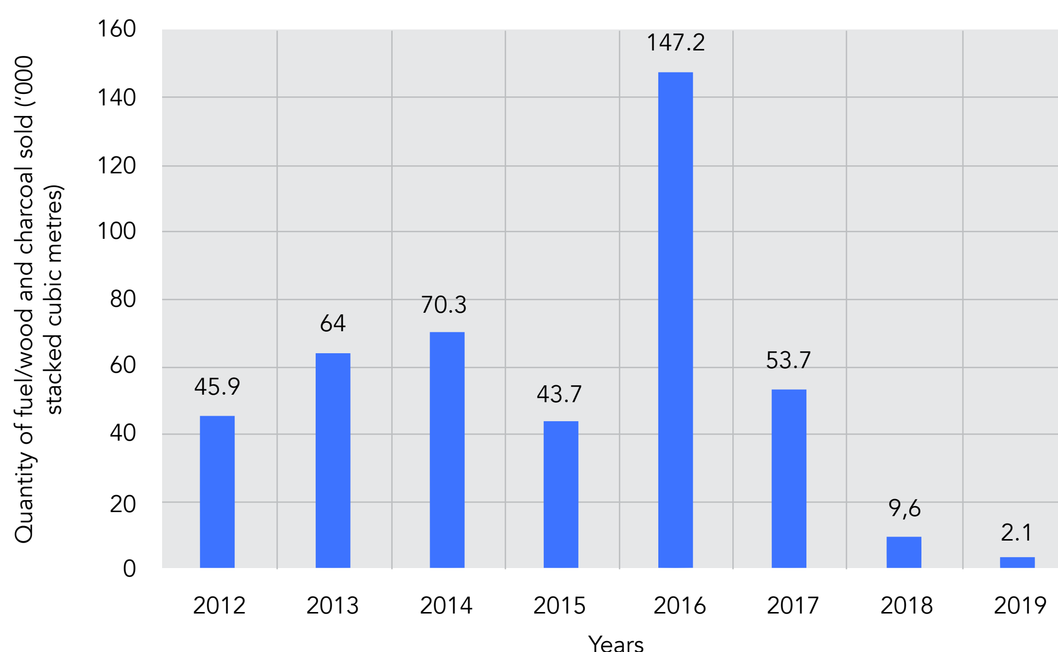
1 Terajoule (TJ)=10^12 Joules

1000 Tonnes=4.184 TJ

1 GWh=3.6 TJ

Notably the consumption of charcoal especially for cooking purposes is likely to decline significantly in the next few years following the ban on logging of Government forests in 2018 in a move to conserve the environment while reducing overreliance on charcoal. Following the ban, the quantity of fuelwood and charcoal sold dropped by 78.1 per cent to 2,100 stacked cubic meters (Figure 8.10). Therefore, there is need to provide alternative clean and affordable energy sources for cooking as most households rely on charcoal as a primary source.

Figure 8.10: Quantity of fuelwood and charcoal sold, 2014-2018 ('000 stacked cubic metres)



Source: KNBS (Various), Economic Surveys

8.6 Level of Households' Access to Various Energy Sources for Lighting and Cooking

8.6.1 Level of access to various energy sources for Lighting

(a) National, rural and urban areas

A major focus on reducing regional and intra-regional disparities in access to clean energy sources and substantial outcomes is a crucial in achieving inclusivity. Nationally, access to grid-electricity as the primary source for lighting stood at 42.0 per cent and kerosene at 35.7 per cent which cumulatively comprised more than three quarters of the households (Figure 8.11). Roughly 14.3 per cent use of solar power as the primary source for lighting while 4.9 per cent, 1.6 per cent, 0.9 per cent, and 0.5 per cent used battery/lamp/torch, fuelwood, candles and generators for lighting respectively.

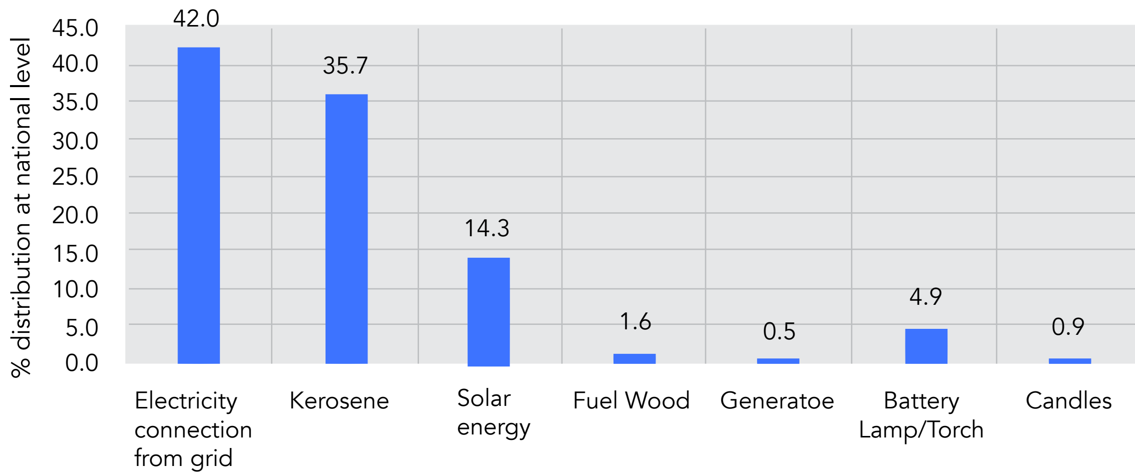
Similarly, the highest proportion (73.9%) of urban households used electricity as the primary source for lighting while kerosene stood at 18 per cent mainly used by the urban poor. Cumulatively, 8.0 per cent relied on solar, batteries/chargeable lamps, candles and generators as the primary sources for lighting (Figure 8.12). The results indicate that a high proportion of the urban households use electricity as the main source for lighting with less than a quarter of the population relying on non-clean energy sources for lighting purposes.

Rural areas depict a different scenario with highest proportion of the households (49.5%) using kerosene as the primary source for lighting. This is followed by solar as the second most used primary source at 22.1 per cent and electricity at 17. 4 per cent. Cumulatively about 10.9 per cent of the households use fuelwood, generator, torches and candles (Figure 8.13).

In conclusion there are wide disparities in access to various energy sources for lighting at national level and across rural and urban areas with electricity used by most households in urban areas while kerosene is mainly used by rural counterparts. In addition, results indicate potential for the scale up of solar photovoltaic systems in rural areas which is critical in meeting various energy demands for the off-grid areas. Low electricity use in rural areas could be attributed to low penetration of the grid infrastructure. Therefore, continued effort by energy

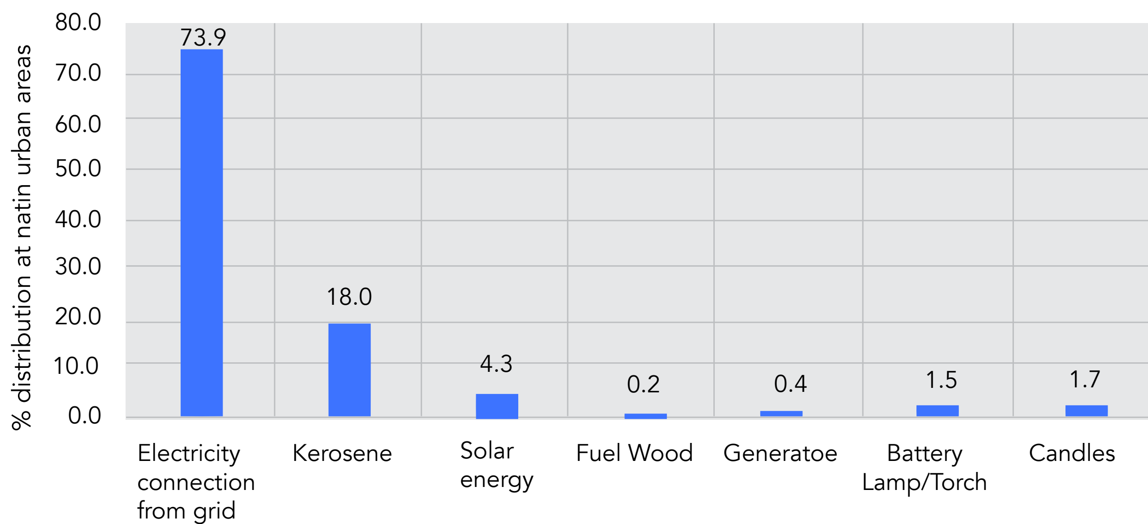
sector players in extending grid electricity to rural areas as part of the basic infrastructure will go a long way in providing an efficient energy source for lighting and reduce the dependency on kerosene which is deemed inefficient and a cause of indoor air pollution.

Figure 8.11: Percentage distribution of households by primary energy source for lighting at national level



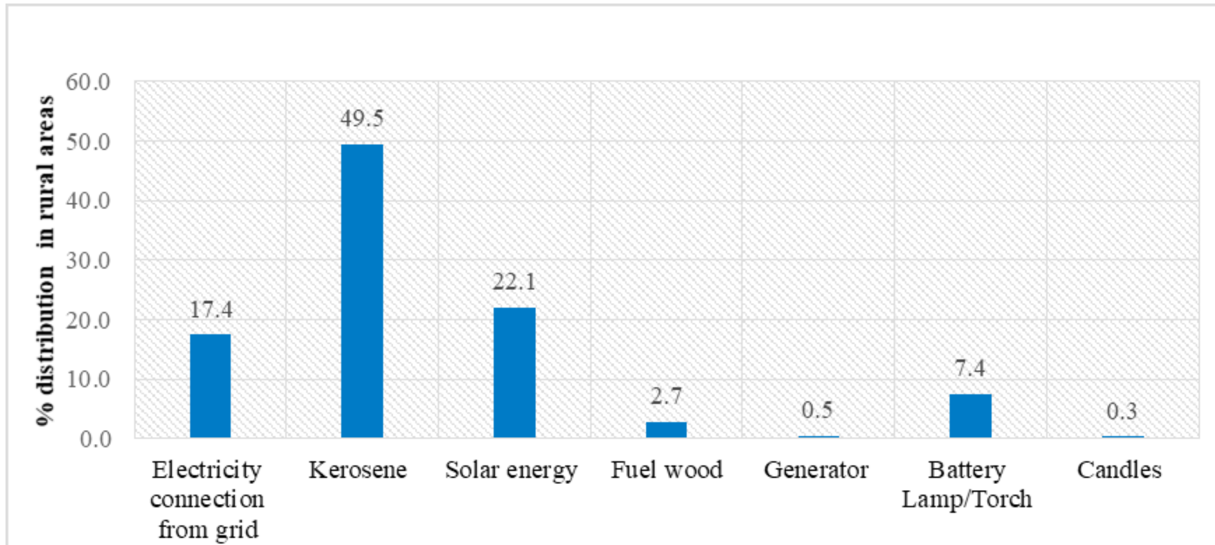
Data Source: KNBS (2016), KIHBS 2015/16

Figure 8.12: Percentage distribution of households by primary energy source for lighting in urban areas



Data Source: KNBS (2016), KIHBS 2015/16

Figure 8.13: Percentage distribution of households by primary energy source for lighting in rural areas

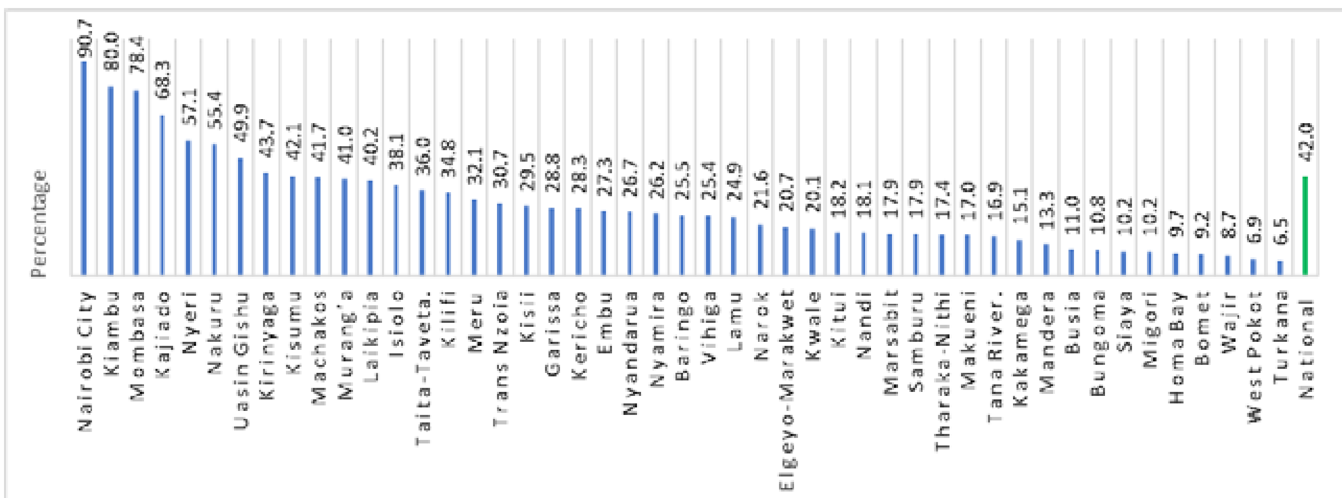


Data Source: KNBS (2016), KIHBS 2015/16

(b) Across the counties

The county level analysis is critical in unveiling regional inequalities in access to various energy sources. This is also backed up by the fact that counties form the administrative boundaries within which various energy access programmes are planned and implemented. Nairobi County recorded the highest level of access to electricity as the primary source for lighting at 90.7 per cent; followed by Kiambu at 80 per cent; Mombasa at 78.4 per cent and Kajiado at 78.4 per cent. Counties that had less than 10 per cent access include: Turkana at 6.5 per cent; West Pokot at 6.9 per cent; Wajir at 8.7 per cent; Bomet at 9.2 per cent; and Homa Bay at 9.7 per cent. Notably, only nine (9) counties were above the national average of 42.0 per cent. This implies that most counties are still far away from achieving universal access (Figure 8.14).

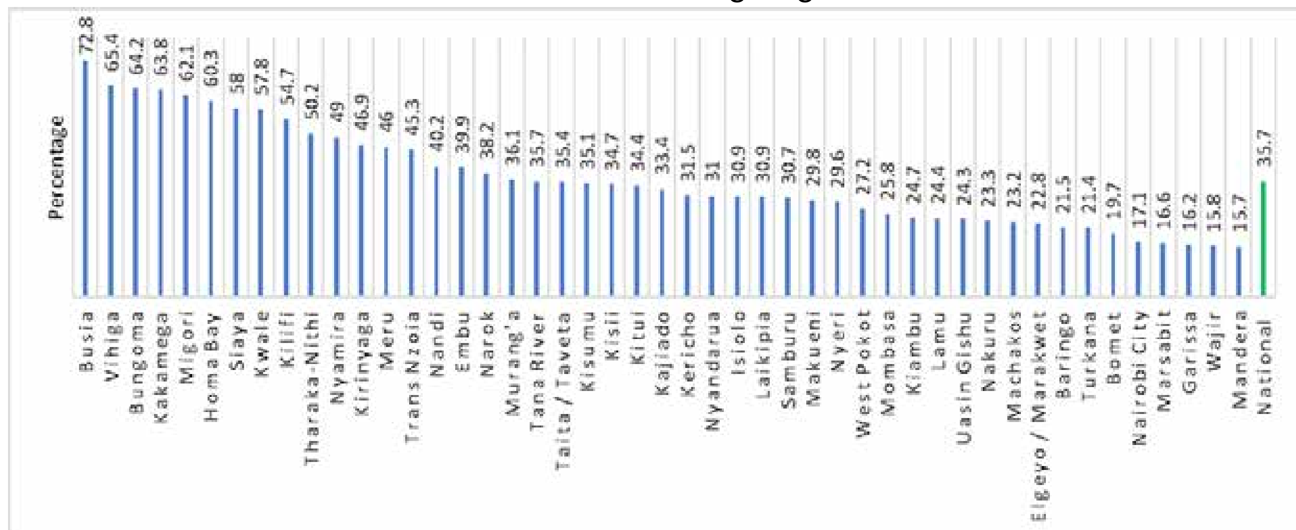
Figure 8.14: Percentage distribution of households with access to electricity as the primary energy source for lighting across counties



Data Source: KNBS (2016), KIHBS 2015/16

Use of kerosene as the primary energy source for lighting depicts huge disparities across the counties. The counties leading in the use of kerosene as the primary energy source for lighting include: Busia (72.8%), Vihiga (65.4%), Bungoma (64.2), Kakamega (63.8%), and Migori (62.1), and Migori (60.3%), respectively. Mandera, Wajir, Garissa and Marsabit counties registered the lowest use of kerosene (Figure 8.15). This could be because these counties are in the arid and semi-arid lands (ASALs) where grid connection is not viable, hence rely on off-grid lighting systems such as solar rechargeable torches and solar home systems, which are clean and affordable. Also, the decreasing costs related to solar and decentralized solutions under various energy programmes make it affordable for households in ASALs.

Figure 8.15: Percentage distribution of households with usage of kerosene as the main source for lighting across counties



Source: Computed from KNBS (2016), KIHBS 2015/16

8.6.2 Level of access to various energy sources for cooking

a) National, rural and urban areas

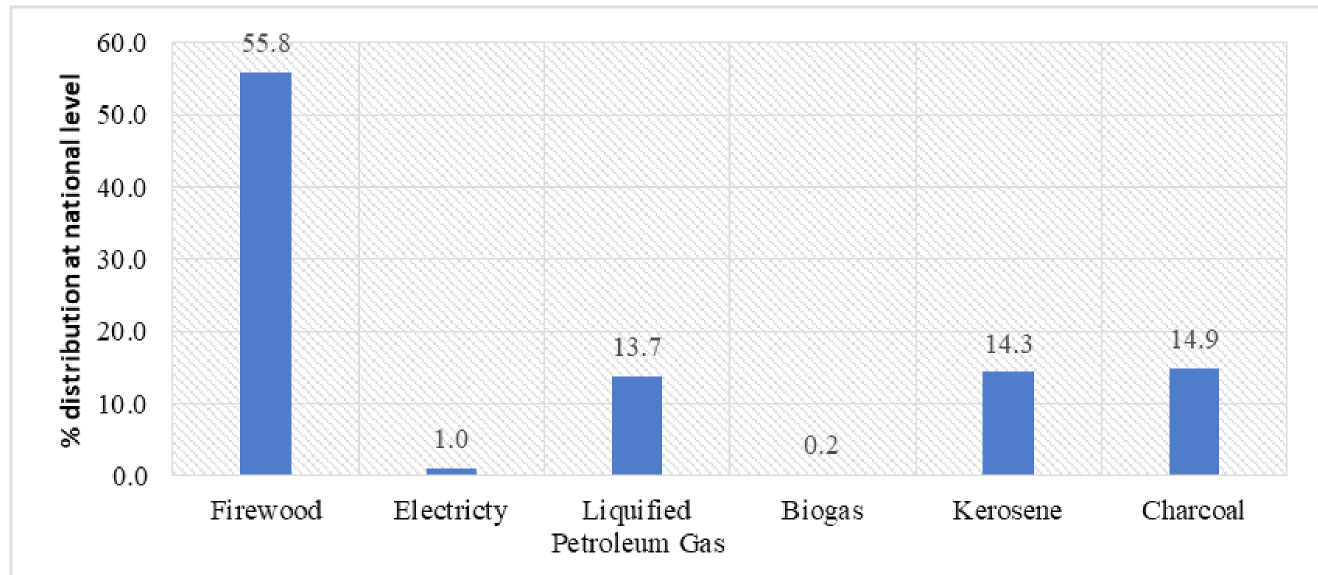
Besides lighting, access to clean, efficient and sustainable cooking energy sources is imperative to attaining SGD 7. Nationally, firewood is the most common used primary energy source for lighting accounting for 55.8 per cent, followed by charcoal at 14.9 per cent, and kerosene at 14.3 per cent. Notably, the use of clean energy sources for cooking is minimal with only 13.3 per cent using LPG and 1 per cent and 0.2 per cent using electricity and biogas respectively (Figure 8.16).

Moreover, disparity in access to various energy sources for cooking is also evident along the rural/urban divide. In rural areas, firewood is reportedly the predominant cooking fuel at 85.6 per cent, charcoal and kerosene at 9.0 per cent and 2.3 per cent respectively. The uptake of clean energy sources is low with only 2.5 per cent of households use LPG, 0.3 per cent use electricity and 0.2 per cent using biogas (Figure 8.17)

On the contrary, the use of firewood as the primary source for cooking is minimal in urban areas at 16.6 per cent with a highest proportion of households relying on kerosene reported at 30.0 per cent and dominates among the urban poor. The use of kerosene stood at 30.0 per cent and charcoal at 22.6 per cent. The use of LPG, electricity and biogas, which are considered as clean energy sources for cooking, was reported at 28.5 per cent, 2.1 per cent and 0.2 per cent, respectively (Figure 8.18).

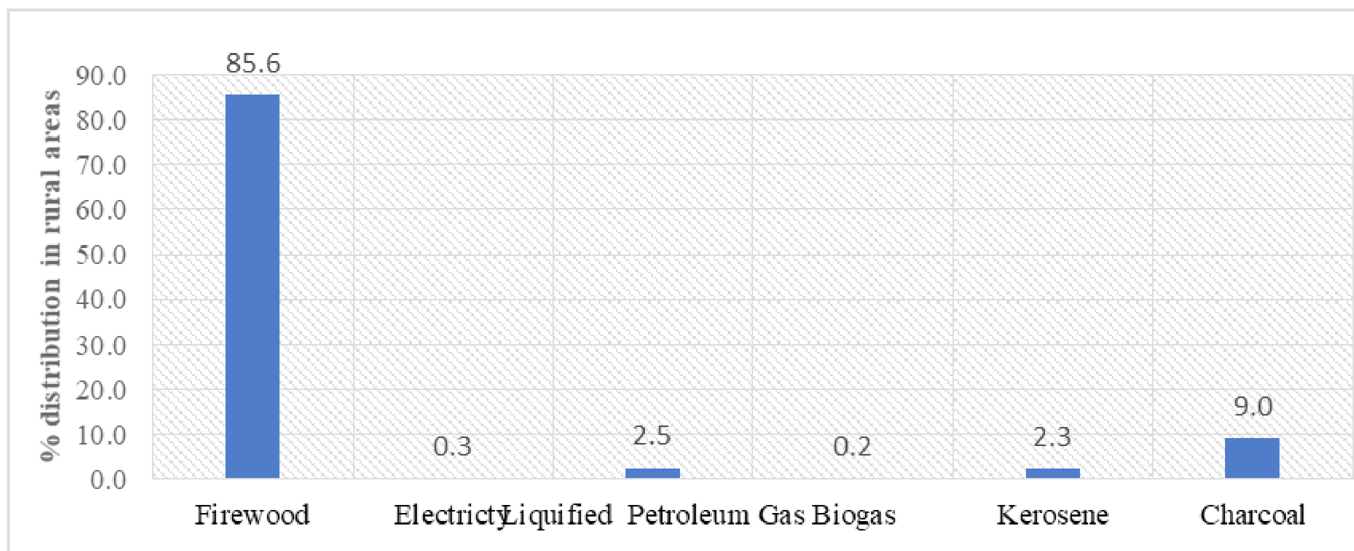
It is therefore evident that a high proportion of households rely on firewood, kerosene and charcoal to meet their cooking needs while use of biogas, LPG and electricity as primary energy sources for cooking is still lagging. Over-reliance on non-clean energy sources have significant detrimental health impacts with an estimated 14,300 Kenyans dying annually due to illnesses attributable to indoor air pollution which disproportionately affects women and children (UNEP, 2016).

Figure 8.16: Percentage distribution of households by primary energy source for cooking at national level



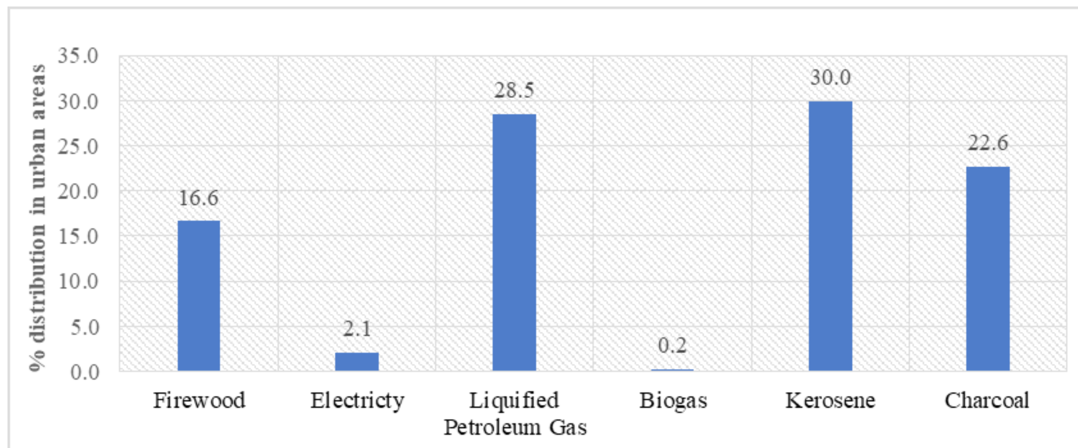
Data Source: KNBS (2016), KIHBS 2015/16

Figure 8.17: Percentage distribution of households by primary energy source for cooking in rural areas



Data Source: KNBS (2016), KIHBS 2015/16

Figure 8.18: Percentage distribution of households by primary energy source for cooking in urban areas

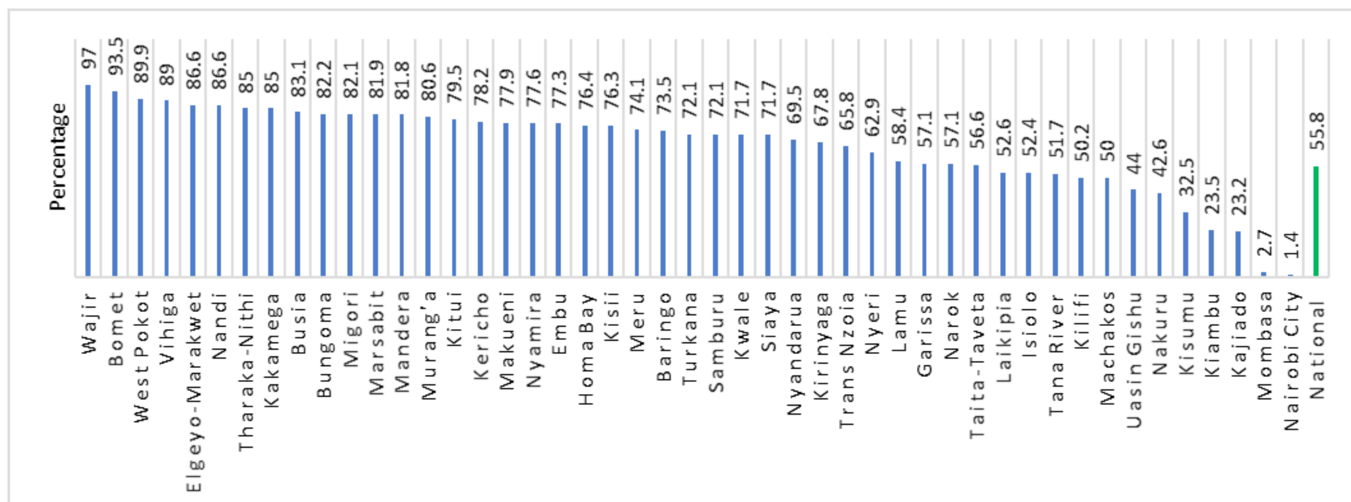


Data Source: KNBS (2016), KIHBS 2015/16

(b) Across the counties

Wide disparities in the use of wood fuel is evident across counties. Households in Wajir, Bomet, West Pokot and Vihiga counties heavily rely on wood fuel at 97.0 per cent, 93.5 per cent, 89.9 per cent and 89.0 per cent respectively (Figure 8.19).

Figure 8.19: Percentage distribution of households using firewood as the primary source for cooking across counties



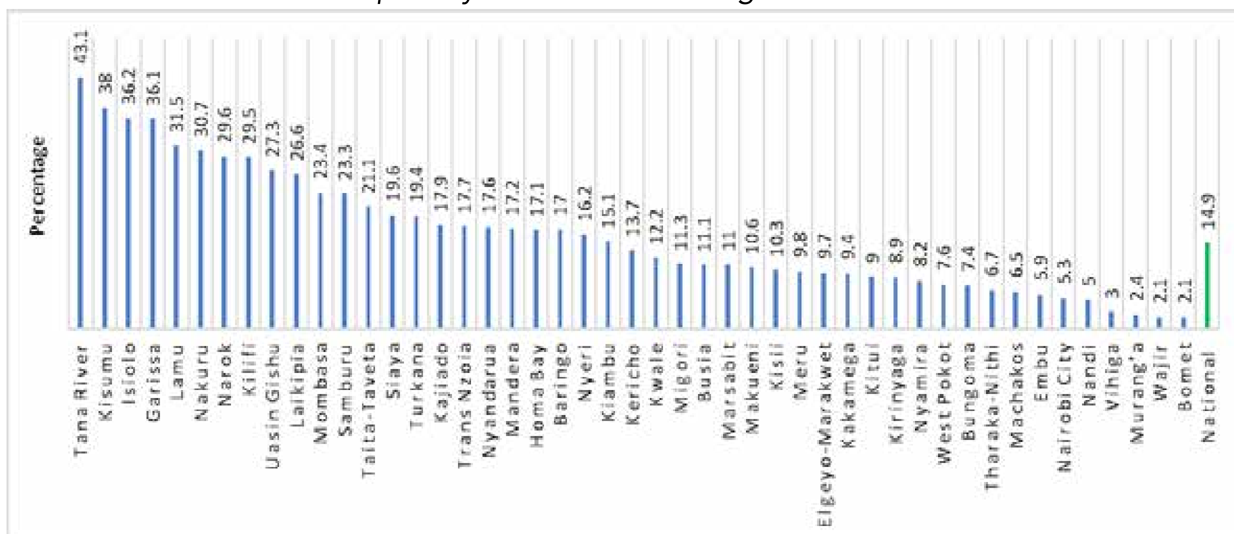
Source: Computed from KNBS (2016), KIHBS 2015/16

Counties that had the lowest access to wood fuel include; Nairobi, Mombasa, Kajiado and Kiambu at 1.4 per cent, 2.7 per cent, 23.2 per cent and 23.5 per cent, respectively. This could be attributed to a high proportion of urban households in these counties who tend to rely more on Kerosene and LPG (Figure 8.20).

Charcoal is considered a major source of fuel in Kenya especially at the household level. Tana River, Kisumu, Isiolo and Garissa comprised the highest proportion of households relying on charcoal as the main energy source for cooking (Figure 8.21). Tana River County accounts for 90.0 per cent of charcoal produced in trust lands in Kenya. The county is also dominated by tree species such as *Prosobis, Juliflora,*

Chilensis mainly used for charcoal production. Despite the high production of charcoal carried out across the country, the highest levels of production occur in ASALs which are dominated by pastoralism due to low rainfall. This is later sold to other counties mainly dominated by urban population. Charcoal is mainly preferred by the urban dwellers and mainly substituted with Kerosene and LPG.

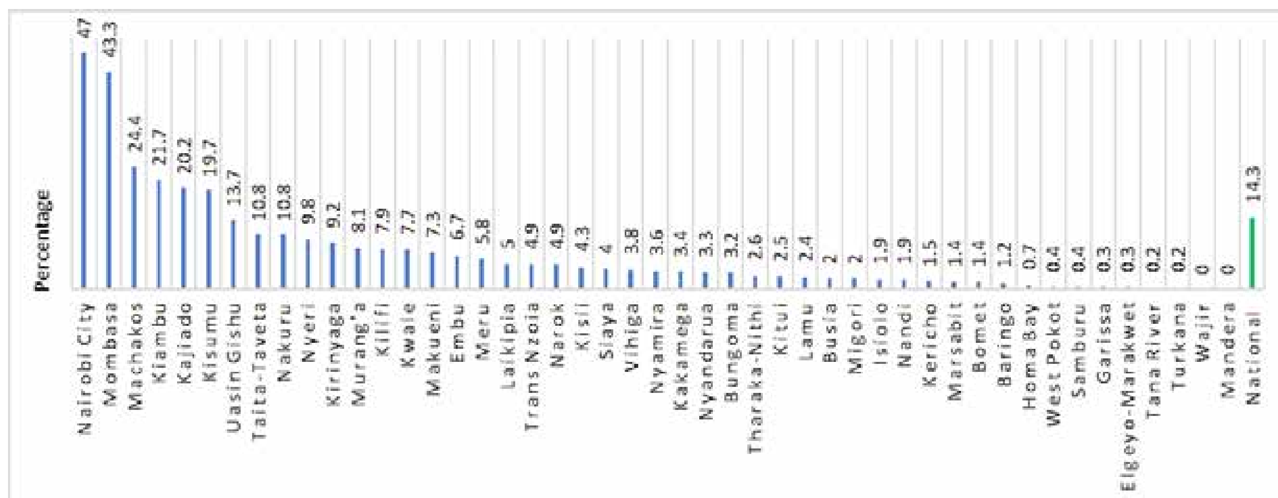
Figure 8.20: Percentage distribution of households with using charcoal as the primary resource for cooking across counties



Source: Computed from KNBS (2016), KIHBS 2015/16

There is wide disparity in the use of kerosene as primary source for cooking by county with Nairobi County at 47.0 per cent, followed by Mombasa County at 43.3 per cent, Machakos County at 24.4 per cent, Kiambu County at 21.7 per cent and Kajiado County at 20.2 per cent. This could be attributed to the higher proportion of urban households in these counties. Mandera, Wajir, Turkana and Tana River counties recorded lower reliance on kerosene as the primary source for cooking (Figure 8.21).

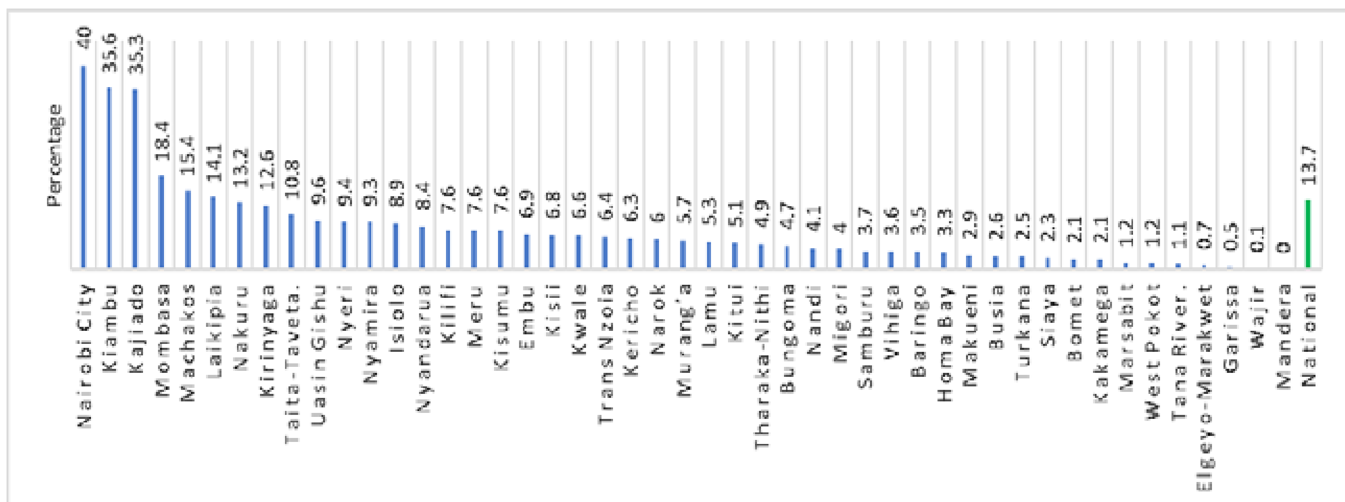
Figure 8.21: Percentage distribution of households with using kerosene as the primary resource for cooking across counties



Source: Computed from KNBS (2016), KIHBS 2015/16

LPG is identified as a cleaner alternative to solid fuels and kerosene in the short-term, and a promising transition fuel to more modern cooking technologies in the long-term. Nairobi County registered the highest access to LPG at 40.0 per cent followed by Kiambu (35.6%), Kajiado (35.3%) and Mombasa (18.4%) (Figure 8.22). Mandera, Wajir and Garissa and Elgeyo Marakwet had the lowest proportion in the use of LPG as the main source for cooking. Some of the major constraints in scale -up of LPG includes; low consumer affordability due to high initial costs for cylinders and high LPG fuel costs relative to charcoal and wood; supply constraints resulting from limited bulk storage and filling capacity for large demand centres; high upstream costs related to importing and port storage and low enforcement capacity for existing regulations to protect investments.

Figure 8.22: Percentage distribution of households with using LPG as the primary resource for cooking across counties

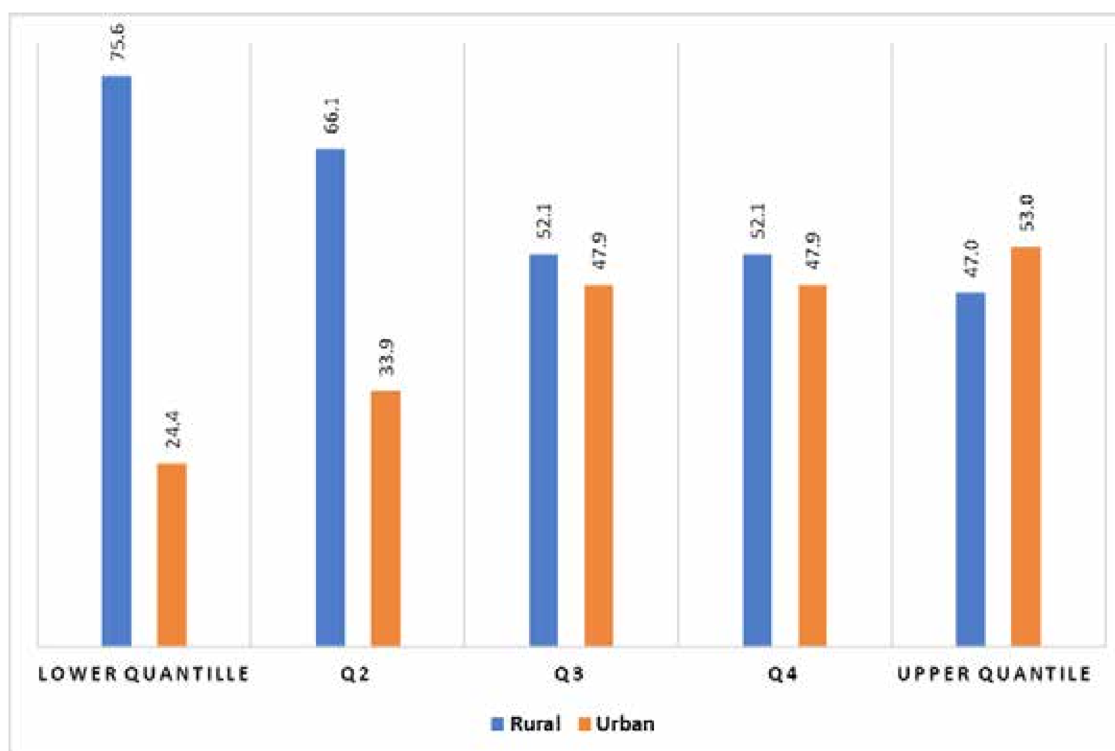


Source: Computed from KNBS (2016), KIHBS 2015/16

8.7 Mean Monthly Per Adult Equivalent Energy Consumption Expenditure by Income Groups (Quantiles) Across Rural and Urban Areas

Energy expenditure across the rural-urban divide indicate diverse variations along the income groups (quintiles). According to Figure 8.23, energy consumption expenditure generally declines with rising quantiles across the rural areas while energy expenditure increases with the rising quantiles. This indicates that majority of households in rural who mainly rely on non-clean energy source end up spending more due to the inefficiency related to various sources including; purchased firewood, kerosene and charcoal. For the upper quantile the expenditures are higher in urban areas an indication that despite dependence on cleaner fuels such as kerosene and LPG, the expenses are still high. This shows that energy pricing affects the poor as well as the non-poor.

Figure 8.23: Mean monthly per adult equivalent energy consumption expenditure by income groups (quantiles) across rural and urban areas (%)



Source: Computed from KNBS (2016), KIHBS 2015/16

Similarly, the disparities in the mean monthly per adult equivalent energy consumption among the poor and non-poor is evident across, with 22 counties having consumption expenditures above the national average. Overall, Bungoma, Nairobi, Nyeri and Kiambu counties recorded the highest expenditure, while Garissa, Wajir, Turkana and Mandera had lowest consumption expenditure. This could be attributed to the minimal expenses incurred in acquiring various energy sources as they highly depend on off-grid solutions that do not require monthly billing and rely on unpurchased firewood and farm residue to meet their cooking and lighting needs.

