Empowering Youth through Decent and Productive Employment

KENYA ECONOMIC REPORT 2015

KENYA VISION 2030

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

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The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

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Nairobi, Kenya
2015

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2013: Creating an Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties

2014: Navigating Global challenges While Exploiting Opportunities for Sustainable Growth

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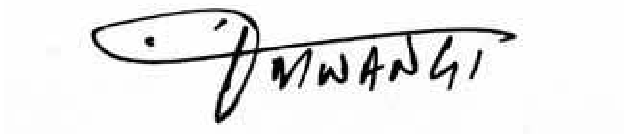
Foreword

The youth account for about 60 per cent of the labour force or economically active population aged between 15-64 years, employed or unemployed. Kenya's median age is estimated at 19 years and the proportion of the population that is below 15 years is estimated at 43 per cent. This clearly demonstrates that the phenomenon of a youthful population is going to remain with us for years to come and this is a critical factor in our social, economic and political development.

The Government recognizes that with the right investments, the youth bulge can drive economic growth and transformation, a phenomenon known as demographic dividend. However, there are risks and challenges associated with the large proportion of youth in the population. High youth unemployment coupled with increased demand for social and economic services puts strain on the government, and is associated with other social problems such crime, drug abuse and alcoholism, prostitution, youth radicalization and other high risk behaviours. The Government has thus prioritized youth empowerment as a flagship project in the Medium Term Plan 2013-2017. In collaboration with other stakeholders, we are implementing various policy and institutional reforms, including creating an enabling economic environment, restructuring the National Youth Service (NYS), increased access to government procurement, and enterprise financing initiatives such as Youth Enterprise Development Fund, Uwezo Fund and Women Enterprise Fund. In addition, the government is committed to creating an enabling environment for the realization of the goals of Vision 2030.

The Constitution of Kenya, in Article 55, recognizes the critical role of youth and specifically requires the state to take measures to ensure that youth have access to relevant education and training; have opportunities to associate, be represented and participate in political, social, economic and other spheres of life; access employment; and are protected from harmful cultural practices and exploitation. I thus call upon all stakeholders to support the various initiatives that are being implemented at the national and county government level for our long-term development.

The Kenya Economic Report (KER) 2015 whose theme is 'Empowering Youth through Decent and Productive Employment' is timely as it provides a deeper look at Youth Empowerment with a major focus on employment. The report views employment as the main pathway to youth empowerment, supported by sound macroeconomic management, and an enabling economic and institutional policy environment that will support rapid economic growth and transformation. Indeed, relative to the other segments of the population, youth face the highest rates of unemployment. Addressing youth unemployment can also help address the associated social problems. This report draws on quality domestic and international research in analyzing youth unemployment, and is thus critical in informing and shaping the policy debate on youth empowerment. I hope it will serve as an important reference for key stakeholders, including policy practitioners, development partners, civil society, academia and decision makers.



Hon. Mwangi Kiunjuri, MGH
Cabinet Secretary
Ministry of State for Devolution and Planning

Preface

The Kenya Economic Report (KER) 2015 is the seventh in a series of annual reports on the Kenyan economy prepared by the Kenya Institute for Public Policy Research and Analysis (KIPPRA). Pursuant to KIPPRA Act 2006, the report reviews Kenya's recent economic performance and provides an outlook for the medium term. The focus of KER 2015 is 'Empowering Youth through Decent and Productive Employment'. This is highly relevant and timely within the context of our current development challenges and potential opportunities emanating from demographic change.

The youth comprise a large proportion of our labour force, about 60 per cent, and the trend is expected to persist because the segment of the population aged below 35 years is large, estimated at 78 per cent of the total population. Youth empowerment continues to receive attention globally and regionally due to the significant importance of this segment of population in development. Kenya is a signatory to the Commonwealth Plan for Youth Empowerment, and African governments have committed to address youth development challenges under the Decade Plan of Action for Youth Development and Empowerment (2009-2018). The Constitution of Kenya, Article 55, requires the state to take measures to ensure youth have access to relevant education and training; have opportunities to associate, be represented and participate in political, social, economic and other spheres of life; access employment; and are protected from harmful cultural practices and exploitation. Since 2005, the government has been mainstreaming Youth Development agenda, first with the establishment of the Ministry of Youth Affairs, and the implementation of National Youth Policy. The Government is also implementing various policy initiatives, including Youth Enterprise Development Fund, Uwezo and access to public procurement.

Despite the various policy initiatives and efforts, meaningful impact is yet to be realized in addressing the challenges facing the youth, especially unemployment and under-employment.

The youth bulge is associated with risks and opportunities. With the right investments and an enabling economic environment, the youth provide great potential for driving growth and economic transformation, as experienced in East Asia. According to this report, youth employment is the key driver of youth empowerment. However, this has to be accompanied by a stable macroeconomic environment, robust economic growth, education and training, efficient and affordable health services, infrastructure development, and a governance framework that supports the realization of demographic dividends.

Part I of the report underscores the need for a stable macroeconomic environment geared towards supporting economic resilience and rapid growth. Education and skills development, and health sector developments are also discussed. They are critical for human capital development, which is an important input in national wealth creation and prosperity. In this regard, the report argues for improvement of education quality and elimination of inequalities in access, as well as reform the TVET sector.

The Medium Term Plan 2013-2017 projects, on average, the creation of about 1 million jobs per year over the period 2013-2017. The new jobs created in 2014 were estimated at 799,700 against a target of 821,000 in the MTP II. The major challenge is that about 82.7 per cent of the new jobs are created in the informal sector, which is characterized by low earnings and weak job security. Consequently, appropriate policies need to be put in place to spur the growth of the modern sector economy. Most of the decent jobs are created in the modern sector, which generates only about 20 per cent of the jobs required to absorb the labour force, which is growing at about 2.9 per cent per annum. The magnitude of the problem underscores the need for rapid growth and transformation of the private sector. Yet, available statistics indicate that informal sector employment is growing faster. Between 2000 and 2014, informal sector employment grew at an average annual rate of 6 percent compared to 3 percent annual for the formal sector. The report thus argues for a focused approach to spur the growth of the productive sectors of the economy, including agriculture, manufacturing, trade, and tourism. These sectors have great potential to contribute to growth and employment creation as well as catalyze economic transformation. Agricultural commercialization is identified as an important policy thrust for agricultural development, which has important linkages with agro-processing. While tourism has suffered recently due to security concerns, the report argues for diversification and promotion of the tourism sector. Kenya's financial sector continues to undergo various policy changes, private sector credit growth, non-performing loans, and enhanced supervision and regulation of SACCOs is important for growth and stability of the sector.

The report projects that the economy will grow by about 5.8 percent in 2015 and further to 6.5 percent in 2016. However, growth of the economy remains below the MTP II target, largely due to slow implementation of the envisaged projects and programmes, slow down in global growth, and various external shocks. Slow growth in tourism and lower than expected export performance has hampered rapid growth. However, growth prospects remain positive.

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A Abbreviations and Acronyms

ACRA	Accounting and Corporate Regulatory Authority
AfTIA	Africa Technology and Innovation Accelerator
AG	Attorney General
AGOA	African Growth and Opportunity Act
AGPO	Access to Government Procurement Opportunities
AMISOM	African Mission in Somalia
ART	Antiretroviral Therapy
ASALs	Arid and Semi-arid Lands
ASCAs	Accumulating Savings and Credit Associations
ASF	African Standby Force
ATMs	Automated Teller Machines
CAP	Common Agricultural Policy
CBK	Central Bank of Kenya
CBRIS	Companies and Business Registration Integrated System
CIC	Commission for the Implementation of the Constitution
CIRTs	Computer Incident Response Teams
CMA	Capital Markets Authority
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CPI	Corruption Perception Index
CSPs	Certification Service Providers
DALYs	Disability-Adjusted Life Years
DHIS	District Health Information System
DPP	Director of Public Prosecutions
DTD	Domestic Tax Department
DwTs	Deadweight tonnes
EABI	East African Bribery Index
EAC	East African Community
EACC	Ethics and Anticorruption Commission
EASF	East African Standby Force
ECDE	Early Childhood Development Education
EPAs	Economic Partnership Agreements
EPZs	Export Processing Zones
EU	European Union
FDSE	Free Day Secondary Education
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
GFCF	Gross Fixed Capital Formation
GJLOS	Governance, Justice, Law and Order Sector
GoK	Government of Kenya
HELB	Higher Education Loans Board
HIV/AIDS	Human Immunodeficiency virus/ Acquired Immune Deficiency Syndrome
ICA	Infrastructure Consortium for Africa
ICT	Information and Communication Technology
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPO	Initial Public Offer
IPOA	Independent Police Oversight Authority
IRA	Insurance Regulatory Authority
JKIA	Jomo Kenyatta International Airport
KAA	Kenya Airports Authority
KBRR	Kenya Bank's Reference Rate
KCAA	Kenya Civil Aviation Authority
KCPE	Kenya Certificate of Primary Education

KCSE	Kenya Certificate of Secondary Education
KDHS	Kenya Demographic and Health Survey
KIE	Kenya Industrial Estates
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KIRDI	Kenya Industrial Research Development Institute
KIRDI	Kenya Industrial Research and Development Institute
KNBS	Kenya National Bureau of Statistics
KNEC	Kenya National Examination Council
KNHCR	Kenya National Commission on Human Rights
KTMM	KIPPRA Treasury Macro Model
LAPSSET	Lamu Port South Sudan-Ethiopia-Transport
LCOE	Levelized Cost of Electricity
MEWNR	Ministry of Environment, Water and Natural Resources
MINUSCA	Multidimensional Integrated Stabilization Mission in the Central African Republic
MMR	Maternal Mortality Ratio
MSEs	Micro and Small Enterprises
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
MW	Megawatts
MWI	Ministry of Water and Irrigation
NCA	National Construction Authority
NCDs	Non-Communicable Diseases
NCIC	National Cohesion and Integration Commission
NEMA	National Environmental Management Authority
NER	Net Enrolment Rate
NESC	National Economic and Social Council
NGOs	Non-Governmental Organizations
NHC	National Housing Corporation
NHIF	National Hospital Insurance Fund
NMR	Neonatal Mortality Rate
NPS	National Police Service
NPSC	National Police Service Commission
NSC	National Steering Committee
NSE	Nairobi Securities Exchange
NSSF	National Social Security Fund
NTSA	National Transport and Safety Authority
OVCs	Orphans and Vulnerable Children
PKI	Public Key Infrastructure
PPOA	Public Procurement Oversight Authority
PPPs	Public-Private Partnerships
PSOs	Peace Support Operations
REA	Rural Electrification Authority
REP	Rural Electrification Programme
RMLF	Road Maintenance Levy Fund
ROSCAs	Rotating Savings and Credit Associations
RSIP	Roads Sector Investment Programme
SACCOs	Savings and Credit Cooperative Societies
SADC	Southern Africa Development Cooperation
SASRA	Sacco Societies Regulatory Authority
SEZ	Special Economic Zones
SGI	Security Governance Initiative (of US)
SGR	Standard Gauge Railway
SID	Society for International Development
SRC	Salary Remuneration Commission
SSA	Sub-Sahara Africa
SSR	self-sufficiency ration
TA	Transition Authority
TEUs	Tonnes equivalent units
TFR	Total Fertility Rate
TFTA	Tripartite Free Trade Area
TI	Transparency International
TISA	The Institute for Social Accountability
TIVET	Technical, Industrial, Vocational and Entrepreneurship Training
TOE	Total Energy Consumption
ToT	Turnover Tax
TSC	Teachers Service Commission
TTF	Tourism Trust Fund
UAE	United Arab Emirates
UDHR	Universal Declaration of Human Rights
UNAMID	United Nations-African Union Mission in Darfur
UNECA	United Nations Economic Commission for Africa
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Funds
UNMISS	United Nations Mission in South Sudan
US	United States
VAT	Value Added Tax
WARIS	Water Regulatory Integrated System
WASREB	Water Services Regulatory Board
WEF	World Economic Forum
WESP	World Economic Situation Prospects
WGI	Worldwide Governance Indicator
WHO	World Health Organization
WTO	World Trade Organization
WTTC	World Travel and Tourism Centre
YEDF	Youth Enterprise Development Fund

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Executive Summary

The Kenya Economic Report (KER) 2015, whose theme is 'Empowering Youth through Decent and Productive Employment', analyses the performance of Kenya's economy during the preceding year and provides economic prospects for the next three years. The report gives considerable attention to the issue of youth empowerment, with key focus on employment. The youth account for about 60 per cent of Kenya's labour force, which is estimated to be growing at a rate of 2.9 per cent per annum. The youth, therefore, comprise an important component of our human capital and thus a major determinant of Kenya's potential economic growth and development. Youth face the highest level of unemployment, estimated at about 25 per cent. There are also social problems such as crime, drug abuse, alcoholism and religious radicalization.

The KER 2015 argues that while addressing youth social problems, a critical strategy should involve creating decent and productive employment. Indeed, the Medium Term Plan II for 2013-2017 committed to expand the share of modern sector employment to 40 per cent. This goal remains elusive and, in fact, it appears that the share of vulnerable jobs is not coming down. The structure of the economy is such that only about 13 per cent of the labour force is employed in the modern sector wage employment. An estimated 77 per cent of the labour force was employed in the informal sector, and traditional agriculture and pastoralist activities. This sectors' share of employment increased from 74 per cent in 2009, yet labour productivity remains low, and generally there is lack of job security and social protection.

The report argues that the greatest challenge for Kenya is to create high productivity non-informal sector jobs on a sufficient scale to absorb the growing youthful labour force estimated at 11 million out of a labour force of 18 million in 2014. There is, therefore, need to pursue a combination of policies that will accelerate economic growth and transformation, including ensuring a stable macroeconomic environment, enhanced investment in human capital, effective sector policy interventions, improved business environment to encourage private sector development, and upgrading of SMEs, filling infrastructure gaps, and strengthening governance.

According to the report, Kenya's growth prospects are favourable, with growth in 2015 estimated at 5.8 per cent compared to 5.3 per cent in 2014, and is expected to increase to about 6.5 per cent in 2016. This is predicated on improved macroeconomic stability, on-going upgrading of infrastructure, structural reforms, regional integration, increased foreign direct investment, and improved security. However, growth still remains below the MTP II targets.

Macroeconomic Performance

The Kenyan economy recorded slower economic performance in 2014 by registering an annual growth of 5.3 per cent compared to 5.7 per cent in 2013. The slow growth is largely due to contraction in activities in hotels and restaurants linked to the slow down in tourism due to security concerns and travel advisories. There was slow down in agriculture due to poor long rains, and Kenya's manufacturing sector continues to suffer stiff competition from imports. Kenya's growth continued to be led by strong growth in investment and household consumption. The successfully issue of a Euro bond in June 2014 led to improved overall balance of payments position. Due to improved economic environment, growth is projected to improve to 5.8 per cent in 2015 and increase further to 6.5 per cent in 2016.

Kenya, however, still faces the challenge of a large current account deficit, mainly driven by imports of capital goods for investment, and relatively slower growth in exports. The widening gap between revenue and expenditure to GDP ratio points to the need to closely monitor sustainability issues related to government's fiscal position. At the same time, total debt has increased and points to increasing fiscal pressure. The overall savings rate over the past five years (2010-2014) was 12.6 per cent, which is below the MTP target, and the investment-savings gap has continued to grow.

Governance

An assessment of Kenya's governance indicators since the promulgation of a new Constitution in 2010 shows mixed performance based on various indicators such as Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption.

Combating corruption is a huge challenge as the results from corruption perception surveys reveal. The government should embrace use of technology to reduce opportunities for corruption, by integrating technology is most service delivery activities.

Terrorism is also a big threat to stability in the region, as well as inter-communal, governance and resource-based conflicts in areas such as Tana River, Lamu, Baringo, Turkana, Samburu, Mandera, Wajir and Pokot . These undermine peaceful coexistence and need to be addressed accordingly. The government recognizes that security is critical for Kenya's development and stability, and is implementing various measures geared towards creating a peaceful and secure environment. In this regard, the question of policing is relevant. The status of refugees from Somalia should be given a critical evaluation again, within the context of enhanced security.

Social-Economic Performance

While poverty is a major challenge in Kenya, there were significant achievements in poverty reduction by 2005/6, when the level of poverty was estimated at about 46 percent from 52 percent in 2000. However, the level of poverty is estimated to have increased after 2007/8, due to various shocks and erratic economic performance. The government has continued to take positive measures such free primary education; free day secondary school education; bursary funds; cash transfers for orphaned and vulnerable children, and the elderly; and free maternal health care. These measures are bearing fruit but need to be effectively targeted.

Education is key in enhancing employability and the overall growth and development. In Kenya, education receives high priority and has the highest allocation of public expenditure. However, there are emerging policy concerns, which include enhancing education outcomes; quality; skill development and mismatch; revitalization of TVET institutions; inequality in education at all levels; and the need to deepen reforms to make education more affordable. According to the last census, about 11 per cent of youth never attended school, which undermines their employability.

In terms of healthcare, the overall health status of Kenyans has improved as reflected in neo-natal, infant mortality and HIV/AIDS prevalence. These improvements notwithstanding, the sector faces key challenges that include inadequate health infrastructure and human resources; low health financing; and poor service delivery. Moreover, efforts to decentralize health services have proved more complex than initially thought.

Agriculture

Growth of the agriculture, forestry and fishing sub-sectors declined from 5.2 per cent in 2013 to 3.5 per cent in 2014 due to decline in the total marketed value of agricultural production, as a result of erratic rains.

Agricultural productivity as measured by the value added per worker stagnated during the last decade. The key challenges to productivity improvement include climate variability, and extreme weather conditions such as droughts and/or floods. Other factors are low adoption of technology (such as superior varieties and irrigation technology) due to information asymmetry; inadequate access to relevant information; and lack of resources to implement new technologies.

The total food self-sufficiency ratio (SSR) declined to 75 per cent in 2014 from 80 per cent in 2013, leading to an increase in the import dependency ratio from 23.3 per cent in 2013 to 29 per cent in 2014. The report argues for the need to empower agriculture producer groups, commercialization and increased resource allocation to the sector.

Extractive Sector

The recent discoveries in oil, gas, rare earth minerals, and coal, despite many years of exploration, clearly indicate that Kenya is under-explored. Key questions have been raised on the country's preparedness to exploit the resources and how the negative impacts and challenges of oil, gas and mining will be mitigated once Kenya starts drawing out these resources.

The extractive activity has the potential to drive Kenya's growth and transformation but will depend on effective management of the resources. The key issues include sound macroeconomic management, sustainable management of ecologically sensitive areas where oil and other minerals have been discovered, enhancing value addition and local content and participation, effective handling of land rights and compensation, and the need to develop a sound governance framework, including the legal framework that enhances transparency and accountability.