Table 8.4: Mean monthly per adult equivalent energy consumption expenditure among poor and non-poor across counties

County	Mean monthly per Adult equivalent energy consumption expenditure (Ksh)		
	Overall mean	Poor	Non-poor
National	498.2	220.0	635.5
Urban	698.0	544.6	858.7
Rural	423.4	194.1	302.7
Bungoma	978.1	288.9	1,304.7
Nairobi	923.9	278.9	1,000.5
Nyeri	773.7	342.7	838.0
Kiambu	757.6	431.6	829.7
Kirinyaga	742.3	351.2	807.4
Meru	718.9	360.3	781.8
Mombasa	678.1	266.9	755.6

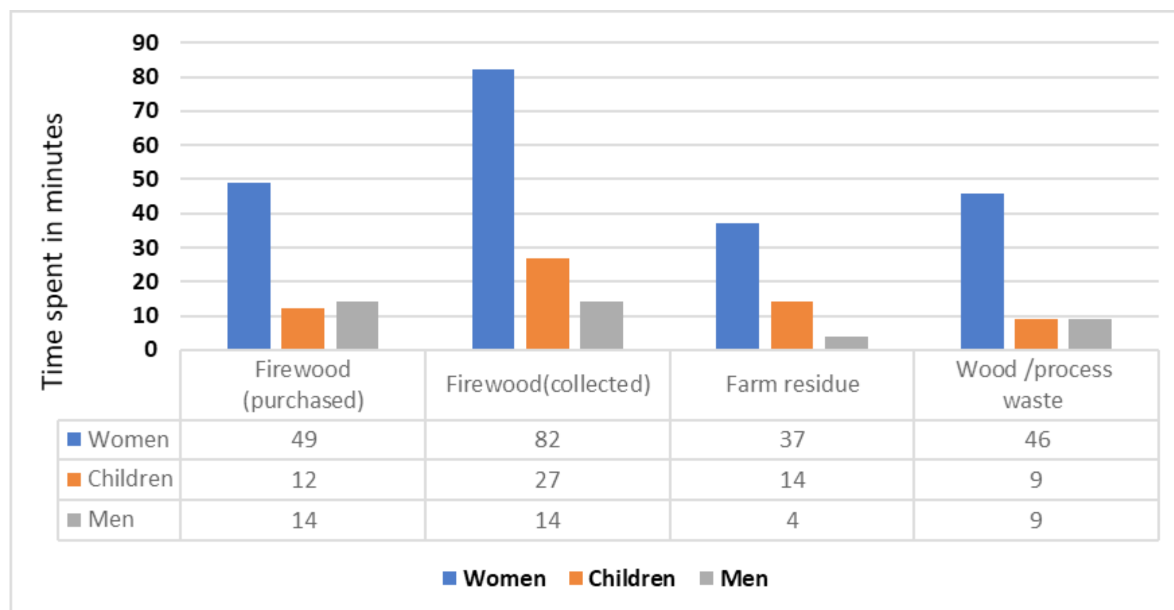
Nakuru	674.1	321.5	770.5
Narok	649.4	277.3	734.2
Nyandarua	616.4	317.3	724.6
Trans Nzoia	593.1	259.8	716.4
Machakos	586.3	230.3	689.7
Migori	585.9	319.5	713.6
Muranga	571.6	275.5	641.0
Lamu	570.6	276.1	644.2
Laikipia	563.4	299.1	703.0
Taita Taveta	562.5	251.4	674.9
Embu	555.2	263.1	634.8
Kilifi	548.3	349.8	638.7
Tharaka Nithi	537.8	233.2	612.0
Isiolo	526.1	268.1	710.4
Siaya	522.6	286.1	629.5
Uasin Gishu	480.5	211.9	612.2
Kisumu	466.3	240.4	567.2
Baringo	461.5	192.9	592.2
Kakamega	436.6	257.3	522.2
Kwale	435.0	253.6	534.4
Nyamira	429.7	223.3	514.0
Vihiga	426.6	254.9	538.2
Homa Bay	423.4	217.5	508.6
Makueni	417.6	216.6	493.6
Marsabit	402.7	244.1	577.9
Kericho	397.4	182.4	474.9
Kajiado	395.9	161.6	551.4
Samburu	393.3	230.4	642.7
Elgeyo Marakwet	393.2	220.3	507.3
Busia	377.0	244.6	557.1
Kisii	353.0	152.3	467.0
Nandi	331.0	151.8	405.7
Kitui	287.1	113.0	396.8
Bomet	270.7	140.7	341.4
Tana River	267.9	157.5	419.3
West Pokot	255.1	162.3	349.7
Mandera	191.7	145.5	335.1
Turkana	189.9	97.4	406.1
Wajir	181.7	123.7	253.6
Garissa	132.2	85.1	218.1

Source: Computed from KNBS (2016), KIHBS 2015/16

8.8 Gender and Energy Access

Equitable development outcomes of energy interventions necessitate consideration of the differences in energy access across gender as energy needs for men, women and children differ. According to Figure 8.24, women and children tend to bear primary responsibility of acquiring non-clean fuels such as firewood, farm residue and wood waste. On average, women and children dedicate an equivalent of 1.36 hours and 0.45 hours in collecting firewood, respectively, while men spend 0.23 hours. A similar pattern is observed in time spent in purchasing firewood, firm residue and wood/ process waste.

Figure 8.24: Mean weekly time spent in acquiring various energy sources by women, men and children



	Firewood (purchased)	Firewood(collected)	Farm residue	Wood /process waste
Women	49	82	37	46
Children	12	27	14	9
Men	14	14	4	9

Source: Computed from KNBS (2016), KIHBS 2015/16

Considerable time spent by women and children in acquiring firewood, limits other productive activities such as income generation and takes children away from school. In less secure environments, women and children are at risk of injury and violence during fuel gathering. Similarly, exposure to indoor pollution during the combustion of the inefficient fuels contributes premature deaths each year. In addition, fuel gathering which involves physical labour by carrying loads of wood increases the risk of musculoskeletal damage. The International Energy Agency (Institute of Economic Affairs - IEA, 2017) estimated that the average firewood load carried by women for several miles daily varies from 25-50 kg. Therefore, lack of access to adequate, reliable and affordable modern energy sources disproportionally impacts on women and children as well as the communities as it limits their productive opportunities, enterprise growth and employment, exacerbating income inequality and persistent poverty.

8.9 Key Messages and Recommendations

8.9.1 Key messages

1.) Increase in the share of electricity generated from renewable energy sources including; geothermal, hydro, solar and wind is central to a reliable power supply system. Generation of electricity from solar, wind and geothermal demonstrate great potential in their contribution to the total energy mix and expected to bring down the cost of electricity. The thermal sources take a substantial share of installed capacity hence, affecting the end-user prices as fuel energy cost factored in the electricity bills.

2.) Electricity transmission and distribution losses have risen over time and accounts for almost quarter of the generated capacity. Losses mainly arise from non-technical factors due to unidentified and uncollected revenue, arising from meter tampering, illegal connections, metering errors, shortfalls in billing and revenue collection. Electricity transmission and distribution losses impact negatively on the quality of electricity supplied. Power losses have resulted to low supply and quality and of power and revenue collection.

3.) Domestic lifeline tariff band is inclusive as it accommodates majority of low-income earners especially in the informal settlements, rural, urban and peri-urban areas consuming less than 100kWh at Ksh 10 per unit. Making electricity affordable to low-income bracket ensures that households access energy services, minimizing illegal connections while enhancing revenue and safety for slum dwellers.

4.) Electricity demand and the number of customers connected to electricity for domestic and small commercial consumers; large commercial and Industrial consumers; street lighting and rural electrification recorded a substantial increase over time. Despite the high number of connections for domestic and small consumer categories accounting for 80.0 per cent of connected customers, energy demand was low compared to large commercial and industrial consumers who accounted for only 0.05 per cent of customer base. This implies non-intensified use of electricity among the domestic and small commercial consumers. consumer electricity for productive purposes. Factors constraining use of clean sources include; low consumer affordability due to high initial upfront costs and lack of awareness on the benefits of clean energy solutions.

5.) Wide disparities are evident in access to clean energy sources for lighting and cooking at national level, rural/ urban areas and across the counties. All regions registered a high dependency on non-clean energy sources and low reliance on clean and efficient fuels for cooking purposes. A high proportion of households rely on firewood, kerosene and charcoal to meet their cooking needs while use of biogas, LPG and electricity as primary energy sources for cooking still lagging.

6.) Energy consumption expenditure declines with rising quintiles across the rural areas. This indicates that majority of households in rural areas who mainly rely on non-clean energy source end up spending more on energy compared to their counterparts in the upper quintiles who use more of efficient sources. Expenditure in urban areas increases with the rising quantiles, this indicates that energy is still high especially for the upper quantiles who are mainly dependent on cleaner sources for various uses.

7.) Women play a significant role in energy systems as part of their subsistence and productive tasks and are disproportionately affected by lack of access to clean energy sources. They bear the burden of collecting firewood which consumes considerable time and limits other productive activities and are at a risk to respiratory illness due to indoor pollution.

8.) Policies and initiatives in the sector are instrumental in achieving universal energy access through a combination of access grid, mini-grids, off-grid and clean cooking solutions. However, the policies and initiatives emphasize more on aspects of physical access/ connections. They fail to integrate essential strategies for ensuring continuous and productive use of electricity and clean cooking solution which limits the beneficial outcomes.

8.9.2 Recommendations

1.) Due to the cost effectiveness, reliability and high potential for electricity generation from renewable sources, the sector needs to focus more on increasing electricity generation capacity from wind, solar and geothermal and hydro as they remain underexploited, and this will eventually reduce the cost of electricity.

2.) Significant reduction in the transmission and distributive electricity losses is crucial in establishing a stable supply system and can be achieved by incorporating innovative measures such as grid modernization through inclusive smart metering programme for all end-users across and monitoring solutions.

3.) Diffusion of clean energy sources for cooking remains rather limited due to customs and perceptions on specific ways of cooking traditional food as well as inability to afford clean energy sources such as LPG and biogas. To enable scale-up of clean cooking solutions awareness campaigns on the benefits of clean energy solutions should be incorporated in the energy access programmes and affordability enhanced through inclusive approaches such as pay as you go model and give subsidies for the upfront cost of LPG, bioethanol and biogas.

4.) Taking women into account in energy interventions is a prerequisite for them to invest in education, and productive social and economic opportunities. For this cause, engendering energy projects, programs, and policies through gender mainstreaming will ensure that women and men participate and benefit from energy access in households.

5.) A holistic dimension of planning for energy projects should be introduced to ensure that energy access plans and strategies integrating the critical aspects on productive utilization. This can be achieved by incorporating key stakeholders, including Ministries, Counties, Agencies, Departments, and non-governmental organizations in devising plans that support productive use of electricity and other energy that are uniquely identified across counties. Also, as provided in the Energy Act, 2019 all counties are required to fast track development of the county energy plans and the National Government to support the establishment of county energy offices.

Endnote

14 Garissa, Isiolo, Kilifi, Kwale, Lamu, Mandera, Marsabit, Narok, Samburu, Taita Taveta, Tana River, Turkana, Wajir and West Pokot.

15 Baseload represents the minimum continuous level of demand in a grid system, and thus requires reliable supply sources without the risk of output dropping below the baseload level.

16 Installed capacity is the optimal output a power plant is capable of producing when operating at the optimal levels (100 per cent).

17 Effective capacity refers to the maximum electric output a power station is expected to achieve given current operating constraintsh and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality.

9 PROMOTING SOCIAL MOBILITY AND INCLUSIVE GROWTH: THE ROLE OF SOCIAL PROTECTION

Social mobility can be described as the upward or downward movement of individuals, families, households, or other categories of people within or between social strata. It is typically measured by socio-economic status indicators such as income or the level of education between parents and their offspring. The key finding is that access to health, formal education, and job opportunities by an individual is linked to the education and income level of his/her parent. The education level of a female head is particularly crucial for improved social outcomes. Children and young persons from the highest income households enjoy greater access to education, health and labour markets. Moreover, the growing social assistance interventions by the Government, including cash transfers, education bursaries and free medical services, do not seem to reach (as they should) a larger proportion of the targeted lowest income groups. A key overriding recommendation is the need to upgrade the current social protection single registry into an integrated social assistance service information system that links all social assistance programmes across Ministries, Departments and Agencies in one easily accessible online portal.

9.1 Introduction

Social mobility is a change in the social status relative to one's current social location within a given society. The upward or downward movement of social status may be intra-generational (incorporating personal life course perspectives) and/or inter-generational – that is, the changes between parents and their children or grandchildren. The change in social status can be measured by indicators for education attainment, employment, health, and income.

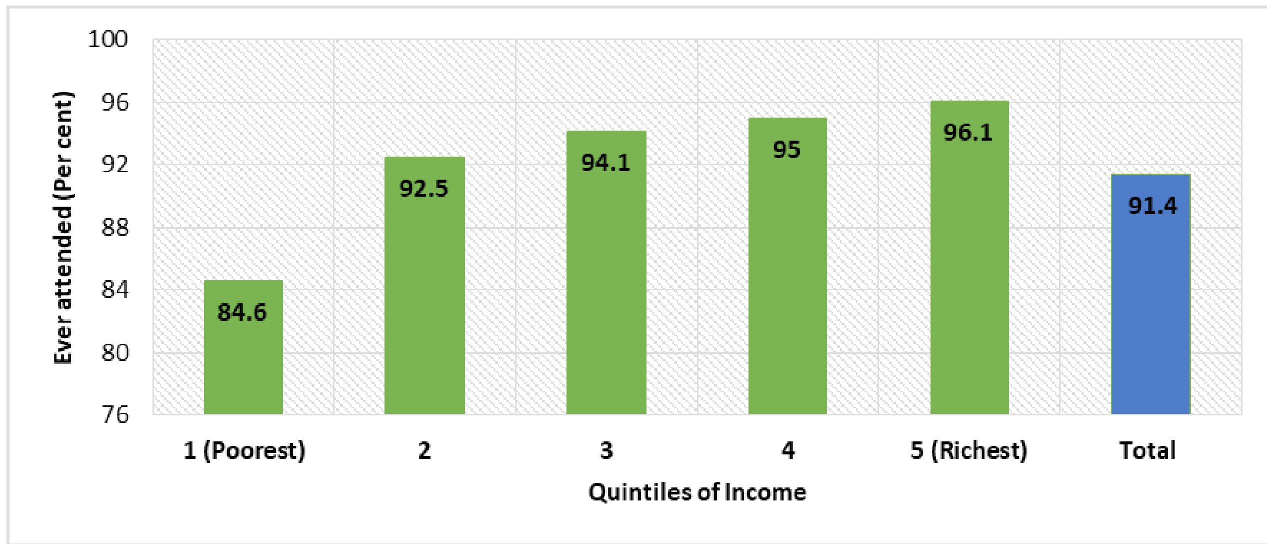
Policy makers should care about social mobility because upward social mobility of the lower income groups can solidify the foundations of sustainable development and inclusive growth. Upward social mobility can reduce the probability of social conflicts, diffuse extremism and create feelings of inclusion among disadvantaged groups. A lack of upward social mobility is known to undermine social cohesion and productivity – and may thus curtail a more inclusive economic growth process. In an environment with limited upward social mobility, access to resources is likely to be skewed leading to inequalities and various forms of inter-group conflict.

The succeeding sub-sections examine the likely patterns of social mobility between parents and their offspring using indicators of education, the labour market, and health outcomes. The role of social protection interventions is also discussed.

9.2 Social Mobility in Education and Labour Market Outcomes

A key finding is that access to formal education in Kenya hinges on household incomes with the highest income households enjoying greater access. Although education is considered as a vehicle through which social mobility can be enhanced, there are disparities in access between income groups across Kenya. On aggregate, about 91.4 per cent of individuals aged 3 to 24 years have ever attended school based on KIHBS 2015/16 data. If households are split by quintile groups, the highest income group has the largest proportion of individuals aged 3 to 24 years who have ever attended school (96.1%) relative to 84.6 per cent for the lowest income group (Figure 9.1).

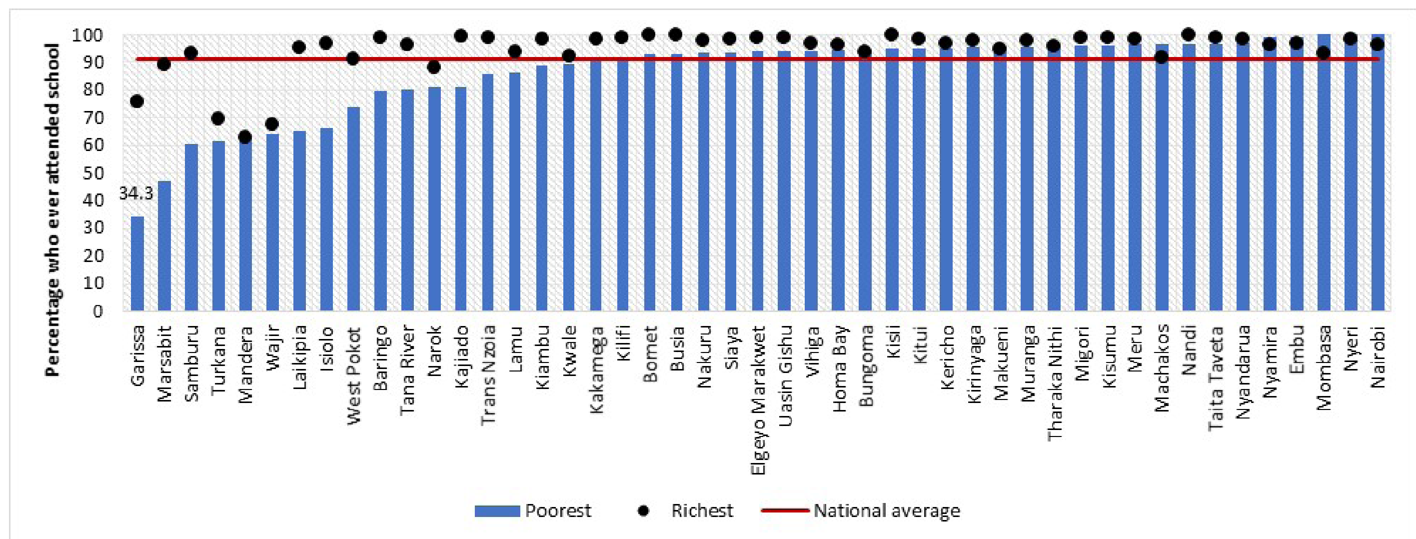
Figure 9.1: Percentage of individuals aged 3 to 24 years who have ever attended school by household income quintile



Data Source: KNBS (2016), KIHBS 2015/16

The disparities in access are replicated across the counties with larger access rates observed for the highest income quintile across the regions. Larger disparities in "ever attended school" are observed in counties in the Arid and Semi-Arid Lands (ASALs). Most of the largely urban counties have smaller differences – across income groups – in those who ever attended school (Figure 9.2).

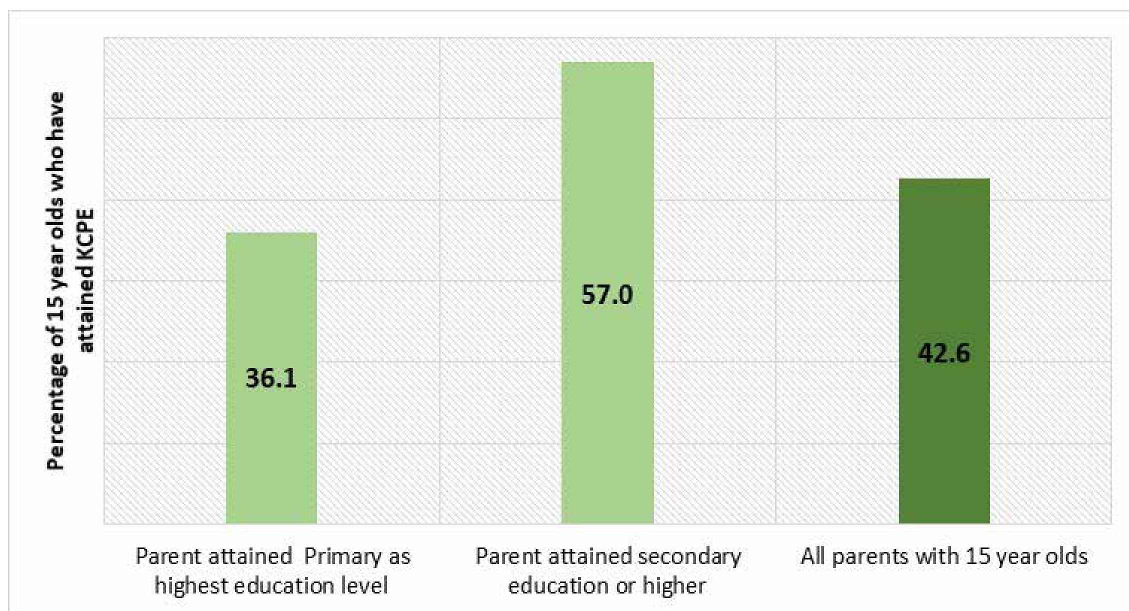
Figure 9.2: Percentage of individuals aged 3 to 24 years who ever attended school for the highest and lowest quintile by county



Data Source: KNBS (2016), KIHBS 2015/16

The level of education of one's parent is associated with the educational qualification or achievement of an individual thus limiting the social mobility of the lower income groups. At 15 years, a child is expected to have completed the primary cycle of education and acquired the Kenya Certificate of Primary Education (KCPE) as their highest educational qualification. Although 43 per cent of all children aged 15 years had acquired KCPE – the percentage is higher, about 57 per cent, for individuals whose parents have at least secondary education relative to 36 per cent of 15-year olds whose parents have only attained primary education (Figure 9.3). Sex differences of the household heads with at most primary education does not result in large differences in outcomes and 36.7 per cent of all 15-year olds in male headed households has a KCPE qualification relative to 35.1 per cent in the female headed households. The differences are large for household heads with at least a secondary education with 66.8 per cent of children aged 15 years in female headed households having KCPE qualification relative to 53.9 per cent in male headed households – perhaps underlying the beneficial effects of formal education of mothers.

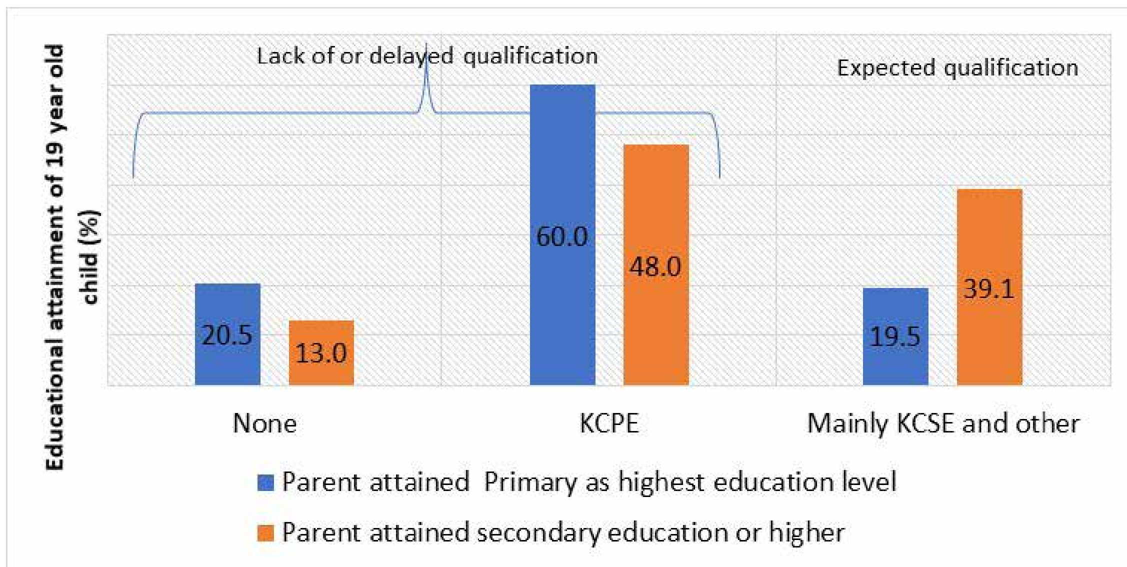
Figure 9.3: Educational attainment of 15-year-olds by parent educational background



Data Source: KNBS (2016), KIHBS 2015/16

Correspondingly, young adults aged 19 years with less educated parents exhibit lower educational achievement. At 19 years of age, individuals are expected to have acquired the Kenya Certificate of Secondary Education (KCSE) or its equivalent (as their highest educational qualification). While about 39 per cent of individuals aged 19 years had a KCSE qualification if the parent was more educated (secondary school or higher) only about 20 per cent had achieved this qualification if the parent had lower education attainment (primary school education or less). In addition, children of less educated parents were more likely to be delayed in education or have no qualification at all (Figure 9.4). Sex differences of the household head did not result in major differences in outcomes. For male headed households with primary school education or less, 19.8 per cent of young adults had acquired KCSE certificate relative to 19.1 per cent from female headed households with at most a primary school education. The corresponding proportions with KCSE for male and female heads with secondary school education were 39.9 per cent and 37.2 per cent, respectively.

Figure 9.4: Educational attainment of 19-year-old young adults by parents' educational background

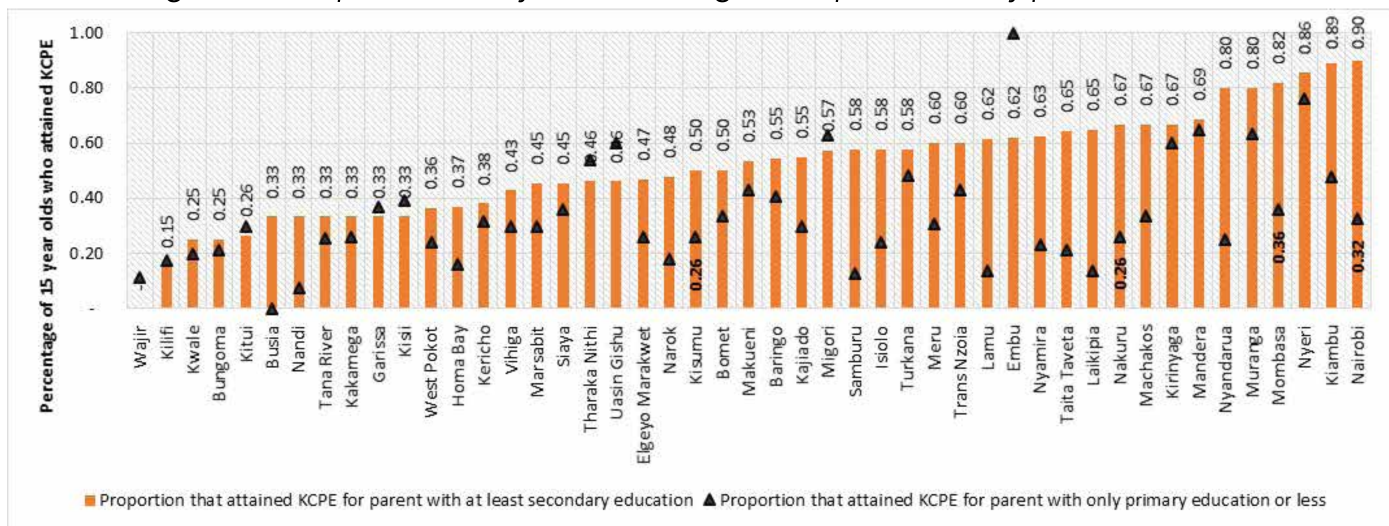


Data Source: KNBS (2016), KIHBS 2015/16

The association of parents' education and that of their offspring may be attributed to several factors including the positive relationship between education and personal support to offspring. Homes with household heads with more education are more likely to have favourable conditions suitable for education of their offspring – such as personal support, role modelling and guidance. In addition, education of the household head is likely to impact positively on the household's permanent income. Thus, offspring of more educated household heads are less likely to face financial constraints.

There is evidence of wide regional disparities in educational attainment of children aged 15 for given educational attainment of their parents (Figure 9.5). For parents with at least secondary school education, only about 15 per cent of children in Kilifi County had attained the KCPE at 15 years of age relative to about 90 per cent in Nairobi. In most counties, a lower educational attainment of a parent is associated with a lower level of achievement of the child by age 15.

Figure 9.5: Proportion of 15-year olds having KCPE qualification by parents' education



Data Source: KNBS (2016), KIHBS 2015/16

Even with these implied differences in social mobility, offspring of parents with higher education (and hence higher incomes or social status) are equally likely to benefit from education bursaries as the disadvantaged pupils/students. This scenario limits the envisaged role of the education bursaries (or social protection) to enhance equality of opportunity across social groups. The bursary schemes in place may thus fail to support or enhance upward social mobility and alleviate inequality. If parents with better education and hence higher social status transfer the advantage to their children a vicious cycle may ensue in which the disadvantaged are trapped in limited options for upward mobility. Box 9.1 highlights the results of a review explaining why bursary schemes in Kenya may fail to enhance social mobility.

Box 9.1: Explanations of why bursary schemes in Kenya may fail to be equitable

There are numerous bursary schemes in Kenya provided by both public and private organizations. Some examples include the Presidential Bursary Scheme, County Governments Bursary Schemes, and the Jomo Kenyatta Foundation scholarships. The presidential bursary scheme and the County bursary schemes are examples of the extensive public sector bursary schemes in place. This scheme like most other schemes targets needy students who have nevertheless scored specific cut off marks in their national examinations. Even so, there are several observable design features that may make the schemes less equitable. These features include:

(i) The schemes target poor households/students, but some of the County Acts creating the bursary funds do not outline clear criteria for identifying the beneficiaries. The poor may thus be left out.

(ii) The public sector schemes in some cases only target students in public schools (or public boarding schools) which may result in discrimination of potentially eligible poor students in private schools (or day schools). For example, the presidential bursary scheme only targets students in public boarding schools – while it would be expected that most needy pupils would enrol in the cheaper day schools – and in both public and private schools.

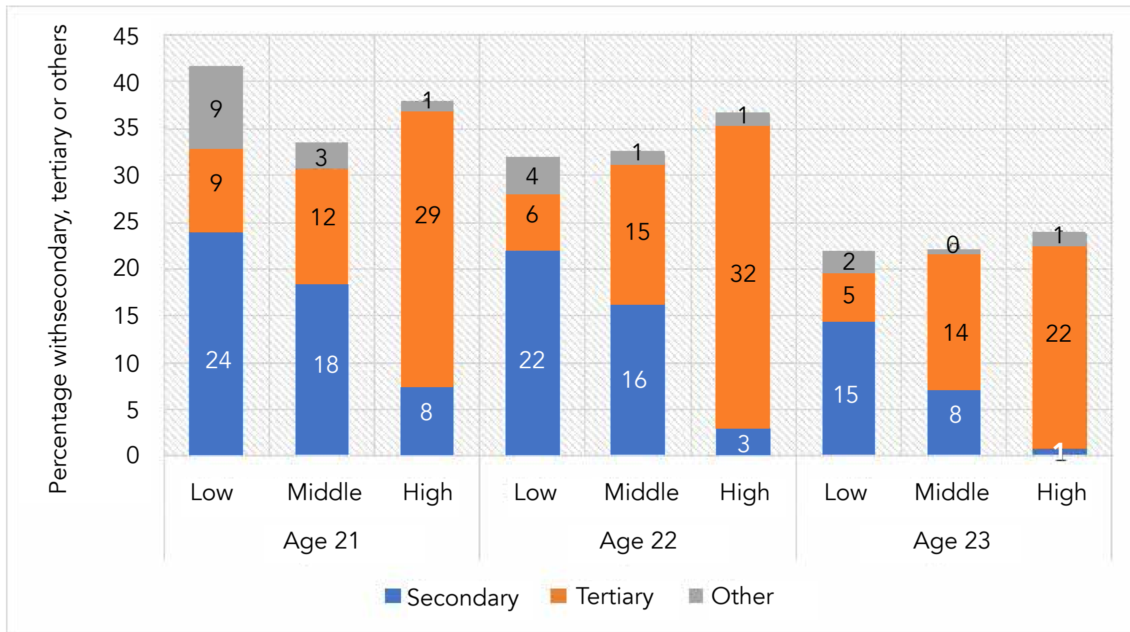
(iii) Some of the schemes cut-off points are way too high (with minimum mean scores at and above 70 per cent) and may inadvertently lock out many poor students who are likely to have modest scores due to their initial disadvantaged positions.

(iv) For some schemes, such as the County Governments Bursary Schemes, the respective Acts share the funds equally between Wards and thus disregard the differential needs across Wards – which has resulted in inequities. In one study Kinuthia (2018) estimated that, if all poor students would be targeted, the average allocation to poor students in Kirinyaga's Kiriita Ward would be Ksh 8,782 while a poor student in Wanjohi Ward would receive about one third (Ksh 2,992) – as a result of equal allocation for each Ward – that does not make adjustments based on needs.

(v) In some cases, the minimum amount set for the bursaries is inadequate to cover the tuition fees and other expenses for the respective learning institutions. Poor beneficiaries may thus still fail to access education.

Regarding tertiary education, a mapping of all young persons aged 21 to 23 years by level of education and income group of the household head reveals that young persons in higher income households are more likely to be in tertiary education (college or university) than those in lower and middle income households (Figure 9.6). At 23 years of age, about 22.0 per cent of young persons from the highest income group were in college or university relative to only 5.0 per cent of young persons from the lowest income group. The more adverse education prospects especially of the lower income groups are likely to exacerbate inequality in incomes and wealth and supress social mobility in the medium to long-term.

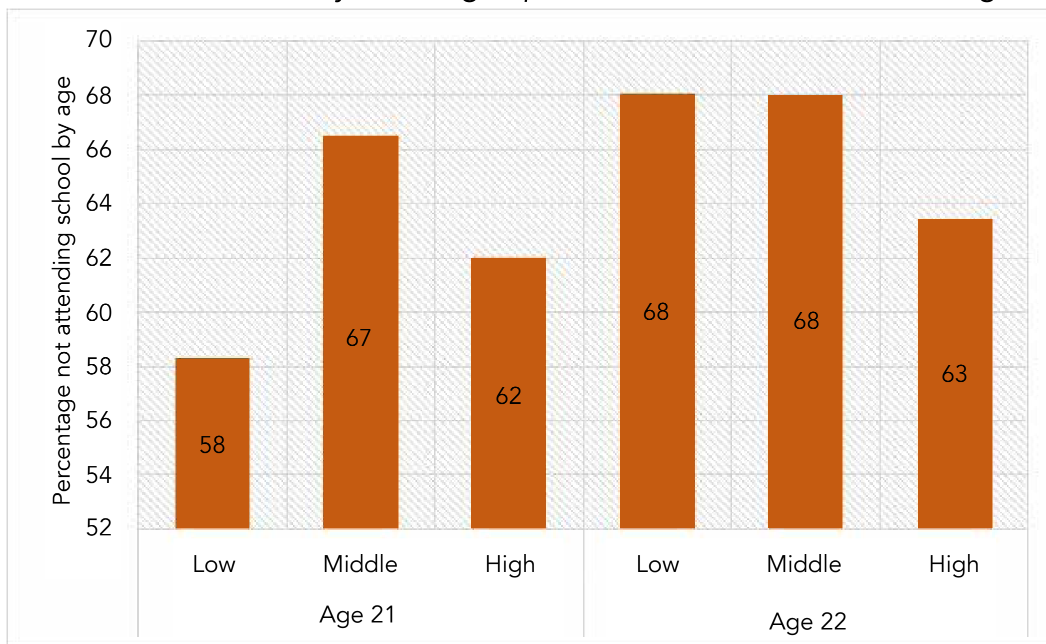
Figure 9.6: Education status for young adults aged 21-23 years by income group of households (low, middle and high)



Data Source: KNBS (2016), KIHBS 2015/16

It is also clear that across all the income groups, most young adults aged 21-22 (the age at which individuals are expected to be in college/university) were not attending school or any academic institution (Figure 9.7). This is suggestive of weak prospects in the development of human capital for most young persons across all income groups. Young adults from the poor income group were more disadvantaged than the rest – and those attending school at 21 or 22 years were more likely to be in lower grade levels (primary or secondary rather than the expected tertiary education level).

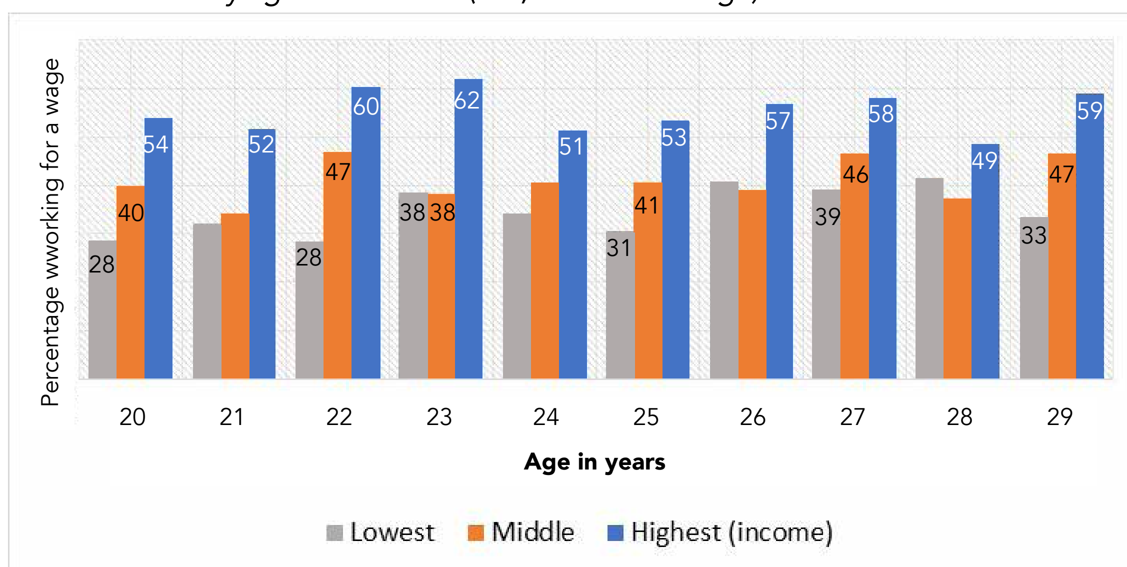
Figure 9.7: Percentage of young adults aged 21-22 years not attending school or academic institution by income group of household (low, middle and high)



Data Source: KNBS (2016), KIHBS 2015/16

Although participation in the labour market is relatively high among young adults across the separate income groups, there is a labour market disadvantage for young adults from low and middle-income groups when focus is given to job quality. Specifically, individuals from the high-income households aged 20 to 29 years are more likely to work for a wage or a salary (including internship opportunities) (Figure 9.8). Wage jobs are a good proxy for job quality and differences in the nature of jobs is an indicator of earnings disparity across the groups. For those aged 25 years, about 53.0 per cent of young persons from households in the high-income group work for a wage relative to a 31.0 per cent from the low-income group (Figure 9.8). The labour market disadvantage for the lower income groups are most likely linked to their prior inferior outcomes in education and a possible lack of not only information, but also relevant networks and skills. The disadvantage is likely to translate into lower productivity, lower incomes and supressed social mobility.

Figure 9.8: Percentage of individuals working for a wage, salary or in internship by age and income (low, middle and high) of household

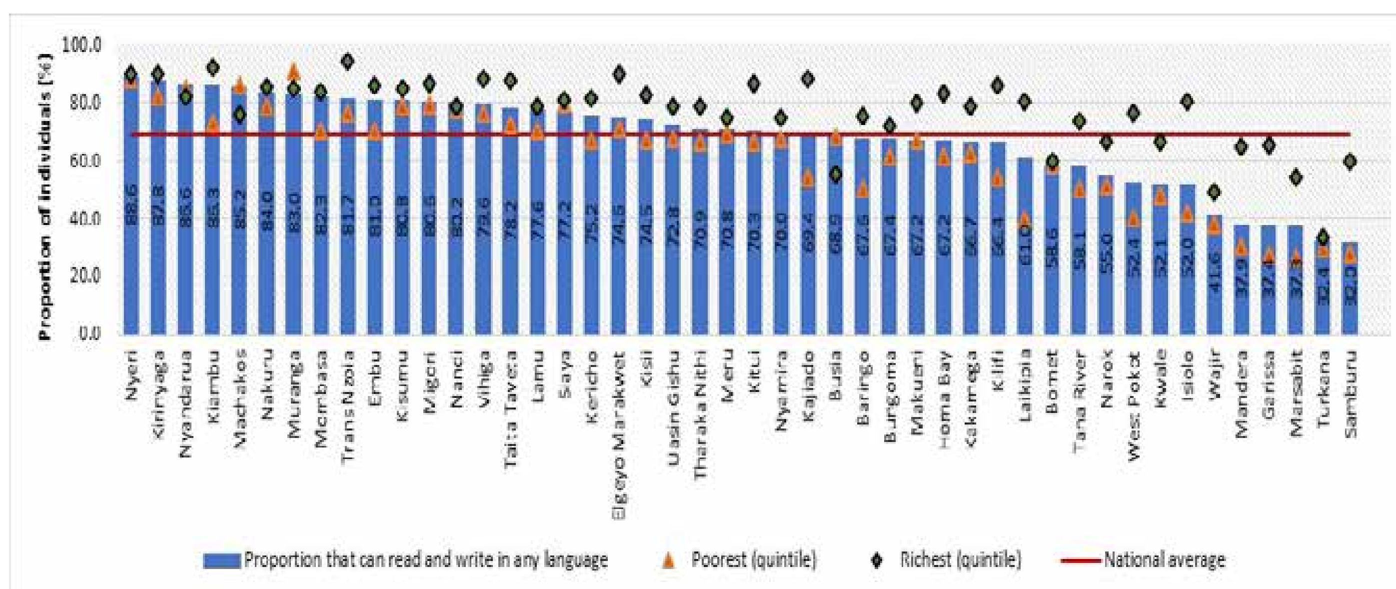


Data Source: KNBS (2016), KIHBS 2015/16

Although there are ongoing interventions to enhance access to education, including the Free Primary Education, Free Day Secondary Education and numerous bursary schemes, school related costs were cited as a major reason for stopping or not attending school. Among individuals out of school, the school related costs were cited by 39.0 per cent of the respondents as the first major reason for being out of school. Across all the income groups, school costs and parental discretion were the most important reasons for not attending school. Indeed, ancillary costs of education such as uniforms, provisions for boarders, and other school inputs are known to increase student absence and dropout rates. This suggests the need to enhance the use of well targeted financial support mechanisms and/or reduce the costs associated with schooling to reduce incidences of non-attendance of basic education.

Disparities are also observable in education outcomes for counties as well as for the different income groups within the counties. Based on KIHBS 2015/16 data, the national literacy rate was 69.0 per cent on a self-reporting basis.[18] Nairobi and Nyeri counties recorded the highest rates of about 89.0 per cent while Turkana and Samburu had the lowest rate at 32.0 per cent – indicating relatively wide regional disparities' in education outcomes (Figure 9.9). The highest income quintile outperforms the lowest quintile across most counties. This is likely to translate into disparities in opportunities in other spheres of life such as employment and overall well-being.

Figure 9.9: Proportion of individuals self-reported to be able to read and write in any language by county



Data Source: KNBS (2016), KIHBS 2015/16

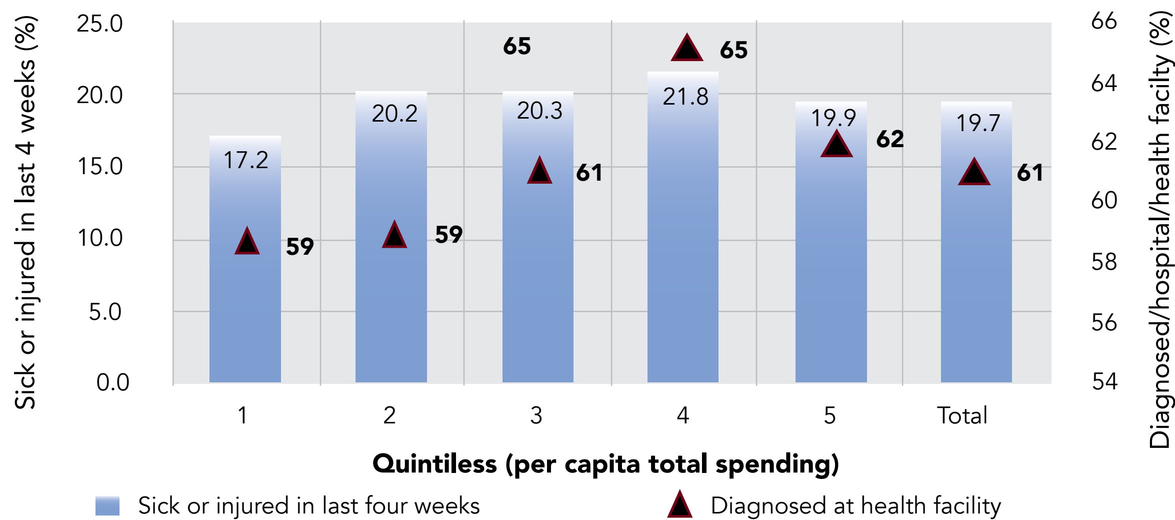
9.3 Social Mobility in Health Status and Outcomes

Health status is a key dimension of well-being and may be inherited from one generation to the next. Childhood health is known to determine not only educational attainment but also health in adulthood and productivity. Health outcomes and its effect on education outcomes is usually transmitted through occupational pathways and wages of individuals. Good health makes people more productive and may increase future earnings, whereas poorer health causes low productivity, leading to socially unacceptable inequalities in earnings as well as in wealth accumulation.

Health status is important for equality and social inclusion since inequality is now known to begin at birth or even before. High inequality hinders the ability of individuals from low economic backgrounds to invest in their human capital, in terms of the level and quality of health. This explains why public interventions during prenatal phase and in childhood can make a difference and have a long-term impact on later outcomes – including social mobility.

Notwithstanding this background, access to health services seems to be lower for the poor relative to the rich. The lower income groups were less likely to self-report sickness or injury but when sick or injured were also less likely to be diagnosed in a health facility based on KIHBS 2015/16 data (Figure 9.10). Access to health services is also dependent on distance to the nearest health facility. If we proxy distance to the nearest health facility by the nearest day school, there seems to be no differences in distance to facilities between the extremely poor households and other households.

Figure 9.10: Proportion of individuals sick or injured in the last four weeks and place of diagnosis–by income group (quintile)

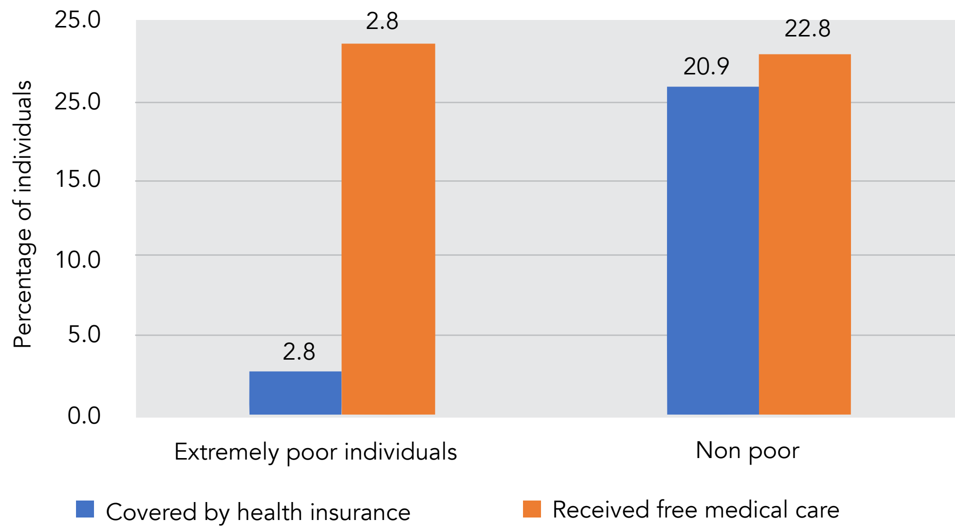


Data Source: KNBS (2016), KIHBS 2015/16

About 17 per cent of individuals were covered by health insurance in 2019, with the higher income groups enjoying greater coverage. Among those reporting illness or injury, coverage by health insurance was 2.8 per cent for the extremely poor individuals and 20.9 per cent for the non-poor (Figure 9.11).

The poorest households may not be receiving larger forms of social assistance in health services. Social assistance in health encompasses social health insurance implemented by the National Health Insurance Fund through their subsidy programme for Orphaned and Vulnerable Children (OVCs), Persons with Severe Disabilities (PwSDs), older persons (over 70 years of age) and to secondary school going children. Other national programmes include the *Linda Mama* programme that offers free maternal care. The cash transfers to various groups certainly enhance access to basic health care and is also a form of social assistance in health. Besides the National Government programmes, counties have also rolled out health social assistance programmes such as the universal health care coverage in Makueni and *Oparanya Care* in Kakamega which disburses social cash transfers to expectant mothers. Amidst these programmes, only 24.7 per cent reported receiving free medical care among the sick or injured. The rate for extremely poor individuals reporting receipt of free medical care was 23.5 per cent relative to 22.8 per cent for the rest of the population indicating weak targeting outcomes. This, combined with the low insurance coverage especially for the lower income groups, increases the risk of catastrophic health spending especially among the poor and downward inter-generational mobility on account of health.

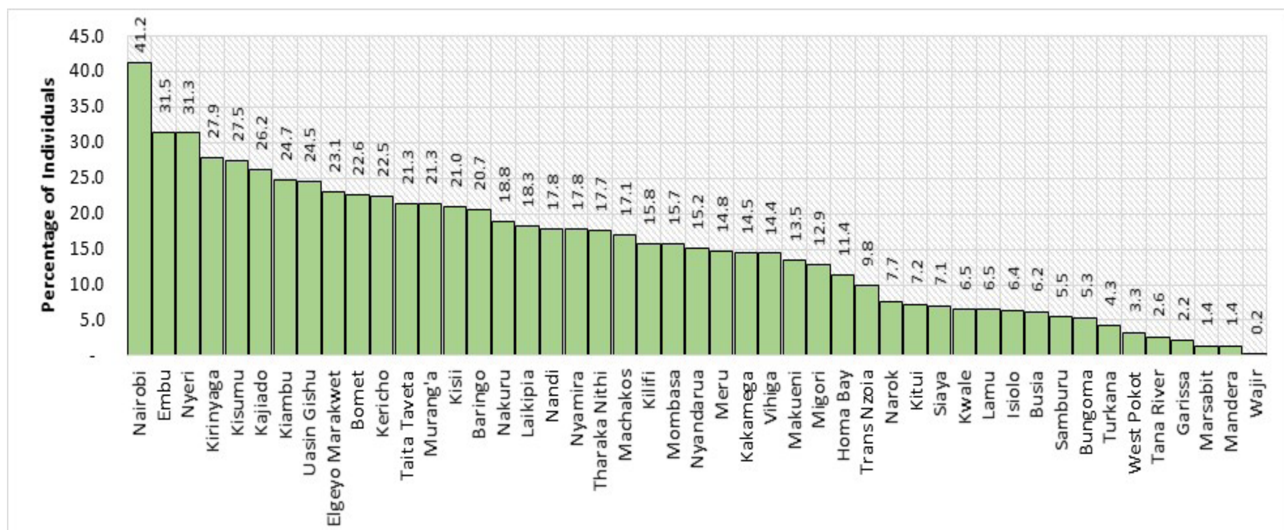
Figure 9.11: Proportion of individuals reporting illness/injury covered by health insurance and proportion that received free medical care in the last 12 months by income group



Data Source: KNBS (2016), KIHBS 2015/16

Across the counties, the more urbanized regions such as Nairobi, Kisumu and Kiambu and the higher income regions such as Embu, Nyeri and Kirinyaga counties tend to have higher health insurance coverage (Figure 9.12). But overall, health insurance coverage was below 42 per cent for all the counties and lower than 20.0 per cent coverage for 32 out of the 47 counties.

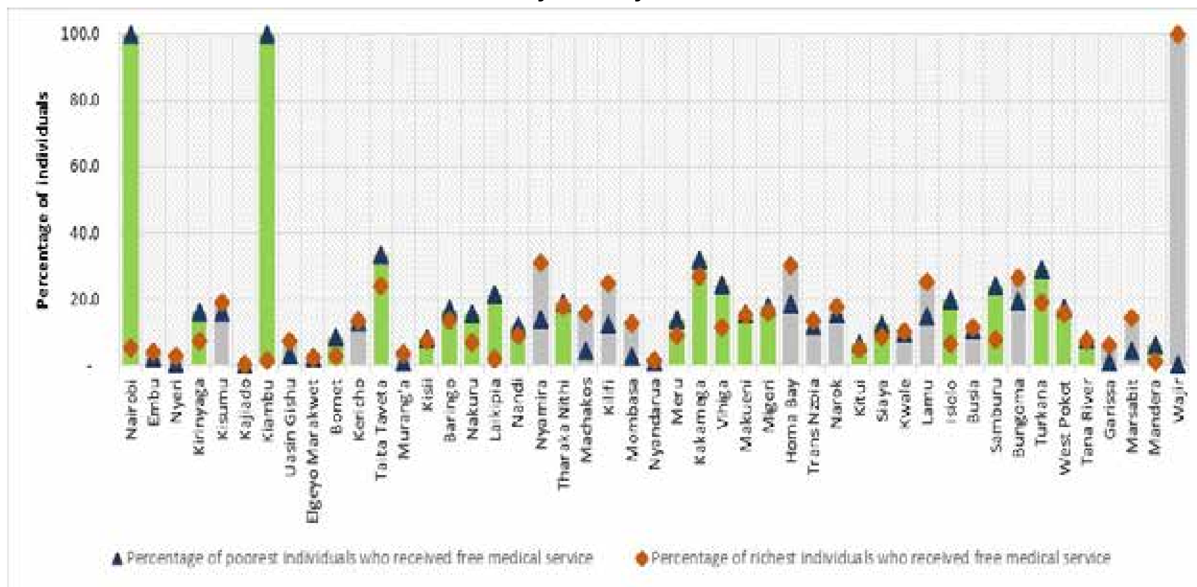
Figure 9.12: Proportion of individuals covered by health insurance in the last 12 months by county



Data Source: KNBS (2016), KIHBS 2015/16

In just about half of the counties, the poorest individuals who reported sickness or injury did not seem to receive more free medical care relative to the rich (Figure 9.13). Although the median total annual health spending of the non-poor (Ksh 4,500) was higher than those of the extremely poor (at Ksh 2,515) just about 88 per cent of both groups incurred some non-zero health spending during the last 12 months.

Figure 9.13: Proportion of individuals that received free medical care in the last 12 months by county and income status



Data Source: KNBS (2016), KIHBS 2015/16

There are some observable, though not large, differences across the sexes with respect to access to health services. Females were more likely to report sickness or injury (23.9%) relative to males at 19.1 per cent. A larger proportion of females (14.4%) than males (11.2%) were more likely to be diagnosed in a health facility. Among those reporting illness or injury, a similar proportion of males and females (22.8% and 22.9%, respectively), were likely to receive free medical care.

9.4 Social Protection and Social Mobility in Kenya

We have attempted to look at selected social protection interventions in education and health. The social protection interventions are much more extensive and cut across other social spheres. This sub-section discusses the social protection interventions and the role of these interventions in enhancing social mobility.

The Kenya National Social Protection Policy (2011) defines social protection as "policies and actions, including legislative measures, that enhance the capacity of and opportunities for the poor and vulnerable to improve and sustain their lives, livelihoods, and welfare, …" Social protection encompasses social assistance, social security and social health – and these include pensions, cash transfers, and public works schemes.

The broad programme categories of social assistance implemented in Kenya are highlighted in Table 9.1. Some of the specific programmes under the State Department for Social Protection include: Cash Transfers to Orphans and Vulnerable Children (CT-OVC), Cash Transfers to Persons with Severe Disabilities (CT-PwSD), the Older Persons Cash Transfer (OPCT) programmes, and the Presidential Bursary for OVCs. Additional programmes domiciled in other Ministries, Departments and Agencies (MDAs) are in-kind assistance programmes (school feeding and provision of books); Hunger Safety Net programme; homegrown school meals programme; and the health insurance fee waivers (Table 9.1).

Table 9.1: Type, objective, eligibility criteria, eligible population and coverage of the main social protection programmes in Kenya

Programme	Objective	Eligibility criteria	Eligible population	Coverage or number of beneficiaries
Cash Transfer to Orphans and Vulnerable Children (CT-OVC)	Encourage fostering and retention of OVC children within their families and communities and to promote their human capital development	Household: extremely poor; have OVCs; not enrolled in another cash transfer programme	Approximately 3.6 million children aged below 18 years are OVCs, almost one-fifth of the total population aged under 18 years	246,000 households in all the 47 counties
Cash Transfer to Persons with Severe Disabilities (CT-PwSD)	Strengthening the capacities of parents and children with disabilities; Improving the livelihoods of caregivers/parents and children with disabilities; and Alleviating multidimensional poverty	A household must have: a person who is severely disabled and who needs permanent or 24-hour care. The household must be categorized as poor or vulnerable and must not be enrolled in any other cash transfer programme.	About 3.3 per cent of the total population (or 1.5 million persons)	More than 47,000 households
Older People Cash Transfer and the *Inua Jamii* Pension Scheme 70+.	Provide regular and predictable cash transfer to poor and vulnerable older persons 65 years and above (for the older persons cash transfer) and also *Inua Jamii* Pension scheme 70+ (for individuals aged 70 years and above).	To be eligible, older persons must be 65 years and 70+ years and above, respectively. Not enrolled in any other cash transfer programme. A member of the beneficiary household must not be receiving any pension and/ or regular income or be in any gainful employment.		The OPCT and *Inua Jamii* Pension scheme 70+ currently covers over 310,000 and 523,000 households, respectively.
The Presidential Secondary School Bursary (PSSB) – established in 2013	The aim of the bursary scheme is to enhance secondary school enrolment, attendance and completion by the orphans and vulnerable children in Kenya.	The beneficiary must be enrolled in a secondary school and aged under 18 years of age at the time of entering the bursary scheme. In addition, he/she must be an orphan/ vulnerable child from a poor household. The beneficiary also must have been a resident of one of the targeted locations within a Constituency in the last one (1) year preceding the application.		
Hunger Safety Net Programme		An individual should be a Kenyan citizen and come from one of the highest poverty counties which currently include: Wajir, Turkana, Mandera and Marsabit.		More than 374,000 households have been registered in the programme.

Data Source: Ministry of Labour and Social Protection (2019)

Social protection is identified as one of the key instruments in achieving Goal 1 of the Sustainable Development Goals (SDGs) which seeks to end poverty in all its forms everywhere by 2030. Target 1.3 of this goal envisages implementation of nationally appropriate social protection systems and measures for all including floors and by 2030 achieve substantial coverage of the poor and vulnerable.[19] Countries are obliged to track the proportion of their populations covered by social protection floors/systems, "by sex, distinguishing children, unemployed persons, older persons, persons with disabilities, pregnant women, newborns, work-injury victims and the poor and the vulnerable."

Governments in low and middle-income countries including Kenya are increasingly recognising the importance of social protection in tackling income poverty, inequality, boosting human capital and other developmental objectives. When implemented effectively, social protection transfers can improve health outcomes and education attainment particularly for disadvantaged children. Social protection can also increase productivity and contribute to stabilising domestic demand and enhancing living standards. Besides achieving developmental objectives, social protection can also be used to secure the rights of citizens. These include rights such as the right to education, health and social security as enshrined in various instruments including the Constitution of Kenya. Social protection is key in shaping social mobility. Its effectiveness is dependent on ensuring the programmes have adequate coverage and are well targeted to enable low income households and their dependents to have access to public services including affordable healthcare, social security, and social assistance.

Despite progressive policy and institutional reforms within the social protection sub-sector there are several challenges facing the social protection interventions. These can be synthesised as follows.

The social protection programmes are heavily fragmented across MDAs, the National and County Governments and other organizations but lack an integrated mechanism thus resulting in limited coordination across programmes. Programme implementors include: the Social Assistance Unit under the Ministry of Labour and Social Protection (which implements the CT-OVC, OPCT and CT-PwSD); the National Drought Management Authority (NDMA) which implements the Hunger Safety Net Programme (HSNP), Cash for Assets, Food for assets and General Food Distribution; World Food Programme and The Ministry of Education who oversee respectively the Home Grown School Feeding Programme and the Kenya Home Grown School Meals Programme. There are also a host of programmes conceived across the counties amidst weak linkages of interventions across the National and County Governments and between them and other partner organizations.

Inadequate programme coverage has affected the effectiveness of the programmes and projects in the Sector. Many of the programmes tend to be targeted to a small proportion of the eligible beneficiaries. For example, the Cash Transfer to Orphaned and Vulnerable Children (CT-OVC) covers about 29 per cent of the eligible beneficiary population of 1.2 million children.

There is weak legal and policy framework to regulate the sector characterized by relatively old legislation on social protection. The Kenya National Social Protection Policy (2011) should be reviewed to incorporate the rapidly changing social protection environment. Further, there have been delays in operationalizing established programme funds such as the Social Assistance Fund.

9.5 Coverage and Targeting of Kenya's Social Protection Programmes

Although the Government of Kenya takes a leading role in funding the social protection sector, only about 22 per cent of all eligible households are currently supported by the social protection programmes. Kenya's coverage is relatively low in comparison to the relative coverage in other African countries including Botswana at 73.8 per cent, South Africa at 62.8 per cent, Uganda at 60.7 per cent and Rwanda at 56.3 per cent. The low coverage is likely to have adverse impacts on programme effectiveness.

Expanding programme coverage would be important in enhancing the impact of the social protection programmes on well-being in Kenya. Available evidence indicates that poverty headcount reduction rates are much lower for Kenya (estimated at 1.7% reduction in the poverty gap) relative to countries like South Africa, Botswana, and Rwanda which

achieved poverty headcount reduction rates of 41.0 per cent, 20.0 per cent and 4.0 per cent respectively. These larger impacts can be partly attributed to the wider programme coverage in these countries.

A relatively large proportion of eligible households or individuals are not covered by the social protection schemes in place. Besides the Older Persons Cash Transfer (OPCT), the other cash transfer programmes had relatively large proportions of the eligible households that were not covered. This has lowered the expected impact of the social protection programmes. As examples, in 2018/19, the cash transfer for orphans and vulnerable children (CT-OVC) had enrolled 353,000 households, representing 29.0 per cent coverage of all the eligible households with orphaned and vulnerable children.[20] The Cash Transfers to Persons with Severe Disabilities (CT-PwSD) had 47,000 beneficiaries, representing 3.0 per cent coverage. The older persons cash transfer (targeting households with individual(s) aged over 65 years) and *the Inua Jamii* programme (targeting individuals aged 70 years and above) had 833,129 beneficiaries, representing a coverage of 78.0 per cent of eligible beneficiaries.

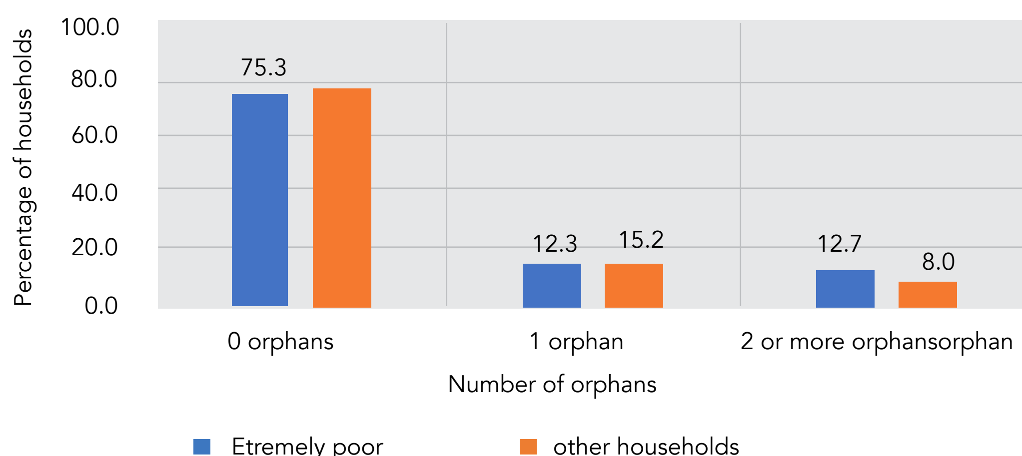
The KIHBS 2015/16 dataset offers the latest available national household budget survey that can be used to assess not only coverage but also the targeting outcomes of some of Kenya's social protection programmes including the CT-OVCs and Older People Cash Transfer (OPCT).

Cash Transfer to OVCs

To be eligible for the Cash Transfer to OVCs, a household must be ***extremely poor*** and must have an orphaned and vulnerable child (OVC). In addition, the household must not be enrolled in another cash transfer programme. Targeting of the poorest households is recommended based on evidence indicating that it offers the greatest impacts on development. The subsequent discussions focus on comparing the outcomes for the extremely poor households relative to other households.[21]

Kenya had about 682,000 extremely poor households in 2015/16. Out of these about 12 per cent had one orphan relative to 15.2 per cent of the households not in extreme poverty. Extremely poor households had a higher probability of having 2 or more orphans (at 12.7%) relative to households not in extreme poverty (at 8.0%) (Figure 9.14).

Figure 9.14: Proportion of extremely poor households and other households by number of orphans

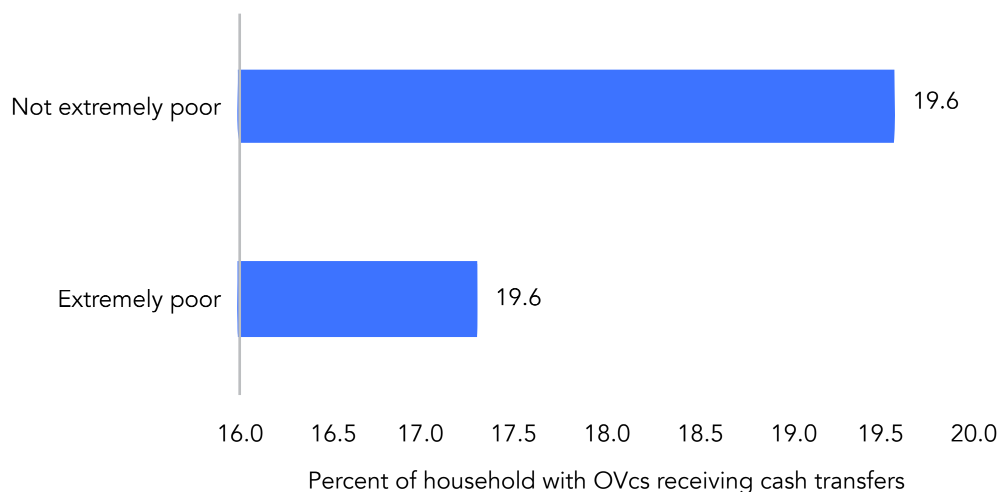


Data Source: KNBS (2016), KIHBS 2015/16

Although it would be expected that a larger proportion of the extremely poor households with OVCs (representing 39% of all households with OVCs) would receive cash transfers from the Government, a relatively lower proportion received the transfers.

About 17.0 per cent of extremely poor households with OVC received the cash transfer to OVCs while a larger proportion – about 20.0 per cent – of the non-food poor households with OVCs received the CT-OVC (Figure 9.15).

Figure 9.15: Proportion of extremely poor households and other households with OVC receiving cash transfers to OVC from the Government



Data Source: KNBS (2016), KIHBS 2015/16

Although extremely poor households received on average a higher mean cash transfer they received much less receipts per child. The mean value of transfers received at household level were Ksh 16,147 per annum for extremely poor households and Ksh 15,497 per annum for the other households (Table 9.2). With respect to the mean value per orphaned child, extremely poor households received about Ksh 5,548 relative to Ksh 9,673 for the other households. This is due to the relatively larger number of OVCs in the extremely poor households and a targeting mechanism that focuses on the household (perhaps rather than the individuals). This is suggestive of the need to enhance the design of targeting mechanisms by focusing on each individual OVC in an extremely poor household (Figure 9.15).

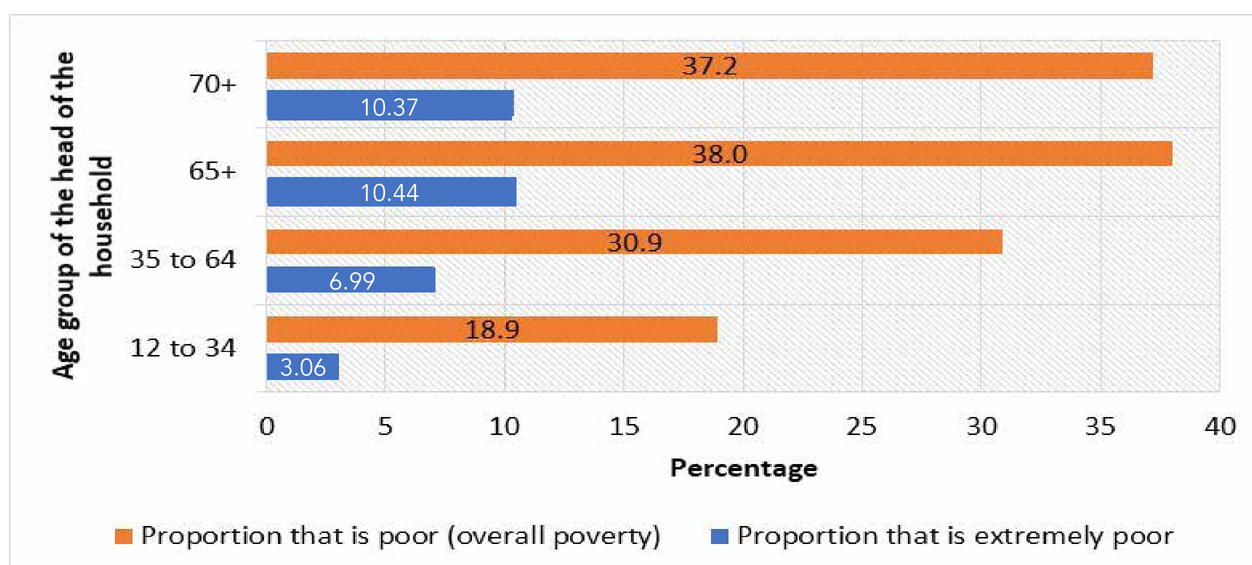
With respect to cash transfers, households continue to face challenges in accessing their benefits. A major challenge for quite some time has been delayed disbursement of funds from the National Treasury. Some households also identified long distance to the nearest financial agent as a major challenge affecting access and adequacy of the disbursements. Because of difficulty in isolating beneficiaries, duplication of benefits is common, and households receive more than one form of transfer. Some jurisdictions have eliminated this challenge by developing an integrated system of managing social assistance programmes.

Older People Cash Transfer and the ***Inua Jamii*** Pension Scheme 70+

In recent years, the Government of Kenya has increased transfers to older people a phenomenon that has elicited mixed reactions from stakeholders. A common observation is that focus should be shifted to other social groups such as children. However, it is also important to focus on children and their human capital development children are usually under the care of other household members including the elderly.

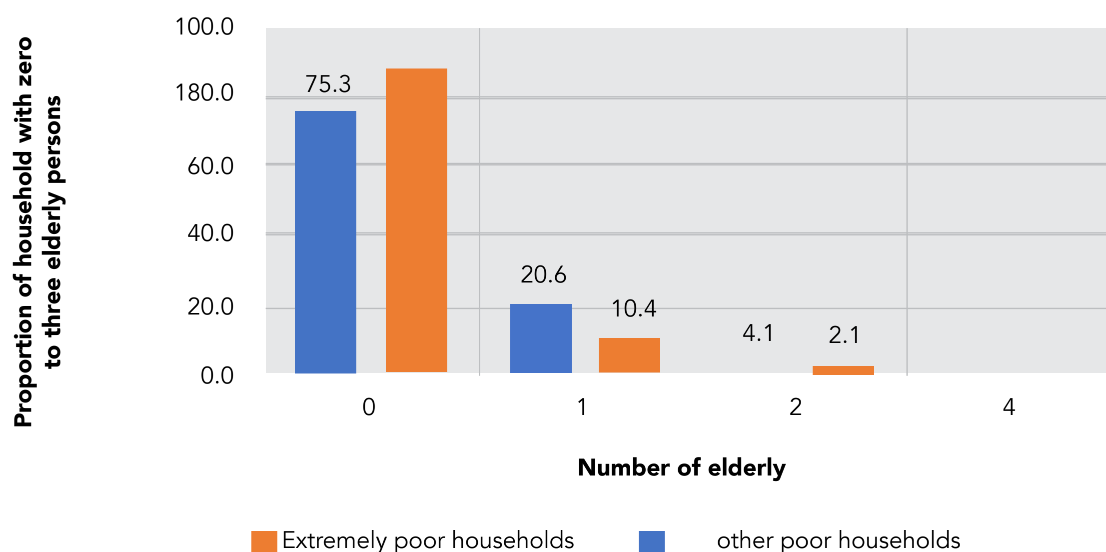
A focus on the elderly can still be a robust targeting strategy owing to a number of reasons. The first is that evidence from a sample of 15 low income African countries that included Kenya found that households that include older people are usually poorer than those that do not. The KIHBS data for 2015/16 indicates that households headed by elderly individuals are more likely to be poor (overall poverty) and extremely poor (or food poor) (Figure 9.16). A related reason is that older people are increasingly responsible for grandchildren especially in areas most affected by the HIV/AIDS pandemic. These areas include counties in the wider western and coastal regions of Kenya. Households with and without elderly person(s) as head were both likely to have a mean of 4 children in 2015/16.

Figure 9.16: Overall poverty and food poor households by age group of household head



Data Source: KNBS (2016), KIHBS 2015/16

Figure 9.17: Distribution of the number of elderly in households



Data Source: KNBS (2016), KIHBS 2015/16

The cash transfer to elderly persons seems to be well targeted. Based on 2015/16 data, about 64.0 per cent of households with at least one elderly person (defined as a person aged 65 years and above) received the Older Persons Cash Transfers (OPCTs) relative to 3.7 per cent of the household without an elderly person.

Mean transfers values of social protection programmes

The mean cash transfers was lower for the extremely poor households for some of the programmes (Table 9.2). These include the Cash/Food for Work and the School Feeding Programme. In other transfers, such as the Bursary Fund and the CT-OVC, there was no

clear advantage for the extremely poor relative to the other households. Some of the transfers had inferior performance when individual (rather than household) means were used. Specifically, the mean was lower for the extremely poor households in per vulnerable child terms. Poorer households also received lower remittances on average. This points to the need to enhance the targeting outcomes of some of the social protection programmes.

Table 9.2: Mean cash transfers received from the National Government by extremely poor households and other households in the last 12 months

	Extremely poor households (or food poor)	Other households	Total (all households)
Cash Transfer for Hunger Safety Net Programme (CT-HSNP)	15,236	14,486	14,873
Cash Transfer for Orphans and Vulnerable Children (CT-OVC)	16,147	15,497	15,806
Older Persons Cash Transfer (OPCT)	18,629	18,191	18,389
Cash Transfer for Persons with Severe Disabilities (CT-PwSD)	16,733	13,466	14,971
Cash/Food for Work	2,575	4,394	3,271
School Feeding Programme	9,741	11,301	10,482
Bursary Fund	11,977	11,063	11,505
Other	41,829	39,389	39,874
Total Median remittance	825	2,750	2,667

Data Source: KNBS (2016), KIHBS 2015/16

9.6 Key Messages and Recommendations

9.6.1 Key messages

The fundamental idea is that initial conditions, such as the income status of a parent, should not determine the opportunity basket of their offspring. However, evidence points to initial conditions and parental status as measured by socio-economic indicators in education, health and income as important determinants of the status, opportunities and/or outcomes of offspring in Kenya.

1.) Education

The level of education of one's parent is associated with the educational qualification or achievement of an individual. Children and young adults with less educated parents are more likely to exhibit delayed entry, lower educational achievement and/or lack of any formal qualification.

Although education is important for social mobility and a more inclusive growth process, access to education in Kenya hinges on the income of the head of the household. Children and/or young adults from the higher income groups have greater access rates. This linkage is observable for access to not only basic education but also tertiary education. There are large disparities in access and outcomes in formal education across Kenya's counties – which is likely to perpetuate inequalities in opportunities in other spheres of life such as employment and overall well-being.

There are weak prospects in the development of human capital for most young persons across all income groups in Kenya. Most young adults were not attending school or academic institutions and school related costs were cited as the major reason for being out of school. Ancillary costs of education such as uniforms, provisions for boarders, and other

school inputs are known to be important barriers – and have been shown to worsen student absence and dropout rates. Although participation of young adults in the labour market is relatively high across the separate income groups, there is a labour market disadvantage for young adults from low and middle-income groups when focus is given to job quality.

Evidence indicates that education bursaries were not well targeted and may fail to optimally enhance upward social mobility. Children from higher income households are equally likely to benefit from bursaries as the relatively disadvantaged pupils/students. This is likely to perpetuate underachievement, widen inequality and curtail social mobility and inclusive growth.

2.) Health

Access to health services and health insurance are lower for the lowest income households relative to the highest income group. The poor are less likely to be diagnosed in a health facility when sick and, health insurance coverage, which is important in avoiding downward intergenerational mobility is lowest among the poor households.

Even with these disadvantages, the poorest households are not receiving larger forms of social assistance in public health services. Just about 13.0 per cent of all households reported receiving free medical care across all income groups (a form of social assistance).

3.) Social protection

Although the Government of Kenya fully funds the social protection sector, coverage of eligible individuals/households is low and only about 22.0 per cent of all eligible households are currently supported by the social protection programmes. As a result, the impact of social protection on improving overall well-being is limited.

The social protection system faces several challenges including a weak targeting system. This has bred many interrelated problems including duplication of benefits, ghost beneficiaries, and failure to pass on benefits to a larger the proportion of the extremely poor households. A fundamental challenge with the system could be the lack of an integrated system that links all social assistance programmes across Ministries, Departments and Agencies (MDAs) in one easily accessible online portal that is able to *process applications, evaluate beneficiaries, support decision making and payments, and audit, report and monitor progress.*

9.6.2 Recommendations

With respect to education, the key interventions include:

1.) Reduce the costs related to access of education especially for the poor households. In this respect, the Government and other stakeholders should:
   - (i) Enhance the use of cash transfers that provide grants to poor families that meet set criteria.
   - (ii) Introduce vouchers for uniforms and other ancillary school inputs targeting the extremely poor households.

2.) Reform the bursary schemes in place to make them more equitable and pro-poor. The Government and other stakeholders should:
   - (i) Enhance equity by aligning bursary schemes based on needs across geographical regions i.e. differential disbursements by county and wards.
   - (ii) The public bursary schemes should be designed to emphasize focus on the extremely poor students irrespective of school characteristics i.e. whether public versus private or day versus boarding.
   - (iii) Target to put in place an integrated database that can inform targeting and monitoring of beneficiaries.

3.) Regarding health, there is need to enhance the implementation of the universal health coverage to avoid spending that may hinder social mobility of the poor. This shall require efficient health service delivery systems, adequate health facilities and human resources and enabling legislation. Specifically, stakeholders can:
   - (i) Enhance investments in social safety nets. Some common innovations to expand social protection (safety nets) in health include: opening voluntary affiliation

to self-employed and informal workers; providing public subsidies to social health insurance systems to enrol the poor, compulsory universal participation; and expanding the pool through the integration of private health insurance.

(ii) Exploit supportive and synergistic investments in related sectors such as water and sanitation which are known to improve health outcomes.

4.) To address the problems associated with social protection interventions including duplication in benefits, targeting of the needy, ghost recipients, and duplication of effort, the Government and other stakeholders could:

(i) Incrementally develop a more integrated social assistance system that transfers all the dispersed social assistance programmes and processes to an electronic platform – that is shared across MDAs. Such a system has been successful elsewhere (see Box 1) and can effectively manage all steps associated with the social assistance processes i.e. application, assessment of eligibility, registration, investigation, payment, auditing, reporting and monitoring. Similar integrated systems have had several advantages including: getting rid of duplication of benefits, efficient management of targeting, saving on time and resources in delivery of social assistance, and economies of scale in all services including payments.

Box 9.2: Lessons from the Turkey's Integrated Social Assistance Service Information System (ISAS)

Turkey developed ISAS and standardized, integrated, and converted its previously paper-based social assistance procedures into an electronic system. Citizens are currently registered for social assistance via ISAS, where their information is corroborated with several Government databases. The data collected is used to create a poverty profile that is then used to determine eligibility for the programmes. The system integrates programmes implemented in over 14 MDAs in Turkey.

The system was:

- Developed through cooperation between multiple Government agencies and developed using a local public agency (that cut system developmental costs).
- The system was built iteratively and incrementally by assembling modules together between 2009 and 2015. The first module developed was the online application and data management for the Conditional Cash Transfer program.
- Integrating social protection information has many advantages. From the policy perspective, consolidating data related to social assistance facilitates better accuracy in targeting citizens in need. From an operational perspective, the system reduced redundancies and created efficiencies, reduced fraud, and a more responsive citizenry. The system has improved information sharing and communication across MDAs involved in social assistance. It has also enhanced transparency and reduced duplication of social assistance benefits.

Enhance resource allocation to the sector commensurate to its mandate on socioeconomic development to ensure provision of efficient and effective service delivery. This can be achieved through strengthening partnerships and linkages with development partners, County Governments, civil society and private sector players among other stakeholders;

(ii) Enhance equity by considering the differential needs of households (e.g. poorer households tend to have more OVCs)

(iii) Fast-track the operationalization of Funds like the Social Assistance Fund (SAF);

(iv) Ensure timely review of relevant policies and fast-track the approval of Bills by the Attorney General's Office and Cabinet, and enactment by Parliament to strengthen the sector's policy, legal and institutional frameworks.

Endnote

18 One was considered literate is he/she self-reported (or was reported) to be able to "read a whole sentence" and also "write in any language."

19 Social protection floors are nationally defined sets of basic social security guarantees that should ensure, as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level.

20 Kenya had about 11.4 million households in 2015/16.

21 In the KIHBS 2015/16 Well Being Report, a household is in hardcore or extreme poverty if their monthly adult equivalent total consumption expenditure per person is less than Ksh 1,954 in rural and peri-urban areas and less than Ksh 2,551 in core-urban areas.