Tourism

The government has set a target of placing Kenya among the top ten long haul tourist destinations. However, the sector has been crippled by travel advisory warnings from key source markets due to the threat of domestic and international terrorism. Consequently, the number of international visitor arrivals fell by 11.1 per cent in 2014, down to 1.35 million visitors compared to 1.52 million in 2013.

As the country focuses on addressing insecurity, there is need for diversification, and deployment of incentives aimed at reducing landing costs and development of infrastructure, especially to allow commercial airlines to land in popular destinations.

Manufacturing

The overall sector goal of the Vision 2030 is to increase manufacturing's contribution to GDP by at least 10 per cent annually. The sector growth declined from 5.6 per cent in 2013 to 3.4 per cent in 2014, and accounted for 10.0 per cent of GDP in 2014 compared to 10.7 per cent in 2013. The sector accounted for 12.1 per cent of the formal sector employment in 2014, compared to 12.2 per cent in 2013. The manufacturing sector is thus vital for economic growth and creation of quality jobs.

An emerging policy concern is that Kenya could be losing its market share in the region to cheap imports from China and India. However, there are positive policy developments, including the enactment of Special Economic Zones Act 2015, and extension of the African Growth and Opportunity Act (AGOA) by 10 years up to 2025.

The high cost of production attributed to costs of electricity, fuel, raw materials, credit, transportation, and volatility in supply of power are cited as the major constraints impeding competitiveness. While there is need to address the above problems, including counterfeits, it is important for the government to support the development of industrial clusters.

Micro and Small Enterprises

Over 75 per cent of all modern sector establishments in Kenya are MSEs with most employment is concentrated in wholesale, retail, trade, restaurants and hotels. One major challenge is that MSEs operate informally, and there is multiplicity of registration, licensing and other statutory requirements administered by different agencies.

While the overall policy goal remains to improve the business environment, many county governments are considered to have introduced various licenses and fees that could lead to increased cost of doing business. Incubation services continue to generate support and it is important that the government develops a national incubation policy to support the development of MSEs. The introduction of Huduma Centres is welcome and the government should consider expanding the menu of services to include all relevant business registration services.

Trade and Foreign Policy

In 2014, the domestic trade sub-sector accounted for about 8 percent of GDP and about 9.3 per cent of employment. In the recent past, the country has seen an expansion in retail and wholesale outlets. The emerging policy concern relates to the proliferation of licenses and levies, driven by the need to raise county revenue. The cost of the Single Business Permit has risen in most counties.

The EAC region is the leading destination for Kenyan exports. However, there are challenges such as increased competition from Chinese and Indian imports, and re-location of firms from Kenya to the region, Kenya's imports from the region increased, especially for maize and sugar. Kenya has benefitted since 2003 from sugar safeguard measures under Article 61 of the COMESA Treaty to allow the domestic sub-sector time to grow and become competitive. The country is unable to compete with duty free imported sugar, and safeguard measures were extended in March 2015 for duration of one year to allow the country implement necessary reforms. In 2014, there was 152 per cent increase of Kenya's imports from the United States, which mainly comprised civilian aircraft, engines and equipment parts. Kenya's access to the EU market continued to decline.

Kenya Foreign Policy and Diaspora Policy documents were launched in January 2015. The country is increasingly becoming a strategic state in the war against international terrorism in the Eastern African region, and in September 2014, Nairobi hosted the Peace and Security Council Summit to discuss terrorism menace in Africa. Kenya is also among six African countries that will benefit from the US' Security Governance Initiative (SGI).

Kenya should be in the fore-front in enhancing peace and security in the region. The deployment of more security officers to man the Kenya-Somalia border, the involvement of local border communities in community policy, and engaging the youth in border towns of Garissa, Wajir, Lamu, Mandera counties in economic activities will go a long way in containing the Al-shabaab insurgents. Kenya should also seek support from other countries such as Israel, US, Saudi Arabia that have ably dealt with cross-border terrorism.

Financial Services

The financial sector plays a significant role in resource mobilization for economic development. The sector has witnessed important developments, including expansion of bank branches and Automated Teller Machines (ATMs), the use of agency banking model, and mobile banking. The sector's contribution to GDP increased from 6.6 per cent in 2013 to 6.7 per cent in 2014.

Despite the positive improvements, there are emerging policy concerns, including governance of deposit taking SACCOs, a large interest rate spread, growth in non-performing loans, and low insurance penetration.

Building and Construction

The sector grew by 13.1 per cent in 2014 compared to 5.8 per cent growth in 2013, sustained by public sector investment in infrastructure, especially construction of the railway and roads. The sector is critical in the development of public infrastructure and physical facilities for the other sectors of the economy. Enhanced development of this sector reduces the cost of doing business, increases the productive capacity of the economy, and creates employment (both direct and indirect) through linkages with other sectors.

The key challenges facing the sector include scarcity of and limited access to land; cost, process and duration of obtaining development approvals; local private sector capacity; failure to adhere to construction regulations on standards, thus undermining quality; rapid urbanization and informal settlements; and high cost of financing housing development. Some of the key recommendations include enhanced land use planning, adoption of 'one-stop-shop approval mechanisms for construction permits, promotion of alternative quality building materials, and enhanced enforcement of building standards.

Transport

The development of the transport sector has significant influence on other economic sectors through its impact on the ease of movement of people, goods and services. Land transport dominates the transport sector. According to the Roads Sector Investment Programme (RSIP), a total of Ksh 130 billion is required annually to finance the sector. The roads sub-sector, however, faces challenges emanating from limited funding and increased costs of construction driven by land acquisition and compensation as well as rising per-kilometre unit costs of construction. Local contractors face capacity constraints, and road traffic congestion remains a challenge in major urban areas.

The air transport industry experienced a drop in performance due to adverse travel advisories on account of security from traditional markets, and route cancellations on account of the ebola outbreak. However, demand for domestic air transport has witnessed an increase, indicating growing preference for air travel over other modes.

The rail transport sector continued to gain prominence, especially with the construction of the Standard Gauge Railway (SGR). The Port of Mombasa registered a rise in traffic handled. The SGR and urban commuter rail projects face challenges in land acquisition and compensation. There is need for forward long-term spatial planning to ensure availability of land for transport infrastructure projects.

Energy

The Kenya Vision 2030 has identified energy as a key foundation for Kenya's economic growth and transformation. Through increased investment, the installed electricity generating capacity increased by about 4.7 per cent from 1,717.8MW in 2013 to 1,798.6MW in 2014. The main source of the increased installed capacity was from geothermal energy, which witnessed an increase of 111MW in 2014. The increasing share of geothermal energy in the overall energy mix is expected to translate into a reduction in the cost of power. Overall, 69 per cent of electricity is generated using renewable energy sources, and access to electricity remains low at about 32 per cent nationally.

The recent discovery of oil in Kenya is expected to improve the nation's energy security. However, there are gaps in existing policies and legal frameworks relating to licensing, revenue sharing, institutional development and environmental sustainability that need to be urgently addressed. Coal consumption is also expected to increase once mining of coal deposits in Mui Basin in Kitui County begins.

Some of the key challenges that need to be addressed include cost of energy and transmission losses, contestation and conflicts associated with energy projects, and increasing access in rural areas through appropriate technologies such as mini-grid and off-grid renewable energy technologies.

Water and Sanitation

The Constitution in Article 43 (b and d) provides for right to clean and safe drinking water and in adequate quantity as well as to reasonable standards of sanitation. The Vision 2030 envisages that the entire population will have access to improved water and sanitation by 2030. In 2014, access to improved water is estimated at 63.3 per cent at national level.

Key among the challenges that need to be addressed include: high non-revenue water and low recovery of operations and maintenance; huge investment demand for infrastructure development; water sourcing disputes; water pricing; water revenue sharing; inadequate service to population in urban informal settlements and rural areas; as well as limited internalization of the social and commercial orientation of water and sanitation services.

Poor sanitation threatens public health in terms of ill-health, sickness and increases in health costs. Access to improved sanitation is estimated at 30.1 per cent of population at national level, against a target of 75 per cent by end of 2015. One major challenge is that Kenya does not have an integrated sanitation policy. Various actions in the sector are based on the Public Health Act (2012) and the Water Act (2002) and their derived guidelines. The weak policy environment, including lack of an effective monitoring and evaluation mechanism, contributes to the observed performance.

Information Communication and Technology

Kenya has continued to attract global attention due to increased investment and adoption of ICT especially in mobile money transfer services. Access to ICT services is improving, and the cost has been falling. The government is also investing in the use of ICT in service delivery, including online services such as registration of businesses; search for business names; application for marriage certificates, and application and renewal of passports, driving licenses, rent clearance certificates, etc. Other related key initiatives include the introduction of i-Tax Online services to improve the efficiency in tax collection; use of Integrated Financial Management Information Systems (IFMIS) that offers a unified financial management solution to government offices; and e-procurement system to address procurement-related challenges.

There are emerging concerns that the rate of safeguarding the ICT sector is not matching the significant growth seen in the sector, especially with regard to cyber security and data protection, hacktivism, emerging digital currencies, and management of big data. Some of these challenges point to the need to formulate and implement appropriate policies to ensure that the public is aware of safety and security matters of technology.

Medium Term Prospects

The economy registered a growth of 5.3 per cent in 2014, compared to 4.7 per cent in 2013. Medium term growth prospects are positive, with growth for 2015 estimated at 5.8 per cent and projected to increase to 6.5 per cent in 2016, predicated on the following key assumptions: (a) Public investment in infrastructure will continue as planned; (b) transition to devolved system continues to be stable and growth-oriented; (c) favourable weather conditions continue to sustain improvements in agricultural output; and (d) a stable regional and global economic environment with stable oil prices; and (e) improved security situation to support recovery in tourism.

The projected growth falls below the MTP II targets largely due to delays in the implementation of key projects, sluggish global economic growth, and slow recovery due to external shocks. It is expected that the government will be able to effectively address concerns about security, which impacted growth negatively in 2014 and 2015.

State of Kenyan Youth with a Focus on Labour Market

Kenyan youth are at the centre of the government's transformative agenda. Youth comprising the 15-34 years age cohort account for 35 per cent of the total population, and 60 percent of the labour force. Seventy eight (78) per cent of the population is aged below 35 years. There is thus a high dependency ratio estimated at about 82.7 percent. The labour force is estimated at 18 million in 2014, up from 15.6 million in 2009. According to the last census data conducted in 2009, 11 per cent of youth had never attended school; majority of such youth, about 62.2 percent, reside in rural areas. The labour force survey undertaken in 2005/06 put youth unemployment at about 25 per cent compared to the overall unemployment of 12.7 per cent. Estimates based on the census data in 2009 show unemployment rate of 15 percent for the age groups 15-24 years. However, the greatest challenge facing most youth is lack of decent and quality jobs; almost three out of every four youth are engaged in the informal economy, and the traditional agriculture and pastrolist activities.

There is a strong link between the education status and the activity status of the youth. A large proportion of unemployed youth never attended school. Only 1 out of every four youth are engaged in the formal sector. The jobs in the informal sector are often of poor quality or vulnerable because of lack of job security, and social protection. About 64 per cent of youth are employed in rural areas. Of the employed youth, about

16 per cent are under-employed. The more urbanized counties, such as Nairobi and Mombasa, tend to have, on average, a higher percentage of youth employed in the modern sector. The share of employment in the informal sector in total employment, excluding traditional agriculture and pastoralist activities, increased from about 17.1 per cent in 1983-1987 to 82.7 per cent in 2013/14. This signifies increasing informalization of employment.

Review of Youth Employment Policies and Interventions

Many of the policies that the government has been pursuing recently focus on promoting entrepreneurship, support for post-formal school training, and introducing regulations to benefit young people. Others include improvement of the legal framework governing the operations of labour markets. Among the key initiatives include Uwezo Fund, Women Enterprise Fund, Small and Medium Enterprise Fund (SME Fund), and Access to Government Procurement Opportunities (AGPO).

Some of the key challenges in implementing youth empowerment initiatives include lack of appropriate targeting, sustainability where programmes are development partner-dependent, lack of effective monitoring and evaluation, and weak entrepreneurial capacity among the youth.

Proposals for Enhancing Youth Employment in Kenya

Despite various interventions, youth unemployment remains a key policy concern. This report argues for a combination of policies that accelerate economic growth and transformation, promote informal sector enterprises up-grading, polices that aid demographic transition such as family education and planning, and increased investment in quality human capital development especially education, training and healthcare. Other interventions include enhancing access to vocational training, and targeted policy interventions for those that miss out on basic education.

PART I

MACRO AND SOCIO-ECONOMIC PERFORMANCE

This part reviews the performance of Kenya's economic growth, fiscal policy and monetary policy. A number of key macroeconomic indicators have been reviewed for the recent past, and where necessary reasons have been given for the analysis. The part also reviews Kenya's socio-economic indicators, particularly in the areas of population, health and education.

Chapter 1

Macroeconomic Performance

1.1 Introduction

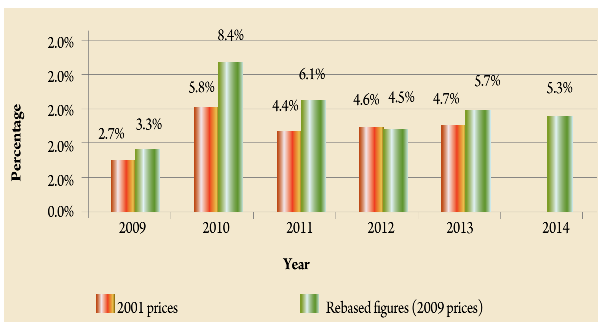
This chapter reviews the performance of Kenya's economic growth, fiscal policy and monetary policy. A number of key macroeconomic indicators have been reviewed for the recent past, and where necessary reasons have been given for the analysis. The indicators that have been reviewed include: economic growth, fiscal performance, monetary policy, investments and savings, balance of payments, and remittances.

1.2 Economic Growth

Economic growth was slower in 2014 compared to 2013, averaging 5.3 per cent compared to 5.7 per cent in 2013 (Figure 1.1). Growth in 2014 was mainly driven by increased spending by both government and households, which grew by 2.7 per cent and 5.5 per cent, respectively (KNBS, 2015a). There were also increased investments especially in real estate, infrastructure, and in air transport equipment. However, the lower economic growth performance can be attributed partly to the negative growth in accommodation and food services sector, which registered a growth of -17.2 per cent in 2014.

The revised GDP for the new base year (2009) was 20.5 per cent higher than the previous estimate, while revised estimates for 2006 to 2013 were 15.0 to 25.0 per cent higher than the previous estimates (KNBS Second Quarter 2014 GDP Release). GDP per capita also increased from US$ 994 to US$ 1,269 in 2013, which moved the Kenyan economy into the lower middle income country category.

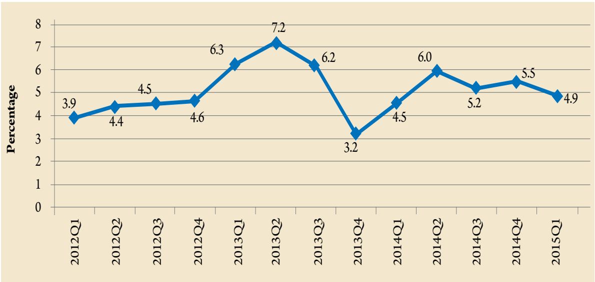
Figure 1.1: GDP growth rates



Source: Kenya National Bureau of Statistics (2014a; 2015a), Economic Survey

On a quarterly basis, the Kenyan economy expanded by 5.2 per cent during the third quarter of 2014 compared to a revised growth of 6.2 per cent over the same period in 2013 (Figure 1.2). The growth was mainly driven by expansion of activities in construction, finance and insurance, wholesale and retail trade, information and communication, and agriculture and forestry. The economy grew by 6.0 per cent in the second quarter of 2014, which was lower than the growth of 7.2 per cent over the same period in 2013. However, growth in the first quarter of 2015 was higher (4.9%) than growth in the first quarter of 2014 (4.5%).

Figure 1.2: Quarterly GDP growth rates



Source: Kenya National Bureau of Statistics (2015b), Quarterly GDP releases

A review of growth by sector shows that growth in the agriculture sector was slower in 2014, which was mainly attributed to poor long rains (KNBS, 2015b). The manufacturing sector also recorded slower growth due to depressed domestic and foreign demand, and also due to increased competition from imports. The transport sector expanded more as compared to 2013 due to increased demand for cargo and commuter transport. Information and communication recorded robust growth, which was mainly driven by increased uptake of information and communication technology (ICT) services and increased mobile telephony and internet usage. Construction also expanded due to growth in property development, especially real estate and infrastructure development.

Table 1.1: Sectoral growth rates

	GDP by activity (2009 prices)			
	2011	2012	2013	2014
Agriculture and forestry	2.4	2.9	5.2	3.5*
Fishing	10.4	5.1	5.9	2.9
Mining and quarrying	19.0	19.0	-9.0	14.2
Manufacturing	7.2	-0.5	5.6	3.4
Electricity	13.3	13.6	9.8	6.8
Water	3.6	3.2	0.9	3.6
Construction	4.0	11.2	5.8	13.1
Wholesale and retail trade & repairs	8.3	7.0	8.5	6.9
Hotels and restaurants	4.1	3.1	-4.6	-17.2
Transport	7.1	2.8	1.2	5.0
Communication	22.0	2.4	12.3	13.4
Financial services	4.7	6.0	8.1	8.3
Real estate, renting and business services	5.1	4.0	4.1	5.6
Public administration	2.5	4.0	3.1	5.5
Education	7.5	11.1	6.3	7.5
Health	-2.6	-2.8	7.7	7.2
Other services	1.1	4.0	7.3	6.5

Source: Kenya National Bureau of Statistics (2015a)

*Includes fishing

A review of expenditure on GDP shows that growth in 2014 was largely driven by growth in investment and private consumption. Investment grew by 11.2 per cent in 2014 compared to 1.6 per cent in 2013. The growth in investment was mainly in real estate and infrastructure. Private final consumption recorded slower growth of 5.5 per cent compared to growth of 8.2 per cent in 2013. Government final consumption also recorded slower growth of 2.7 per cent compared to growth of 5.0 per cent in 2013. The growth in imports was 9.7 per cent while exports grew by 2.4 per cent, thus widening the current account deficit to about 10 per cent of GDP.