10 GOVERNANCE IN INCLUSIVE GROWTH

Good governance, inclusivity in government processes, and a robust institutional framework are prerequisites in promoting equitable resource allocation and distribution across regions; representation and inclusivity in the public service; and inclusivity in government decision-making processes, through public participation. For the devolution process to facilitate regional equality, timely provision of adequate resources and prudent fiscal management is paramount. There is need to review the constituency-based funds and have in place a policy to appropriately guide in meeting their objectives. To achieve diversity and representation in public service, it requires a clear criteria and parameters to determine individual ethnicity and introduce penalties for non-compliance. There is also need to enhance monitoring in attaining the set quota for PWDs and gender rule. A clear framework to guide the conduct of public participation is also needed.

10.1 Introduction

Good governance and a robust institutional framework are prerequisites of inclusive growth. Good governance, defined as the quality management and orientation of development policies, is assumed by many economists as having positive influence on economic performance (Mira, 2017). According to Khan (2004), good governance is evaluated by the capacity and capabilities of states to drive structural change in institutional, political, economic and social fields to ensure long-term sustained economic growth. State capabilities are conceived as the aptitude to conduct policies that enhance good institutions and lead to economic growth (Khan, 2004). The World Bank indicators of good governance include voice and accountability, government effectiveness, regulatory quality, rule of law and control of corruption. Institutions include formal rules (legal, economic, political) and informal rules (social, behavioural norms, conventions) that structure social life. According to North (1990), a distinction can be made between formal and informal institutions. Indicators of good governance such as control of corruption, stability of property rights or democracy are closely correlated with variables such as GDP growth rate per capita, investment or human capital development, indicating that improved indices of "good governance" have positive effects on economic growth (World Bank, North, Mira, 2017). Good governance traditions and strong institutions seek to ensure that, inter alia, public funds are used efficiently and with accountability, and all people including the poor and the marginalized are able to access the opportunities.

In responding to the challenge of inclusive growth, the public sector has an important role to play with respect to inclusiveness of the public sector itself, the inclusiveness of policy making processes, and the inclusiveness of the outcomes that governments seek to promote (OECD, 2015). Among the parameters for access to opportunities is the need for inclusivity across and within regions. Inequalities often tend to take a regional dimension, and in Kenya regional or geographic differences are often synonymous with ethnic differences, as ethnic groups often reside in given geographical regions (Kanyinga, 2006). Inequalities, marginalization and other disparities are therefore assumed to occur across ethnic groups or regions. As a result, intra-regional and intra-ethnic

marginalization, inequalities and disparities exist. There are also stark differences in development opportunities and outcomes across Kenya's rural-urban divide.

Another critical dimension in inclusivity in governance is the extent to which the public sector is representative of the society it serves, and inclusivity of processes and institutions to counteract the forces that produce inequality. Inclusive government processes allow the civil society and the wider public to be involved in policy making, regulation and service delivery. By gathering more input from citizens about their needs and the impact of policies on them, open governments make delivery of public services more user-driven.

10.2 Initiatives to Promote Inclusive Growth by addressing Regional Disparities and Marginalization Since Independence

Regional inequality in Kenya can be traced to the British colonial policy that facilitated the use of local resources, including cheap African labour and promoting investment in areas considered to have potential for high returns. The British invested significantly in infrastructural development of parts of Central Kenya, parts of the Rift Valley and western Kenya, all of which were highly productive agricultural lands, also referred to as the "White Highlands". Regions such as Northern Kenya were perceived not to offer any economic benefits and, therefore, received no meaningful investments. These regional disparities in development coincide with ethnic inequalities because the regional boundaries correspond to ethnic settlement patterns or territories.

Between 1960 and 1970, the Special Rural Development Programme (SRDP) and the Rural Development Fund (RDF) were established to promote and accelerate rural development productivity, including growth in local resources utilization and coordination in planning and development. In addition, six (6) Regional Development Authorities (RDAs) were established in the 1980s. These are: Tana and Athi River Development Authority (TARDA), Kerio Valley Development Authority (KVDA), Lake Basin Development Authority (LBDA), Ewaso Ng'iro North Development Authority (ENNDA), Ewaso Ng'iro South Development Authority (ENSDA), and Coast Development Authority (CDA). Their key role was to plan, implement and coordinate development programmes in regions under their jurisdiction to ensure development through integrated planning and management.

The Government of Kenya also introduced the District Focus for Rural Development (DFRD) Strategy in 1983 to bring development planning closer to the people. In 1998, the Local Authority Transfer Fund (LATF) was introduced in which five per cent of annual income tax revenue was allocated to local authorities, with the objective to improve and extend service delivery to citizens. In 2001, the Local Authority Service Delivery Action Plan (LASDAP) was designed to empower local communities to develop capital investment plans to meet their local needs and priorities. In 2003, the Constituency Development Fund (CDF) was introduced as part of fiscal decentralization to enhance local community participation in planning and budgeting of development projects in their constituencies. Kenya's development blueprint, the Vision 2030 also emphasized decentralization of decision-making and equitable distribution of resources, before adoption of devolution which became effective in 2013.

10.2.1 Role of Devolution in Addressing Socio-Economic and Political Marginalization

The Constitution of Kenya 2010 opened a new chapter in Kenya's political history, by introducing extensive changes regarding the running and management of the country's governance, social and economic affairs, and by affording greater say, inclusion and participation of people in the affairs and decisions of their 47 County Governments through the devolved system of governance. The promise that came with the devolved system of government was primarily to address the socio-economic and political inequalities, marginalization and exclusivity that existed under the central system of governance by providing equitable sharing of public resources, enhanced social inclusion and mandatory citizen participation in decision-making, thus bridging the gap on regional disparities, socio-economic and political marginalization.

The Constitution, through the system of devolved governance established thereunder, further affords greater voice, inclusion and participation of people in the affairs and decisions of the 47 County Governments. Article 174 of the Constitution stipulates nine (9) objects of devolution. These include to promote democratic and accountable exercise of power; give powers of self-governance to the people; enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them; foster national unity by recognizing diversity; recognize the right of communities to manage their own affairs and to further their development; and protect and promote the interests and rights of minorities and marginalized communities. Further, is to promote social and economic development and the provision of proximate, easily accessible services throughout Kenya; ensure equitable sharing of national and local resources throughout Kenya; facilitate the decentralization of State organs, their functions and services, from the capital of Kenya; and enhance checks and balances and the separation of powers.

Devolution holds promise as it is premised on addressing past challenges of inequitable distribution of resources, inequitable development across regions and poor delivery of public services. Devolution also provides the National Government and the 47 County Governments with opportunities to formulate policies that are responsive to local needs. County leadership can best discern the needs of the citizen and provide more targeted services, which are prioritized according to the needs and desires of the residents. Further, decentralization to the sub-county, ward and village level provides citizens with opportunities to engage in the governance processes, including the identification and prioritization of development projects and programmes, budgeting and monitoring. With devolution, counties are in a good position to allocate substantial amount of resources in development of key sectors such as education, health, agriculture, among others, to ensure the well-being of the people and improve the quality of lives, thus bringing them at par with other areas of the country in terms of development.

According to Article 201(b) (iii) of the Constitution, one of the principles of public finance is to promote an equitable society - ensuring that public "expenditure shall promote the equitable development of the country including by making special provision for marginalized groups and areas". Article 202 of the Constitution outlines that revenue raised nationally shall be shared equitably among the National and County Governments. However, County Governments may be given additional allocations from the National Government's share of revenue, either conditionally or unconditionally.

Article 203 of the Constitution provides the criteria in determining the equitable shares provided for under Article 202 to include: the need to ensure that County Governments are able to perform the functions allocated to them; the fiscal capacity and efficiency of County Governments; developmental and other needs of counties; economic disparities within and among counties and the need to remedy them; the need for affirmative action in respect of disadvantaged areas and groups; the need for economic optimization of each county and to provide incentives for each county to optimize its capacity to raise revenue; and the desirability of stable and predictable allocations of revenue.

The Constitution also has provisions for establishment of the Equalization Fund of 0.5 per cent of the total annual national revenue (Article 204) to be distributed to marginalized counties to bring them at par with other counties in terms of provision and access of quality services including water, electricity, roads and health facilities. This is in addition to getting an equal share of the 15 per cent of the country's revenues that will be devolved to the counties. So far, 14 counties have been identified as marginalized based on the presence of marginalized communities and analysis of historical marginalization. As a result, these counties benefit from the Fund by receiving additional funds to the transfers. With the introduction of a devolved system of governance, counties are placed in strategic positions to allocate substantial amount of resources in development of key sectors such as health, agriculture and infrastructure, which are devolved functions, to ensure the well-being of the people and improve the quality of lives, thus bringing them at par with other areas of the country in terms of development. Counties are now in charge of management of public health facilities and services, planning, prioritizing and budgeting for health services, recruitment of health staff and building of health infrastructure.

Under the Constitution, County Governments have

two principal sources of funding for their budgets. The first source, funds from the National Government, is shared between the two levels of government from the total sharable revenues of the last audited accounts. The second source is from local revenues generated by counties from services offered to the citizens as stipulated in the fourth Schedule of the Constitution of Kenya, 2010. Article 209(3) of the Constitution empowers County Governments to collect revenues from taxes, user fee and charges. It also empowers County Governments to impose two types of taxes and charges. These sources of County Government revenue in Kenya include property rates and entertainment taxes. The County Governments can also impose charges for any services they provide in accordance with the stipulated laws. These local revenue sources include rates, business permits, parking fees, building permits, and fees from billboards and advertisements. The County Governments impose the rates and taxes through the Finance Act.

The equitable share, which is the money raised from ordinary revenue by the National Government, is shared vertically by Parliament between the National and County Governments, with the County Governments getting not less than 15 per cent of the total. It forms the biggest source of revenue for the County Governments. The Senate then allocates the equitable share horizontally among the counties using a revenue sharing formula developed by the Commission on Revenue Allocation (CRA). The equitable share allocated to the counties is unconditional; that is, the County Governments can spend the money without any restrictions from the National Government. Therefore, counties receive distributed revenue from the National Government and are empowered to generate and collect their own revenues locally as a means of empowering them to deliver on their mandates.

County Governments can receive additional allocations from the National Government's equitable share of revenue (from the vertical sharing). These additional allocations are known as conditional allocations or conditional grants. They are conditional when the National Government imposes restrictions on how County Governments will spend them. They are unconditional when the National Government does not impose any restrictions concerning their expenditure. The conditional grants that have existed thus far have been mainly for Level Five hospitals, free maternal healthcare, rehabilitation of youth polytechnics, and construction of county headquarters.

Article 218(1) of the Constitution provides that at least two months before the end of each financial year, there shall be introduced in Parliament (a) a Division of Revenue Bill, which shall divide revenue raised by the National Government among the national and county levels of government in accordance with this Constitution; and (b) a County Allocation of Revenue Bill, which shall divide among the counties the revenue allocated to the county level of government on the basis determined in accordance with the resolution in force under Article 217. Article 219 of the Constitution provides guidelines on transfer of equitable share to counties by specifying that a county's share of revenue raised by the National Government shall be transferred to the county "without undue delay" and without deduction, except when the transfer has been stopped under Article 225. Further, Section 17(6) of the PFM Act provides that the National Treasury shall, at the beginning of every quarter, and in any event not later than the fifteenth day from the commencement of the quarter, disburse monies to County Governments. Section 17(7) thereafter provides that the disbursement referred to in subsection (6) shall be done in accordance with a schedule prepared by the National Treasury in consultation with the Inter-governmental Budget and Economic Council, with the approval of the Senate, and published in the Gazette, as approved, not later than 30th May every year.

The Division of Revenue Act, No. 18 of 2019 came into force on 17th September 2019. The Act allocates Ksh 378.1 billion to County Governments for the 2019/2020 financial year, of which Ksh 316.5 (84.0%) is the equitable share of revenue raised nationally, while Ksh 61.6 billion (16.0%) comprise of conditional allocations to counties. The County Allocation of Revenue Bill, 2019 was assented to by the President of Kenya on 18th September 2019. Due to delay in approval of the Division of Revenue Bill, County Governments experienced delayed disbursements in allocation of equitable revenue by the National Treasury pertaining to the 2019/2020 financial year. The extended delay in the Division of Revenue Act approval adversely affected implementation

of the counties' financial year 2019/20 budgets, with negative consequences on socio-economic activities countrywide, and the delivery of crucial public services. The Policy on Devolved System of Government, which is main policy document on devolution, identifies challenges such as the different timelines in budgeting by both levels of government, which play a role in the discrepancies noted in the absorptive capacity of counties. The stalemate and delay in enactment of the Division of Revenue Bill in 2019 was the first delay of its nature.

The stalemate on revenue allocation has largely been attributed to ambiguity over Article 203(1) of the Constitution in the application of the criteria for determining equitable shares of revenue between the two levels of government; and to delay in enactment of the Division of Revenue Act. While the vertical division of revenue from the National Government to County Governments is the current model, there is urgent need for concerted effort by all actors to avert a similar stalemate in future. There is need to develop interim measures that will facilitate flow of funds to the counties in the event of future delay in the approval of the the Division of Revenue Bill. In this regard, there is need to amend the Public Finance Management Act, 2012 to provide temporary legislative authorization for withdrawal of money from the Consolidated Fund to be transferred to counties for the purpose of meeting expenditure necessary to carry on their services until such a time as the Division of Revenue Bill is approved. Such a measure would facilitate continuity of service delivery to citizens.

There have been disputes over the allocation of revenue to counties, where the Council of Governors filed a High Court petition (No. 252 of 2016) against the Attorney General, the National Assembly, the Senate, the Cabinet Secretary to the National Treasury, Commission on Revenue Allocation and the Controller of Budget, seeking an advisory on the definition of revenue with regard to the two levels of government and seeking an interpretation of the meaning of "national interest" in the context of allocation of grants (*Council of Governors v Attorney General & 5 others [2018] eKLR*).

The key issues for determination included: whether the allocation of conditional grants in the Division of Revenue Act 2016 is made in accordance with Article 202 (2) of the Constitution; whether the accounting officer of the National Government can spend money for conditional grants directly in the counties to undertake devolved functions; whether the accounting officer of the National Government can spend money for conditional grants in the counties to undertake devolved functions without the execution of an inter-governmental agreement under Article 187 of the Constitution; what is the scope of an inter-governmental agreement under Article 187 of the Constitution; what is the meaning of national interest as a criterion of revenue allocation as per Article 203(1) (a) of the Constitution; whether the national interest means the interest of the National Government and not of County Governments; whether an allocation for national interest ought to be allocated exclusively to the National Government; whether the National Government can use the funds for the national interest directly to undertake devolved functions; and whether the National Government has a constitutional obligation to disburse to counties, as conditional or unconditional grants, money allocated as "national interest" that are earmarked for devolved functions.

A key issue regards the base for allocation of revenue, which is currently based on the audited revenue used in vertical allocation which is affected by lag in auditing of Government books. Disputes have arisen concerning the base for allocation, with County Governments proposing that the allocation be based on the current projected revenues or the last period actual revenues. In 2019/20, the total allocation to counties was 36.4 per cent of the last audited shareable revenue.

Often, majority of counties do not receive what they anticipated from the way of budget estimates (Table 10.1).

Table 10.1: County budget estimates, 2015-2018

Financial Year	Budget Estimates (Ksh billions)	Revenue Out-turn (Ksh billions)	Difference (Ksh billions)
2015/16	483.47	445.36	38.11
2016/17	410	387	23
2017/18	399.24	369.45	29.79
2018/19	367.44	343.18	24.26

Source: Commission on Revenue Allocation, 2015-2018

Counties' demands for revenues are usually not met. Nonetheless, counties should improve on Own Source Revenue (OSR) collection to increase their capacity to finance their operations and reduce the extent to which they rely on the National Exchequer. It would also close the gaps in any shortfall. County OSR is key in raising revenue for county development projects and bridging the gap in socio-economic disparity. However, a review of the performance of County Governments in revenue collection indicates that counties have performed poorly against their revenue targets. Their actual revenue collection has remained volatile, not only missing targets but often, less revenue is being collected in subsequent years.

The inability of County Governments to realize targeted revenues has been attributed to the low capacity of counties to collect revenues; unrealistic forecasts, non-compliance with payment of fees and charges and property rates; pilferage due to manual collection systems; and resulting failure to adequately report all revenues collected at the county level. This could also be attributed to over-estimation of revenue targets, inadequate measures to ensure realization of revenue targets, or to poor enforcement of revenue collection. This ultimately impacts service delivery through non-realization of planned and expected projects and services. It also perpetuates dependency on equitable share. Considering this trend, mechanisms must be put in place for encouraging counties to put greater effort in raising their own revenue.

10.2.2 County expenditures and function

In spite of measures to ensure equitable allocation to County Governments, there is poor utilization of allocated funds as reported by the Auditor General and the Office of Controller of Budget. Most counties report under-expenditure, underutilization and under-absorption of the county budget as demonstrated in Table 10.2. From the reports, it is apparent that most counties are not able to fully absorb their development budgets. Poor utilization of public funds distributed to counties is one of the challenges that may hamper realization of development projects. Section 15(2) (a) of the PFM Act provides that, over the medium-term, a minimum of 30 per cent of the National and County Governments budget shall be allocated to development expenditure while Section 107(2) (b) of the Public Finance Management Act provides that, over the medium-term, a minimum of 30 per cent of the County Government's budget shall be allocated to development expenditure. This is also reiterated in the County Allocation of Revenue Act 2015. The aim is to make enough provision for development projects and initiatives intended to deliver key projects for utilization by the citizens, failing which there is insufficient commitment of county funds towards development projects. However, while the law requires County Governments to allocate 30% to development, it does not expressly or impliedly require them to utilize or spend a certain amount or to prioritize certain activities or projects. The PFM Act could be reviewed to require a minimum expenditure ceiling of the development budget.

The distribution of functions under the Fourth Schedule of the Constitution and Inter-governmental Agreements is governed by Article 6(2) of the Constitution, which provides that "the governments at the two levels are distinct and interdependent and shall conduct their mutual relations on the basis of consultation and cooperation". The Fourth Schedule of the Constitution assigns the two levels of government specific functions which are outlined under Part I and II of the Fourth Schedule. The functions are categorized as:

a) Exclusive functions being those functions that are limited to a particular level of government.

b) Concurrent function which is a function or power conferred on more than one level of government.

c) Residual function which is a function or power not assigned by the Constitution or national legislation to a county and therefore is a function or power of the National Government.

Whereas the Constitution assigns various functions to the two levels of government, either level of government can transfer a function as provided for under Article 187 of the Constitution, which states that, "*a function or power of government at one level may be transferred to a government at the other level by agreement between the governments if (a) the function or power would be more effectively performed or exercised by the receiving government; and (b) the transfer of the function or power is not prohibited by the legislation under which it is to be performed or exercised*".

The Inter-governmental Relations Act, 2012, Part III also provides for the transfer and delegation of powers, functions and competencies. Section 24 (a) of the Act stipulates that "*subject to Article 186 and Article 187 of the Constitution, either level of government may transfer its powers, functions or competencies to the other level of government.*" Further, Section 26 of the Act provides for agreements on transfer or delegation of powers, functions and competencies. Similarly, Article 187(1) of the Constitution provides that, "*a function or power of government at one level may be transferred to a government at the other level by agreement between the governments...*" It can be construed that an intergovernmental agreement is one that involves the transfer of functions and resources from one level of government to another level of government. This is reinforced in Article 187(2)(a), which provides that, "arrangements shall be put in place to ensure that the resources necessary for the performance of the function or exercise of the power are transferred".

While noting that either level of government can transfer a function, Article 187(2)(b) provides that the constitutional responsibility for the performance of the function or exercise of the power remains with the government to which it is assigned by the Fourth Schedule. Article 190(3) of the Constitution provides that Parliament shall, by legislation, provide for intervention by the National Government if a County Government is unable to perform its functions; or does not operate a financial management system that complies with the requirements prescribed by national legislation. In applying functional assignment, various principles apply which include:

a) The constitutionality - establishes whether the function has been clearly apportioned in the Fourth Schedule of the Constitution.

b) The principle of subsidiarity - whereby a public service is assigned to the lowest level of government capable of delivering the function (Articles 174 and 187 of the Constitution).

c) Principles of Public Finance as provided for under Article 201 of the Constitution and the principle of fiscal responsibility provided for under section 107 of the Public Finance Management Act.

Article 187(2) (b) of the Constitution was invoked when the Nairobi County Government handed over its key functions to the National Government. Pursuant to this Article, the National Government took over the following functions of the Nairobi County Government: county health services; county transport services; county public works, utilities and ancillary services; and County Government planning and development. This was facilitated through a deed of transfer agreement. The Nairobi Metropolitan Services (NMS) was established to take charge of the transferred functions. While Article 187(2) (b) of the Constitution and Inter-governmental Relations Act provide a framework for the transfer of functions between levels of government, it has been argued that in this process, the Nairobi County Assembly was not duly notified (contrary to Section 26(4) of the Inter-governmental Relations Act, 2012) calling into question the legality of whether due process was followed. Other questions were on the proper parties required to execute the deed to make it a valid agreement and whether they were the duly authorised officers to do so. Other gaps are the role County Assemblies are to play in this framework given their mandate to oversight actions of the Executive. Lack of public participation prior to signing of the agreement has also raised doubt as to whether the transfer was procedurally lawful.

It is clear from this that the legal and institutional requirements to facilitate this process are not clearly outlined in the law.

The Inter-Governmental Relations Technical Committee (IGTRC) is established under Section 11 of the Inter-Governmental Relations Act, 2012. The Technical Committee's functions include the day-to-day administration of the Summit and of the Council, in particular facilitation of their activities and implementation of decisions. The IGRTC is required to take over the residual functions of the transition entity established under the law relating to transition to devolved government after dissolution of such entity. However, the unbundling of functions is yet to be fully resolved.

10.2.3 Challenges facing devolution and hampering realization of inclusive growth

While devolution has promised to alleviate and mitigate regional disparities, this has called into question whether the devolved units of government are effectively working to end regional disparities. As highlighted above, the replacement of the centralized form of government with a devolved system of governance was largely and deliberately intended to alleviate the historical inequalities brought about by colonialism and post-independence. However, the disparities may continue to be exacerbated by poor public finance management and poor utilization of public funds. The issues identified in County Governments that are a challenge to ending regional inequalities include:

Imprudent public finance management: Expenditure patterns by some counties as highlighted in reports raised by the Office of the Controller of Budget and Auditor General have raised concerns about prudent utilization of public funds, with concerns over allocations to recurrent and development expenditure, whereby most of the allocations are concentrated towards recurrent expenditure. One of the objectives of public economic policy proposed by Musgrave is efficient resource allocation, which is realized when resources are allocated where needed and utilized in service of these needs (Musgrave and Musgrave, 1989). Devolution will improve equality within and across counties only if resources are utilized more efficiently than under a more centralized system of governance. It is only by reducing inefficiency and wastage that counties manage to divert resources into more productive areas that will enhance economic growth.

Misuse and misappropriation of public funds: The Constitution requires efficient, effective and economic use of public resources and prudent public finance management. This is to ensure accountability in the use of public resources and delivery of public services. However, corruption, diversion of public funds for private use and gain, fraud and misappropriation of public resources hinder effective utilization of public funds. Public funds may be allocated to public institutions; however, where these funds are misappropriated or diverted for personal use, there is no meaningful public benefit. Mismanagement of public resources by counties as reported by the Office of Auditor General denies citizens from accessing services and receiving value for money. Similarly, late disbursement of funds to counties by the National Treasury interferes with service delivery. Further, most of the funds are utilized on recurrent expenditures, with little expenditure being applied towards development.

Poor project management: Failure to commence, deliver, complete or properly implement projects according to specifications across counties has been a key challenge undermining the realization of value for money. Stalled project implementation, abandonment of projects, or altered project designs and outcomes and poor workmanship result in lack of value for money and delayed delivery of services to citizens. Where funds are not put to good use, this occasions wastage of money and public resources and do not benefit the public.

10.3 Constituency-based Funds

(a) Constituency Development Fund

The Constituencies Development Fund is a portion of the national annual budget devoted to all constituencies for the purposes of infrastructural development, wealth creation and poverty eradication at the constituency level. As such, CDF is characterized as a fund intended to stimulate community economic development efforts at the

constituency level. It is also a Community Driven Development (CDD) initiative that is conjured to empower local communities by availing funds from the National Government and donors to the local communities (Namano, 2014). The CDF was, therefore, aimed at resolving regional inequalities by fighting poverty through implementation of local development projects, and particularly those that provide basic needs such as education, healthcare, water, agricultural services, security and electricity (Namano, 2014).

The Constituency Development Fund (CDF) Act, 2003 was the law that first established the CDF in Kenya. Originally, according to the Act, 2.5 per cent of the nation's total revenue collection was to be channelled directly to the 210 constituencies through their sitting Members of Parliament (MPs). This was later revised to 3.5 per cent in the 2006/7 fiscal year. The Fund was administered by area Member of Parliament (MP) with a small CDF administrative staff that an MP controlled to determine the allocation of projects and funds, both of which were targeted to his support base. During the first year of implementation (2003/4), Ksh 1,260 million was released to the constituencies. This amount was fully disbursed to the 210 constituencies in accordance with the CDF Act 2003, with each constituency receiving Ksh 6 million for projects. In subsequent years, 2004/05, 2005/06 and 2006/07, Ksh 5.6, 7.2 and 10.03 billion, respectively, was allocated for the CDF projects.

The CDF Act has undergone a series of amendments over the succeeding years to stay abreast with the evolving changes and dynamics of the society, such as replacement of the 1963 Constitution with the 2010 Constitution on 27th August 2010, and transition to a devolved system of government. In January 2013, the CDF Act 2003 (as amended in 2007) was repealed and replaced with the CDF Act 2013, which aligned the operations of the Fund to the new devolved government structures. The National Government Constituencies Development Fund (NG-CDF) replaced the Constituencies Development Fund (CDF). This Act was subsequently succeeded by the current NG-CDF Act, 2015.

Since 2003/04, the Fund has been supporting projects mainly in the areas of education, health, agriculture, roads, security, environment and sports. However, the NG-CDF (Amendment) Act 2016 introduces a major shift in the scope of projects eligible for funding. Under this Act, only projects falling within the functions of the National Government as outlined in the Constitution of Kenya are funded. This effectively means the Fund concentrates primarily on education, security, sports, environment sectors and other National Government residual functions.

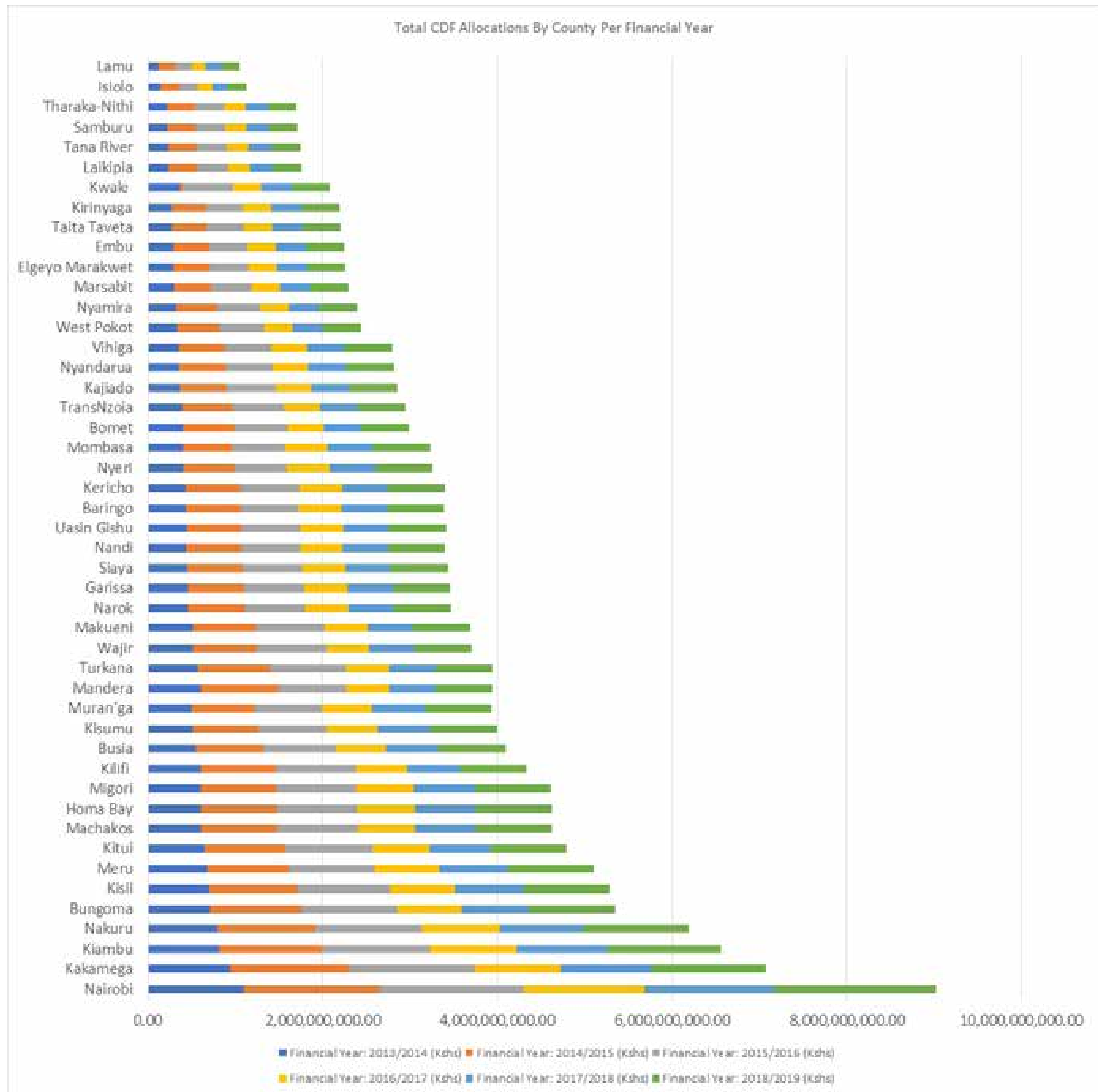
The Fund is domiciled within the Ministry in charge of national economic policy and planning. It is managed by the National Government Constituencies Development Fund Board, which is a body corporate with perpetual succession and common seal. The Board operates at national level and comprises of the Board of Directors and a Secretariat. The Board derives its mandate from the NG-CDF Act of 2015.

The amount of allocations per county have fluctuated over the years. However, the counties that have received the highest and lowest allocations have remained relatively the same between 2013/14 and 2018/19 (Figure 10.2).

In 2018/2019, the counties that received the highest percentage share of NG-CDF allocations were Nairobi (5.9%), Kiambu (4.1%), Kakamega (4.1%), Nakuru (3.8%), Kisii (3.1%), Bungoma (3.1%) and Meru (3.1%). The counties that received the least CDF allocations are Laikipia (1.0%), Tana River (1.0%), Tharaka Nithi (1.0%), Samburu (1.0%), Lamu (0.7%) and Isiolo (0.7%) (Table 10.3).

The amount of allocations per county have fluctuated over the years. However, the counties that have received the highest and lowest allocations have remained relatively the same between 2013/14 and 2018/19 (Figure 10.1).

Figure 10.1: Total CDF allocations by county, 2013-2018



Source: National Government Constituency Development Fund - NG-CDF (2015)

The total CDF allocations have varied across specific sectors. Most allocations have gone to the education sector (51.0%) followed by water (9.0%), health (7.0%) and roads and bridges (7.0%) (NG-CDF, 2015). After 2015/16, the Fund has concentrated primarily on education, security, sports, environment sectors and other National Government residual functions. However, the CDF has been marred by poor project implementation, stalled projects, expenditure on projects not approved, misuse of funds and lack of supporting documentation for expenditure as reported by the Auditor General in audit reports for the constituencies. The key aspect in utilization of the CDF is efficiency and transparency.

Further, the criteria for determining allocations of NG-CDF is based on an equal amount disbursed equally to each constituency. This may fail to take into account specific or unique needs of various regions.

(b) National Government Affirmative Action Fund (NGAAF)

The National Government Affirmative Action Fund (NGAAF) was enacted through Legal Notice No.18 of 2012 pursuant to Section 24(4) of the Public Finance Management Act, 2012. The Fund is governed by the Public Finance Management Act, 2012 (National Government Affirmative Action Fund), Regulations 2016.

The Fund is one of Government initiatives anchored on the Kenya Vision 2030 under the social pillar to address the plight of vulnerable groups by reducing poverty and inequality through enhanced access to financial facilities for socio-economic empowerment among women, youth, persons with disabilities, needy children and elderly persons in the country. The Fund also provides an avenue for promotion of enterprise and value addition initiatives. The objectives of the Fund include:

- Enhancement of access to financial facilities for affirmative groups;
- Support of value addition initiatives by the affirmative action groups;
- Socio cultural development and nurturing of talent for affirmative action groups, including promotion of art, music and sports;
- Enhancement of access to services for survivors of gender-based violence, female genital mutilation, child or forced marriages through establishment of rescue centres and legal aid centres and other similar facilities;
- Support of affirmative action groups through bursaries and scholarships to access education opportunities;
- Establishment of drugs and substance abuse and rehabilitation and counselling centres in conjunction with relevant government agencies; and
- Conducting civic education and community sensitization on National Government affirmative action programmes and policies.

The fund seeks to address the plight of vulnerable groups through enhanced access to financial resources for socio-economic empowerment among women, youths, PWDs, needy children and the elderly. The Public Finance Management (National Government Affirmative Action Fund) Regulations, 2016 provide that the National Government Affirmative Action Fund vests in and is to be operated by the National Government Affirmative Action Fund Board (which is established as a body corporate). The Board shall disburse from the Fund an equal amount to each constituency. The Board shall disburse funds out of the Fund bank account to each county Affirmative Action Fund account at the beginning of the first quarter of each financial year. Each disbursement to a National Government Affirmative Action Fund Committee from the Fund must be for a specific project approved in accordance with the Regulations.

Similar to the NG-CDF Allocations (Table 10.2) NGAAF gets allocations from the National Government with Nairobi, Kiambu, Kakamega, Nakuru, Bungoma and Kisii receiving the highest allocations and Lamu and Isiolo counties receiving the least allocations (Table 10.2). This is mainly because, as per the Act and the Regulations, the initial disbursement by the Board to each county committee after the commencement of the Regulations shall be equivalent to 25.0 per cent of the annual allocation for the county.

Table 10.2: NGAAF funds disbursed since inception, 2014-2017 (Ksh millions)

	County	2014/2015	2015/2016	2016/2017	1, 2, 3rd qt 2017/2018	Total for Funds Disbursements (Millions)
1.	Nairobi	77.3	109.4	113.6	83.8	384.2
	Kiambu	54.6	77.2	80.2	59.2	271.2
	Kakamega	54.6	77.2	8.2	59.2	271.2
	Nakuru	50.0	70.8	73.5	54.2	248.6
	Bungoma	40.9	57.9	60.2	44.4	203.4
	Kisii	40.9	57.9	60.2	44.4	203.4
	Meru	40.9	57.9	60.2	44.4	203.4
	Kitui	36.4	51.5	53.5	39.5	180.8
	Machakos	36.4	51.5	53.5	39.5	180.8
	Homa Bay	36.4	51.5	53.5	39.5	180.8
	Migori	36.4	51.5	53.5	29.6	171.0
	Murang'a	31.8	45.0	46.8	34.6	158.2
	Busia	31,8	45.0	46.8	34.6	158.2
	Kisumu	31.8	45.0	46.8	34.6	158.2
	Kilifi	31.8	45.0	46.8	34.6	158.2
	Mombasa	27.3	38.6	40.1	29.6	135.6
	Garissa	27.3	38.6	40.1	29.6	135.6
	Wajir	27.3	38.6	40.1	29.6	135.6
	Mandera	27,3	38.6	40.1	29.6	135.6
	Makueni	27.3	38.6	40.1	29.6	135.6
	Uasin Gishu	27.3	38.6	40.1	29.6	135.6
	Nandi	27.3	38.6	40.1	29.6	135.6
	Baringo	27.3	38.6	40.1	29.6	135.6
	Turkana	27.3	38.6	40.1	29.6	135.6
	Siaya	27.3	38.6	40.1	29.6	135.6
	Kericho	27.3	38.6	40.1	29.6	135.6
	Narok	27.3	38.6	40.1	29.6	135.6
	Nyeri	27.3	38.6	40.1	29.6	135.6
	Bomet	22.7	32.2	33.4	29.6	118.0
	Vihiga	22.7	32.2	33.4	24.7	113.0
	Nyandarua	22.7	32.2	33.4	24.7	113.0
	Trans Nzoia	22.7	32.2	33.4	24.7	113.0
	Kajiado	22.7	32.2	33.4	24.7	113.0
	Embu	18.2	25.7	26.7	19.8	90.4
	Kirinyaga	18.2	25.7	26.7	19.8	90.4
	West Pokot	18.2	25.7	26.7	19.8	90.4
	Elgeyo Marakwet	18.2	25.7	26.7	19.8	90.4
	Nyamira	18.2	25.7	26.7	19.8	90.4
	Kwale	18.2	25.7	26.7	19.8	90.4
	Taita Taveta	18.2	25.7	26.7	19.8	90.4
	Marsabit	18.2	25.7	26.7	19.8	90.4

	County	2014/2015	2015/2016	2016/2017	1, 2, 3rd qt 2017/2018	Total for Funds Disbursements (Millions)
	Tana-River	13.6	19.3	20.1	14.8	67.8
	Tharaka Nithi	13.6	19.3	20.1	14.8	67.8
	Samburu	13.6	19.3	20.1	14.8	67.8
	Laikipia	13.6	19.3	20.1	14.8	67.8
	Lamu	9.1	12.9	13.4	9.9	45.2
	Isiolo	9.1	12.9	13.4	9.9	45.2
	TOTAL	1,320.0	1,865.5	1,938.3	1,427.0	6,550.8

Source: The National Government Affirmative Action Fund (2019)

The criteria for determining allocations of NGAAF may not be achieving the intended outcomes. While this maintains certainty, consistency and predictability across allocations, this method perpetuates the same trends and groups of beneficiaries. There is need to consider whether a targeted, prioritized and more inclusive criteria could be developed and formulated for various funds.

NGAAF has reported challenges that have constrained full achievement of planned activities, including inadequate budgetary allocation and delay in release of funds (NGAAF, 2018).

10.3 Representation and Inclusivity in the Public Service

In responding to the challenge of inclusive growth, the public sector and Government has a critical role to play with respect to inclusiveness within the public sector. This includes representation in terms of ethnicity, gender and persons with disabilities (PWDs). This section discusses the distribution of staff within the public service (including National Government and County Governments) by ethnicity, gender and inclusion of PWDs. The Government endeavours to promote inclusivity by being inclusive within itself. More so, it must be felt that the Government represents the communities it seeks to serve and reflects the face of Kenya. Inclusivity and diversity within the public service and public institutions are key in ensuring that the needs, aspirations and experiences of a diverse range of citizens are reflected in the decision-making process.

At independence, Kenya inherited a system where Europeans dominated virtually all positions in the civil service. In Sessional Paper No. 10 of 1965, the Government committed itself to guaranteeing every citizen full and equal political and economic rights to ensure the participation of every person in the running of the country. The Government also committed to train, educate and mobilize all Kenyans to fully participate in the country's development. The Government undertook to ensure positions in the civil service, which had hitherto been dominated by Europeans were transferred to Africans.

(a) Regulatory and institutional framework

The National Cohesion and Integration Act,2008 defines "ethnic group" as a group of persons defined by reference to colour, race, religion, or ethnic or national origins. "Ethnic relations" are defined to include racial, religious, tribal and cultural interactions between various communities, and the words "ethnic" and "ethnicity" are to be construed accordingly.

A number of legal provisions have been established to promote inclusivity and diversity in the public service, while ensuring a reflection of Kenya's diverse communities across various Government institutions (Table 10.3). This is intended to promote inclusivity and ethnic representation in the public service and reduce over-representation of only a few communities in the public service. Indeed, the preamble to the Constitution of Kenya 2020 pronounces that Kenyans are proud of their ethnic, cultural and religious diversity, and are determined to live in peace and unity as one indivisible sovereign nation.