A look at regional growth trends shows that, in general, growth in most African countries has been strong, with growth in low income and fragile countries averaging 6.6 per cent and 6.8 per cent in 2013 and 2014, respectively (IMF, 2015). Growth in middle income countries (where Kenya now falls after rebasing its GDP) averaged 3.6 per cent and 2.7 per cent in 2013 and 2014, respectively. This is projected to increase to 3.3 per cent and 3.7 per cent in 2015 and 2016, respectively. Comparatively, Tanzania and Rwanda recorded the highest growth rates in the East African region, with growth rates of 7.2 per cent and 7.0 per cent, respectively in 2014 (Table 1.2). Ethiopia recorded the highest growth rate among the low income countries, averaging 10.3 per cent in 2014. Among the middle income countries, Zambia and Kenya recorded the highest growth rates in 2014, with growth rates of 5.4 per cent and 5.3 per cent, respectively. The solid growth in most African countries (especially low income countries) has mainly been driven by the sustained investment in mining and infrastructure and strong private consumption (IMF, 2015). However, despite the improved growth performance, some African countries were faced with shocks such as declining oil prices (especially for Nigeria and Angola), the ebola outbreak in West African countries, and the difficult labour relations in the mining sector in South Africa.

Table 1.2: GDP growth in selected African countries

	2011	2012	2013	2014	2015	2016
Sub-Saharan Africa	5.0	4.2	5.2	5.0	4.5	5.1
Kenya	6.1	4.5	5.7	5.3	6.9	7.2
Uganda	6.8	2.6	3.9	4.9	5.4	5.6
Tanzania	7.9	5.1	7.3	7.2	7.2	7.1
Rwanda	7.5	8.8	4.7	7.0	7.0	7.0
Burundi	4.2	4.0	4.5	4.7	4.8	5.0
Ethiopia	11.4	8.7	9.8	10.3	8.6	8.5
Botswana	6.2	4.3	5.9	4.9	4.2	4.0
Ghana	6.1	4.5	5.7	5.3	3.5	6.4
South Africa	3.2	2.2	2.2	1.5	2.0	2.1
Zambia	6.4	6.8	6.7	5.4	6.7	6.9

Source: International Monetary Fund - IMF (2015)

Emerging Issues and Policy Recommendations

While Kenya has continued to record strong growth over the past five years, the country faces risks that mainly arise from unfavourable weather conditions, insecurity and external shocks especially from oil prices and depreciation of the currency. However, the continued investment in infrastructure, coupled with macroeconomic stability are expected to continue boosting economic growth.

To ensure robust growth that leads to employment creation and poverty reduction, however, the county needs to promote exports by encouraging export orientation, diversification of the export portfolio, removal of export supply constraints and promotion of value addition. Kenya must also continue investing in infrastructure and human capital, and improve the business and regulatory environment to enhance Kenya's global competitiveness, especially by the manufacturing sector.

1.3 Fiscal Performance

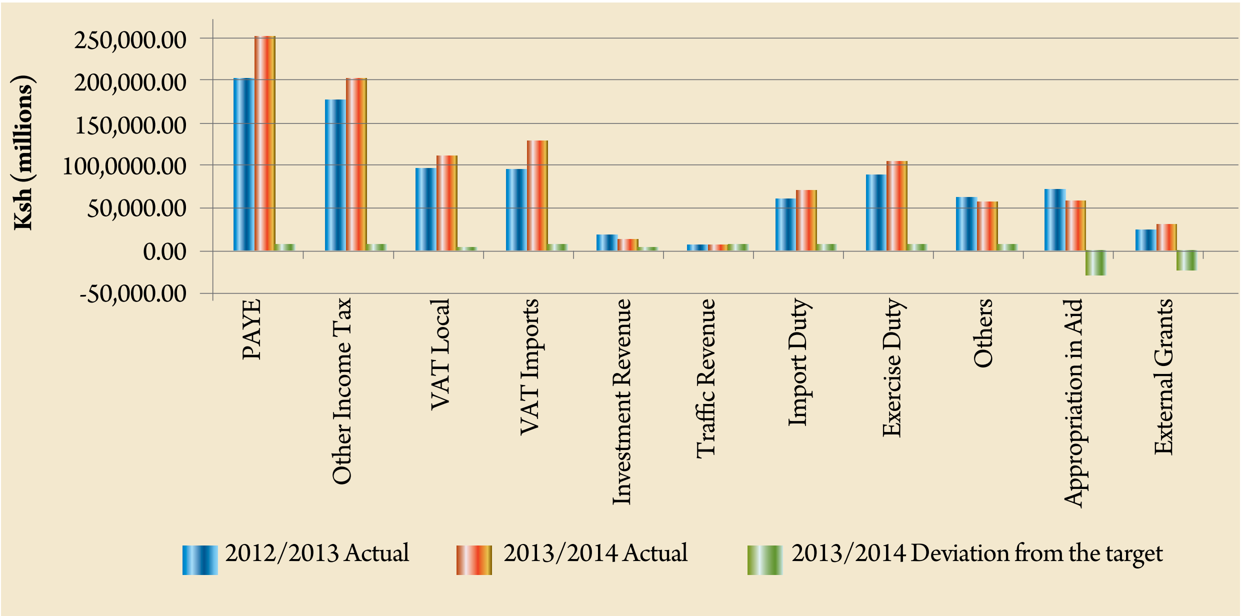
1.3.1 Overview

In the second Medium Term Plan (MTP II), the government seeks to pursue fiscal and debt sustainability, with the debt ratio expected to decline to 39.2 per cent by 2017 from 56.9 per cent as at June 2014 (Government of Kenya, 2014a). Kenya successfully issued a Eurobond in June 2014 to facilitate development expenditure geared to stimulating economic growth, primarily infrastructure and energy generation.

1.3.2 Tax revenue, recurrent and development expenditure

The total recurrent revenue for the financial year 2013/2014 amounted to Ksh 981 billion compared to a target of Ksh 1,007 billion. Income tax, local VAT, traffic revenue and investment tax did not meet their targets. However, the performance of the other ordinary revenue (import duty, excise duty, PAYE, other income tax, VAT local, Import VAT, investment revenue and traffic revenue, etc) was positive, with total domestic taxes recording 99.2 per cent actual performance (KNBS, 2014b). This may have been aided by increased efforts by the Kenya Revenue Authority (KRA) to reduce revenue leakages, and the larger tax base on consumption taxes after subjecting to tax some previously zero-rated and exempted commodities. Total revenue and grants in 2013/14 was 20.1 per cent as a ratio of GDP compared to 19.3 per cent in 2012/13.

Figure 1.3: Government revenue period ending 30 June 2014 (Ksh million)



Source: Government of Kenya (2014)

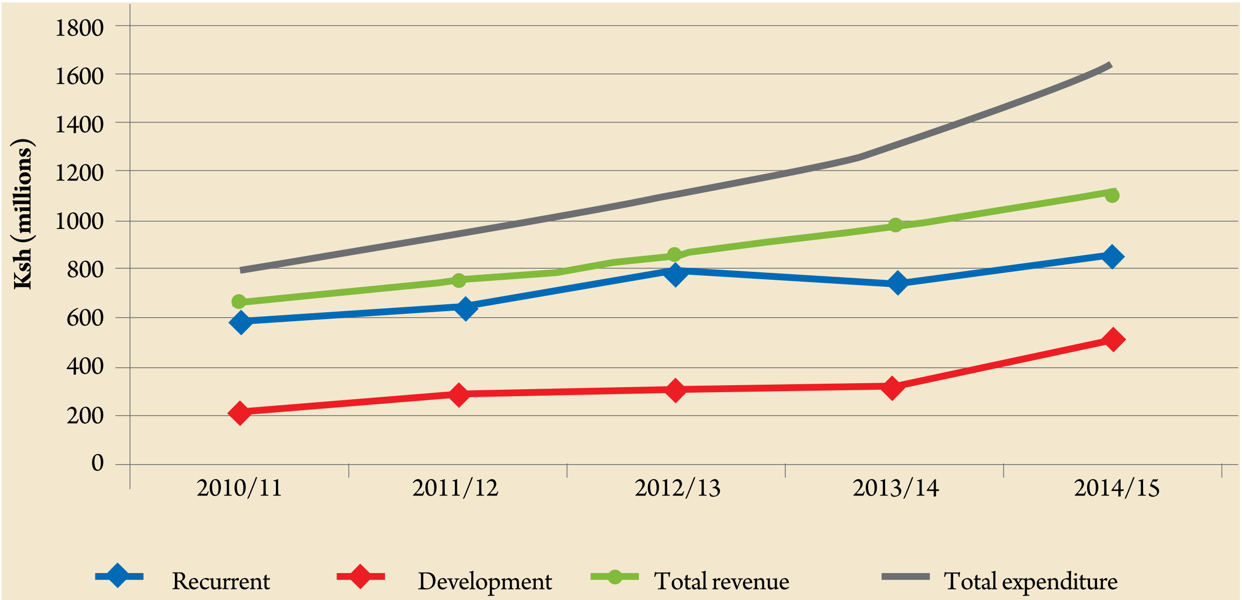
Total expenditure amounted to Ksh 1,640.3 billion in 2014/2015 financial year (KNBS, 2015a). Recurrent expenditure amounted to Ksh 862.4 billion while development expenditure amounted to Ksh 509 billion. As indicated in Figure 1.4, recurrent expenditure was lower than total revenue in 2014/15. While in some years the tax revenue to recurrent expenditure differential was as little as 5.0 per cent (e.g. in 2011); it was much higher in some years, such as 27.0 per cent in 2002 and an average of 14.0 per cent in the period 2001-2014. In 2013/2014 financial year, increased recurrent expenditure was mainly attributed to increased spending on security and financing of shortfalls in the education sector.

From Figure 1.4, growth in development expenditure has been relatively slower, increasing by 27.0 per cent in 2010/11 and 31.0 per cent in 2014/15. The infrastructure sector received the highest budget allocation. The Ministry of Transport and Infrastructure, and Ministry of Energy and Petroleum received 25.3 and 16.5 per cent allocation of the total budget, respectively.

Looking at revenue to GDP ratios, the ratio of total revenue to GDP has remained stable between 2010/11 and 2014/15, ranging between 19.0 per cent and 20.0 per cent. However, the ratio of total expenditure to GDP increased from 23.55 per cent in 2010/11 to 29.50 per cent in 2014/15 (Government of Kenya, 2014a). There is thus a widening gap between revenue and expenditure to GDP which, if persistent, could signal sustainability issues of the government's fiscal position.

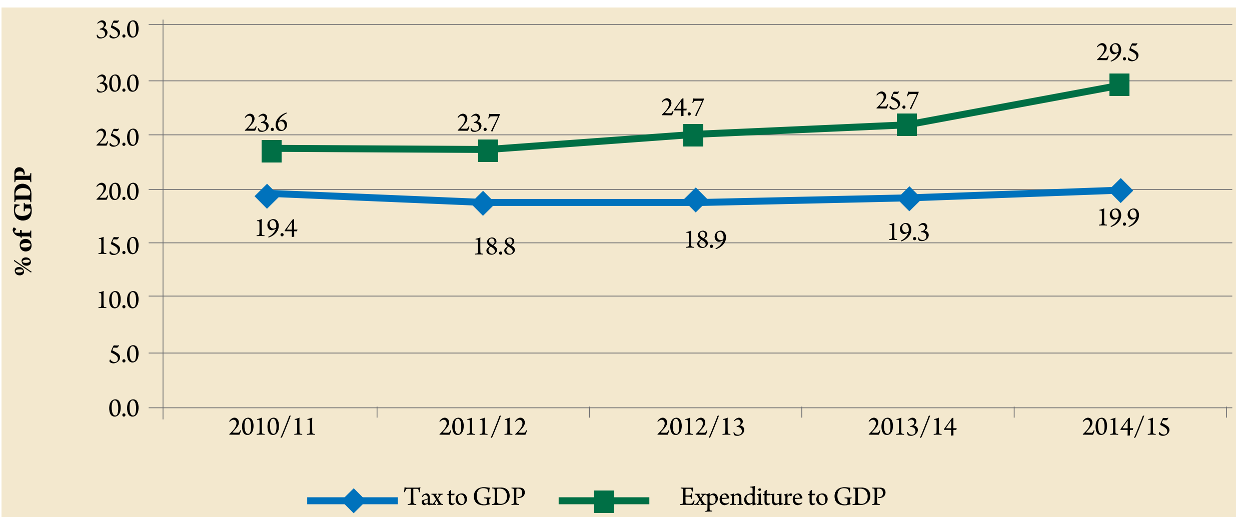
A review of revenue and expenditure of county governments shows that total revenue for counties amounted to Ksh 240.6 billion in 2013/14 and Ksh 337.4 billion in 2014/15. Of this revenue, 80.0 per cent was from the equitable share in 2013/14, which declined to 67.0 per cent in 2014/15. Similarly, local county revenue accounted for 11.0 per cent of total revenue in 2013/14, which increased to 19.0 per cent in 2014/15. Counties also got conditional grants from the national government, which amounted to Ksh 20 billion in 2013/14 and Ksh 15.8 billion in 2014/15.

Figure 1.4: Tax revenue, recurrent and development expenditure



Source: KNBS (2015a)

Figure 1.5: Revenue and expenditure to GDP ratios



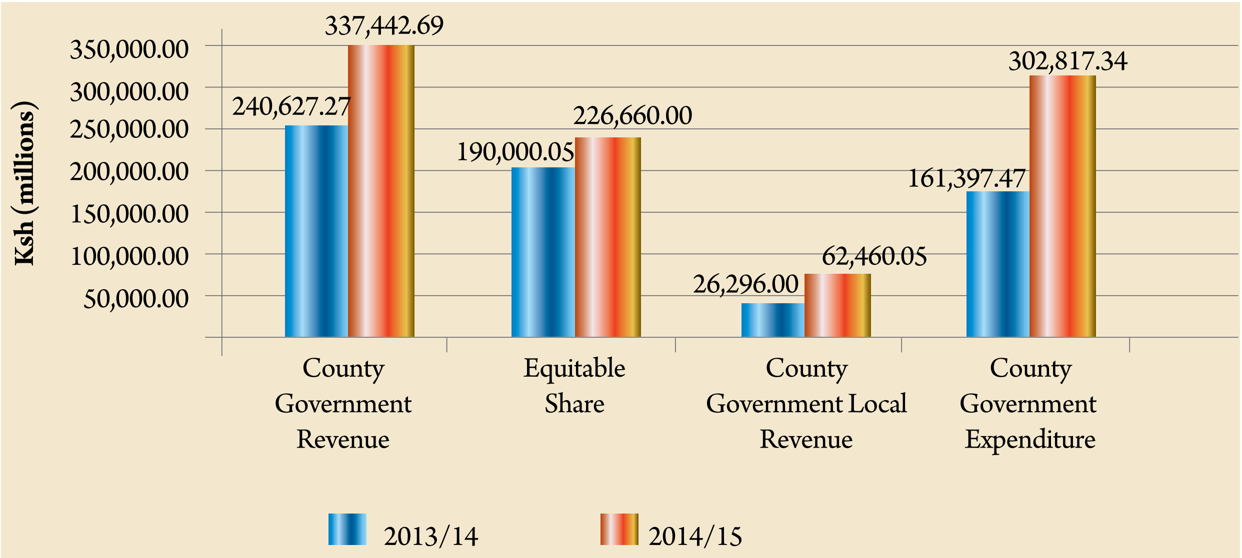
Source: Government of Kenya (2015)

1.3.3 Domestic and external Debt

Total debt increased by 28.0 per cent from Ksh 1.73 trillion in 2013 to Ksh 2.22 trillion in 2014 (Government of Kenya, 2014a). External debt increased to Ksh 1.4 trillion in 2014 from 0.84 trillion in 2013. Total domestic debt in 2014 was Ksh 1.08 trillion compared to Ksh 0.89 trillion recorded in 2013. A review of holders of domestic debt shows that 52 per cent of domestic debt was held by domestic banks. Thus, higher government borrowing from domestic sources could crowd out private investment.

The main source of domestic debt (Figure 1.7) has increasingly been treasury bonds, which displays an upward trajectory from the year 2010

Figure 1.6: County government revenue and expenditure



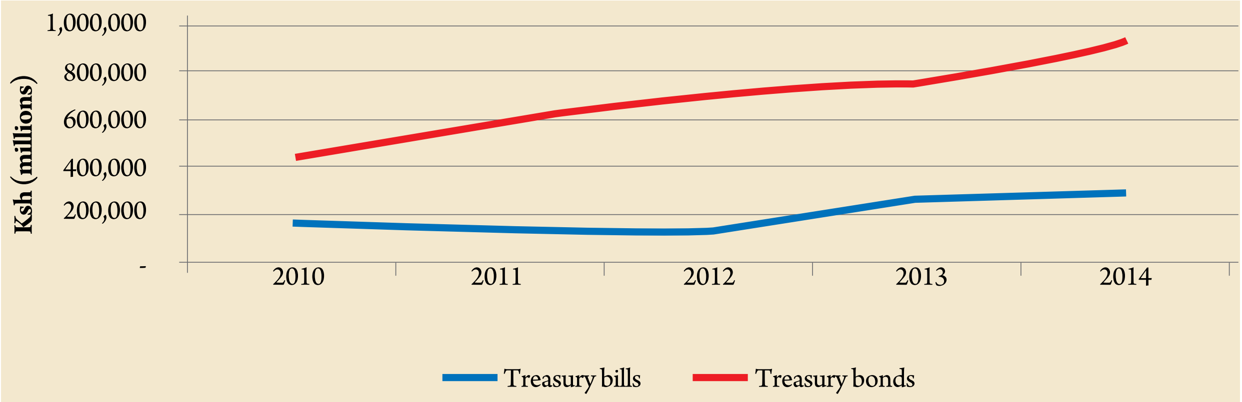
Source: Kenya National Bureau of Statistics (2015a)

to 2014. Treasury bills issued have also recorded an increasing trend for the last three years. Interest payment on domestic debt amounted to Ksh 6.4 billion by June 2014 compared to Ksh 2.2 billion in June 2013, a clear reflection of increased domestic borrowing. As at June 2013, 91 per cent of external debt in Kenya was owed to multilaterals and bilateral creditors, with commercial banks and suppliers forming the remainder. At the same time, external debt has remained below domestic debt for the last three years against the MTP target of 30:70 ratio of domestic to external financing. In general, the total public debt has been on an increasing trend (Figure 1.8) and currently stands at 41.4 per cent of GDP. Caution is needed to avoid unsustainable fiscal balance that may lead to macroeconomic instability, and lower investor confidence that might impact the economy adversely. This is despite the fact that the projections from IMF indicate a low risk of external debt (IMF, 2013).