Table 10.3: Policies and legislation on inclusivity and representation within the public service

Policies and Legislation	Key Provisions on Representation
Agenda 2063	Aspiration No. 6 focuses on, "an Africa whose development is people-driven, unleashing the potential of its youth and caring for children. According to Africa's Agenda 2063, Africa shall be an inclusive continent where no child, woman, or man will be left behind or excluded, on the basis of gender, political affiliation, religion, ethic affiliation, locality, age or other factors".
Sessional Paper No. 8 of 2013 on National Values and Principles of Governance.	Provides a framework for fostering national unity, inculcating patriotism, redressing marginalization, and promotion of an accountable and democratic electoral process. It seeks to guarantee accountable exercise of executive authority by both the National and County Governments and ensure equitable distribution of resources and opportunities. The policy identifies five key areas through which the values and principles would be promoted and realized: the development of a strong national identity, effective representation and leadership, equitable allocation of resources and opportunities, good governance practices, and sustainable development.
Constitution of Kenya, 2010	Article 10 on National Values and Principles of Governance include patriotism, national unity, inclusiveness, equality, non-discrimination and protection of the marginalised.
	Article 11 recognizes culture as the foundation of the nation and as the cumulative civilization of the Kenyan people and nation.
	Article 21 (3) provides that all State organs and all public officers have the duty to address the needs of vulnerable groups within society, including women, older members of society, persons with disabilities, children, youth, members of minority or marginalized communities, and members of particular ethnic, religious or cultural communities.
	Article 27 of the Bill of Rights stipulates that every person is equal before the law and has the right to equal protection and equal benefit of the law. Further, equality includes the full and equal enjoyment of all rights and fundamental freedoms. Women and men have the right to equal treatment, including the right to equal opportunities in political, economic, cultural and social spheres. In addition, the State is prohibited from discriminating directly or indirectly against any person on any ground, including race, sex, pregnancy, marital status, health status, ethnic or social origin, colour, age, disability, religion, conscience, belief, culture, dress, language or birth. Moreover, no person shall discriminate directly or indirectly against another person on any of the grounds specified or contemplated as mentioned hereinbefore.
	Article 27 (4) of the Bill of Rights provides that the State shall not discriminate directly or indirectly against any person on any ground, including …ethnic or social origin…culture… language or birth.
	Article 28 of the Constitution further provides rights for every person to have inherent dignity and the right to have that dignity respected and protected.
	Article 32 guarantees the right for every person to freedom of conscience, religion, thought, belief and opinion. Further, every person has the right, either individually or in community with others, in public or in private, to manifest any religion or belief through worship, practice, teaching or observance, including observance of a day of worship. Further, it specifies that no person may be denied access to any institution, employment or facility, or the enjoyment of any right, because of the person's belief or religion. In addition, a person shall not be compelled to act, or engage in any act, that is contrary to the person's belief or religion.
	Article 73 of the Constitution, 2010 which is part of Chapter Six on Leadership and integrity, also has provisions that guide appointments in the public service. Article 73(2) (a) provides that the guiding principles of leadership and integrity include selection on the basis of personal integrity, competence and suitability.
	Article 90 (2) (c) mandates that, with the exception of County Assembly seats, each party list for elections for the seats in Parliament must reflect the regional and ethnic diversity of the people of Kenya.
	Article 130 stipulates that the composition of the National Executive shall reflect the regional and ethnic diversity of the people of Kenya.
	Article 131(2) (d) mandates the President of the Republic of Kenya to promote and enhance the unity of the nation; and promote respect for the diversity of the people and communities of Kenya.

	Article 232 (g) provides that subject to paragraphs (h) and (i), fair competition and merit are the basis of appointments and promotions. Therefore, values of merit and fair competition are subject to the greater considerations and values of ethnic, regional and gender diversity. Impliedly, competence and merit can be undermined on the basis of gender, disability or diversity. Merit and competence alone cannot be the basis for making public appointments but the appointing authority must take into account regional, gender and ethnic diversity. However, even where the diversity is required, the minimum threshold requirement for any appointment is competence and merit determined through a fair and competitive process. Article 232 (1) (h) underscores that one of the values and principles of the public service include representation of Kenya's diverse communities. Article 232 (1) (i) of the Constitution, 2010 on Principles and Values of the Public Service requires that adequate and equal opportunities for appointment, training, advancement at all levels of the public service of men and women; the members of all ethnic groups; and persons with disabilities.
	Article 250(4) of the Constitution, 2010 provides that appointments to commissions and independent offices shall take into account the national values in Article 10 and the principle that the composition of the commissions and offices, taken as a whole, shall reflect the regional and ethnic diversity of the people of Kenya.
	Article 241 (4) stipulates that the composition of the command of the Defence Forces shall reflect the regional and ethnic diversity of the people of Kenya.
	Article 246 (4) mandates that the composition of the National Police Service shall reflect the regional and ethnic diversity of the people of Kenya.
	Article 250 (4) requires that all appointments to commissions and independent offices shall take into account the national values referred to in Article 10, and the principle that the composition of the commissions and offices, taken as a whole, shall reflect the regional and ethnic diversity of the people of Kenya.
The National Cohesion and Integration Act, No. 12 of 2008	Section 7 (1) of the National Cohesion and Integration Act, No. 12 of 2008 stipulates that "All public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff".
	Section 7 (2) of the National Cohesion and Integration Act provides that "No public establishment shall have more than one third of its staff from one ethnic group".
The County Governments Act, No. 12 of 2012	Section 65 of the County Government Act requires that the County Public Service Board shall ensure that at least 30% of the vacant positions in county employment are filled by persons from the non-dominant communities.
The Public Service Values and Principles Act, No. 1 of 2015	Section 10 of the Act requires balancing of the principles on fair competition and merit, as a basis of appointment and promotion, and the principle of representation of all communities in the public service. It allows use of affirmative action in instances where; a community is under-represented, taking into account the community's national population census, the two thirds gender principle has not been met or Persons With Disabilities (PWDs) are underrepresented.
Public Service Commission Act, 2017	In making appointments or promotions, the PSC is bound by the constitutional principles which require that — no applicant or candidate is discriminated on any ground; no one gender constitutes more than two thirds of those appointed; at least five percent of the appointments constitute persons with disabilities; there is proportionate representation of all ethnic communities; and the youth are appointed.

Source: Author

Table 10.4: Institutional frameworks on representation and inclusivity

Institution	Establishing Statute	Mandate and functions
National Cohesion and Integration Commission (NCIC)	The National Cohesion Integration Act of 2008	The National Cohesion and Integration Commission (NCIC) is a statutory body established by the National Cohesion Integration Act enacted after the 2007 post-election violence. The mandate of the NCIC is to: promote the elimination of all forms of discrimination on the basis of ethnicity or race; discourage persons, institutions, political parties and associations from advocating or promoting discrimination or discriminatory practices on the ground of ethnicity or race; promote equal access and enjoyment by persons of all ethnic communities and racial groups to public or other services and facilities provided by the Government; investigate complaints of ethnic or racial discrimination and make recommendations to the Attorney-General, the Human Rights Commission or any other relevant authority on the remedial measures to be taken where such complaints are valid; investigate on its own accord or on request from any institution, office, or person any issue affecting ethnic and racial relations; ethnic relations.
Directorate of National Cohesion and National Values		Administratively, oversight of national values and principles of governance issues falls under the Directorate of National Cohesion and National Values in the Ministry of Interior and Coordination of National Government. The Directorate's mandate is to spearhead and coordinate mainstreaming of national cohesion, national values, national reconciliation and healing. The mission of the Directorate is to spearhead the building of a harmonious, cohesive and integrated society with shared values through national cohesion and integration programmes.
Public Service Commission (PSC)	Article 234 of the Constitution of Kenya (which was operationalized by the Public Service Commission Act No. 13 of 2012)	Its mandate includes to establish and abolish offices in the public service; appoint persons to hold or act in public offices, and to confirm appointments; exercise disciplinary control over and remove persons holding or acting in those offices; promote the values and principles referred to in Articles 10 and 232 throughout the public service; evaluate and report to the President and Parliament on the extent to which the values and principles referred to in Articles 10 and 232 are complied with in the public service; and hear and determine appeals in respect of County Governments' public service.
The National Gender and Equality Commission (NGEC)	The National Gender and Equality Commission Act, 2011	The mandate of NGEC is to promote gender equality and freedom from discrimination in accordance with Article 27 of the Constitution; monitor, facilitate and advise on the integration of the principles of equality and freedom from discrimination in all national and county policies, laws, and administrative regulations in all public and private institutions; investigate on its own initiative or on the basis of complaints, any matter in respect of any violations of the principle of equality and freedom from discrimination and make recommendations; and conduct audits on the status of special interest groups, including minorities, marginalized groups, persons with disabilities, women, youth and children.
County Public Service Boards (CPSBs)	Section 57 of the County Governments Act, 2012	The CPSBs are mandated to, *inter alia*, establish and abolish Offices in the County Public service; appoint persons to hold or act in offices of the County Public Service; exercise disciplinary control over, and remove, persons holding or acting in those Offices; prepare regular reports for submission to the County Assembly on the execution of the functions of the Board; promote in the County Public Service the values and principles referred to in Article 10 and 232 of the Constitution; and evaluate and report to the County Assembly on the extent to which the values and principles referred to in Articles 10 and 232 of the Constitution are complied with in the County Public Service.

Source: Author

(b) Ethnic representation in the National Government

The promulgation of the Constitution in 2010 brought with it an expectation that appointments to public office will be conducted in a manner that is competitive, transparent, adheres to the values of good governance and promotes equality, equity and regional and ethnic diversity. Under Article 73(2), there are other considerations for leadership besides competence, which include integrity, suitability and diversity.

The Public Service Commission (PSC) has developed a criteria for assessing representation, which refers to representation of the community in the public service relative to their national population size. This is intended to assess proportionate representation of all ethnic communities in line with Article 232(1)(h) of the Constitution 2010, which stipulates that the values of the public service include representation of Kenya's diverse communities. However, the 2018/19 Public Service Commission Report on "Status of the Public Service Compliance with the Values and Principles in Articles 10 and 232 of the Constitution" established that for the institutions that fall under its jurisdiction, there has been gross over-representation of the Kikuyu and Kalenjin tribes. This is followed by the Luo and Kisii tribes which are over-represented in the public service. The Kenyan Somali are grossly under-represented, while the Luhya, Mijikenda and Turkana are reported to be under-represented in the public service (Table 10.6). The findings corroborate those by the National Cohesion and Integration Commission (NCIC) in 2012 Ethnic Diversity and Audit of the Civil Service. Thus, there is lack of ethnic representation, regional diversity and regional inclusivity in the public service workforce. This means that there is skewed, unbalanced and unequal representation of certain ethnic communities within the public service, being propagated 10 years after the promulgation of the Constitution. While there are legal frameworks requiring ethnic representation, these frameworks lack sanctions and enforcement mechanisms for non-compliance by public institutions, which undermines the effectiveness of the legal frameworks.

Table 10.5: Ethnic representation in the public service

	Ethnic Community	Total Population (2009 census)	% Contribution	Total In-post	% of total In-post	Status of Representation
	Bajuni	69,110	0.18	595	0.3	Normal Representation
	Basuba	139,271	0.36	342	0.2	Normal Representation
	Boni/Sanye	0	0	35	0	Normal Representation
	Borana	161,399	0.42	1,863	0.9	Normal Representation
	Burji	23,735	0.06	153	0.1	Normal Representation
	Dasnach/Shangila	12,530	0.03	11	0	Normal Representation
	Dorobo	35,015	0.09	67	0	Normal Representation
	Elmolo	2,844	0.01	23	0	Normal Representation
	Embu	324,092	0.85	2,922	1.4	Normal Representation
	Gabra	89,515	0.23	357	0.2	Normal Representation
	Galjeel	7,553	0.02	4	0	Normal Representation
	Gosha	21,864	0.06	6	0	Normal Representation
	Gureeh/Galla	8,146	0.02	424	0.2	Normal Representation
	Kalenjin	4,929,469	12.9	35,541	16.6	Gross Over-Representation
	Kamba	3,893,157	10.19	19,906	9.3	Normal Representation
	Kenyan American	2,422	0.01	1	0	Normal Representation
	Kenyan Arab	40,760	0.11	250	0.1	Normal Representation
	Kenyan Asian	46,782	0.12	75	0	Normal Representation
	Kenyan European	5,166	0.01	6	0	Normal Representation
	Kenyan Somali	2,388,732	6.25	4,664	2.2	Gross Under-Representation

	Ethnic Community	Total Population (2009 census)	% Contribution	Total In-post	% of total In-post	Status of Representation
	Kikuyu	6,622,576	17.33	45,401	21.2	Gross Over-Representation
	Kisii	2,205,669	5.77	16,235	7.6	Over Representation
	Konso	1,758	0	1	0	Normal Representation
	Kuria	260,401	0.68	846	0.4	Normal Representation
	Leysan	5,941	0.02	2	0	Normal Representation
	Luhya	5,338,666	13.97	25,398	11.9	Under Representation
	Luo	4,044,440	10.58	25,895	12.1	Over Representation
	Maasai	841,622	2.2	3,650	1.7	Normal Representation
	Makonde	0	0	2	0	Normal Representation
	Mbeere	168,155	0.44	770	0.4	Normal Representation
	Meru	1,658,108	4.34	10,113	4.7	Normal Representation
	Mijikenda	1,967,474	5.15	7,725	3.6	Under-Representation
	Njemps/Ilchamus	32,516	0.09	140	0.1	Normal Representation
	Nubi	15,463	0.04	92	0	Normal Representation
	Orma	66,275	0.17	214	0.1	Normal Representation
	Other Kenyan	446,047	1.17	581	0.3	Normal Representation
	Other Nationalities	0	0	197	0.1	Normal Representation
	Pokomo	94,965	0.25	884	0.4	Normal Representation
	Rendille	60,437	0.16	297	0.1	Normal Representation
	Sakuye	26,784	0.07	51	0	Normal Representation
	Samburu	237,179	0.62	991	0.5	Normal Representation
	Swahili-Shirazi	110,614	0.29	520	0.2	Normal Representation
	Taita	273,519	0.72	3,518	1.6	Normal Representation
	Taveta	20,828	0.05	230	0.1	Normal Representation
	Teso	338,833	0.89	1,328	0.6	Normal Representation
	Tharaka	175,905	0.46	337	0.2	Normal Representation
	Turkana	988,592	2.59	1,516	0.7	Under Representation
	Walwana	16,803	0.04	3	0	Normal Representation
	Total			214,182	100%	

Source: Public Service Commission (2018), Report 2018/2019

Further, there is lack of clarity and consensus on how to determine an individual's ethnicity and the criteria and parameters for consideration. That is, whether the determination should be based on an individual's place of ordinary residence, home district, background, name, preferred ethnic identity, personal choice, socialization, marital association, patriarchy or parental lineage or origin. This lack of clarity is further perpetuated, whereby an individual is from a mixed parentage or mixed cultural or ethnic background, noting that Kenya is considered a patrilineal society. This is particularly the case for the criteria employed for determining the ethnic and regional affiliation for women, and in particular inter-ethnic married or divorced women in Kenya. The result is that there is risk of arbitrarily assigning ethnicities to individuals with no consistency or objectivity in the factors to be considered to determine their ethnicity. The criteria used for assessment and determination may consequently be based on subjective judgement. Further, ethnic appellations and profiles may be erroneously or incorrectly assigned to individuals. There are no constitutional, legislative or policy guidelines on what constitutes ethnic or regional background or how ethnicity or ethnic affiliation of a person is to

be determined. In addition, there are no indicators whose basis would enable an objective analysis.

Whereas there is a basis for consideration of ethnicity and regional balancing in public service appointments, the terms have not been well and exhaustively expounded to enable an objective determination of the same, thus leaving it to the selectors to exercise their subjective views, thereby creating controversy and possible grievous errors in the selection of public officers. Consequently, in the absence of standardized and objective principles, the basis relied upon by selectors in determining ethnicity is seemingly obscure and open to abuse. In addition, there is no clear precedent for appointments especially in determining how ethnicity is to be attributed to a person, particularly in cases of inter-ethnic marriage. Moreover, other gaps in the framework include how principles of equal opportunity and non-discrimination are to be reconciled with principles of ensuring regional and ethnic diversity. In attributing ethnic affiliation to an individual, what concerns, and considerations should be given.

While the constitutional provisions requiring ethnic representation in the public service are intended to ensure regional diversity, the consequence is that, at times, the most qualified, competent, top-ranked and best-performing candidates following an interview process are locked out of and disqualified from appointments on the basis that their community is already represented. A key challenge is maintaining a balance between competence and competitiveness while achieving the ethnic and regional diversity in a manner that promotes nationality and social cohesion and integration. Considerations of ethnic and regional diversity should not be used to deny deserving persons opportunities or promote negative ethnicity. The process behind balancing of ethnicity and merit requires clarification. Further, the PSC and NCIC could develop clear criteria for determining one's ethnicity. NCIC, in collaboration with PSC, the Office of the Attorney General and Department of Justice and the Judiciary could undertake more concerted efforts to demystify and clarify public understanding on what defines an individual's ethnicity or social origin.

In addition, the mandate of NCIC is ineffective in redressing or enforcing any breaches by public institutions on reflection of Kenya's regional and ethnic diversity. This is mainly because the mandate of NCIC is limited to investigations only. NCIC conducts regular ethnic audits on all public institutions and conducts investigations when complaints are raised by the public, or on its own motion. However, legal enforcement is lacking for non-compliance of ethnic representation requirements. To this end, sanctions could be specified for non-compliant institutions, including requiring direct accountability and liability of human resource officers and heads of institutions.

For inclusivity to be attained, the public service within itself ought to take the lead in promoting and guaranteeing representation of diverse communities. Ethnic diversity is a necessary factor for consideration for appointment to the public service. The public service ought to be comprised of public servants who have attained the highest standards of professionalism, qualifications, competence, suitability and integrity and reflect the face of Kenya. The composition of the public service ought to reflect ethnic and regional diversity of Kenya to entrench a sense of belonging for all communities. Conforming to the constitutional principles of ethnic inclusivity would build public confidence and sustain the momentum and impetus for inclusion within the wider Kenyan society.

(c) Ethnic representation in the County Public Service

The mandate regarding employment in the counties is vested on the County Public Service Board, which is established under Section 57 of the County Governments Act, 2012. Section 59(1) of the County Governments Act outlines the functions of the County Public Service Board, which include the establishment and abolishment of offices in the County Public Service and the appointment of persons to hold or act in offices of the County Public Service, including in the boards of cities and urban areas within the county and to confirm appointments. In setting a concrete threshold, Section 65(1) of the County Government Act directs that in selecting candidates for appointment, the County Public Service Board shall consider the standards, values and principles set out in Articles 10, 27(4), 56 (c) and 232 (1) of the Constitution. Article 10 outlines the national values and principles of governance which include unity, patriotism, non-discrimination, equity, inclusiveness and protection of the marginalized.

Article 56 stipulates provisions for affirmative action programmes to ensure inclusivity of marginalized and minority groups. Article 232 requires representation of Kenya's diverse communities as a value and principle of the public service.

Further, Section 65 (i) (e) of the County Government Act 2012 stipulates that "*in selecting candidates for appointment, the County Public Service Board shall consider, inter alia, the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county*". Further, Section 3(3) of the Employment Act presupposes that both levels of government are under an obligation to promote equality in access to employment opportunities. An audit on Ethnic and Diversity of Counties conducted by the National Cohesion and Integration Commission in 2016 established that new appointments made since the counties were established (2013-2016) had contravened the law (NCIC, 2016). Within the study period, only 15 counties (31.9%) had adhered to Section 65 of the County Government Acts by giving more than 30 per cent of the vacancies at entry level to members of ethnic groups that are not dominant in their regions. The study found that 68.1 per cent of the counties had hired more than 70 per cent of their staff from one ethnic group (NCIC, 2016). This implies that in spite of the existing law, new recruitments at county level have been done in contravention of the provisions of the law.

The study found that only 15 counties, namely Laikipia, Migori, Trans Nzoia, Busia, Garissa, Embu, Narok, Nakuru, Lamu, Taita Taveta, Isiolo, Mombasa, Nairobi, Tana River, and Marsabit had complied with the County Governments Act (Table 10.6).

Table 10.6: Counties that complied with the County Governments Act in new recruitments, 2013-2016

	County	Ethnic group with highest Number	Percentage
	Marsabit	Gabbra	28.0
	Tana River	Pokomo	29.1
	Nairobi	Kikuyu	37.7
	Mombasa	Mijikenda	39.6
	Isiolo	Borana	45.8
	Taita	Taveta Taita	47.8
	Lamu	Bajun	48.6
	Nakuru	Kikuyu	50.9
	Embu	Embu	55.6
	Narok	Maasai	55.6
	Garissa	Somali	56.8
	Busia	Luhya	59.8
	Trans Nzoia	Luhya	63.3
	Migori	Luo	65.1
	Laikipia	Kikuyu	67.4

Source: National Cohesion and Integration Commission (2016)

The other 32 counties were in contravention of the County Governments Act. Table 10.7 and 10.8 below illustrate this.

Table 10.7: Counties that contravened the County Governments Act in new appointments, 2013-2016

	County	Ethnic group with highest number	Percentage
	Nyamira	Kisii	97.9
	Bomet	Kalenjin	97.9
	Kirinyaga	Kikuyu	97.8
	Elgeyo Marakwet	Kalenjin	97.6
	Kisii	Kisii	97.5
	Tharaka Nithi	Tharaka	95.6
	Kericho	Kalenjin	95.3
	Murang›a	Kikuyu	95.2
	Uasin Gishu	Kalenjin	94.4
	Turkana	Turkana	93.4
	Nyandarua	Kikuyu	93.0
	Machakos	Kamba	92.9
	Nandi	Kalenjin	92.8
	Siaya	Luo	92.7
	Meru	Meru	92.6
	Samburu	Samburu	92.4
	Makueni	Kamba	91.6
	Homa Bay	Luo	91.1
	Kitui	Kamba	90.8

	County	Ethnic group with highest number	Percentage
	West pokot	Pokot	89.6
	Vihiga	Luhya	88.8
	Nyeri	Kikuyu	88
	Mandera	Somali	86.1
	Kisumu	Luo	82.3
	Wajir	Somali	81.6
	Kakamega	Luhya	81.2
	Kwale	Mijikenda	80
	Bungoma	Luhya	78.8
	Baringo	Kalenjin	78.4
	Kilifi	Mijikenda	77
	Kajiado	Maasai	75
	Kiambu	Kikuyu	74.4

Source: National Cohesion and Integration Commission (2016)

Table 10.8: Ethnic composition in County Governments

	County	General Staff (Majority ethnic group)	New appointments (highest ethnic group)
	West Pokot	49.1	89.6
	Kajiado	38.4	75.0
	Uasin Gishu	64.9	94.4
	Turkana	67.3	93.4
	Tharaka Nithi	74.7	95.6
	Samburu	73.6	92.4
	Trans Nzoia	47.3	64.0
	Lamu	32.7	48.6
	Kwale	64.1	80.0
	Machakos	79.0	92.9
	Siaya	78.9	92.7
	Kilifi	64.4	77.0
	Nandi	81.0	92.8
	Makueni	81.1	91.6
	Kitui	80.6	90.8
	Meru	84.6	92.6
	Kisii	89.9	97.5
	Nyamira	90.4	97.9
	Kericho	88.4	95.3
	Isiolo	41.0	45.8
	Elgeyo Marakwet	93.0	97.6
	Kisumu	78.0	82.3
	Kirinyaga	93.9	97.8
	Bungoma	75.2	78.8
	Vihiga	85.1	88.8
	Homa Bay	87.4	91.1
	Wajir	78.6	81.6
	Mandera	83.0	86.1
	Nakuru	48.4	50.9
	Murang›a	93.4	95.2
	Bomet	96.6	97.9
	Busia	58.8	59.8
	Garissa	56.9	56.8
	Migori	65.2	65.1
	Nyandarua	93.7	93.0
	Tana River	36.5	34.7
	Mombasa	42.3	39.6
	Embu	58.8	55.6
	Baringo	81.5	78.4
	Marsabit	33.2	28.0
	Taita Taveta	53.4	47.8
	Nyeri	95.3	88.0
	Laikipia	77.1	67.4
	Narok	66.0	55.4
	Kiambu	85.4	74.4
	Nairobi	51.8	37.7
	Kakamega	96.6	81.2

Source: National Cohesion and Integration Commission (2016

Employment in the county public service is not only inequitable but skewed towards the dominant groups within the county. Therefore, this may have perpetuated sentiments of protectionism, tribalism, isolationism, county-ism, clannism, and self-advancement within counties in spite of the letter and spirit of the Constitution, which intended to dispel regional inequalities. Local groups, as is witnessed in recruitments by counties, seek to maximize their representation in county leadership positions.

Some of the issues in achieving and releasing the quotas include weak oversight and enforcement mechanisms for non-compliance, and weak institutional frameworks in institutions mandated to oversee matters concerning representation, cohesion, values and diversity. Further, the legal frameworks do not prescribe any sanctions for non-compliance. In addition, there are no incentives to comply or to diversify, as leaders are motivated to maintain popular public opinion by providing jobs to residents within the county.

Further, there are weak institutional linkages between County Public Service Boards, the Public Service Commission and National Government, which results in inadequate systems for checks and balances of County Public Service Boards. There is also poor oversight of County Public Service Boards, which ultimately means that even where County Public Service Boards are found to have breached the law, there are no enforcement mechanisms prescribed by the law. While the County Governments Act, under Section 77, provides that *"any person dissatisfied or affected by a decision made by the County Public Service Board or a person in exercise of disciplinary control against any County Public Officer may appeal to the Public Service Commission against the decision"*, there is no other oversight or enforcement mechanisms over the County Public Service Boards regarding non-compliance with the requirement to ensure that 30 per cent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county. An aggrieved party may only have recourse and seek redress through the court system. As it is, there is no link between the CPSBs and the PSC. However, the same standards used in the Public Service Commission should be applied in the CPSBs, with the County Assembly being strengthened to oversight the CPSBs.

There is also a gap in the County Governments Act, which overlooks the issue of clannism as it only requires balancing of ethnic communities. While a county may meet the threshold as prescribed for ethnic communities, the composition may comprise only of selected clans to the exclusion of others. In as much as county may meet the threshold for ethnicity, the composition may comprise of only one clan. Further, the terms "dominant" and "minority" are not clearly defined.

While the 30 per cent provision is motivated to encourage applicants from other ethnicities to seek and obtain employment in other regions, it is highly likely that certain ethnicities will dominate certain regions as the two are often synonymous in Kenya. The PSC and NCIC could similarly develop an index for representation across counties. Nonetheless, failure to maintain ethnic representation and diversity in the public service diminishes the prospects of regional balancing, diversity and reflection of varied ethnicities in National and County Government entities. This, if not properly checked, may result in marginalization of minority communities based on ethnicity, clan or religion among other considerations, resulting in skewed allocation of resources.

The above points to the need to ensure inclusivity in both National and County Government appointments. The Public Service Commission, National Cohesion and Integration Commission and County Public Service Board need to implement concerted measures to promote inclusivity, eliminate discrimination and protect diversity in the public service at national and County Government levels. In this regard, incentives should be developed to encourage public institutions to embrace diversity, besides imposing a statutory quota. Alternatively, sanctions could be imposed on errant members of County Public Service Boards, including Human Resource Officers, who should receive an adverse report submitted to their professional regulatory body, the Institute of Human Resource Management.

(d) Representation of Persons with Disability in the Public Service

The Constitution of Kenya, Persons with Disabilities Act of 2003, and the Convention on the Rights of Persons with Disabilities (PWDs) recognize the inability of PWDs to competitively participate in socio-economic activities leading to their socio-economic marginalization. The right to work is a fundamental right recognized in Article 27 of the United Nations Convention on the Rights of Persons with Disabilities (UNCRPD), which Kenya has ratified. Article 27 of the UNCRPD recognizes the right of persons with disabilities to work on an equal basis with others, which includes the right to gain a living by working freely in a chosen or accepted labour market and work environment that is open, inclusive and accessible to PWDs. This signifies the right of PWDs to earn a livelihood in a profession individually chosen, and to work with equal rights with others to improve the financial situation and support personal empowerment of PWDs. Further, the UNCRPD mandates state parties to promote employment opportunities and career advancement for PWDs in the labour market, and assistance in finding, obtaining, maintaining and returning to employment.

This requirement is critical particularly because PWDs experience higher rates of unemployment and under-employment compared to persons without disabilities, and therefore merit special consideration. Employment precedes and is a prerequisite for realization of the right to human dignity as it enables individuals to fully participate in the economy and society. Employment provides the impetus for achievement of the right to human dignity and socio-economic development. The 2019 Kenya Population and Housing Census conducted by the Kenya National Bureau of Statistics revealed that 918,270 people aged 5 years and above had a disability, and further that more females (523,883) than males (394,330) had disabilities (KNBS, 2019). Further, the 2019 census found that nationally, the proportion of PWDs was 2.2 per cent with rural areas having a higher proportion of 2.6 per cent compared to 1.4 per cent for urban areas. For persons with disabilities, obstacles to their full participation are represented not only by the physical environment, transportation, ICT, but also by access to facilities, information and services due to lack of adequate or appropriate support available. Further, lack of accessibility often discourages PWDs from accessing employment. Infrastructure, including public accommodation, transport systems and information are often inaccessible or customized for PWDs, which may discourage them from seeking work.

Educational outcomes and completion rates for children and adults with disabilities are also an issue. In 2016, the National Survey on Children with Disabilities and Special Needs in Education reported that the number of special needs learners at primary school level was 251,542, with 97 per cent of the learners enrolled in public primary schools and 3 per cent in private schools. At secondary school level, there were 14,098 learners with special needs enrolled, 90 per cent of whom were enrolled in public schools, which is indicative of low transition rates. Access to basic education is a key factor in empowering PWDs to obtain meaningful employment.

To ensure protection and inclusion of PWDs, Kenya has put in place various laws and institutions to cater for their well-being. The Constitution of Kenya 2010 in Article 27 entitles every person to equality before the law and prohibits direct or indirect discrimination on any ground, including disability. Furthermore, Article 27 of the Constitution provides that the state shall take legislative and other measures including affirmative action programmes and policies designed to redress any disadvantages suffered by individuals or groups because of past discrimination. Article 54 stipulates specific entitlements for PWDs, including the right to be treated with respect and to be referred to in a manner that is not demeaning, the right to access educational institutions, reasonable access to public transport, information, the use of sign language, braille or other appropriate means of communication and access to materials and devices to overcome constraints arising from the person's disability. The State is also obligated to ensure progressive implementation of the principle that at least 5 per cent of members of the public in elective and appointive bodies are persons with disabilities.

Article 55 of the Constitution requires the State to take measures, including affirmative action programmes, to ensure that PWDs have access to relevant education and training, opportunities to associate, be represented and participate in political, social, economic and other spheres of life; and

access employment. Article 56 of the Constitution requires the State to put in place affirmative action programmes designed to ensure that minorities and marginalized groups are provided with special opportunities for access to employment. The Constitution elaborates on the rights of PWDs to ensure their inclusion and participation in the legislature. Article 81 requires that the electoral system shall ensure fair representation of persons with disabilities. The composition of the National Assembly, County Assembly and Senate at both levels of government must ensure that it maintains a number of special seat members to ensure that persons with disabilities have representation, as prescribed by the Constitution. Article 232(1) of the Constitution stipulates that one of the principles and values of the public service is to provide for fair competition and merit as the basis of appointment and promotion while ensuring that persons with disabilities are afforded adequate and equal opportunities for appointment, training and advancement at all levels of the public service.

In addition, Section 10 of the Public Service (Values and Principles) Act, 2015 which gives effect to Article 232 of the Constitution allows public institutions, for purposes of ensuring representation of PWDs and other marginalized groups, not to unduly rely on fair competition and merit as the sole basis for appointments or promotions, which may often disadvantage PWDs. The Act provides for circumstances under which affirmative action measures may be applied in the appointment and promotion of public officers in the public service and allows use of affirmative action in instances where PWDs are under-represented. The Public Service Commission Act, 2017 defines affirmative action as the measures designed to overcome or ameliorate an inequity or the systematic denial of opportunities. Section 48 of the Public Service Commission Act requires the Public Service Commission to make regulations to give effect to the requirements of the Constitution regarding inclusivity in terms of, *inter alia*, persons with disabilities. The Public Officers' Ethics Act, 2003 creates an environment that nurtures respect for diversity, including disability. The Act requires public officers to treat fellow public officers, including PWDs, with respect while discharging their mandate. The Employment Act 2007 recognizes disability and prohibits discrimination on grounds of disability in employment both in public and private sectors. Moreover, the Public Procurement and Disposal Act 2015 and Regulations 2006, reserves 30 per cent of public procurement for women, youth and PWDs as a means of empowering them and granting them access to opportunities. The PSC has also developed the Diversity Policy for the Public Service (2016), which is a guideline for the public service on mainstreaming and management of diversity issues in the public service.

The Persons with Disabilities Act, No. 14 of 2003, has been the legal instrument ensuring respect for persons with disabilities prior to promulgation of the Constitution. The Act establishes the National Council for Persons with Disability (NCPWD) and sets out the rights and privileges of PWDs. The Act sets out general conditions to be complied with to facilitate the employment and inclusion of PWDs. Section 12 postulates that PWDs should not be denied access to opportunities for suitable employment. A qualified employee with a disability is also subject to the same terms and conditions of employment and the same compensation, privileges, benefits, fringe benefits, incentives or allowances as a qualified able-bodied employees. Section 15 (5) of the Persons With Disabilities Act requires an employer to provide such facilities and effect such modifications, whether physical, administrative or otherwise, in the workplace as may reasonably be required to accommodate persons with disabilities. Section 16(2) provides incentives to a private employer who improves or modifies the physical facilities or avails special services to provide reasonable accommodation for employees with disabilities. Section 21 of the Act entitles PWDs to a barrier free and disability friendly environment. This is to enable them to have access to buildings, roads, social amenities, assistive devices, and other equipment to promote their mobility and accessibility. Nonetheless, the Act is in need of review to include and operationalize the rights and entitlements envisaged in the Constitution.

Other requirements and obligations for facilitation of PWDs are similarly imposed on various Government institutions to enhance their access to public services. The Persons with Disabilities Act requires the Chief Justice to publish rules providing for the provision, to persons with disabilities who attend court, of free sign language interpretation, braille services and physical guide assistance. In this regard,

the Constitution of Kenya (Protection of Rights and Fundamental Freedoms) Practice and Procedure Rules, 2013 under Rule 7 requires the Court to pursue access to justice for all persons including persons with disabilities. Nonetheless, there is still need for more targeted and comprehensive rules comprising the specific mechanisms and structures that the Judiciary shall establish to ensure access to justice and public services by PWDs.

Participation in the electoral process by various groups, including PWDs, is a key factor in enabling their subsequent representation. During elections, the Persons with Disabilities Act stipulates that all persons with disabilities are entitled to be assisted by persons of their choice in voting in presidential, parliamentary and civic elections. Moreover, the Act requires polling stations to be made accessible to persons with disabilities during elections, and that such persons should be provided with the necessary devices and assistive devices and services to facilitate the exercise of this right. Further, Article 82 of the Constitution stipulates that that voting at every election should take into account special needs of PWDs. In spite of this, PWDs still face challenges that impede their effective participation in electoral processes, including lack of access to information, facilities and services.

As noted above, the Constitution requires that at least 5 per cent of appointments in the public sector should comprise persons with disabilities. However, compliance within the public service has been low. In 2018/19, the Public Service Commission of Kenya in its report on "Status of the Public Service Compliance with the Values and Principles in Articles 10 and 232 of the Constitution", noted that out of the 216,958 officers in the public service institutions that fall within its jurisdiction, only 2,567 (1.2%) were PWDs against the constitutional threshold of 5 per cent, indicating low levels of compliance with the legal requirements. This further points to inadequate inclusion of PWDs in the public service (Table 10.9). While there has been some improvement in the percentage representation of PWDs in the public service, the improvement has been marginal. While recognizing that the public service is one of the biggest employers in the country, it ought to be reflective of Kenya's diverse populations and promote diversity and inclusion from within.

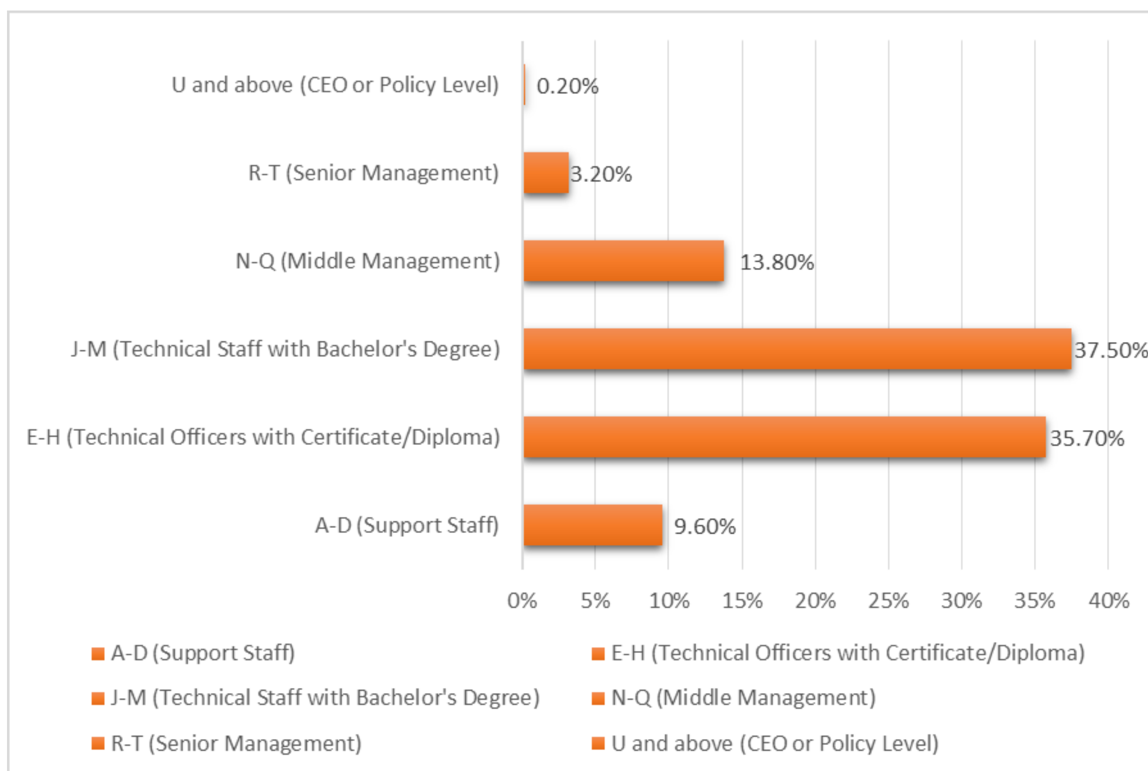
Table 10.9: Representation of PWDs in the Public Service by service sector, 2016-2018

	Total Number of Institutions			Compliant Institutions			Total Number of Officers			Total Number of PWDs (% Representation)		
	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Constitutional Commissions and Independent Offices	9	7	11	0	1	0	3,016	1,452	5,304	40(1%)	16(1.5%)	54(1.02%)
Ministries and State Department	37	44	47	0	-	1	72,032	86,145	89,778	457(1%)	680(1.2%)	880(0.98%)
Public Universities	---	33	32	---	1	0	---	29,501	27,162	---	349(1.7%)	320(1.18%)
State Corporations and SAGAs	114	162	184	2	8	5	66,952	79,521	93,154	813(1%)	1,094(1%)	1,297(1.39%)
Statutory Commissions and Authorities	4	7	7	0	-	0	264	1,500	1,560	2(1%)	16(1.2%)	16(1.03%)
Total	164	251	281	2	10	6	142,264	198,119	216,958	1,312(1%)	2,155(1.1%)	2,567(1.2%)

Source: Public Service Commission (Various) Reports 2016-2018

Further, a majority (73.1%) of PWDs serve at technical level Job Group E-M while only (3.2%) and (0.2%) of PWDs serve at Senior Management and policy level job group R-U, respectively (Figure 10.2). This may be due to lack of specific legislation regulating appointments of PWDs at higher levels. For instance, the State Corporations Act, Cap 446 which regulates state corporations fails to provide a number of reserved positions for appointment of PWDs in boards. While the *Mwongozo* Code generally requires that all board appointments be made in line with Article 27 of the Constitution, and a state corporation may specify such appointments in its establishing statute or articles of association, the State Corporations Act ought to expressly specify the minimum number of positions to be maintained for PWDs in boards of state corporations. This would enable increased inclusion of PWDs at higher levels of management. While the law has made various attempts to secure accessibility to public services by PWDs, there is absence of targeted guidelines across various sectors and professions to ensure adequate inclusion of PWDs while considering the specific disability.

Figure 10.2: Status of representation of PWDs by Job Grade, 2018-2019



Source: Public Service Commission (2018), Report 2018/19

From the above, it is evident that unemployment among PWDs remains rife and pervasive within the public sector, with disparities becoming more prominent at higher job levels. Although Kenya has laws on accessibility, compliance in public buildings is often very low. In addition, the communication needs of people with disabilities are often unmet. Information is frequently unavailable in accessible formats, and some persons with disabilities are unable to access information and communication technologies such as telephones and television. Moreover, lack of rigorous and comparable data on disability in the private sector and evidence on programmes that work often impedes understanding and action.

Considering measures taken in other jurisdictions to enhance employment opportunities for PWDs, we find that, for example, the United Kingdom (UK) has established the National Disability Authority, which has developed guidelines for employers in the public sector to ensure proper integration

of PWDs in the public service. The guidelines recommend the need to ensure colleagues have received disability awareness training; ensure procedures, information and communication at work are accessible to staff with disabilities; increase contact with people with disabilities helps to build more inclusive attitudes towards disability, work placements, work-shadowing and mentoring schemes; employ disability training for all staff, including senior management; plan for an accessible work environment and build-in the requirement to have at least 5 per cent of staff with disabilities into the institution's long-term recruitment strategy, and into each recruitment process being undertaken by the institution. Additionally, the National Disability Authority underscores the importance of maintaining accurate and disaggregated data in relation to the effectiveness of specific models of good practice in the employment of persons with disabilities and learning from good practice in the public sector, through liaison with similar institutions that have achieved success, and through the relevant public service networks.

In addition, issuance of awards by the National Council for Persons with Disability (NCPWD) to employers and businesses which have provided PWDs with opportunities in education, training and to use their professional skills may also incentivize employers, as is done in the European Association of Service Providers for Persons with Disabilities annual Employment for All Award.