1.4 Monetary Policy

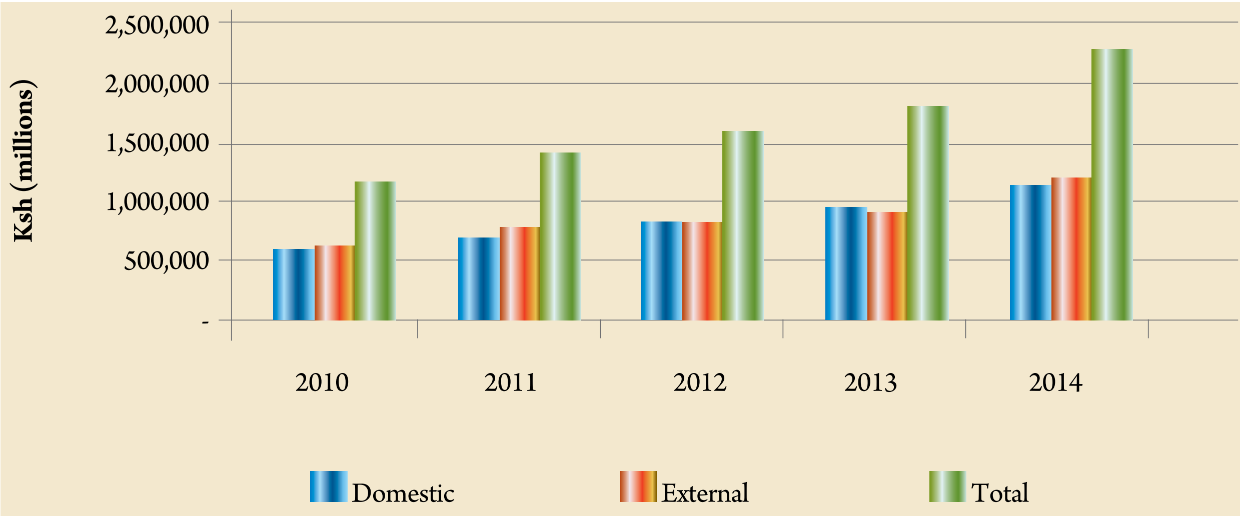
The primary objective of monetary policy formulation and implementation during the year

Figure 1.7: Distribution of domestic debt and their sources (2005-2014)



Source: Kenya National Bureau of Statistics (2015)

Figure 1.8: Distribution of public debt



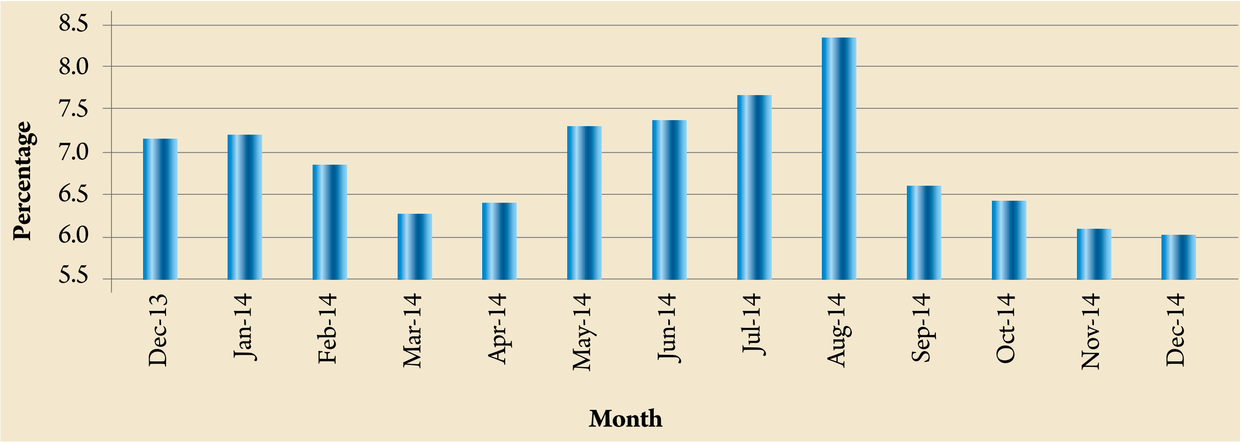
Source: Kenya National Bureau of Statistics (2015a)

2014 was to maintain price stability. Although overall month-on-month inflation remained within the allowable margin of 2.5 per cent on either side of the government's medium term target of 5.0 per cent, it was consistently in the upper bound of the prescribed range. Overall month-on-month inflation declined from 7.15 per cent in December 2013 to 6.27 per cent in March 2014, but increased gradually thereafter to 8.36 per cent in August 2014. The rise in overall inflation during the period was mainly driven by the base effect and also reflected an increase in the prices of some foodstuffs, fuel and electricity. Nevertheless, the 12-month non-food non-fuel inflation, which measures the impact of monetary policy, remained within the 5.0 per cent inflation target during the period, indicating relatively low demand pressures in the economy.

Inflation by income groups

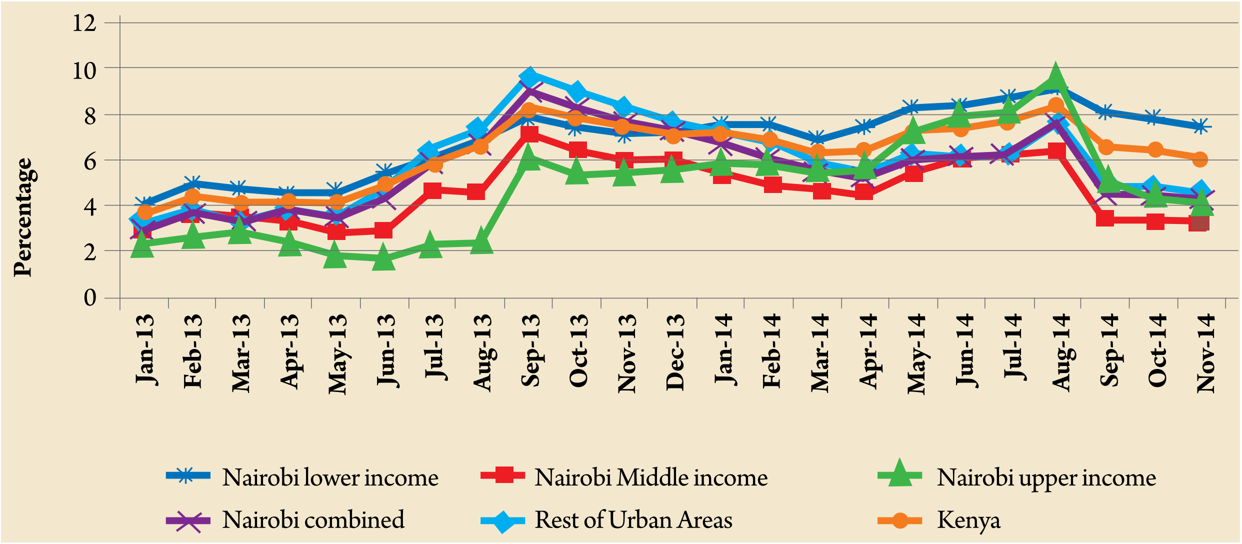
A review of inflation by income groups indicates that the lower income group is relatively disadvantaged compared to the other income groups. This could be explained by the fact that food has the highest weight in the consumer 'basket'. Generally, lower income groups tend to spend the largest share of their income on food.

Figure 1.9: Overall inflation 2013/2014



Source: Kenya National Bureau of Statistics (2015a)

Figure 1.10: Monthly inflation by income groups



Source: Data from KNBS (2014), Leading Economic Indicators

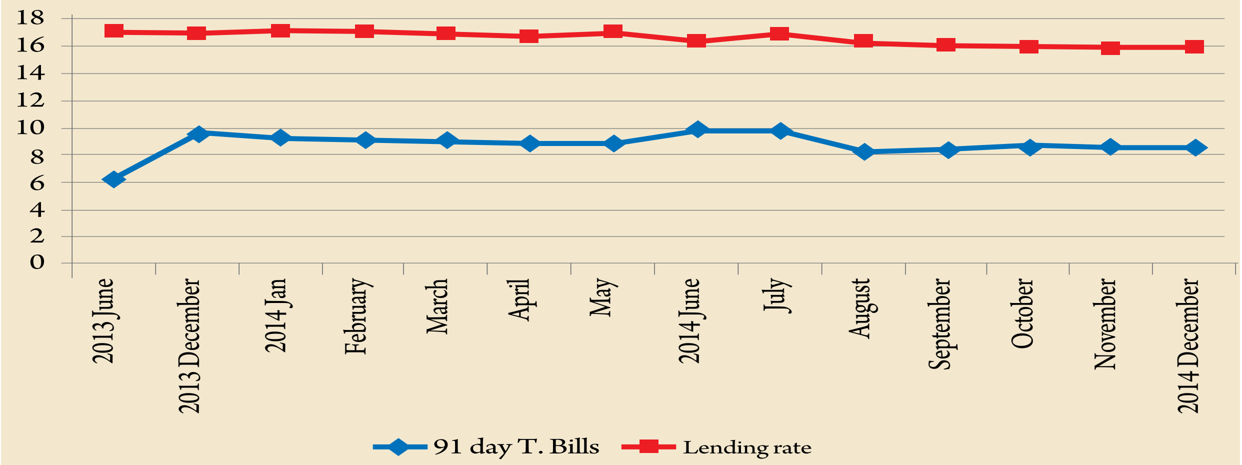
Interest rates

The average yield rates of the 91-day Treasury bill increased from 6.21 per cent in June 2013 to 8.58 per cent in December 2014. A higher borrowing requirement by the government explains the rise in short term interest rates in December 2014. Lending rates of commercial banks remained fairly stable in the year to December 2014. The average lending rate fell from 16.97 per cent in June 2013 to 15.99 per cent in December 2014. The stability of commercial bank lending rates was consistent with the prudent monetary policy following the introduction of the Kenya Banks' Reference Rate (KBRR). The introduction of the KBRR was expected to increase transparency in bank lending and to enhance transmission between the Central Bank Rate and banks' lending rate, and ultimately enhance the supply of private sector credit.

Exchange rates

The foreign exchange market remained generally stable during the year 2014. The exchange rate of the Kenya Shilling against the US Dollar fluctuated within a narrow range of between Ksh 84.53 and Ksh 87.92 per US dollar in 2012 and 2014, respectively

Figure 1.11: Average yield rates: 91 day Treasury bills and commercial banks' loans and advance rates



Source: Central Bank of Kenya (2014)

Table 1.3: Exchange rates of selected major currencies

Currency	2010	2011	2012	2013	2014
1 Euro	105.12	123.60	108.73	114.41	116.84
1 US Dollar	79.23	88.81	84.53	86.12	87.92
1 Pound Sterling	122.51	142.34	134.00	134.75	144.88
100 Japanese Yen	90.53	111.62	106.01	88.43	83.26

Source: Kenya National Bureau of Statistics (2015a)

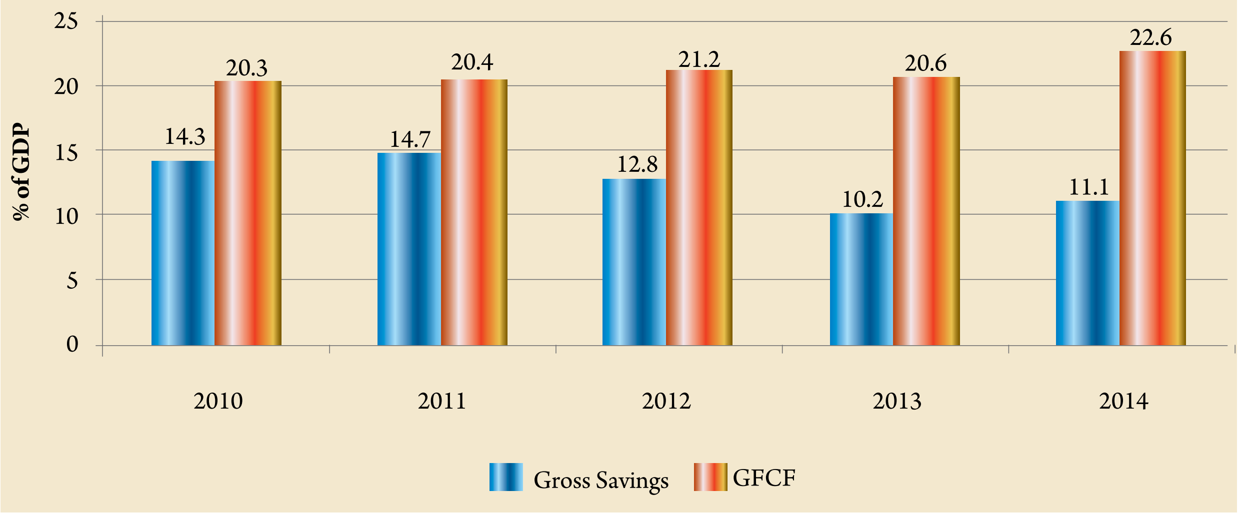
(Table 1.3). This stability was supported mainly by foreign exchange inflows through Diaspora remittances, increased foreign investor participation in the Nairobi Securities Exchange, and enhanced confidence following the successful issuance of the Sovereign Bond in June 2014. However, seasonal pressures associated with corporate dividend payment to foreign investors in late May to mid-June 2014 exerted pressure on the local currency. On the other hand, movements in the exchange rates of the Kenya Shilling against the Sterling Pound and the Euro continued to reflect the instability in Europe. It is expected that the Central Bank of Kenya will continue pursuing a prudent monetary policy that will support price and exchange rate stability, both in the short and medium term periods.

1.5 Investment and Savings

Kenya recorded a savings level of 11.1 per cent of GDP in 2014 compared to 12.8 per cent in 2012 (KNBS, 2015a). The trend over the past five years shows an overall declining saving rate as shown in Figure 1.12. The decline in the gross savings rate can be attributed to a number of factors, including slower income growth, high dependence rates, high cost of doing business, low interest rates on deposits, and the widening interest rate spread. This can also be explained by the low savings culture in the economy. On average, the savings rate over the past five years (2010-2014) was 12.6 per cent against a target of 24.4 per cent over the first MTP period (2008-2012).

Investment is imperative in achievement of the double digit growth rate envisioned in Vision 2030. During the fiscal year 2012/2013, total fixed

Figure 1.12: Gross savings and investments, 2010-2014 (% of GDP)



Source: Kenya National Bureau of Statistics (2015a) investments represented by Gross Fixed Capital Formation (GFCF) as a percentage of GDP declined from 20.6 per cent in 2012 to 19.4 per cent in 2013 (Figure 1.12). Generally, investment figures remained below the set medium term target of 30.0 to 32.0 per cent during the same period (MTP II).

On average, investments grew at a faster rate than savings. This implies that most investments are financed from borrowing, which may negatively affect the debt to GDP ratio.

In order to achieve high growth rates, the second MTP targets to achieve a 10.0 per cent annual increment in total investments. Consequently, the government is putting more efforts towards investment in key infrastructure development, and working towards improving the business environment and service delivery.

1.6 Balance of Payments

The overall balance of payments position improved from a surplus of Ksh 31,765.5 million in 2013 to a surplus of Ksh 126,113.7 million in 2014. This was mainly driven by an improved portfolio investment following the floating of the Eurobond in mid-2014. Further, the capital and financial account surplus in the same period improved from Ksh 424,065.20 in 2013 to Ksh 710,650 million in 2014. The current account deficit continued to deteriorate from a deficit of Ksh 411,741.2 billion in 2013 to Ksh 536,083.2 billion in 2014. This widening deficit can be attributed to the increased volume of imports and a slow growth in exports.

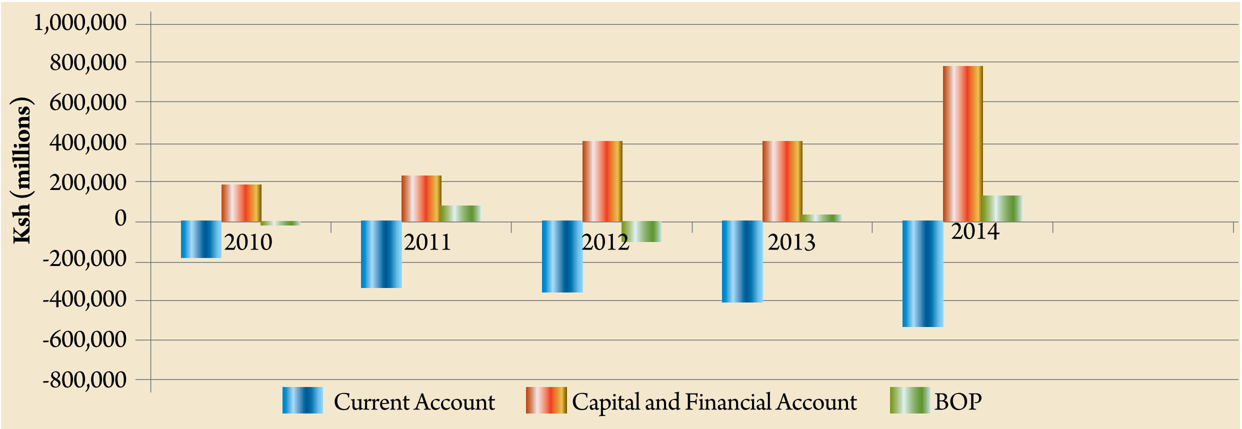
1.7 Remittances

Remittances have increasingly begun to play an important role, being the fourth largest source of foreign exchange after tea, horticulture and tourism. Remittance inflows increased by 20.3 per cent to US$ 128.8 million in August 2014 compared with US$ 107.0 million in August 2013 and by 10.0 per cent compared to inflows recorded in July 2014. North America accounts for half of total inflows (50%), while that from Europe constituted about 24.5 per cent and the rest of the world accounted for 28.5 per cent by August 2014.