Persistent under-employment of persons with disabilities needs to be addressed with immediate action to end the situation of exclusion from employment opportunities. Positive support measures in this sense are key to unlock job potential and shift the focus from the disability on to skills and competences. Targeted programmes and measures could be established, which are specific to the individual disability and sector. All public institutions could establish customized facilities and services for use by PWDs, including personal aides, access ramps, reserved parking spaces, sign language interpreters, braille materials, customized sanitary and customized lifts as required in the law. The Public Service Commission should finalize and cascade the draft Disability Policy and Guidelines for the Public Service (2018) to ensure that the strategies for disability mainstreaming in the public service are used to integrate PWDs in the public service at all levels and cadres of the service.

Of importance is the maintenance of data on PWDs in all sectors in a consistent and prescribed format, which may be achieved by ensuring that all PWDs register with the National Council for Persons with Disabilities for maintenance of their data. Such data should be disaggregated further by age and gender. This would ensure monitoring of the status of PWDs. Further, the NCPWD in collaboration with public sector institutions, the National Gender and Equality Commission and the Public Service Commission could maintain a database to document case studies of strategies and programmes that are not working. Moreover, annual reports ought to provide a summary of the actions public bodies are taking to meet their statutory and constitutional obligations and document any progress public bodies are making in increasing employment opportunities for persons with disabilities. Through data-driven accountability, concerted, targeted and sustained strategies can be implemented to ensure better employment prospects for PWDs. The enactment of the Kenyan Sign Language Bill, 2019, which seeks to promote the use of Kenyan Sign Language is paramount to enhance inclusion of deaf persons in public processes. A review of the Persons with Disabilities Act, alongside other complimentary laws, is key in ensuring realization of the rights envisaged in the Constitution to ensure PWDs achieve meaningful employment in their career of choice.

(e) Gender representation in the public service

This section assesses gender representation at various levels and sectors in the public service. The Constitution of Kenya has laid the groundwork for a more progressive and inclusive approach to ensuring parity in the public service, and mandates the State to take affirmative measures to address gender inequalities. The Kenya Constitution 2010 promised a new era of equality for women free from discrimination in various spheres including in employment and political representation. Article 10(2) (b) of the Constitution envisions Kenya's national values and principles of governance as promoting and ensuring human dignity, equity, social justice, inclusiveness, equality, human rights, non-discrimination and protection of the marginalized.

Further, Article 27 entrenches the fundamental right to equality and freedom from discrimination by providing that women and men have the right to equal treatment, including the right to equal opportunities in political, economic, cultural and social spheres. Further Article 27(4) prohibits the State from discriminating directly or indirectly on any ground including, *inter alia*, sex and prohibits any person from discriminating against another person on these grounds. Article 27(6) creates a duty on the State to take legislative and other measures, including affirmative action programmes and policies, to redress any disadvantage suffered by individuals because of past discrimination. Affirmative action is defined in Article 260 as including "any measure designed to overcome or ameliorate an inequity or the systemic denial or infringement of a right or fundamental freedom". In addition, Article 56 provides further protections for "minorities and marginalised groups", a classification which encompasses all those vulnerable to discrimination. In addition to the measures under Article 27 (6), Article 27(8) requires the State to ensure that not more than two thirds of the members of any elective or appointive body are of the same gender. Furthermore, Article 232 (h) (i) of the Constitution on values and principles of the public service requires the affording of adequate and equal opportunities for appointment, training and advancement, at all levels of the public service, of men and women.

Other important milestones that have been made in the public service include the establishment of a Ministry responsible for Public Service, Youth and Gender affairs, and the establishment under it of the State Department of Gender Affairs. The Department is charged with, among others, the responsibility of promoting gender equality and empowerment of women in Kenya, and of ensuring that gender is mainstreamed in all activities carried out by Ministries, Departments and Agencies, County Governments and, and in the private sector, by establishing national principles and a national gender action plan.

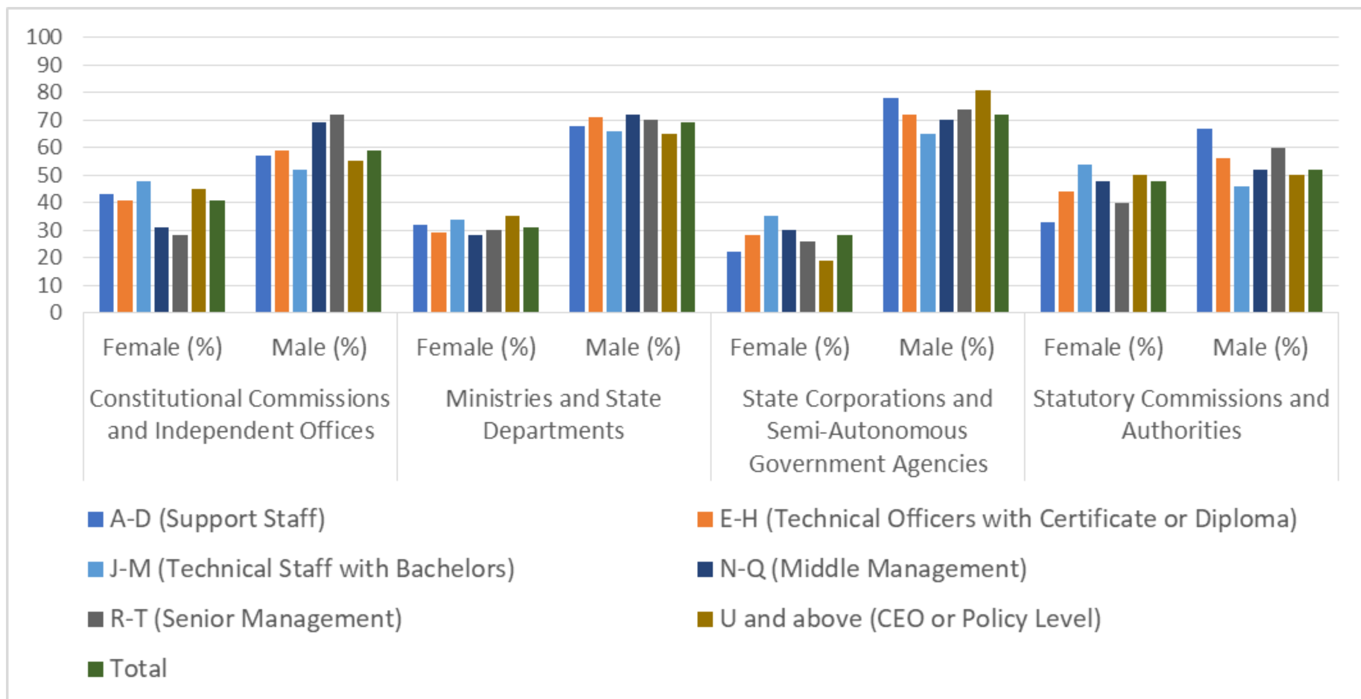
Nonetheless, gender inequalities exist in the public service. The PSC reported that in 2018/19, although the two thirds gender principle has been met at the ratio of (63.2%) male to (36.8%) female, the male gender still dominates decision-making positions in the public service (Figure 10.5). For example, in 2018/19, males dominated in job group A–D at 68.3 per cent, E–H at 66.6 per cent, J–M at 55.8 per cent, N–Q at 63.8 per cent, R–T at 68.1 per cent and U above at 69.7 per cent whereas females were less represented in the various job groups: A–D at 31.7 per cent, E–H at 33.4 per cent, J–M at 44.2 per cent, N–Q at 36.2 per cent, R–T at 31.9 per cent and U and above at 30.3 per cent. This is contrary to the spirit of Article 232(1) (i) of the Constitution which requires equal representation at all levels.

Table 10.9: Gender representation by service sector in the Public Service, 2016-2018

	Total Number of Officers (Male + Female)			% Female			% Male		
	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Constitutional Commissions and Independent Offices	3,030	1,061	5,304	41%	40.7%	40.8%	59%	59.3%	59.2%
Ministries and State Department	69,991	57,219	89,778	31%	62.3%	34.3%	69%	37.7%	65.7%
Public Universities	---	20,749	27,162	---	40.8%	43.0%	---	59.2%	56.9%
State Corporations and SAGAs	63,202	113,211	93,154	28%	31.6%	37.1%	72%	68.4%	62.9%
Statutory Commissions and Authorities	255	1,369	1,560	48%	51.1%	45.4%	52%	48.9%	54.6%
Total	136,478	193,609	216,958	30%	34.6%	36.8%	70%	65.4%	63.2%

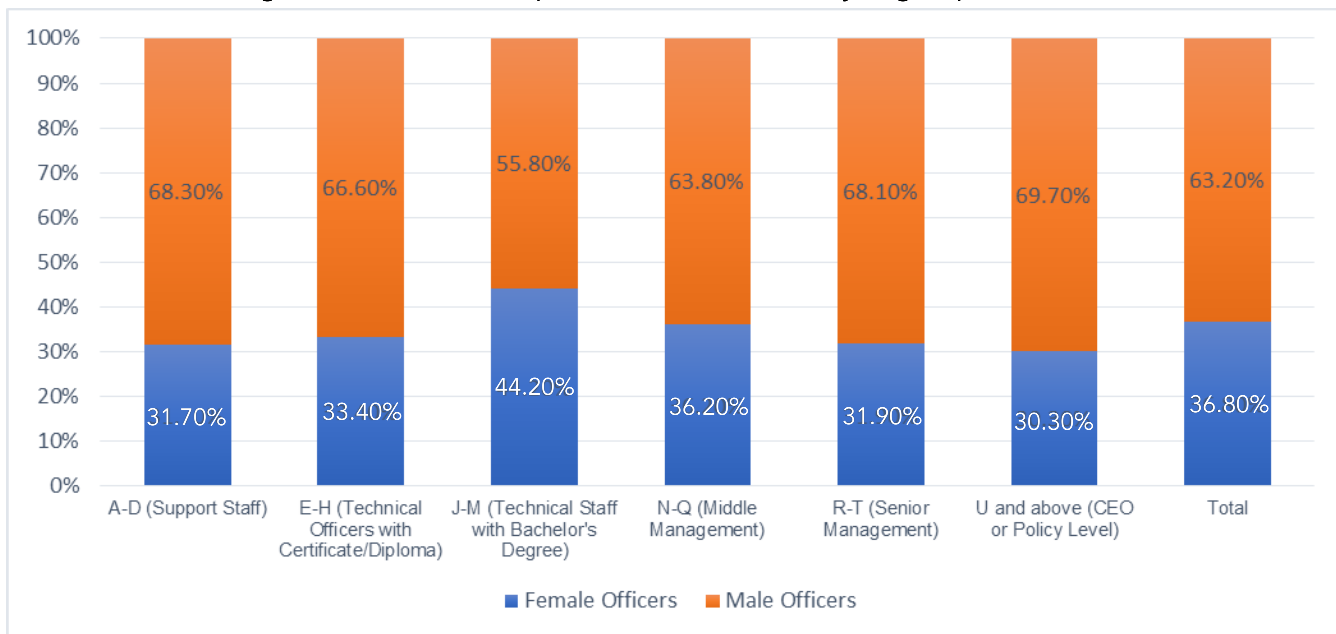
Source: Public Service Commission (Various) Report 2016-2018

Figure 10.3: Gender representation by service sector and level, 2016/17



Source: Public Service Commission (2017), Report 2016/17

Figure 10.4: Gender representation at various job group levels, 2018/19



Source: Public Service Commission (2018), Report 2018/19

From the above, it is clear that men still dominate the public service, with the gender inequality more pronounced at higher job grade levels. The absence of a high number of women in decision-making positions is one of the causes of lack of action on gender parity in the public service. More concerted affirmative action programmes in the public service are required to ensure that the ratio of men to women progressively achieve the principle that not more than two-thirds (2/3) of its employees shall be of the same gender at all levels. Increased lobbying and advocacy are required to prioritize this.

The Kenyan Constitution in Articles 27 (8) and 81 (1) (b) has provided increased opportunities for women's political participation and provides for no more than two thirds representation of one gender in elective and appointive positions. Further, in regularizing political representation of women, minorities and marginalized communities, the Constitution through Articles 27(8), 81, 90, 97, 98, 177(2) provide for non-discrimination and the nomination or election of marginalized groups including women, Persons with Disabilities (PWDs) and youth by political parties by both the national and County Governments. The Constitution further elaborates on the rights and fundamental freedoms for PWDs, minorities and marginalized groups to ensure their protection and inclusion. The platform provided by a County Assembly ensures that it comprises a number of special seat members to ensure no more than two-thirds of the membership of the Assembly are of the same gender; and marginalized groups, including persons with disabilities and the youth, have representation, as prescribed by an Act of Parliament (Article 97 of the Constitution). This notwithstanding, there is still political exclusion and discrimination of marginalized communities of minorities in elective and nominated positions in County Governments where youth, women, minorities and PWDs are often left out in appointments.

Despite the Constitution requiring that there be no more than two thirds gender representation of any one gender, Parliament is yet to pass the necessary legislation to operationalize these requirements despite Article 27(6) of the Constitution mandating the State to take legislative and other measures, including affirmative action programmes and policies, designed to redress any disadvantage suffered by individuals or groups because of past discrimination. Political parties ought to develop internal democratic structures and mechanisms to ensure that they encourage and have more female candidates on the ballot. An even playing field within political parties should be created. Political parties are the main route to political participation, and it is therefore paramount to ensure women's representation and advancement within political parties.

10.4 Role of Public Participation in Building Inclusive Processes

The Government has demonstrated its commitment to ensuring public participation through legislative provisions on public participation across various legislative instruments. This is to enable citizens, at both national and county level, gain individual and collective power to demand public service, end poverty and challenge inequalities while benefiting from an enabling environment. As such, the Constitution and key legislations such as the Public Finance Management Act and the County Governments Act 2012 place strong emphasis on strengthening public participation as part and parcel of public service delivery, which promotes inclusive leadership and citizen-driven decision making, a tenet of transformative leadership.

Public participation not only strengthens and legitimizes Government actions, but is a critical element of good and democratic governance. Public participation is, indeed, the very foundation for a true democracy. Public participation aims to transition leadership from planning for citizens to planning with them. This encourages community ownership and enhances mutual social accountability where citizens validate decisions reached by leaders. Public participation emphasizes openness, accountability and meaningful engagement of the public in decision making. There are requirements on public participation in matters concerning planning, budgeting and implementation of projects and development programmes that continue to be implemented. Thus, devolution promotes the values of "bringing Government closer to the people" and provides the people greater accessibility to local authorities. This close interaction with local authorities enhances direct accountability and responsibility. The focus of devolution in Kenya

has, *inter alia*, been on establishing channels for increasing citizen participation in selecting political representatives and in the policy and legislative process. Devolution enables enhanced public participation by increasing accessibility of political representatives and increasing participatory opportunities and forums at devolved levels of Government.

Section 5 of the Statutory Instruments Act, 2013 requires a regulation-making authority to, before issuing a statutory instrument, to make appropriate consultations with persons who are likely to be affected by a proposed instrument. Section 5(3) (a) of the Act requires a regulation making authority to notify, either directing or through advertisement, bodies that, or organizations representative of persons who are likely to be affected by the proposed instrument. The form of consultation includes to involve notification, either directly or by advertisement, of bodies or organizations representative of persons who are likely to be affected by the proposed instrument, or invite submissions to be made by a specified date or might invite participation in public hearings to be held concerning the proposed instrument, consult persons having expertise in fields relevant to the proposed statutory instrument, and ensure the persons likely to be affected by the proposed statutory instrument have an adequate opportunity to comment on the content.

Although there are legislative instruments regulating public participation, including the Statutory Instruments Act, 2013, there is also need to provide clear and consistent guidelines and steps to be applied and followed by National and County Governments and Governmental ministries, departments and agencies on the process of conducting public participation, including which activities require public participation, the people who should be consulted, the composition of stakeholders, the number of people who should be consulted, the form of consultation, and mechanisms for feedback. A key gap is what amounts to sufficient or adequate participation. There is also need to distinguish and elucidate the concepts of public participation and stakeholder engagement. While public participation envisions a wider reach to members of the public, stakeholder engagement involves consultation of technical stakeholders within the industry who are likely to be affected by a decision or public policy.

Several challenges face the efforts to entrench public participation in policy making processes, including lack of consistent and harmonized processes, strategies and approaches to public participation, and weak coordination mechanisms; weak feedback and reporting mechanisms; and reluctance by some counties to complete and operationalize public participation laws. Furthermore, public officers consider that the benefits and value of public participation are not commensurate with the time and cost invested in carrying out the exercise and is largely carried out for purposes of compliance. Other challenges include resource constraints, demand for incentives from citizens before attending meetings, citizen apathy, deliberate political interference in the public participation process, and low uptake of citizen views.

10.5 Key Messages and Recommendations

10.5.1 Key messages

Inclusive governance contemplates equitable resource allocation and distribution across regions, ethnic representation in the public service, and inclusivity in Government processes.

1.) The Constitution introduced major reforms in governance, resource allocation and the structure of the public service with the intention of curing, inter alia, socio-economic inequalities and skewed resource distribution that were inherent in the centralized system that existed prior to devolution.

2.) With the introduction of a devolved system of governance, counties were placed in strategic positions to allocate substantial amounts of resources in development of key sectors such as health, agriculture and infrastructure, which are devolved functions, to ensure the well-being of the people and improve the quality of lives, thus bringing them at par with other areas of the country in terms of development.

3.) In spite of measures to ensure equitable allocation to County Governments, there is low utilization of allocated funds by some County

Governments (Annex Table 10.2), delays by the National Treasury in disbursing the equitable share of revenue raised nationally, and incidents of misappropriation, misuse and wastage of public funds which threaten to encumber the realization of the objectives of devolution to alleviate socio-economic and regional disparities.

4.) Devolution has the potential to minimize socio-economic inequalities and bridge the gap in socio-economic marginalization. However, this requires equitable and timely allocation of revenue to County Governments, and prudent public financial management.

5.) In ensuring inclusivity, representation of diverse groups, communities and individuals in society in the public service is key. Ensuring the public service is reflective of the society it serves and that the individual needs, experiences, aspirations and situations of these groups are incorporated in the policy making process is paramount.

6.) The public service in Kenya exhibits ethnic inequalities and skewed representation in favour of certain communities, indicating that it is not inclusive. In 2018/19, the PSC reported that there was gross over-representation of the Kikuyu and Kalenjin tribes. This was followed by the Luo and Kisii tribes. The Kenyan Somali are grossly under-represented, while the Luhya, Mijikenda and Turkana are under-represented in the public service.

7.) Employment in the County Governments is similarly inequitable and not inclusive. Most counties have employed more than 70 per cent of their staff from one ethnic group that is dominant in the region despite the existing law. Employment in the County Public Service is not only inequitable but skewed towards the dominant groups within the county.

8.) Representation of PWDs in the public service remains low and below the prescribed constitutional threshold that at least 5 per cent of members of the public in elective and appointive bodies should be persons with disabilities. In 2018/19, the PSC reported that only 1.2 per cent of officers in the public service were PWDs. Realization of the quota of 5 per cent is hampered by low compliance by institutions, and lack of appropriate resources to ensure accessibility by, and accommodation of, PWDs. Representation of PWDs is paramount in realization of inclusivity within the public service, particularly because PWDs experience higher rates of unemployment compared to persons without disabilities and, therefore, merit special consideration.

9.) Gender inequalities exist in the public service despite constitutional requirements to ensure that not more than two thirds of members of any elective or appointive body are of the same gender. In 2018/19, the PSC reported that although the two thirds gender principle has been met at the ratio of (63.2%) male to (36.8%) female, the male gender still dominates positions in the public service, with the gender inequality more pronounced at higher job grade levels. The absence of a high number of women in decision-making positions is one of the causes of lack of prioritization and action to promote gender equality in the public service.

10.) Some of the issues in achieving and realizing the statutory quotas imposed on public institutions on representation include weak oversight and enforcement mechanisms for non-compliance, weak institutional frameworks in institutions mandated to oversee matters concerning representation and diversity, lack of sanctions for non-compliance, and lack of incentives to diversify.

11.) Strong and inclusive public processes through public participation are fundamental in countering the forces that create inequality. Inclusive Government processes also allow the public to be involved in policy making, regulation and service delivery on matters that affect them.

12.) However, despite the existence of a legal framework entrenching ideals and requirements of public participation in policy making processes, public participation initiatives are conducted in a haphazard manner, and there is lack of consensus on what amounts to sufficient public participation.

13.) Among the challenges facing efforts to entrench public participation in policy making processes are lack of consistent

and harmonized processes, strategies and approaches to public participation.

10.5.2 Recommendations

1.) The National Treasury could endeavor releasing funds based on the prescribed disbursement schedule under the County Allocation of Revenue Act 2015 to ensure that budget implementation and delivery of services are not affected.

2.) Nonetheless, counties should improve on Own Source Revenue (OSR) collection to increase capacity to finance their operations to reduce the extent to which they rely on the National Exchequer.

3.) Prudent fiscal management is key in ensuring public funds are utilized for the benefit of the public and towards the purposes for which they were allocated. It is through this that effective public service delivery may be achieved, and regional equality attained.

4.) To enhance inclusivity and ethnic representation within County Governments, the County Public Service Boards and NCIC ought to undertake and publish audits on the status of ethnic diversity in the county public service. Further, this should consider matters concerning proportionate representation within County Governments.

5.) To ensure compliance with the legal quotas on representation, stronger sanctions and penalties should be imposed on non-compliant institutions. This should include pursuing court remedies and redress by relevant institutions such as NCIC, NGEC and PSC suo moto or upon complaint, for non-compliance with the legal requirements on representation.

6.) To ensure that recruitment within the public sector is fair in terms of the ethnic diversity of the country, managers of public institutions could be called to account in line with the provisions of the Constitution and the laws made thereunder.

7.) Further, more affirmative action initiatives are required to ensure gender equality within the public service and to bring females up to par with their male counterparts. This should be complemented by more advocacy and lobbying campaigns, and sustained court action to compel institutions to comply.

8.) The NCIC in collaboration with relevant stakeholders such as the PSC, the Office of the Attorney General and Department of Justice could develop principles and guidelines on how regional and ethnic diversity can be determined. Further, the financial and human resource capacity of the National Cohesion and Integration Commission should be enhanced to enable it to perform and discharge its mandate effectively.

9.) To enhance inclusion of PWDs, it is of paramount importance to establish a framework for maintenance of data on PWDs in all sectors in a consistent and prescribed format, which may be achieved by ensuring that all PWDs register with the National Council for Persons with Disabilities for maintenance of their data. Such data should be disaggregated further by age, gender, nature of disability, education level and qualifications. This would ensure monitoring of the status of PWDs. All sectors should maintain data (disaggregated by age, gender, education, qualifications and nature of disability) on PWDs in all sectors in a consistent and prescribed format through the NCPWD.

10.) Further, the NCPWD in collaboration with public sector institutions, the National Gender and Equality Commission and the Public Service Commission should maintain a database to document case studies of strategies and programmes that are or are not working.

11.) To enhance the inclusion of deaf persons, the Kenyan Sign Language Bill, 2019 should be enacted to promote the use of Kenyan sign language and accommodate the needs of deaf persons.

12.) To incentivize employers to engage PWDs in meaningful employment, NCPWD, NGEC and PSC should create a forum for issuance of awards to recognize employers and businesses that have provided PWDs with opportunities in employment, training and to use their professional skills.

13.) To promote the inclusion of PWDs in employment and other sectors, the Persons

with Disabilities Act, 2003 ought to be reviewed to include and operationalize the rights and entitlements envisaged in the Constitution.

14.) To clarify the process on public participation, clear guidelines should be established through enactment of the Public Participation Bill.

15.) Overall, the rule of law should be upheld by all Government institutions and officers as a fundamental principle to ensure that all are accountable to the laws that are enacted.

16. A human rights-based approach should be adopted to empower people to be aware of and exercise their rights. This would increase the ability and accountability of individuals and institutions responsible for respecting, protecting and fulfilling human rights.

11 PARTNERSHIPS FOR INCLUSIVE GROWTH

In line with the principle of "leave no one behind", Kenya has embraced partnerships at the local, regional and global levels as one of the keys to unlocking sustainable development. At the national level, the most visible intra-governmental partnerships include collaborations between the Executive, the Legislature, and the National Assembly. There are also inter-governmental relationships between the National Government and County Governments. At the county level, there are partnerships between the County Executive and the County Assembly. Similarly, the Government of Kenya collaborates with the private sector through two avenues: Public-Private Partnerships (PPPs) and the Public Private Dialogue. At the regional and global levels, the government engages both bilateral and multilateral institutions guided by the country's foreign policy. The weakest link in partnerships in Kenya is the relationship between the state and civil society. To make partnerships more effective, policy focus will require a reform of north-south cooperation towards equality, respect for national sovereignty, non-conditionality and national ownership. Existing gaps in devolution can be dealt with by formulating new policies and laws. Measures to strengthen public-private partnerships include a review of the PPP policy and law to accommodate public participation during the project cycle. To enhance public private dialogue, the finance and lobbying capacity of private sector associations at the county level should be strengthened. To mitigate confidence rifts between the Government and NGOs, the regulatory capacity of the NGO Co-ordination Board should be enhanced and self-regulation within the sector strengthened by expediting the review and gazettement of the Public Benefit Organizations Act (2013).

11.1 Introduction

Partnerships are voluntary agreements between Government, private sector and/or civil society actors aimed at solving social problems or supplying collective goods by pooling competencies, sharing risks, responsibilities, resources, costs and benefits. In partnerships, the actors have equal rights and agree to work together in ways that lead to mutual benefit – reducing duplication of effort and achieving results that could not be achieved by a single actor. To ensure effectiveness, partners establish alliances that are recognizable, autonomous, stable, permanent and flexible. In addition, they are guided by a common vision, compatible targets, convergence of interest, complementarity of resources and shared value.

Partnerships have been receiving increasing policy focus since the beginning of the 21st century. The genesis of the concept on "partnerships for development" is associated with three major global events. The first is the 2000 Millennium Summit of the UN, which adopted Agenda 2015 containing eight Millennium Development Goals with Goal 8 focusing on global partnerships for development. The second is the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg, which promulgated multi-stakeholder partnerships (including private and civil society) as a complement to the increasingly unpopular single actor inter-governmental approaches towards sustainable development. In fact, the introduction of multi-stakeholder partnerships remains the flagship of the second Earth Summit. The last event is

the Monterrey consensus, which emerged from the 2002 International Conference on financing for development. The conference birthed a new partnership for global development. In 2015, the UN General Assembly adopted Agenda 2030 containing seventeen (17) Sustainable Development Goals (SDGs) as global effort to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Agenda 2030 advocates for "inclusive partnerships" and lays emphasis on integrating Persons with Disabilities (PWDs) and the marginalized in development processes. The SDGs underline the principle of "leave no one behind" with Goal 17 stating that partnerships will be required to achieve the Agenda 2030. Consistent with Goal 17, a coalition of partners including UN Capital Development Fund, International Trade Centre, International Fund for Agricultural Development, CARE International (Kenya), Smart Africa, Stop TB Partnership, and Bamboo Capital Partners established a US$ 500 million investment platform or SDG500 – to help achieve SDGs. The fund will provide equity and debt capital to spur the transition of small businesses from start-up to growth phases in emerging and frontier markets of Africa, Asia, Latin America, the Caribbean and the Pacific regions.

Partnerships are best understood by looking at development as an individual as well as a collective responsibility. With a world that is becoming increasingly globalized and policy issues becoming more complex, partnerships are becoming more relevant. Emerging developmental challenges exceed the capacities of any one single actor – suggesting multi-stakeholder approaches. The message that is wrapped in "partnerships for development" is that development actors can achieve much while acting alone but they can achieve much more while collaborating with others. In other words, development actors can and should contribute to solving developmental challenges in collaboration with others.

11.2 Policy and Legal Framework for Partnerships

The environment for partnerships is defined by "the conditions under which the private sector, civil society and Government actors work". Such environment is defined by certain principles as espoused in local, regional and international policies, laws and regulations that provide for respect of the freedom of association and the rights of individuals to form, join and participate in an association. A good environment will also protect the right for organizations to operate freely without unwarranted state intrusion or interference. Other rights to be protected include freedom of peaceful assembly, freedom of expression, communication and co-operation with others in all sectors. Individuals and organizations will also be free to participate in the policy processes through institutionalized, inclusive and transparent multi-stakeholders dialogue fora.

At the global level, the main policy and legal frameworks affecting partnerships for inclusive growth in Kenya are the UN Agenda 2030, AU Agenda 2063, African Continental Free Trade Area (AfCFTA) and the East African Treaty. Whereas SDG No. 17 requires the inclusion of developing countries in partnerships, trading systems and decision-making, Goal 19 of Agenda 2063 sees Africa as a major partner in global affairs and peaceful co-existence. Goal 11 of Agenda 2063 captures democratic processes (democratic values, practices, universal principles of human rights, justice and the rule of law) while Goals 18 and 5 foresee development processes that integrate women, youth and girls. Other frameworks that affect partnerships include:

- Universal Declaration of Human Rights (UHDR) (1948) Article 20 "Everyone has the right to freedom of peaceful assembly and association"
- International Covenant on Civil and Political Rights and the First optional Protocol (ICCPR) (1976). Article 22 "Everyone shall have the right of freedom and association with others, including the right to form and join trade unions for the protection of his interest"
- International Convention on the Elimination of All forms of Racial Discrimination (1969)
- Convention on the Elimination of All Forms of Discrimination against Women (1989)
- Convention of the Rights of the Child (1990)
- UN General Declaration on the Right and Responsibility of Individuals, Groups and Organs of Society to Promote and Protect Universally Recognized Human Rights and

Fundamental Freedoms (UN Defenders Declaration) (1999)

At the national level, the main frameworks that define the policy and legal environment for partnerships include the 2010 Constitution and numerous Acts of Parliament including the County Government Act 2012, Transition to Devolved Government Act 2012, Inter-governmental Relations Act 2012, Urban Areas and Cities Act 2011, Public Finance Management Act 2012, Transition County Allocation Revenue Act 2013, County Public Finance Management Transition Act 2013 and National Government Constituencies Development Fund Act 2015, Non-Governmental Organizations Coordination Act No. 19 (1990), Non-Governmental Organizations Coordination Regulations (1992), Non-Governmental Organizations Coordination (Amendment) Regulations (2010), Non-Governmental Organizations Council Code of Conduct (1995), Companies Act No 17 (2015), Societies Act - Chapter 108 of the Laws of Kenya (1968), Trustees (Perpetual Succession) Act - Chapter 164 of the Laws of Kenya (1987), Trustees Act - Chapter 167 of the Laws of Kenya (1982), Income Tax Act - Chapter 470 of the Laws of Kenya, Income Tax (Charitable donations Regulations) (2007), Public Benefit Organizations Act (2013) (not yet gazetted), Public Private Partnership Act No 15 of 2013, Public Private Partnership Regulations 2014 and Project Facilitation Fund regulations 2017 .

The national policy framework is based on the Kenya Vision 2030, the Third Medium-Term Plan (MTP III) 2018-2022, "Big Four" agenda, Kenya External Resources Policy (2015), Public Private Partnerships Policy 2011, Kenya Foreign Policy 2014, Policy on Devolved System of Government 2016, Public Debt and Borrowing Policy 2019, Sessional Paper No. 1 of 2006 on NGOs, among others. Formulation of the 2010 Constitution and the Kenya Vision 2030 recognize all the dimensions of inclusivity. Ideally, processes that produced these documents were consultative. In urban areas, workshops were convened with stakeholders from all levels of the public service, the private sector, civil society, the media and NGOs while in rural areas, provincial consultative forums were held throughout the country. The opinions and views were compiled by a team of experts. In addition, the third Medium-Term Plan (2018-2022) and the "Big Four" initiatives (2018-2022) are explicit on how the Government of Kenya seeks to integrate the inclusion concept in its development efforts. To deliver the Vision, the document explicitly identifies the need for Government ministries and departments to collaborate with the private sector, civil society and other relevant stakeholders.

Public-Private Partnerships (PPPs) are now a key aspect of Government infrastructure investments. PPPs are usually undertaken to attract private sector partners in financing and managing infrastructural investments. The public entity and private party enter into a contract or concession to finance, construct, operate, equip or maintain any infrastructure or development facility. Thus, their benefits emanate from the fact that they allocate responsibilities to the party (private or public) that has a comparative advantage in performing a given function. The Government of Kenya defines a PPP as "an agreement between a public entity and a private party under which the private party undertakes to perform a public function or provide a service on behalf the public entity; the private party receives a benefit for performing the function, either by way of compensation from a public fund, charges or fees collected by a private party from users or customers of a service provided to them or a combination of such compensation and such charges or fees; the private party is generally liable for risks arising from the performance depending on the terms of the agreement." (Government of Kenya, 2011).

The 2011 PPP policy is explicit on stakeholder participation by stating that "stakeholders to be consulted include employees, their trade unions, the public, the people who will use the assets and services provided, local communities, sectoral interest groups, amongst others". The policy was developed to articulate Government commitment to PPP and to provide a basis for the enactment of the PPP law. The policy also provided the institutional framework for championing the PPP agenda. The institutions include the PPP Committee, the PPP Unit (domiciled at the National Treasury), PPP Nodes in the public entities responsible for the development and management of PPP projects, and a Project Facilitation Fund to provide an avenue for Government support to PPP projects. The main criticism of the PPP regime in Kenya is that project prioritization and identification process do not involve citizen participation. The local private sector is also not involved. This has been attributed to

absence of a clear framework and structure within the PPP Act to facilitate public participation. Other challenges facing PPPs include high cost of capital, failure to realize value for money, low competition during bidding resulting in high prices, poor project implementation, political interests, lack of awareness on the concept of PPPs, unrealistic procedures, lack of risk and PPP management skills and issues of transparency.

In 2019, the PPP programme had a pipeline of about 64 bankable projects[22] distributed as follows: agriculture, livestock and fisheries (1), education (14), energy and petroleum (5), health (6), tourism, trade and industrialization (3), transport and infrastructure (23), water and sanitation (10), and privately initiated investment proposals (4). Out of the 64 projects, 64 per cent are at the pre-procurement stage, 27 per cent at the procurement stage while 9 per cent are at the post-procurement stage.

11.3 Motivations for Partnering

Development actors enter into partnerships because of both internal and external factors. Drivers of partnerships include resource mobilization, dealing with complex and transboundary challenges, as a response to crises, to build credibility, mitigate governance deficits and exploit the competency of other partners.

Resource mobilization: Development partners have been central to Kenya's external policy and strategy. External funding as a proportion of total Government expenditure was 12.1 per cent in 2019/2020 (KNBS, 2019 Statistical Abstract). Through Overseas Development Assistance (ODA), for instance, the country has been able to attract budgetary resources, gain access to technical assistance, networks (including business and political leaders), capacity building, creative innovative products and markets, and as risk-sharing.

Dealing with complex and cross-boundary challenges: Currently, Kenya is facing a rising exposure to threats emanating from the global system. Such threats include global warming, terrorism, cybercrime, human trafficking, tsunami, earthquakes, and epidemics (such as Ebola, Avian flu, HIV/AIDS, coronavirus and many others). Because the threats are complex and cross-boundary, no single actor possesses the knowledge, skills or resources to tackle them. By aggregating the competencies of diverse actors at the local, regional and global levels, solving such problems becomes much easier.

Most of these issues confronting the global community are so big and the targets are so challenging that no individual institution or government can provide the solution. For example, the recognition by the global community that the fight against three of the deadliest infectious diseases (AIDS, tuberculosis and malaria) was complex and cross-boundary resulted in the establishment of a global fund in 2002, which brought together governments, civil society, technical agencies, the private sector and people affected by the diseases. During the period 2020-2022, Kenya has pledged US$ 6 million for the Global Fund's Sixth Replenishment. The country is both a donor to the Global Fund and an implementer of Global Fund-supported programmes such as self-test kits and pre-exposure prophylaxis to malaria vaccine and child-friendly tuberculosis medicines.

Response to disasters and crises: Partnerships may be motivated by the need to become ethical and socially responsible. Usually, they take the form of private (for profit)/non-profit actors coming together to solve "social capital" deficits. Ideally, partnerships of this nature try to strike a balance between equity concerns of the society and efficiency orientation of the market. When there are distributive injustices, inequalities, oppression and social justice is deficient, partnerships may evolve to raise public awareness and extend mutual assistance towards the victims of these situations. The desire of such partnerships is to build public awareness and provide redress to crises and disasters to make the world better. In Kenya, this was exemplified by the 2011 "Kenyans for Kenya" famine appeal. This was a rapid response initiative mooted by a coalition of companies and civil society including Safaricom Foundation, Kenya Commercial Bank, Gina Din Corporate Communication, and the Media Owners Association. Administered by the Red Cross, the fund was established to offer emergence assistance to about 3.75 million Kenyans who were on the verge of death from starvation in 13 counties. The initial target was to raise Ksh 500 million. However, after an overwhelming response from Kenyans, both locally and in the diaspora, the target was upgraded to Ksh 1 billion.

Partnerships have been instrumental in tackling humanitarian crises in the region. Between 1984 and 1985, Ethiopia experienced one of the worst droughts and humanitarian crises of the 20th century – 8 million people were famine victims and 1.2 million died. This crisis attracted the attention of the world after a British Broadcasting Corporation documentary, which shook the world with graphic images of the starving, the dying and the dead. In response, many foreign nations brought food relief and humanitarian assistance. In addition, charity supergroup called Band Aid released a song "Do they know it is Christmas" which raised Ksh 1.1 billion for famine relief. In 1985, another group called United States of America (USA) for Africa released a song "We are the World", which sold 20 million copies worldwide. In total, the international aid appeal raised Ksh 19 billion.

Build trust, credibility and legitimacy: Legitimacy refers to the social acceptance of an actor based on the actor's conformance to expected societal norms. Generally, legitimacy is based on laws, regulations, rules, norms, values, beliefs and so on. For example, Kenya has acceded to the United Nations and African Union Charters to give the country legitimacy among the global community of nations. Because of this recognition, the country was entrusted with spearheading peace diplomacy in Sudan and Somalia. The country has also supported UN Peacekeeping by contributing troops and police. For example, the African Union Mission in Somalia had about 3,664 troops from Kenya while the United Nations hybrid operation in Darfur had 191 troops and police. Because of the country's role in peacekeeping on the continent and globally, Kenya is slated to become one of the non-permanent members of the UN Security Council.

Mitigating institutional deficits: Tri-partite partnerships evolve to bridge the "institutional void" created by either failing governments, markets or civil society. In Kenya, the *Ufungamano*[23] Initiative, which was established in 1999 by uniting 54 different human rights organizations, faith groups, women rights organizations, youth groups and political parties to force the Kenya African National Union (KANU) government adopt a people-driven constitutional review process was a result of democracy deficits. The movement launched a parallel constitutional review process overseen by the People's Commission of Kenya. These actions made the Government to concede to their demands by establishing a merged commission – Constitutional of Kenya Review Commission in 2002. At the continental level, the African Peer Review Mechanism under New Partnership for Africa's Development (NEPAD) was established as partnership within African countries to deal with political, economic and corporate governance challenges.

Leveraging on competency of partners: In Public-Private Partnerships (PPPs), Government ministries and authorities have access to dialogue opportunities at the political level, while private companies tend to have money, market experience and technology. These differences create potential enablers for partnership. In return, private partners expect to earn profits, access new markets and gain new investment opportunities. The public sector aims to lower budgetary constraints, transfer risk, take advantage of private sectors technology and technological expertise and get value for money. When actors possess diverse sets of knowledge, skills and capabilities, there is mutual benefit in partnering because each partner can acquire complementary capabilities. The two parties complement each other by undertaking their entrusted responsibilities better than the other party.

11.4 Partners and Types of Collaboration

The main actors in partnerships are the state (or government), the market (or private sector) and the civil society. Partnerships usually take many forms (see Figure 11.1). Bi-partite partnerships can be either public-private, public-CSO or private-CSO. Multi-stakeholder or tri-partite partnerships bring together the three actors. Partnerships can also take a local, regional and global dimension.

(a) Government partnerships

The government plays a leading role in creating an enabling environment for partnerships, and promoting inclusive development. The government has a legitimate authority and coercive sanction to preserve social order. In addition, it is obliged to design, implement, monitor and evaluate policies and to establish a legal system that protects and

enforces the constitution, laws and regulations. The government is also responsible for framing the "national vision" upon which short and medium-term strategies are developed. Given these functions, the government can demonstrate inclusivity in the following ways. First, it can do this internally by ensuring that its own policies, systems, processes are inclusive. It can also do this by ensuring that the public policy process is inclusive. Compared to other actors (private sector and civil society), the government has a comparative advantage due to its capacity to garner financial, administrative and technical resources to undertake large-scale projects. The government is also able to influence other actors to achieve its objectives.

The overarching framework guiding partnerships in Kenya is the 2010 Constitution, which devolves power, resources and functions. The devolved system of government became operational in March 2013 by creating a two-tiered governance system comprised of the National Government and 47 County Governments. These 48 Governments were created to be distinct, yet inter-dependent, which imposed cooperation and consultation as their main modality of working together. Article 174 of the Constitution gives the following state organs the responsibility and mandate to facilitate the transition and implementation of the new constitutional order: National Parliament and County Assemblies; the National Executive and County Executive; the Judiciary and Independent Tribunals; and Constitutional Commissions and Independent offices.