1.8 Conclusion and Recommendations

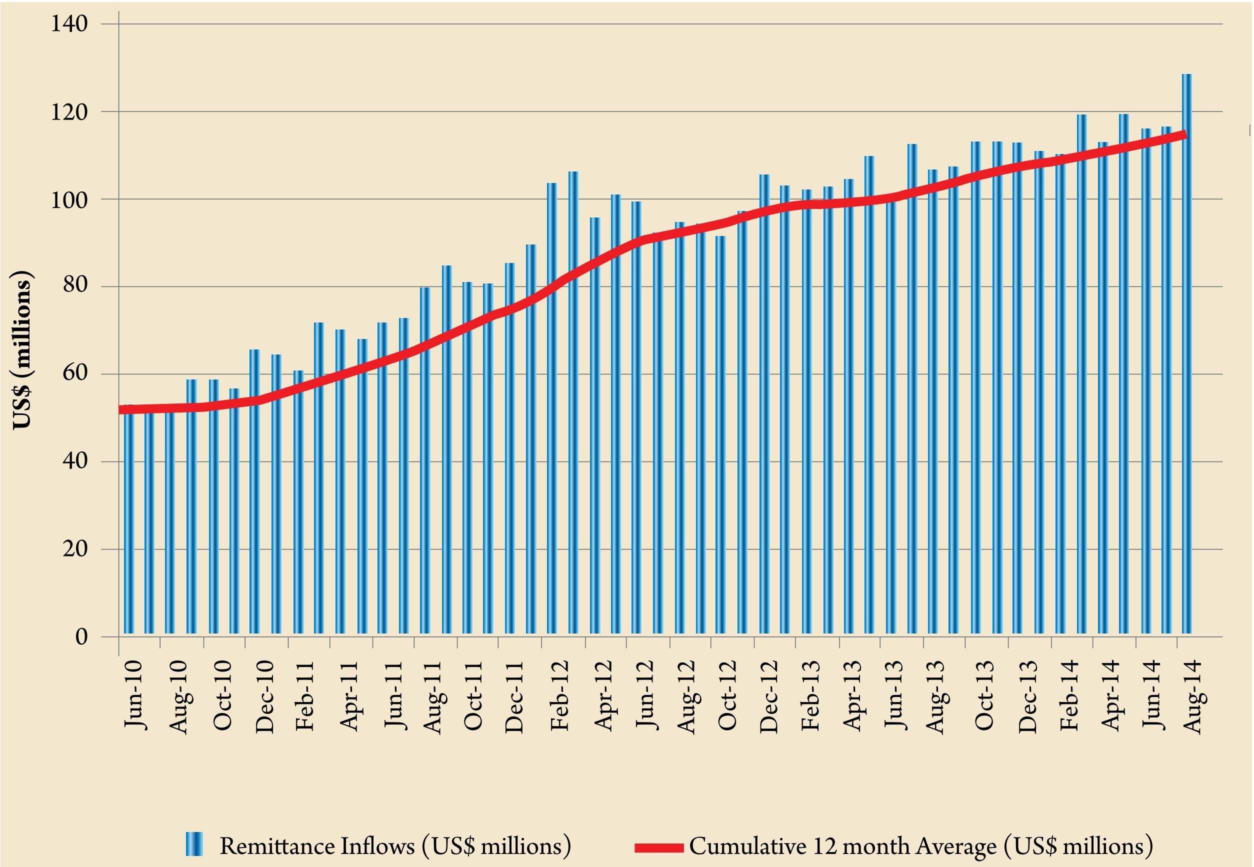
The government should continue pursuing fiscal prudence to lower the budget deficit and improve the absorption capacity of funds in the spending units of the government. It is also important to check the recent rapid accumulation of debt by rationalizing expenditure, while at the same time

Figure 1.13: Balance of payment annual trend, 2010-2014 (Ksh millions)



Source: Kenya National Bureau of Statistics (2015)

Figure 1.14: Foreign remittances



Source: Central Bank of Kenya (2014)

maintaining macroeconomic stability. New models of financing infrastructure development, such as public-private partnerships (PPPs) should be used for infrastructure development. There is also urgent need to inculcate efficiency and accountability in the use of development resources. The government should also undertake accommodative measures aimed at promoting a savings culture.

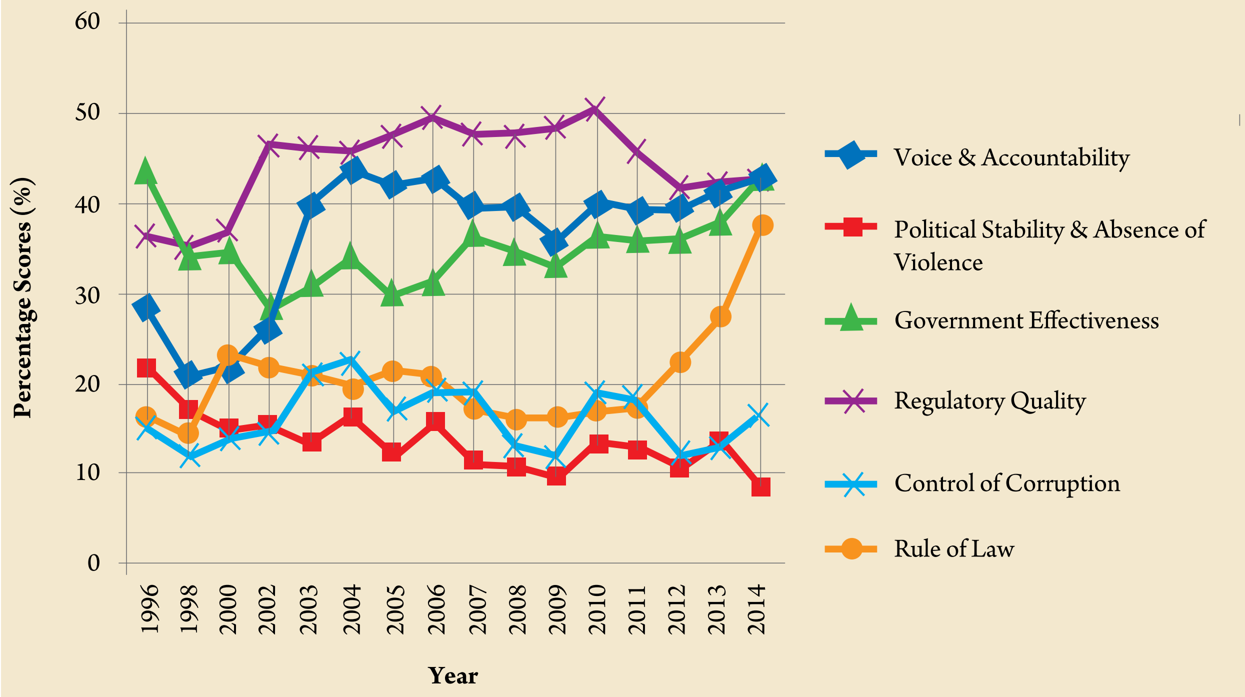
Chapter 2

Governance

2. Introduction

This chapter analyses Kenya's governance performance based on the Worldwide Governance Indicators (WGI), namely: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. These indicators were developed by the World Bank, Natural Resource Governance Institute and the Brookings Institution and are used to benchmark countries against each other in terms of governance performance. We review recent developments, analyze the underlying governance factors and provide policy recommendations.

Figure 2.1: Overall performance (1996-2014)



Source: World Bank (2014), www.govindicators.org

2.1 World Bank Governance Performance Indicators

The World Bank reports on six governance aggregate indicators that are used to assess the quality of governance worldwide. Figure 2.1 summarizes Kenya's performance against the six governance indicators over the period 1996 to 2014.

2.1.1 Control of corruption

This indicator measures the extent and ability of the government to implement policies that combat corruption and abuse of public offices for private gain. In 2010, Kenya had a ranking of 18.6 per cent in control of corruption, which dropped to 12.9 per cent in 2013, then increased to 16.3 per cent in 2014 (Figure 2.1). A similar trend is noted based on the East African Bribery Index (EABI) 2014 survey released by Transparency International Kenya. According to survey, the likelihood of paying a bribe in Kenya increased from 7.9 per cent in 2013 to 12.3 per cent in 2014 (Table 2.1).

Table 2.1: Likelihood of bribery in East Africa (2012-2014)

Country	Bribery Aggregate %		
	2012	2013	2014
Uganda	40.7	26.9	17.9
Burundi	18.8	18.6	19.4
Tanzania	39.1	12.9	19.0
Kenya	29.5	7.9	12.3
Rwanda	2.5	4.4	2.9

Source: Transparency International Kenya (2012-2014), Various Reports

In the East African Community (EAC), Rwanda appears to be the least bribe-prone country with a likelihood of bribery standing at 2.9 per cent in 2014. Even though Kenya is the second least country in the region where one is likely to encounter bribery, a look at various sectors across the country reveals that bribery is still a major challenge and has increased in critical public sectors (Table 2.2).

Table 2.2: Prevalence of corruption in public institutions in Kenya, 2011-2014)

Sector	Bribery Index (%)			
	2011	2012	2013	2014
Police	81.0	71.7	70.7	68.0
Land services	55.5	70.0	46.7	55.0
Judiciary	44.3	29.7	38.3	46.7
Registry and licencing	-	28.9	23.6	19.4
City and local Councils	-	18.9	27.2	-
Education institutions	-	12.7	14.6	14.4
Other Sectors	-	-	16.6	-

Source: Transparency International Kenya (2011-2014), Various Reports
- Indices not available

Prior to the promulgation of the Constitution in August 2010, the importance of police reforms had been highlighted in previous government reports. The report of Governance, Justice, Law and Order Sector (GJLOS) reforms commissioned by the Government of Kenya in 2011 made several recommendations for the reform of the culture and attitude in the National Police Service, recognizing that there were serious underlying problems and challenges within the service that needed to be addressed.[1]

According to the Bribery Index for Kenya, the prevalence of corruption in the National Police Service has been declining since 2011, and actually dropped from 70.7 per cent in 2013 to 68.0 per cent in 2014, though this is still considerably high.

On the other hand, the Judiciary recorded an increase in corruption prevalence from 38.3 per cent in 2013 to 46.7 per cent in 2014, again much lower than that of the police service. This is despite the reforms that have been going on in the judiciary since the promulgation of a new constitution in 2010.

Education institutions together with the registry and licensing institutions also recorded a drop in the prevalence of corruption in 2014.

Going by the Corruption Perception Index (CPI)2014, Kenya has a low score with a perception index score of 25 per cent (Table 2.3) compared to a number of other eastern Africa countries.

Table 2.3: Corruption Perception Index (CPI 2014) for select countries

Country	Corruption Perception Index (CPI)	Rank out of 175 countries
Kenya	25	145
Rwanda	49	55
Uganda	26	142
Tanzania	31	119
Burundi	20	159
South Sudan	15	171

Source: Transparency International (2014)

In other related findings from Afrobarometer Round Six Survey, nearly one in three Kenyans had to pay a bribe at least once in 2014, but most did not report it to relevant authorities mainly due to fear of consequences, and perceived inaction by government officers and relevant bodies tasked with fighting corruption. The culture of not reporting bribery incidents to the authorities undermines the fight against corruption in Kenya.

2.1.2 Rule of law

Rule of law is a system in which the following four universal principles are upheld:

(i) The government and its officials and agents as well as individuals and private entities are accountable under established laws;

(ii) The laws are clear, publicized, stable, and just, are applied evenly, and protect fundamental rights, including the security of persons and property;

(iii) The process by which the laws are enacted, administered, and enforced is accessible, fair, and efficient; and

(iv) Justice is delivered timely by competent, ethical, and independent representatives and neutrals who are of sufficient number, have adequate resources, and reflect the makeup of the communities they serve.

The Constitution of Kenya vests the state's powers of prosecution to the office of Director of Public Prosecutions (DPP) (Article 157) and provides for enhanced judicial independence. The primary function of the office of the Attorney General is to give legal advice to the government and represent it in legal proceedings (Article 156).

The Rule of Law indicator measures the extent to which public agencies enforce and adhere to the rule of law, as well as the effectiveness of the judiciary and policing institutions. Kenya had a score of 17.1 per cent in Rule of Law in 2010, which has steadily risen to 37.5 per cent in 2014 (Figure 2.1). It is hoped that once all necessary reforms are implemented in the National Police Service (NPS) and the judiciary, the country will be ranked higher than it is at the moment. Some of the commissions established by the constitution, such as the National Police Service Commission (NPSC), Kenya National Human Rights Commission (KNHRC), the Ombudsman, Independent Police Oversight Authority (IPOA), Ethics and Anti-Corruption Commission (EACC), among others, have an important role in ensuring rule of law.

Insecurity is one of the major threats to rule of law in the country, but there is evidence that the number of crimes reported is coming down (Table 2.4). However, Kenya still faces the challenge of refugees from Somalia and South Sudan, some of whom engage in unlawful activities in the country.

The overall number of crimes reported to the National Police Service nationally declined by 3.4 per cent from 71,832 in 2013 to 69,376 in 2014. Despite the decline, crimes related to dangerous drugs increased by 12.4 per cent from 4,316 in 2013 to 4,850 in 2014 (KNBS, 2014). Crimes related to

Table 2.4: Number of crimes reported to the police, 2010-2014

Crimes	2010	2011	2012	2013	2014**
Homicide	2,239	2,641	2,761	2,878	2,649
Offences against morality	4,817	4,703	4,806	4,779	5,184
Offences against other persons	20,012	20,144	20,698	19,344	19,911
Robbery	2,843	3,262	3,262	3,551	3,011
Break-ins	6,453	7,325	7,578	6,397	5,656
Theft of stock	2,244	2,269	2,377	1,965	1,848
Stealing	11,986	13,797	14,111	11,455	10,042
Theft by servant	2,591	2,889	2,984	2,702	2,279
Theft of vehicle and other related thefts	1,365	1,768	1,663	1,631	1,239
Dangerous drugs	5,081	4,649	4,181	4,316	4,850
Traffic offences	103	100	66	45	100
Criminal damage	3,327	3,345	3,769	3,603	3,709
Economic crimes	2,662	3,036	3,369	2,750	3,038
Corruption	62	52	49	57	138
Offences involving police officers	37	27	69	95	53
Offences involving tourists	1	0	0	14	21
Other penal code offences	4,956	5,726	6,109	6,250	5,648
Total	**70,779**	**75,733**	**77,852**	**71,832**	**69,376**

Source: Kenya National Bureau of Statistics (2015)
** Provisional figures

vehicles and other thefts, theft by servant, robbery, stealing and break-ins declined during the period (Table 2.4). The government needs to fast-track reforms in the National Police Service especially in terms of training and modernizing the equipment used by security officers to enable them tackle the dynamic nature of criminal networks.

It should be noted that Kenya's electioneering process is often characterized by violence, which may be directly linked to higher incidences of crime and insecurity. General elections and by-elections have often been marred by violence as seen in the run-up to the general elections in 1992, 1997 and 2007, which recorded most incidences of electoral-related violence.

Crime and insecurity undermine the freedom of association and movement of citizens, create a sense of fear and intimidation, and hamper the spiritual, economic and social development of individuals. In this regard, prevalence of incidences of crime and insecurity has a strong bearing on the overall economic development. According to a recent economic crime survey report (2014) released by Price Waterhouse Coopers (PwC), fraud in tendering has overtaken bribery and corruption to become Kenya's fastest growing economic crime. The report also indicates that asset misappropriation is the most common economic crime in Kenya, affecting 77 per cent of businesses. Tackling this emerging crime requires a holistic approach and partnership between national and county governments.

The number of magistrates and judges has been increased to help reduce the backlog of cases that have clogged the judicial process (Table 2.5). From Table 2.4, it is evident that there are higher incidences of offences against morality. Such offences could be handled out of court by community elders without having to clog the courts.

Table 2.5: Number of magistrates, judges and practicing lawyers, 2010-2014

	2010	2011	2012	2013	2014***
Chief Magistrates	22	15	33	40	49
Senior Principal Magistrates	26	22	49	81	54
Principal Magistrates	69	69	81	99	85
Senior Resident Magistrates	93	89	78	72	104
Resident Magistrates	74	74	214	88	166
Chief Kadhi	-	-	-	1	1
Deputy Chief Kadhi	-	-	-	1	1
Principal Kadhi	-	-	-	2	2
Kadhi I	-	-	-	8	11
Kadhi II	-	-	-	18	20
District Magistrate II**	74	69	-	-	-
Sub-total	**358**	**338**	**455**	**410**	**493**
Supreme Court Judges	-	-	7	6	7
Court of Appeal Judges	11	10	27	26	30
Puisne (High Court) Judges	45	70	80	86	96
Sub total	**56**	**87**	**113**	**119**	**133**
Total	**414**	**425**	**568**	**529**	**626**
Number of Practicing Lawyers	4574	4910	5525	6500	7200

Source: KNBS (2015)
*** Provisional figures
- Data not available
** Rank of District Magistrate II was phased out in 2012

The number of magistrates increased from 410 in 2013 to 493 in 2014 mainly due to hiring of more Resident Magistrates by the Judicial Service Commission (KNBS, 2015). The number of judges also increased from 119 to 133 during the same period. The number of practicing lawyers increased by 700 to 7,200 in 2014 (Table 2.5). These efforts are expected to ease access to legal services and advise, with the potential for speedy resolution of cases lodged before the courts.

The judiciary together with the office of the Director of Public Prosecutions has begun a gradual phasing out of police prosecutors and replacing them with state prosecutors as part of judicial reforms. The highly anticipated move aims to ensure every case is prosecuted exclusively by the office of the Director of Public Prosecutions (DPP), which has now been delinked from the office of the Attorney General (AG).

2.1.3 Regulatory quality

This indicator captures the ability of the government to formulate and effectively implement policies that regulate and promote the development of the private sector within the country. In 2010, the country scored 50.2 per cent in Regulatory Quality, which has since dropped to 42.3 per cent in 2014 (Figure 2.1). In the global regulatory index 2013, Kenya was ranked at position 112 with a score of -0.35 out of the 192 countries surveyed (Table 2.6).

Much has changed since then; the country is witnessing growth in the private sector, and Kenya has registered improvements in property registration, and starting of a business especially after the introduction of the one-stop Huduma Centres. At the Huduma Centres that the government established in regions across the country, it takes an average of one day to accomplish the following:

(i) Reserve a unique company name at the Huduma Centre or the Companies Registry;

(ii) Pay stamp duty at the Huduma Centre;

(iii) Register with the National Hospital Insurance Fund (NHIF); and

(iv) Register for taxes at the Kenya Revenue Authority, among other activities that entail the private sector.

Table 2.6: Regulatory Quality Index 2013 for selected countries

Country	Position out of 192	Regulatory Index Score
Botswana	49	0.66
Rwanda	86	0.03
Uganda	103	-0.24
Tanzania	111	-0.34
Kenya	112	-0.35
Burundi	150	-0.87

Source: www.theglobaleconomy.com
NB: Regulatory Quality Index, -2.5 Weak; 2.5 strong)

Kenya's performance in indicators affecting the ease of doing business and regulatory quality are shown in Table 2.7.

In the East African region, Rwanda's strong performance is attributed to the effectiveness of regulatory laws and efficiency in operational procedures in the following areas (Table 2.7):

(i) Starting a business;
(ii) Dealing with construction permits;
(iii) Getting electricity;
(iv) Registering property;
(v) Protecting minority investors;
(vi) Trading across border;
(vii) Enforcing contracts; and
(viii) Resolving insolvency.