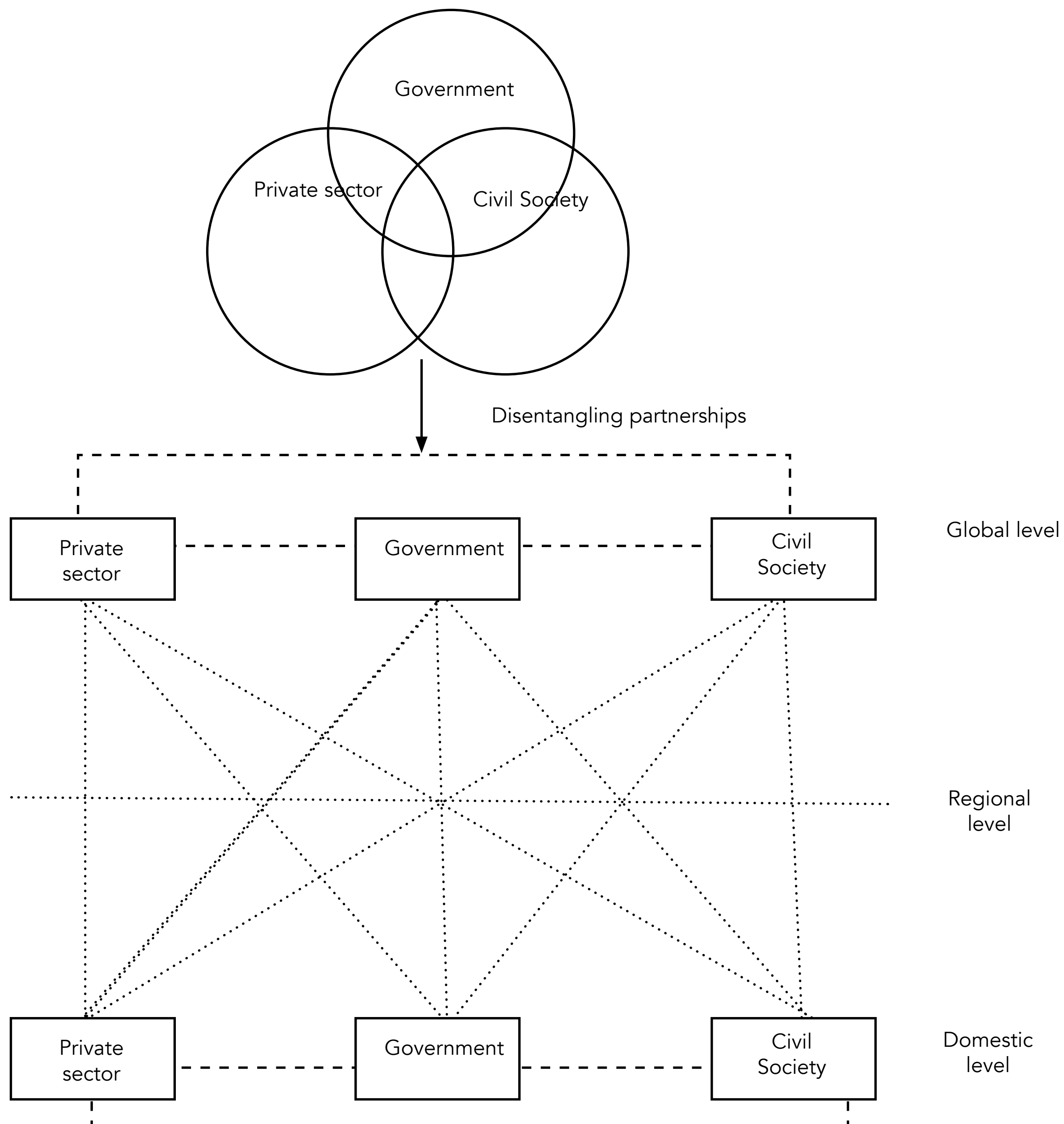
Apart from the governance structure established by the constitution, other independent inter-governmental bodies were also set up. These include the National and County Governments Coordinating Summit; Inter-Governmental Budget and Economic Council (IBEC); the Inter-Governmental Relations Technical Committee (IGRTC), the Council of Governors (CoG) and Transition Authority (TA). In addition, the following laws were enacted to legitimize devolution: County Government Act 2012, Transition to Devolved Government Act 2012, Inter-Government Relations Act 2012, Urban Areas and Cities Act 2011, Public Finance Management Act 2012, Transition County Allocation Revenue Act 2013 and County Public Finance Management Transition Act 2013, National Government Coordination Act 2013, and National Government Constituencies Development Fund Act 2015. In addition, the Policy on Devolved System of Government was launched in 2016.

To ensure the smooth operation across different state actors, Constitutional mandates of the actors are clearly outlined. The President and the Cabinet bear the duty to discharge the functions assigned to the National Government by the Constitution (Fourth Schedule) while Parliament (Senate and National Assembly) and the Judiciary are shared national institutions. The Governors and their Executive Committees are responsible for the discharge of functions assigned to the County Governments by the Constitution, while the County Assemblies are vested with the legislative authority of the respective counties.

Inter-governmental relations as provided for in the Constitution enhance the principles of consultation and cooperation by providing the processes, channels, structures and institutional arrangements for both bilateral and multilateral interactions. The Inter-Governmental Relations Act 2012 created a tri-partite structure comprising the Summit, Council of Governors (CoG) and IGRTC. The Summit, which comprises the President, the Deputy President and the 47 Governors is the highest organ of the country's framework for inter-governmental relations. The Summit provides a forum for consultation and cooperation between the National and County Governments on all matters related to their respective mandates. Section 19 of the Inter-Governmental Relations Act 2012 established the CoG, which consists of all the 47 Governors as a forum for consultation, coordination and exchange of information among County Governments, to share information on performance of the counties in execution of their functions, facilitate capacity building for Governors and consider reports from other inter-governmental forums on national and county interests, among other functions. The Council has power to establish other forums – intercity and municipality forums. It is also allowed to establish sectoral working groups or committees in discharging its functions. IGRTC ensures the functioning of the National and County Government Coordinating Summit (the Summit) and the Council of Governors (CoG). It facilitates the work of the Summit and CoG, and implements the decisions of the two organs.

Although Kenya's devolution process has progressed well, it is faced with several challenges. These include inter-governmental and inter-county frictions, varied interpretations of the mandates of the institutions that were established to facilitate devolution leading to incessant conflicts, and failure to embrace the alternative dispute resolution mechanism in dealing with both inter-county and inter-governmental disputes. Similarly, the secretariat of the CoG and sectoral committees lack legal frameworks, while joint committees lack guidelines on how they should be established and operate. The CoG is heavily dependent on donor funding, which is risky in terms of financial sustainability. Regarding resource mobilization, counties are not allowed to borrow unless they do it through the National Treasury. Taxation and licensing are uncoordinated, and benefit sharing frameworks are lacking.

Figure 11.1: Disentangling partnerships



Source: Adapted from Kolk (2013)

Bilateral and multi-lateral partnerships are coordinated by the Ministry of Foreign Affairs in line with Kenya's foreign policy framework (2014). The policy lays emphasis on Regional Economic Communities (RECs) as critical tools for regional integration. Among priority countries are East Africa Community member states, which are Kenya's strategic trading partners. At the international level, Kenya seeks to diversify its economic relationships and partnerships with increased focus on the emerging economies and economic zones. The country pursues bilateral diplomacy through establishment of diplomatic missions in countries of strategic importance and exchange of high-level visits. To promote trade, investment and stability, regional integration is one of the cornerstones of Kenya's foreign policy. The principal avenues for pursuing this goal include the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), the Inter-Governmental Authority on Development (IGAD) and the Tripartite Agreement between the COMESA, EAC and the Southern African Development Community (SADC) signed on 10th June 2015 and the African Union.

In the area of trade, Kenya has over 34 bilateral agreements with other countries including Bangladesh, Canada, China, Comoros, Congo, Democratic Republic of Congo (DRC), Djibouti, Egypt, Ethiopia, Hungary, India, Iran, Iraq, Lesotho, Liberia, Mauritius, Mozambique, Netherlands, Nigeria, Pakistan, Russia, Rwanda, Somali, South Africa, South Korea, Sudan, Swaziland, Tanzania, Thailand, Turkey, Ukraine, Zambia, Zimbabwe and Libya. Kenya is also a signatory of three Preferential Trade Agreements, namely, WTO's Generalized System of Preferences (GSP), the African Growth Opportunity Act (AGOA) of the United States and the Economic Partnership Agreements (EPAs) of the European Union (EU). The African Caribbean Pacific - European Union (ACP-EU) is a body created with, among other functions, to enhance international cooperation and partnerships. The body has a cooperation programme in the field of higher education, science and technology. ACP-EU also promotes trade relations for the countries involved. It has also established a joint parliamentary assembly for regional parliaments as provided for under Article 14 of the Cotonou Agreement.

In pursuing multilateralism, Kenya seeks to promote international cooperation and collaboration in finding solutions to global challenges. In this regard, the country adheres to the principles of the UN Charter including supporting the work of the UN in the following areas: promotion of international peace and security, trade, human rights and democracy, refugees, sustainable development and reform of the UN system. Kenya is a member of the International Monetary Fund (IMF), World Bank, Africa Development Bank (AfDB), Commonwealth, the South-South cooperation, Indian Ocean Rim-Association of Regional Cooperation (IOR-ARC) and other multi-lateral organizations.

The Government of Kenya has had a longstanding relationship with development partners. These efforts were enhanced by signing the Paris Declaration on Aid Effectiveness together with over 100 developed and developing countries, heads of multilateral and bilateral development cooperation. Efforts to streamline and harmonize donor aid at the global level started in 2003 when donors and partner countries held the High-Level Forum on Aid Effectiveness in Rome on 24-25 February 2003. This meeting birthed the Rome Declaration on Harmonization, whereby Development Assistance Committee (DAC) donors were required to better harmonize their interventions. This was followed by forums in Paris (2005), Accra (2008), Busan (2011), Mexico (2014) and Nairobi (2016).

The Busan Partnership Agreement stands out as the most radical because it captured the spirit of "leave-no-one-behind". It was significant for two reasons. First, it shifted the debate from aid effectiveness (reducing transaction costs of aid) to development effectiveness. Secondly, it promoted inclusivity by allowing, for the first time, civil society organizations, private sector, philanthropies, South/South and Triangular cooperation to participate in their official capacity unlike in the past when they participated as mere observers. In other words, non-state actors became "full and equal participants" in setting the agenda and framing the Busan Partnership Agreement. Inclusive development partnership is one of the four principles of the Busan Partnership Agreement. Following the Busan Partnership Agreement, the Global Partnership for Effective Development co-operation was launched as an all-inclusive forum that takes place every two years, bringing together development actors from governments, parliaments, international

organizations, trade unions, private sector, civil society and the foundations.

Inclusive growth agenda requires donors to avoid duplication of efforts and ensure policy coherence by familiarizing with development efforts at the national and sub-national levels. Following the signing of the Paris Declaration in 2005, the Government of Kenya and development partners developed a comprehensive structure of engagement in 2009 by forming the Aid Effectiveness Group, which in turn established the aid co-ordination structure. The structure has six organs including the Development Partners Forum, Government Co-ordination Group, Development Partners' Group and Aid Effectiveness Secretariat. In addition to entrenching partnership through the aid effectiveness structures, Kenya participates in South-South and triangular co-operation and has established a south-south centre.

At the continental level, African countries adopted New Partnership for Africa's Development (NEPAD) as a new partnership paradigm that would accelerate economic cooperation and integration among African countries and change the face of Africa among the community of World nations. Among other things, it was meant to promote productive partnership by improving the practice in aid relationship, delivery and reporting thereby improving development co-operation effectiveness. Unlike previously, the new regime would develop mutually agreed performance standards and targets for both donors and recipients. These changes were expected to devolve delivery systems, empower local communities and put Africans in charge of their development efforts. Similarly, the new regime aimed to lower transaction costs, which are involved when dealing with many donors. Aid flows were expected to be more stable and predictable. Finally, local capacity to execute development projects would be strengthened.

To promote political, economic and corporate governance on the continent, the African Peer Review Mechanism (APRM) was birthed as one of the most outstanding innovations of NEPAD. Currently, APRM is a semi-autonomous specialized agency of the African Union and is also charged with the task of tracking both Agenda 2063 and Agenda 2030. Ideally, APRM provides a forum that speaks an "African voice to Africans" in an effort to provide "African solutions to African problems". It is attractive because of its inclusivity - the peer review process is conducted in consultation with civil society, the media, private sector, academia and local think tanks. Under this mechanism, the performance of a State is examined and assessed either by other States or by designated institutions or by a combination of the two. Since 2003 when it was started, it has been piloted in Ghana, Kenya, South Africa, Rwanda and Mauritius. About 38 African countries have acceded to APRM and 17 have accepted to be peer reviewed. However, APRM is confronted with challenges emanating from waning interest to implement recommendations of country review reports and action plans, failure to garner sustainable funding, and failure to develop structured ways of engaging civil society.

(b) Collaboration and partnership with private sector

Private sector: The private sector is the main driver of value addition, employment and exports in Kenya. Its contribution to GDP and employment is about 80 per cent and 70 per cent, respectively (IFC, 2019). The sector is dominated by informal firms (95%) whose employment share is huge (70%) but contribute less to GDP (22%). Although private enterprise is characterized by self-interest and profit maximization, the private sector is a strategic partner in development because it is the main driver of growth and employment, rather than the public sector. Its health is directly correlated with the health of the economy. Businesses can promote inclusion by producing goods and services, creating jobs and through social innovations. Creating jobs and income can lead to a more equitable distribution of national wealth, and diversification of goods and services produced, which in turn positively impact on poverty reduction. Microenterprises are instrumental in achieving these gains not only because their labour absorption propensity is higher among the poor but also because they spread their services to rural areas and poor urban areas.

The private sector can champion inclusivity by implementing base-of-the-pyramid strategies. Socially responsible businesses create policies and strategies that enhance the trade-off between the profit motive, and ethical behaviour and social goals. Such policies include philanthropy, volunteerism, "go-green" initiatives, ethical practices (such as "fair wage", "fair trade") and so on. They make investments whose benefits extend beyond the shareholders towards contributing to the welfare of society and the environment. For such businesses to

affect inclusive growth, low-income and marginalized individuals should participate productively in value chains either as consumers, producers, employees or entrepreneurs. This way, value is shared between shareholders and the society.

Kenya's private sector is well developed and large by African standards. However, the main developmental challenge for the sector is to tap the potential contained in the informal sector, which is huge, growing fast and dynamic yet poorly understood and supported. Nine out of every ten workers are employed in the informal sector, but there are productivity gaps between the formal (which is healthy and productive) and the informal sector.

Table 11.1: Private sector associations in Kenya

Umbrella Associations	
Kenya Private Sector Alliance (KEPSA): Established to give a single voice to all private industry sectors. In terms of governance, it works through 17 sector boards that represent 17 economic sectors. The main decision-making organ is the Governing Council comprised of the chairs of the 17 sector boards.	
Kenya National Chamber of Commerce and Industry (KNCCI): Established as a trade support institution which protects commercial and industrial interests of members. Has branches in all the 47 counties	
Kenya Association of Manufacturers (KAM): Established to give voice to industrialists. It works through seven chapters (Coast, Central Kenya, Industrial Area, Nyanza/Western, Nakuru, Machakos, Uasin Gishu)	
Sectoral associations	
Finance, business support and investment	Federation of Kenya Employers (FKE) Association of Microfinance Institutions (AMFI) Kenya Association of Investment Groups (KAIG)
Construction	Kenya Federation of Master Builders (KFMB) Kenya Property Developers Associations (KPDA)
Agriculture and horticulture	Kenya National Farmers Federation (KNFF) Fresh Produce Exporters Association of Kenya (FPEAK) Kenya Flower Council (KFC) East Africa Tea Trade Association (EATA) Agrochemical Association of Kenya (AAK) Kenya Coffee Traders Association (KCTA) Kenya Tea Growers Association (KTGA) Laikipia Wildlife Forum (LWF)
Fish and livestock	Kenya Livestock Producers Association (KLPA) Kenya Livestock Marketing Council (KLMC) Kenya Veterinary Association (KVA) Kenya Fish Producers and Exporters Association (AFIPEK) Kiambu Fish Farmers Association (KFFA)
Industries, motor and manufacturing	Kenya Association of Manufacturing (KAM)
Tourism and gastronomy	Kenya Tourism Federation (KTF) Kenya Association of Tour Operators (KATO) Kenya Association of Hotelkeepers and Caterers (KAHC) Pubs, Entertainment, Restaurants Association of Kenya (PERAK) Kenya Association of Travel Agents (KATA) Rural Tourism Network (RTN)
Logistics and transport	Matatu Owners Association (MOA) Kenya International Freight and Warehousing Association (KIFWA)

Source: Delegation of German Industry and Commerce (2016)

Internally, the private sector is organized into business associations. These associations are at two levels: umbrella and sectoral. Umbrella associations enlist both corporates and Business Member Organizations (BMOs) as members. In Kenya, umbrella associations include the Kenya National Farmers Federation (KENAFF), Kenya Tourism Federation (KTF), Kenya Private Sector Alliance (KEPSA), Kenya Association of Manufacturers (KAM) and Kenya National Chamber of Commerce and Industry (KNCCI). While KEPSA and KNCCI are cross-sectoral, KENAFF, KTF and KAM are sectoral umbrella associations. Sectoral associations enlist only corporates as their members. Table 11.1 lists some of the sectoral associations operating in Kenya. These associations are formed to provide a link between the private sector and state actors. They do this by providing "influence" and "services" to members. Influence is achieved through advocacy and lobbying while services offered include education, vocation training, industry standards, codes of conduct, branding and so on.

One way of promoting inclusive policy making is through dialogue between the private sector and the Government. Public-Private Dialogue (PPD) is basically a consultation between Government and businesses. The Government learns about factors that constrain the performance of the private sector and responds by designing appropriate interventions while the private sector can foster a good business climate for their operations. Dialogue builds trust, bridges gaps thereby leading to joint problem analysis and identification of policy and institutional reforms for a better business environment for private sector.

Currently, PPD in Kenya is spearheaded by KEPSA, which is the umbrella body for business member associations and corporates and the Ministry of Industrialization and Enterprise Development. There are four platforms through which PPD is exercised: Presidential Round Table, Ministerial Stakeholders Forum, Speaker's Roundtable Meetings and Council of Governors' Forum. The overarching platform is the Presidential Round Table, which brings together the President, the Cabinet and private sector twice a year to deliberate on the business environment and find solutions to bottlenecks. Ministerial Stakeholder Fora are sectoral platforms held bi-monthly between Government ministries and private sector boards in KEPSA. Since the main function of Parliament is to enact laws, the Speakers Round Table provides a mechanism for private sector to engage parliament and lobby for inclusion of private sector concerns in legislation. At the sub-national level, the private sector lobbies the leadership of County Governments through the Council of Governors' Forum, which is held annually.

Although private sector engagement with the Government seems more structured and seamless, the associations are confronted with several challenges. First, most of the associations, especially the umbrella associations, lack finances to support the broadening and deepening of their activities to improve their sub-national presence and to improve their staff capacity. Second, County Governments are yet to integrate associations in their policy making processes. Thirdly, many associations' activities are reactionary rather than proactive. They expend most of their effort and resources in firefighting rather than strategy formulation. Finally, associations are confronted with the problem of unclear roles and functions of the National Government vis a vis County Governments.

(c) Partnership with civil society

Non-State actors complement the action of States by delivering services to citizens. The civil society is usually defined to include an array of organizations that are formed to promote public good. This category includes civil society (which comprises Non-Governmental Organizations (NGOs), Community-Based Organizations (CBOs), Faith-Based Organizations (FBOs), self-help groups, charities, foundations, associations) and so on. They are characterized by their ability to organize people to pursue shared interests in the public domain. Usually, they represent the interests of those perceiving their interests as marginalized. Since they enable people to claim their rights, they promote rights-based approaches to development. These rights are claimed by seeking to influence public policy outside the formal structure of elected government.

Kenya's civic norms can be traced to the traditional and communal structures that promoted mutual interest, resource pooling (including *Harambee* movement) and social justice. When the country was colonized from 1920s until 1963, the colonial government restrained freedom of association but allowed

the operation of a few religious and philanthropic associations. Civil Society Organizations (CSOs) were opposed to the new systems that promoted white supremacy and disenfranchised Africans. Given this fact, CSOs were mainly involved in liberation struggles to free the country. After independence, CSOs fully supported the development efforts of the new government. However, by the 1980s and 1990s, many Non-Governmental Organizations (NGOs) and faith-based organizations (FBOs) were swayed by donor demands that tied development support to Government on governance and democratization. As a result, they advocated for multi-party democracy – putting them at loggerheads with the Government. Later, these advocacy efforts were directed at constitutional reform and good governance.

The coming into power of the National Rainbow Coalition (NARC) Government in 2003 ushered in a new dispensation, which created more space for Government-CSO dialogue and engagement. This partnership has prevailed despite the shortcomings of CSOs. They acknowledge that they are yet to address issues of competence, credibility and sustainability.

Generally, the legal environment within which CSOs operate is supportive of civil society. However, the legal framework is characterized by multiple laws, which are implemented by different Government ministries, agencies and departments. The diverse and sometimes overlapping laws present difficulties for the Government in developing harmonized, systematic and coordinated plans and approaches to civil society. To compound the problem, some of the regulatory agencies are under-resourced and find it difficult to manage their basic functions effectively. For example, although the NGO Co-ordination Board can issue directives on the need for NGOs to file their annual returns, it lacks the capacity to carry out inspections and ensure that that NGOs adhere to these directives.

NGOs anticipate that the Public Benefit Organizations (PBO) Act 2013 once operationalized will address some of the challenges that they face under the Non-Governmental Organizations Act 1990. The PBO Act provides for the PBOs to self-regulate effectively, sets up an independent regulator, and specifies requirements for the transparent and speedy registration of PBOs. In addition, the PBO Act provides a framework for partnership between the Government and PBOs. Unfortunately, the PBO Act is yet to be operationalized and implemented. Since the PBO Act 2013 originated from a private members bill, it did not receive input from the Treasury and the Attorney General's Office. Usually, bills that have financial implications are required to receive approval from the Cabinet Secretary of the National Treasury while those that have proposals of a legal nature should receive the approval of the Attorney General. The PBO Bill by-passed this process, thereby pitting the Executive arm of Government against the NGOs.

To address some of the shortfalls of the PBO Act 2013, the Government has made four attempts to amend the Act, but these have been resisted by the CSOs. The High Court has ordered the Government on two occasions (Oct 31, 2016 and May 12, 2017) to operationalize the PBO Act. The first order was issued after CSOs filed a suit seeking a declaration from the court that the Cabinet Secretary for the Ministry for Devolution and Planning contravened the Constitution by failing to appoint a date for the coming into force of the PBO Act. The second order followed contempt of court proceedings filed against the Cabinet Secretary for the Ministry of Devolution and Planning, the Ministry of Interior and National Coordination, and the Attorney General for failing to obey court orders to commence the PBO Act. Consultations are ongoing between the Government and CSOs, the outcome of which will be a bill to amend the PBO Act. The Government has committed to operationalize the PBO Act during the Third Medium-Term Plan 2018-2022.

The NGO sector in Kenya is huge and fast growing. Resource mobilization within the sector is also huge. There are 3,028 reported NGOs, which received Ksh 165.97 billion, of which 88 per cent was raised from sources outside Kenya. In 2018-2019, a total of 98 NGOs were registered. By 30th June 2019, Kenya had a cumulative 11,262 NGOs. Most of these NGOs are driven by two main goals: "advocacy", through which they explicitly seek to influence public policy and private behaviour and "empowerment" through which they provide physical relief to disadvantaged groups or communities.

In pursuit of their advocacy and empowerment goals, NGOs are presumed to be more participatory, community-oriented, democratic, cost effective and better at targeting the poorest of the poor. Because

many of them work directly with local communities, they can be strategic partners in engaging communities and in identifying policy gaps at the grassroots level. There exists documented success stories of NGO interventions. Despite these, many NGOs have failed at making a substantial impact upon the perceived beneficiaries. They are increasingly criticized for losing touch with their constituencies. They have been criticized for worsening the "dependency syndrome', are more vulnerable to external shocks and external control leading to patron-client relationship between NGOs and donors. Donor dependency raises doubts about their legitimacy and accountability (accountability is shifted "upwards" away from the grassroots or "downwards", where it should be). Although NGOs have been presumed to democratize civil society, they tend to adopt top-down approaches as a result of poor understanding and misuse of the participation concept, and NGO staff end up thinking for the community. NGOs suffer the disadvantage of limited scope and reach. NGOs also have a challenge of low sustainability, relatively low compliance with submission of annual reports to the regulator, and problems related to poor governance.

In policy discussions, the faith sector includes faith-based CSOs, informal faith-based programmes, initiatives and community-based organizations, larger national and international NGOs, religious congregations and groupings, faith-based institutions (schools, hospitals, vocation and technical colleges, orphanages, homes for the elderly, children homes and so on), networks (including Christian Health Association of Kenya - CHAK, Inter Religious Council of Kenya - IRCK, Kenya Episcopal Conference, National Council of Churches in Kenya – NCCK and Supreme Council of Muslims of Kenya -SUPKEM).

The origin of FBOs has its roots in religion. Each religion is differentiated by its philosophical orientations. Christianity gives preference for the poor, Judaism advocates for justice, Hinduism lays emphasis on social service, Islam demands action and charity while African traditional religions call for mutual assistance.

11.5 Challenges facing Partnerships

As discussed in earlier sections, partnerships in Kenya take many forms. Each type of partnership has unique challenges. This section discusses the challenges faced by partnerships by following these differences.

Inter-Governmental Relations

Inter-governmental relations between the National and County Government remain cordial but the framework for alternative dispute resolution as provided in the Inter-Governmental Relations Act (2012) is behind schedule. Regulations that are meant to correct this position have been drafted but are yet to be approved by Parliament and operationalized. Other challenges include inter-governmental and inter-county disputes and varied interpretations of the mandates of the institutions that were established to facilitate devolution, leading to incessant conflicts. Similarly, the secretariat of the CoG and sectoral committees lack legal frameworks while joint committees lack guidelines on how they should be established and operate. The CoG is heavily dependent on donor funding, which is risky in terms of financial sustainability. Regarding resource mobilization, counties are not allowed to borrow unless they do it through the National Treasury, and taxation and licensing are uncoordinated. There is misalignment in the economic planning processes at the national and county levels, and benefit sharing frameworks are lacking.

North-South Cooperation

Kenya is a member of many multi-lateral and bilateral arrangements. Relationships within such arrangements are usually asymmetric in favour of developed countries. The agenda of these partnerships is usually set by the "big brothers". Developing countries are in most cases powerless as they are excluded not only at the agenda setting stage but also in the main decision-making organs. Such relationships result in interference in domestic affairs of sovereign States, come with conditionalities, are asymmetric and lack national ownership. This has been the case in the UN Security Council whose structure has permanent members and non-permanent members. Permanent members tend to have veto power, which is not the case with non-permanent members. Trade negotiations under General Agreement on Trade and Tariffs (GATT) and World Trade Organization (WTO) has been characterized by the weak bargaining with the strong.

The patron-client model seems to drive the government-donor relations. Usually, most of the past and present aid conditions are politically oriented and centre around good governance, human rights and anti-corruption measures. When these conditions are violated, an aid freeze is imposed. In addition, due to the principle of cross referencing, the aid freeze by one donor triggers aid freezes by like-minded donors. This was the case in Kenya in 1991 when the Government failed to implement reforms to restore multi-party democracy and human rights. In mid-1997, the Government suffered another aid freeze by the IMF under the Enhanced Structural Adjustment Facility (ESAF) due to failure to deal adequately with the Goldenberg scandal. Both multi-lateral and bilateral donors will always refer to the IMF to check on the fiscal status of the country and the macroeconomic risks. When they are satisfied, they proceed with the assistance. However, where a country does not have a relationship with IMF, it is difficult to secure a relation with other development partners. This herd-like behaviour has worked to advantage of low income countries especially in rallying the donors to provide debt relief. Currently, the IMF does not give conditionality on corruption cases per se but looks at the fiscal side and advocates for tools of prudent fiscal management.

Usually, the terms, conditions and cost of borrowing depend on the negotiating capacity of the parties. Kenya, like most developing countries, face the disadvantage of weak bargaining and negotiation skills. This implies that the country has an opportunity to build capacity of negotiating teams by availing human, financial and technical resources. Once skilled, such negotiators would be able to understand the negotiating context, which will help them to define negotiation tactics and strategy. They will also be able to undertake technical analysis on the potential impacts of negotiation outcomes on domestic economy.

Another challenge with donor funds is the delay in disbursements, which results in low absorption. This is due to many factors. Where the loan agreement requires counterpart funding, delays may be occasioned by the failure by the Government to fulfil this pre-condition. Similarly, delays may be caused by bureaucracy in Government ministries or on the donor's side. Similarly, when project staff have poor plans for procurement, delays may be caused by failure to comply with the donor's procurement system. Finally, when conditions and guidelines for utilization of funds are not followed, it leads to delays in disbursement. For example, when accountability reports are submitted late, they delay the release of the next tranche.

Most bilateral and multilateral arrangements involve state agencies and do not provide for the participation of civil society and private sector. On this account, they have been seen to be less representative of the interests of business community and the poor. For example, the Busan Partnership Agreement represents a paradigm shift in discussions on development effectiveness because civil society organizations, private sector, philanthropies and South/South and Triangular cooperation participated as "full and equal participants" in setting the agenda and framing the Busan Partnership Agreement. Previous meetings in Paris (2005), Accra (2008) had excluded non-state actors.

When donor interests change, their lending policy follows. This was the case with the shift in disbursement of donor money through NGOs. This shift began in 1992 with the US announcing that it had stopped channelling development assistance through corrupt regimes but would rather do it through NGOs. The major donors (Britain, Germany, France, Netherlands) followed suit. The donors followed this path on the basis that NGOs were superior in advocacy and participatory approaches of development that were closer to the people. Some of these donor countries had suspended aid to some countries and were looking for an alternative avenue of reaching to communities. NGOs provided an alternative. The donor model was criticized on the basis that NGOs were not corruption-proof. It was also felt that donor focus on Government corruption ignored the role of private companies and multinational companies in offering bribes.

South-South Cooperation

The idea of South-south cooperation among developing countries was hatched to address the marginalization of developing countries in global decision making. Such relations were based on the principles of equality, respect for national sovereignty,

non-conditionality and national ownership and independence. China has become more influential in applying most of these principles in lending to other developing countries. In Kenya, the Chinese have been involved in several road projects and in a power-grid upgrading project. Although there have been fears that Chinese loans amount to predatory lending and civil society in Kenya have claimed that the projects lack transparency, the blame cannot be apportioned to China. The terms and conditions imposed on loans depends on negotiation capacities of the parties, and Kenya had a chance to negotiate a better deal with China. Based on complementary advantage, the Kenya-China cooperation should be seen as a channel through which Kenya has been able to access external capital, technology and technical expertise. In return, China has been able to access markets and support on global issues. Kenya is a member in many south-south outfits including EAC, COMESA, IGAD, ICGLR (International Conference on the Great Lakes Region), NEPAD, APRM, G24 among others. The main challenge with this has been overlapping memberships. Again, many of these outfits are fighting for survival due to under-funding.

Public Private Partnership

The 2011 PPP Policy identifies funding and fiscal risk issues in relation to PPPs in Kenya. Regarding contingent liabilities arising from borrowing, it states that "All public entities including County Governments, local authorities and the PPP Unit will be required to seek approval from the State Department Responsible for Finance/Treasury for all direct contingent exposure arising form any PPP project" and in allocating risk, the policy states that "the principle that the Government will follow in allocating risks of a PPP project will be to optimize rather than maximize the transfer of project risks to the private party".

PPPs in Kenya have been accompanied by higher cost of capital, failure to realize value for money, lack of competition, which makes bidders quote high prices, poor project implementation resulting in white elephants, political interference, corruption, poor understanding of PPPs resulting in their opposition, unrealistic procedures, limited capacity in managing PPPs and risk management, and issues of transparency. For instance, the deal to build an ultra-modern 450 rooms five-star hotel at Jomo Kenyatta International Airport (JKIA) by Qatar is said to have been engulfed with challenges in transparency especially in the procurement processes and unworkable processes, which led to lack of project implementation. Similarly, the PPP regime in Kenya does not involve citizen participation during project cycle. The local private sector is also not involved. This has been attributed to the absence of a clear framework and structure within the PPP Act to facilitate public participation.

Public-Private Dialogue

First, most of the associations, especially the umbrella associations, lack finances to support the broadening and deepening of their activities to improve their sub-national presence and to improve their staff capacity. Second, County Governments are yet to integrate associations in their policy making processes. Therefore, the private sector associations feel "excluded" especially at the sub-national level. Thirdly, many associations' activities are reactionary rather than proactive. They expend most of their effort and resources in firefighting rather than strategy formulation. Finally, associations are confronted with the problem of unclear roles and functions of the National Government vis a vis those of the County Governments.

Government-NGO Relations

In Kenya, the relations between NGOs and the Government have suffered due to lack of trust and legitimacy loss. There is mistrust between the NGO Co-ordination Board and the NGO Council. There is also mistrust between NGOs and the NGO Council and between local NGOs and international NGOs. This has been brought about by leadership wrangles, politics and infighting at the Council and among NGOs. Currently, the NGO Council has two opposing groups, each claiming to be the "official representatives" of the sector. The confidence rift between local NGOs and international NGOs is due to competitive tendencies between them by, for instance, international NGOs "poaching" key staff from local NGOs and paying them hefty salaries. International NGOs have been accused of paying Government officers extra allowances to participate in their projects, whereas local NGOs have no resources to do the same. The NGO Council is lacking

in terms of good governance, and the NGO Code of conduct is outdated. NGOs also face challenges in terms of raising funds or resource mobilization as they are heavily regulated. They also lack autonomy and are faced with Government interference. There is therefore a general lack of an enabling environment for the thriving of NGOs in Kenya.

11.6 Key Messages and Recommendations

11.6.1 Key messages

1.) Devolution in Kenya has been largely successful, but there remains gaps in terms of alternative dispute resolution, legislating the CoG Secretariat and sectoral committees, granting borrowing powers to counties, harmonizing cross-county taxation and licencing, aligning economic planning at the national and county levels, and formulating benefit sharing frameworks.

2.) Whereas the Government of Kenya has established very structured ways of engaging development partners, there are concerns that some collaborations are asymmetric, and the Government of Kenya is not adequately involved in the agenda setting and in decision making. In some cases, principles of equality, non-conditionality, national ownership and independence are not followed. Similarly, the private sector and civil society are not engaged as equal players.

3.) PPPs are becoming an increasingly popular mode of investing in public infrastructure in Kenya despite their criticism and even abandonment in some countries. However, local communities are not engaged at any of the stages of the project cycle and PPP projects suffer from inflated cost of capital, low competition during procurement, political interference, corruption, weak capacity to manage PPPs and risk, and lack of transparency.

4.) The PPD structure at the national level in Kenya has been hailed as a success story in international platforms, but most private sector associations are struggling to mobilize financial resources for their operations through member fees and subscriptions, while others lack capacity to broaden their scope and deepen their activities at the sub-national levels. Their presence at the counties is yet to be felt.

5.) The environment for civil society to operate in Kenya is being rolled back by the extended delay in operationalizing the Public Benefit Organizations Act (2013) and the absence of a PBO policy. Currently, the financial and staff capacity of the NGO Board to regulate the sector countrywide is limited. Self-regulation of the sector has been curtailed by leadership wrangles within the NGO Council, which has brought about a confidence rift between the NGO Council and the Government. This has made it hard for the government to establish formal ways of engaging the civil society.

11.6.2 Recommendations

Based on the foregoing discussion, the following recommendations could enhance the effectiveness of partnerships to promote inclusive growth:

Inter-Governmental Relations

Given its constitutional mandate, the IGRTC should lead the process of developing alternative dispute resolution mechanisms to mitigate conflicts between the National and County Governments. Although the regulations have been drafted and are awaiting approval by Parliament, the IGRTC will play a key role in making them operational. To resolve the issues surrounding the legality of the CoG and sectoral committees, the CoG and the respective Ministry should draft a bill. IGRTC, CoG and the Summit should address issues related to borrowing powers to counties, harmonizing cross-county taxation and licencing, aligning economic planning at the national and county levels, and formulating benefit sharing frameworks.

North-South Cooperation

Kenya should become more proactive in championing reforms of international arrangements that violate principles of equality, national sovereignty, non-conditionality and national ownership. Such reforms should prioritize the inclusion of civil society and private sector as "full and equal" participants. Where possible, the Government should deepen south-south cooperation.

Public Private Partnership

Existing legislation and policy for PPPs should be reformed with a view to integrating principles of public participation, especially by engaging communities in feasibility studies, project design, implementation and monitoring and evaluation.

Public-Private Dialogue

The sustainability of umbrella, sectoral and primary associations should be enhanced by building their capacity on efficient ways of collecting membership fees, marketing the associations, and what to offer members to incentivize their payment of fees and subscriptions. Capacity building effort should also evaluate current policy advocacy and lobbying strategy, review it and introduce new approaches. In addition, associations should design their lobbying strategy to be as outcome-oriented as possible. As an umbrella body, KEPSA should work with other associations to replicate the national structure (which has been very successful) at the county level.

Government -NGO Relations

The gazettement of the PBO Act (2013) should be expedited. The NGO Co-ordination Board and the NGO Council should initiate structured dialogue platforms for engaging the Government by borrowing from the existing structures for engaging the private sector. Similarly, the regulatory capacity of NGO Coordination Board should be enhanced by providing additional budgetary and institutional support to strengthen its oversight role. NGOs should be encouraged to diversify their funding away from donors towards sustainable financing through social entrepreneurship.

Endnotes

22 This is according to the profiles (name, sector, county, stage, contracting authority and value) of these projects as at 27th March 2020, accessed at http://www.pppunit.go.ke/

23 Ufungamano is a Kiswahili word for "unity" or "collaboration".

12 CONCLUSIONS AND RECOMMENDATIONS

12.1 Conclusions

Macroeconomic Performance and Medium-Term Prospects

Kenya has made remarkable progress in poverty reduction in the last two decades, largely driven by a robust economic growth experienced in that period. However, the rate of reduction of poverty was not commensurate with the economic growth rate; poverty reduction pace was relatively slower compared to economic growth. While inflation remained within the target band, food-related inflationary pressures tend to push some of the low-income households to below the poverty line, with the prices of vegetables driving the general prices. It is also worth noting that inequality in Kenya remains high, across gender, residence (rural and urban settings) and income groups.

The robust economic performance was not commensurate with growth in employment especially in highly productive sectors. A large proportion of labour was absorbed in the agricultural sector, which saw a significant reduction in productivity. The industrial and services sectors that exhibited increased productivity between 2000 and 2018 recorded a slower employment growth. This could explain the high poverty levels in rural areas where agriculture is the key economic activity.

Poverty rates vary widely across counties, ranging from as high as 79.4 per cent in Turkana County to as low as 16.7 per cent in Nairobi County. It is notable that counties with low GCP per capita have the highest overall food poverty rates in Kenya and are mainly in the ASALs. Further, hardcore poverty was highly prevalent in rural areas. To address poverty and inequality across counties, the Government has made commendable effort through budgetary allocations, with counties with higher poverty rates receiving relatively larger allocations of the sharable equitable transfers. That said, while these counties have spent a significant proportion of the budget in expanding investments, the expanded capacity for economic activity is yet to yield the expected outcomes.

Significant disparities exist at the county level, with counties in ASALs contributing proportionately less to GDP, while only 10 out of the 47 counties had real GCP per capita above the national GDP per capita of Ksh 96,799.8 as of 2017. Most of the counties were heavily dependent on agriculture, with only 7 out of the 47 counties (15.0%) having significant manufacturing activities. The limited diversity in economic activity can partly explain the low own source revenue collections by County Governments. As of 2018/19, only seven (7) counties managed to collect more than Ksh 1 billion, depicting over-reliance by counties on the exchequer.

While economic growth has remained resilient, Kenya faces significant downside risks, including growing fiscal pressures coupled with narrowing fiscal space, outbreak of coronavirus pandemic, desert locust invasion, and weather uncertainty. Kenya also has opportunities to exploit, including the coming to effect of AfCFTA, the declining world oil prices and securing the UN Security Council non-permanent seat. Should the downside risks materialize, this would reduce the medium-term economic growth to less than 4.0 per cent.

It is strong growth of all the counties that would see the country deliver a higher economic growth rate of above 7.0 per cent in the medium-term. For this

to happen, counties need to enhance investments in supporting the key sectors that are sources of growth, including agriculture, manufacturing and wholesale and retail trade. Upscaling the economic growth of counties has the potential to improve inclusivity.

Enhancing Financial Inclusion for Inclusive Growth

While national access to financial inclusion has increased to 82.9 per cent from 26.7 per cent in a decade, there are significant disparities across counties, gender and the youth. Counties with most access to finances, either credit, savings or insurance, are mainly counties with big urban areas such as Nairobi, Mombasa, Nakuru, and Kiambu. There is gender disparity in favour of males (85.6%) relative to females (80.3%), but this has significantly reduced since 2006 when it was at 12 percentage points, with males at 33.0 per cent and females at 21 per cent. A significant proportion of the male youth (23.5%) and female youth (25.4%) do not have formal access, which could be due to high cost of accessing the various financial products/services and high levels of unemployment.