2.1.4 Political stability and absence of violence

Political instability negatively affects the capacity of the poor to generate incomes and participate meaningfully in economic growth of the country.

This indicator measures the likelihood or absence of civil unrest, political instabilities and smooth political transitions. In 2010, Kenya had a score of 13.2 per cent, which stood at 13.7 per cent in 2013, then dropped to 8.7 per cent in 2014 (Figure 2.1). This score has not changed much because of the war on terror in Somalia.

Political instability in Somalia enables expansion of terrorist interests into Somalia and thus into Kenya. The collapse of the government in Somalia in 1991

Table 2.7: Doing business ranking with comparator countries

Country	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Border	Enforcing Contracts	Resolving insolvency
Mauritius	32	37	35	41	99	42	29	13	66	27	39
Rwanda	62	111	37	118	12	2	88	48	156	127	72
Botswana	72	143	97	122	70	70	81	71	51	128	56
Kenya	**108**	**151**	**149**	**127**	**115**	**28**	**115**	**101**	**131**	**102**	**144**
Uganda	122	168	161	167	120	42	99	105	128	78	104
Tanzania	139	129	126	83	133	152	122	150	180	64	99
Burundi	152	19	165	185	94	174	115	111	154	146	145
South Sudan	187	181	177	187	180	174	181	104	179	76	189

Source: http://www.doingbusiness.org

tremendously affected Kenya's security because it contributed to free movement of criminals across the common border. It brought an influx of Somali refugees into Kenya, making it easy for terrorists to blend with the refugees, move freely across the border, and easily export terrorism into Kenya. Because communities staying along the border share identity, terrorists from Somalia took advantage of this to blend with the local Kenyan communities and launch attacks on civilians, security officers, government and private installations. Some of these criminal networks from across the border in Somalia are also suspected of being behind poaching of Kenya's wildlife (Bachmann and Hönke, 2009). So far, terrorism is the biggest threat to stability in the eastern Africa region.

In the 2015 Global Terrorism Index, Kenya was ranked at position 18 out of the 124 countries surveyed (Table 2.8).

Table 2.8: Global Terrorism Index 2015 for selected countries

Country	Rank out of 124
Somalia	8
South Sudan	15
Kenya	**18**
Uganda	30
Tanzania	45
Burundi	55
Rwanda	56
Mauritius	124
Botswana	124

Source: Institute for Economics and PEACE (2015), Global Terrorism Index

The incursion into Somalia by the Kenya military in pursuit of Al-shabaab, the refugee-security dynamics, and terrorist attacks explain Kenya's performance on this indicator.

The enactment of the Security Laws (Amendment) Act 2014 and the adoption of a national counter radicalization strategy have transformed the legal and policy landscape governing security in Kenya. There is also a robust and far-reaching legal framework to counter the current threats relating to terrorism. The judiciary is now able to sanction stiffer bail terms on terror suspects and also stiffer penalties for suspects found culpable.

In informal settlements and pastoral communities, cases of criminal gangs and networks have also led to increased crimes such as cattle rustling, muggings and inter-communal conflicts. While militia groups and gangs are proscribed under the Prevention of Organized Crimes Act, No. 6 of 2010, research carried out by the National Crimes Research Centre indicates that gangs and militia groups still exist in various parts of Kenya. According to the research findings, there are 46 criminal gangs operating in different parts of Kenya (NCRC, 2012). As a result, the following cases were documented (Table 2.9).

Table 2.9: Some cases of insecurity, 2010-2014

Area of Security Concern	Total Number Between 2010-2014
Total no. of deaths resulting from gunshots	1,894
Total no. of deaths due to ethnic clashes	574
Total no. of deaths from armed robberies	260
Total no. of deaths from terror attacks	277
Total no. of police killed	91
Total no. of people displaced	180,300
Total no. of livestock stolen or killed	3,682
Total no. of houses burnt due to ethnic clashes	845

Source: KNHRC (2014)

Inter-communal governance and resource-based conflicts in Tana River, Lamu, Baringo, Turkana, Samburu, Mandera, Wajir and Pokot, among other areas, have undermined peace and political stability in those regions.

Non-state actors such as non-governmental organizations (NGOs) and other private sector players also play a critical role in providing some services that are complimentary to those provided by the government. The role of private security actors in providing security should be recognized and the government should draft a framework for areas of partnerships between private security firms and the National Police Service in enhancing security for citizens and their property. Religious-based actors and institutions also play a crucial role in conflict resolution and transformation, especially in matters of reconciliation, and faith-based trauma and psychological healing in a post-conflict context. Inter-religious institutions from across the faiths, as well as inter-religious councils are well established across the country and have very high levels of capacity to contribute to cohesion in the country.

2.1.5 Voice and accountability

This indicator measures the ability of citizens to exercise their democratic rights during voting, and also the level of inalienable liberties such as freedom of expression, freedom of association and also freedom of thought.

Article 33 of the Constitution on Freedom of Expression states that:1) Every person has the right to freedom of expression, which includes: (a) freedom to seek, receive or impart information or ideas;(b) freedom of artistic creativity; and(c) academic freedom and freedom of scientific research. (2) The right to freedom of expression does not extend to: (a) propaganda for war; (b) incitement to violence;(c) hate speech; or(d) advocacy of hatred that—(i) constitutes ethnic incitement, vilification of others or incitement to cause harm; or(ii) is based on any ground of discrimination specified or contemplated in Article 27 (4). On the other hand Article 34 of the Kenyan Constitution on Freedom of the media states that: (1) Freedom and independence of electronic, print and all other types of media is guaranteed, but does not extend to any expression specified in Article 33 (2).(2) The State shall not: (a) Exercise control over or interfere with any person engaged in broadcasting, the production or circulation of any publication or the dissemination of information by any medium; or(b) Penalise any person for any opinion or view or the content of any broadcast, publication or dissemination.

Kenya's scores on Voice and Accountability have increased steadily from 39.8 per cent in 2010 to 41.2 per cent in 2013, then 42.4 per cent in 2014 (Figure 2.1). This can be attributed to the constitution, which set up new independent commissions where citizens can voice their grievances. For example, the Independent Police Oversight Authority (IPOA) was created to play an oversight role on police officers in the course of their work of enforcing the law. The Office of the Ombudsman deals with maladministration within government offices to ensure that the rights of citizens are not violated by government officers and agencies. This ensures accountability in the civil service. State institutions such as the National Steering Committee on Peace Building and Conflict Management (NSC), National Cohesion and Integration Commission (NCIC), and Kenya National Human Rights Commission (KNHCR) are some of the key institutions promoting peace in the country at a national level with support from non-governmental organizations and a vibrant free media.

The National Cohesion and Integration Commission (NCIC) is among the key government agencies fostering nation-wide efforts to change inter-ethnic group attitudes in the country and construct a more cohesive, peaceful national identity (patriotism). It conducts and funds multiple programmes, including national electronic media dialogues, peace education to foster non-violent forms of conflict resolution, and support for community-based organizations, faith-based organizations and non-governmental initiatives to foster ownership and sustainability for local, home-made initiatives geared towards social cohesion. Banners designed by the NCIC to promote peace and "unity in diversity" (*pamoja*) are displayed on billboards on highways and overpasses throughout the country.

The legislature is a critical institution in governance. The National Assembly should be the unifying arm of the government for the whole country, since its representation is diverse and gives a true reflection of Kenya.

In terms of gender representation, Kenya has made some strides in addressing the huge gender gaps that have existed since independence. In the Global Gender Gap Index 2014, Kenya was ranked at position 37 (Table 2.10) with scores of 0.7258 out of the possible 1, which is the equality score.

Table 2.10: Selected countries Global Gender Gap Index (2012-2014)

Country	2012	2013	2014
Kenya	72	78	37
Rwanda	-	-	7
Tanzania	46	66	47
Uganda	28	46	88
Mozambique	23	26	27
Burundi	24	22	17
South Africa	16	17	18

Source: World Economic Forum (2014)
- Rwanda was not ranked in 2012 and 2013

To make greater strides in gender equality, the National Assembly ought to legislate laws and come up with legal mechanisms and framework that will further gender equality in the country especially on how the minimum one third constitutional requirements can be achieved.

The accountability of the National Assembly has also come under scrutiny especially when dealing with constitutional offices such as the Salaries and Remuneration Commission - SRC (KHRC, 2011), the Commission for Implementation of the Constitution, among others.

Often, there are supremacy battles between the National Assembly and the Senate over which legislative house is superior to the other. For instance, during the Division of Revenue Bill 2013, the Bill was passed by the National Assembly but the Senate questioned its legality thus delaying disbursement of funds to counties and thus affecting delivery of services in counties. It was envisaged in the Constitution that the two-chamber parliament would create an appellate hierarchy in the enactment of laws. One chamber is supposed to be given an opportunity to review the laws and decisions of the other chamber. However, the Senate is restricted to dealing only with bills concerning counties, while the National Assembly is not. A bill that seeks to address interests of counties can originate from either the Senate or the National Assembly. Rather than engage in meaningless supremacy battles, both Houses ought to understand that devolution is about power sharing with a view to benefiting citizens in terms of quality and timely service delivery. Constitutionalism as a culture builds on a system of values that require tremendous political will from political actors in the two chambers of parliament. Nurturing and strengthening these values requires that the Senate and National Assembly work in sync with each other. Article 113 of the Constitution envisages such mechanisms and provides, among other mechanisms, a mediation committee to resolve deadlocks over contentious bills between the two Houses, which one would normally have expected the Senate to resort to as was the case of the Revenue Allocation Bill.

The Commission for Implementation of the Constitution (CIC), established under Article 5 of the Sixth Schedule has since 2011 been working with the Attorney General and National Assembly to ensure that the Constitution is implemented within the stipulated time frame. The commission has made considerable contribution to the enactment of legislation under the Constitution, as well as its proper implementation, and will cease to exist on 3 January 2016. Some of the legislative achievements include over 191 Acts being enacted; that is, 12 in

2010, 41 in 2011, 55 in 2012, 50 in 2013, 23 in 2014 and 10 in 2015 by the legislature, even though some legislations are way behind schedule as stipulated in the Constitution.

Legislative Acts dealing with election and electoral disputes, vetting of judges and magistrates, citizenship and corruption were enacted within a year after promulgation of the constitution in 2010. Acts such as the Elections Act, Judges and Magistrates Vetting Board Act, the Kenya Citizenship and Immigration Act and the Ethics and Anti-Corruption Commission Act were enacted in 2011 within the constitutional time frame. Other Acts such as the Consumer Protection Act 2012 had a time specification of four years. The Land Act, Land Registration Act, and National Land Commission Act, all of 2012, had a time specification of five years and others have been enacted within the time provided for in the constitution. All key state organs, the Senate, the National Assembly, the Cabinet, the county governments, the Judiciary, the Attorney General, the Director of Public Prosecutions, the National Police Service and its oversight body are functional after necessary legislations were passed by the National Assembly. A total of 13 constitutional commissions are now functional as stipulated in Chapter 15 of the Constitution of Kenya

There are instances where the Constitution has been breached by the National Assembly. The two-third Gender Rule Laws (Amendment) Bill, Minimum and Maximum Holding Land Acreage Bill, Magistrates Courts Bill, the Community Land Bill and Access to Information Bill are among the bills yet to be enacted, yet the stipulated constitutional timelines has elapsed.

The Constitution seeks to enhance the accountability of the legislature. Article 118 compels parliament to facilitate public participation and involvement in the business of the legislature and its committees, while Article 119 gives every citizen the right to petition parliament "to consider any matter within its jurisdiction." Article 104 also gives the electorate the right to recall a Member of Parliament (MP) representing their constituency, and compels parliament to enact legislation that will establish the grounds and procedures according to which an MP may be recalled. This is yet to be realized.

2.1.6 Government effectiveness

This indicator measures perceptions regarding the quality of public services and the level of political interference in the civil service. It also captures the quality of policies implemented by the government.

In 2010, Kenya had a score of 36.4 per cent in Government Effectiveness, which remains largely unchanged and stood at 37.8 per cent in 2013, then rose to 43.3 per cent in 2014 (Figure 2.1). The transition from centralized governance to devolved system with 47 county governments has to an extent compromised the delivery of services to citizens, since all the 47 counties do not have the necessary capacity in terms of local institutions to function effectively (TISA, 2013). This has been worsened by the mistrust between the national government and county governments, where county governments are not ready to have some functions devolved to their jurisdiction as the Constitution stipulates.

Kenya has also improved in its ranking in the Ibrahim Index of African Governance reports (Table 2.11).

Table 2.11: Selected countries (2013/2014) Ibrahim Index of African Governance

Country	2013	2014
Kenya	21	17
Botswana	2	3
Burundi	40	38
Cape Verde	3	2
Tanzania	17	15
Uganda	18	19
Rwanda	15	11
Mauritius	1	1

Source: MoIbrahim (2014)

The Ibrahim Index of African Governance shows that there has been a major improvement in governance scores for countries within the East African Community, except Uganda which dropped from position 18 in 2013 to position 19 in 2014 (Table 2.11). Kenya recorded improvement from position 21 in 2013 to position 17 in 2014. This improvement should be harnessed by the government to woo foreign investment and create employment opportunities for the youth.

Stable and independent functioning institutions of governance as stipulated in the Constitution could be attributed to the improvement in the ranking. After the post-election violence of 2007/2008, Kenya has carried out reforms in key institutions of governance to increase inclusivity in governance.

Competitiveness is the set of institutions, policies, and factors that determine the level of productivity of a country. More competitive economies tend to produce higher levels of income for their citizens. A country with independent effective institutions of governance has a direct impact on the quality of life of citizens and improved service delivery to citizens. Kenya's Global Competitiveness Index (GCI) is the second best in the region after Rwanda (Table 2.12).

Table 2.12: Select rankings on the Global Competitiveness Index (2013/2014 and 2014/2015)

Country	2013/2014	2014/2015
Rwanda	66	62
Kenya	**96**	**90**
Uganda	129	122
Tanzania	125	121
Singapore	2	2
Malaysia	24	20
Mauritius	45	39
Botswana	74	74
South Africa	53	56
Cape Verde	122	114
Ghana	114	111

Source: World Economic Forum (2014)

Kenya's competitiveness has improved from position 96 in 2013/2014 to 90 in 2014/2015 index (Table 2.12). This can be attributed to the government and other state agencies implementing and adhering to the Constitution. However, there are still some sticking points highlighted by the report, which include corruption, crime and theft, inefficient government bureaucracy, and a poor work ethic in the national labour force. These are the concerns that the country needs to address quickly to improve service delivery. As noted earlier, corruption is the biggest challenge to government effectiveness in Kenya. A well institutionalized and developed bureaucracy can assist and strengthen government effectiveness. But a weak bureaucracy undermines the goals of good governance, since it may be prone to abuse and results in diversion of public funds, wastefulness of government expenditure, and irregular payments and bribes in government processes. Even though the government has tried to address the prevalence of bribery in public service delivery by launching the one-stop Huduma centres, it is apparent that much more needs to be done to address the prevalence of bribery in public service delivery. These are in effect the intervening variables that negatively affect the country's GCI. As noted earlier, prevalence of corruption in the national police and judiciary undermines the independence of these institutions, and results in little respect for rule of law and laid down regulations. This inevitably lowers the GCI of the country and affects economic growth, as no investor is willing to invest in a country where bribery, patronage and other forms of corruption are present. These unofficial tariffs (corruption) increase the cost of production of goods and services

2.2 Conclusion and Policy Recommendations

The government recognizes that security is critical for Kenya's development and stability and is implementing various measures towards creating a peaceful and secure environment. However, we cannot tackle insecurity without addressing the question of policing. Currently, the ratio of policemen to citizens is way below the required international benchmark. The government is investing in electronic surveillance and street monitoring systems. It is paramount that the government considers converting and retraining former City Council, Municipal and County Council Department of Inspectorate staff to become Metro Police to work closely and seamlessly with the National Police Service as a crime prevention strategy.

Secondly, the status of refuges from Somalia should be given a critical evaluation again. Kenya Defence Forces have managed to stabilize most parts of Somalia, and the government should work with the United Nations High Commissioner for Refugees (UNHCR) to relocate refugees to safer areas in Somalia close to the border with Kenya. This would make it easy for the country's security agencies to monitor the movement of refugees across the border and be able to respond to potential security threats. Regional and international collaboration is critical in the fight against terrorism.

Thirdly, there is need to embrace use of technology to reduce opportunities for corruption in the public service. In this regard, the relevant government departments should fast-track digitization of all government services.

Fourthly, the cost of litigation in Kenya is far too high. Average Kenyans cannot afford the cost of litigation services, and this often leads to miscarriage of justice. The Judicial Service Commission could ameliorate this situation by ensuring that court services are brought closer to citizens, and if possible reduce litigation costs and other charges associated with filing cases in courts.

Finally, the judiciary has historically faced severe capacity gaps in its infrastructure and human resource. It has not been able to meet the demands of the ever growing population, thus straining the overstretched judicial infrastructure. Some court stations lack adequate space to accommodate judicial officers and registries, which greatly hampers judicial performance. Increasing the capacity of the judiciary should be prioritized by the Judicial Service Commission.

ENDNOTES

1. Government of Kenya through the Governance Justice Law and Order Sector (GJLOS) Reform Program, Kenya Police Culture and Attitude Change Pilot Training Program, http://www.gjlos.go.ke/gjlos_Kenya_police_report.pdf

Chapter 3

Social-Economic Performance

3.1 Introduction

This chapter focuses on the social development indicators: population, poverty, education and health.

3.2 Population Dynamics

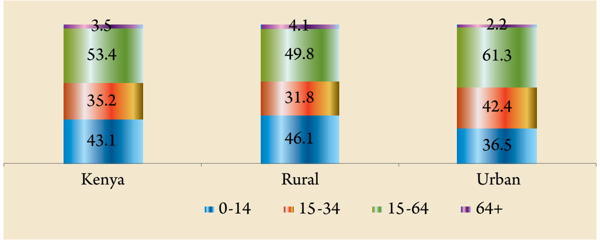
Kenya's population dynamics are influenced by population growth, age distribution, population structure, and trends in fertility and mortality rates. Together with other health and economic factors, these impact on life expectancy and other social economic outcomes.

Kenya's population growth rate is 2.6 per cent. This is slightly above the global average of 2.5 per cent. The fertility rate of 4.4 children to a woman is relatively high compared to the 2.69 children to a woman, which is the average for developing countries. Recent population projections show that Kenya's population is estimated at 44.6 million people in the year 2014 (US Census Bureau, 2014).

3.2.1 Age distribution

Figure 3.1 shows the age distribution of Kenya's population. About 43 per cent, 53 per cent and 4 per cent of the population is below 15 years, between 15 to 64 years, and above 64 years, respectively. The proportion of youth (i.e. those aged between 15 and 34 years) is 35.2 per cent, higher in urban areas at 42.4 per cent compared to rural areas at 31.8 per cent. Kenya's rural areas have a higher proportion (4.1%) of ageing population compared to urban (2.2%), giving rise to a national average of 3.5 per cent.

Figure 3.1: Proportion of Kenya population by age, urban and rural



Source: Kenya National Bureau of Statistics and Society for International Development (2013)

An indicator of ageing population is the median age, which inversely relates to fertility decline. Kenya's median age of 19 years compares closely with least developed countries' median age of below 20 years, and average median age for Africa of 19.4 years. Compared to median age for Europe (41 years), and world (29 years) (UNDESA, 2013), median age for Africa and least developed countries indicates a persistently high fertility rate.

Kenya's population median age of 19 years and an estimated 82.4 per cent dependency ratio has important policy implications. The high dependency ratio demands that development efforts are directed to support the youthful population especially in areas such as food, education and healthcare. In an economy that is not expanding sufficiently enough to absorb the growing labourforce, unemployment and under-employment, and the associated social problems, become major policy challenges. Indeed, these are challenges that Kenya is grappling with currently.

3.2.2 Fertility

Kenya's fertility rate dropped from 4.4 children to a woman in 2012, and reduced further to 4.3 in 2013. This rate is close to the average of 4.58 children per woman for 49 least developed countries (UNDESA, 2013). Contraceptive use is the most effective method of fertility reduction. For every 16 percentage point increase in contraceptive usage, fertility declines by one child per woman (Global Leaders Council, 2011).

Contraceptive prevalence rate for Kenya was 54 per cent in 2014, against a target of 56 per cent by 2015. The country targets a contraceptive prevalence rate of 70 per cent by 2030 (AFP, 2014). Policy efforts need to be directed towards increased budgetary allocations to family planning, reproductive health and related health services, provision of free contraceptives including through all registered private health facilities, and increasing youth coverage through youth empowerment centres that offer youth-friendly information at the constituency level (FP2020, 2014). Kenya's fertility reduction strategies should include women education (McCrary and Royer, 2011) and deepening family planning education on the importance of smaller families. Media sensitization programmes and extensive use of social media should be encouraged to reach more youth.

3.2.3 Demographic dividend

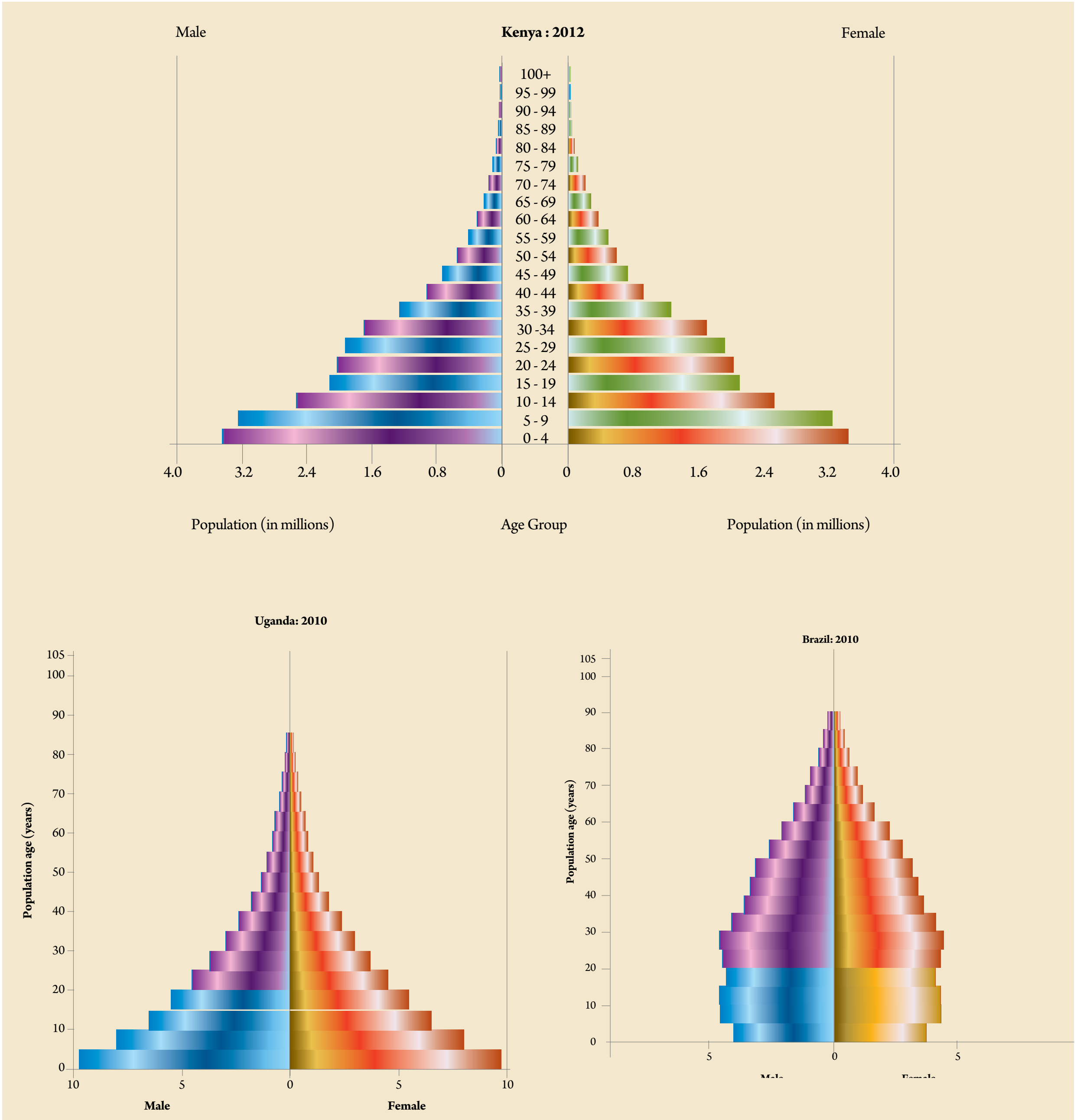
Demographic dividend occurs when the fertility and mortality rates reduce steadily for over 30 years to near replacement level of about 2.1 children to a woman (US Census Bureau, 2014). This happens only when appropriate policies are implemented that set a stage for fewer children. A country reaps demographic dividend due to amplified economic growth from increased productivity of the larger workforce and a smaller dependency population. It is achieved when a country invests in appropriate reproductive health services and education, while promoting gender equity, attracting investments in labour-intensive economic activities, and promoting exports to ensure that the increased workforce can get jobs and be productive (Gribble and Bremner, 2012).

Steady fertility reduction enables a country to achieve the demographic transition. The population structure transforms from pyramidal structure with a wide bottom that signifies high dependency (Figure 3.2) to a wide middle that signifies a large workforce supporting a smaller dependant population (Brazil 2010 in Figure 3.2). A low dependant population allows the family and subsequently the economy to save and invest in better education and health, as well as other income generating activities that support growth and transformation.

3.2.4 Recommendations

Kenya's population median age is just below 20 years of age, meaning that in another ten years, majority of this population will fall in the working age cohort, calling for employment creation policies and strategies to absorb them in order to reap the demographic dividend. This requires investment in productivity enhancement skills, and job creation in fast growing and labour-intensive sectors such as services, agriculture and industry, while promoting manufacture of export goods for the regional and international markets.

Figure 3.2: Population structure for Kenya, Uganda and Brazil



Source: a - US Census Bureau (2014); b& c -Global Leaders Council (2011)

Kenya must implement effective family planning strategies and programmes to curb the high population growth rate. The coverage can be intensified through community health workers as well as private and public facilities. Information about service availability should be widely broadcasted to ensure it reaches the majority.

3.3 Poverty Status

3.3.1 Introduction

Kenya's commitments to reduce poverty are embodied in the Constitution and policy documents such as the Kenya Vision 2030, which target to reduce poverty to about 30 per cent by the year 2030. Other documents include the five-year Medium Term Plans (MTP I & II), and Social Protection Policy, 2012.

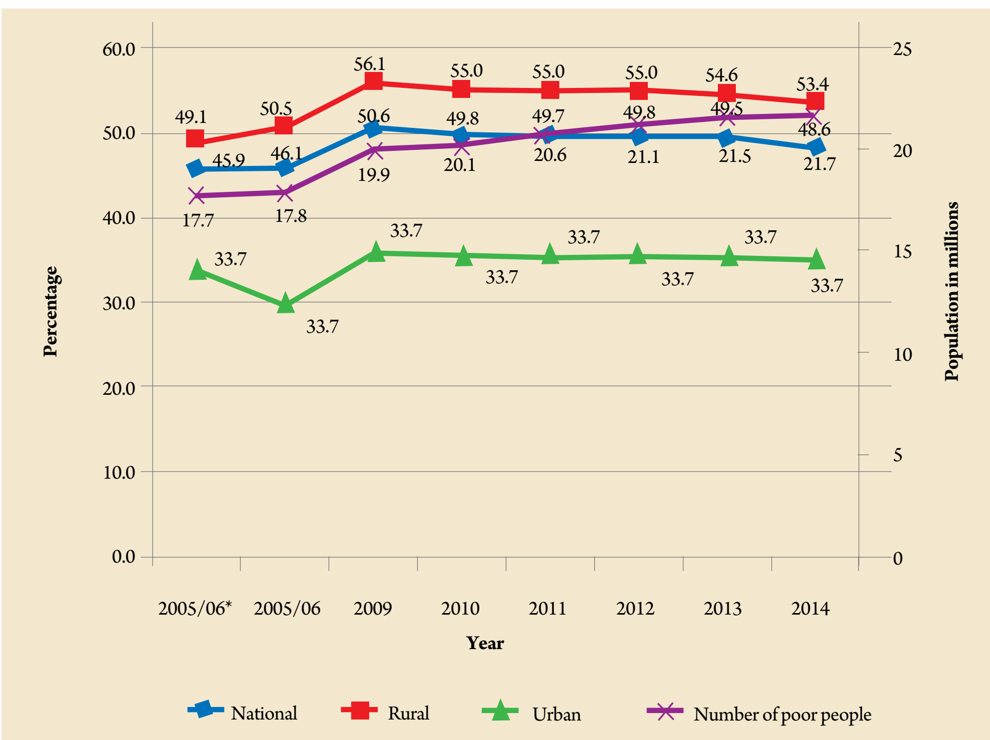
In 2000, the national poverty head count was estimated at 52 per cent. The level fell by 6 percentage points to 45.6 per cent in 2005/6. However, the trend was reversed in 2007/08 following the post-election violence and other external shocks. Between 2009 and 2014, the government introduced several poverty reduction interventions. These include introduction of subsidized secondary education, bursary funds, free healthcare for under-five, free maternity care and cash transfer programmes for Orphans and Vulnerable Children, the elderly aged over 65 years, and those affected by HIV/AIDS.

Despite the government interventions, projections based on KIPPRA Poverty Model indicate that nearly 49 per cent of the population still lives below the poverty line. Accordingly, in 2014, 21.7 million people were living in poverty (Figure 3.3). The gap between rural and urban headcount poverty has remained high, which is a reflection of regional inequalities. Previous research on poverty analysis points to the importance of both distributional and growth factors to poverty reduction. Ali and Thorbecke (2000) find that poverty indeed responds more to inequality than to income growth in African countries. Other bodies of research emphasize the relative importance of inequality in the responsiveness of poverty to economic growth (Datt and Ravallion, 1992; Kakwani, 1993; Nafula et al., 2013).

3.3.2 Rural poverty

Further analysis shows that over 50.0 per cent of rural residents live below the poverty line. Over time, poverty has recorded marginal improvement from 56.0 per cent in 2009 to 53.0 per cent in 2014. Between 2012 and 2014, there was marked improvement on the extent of poverty among the poor as shown in Figure 3.4. The poverty depth, which is a measure of how far below the poverty line

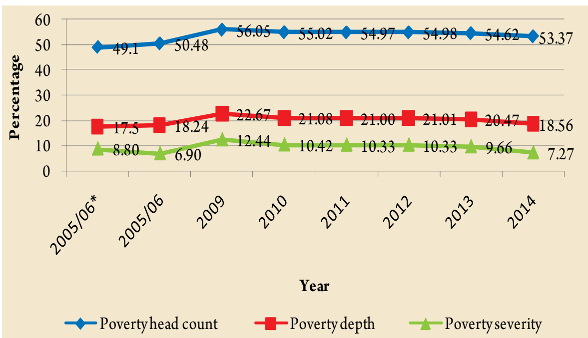
Figure 3.3: Predicted poverty head count and number of poor people in the population, 2009-2014



* refers to actual figures from the 2005/6 survey data
Source: Projections using 2005/6 Household Budget Survey

the poor are, declined from 21.2 per cent to 18.6 per cent. Similarly, the poverty severity index, a measure of the degree of poverty among the poor population, declined from 10.3 per cent to 7.3 per cent during the same period. This means that poverty declined among the poorest of the poor, though they still remained below the poverty line.

Figure 3.4: Poverty in rural areas

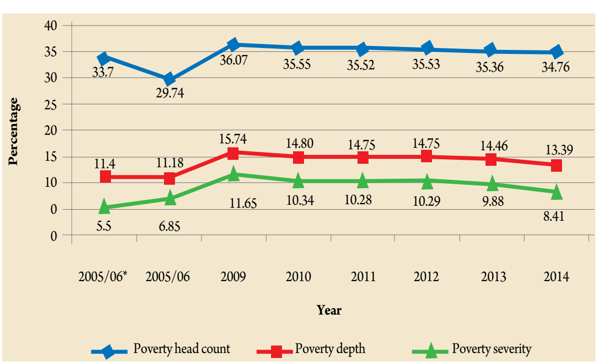


Source: Own computation using KIHBS 2005/2006
*Actual survey data. All the other figures are projections using 2005/6 survey data

3.3.3 Urban poverty

Similarly, poverty in urban areas recorded a very marginal decline between 2009 and 2014, as shown in Figure 3.5. The urban poverty head count peaked at 36.1 per cent in 2009, only to record 34.8 per cent in 2014. Much significant improvement is noted for poverty depth, which declined from 15.7 per cent to 13.4 per cent over the same period. This means that the incomes of the poor increased slightly. Notably, poverty severity declined from 11.7 per cent to 8.4 per cent in the same period.

Figure 3.5: Poverty in urban areas



Source: Own computation using KIHBS 2005/2006

3.3.4 Poverty depth and severity

The observed decline especially in poverty depth and poverty severity is as a result of the immense roll out of social assistance programmes that mainly target the very poor and the disadvantaged in the society. The government together with non-state actors increased allocations to support social assistance programme such as giving low interest loans to the poor through the Poverty Eradication Commission, and other funds that target women and youth.

3.3.5 Spatial analysis–county level

A spatial analysis of poverty at the county level shows large regional discrepancies. Some regions have extreme climatic conditions with very different living conditions and, therefore, it is not surprising to find huge differences in poverty. According to projected poverty figures for 2015, the difference in the incidence of rural poverty rates vary by a factor of 90.6 percentage points. In the poorest counties, over 70 per cent of the population lives below the poverty line.

The estimates for 2015 show that Kajiado County in Rift Valley has the lowest poverty rate at 12.6 per cent, followed by Kirinyaga at 26.9 per cent, Kiambu county at 28.8 per cent and Meru 29.4 per cent. Regional differences between the highest and lowest urban poverty rate is about 26.8 percentage points. Urban poverty rate is estimated to be lowest in Nairobi (21.3%) and highest in Nakuru (48.1%), other urban areas (42.3%) and Kisumu (41.4%). Significant differences in poverty rates also exist within the slums (World Bank, 2008). Nairobi leads in the extent of area covered by slums.

An understanding of the spatial dimensions of poverty is important for informing policy interventions, including development of a formulae for sharing resources between the national government and the county government, and also within the county governments.

3.3.6 Conclusions

The social assistance programmes and other social protection programmes, if well targeted, will continue to contribute to substantial reduction in extreme impoverishment across all regions. However, there is also need to improve the policy environment to enhance growth and transformation of the entire economy.

The national government's vertical allocation to county governments in form of equitable fund, conditional grants, equalization funds, and other local revenues generated at the county level, avail resources for attacking poverty and regional disparities.

3.4 Education and Skills Development

3.4.1 Introduction

Kenya's Vision 2030 identifies education and training as a key enabler in realization of the Vision. Also, the right to free and compulsory basic education is a constitutional right to every Kenyan child. Moreover, emphasis on skills development is provided for in the Higher Education and Science, Innovation and Technology Act (2013). This sub-section reviews education service delivery, level of education inputs, resource utilization, the cost of education, and education outputs.

Majority of Kenya's population possesses low levels of education and training. On average, 25 per cent of the population aged 15-64 years has no education; 52 per cent have only primary education and only 23 per cent of the population has attained secondary education and above (KNBS-SID, 2014). The low education attainment is reflected in the labour market, where only 32.7 per cent of workers in formal wage sector have attained secondary education and above (Munga et al., 2014).

3.4.2 Education inputs

Investment in education has continued to expand, with the number of education institutions increasing from 78,102 in 2012 to 80,172 in 2013. Pre-primary education centres increased from 39,758 institutions in 2012 to 40,145 centres in 2013 (KNBS, 2014a). During this period, primary schools increased from 29,161 to 30,122 schools (70% public and 30% private). Primary school enrolment increased by 3.7 per cent from 8.86 million pupils in 2012 to 9.19 million pupils in 2013. The number of teachers increased by 4.5 per cent from 191,034 to 199,686 teachers during the same period. This represents a pupil teacher ratio of 46.4 in 2012 and 46.0 in 2013.

The number of secondary schools increased by 7.9 per cent from 8,197 schools to 8,848 schools in 2013, with enrolment increasing by 1.3 per cent from 985,000 students in 2012 to 998,000 students in 2013. The number of secondary school teachers increased by about 10 per cent from 59,273 teachers in 2012 to 65,494 in 2013, which gives a pupil teacher ratio of 16.6 and 15.2, respectively. At higher education level, the number of technical training institutions increased by 6.1 per cent from 705 in 2012 to 748 TVET institutions in 2013. The number of public and private universities increased by 62 per cent from 35 universities in 2010 to 52 universities in 2013.