Access varies across the various products and providers. Access to savings was above the global level while insurance is lowest especially with crop and livestock insurance. Mobile money agents are the nearest providers and, therefore, have the lowest cost of accessing financial services. However, it is the banks that have highest trust. Financial literacy is relatively low and excessive documentation is a barrier to financial inclusion. The advent of mobile-based financial services has transformed financial systems and payments in Kenya, helping more people to access financial services.

Mobile money agents present a potential solution for many of the barriers to closing the financial inclusion gap and reaching the excluded. About 57.0 per cent of the population would not need to spend to reach the nearest mobile money agent. This is because they use mobile phones and agents to deliver financial services, without the high costs of construction and bank staff that underlie traditional brick-and-mortar banking institutions, improving accessibility to existing customers and new ones.

Contribution of Agriculture to Food and Nutrition Security and Inclusive Growth

The agriculture sector contributes a third of the country's Gross Domestic Product (GDP), and is the driver of growth for the economy. With an estimate 70 per cent households living in rural areas, the sector has become a key source of income and employment. Although the sector has seen a gradual increase in total value of aggregate agricultural output, the yield gap for most crops has been widening; for instance, there is an estimated 50 per cent yield gap in maize production, and 70 per cent yield gap in legume production.

The number of small farm sizes (0- 5ha) have increased by 55.0 per cent based on a comparison between the KIHBS of 1994 and 2015/16. This shows a growth in number of smallholder farms (0-5 ha) from 2.22 to 7.63 million, and a significant reduction in number of farms between 5 and 10 hectares (-71%) from 93,871 -15,821 and more than 10 hectares (-85.0%) from 92,498 to 6,714. This implies that to increase output, agriculture intensification is inevitable.

Farmers in the country use an average of 30kg/ha fertilizer, which is far below the 50kg/ha recommended under the Abuja Declaration of 2006. Over 90 per cent of the certified seed used by smallholders is distributed by the Government and NGOs, while 87.0 per cent of the uncertified seed is based on the farmers own production. Pest and disease continue to be a challenge and can cause damage to an estimated 25-35 per cent of crop produce, while animal diseases can cause mortalities of between 50 and 90 per cent. These losses can be reduced with the use of pesticides.

The country is water-scarce, with varied water resources in time and between regions. Generally, there are two rainy seasons, with the total yearly water withdrawal estimated to be over 2.7 km^3, or less than 14.0 per cent of resources, thus the need to use these limited water resources prudently. The provision and management of the large-scale irrigation project by Government agencies and allowing smallholders farmers to lease plots as is the case of Mwea Irrigation Scheme is an example of enabling inclusivity; it allows for several farmers to participate in the rice value chain.

Small farms produce 73.0 per cent of the total marketed production, emphasizing that the country's agriculture is pre-dominantly based on small farms. These smallholders are not fully integrated into value chains, and thus incur high production costs, which reduces their competitiveness. Participation in farmer organizations could foster economic inclusion of smallholders and increase their market power, thereby raising their incomes and productivity.

Overall, the food supply situation as monitored through the food balance sheet (KNBS, 2019) reflects an improving situation, considering the population growth. The food Self Sufficiency Ratio (SSR) improved from 74.4 per cent in 2014 to 75.2 per cent in 2015 and increased to 89.0 per cent in 2018. In terms of per caput supply, there are improvements for most food groups, except sorghum and products, sugar crops, milk and milk products (excluding butter), eggs and products, fruits (excluding wine), vegetables (tomatoes, onions, others), nuts and products and groundnuts. This implies that going forward, considerations need to be made to increase the production of these commodities, which contribute to nutrition security through provision of vitamins and micro-nutrients.

Reducing food losses at household level is among the instruments that can be used to secure food supply and therefore improve food security. Losses at household level are not homogenous. Storage and transport-related loses account for over 90.0 per cent of loses for quantity larger than half a tonne. During storage, it is estimated that weevils accounts for an estimated 94 per cent of the losses for stored grains over 500kg, and over 80 per cent for grain between 100-500kg. For the smaller quantities, the losses are at about 70.0 per cent. This implies that measures including integrated pest management for storage pest are needed to improve storage of grains at household level. On average, most households lost more than one year per caput supply of food in storage and up to seven times the annual per caput supply of food in transportation. This calls for concerted effort to encourage investment in storage and transport infrastructure for food.

Food poverty is evident across all counties in the country; it is evident that a huge proportion of Kenyan suffer from food poverty, though with varying intensities across and within counties. The counties that have higher gross county product per capita recorded lower food poverty head count percentage, indicating that economic growth contributes to reduction in food poverty.

Enabling Inclusive Growth Through Access to Affordable, Reliable, Sustainable and Modern Energy Sources

Increase in the share of electricity generated from renewable energy sources, including geothermal, hydro, solar and wind, is central to a reliable power supply system. Although generation of electricity from these sources has potential to bring down the cost of electricity, thermal sources are more costly but take a substantial share of installed capacity.

Even with advances in modernization of the grid system, Kenya faces rising electricity transmission and distribution losses, which account for almost a quarter of the generated capacity. Losses mainly arise from non-technical issues, including meter tampering, illegal connections, metering errors and shortfalls in billing.

Despite the high number of connections for domestic and small consumer categories accounting for 80 per cent of connected customers energy, demand is low compared to demand from the large commercial and industrial firms, which account for only 0.05 per cent of customer base. This implies non-intensified use of electricity among the domestic and small commercial consumers.

Wide disparities are evident in access to clean energy sources for lighting and cooking at national level, rural/urban areas, and across the counties. All regions registered a high dependency on non-clean energy sources and low reliance on clean and efficient fuels for cooking purposes. A high proportion of households rely on firewood, kerosene and charcoal to meet their cooking needs while use of biogas, LPG and electricity as primary energy sources for cooking is still lagging. Further, gender disparities exist in that women are disproportionately affected by lack of access to clean energy sources and bear the burden of collecting firewood, which consumes considerable time, limits their productive activities, and exposes them to respiratory illness due to indoor pollution.

Policies and initiatives in the sector are instrumental in achieving universal energy access through a

combination of access grid, mini-grids, off-grid and clean cooking solutions. However, the policies and initiatives emphasize more on aspects of physical access/connections. They fail to integrate essential strategies for ensuring continuous and productive use of electricity and clean cooking solutions.

Social Mobility and Social Protection

Upward social mobility is important for sustainable development and inclusive growth and can enhance social cohesion and create feelings of inclusion among disadvantaged groups. Effective social protection interventions that are well targeted to the neediest population groups can enhance the desired social mobility.

Even so, Kenyan data points to low levels of social mobility. Access to education and health by individuals hinges on the income and education of their parents. Individuals with more educated parents and those in the highest income group enjoy greater access to all levels of education. In addition, access to health services is lower for the lowest income group. With respect to the labour market, individuals from the high-income households aged 20 through 29 years are more likely to work for a wage or a salary. The disadvantage is likely to translate into lower overall productivity, lower incomes and supressed social mobility.

The apparent low levels of social mobility do not seem to be adequately addressed by the social protection interventions in place. This observation is premised on several broad findings, one of which is that the lowest income quintile is not receiving larger forms of social assistance in education, health and employment (cash/food for work). As examples, the lowest and highest income groups are equally likely to benefit from education bursaries and the proportion who received free medical care was about equal across the groups at just about 13 per cent. The lack of positive discrimination implies that the lowest income groups may face greater risks of downward inter-generational mobility. This scenario can be traced to challenges that affect the social protection sector, which include: weak targeting systems and outcomes, lack of adequate coordination, low programme coverage, and duplication of benefits. Other challenges include ghost beneficiaries, and lack of an integrated system that links all social assistance programmes across MDAs in one easily accessible online portal. All these challenges have stifled the expected impact of social protection programmes.

Governance in Inclusive Growth

Good governance and strong institutions are prerequisites for inclusive growth. The Government has over time undertaken various measures to alleviate the regional socio-economic inequalities and marginalization that has existed since independence. This includes introduction of a devolved system of governance, which has a key objective to ensure equitable sharing of national and local resources throughout Kenya. Other initiatives to address regional inequalities and marginalization have included the Constituency Development Fund (now the "National Government Constituency Development Fund") and the National Government Affirmative Action Fund.

This notwithstanding, equitable resource allocation to County Governments face various challenges, including poor utilization of allocated funds; delays by the National Treasury to disburse the equitable share of revenue; and incidents of misappropriation, misuse and wastage of public funds. Further, the CDF has been marred by poor project implementation, stalled projects, expenditure on projects not approved, misuse of funds and doubtful expenditure due to lack of documentation, as reported by the Auditor General in audit reports for the constituencies. Also, the criteria for determining allocations of NG-CDF is based on an equal amount disbursed equally to each constituency, which may fail to take into account specific or unique needs of various regions. While NGAAF seeks to promote affirmative action for women, youths, PWDs, needy children and the elderly, inadequate budgetary allocation and delay in release of funds are constraints in full achievement of planned activities.

In addition, inclusivity in the policy making process may be hampered by haphazard public participation initiatives. Although there is an existing legal framework requiring public participation in policy making processes, there is lack of consensus on what amounts to sufficient public participation. Also, delays in approval of the Public Participation Policy and enactment of the Public Participation Bill are significant impediments.

Further, the public service at both national and county level continues to exhibit inequalities, non-inclusion, marginalization and inadequate representation of certain ethnic communities, women and persons with disabilities, which hampers progress in enhancing inclusivity.

Partnerships for Inclusive Growth

Partnerships are premised on SDG Goal 17, which requires effective partnerships to support the achievement of the other goals. In Kenya, partnerships exist at various levels: local, regional and global levels. Locally, partnerships have been instrumental in facilitating consultation and cooperation across the different levels and arms of Government within a devolved governance structure. The governance collaborates with private sector through PPPs and PPDs while cooperation at the regional and international levels is mainly through bilateral and multilateral alliances. Due to lapses in self-governance within the NGO sector, engagements between the Government and the NGO sector remain unstructured.

12.2 Recommendations

Secure macroeconomic performance

1.) Maintain macroeconomic stability including by ensuring enough food supply to stabilize food inflation. This can be achieved through promoting irrigated agriculture; facilitating distribution of food from surplus areas to deficit areas; adopting modern farming technologies to enhance agricultural productivity and enhancing value chain systems. Stable food inflation reduces vulnerability of the poor into falling into deeper poverty levels.

2.) Accelerate economic growth across the counties with increased development spending and economic diversification. Infrastructure development will serve to create an enabling environment that encourages increased private investments in manufacturing. County Governments in ASALs can establish tanneries, leather and meat processing factories to empower the pastoralist communities to expand their production, increase incomes and lower poverty.

Maintain the momentum in deepening financial inclusion

3.) Expand agent-based banking and other cost-effective delivery channels to reach the financially excluded. Regulatory interventions to allow use of low-cost delivery channels such as local retail shops to serve as agents for financial service providers for different level of service. Such an approach can cost-effectively expand the physical presence of financial service providers while providing meaningful benefits to those reached.

4.) Promote financial literacy to help individuals understand their financial circumstances. To this end, a financial curriculum could be developed by the National Treasury, in collaboration with the Central Bank of Kenya, to build capacity in this area.

5.) Consider establishing the proposed Biashara Fund, by consolidating the Uwezo Fund, Youth Enterprise Development Fund and the Women Enterprise Fund. This would ensure the challenges facing these funds are adequately addressed especially in achieving self-reliance and adequately targeting women and youth groups.

Enhance the contribution of agriculture to inclusive growth

6.) Promote the adoption of better farming technologies to increase agricultural productivity and improve livelihoods among the smallholders. County Governments to adequately budget to support investment in the sector.

7.) Enhance data management system to provide timely and relevant information to the different actors along the value chain to help them make informed decisions. The system to include production, price, weather, pest and disease management.

8.) Use communication technologies to provide a platform for connecting farmers to markets much more effectively through innovative

methods for aggregation, logistics and supply chain management.

9.) Promote nucleated land settlements for the effective management of land and reduce the sub-division of agricultural land into uneconomical small land parcels.

10.) Promote value addition to reduce food losses and increase the shelf life of most agricultural products.

11.) Transform the agriculture sector from subsistence into commercial enterprises that can support livelihoods, reduce food poverty and contribute to economic growth.

Promote access to affordable, reliable, sustainable and modern energy sources

12.) Focus on enhancing electricity generation capacity from wind, solar, geothermal and hydro as they remain underexploited. This will serve to increase access to renewable energy and bring down the cost of electricity.

13.) Invest in grid modernization through inclusive smart metering programmes for all end-users and grid monitoring solutions. This would reduce electricity transmission and distributive electricity losses, creating a stable electricity supply system.

14.) Incorporate in energy access programmes sensitization of households on productive uses of electricity in boosting their income generating activities, and awareness campaigns on the benefit of clean energy solutions for cooking and lighting.

15.) Engender energy projects, programmes, and policies to ensure both women and men participate and benefit from access to clean energy sources.

Strengthen social mobility

16.) Develop a more integrated social assistance system that transfers all the dispersed social assistance programmes and processes to an electronic platform shared across CMDAs. Such a system to effectively manage all steps associated with the social assistance processes including application, assessment of eligibility, registration, investigation, payment, auditing, reporting and monitoring.

17.) Expand the coverage of social protection programme to reach all deserving cases and ensure appropriate mapping of beneficiaries.

18.) Strengthen partnerships and linkages with development partners to facilitate in mobilizing adequate resources.

Improve governance structure for inclusive growth

19.) Ensure timely disbursement of funds to counties for effective implementation of budget and delivery of public services.

20.) Enhance Own Source Revenue (OSR) collection by growing the private sector activity at county level and reducing on revenue leakages.

21.) Entrench prudent fiscal management to ensure public funds are utilized for the benefit of the public.

22.) Impose stricter sanctions and penalties to non-compliance in achieving diversity and representation in public service at both national and county level.

23.) Define clear criteria and parameters to guide in appropriately identifying individual ethnicity.

24.) Establish clear guidelines on public participation process through enactment of the Public Participation Bill.

25.) Strengthen the affirmative action for gender equality in senior positions in public service and elective positions.

26.) Enact the Kenyan Sign Language Bill, 2019 to institutionalize the use of Kenyan Sign Language, and review the Persons with Disabilities Act, 2003 to align it to the rights envisaged in the Constitution, 2010.

Exploit partnership opportunities

27.) Finalize and operationalize the alternative dispute resolution mechanisms to mitigate conflicts between the National and County Governments. The regulations have been drafted and are awaiting approval by Parliament, and the IGRTC will play a key role in making them operational.

28.) Draft a Bill to give the Council of Governors and sectoral committees a strong legal foundation.

29.) IGRTC, CoG and the Summit to address issues related to borrowing powers by counties, harmonizing cross-county taxation and licencing, aligning economic planning at the national and county levels, and formulating benefit sharing frameworks.

30.) Build the capacity for the negotiation teams to ensure the interests of the country are adequately represented in memberships. Where possible, exploit south-south cooperation.

31.) Reform existing legislation and policy for PPPs with a view to integrating principles of public participation especially by engaging communities in feasibility studies, project design, implementation and monitoring and evaluation.

32.) Building capacity of umbrella, sectoral and primary associations for effective and sustainable engagement. KEPSA as an umbrella body to work with other associations in replicating the national structure (which has been very successful) at the county level.

33.) Expedite the gazettement and operationalization of the PBO Act (2013) and have a structured dialogue platform for the NGO Co-ordination Board and the NGO Council to engage.

34.) Enhance the regulatory capacity of NGO Co-ordination Board with a diversified funding and institutional support to strengthen its oversight role.

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ANNEX

Annex Table 4.1: Gross domestic product per capita, current prices (US dollars)

Country	2016	2017	2018	2019	2020	2021	2022	Average
Botswana	6,958	7,584	7,973	7,859	8,116	8,453	8,585	**7,933**
South Africa	5,267	6,120	6,354	6,100	6,193	6,332	6,493	**6,123**
Nigeria	2,180	1,972	2,033	2,222	2,400	2,602	2,830	**2,320**
Ghana	1,941	2,038	2,217	2,223	2,266	2,386	2,473	**2,221**
Kenya	1,522	1,684	1,831	1,998	2,152	2,294	2,455	**1,991**
Zambia	1,253	1,501	1,503	1,307	1,236	1,203	1,179	**1,312**
Tanzania	966	1,003	1,040	1,105	1,159	1,214	1,274	**1,109**
Ethiopia	777	817	853	953	1,066	1,162	1,249	**982**
Rwanda	735	774	787	825	873	928	993	**845**
Uganda	677	702	724	770	823	874	938	**787**
Malawi	295	325	350	371	386	398	413	**362**
Burundi	298	312	307	310	313	316	324	**311**
South Sudan	282	273	353	275	243	244	278	**278**

Source: IMF, World Economic Outlook Database, October 2019

Annex Table 4.2: County growth projections 2020-2022

Code	County	2014	2015	2016	2017	2018	2019	2020	2021	2022
28	Elgeyo Marakwet	5.0	12.2	13.9	9.0	10.0	10.0	10.0	10.0	10.0
18	Nyandarua	7.9	12.6	9.5	7.2	9.3	9.3	9.3	9.3	9.3
31	Laikipia	6.4	12.9	14.8	0.1	8.6	8.6	8.6	8.6	8.6
41	Siaya	10.6	12.7	4.1	6.0	8.4	8.4	8.4	8.4	8.4
13	Tharaka Nithi	6.0	7.2	4.2	15.8	8.3	8.3	8.3	8.3	8.3
32	Nakuru	10.2	5.8	10.0	4.7	7.7	7.7	7.7	7.7	7.7
39	Bungoma	16.2	1.5	5.7	6.9	7.6	7.6	7.6	7.6	7.6
30	Baringo	7.8	14.5	3.4	4.2	7.5	7.5	7.5	7.5	7.5
40	Busia	7.6	6.7	3.5	10.9	7.2	7.2	7.2	7.2	7.2
44	Migori	8.8	5.1	3.4	11.0	7.1	7.1	7.1	7.1	7.1
36	Bomet	6.7	1.2	11.5	4.0	7.0	7.0	7.1	7.2	7.3

Code	County	2014	2015	2016	2017	2018	2019	2020	2021	2022
14	Embu	-3.4	11.6	-3.5	5.7	7.0	7.0	7.1	7.2	7.3
7	Garissa	2.3	4.2	3.4	3.0	7.0	7.0	7.1	7.2	7.3
43	Homa Bay	6.4	3.8	6.6	4.4	7.0	7.0	7.1	7.2	7.3
11	Isiolo	5.5	6.5	2.3	5.5	7.0	7.0	7.1	7.2	7.3
34	Kajiado	5.7	6.9	9.6	1.3	7.0	7.0	7.1	7.2	7.3
37	Kakamega	5.7	6.5	3.0	2.7	7.0	7.0	7.1	7.2	7.3
35	Kericho	4.7	2.7	7.7	0.6	7.0	7.0	7.1	7.2	7.3
22	Kiambu	6.6	8.3	7.0	5.2	7.0	7.0	7.1	7.2	7.3
3	Kilifi	2.9	10.4	0.7	5.4	7.0	7.0	7.1	7.2	7.3
20	Kirinyaga	6.2	3.9	5.5	3.5	7.0	7.0	7.1	7.2	7.3
45	Kisii	5.1	5.9	4.4	5.6	7.0	7.0	7.1	7.2	7.3
42	Kisumu	5.3	2.5	4.2	2.0	7.0	7.0	7.1	7.2	7.3
15	Kitui	-3.8	20.5	-10.0	7.3	7.0	7.0	7.1	7.2	7.3
2	Kwale	4.2	5.8	5.2	7.4	7.0	7.0	7.1	7.2	7.3
5	Lamu	0.0	11.1	-0.4	9.4	7.0	7.0	7.1	7.2	7.3
16	Machakos	3.2	10.3	1.7	5.0	7.0	7.0	7.1	7.2	7.3
17	Makueni	4.7	9.9	2.1	-1.1	7.0	7.0	7.1	7.2	7.3
9	Mandera	4.7	4.5	4.4	4.2	7.0	7.0	7.1	7.2	7.3
10	Marsabit	-1.7	12.2	4.1	4.9	7.0	7.0	7.1	7.2	7.3
12	Meru	7.8	6.2	4.4	2.4	7.0	7.0	7.1	7.2	7.3
1	Mombasa	5.3	3.8	7.8	9.3	7.0	7.0	7.1	7.2	7.3
21	Murang'a	5.4	3.5	6.3	3.2	7.0	7.0	7.1	7.2	7.3
47	Nairobi	3.9	5.8	6.6	6.0	7.0	7.0	7.1	7.2	7.3
29	Nandi	3.7	3.5	8.8	-1.5	7.0	7.0	7.1	7.2	7.3
33	Narok	2.2	5.6	6.7	4.0	7.0	7.0	7.1	7.2	7.3
46	Nyamira	7.1	-1.7	17.3	-3.3	7.0	7.0	7.1	7.2	7.3
19	Nyeri	12.0	1.2	7.2	7.1	7.0	7.0	7.1	7.2	7.3
25	Samburu	7.5	0.2	13.0	0.8	7.0	7.0	7.1	7.2	7.3
6	Taita Taveta	10.4	1.8	11.3	2.4	7.0	7.0	7.1	7.2	7.3
4	Tana River	25.2	-17.4	10.9	2.6	7.0	7.0	7.1	7.2	7.3
26	Trans Nzoia	5.7	6.5	-0.6	4.9	7.0	7.0	7.1	7.2	7.3
23	Turkana	5.1	8.2	2.9	0.7	7.0	7.0	7.1	7.2	7.3
27	Uasin Gishu	8.7	5.4	6.2	-0.3	7.0	7.0	7.1	7.2	7.3
38	Vihiga	8.0	7.6	5.4	4.0	7.0	7.0	7.1	7.2	7.3
8	Wajir	2.7	5.3	2.9	3.9	7.0	7.0	7.1	7.2	7.3
24	West Pokot	6.1	6.9	7.4	-0.3	7.0	7.0	7.1	7.2	7.3
	Total	**5.6**	**6.1**	**6.0**	**4.8**	**7.2**	**7.2**	**7.3**	**7.4**	**7.5**

Annex Table 4.3: County economic growth rates 2014-2017

Code	County	2014	2015	2016	2017	Averages
1	Mombasa	5.3	3.8	7.8	9.3	**6.5**
2	Kwale	4.2	5.8	5.2	7.4	**5.7**
3	Kilifi	2.9	10.4	0.7	5.4	**4.8**
4	Tana River	25.2	-17.4	10.9	2.6	**5.3**

Code	County	2014	2015	2016	2017	Averages
5	Lamu	0.0	11.1	-0.4	9.4	**5.0**
6	Taita Taveta	10.4	1.8	11.3	2.4	**6.5**
7	Garissa	2.3	4.2	3.4	3.0	**3.2**
8	Wajir	2.7	5.3	2.9	3.9	**3.7**
9	Mandera	4.7	4.5	4.4	4.2	**4.4**
10	Marsabit	-1.7	12.2	4.1	4.9	**4.9**
11	Isiolo	5.5	6.5	2.3	5.5	**5.0**
12	Meru	7.8	6.2	4.4	2.4	**5.2**
13	Tharaka Nithi	6.0	7.2	4.2	15.8	**8.3**
14	Embu	-3.4	11.6	-3.5	5.7	**2.6**
15	Kitui	-3.8	20.5	-10.0	7.3	**3.5**
16	Machakos	3.2	10.3	1.7	5.0	**5.1**
17	Makueni	4.7	9.9	2.1	-1.1	**3.9**
18	Nyandarua	7.9	12.6	9.5	7.2	**9.3**
19	Nyeri	12.0	1.2	7.2	7.1	**6.9**
20	Kirinyaga	6.2	3.9	5.5	3.5	**4.8**
21	Murang'a	5.4	3.5	6.3	3.2	**4.6**
22	Kiambu	6.6	8.3	7.0	5.2	**6.8**
23	Turkana	5.1	8.2	2.9	0.7	**4.2**
24	West Pokot	6.1	6.9	7.4	-0.3	**5.0**
25	Samburu	7.5	0.2	13.0	0.8	**5.4**
26	Trans Nzoia	5.7	6.5	-0.6	4.9	**4.1**
27	Uasin Gishu	8.7	5.4	6.2	-0.3	**5.0**
28	Elgeyo Marakwet	5.0	12.2	13.9	9.0	**10.0**
29	Nandi	3.7	3.5	8.8	-1.5	**3.6**
30	Baringo	7.8	14.5	3.4	4.2	**7.5**
31	Laikipia	6.4	12.9	14.8	0.1	**8.6**
32	Nakuru	10.2	5.8	10.0	4.7	**7.7**
33	Narok	2.2	5.6	6.7	4.0	**4.6**
34	Kajiado	5.7	6.9	9.6	1.3	**5.9**
35	Kericho	4.7	2.7	7.7	0.6	**3.9**
36	Bomet	6.7	1.2	11.5	4.0	**5.9**
37	Kakamega	5.7	6.5	3.0	2.7	**4.5**
38	Vihiga	8.0	7.6	5.4	4.0	**6.3**
39	Bungoma	16.2	1.5	5.7	6.9	**7.6**
40	Busia	7.6	6.7	3.5	10.9	**7.2**
41	Siaya	10.6	12.7	4.1	6.0	**8.4**
42	Kisumu	5.3	2.5	4.2	2.0	**3.5**
43	Homa Bay	6.4	3.8	6.6	4.4	**5.3**
44	Migori	8.8	5.1	3.4	11.0	**7.1**
45	Kisii	5.1	5.9	4.4	5.6	**5.2**
46	Nyamira	7.1	-1.7	17.3	-3.3	**4.8**
47	Nairobi	3.9	5.8	6.6	6.0	**5.6**
	Total	**5.6**	**6.1**	**6.0**	**4.8**	**5.6**

Annex Table 4.4 County sectors value added (% of total)

Code	County	Agriculture, forestry and fishing	Manufacturing	Wholesale and retail trade	Financial and insurance	Transport and storage	Real estate	Construction	Public administration	Education
1	Mombasa	0.4	4.3	11.1	9.4	26.6	10.7	11.2	3.6	1.3
2	Kwale	45.9	0.3	5.9	5.7	4.9	6.6	3.7	5.3	6.2
3	Kilifi	32.1	7.1	5.1	7.3	9.6	12.2	1.9	5.4	7.7
4	Tana River	54.7	0.0	9.0	6.5	2.8	2.2	0.1	9.4	4.5
5	Lamu	57.7	0.1	8.8	2.2	12.9	3.7	0.5	6.6	2.8
6	Taita Taveta	38.6	0.2	10.9	8.8	6.1	7.8	4.3	10.0	4.8
7	Garissa	42.8	2.9	6.3	0.7	3.6	6.6	3.8	17.2	8.6
8	Wajir	53.9	0.0	5.6	4.1	0.7	2.1	7.5	13.9	5.3
9	Mandera	40.4	0.1	5.6	4.0	3.3	8.8	7.2	13.5	7.5
10	Marsabit	47.2	0.0	3.7	0.9	1.0	6.0	21.5	9.1	4.4
11	Isiolo	21.0	0.1	12.8	5.0	6.5	8.1	10.9	21.5	6.8
12	Meru	54.2	2.3	4.1	11.2	8.3	4.2	2.1	3.8	4.6
13	Tharaka Nithi	57.2	0.2	9.7	3.9	3.5	4.2	4.8	4.8	5.6
14	Embu	38.4	2.3	7.3	6.9	10.2	4.9	7.7	7.0	4.0
15	Kitui	41.2	0.1	5.1	11.3	7.0	6.2	2.5	7.4	10.6
16	Machakos	24.1	16.5	7.5	8.4	5.5	11.0	7.4	3.1	4.2
17	Makueni	47.2	0.4	5.8	7.0	5.2	5.4	5.7	6.9	9.4
18	Nyandarua	85.4	0.5	1.7	2.1	1.7	2.2	0.3	2.0	2.1
19	Nyeri	53.1	2.1	4.1	10.7	7.0	7.0	1.3	4.1	3.4
20	Kirinyaga	40.9	6.6	4.8	9.3	9.7	5.2	0.8	5.7	4.2
21	Muranga	51.4	4.3	2.5	11.9	4.0	6.0	4.7	4.1	4.7
22	Kiambu	31.4	11.8	3.9	10.0	6.9	10.1	13.1	3.4	2.8
23	Turkana	53.0	0.1	3.3	2.8	9.9	3.2	6.0	4.5	8.0
24	West Pokot	41.3	0.1	4.9	7.1	8.3	4.0	1.1	9.4	10.3
25	Samburu	40.9	0.1	16.4	5.2	4.7	4.7	2.5	12.8	6.4
26	Trans Nzoia	43.4	0.7	8.2	13.5	6.8	7.7	2.6	4.4	6.2
27	Uasin-Gishu	38.8	4.9	12.0	10.6	10.8	7.9	4.4	3.9	3.9
28	Elgeyo Marakwet	80.2	0.0	2.2	2.8	2.2	3.7	0.9	3.1	2.5
29	Nandi	59.5	3.4	3.6	10.0	2.8	4.2	1.1	4.2	6.4
30	Baringo	57.8	0.2	5.0	9.8	5.1	3.3	1.4	6.5	5.5

Code	County	Agriculture, forestry and fishing	Manufacturing	Wholesale and retail trade	Financial and insurance	Transport and storage	Real estate	Construction	Public administration	Education
31	Laikipia	43.8	0.9	8.8	7.7	7.3	6.1	6.9	7.4	4.3
32	Nakuru	58.2	2.9	3.4	5.9	5.9	5.1	3.2	2.7	2.7
33	Narok	67.2	1.2	2.1	8.5	2.6	4.2	0.8	4.4	3.9
34	Kajiado	14.8	4.7	6.1	16.1	7.3	21.9	8.9	4.5	4.3
35	Kericho	45.9	10.0	5.5	11.4	4.2	5.9	2.5	4.4	5.5
36	Bomet	71.5	2.9	2.8	4.6	1.6	1.5	4.4	2.4	4.8
37	Kakamega	52.1	4.4	4.4	5.5	4.1	6.0	1.6	4.4	9.1
38	Vihiga	34.1	0.6	6.1	10.6	3.9	10.7	7.1	7.8	10.0
39	Bungoma	58.8	0.9	3.6	5.4	5.7	5.0	2.2	4.8	8.6
40	Busia	57.7	0.2	6.1	1.0	3.8	4.3	6.1	7.4	8.5
41	Siaya	53.2	0.2	2.1	6.5	4.0	6.7	4.8	5.6	8.8
42	Kisumu	26.5	11.9	13.5	4.5	10.1	10.5	6.3	5.5	4.4
43	Homa Bay	59.8	0.5	3.4	4.2	5.0	4.0	1.6	6.0	9.4
44	Migori	42.4	2.8	3.8	7.1	6.9	7.2	1.1	5.9	10.2
45	Kisii	52.3	1.8	4.4	8.9	5.9	5.3	2.8	6.4	7.5
46	Nyamira	54.9	5.2	2.6	11.2	3.2	4.6	2.7	5.1	5.4
47	Nairobi	0.3	25.1	19.7	9.6	12.4	11.8	11.8	2.7	0.9
	Total	**37.7**	**8.6**	**8.2**	**8.1**	**8.0**	**7.6**	**6.0**	**4.4**	**4.3**

Annex Table 10.1: Total allocations to County Governments (Equitable and Conditional Transfers) in Ksh millions 2012-2018

	County	2012/13	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
1	Baringo	228.85	3630.41	4057.79	4671.46	5038.84	6,959.39	8,125.03
2	Bomet	238.88	3715.22	4273.85	4955.77	5328.03	6,241.91	8,133.98
3	Bungoma	350.69	6515.26	7409.08	8077.64	8728.06	11,253.39	12,765.31
4	Busia	266.49	3678.77	5407.98	5716.20	6165.42	7,449.02	8,826.48
5	Elgeyo Marakwet	184.76	3136.51	2992.89	3459.77	3738.00	4,944.69	5,601.08
6	Embu	206.16	3364.28	3961.47	4244.96	4653.03	6,165.24	6,827.24
7	Garissa	278.98	4696.47	5240.06	6365.61	6814.38	7,969.05	10,722.24
8	Homa Bay	273.82	5726.22	5132.23	5955.85	6420.71	7,568.99	8,467.34
9	Isiolo	176.73	2423.48	2749.26	3217.69	3470.19	4,340.81	5,484.10
10	Kajiado	227.76	3511.79	4063.81	4630.30	5001.25	8,188.01	9,605.25
11	Kakamega	397.09	7356.21	8934.57	9713.67	10518.27	12,905.26	14,489.42
12	Kericho	231.26	3612.81	4035.90	4756.58	5139.10	6,540.46	8,417.97
13	Kiambu	342.66	6264.44	6747.63	8246.78	8923.10	12,585.56	16,914.35
14	Kilifi	341.83	5820.42	6634.89	7834.44	8456.34	12,126.91	14,482.48
15	Kirinyaga	194.83	2829.92	3364.32	3741.94	4029.20	5,695.00	5,911.46
16	Kisii	328.76	5824.26	6428.78	7839.67	8460.23	10,897.35	12,011.00
17	Kisumu	275.56	4866.68	5416.11	6334.18	6811.41	9,214.72	11,875.53
18	Kitui	335.27	5834.40	6640.22	7542.54	8135.22	11,243.35	11,688.67
19	Kwale	254.65	4029.40	4641.03	5406.16	5846.20	9,315.49	11,518.02
20	Laikipia	191.50	2757.83	3164.92	3662.03	3946.32	5,706.50	6,927.96
21	Lamu	138.85	1599.99	1881.73	2192.83	2461.63	3,019.06	4,846.74
22	Machakos	316.51	5473.70	6365.70	7377.47	8006.98	10,078.52	14,965.22
23	Makueni	286.43	4721.15	5518.01	6242.67	6739.21	9,674.90	10,651.72
24	Mandera	398.87	6780.54	7905.62	9235.57	9978.40	12,246.86	13,709.96
25	Marsabit	257.03	4068.45	4619.59	5377.27	5813.25	7,730.88	8,718.80
26	Meru	306.17	5507.87	7314.18	7071.67	7712.95	10,739.55	12,556.10
27	Migori	281.42	4760.06	5309.30	6193.18	6684.78	8,166.90	8,801.12
28	Mombasa	257.35	4347.58	4876.50	5920.73	6309.69	12,634.45	14,456.50
29	Murang'a	263.30	4321.83	5007.17	5622.57	6063.31	8,318.24	8,850.78
30	Nairobi	551.08	9896.24	12945.53	13633.21	14614.50	33,649.69	33,068.25
31	Nakuru	367.29	6961.31	7538.21	8949.39	9598.50	16,098.93	18,478.94
32	Nandi	240.67	3886.85	4269.60	4995.87	5391.65	6,847.93	8,426.86
33	Narok	260.74	4146.38	4819.16	5526.97	5979.39	9,805.63	10,194.86
34	Nyamira	218.07	3317.08	3779.00	4396.95	4741.18	6,111.70	6,959.07
35	Nyandarua	223.82	3435.12	3904.07	4522.15	4874.17	6,105.18	7,669.54
36	Nyeri	229.17	4071.32	4396.89	5068.37	5442.28	7,961.11	8,836.54

	County	2012/13	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
37	Samburu	195.35	2805.09	3190.66	3712.56	4009.87	4,832.66	5,861.12
38	Siaya	249.70	3971.59	5011.62	5302.22	5700.17	6,845.34	8,443.59
39	Taita	186.23	2626.48	2979.26	3496.11	3765.97	5,524.40	5,987.45
40	Tana River	211.64	3118.81	3599.93	4155.86	4592.14	5,913.76	7,573.36
41	Tharaka Nithi	179.75	2434.59	3436.19	3316.93	3571.51	4,632.23	5,721.00
42	Tranzoia	253.67	3923.01	4541.68	5347.14	5779.34	6,628.53	8,042.56
43	Turkana	456.26	7894.40	9235.14	10751.07	11634.57	10,964.75	15,352.30
44	Uasin Gishu	257.11	4066.89	4626.10	5490.76	5845.778	8,062.14	9,958.06
45	Vihiga	207.40	3028.54	3789.12	4097.18	4416.704	5,581.63	7,002.57
46	Wajir	333.99	5647.52	6402.55	7486.06	8091.461	9,362.31	13,175.69
47	West Pokot	224.04	3592.83	3859.88	4517.46	4885.157	5,649.11	6,369.51
	TOTAL	12678.42	210000.00	242419.14	276373.48	298327.8	410,497.48	483,473.12

Source: Commission on Revenue Allocation, 2012-2018

Annex Table 10.2: County expenditure/Absorption rates, 2013-2018

County	2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	Recurrent Expenditure Absorption Rate	Development Expenditure Absorption Rate	Recurrent Expenditure Absorption Rate	Development Expenditure Absorption Rate	Recurrent Expenditure Absorption Rate	Development Expenditure Absorption Rate	Recurrent Expenditure Absorption Rate	Development Expenditure Absorption Rate	Recurrent Expenditure Absorption Rate	Development Expenditure Absorption Rate	Recurrent Expenditure Absorption Rate	Development Expenditure Absorption Rate
Baringo	99.7	30.7	99.5	59.5	96.5	53.9	96.1	56.2	99.3	36.4	97.0	32.2
Bomet	94.5	92.4	96.4	99.6	101.2	94.6	84.9	89.3	93.1	46.9	93.0	70.0
Bungoma	69.5	15.3	96.1	46.7	86.4	76.1	92	48.7	92.6	42.3	84.3	55.9
Busia	85.3	17.6	88.1	85.3	92.2	69	87.6	63.9	93.5	45.1	91.4	52.8
Elgeyo Marakwet	72.7	49.9	98.3	75.5	94.1	45.6	96.9	63	97.1	49.0	98.7	54.1
Embu	49.9	12.2	93.3	39.5	88.8	40.1	88.3	81.4	92.0	59.0	97.7	62.8
Garissa	51	31	96.4	72.4	96.2	78.8	98.3	87	98.3	42.7	101.3	56.6
Hombay	84.4	61.9	107.6	101.2	93.4	79.1	93.2	67.6	80.6	42.8	88.3	32.5
Isiolo	88.2	51.1	85.4	82.2	93.3	76.8	95	88.6	81.3	72.4	90.5	53.7
Kajiado	89	46	96.8	50.2	87.5	56.8	87.5	47.1	78.7	37.2	91.4	63.4
Kakamega	91	27.2	80.3	60.6	87	72.4	93.2	82.4	91.5	69.0	93.6	73.2
Kericho	88.6	54.3	97.4	73.8	91.6	78.1	92.8	82.7	92.9	48.8	98.8	38.9
Kiambu	93.3	54	93.3	66.7	98.4	71.2	94.3	69.9	91.0	66.1	89.2	75.4
Kilifi	77.3	20.7	85.9	64.9	85.1	62.6	87.8	65.5	81.5	73.1	69.7	61.8
Kirinyaga	70.5	34	90	57.6	94.2	70.5	93.9	57.8	97.1	42.3	98.3	62.6
Kisii	86	55	92.7	79.9	96.8	70.6	93.9	54.3	88.7	56.5	90.8	57.2
Kisumu	91.3	4	86.6	47.4	82.3	45.3	77.9	62.6	90.3	23.6	78.7	57.8
Kitui	83.5	17.6	87.9	58.3	87.4	69.6	80.4	70.7	87.4	72.0	93.0	71.4
Kwale	71.9	56.9	84.9	55.8	89.4	68.4	87.9	56.8	85.4	52.1	94.2	42.6
Laikipia	97	34	96.2	53.9	88.8	60.7	90.4	62.7	99.4	53.5	95.1	63.7
Lamu	53.1	24	83	50.8	90.4	64.4	76.6	38.3	84.6	35.8	86.2	30.4
Machakos	87.9	104.5	54.5	21.9	96.2	44.6	77.3	99.1	91.0	33.3	89.4	57.4
Makueni	81.7	30.7	86.6	37.3	85.1	31.7	94.8	73.4	91.7	44.8	92.7	60.1
Mandera	71.9	28.1	73.1	88.3	97.3	74.8	91.1	80.6	87.2	67.4	94.8	81.3
Marsabit	90.4	34.4	90.1	63.8	95	72.7	92.8	87	93.7	74.0	89.9	81.5
Meru	115.9	19.7	90.9	67.5	84.3	58.8	88.2	69.6	79.6	25.3	90.8	56.3
Migori	84	61	98.9	65.4	91.9	66.8	83.2	62.7	74.7	68.6	88.5	49.6
Mombasa	73.1	2.4	84.1	65.7	84.6	87.9	83.5	68.8	83.9	76.0	93.2	71.5
Muranga	101.9	51.3	107.2	75.3	93.8	81.1	93.4	58.1	82.7	72.5	88.5	69.7

Source: Controller of Budget, 17999-18000

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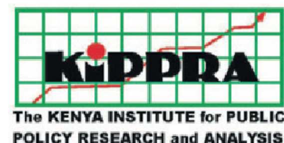

Bishops Garden Towers, Bishops Road
P.O. Box 56445 00200, Nairobi, Kenya
tel: +254 20 2719933/4; fax: +254 20 2719951
cell: +254 724 256078, 736 712724
email: admin@kippra.or.ke;
website: http://www.kippra.org