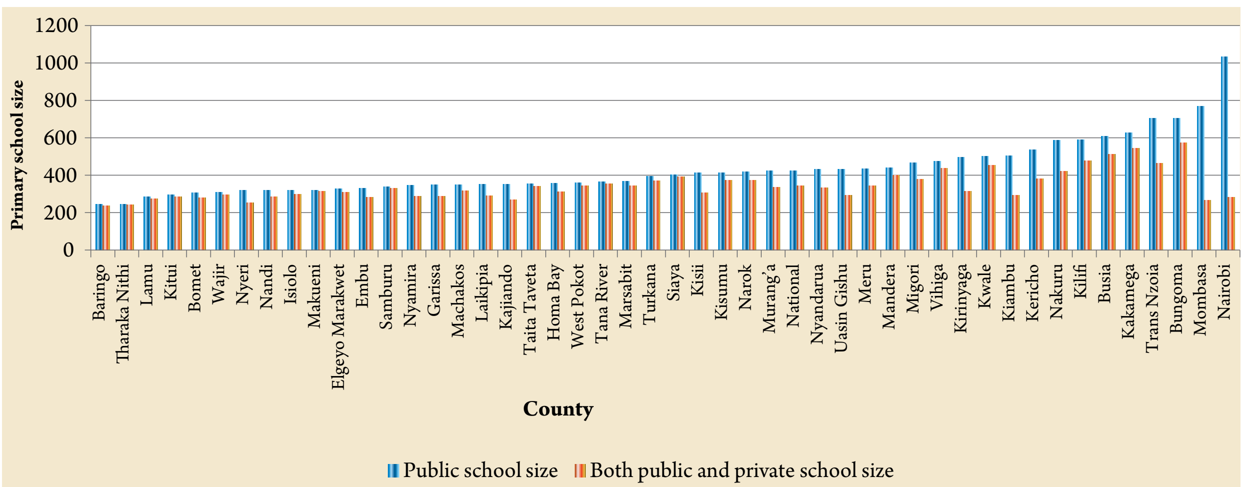
These increases notwithstanding, there is unequal distribution of learning institutions across counties. According to the education policy, the primary school optimal size should be at least 2 streams for the 8 classes of 50 pupils per stream or 800 pupils per school.

Using 2013 county level data, the average primary school size was 424 pupils. The smallest school had 244 pupils and the largest had 1,132 pupils. The combined average primary school size when both public and private primary schools are considered was 232 pupils, with a maximum of 572 pupils per school and a minimum of 242 pupils per school (Figure 3.6) compared to a close to optimal school size of 800 pupils (that is at least 2 streams per class of 50 pupils). The gap between the largest and smallest public primary school is large, indicating that some schools could be over-enrolled, but majority are under-enrolled, and hence there is scope to increase enrolment without necessarily building more schools. The school size is even lower when private schools are considered, implying that most private schools have small class sizes.

In 2013, the average public secondary school size was 232 students with a minimum of 104 students, a maximum of 400 students. This average is lower than the optimal school size of 540 students, assuming each school had three streams for each of the four classes with a minimum of 45 students each. The aggregate (both public and private) secondary school size was 254 pupils with a maximum of 410 students per school and a minimum of 168 students per school (Figure 3.7).

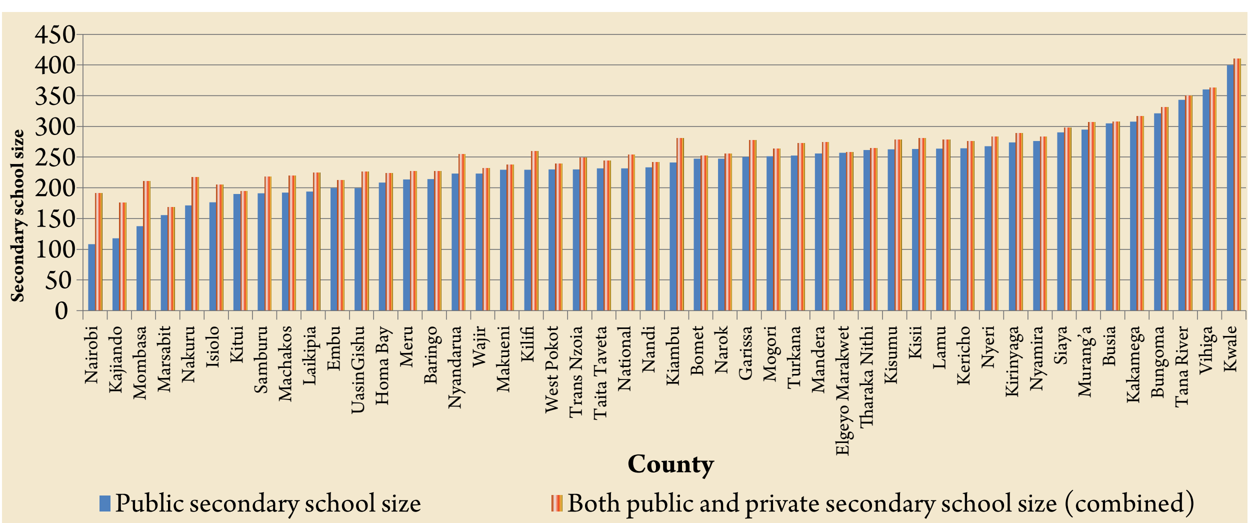
The gap between the actual secondary school size and the optimal school size indicates the problem of uneven secondary education provision and participation across the country, and low enrolment

Figure 3.6: Primary school size, 2013 by county



Data Source: KNBS (2014b), Statistical Abstract

Figure 3.7: Secondary school size, 2013



Data Source: KNBS (2014b)

level in some secondary schools across all counties (Figure 3.7).

In summary, overall investment in education increased as evidenced by notable increase in enrolments and educational institutions. Despite these increases, unequal distribution across counties still remains.

3.4.3 Cost of education

The government's commitment to providing Free Primary Education and Free Day Secondary Education has resulted in increased public expenditure on service provision. Overall, education expenditure as a per cent of GDP increased from 4.9 per cent in 2011/12 to 5.0 per cent in 2013/14 (Table 3.1).

Table 3.1: Public spending in education as a per cent of GDP and total outlays, 2011/12 to 2013/14 (%)

	2011/12	2012/13	2013/14
Education spending % of GDP	4.9	5.1	5.0
Education spending % of total public expenditure	28.8	33.3	33.8
Education recurrent % of public recurrent	41.9	46.8	48.5
Education development % of public development	2.4	5.9	4.0
Education recurrent % of total education spending	97.3	94.1	96.0
Education development % of total education spending	2.7	5.9	4.0
Teachers Service Commission as % of total education spending	58.0	61.2	64.5
Total education spending (Ksh million)	193,974.7	229,272.1	238,893.4

Source: KNBS (2014a)

The share represented 28.8 per cent and 33.8 per cent of the total public spending in the respective years. The increase in education spending is attributed to a combination of factors, key among them capitation grants for basic education, loans and bursaries for tertiary education, and teachers' personnel emoluments.

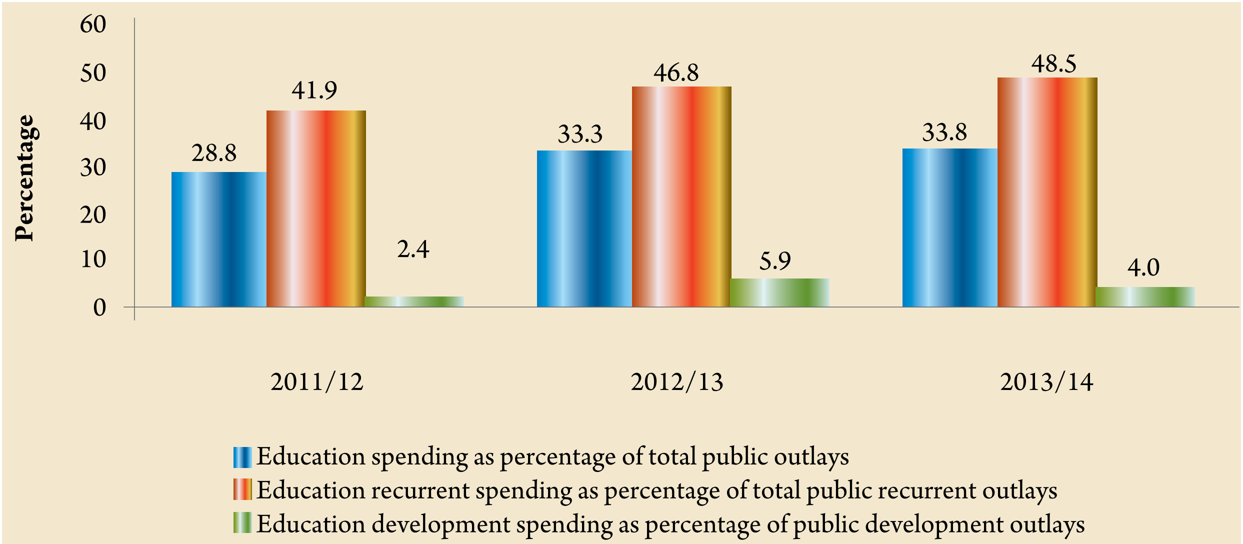
Recurrent and development

The share of recurrent expenditure in total education spending decreased to 96.0 per cent in the 2013/14 financial year from 97.3 per cent in 2011/12. Development spending, on the other hand, increased from 2.7 per cent in 2011/12 to 4.0 per cent in 2013/14. This increase in development spending can be attributed to increased spending on infrastructure. The main drivers of the high recurrent spending were teachers' personnel emoluments, and financing of free primary and free day secondary education capitation transfers.

Education spending by functional classification

Primary education takes the largest share of public education spending (48.9%) followed by secondary education, university education and technical education, in that order (Table 3.2).

Figure 3.8: Recurrent and development spending, 2011/12-2013/14 (%)



Source: Government of Kenya (2014c)

Table 3.2: Public education expenditure by functional classification (%), 2011/12-2013/14

	2011/12	2012/13	2013/14
Recurrent			
General administration and planning	3.7	3.7	3.4
Primary education	45.8	47.0	49.9
Teacher education	3.7	0.2	0.2
Special education	0.2	0.3	0.3
Early childhood education	0.2	0.7	0.0
Secondary education	26.3	26.3	25.1
Technical education	4.4	3.6	3.4
University education	15.7	18.2	17.5
Development			
General administration and planning	29.8	23.0	21.6
Primary education	5.3	1.2	41.9
Teacher education	6.8	4.2	1.0
Special education	0.0	0.0	0.0
Early childhood education	0.1	0.2	0.1
Secondary education	9.7	14.1	1.1
Technical education	23.7	27.6	16.7
University education	24.5	29.6	17.5
Total Recurrent and Development			
General administration and planning	6.3	5.7	5.7
Primary education	41.7	42.2	48.9
Teacher education	4.0	0.6	0.3
Special education	0.2	0.3	0.3
Early childhood education	0.2	0.7	0.0
Secondary education	24.7	25.0	22.1
Technical education	6.3	6.1	5.1
University education	16.6	19.4	17.5

Data Source: KNBS (2014a), Economic Survey

Spending on secondary and university education sub-sectors remained relatively constant during the review period at 22.1 per cent and 17.5 per cent, respectively, of total education budget for 2013/2014. General administration and planning received 5.7 per cent of public education spending in 2013/14.

Financing higher education

The increasing number of students in tertiary education calls for adequate funding. As a result, the Higher Education Loans Board (HELB) sought

Table 3.3: Summary of loans and bursaries by HELB: 2010/11-2012/13 to universities

	Undergraduate loans		Postgraduate loans		Postgraduate scholarships	
Year	No. of students	Total Amount	No. of students	Total amount	No. of students	Total amount
2010/11	77,143	3,304,235,000	976	119,185,050	50	15,000,000
2011/12	110,218	4,589,785,000	1,126	136,386,250	66	18,200,000
2012/13	121,131	5,168,450,000	1,239	149,711,150	77	21,000,000

Source: Higher Education Loans Board

to increase the annual student funding from Ksh 5.3 billion, benefiting 122,447 undergraduate and post-graduate students in 2012/2013 academic year (Table 3.3) to Ksh 16 billion benefiting 269,700 students projected for 2013/2014 academic year (Table 3.3).

The increase in the number of students attending universities and middle level colleges and those graduating from secondary education requires concerted efforts and innovative mechanisms on how to finance expansion in tertiary education in order to ensure equity, increased access, and completion.

Household financing of education

The report of the Taskforce on Secondary Education in Kenya (Government of Kenya, 2014d) confirmed non-compliance with the Ministry of Education's fees guidelines by secondary schools. The fees and levies vary across regions and categories of school. Special schools and sub-county day schools charge the lowest fee compared to national, extra-county and county boarding schools. In 2014, the average fees charged by the sampled national schools was estimated at Ksh 68,335, and ranged from Ksh 33,430 to Ksh 120,000. County and extra-county schools charged an average of Ksh 54,523 per annum with a minimum of Ksh 19,230 and a high of Ksh 93,317. Sub-county or day schools charged between Ksh 11,500 and Ksh 62,393 per annum, with an average of Ksh 25,374 per annum. Special schools charged an average of Ksh 24,008 per annum with a small deviation between the minimum of Ksh 23,121 and a maximum of Ksh 24,804. This translates to about Ksh 105.9 billion per annum, assuming public secondary school enrolment of about 1.3 million students.

3.4.4 Education sector performance

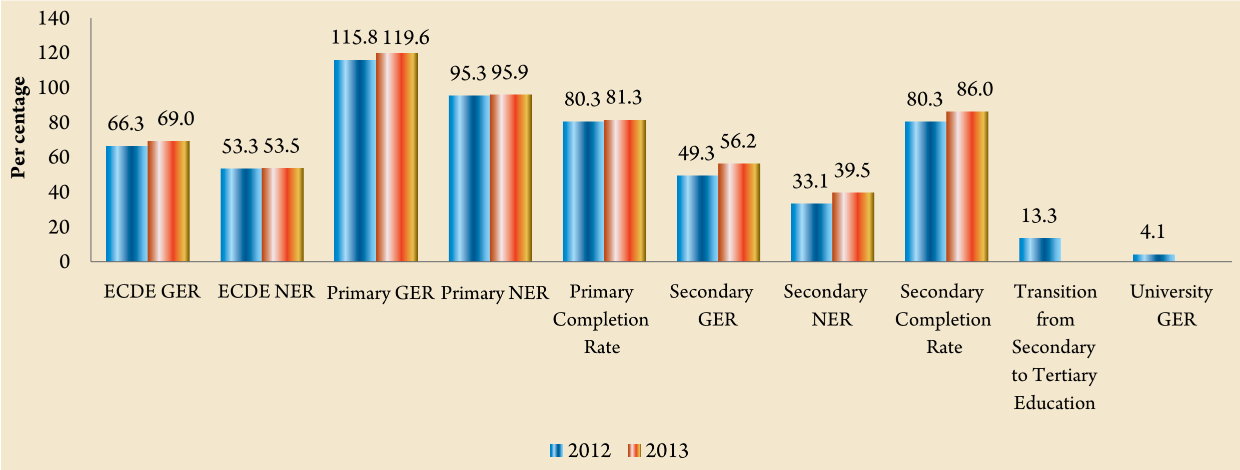
Participation rates in education

Enrolment in pre-primary education increased by 2.5 per cent in 2013, which translates to 2.5 million pupils compared to 2.4 million pupils in 2012. Pre-primary education Gross Enrolment Rate (GER) increased from 66.3 per cent in 2012 to 69.0 per cent in 2013. There was a less than 1 per cent increase in Net Enrolment Rate (NER) over the same period from 53.3 per cent in 2012 to 53.5 per cent in 2013. This shows low participation level at pre-primary education.

In 2013, total primary school education enrolment was 10.2 million compared to 9.971 million the previous year. The primary GER increased from 115.8 per cent in 2012 to 119.6 per cent in 2013 while the NER increased from 95.3 per cent to 95.9 per cent (Figure 3.9).

Secondary school GER increased from 49.3 per cent in 2012 to 56.2 per cent in 2013. While the NER increased from 33.1 per cent to 39.5 per cent over the same period, meaning that 60.5 per cent of secondary school age population were not in school in 2013. Expansion of NER is attributed to the Free Day Secondary Education (FDSE), which started in 2008.

Figure 3.9: Basic and tertiary education participation rates, 2012-2013 (%)



Data Source: Government of Kenya (2014e)

3.4.5 Literacy rate

Kenya has an adult literacy level of 72.2 per cent, while the youth literacy level is 82.4 per cent, which is among the highest in Africa. However, the population with at least some secondary education is only 28.6 per cent. This compares poorly with countries such as South Africa, Botswana and Egypt.

From a policy perspective, improving literacy rates in Kenya will require not only increasing enrolment but also a concerted effort to reach the non-literate population who are beyond the school-going age bracket. National and county governments need to include, in their strategic plans and budgets, programmes for combating illiteracy levels while providing opportunities for those who have totally missed formal education opportunities.

3.4.6 Progression in education

Basic education

The ability of the education sector to sustain students' progression through the system is low. On average, over 74 per cent of primary school students join secondary school while the rest drop off due to socio-economic factors. According to analysis presented in Table 3.4, about 55.3 per cent of students who enrolled in Standard 1 in 2003 progressed to Standard 8. The number of pupils enrolled in Form 1 as a percentage of respective cohort enrolled in Standard 1 is estimated at 39.5 per cent. Survival within secondary education level is 89.9 per cent, implying high internal efficiency within secondary education level. However, transition from last grade of secondary education to first year tertiary (technical and university) education is estimated at 13.3 per cent, while only about 2.2 per cent of Standard 1 learners manage to progress to first year university education.

Technical, Vocational Education and Training

The government is committed to reviving technical education to deepen skills development, as evidenced by the expansion of technical institutions (KNBS, Various Economic Survey). The enrolment in technical and vocational education and training (TVET) institutions rose by 25.1 per cent from 127,691 in 2012 to 148,009 in 2013 as shown in Table 3.5. Enrolment in youth polytechnics increased by 14.4 per cent from 67,054 in 2012 to 71,569 in 2013. This surge is mainly attributed to the government's subsidy on tuition fee for youth polytechnics.

Table 3.4: Progression in basic education

	Standard 1 Enrolment ('000)	Std 8 Enrolment ('000)	Form 1 Enrolment ('000)	Form 4 Enrolment ('000)	% Standard 1 reaching standard 8	% Standard 8 transiting to Form 1	% Form 1 progressing to Form 4	% Form 1 reaching Form 4
2002	1136.1	177.3						
2003	1341.4	210.5						
2004	1389.8	215.5						
2005	1408.7	251.6						
2006	1362.6	248.3	350.03					
2007	1261.8	697.5	315.25					
2008	1351.6	701.9	417.09					
2009	1,381.10	727.1	445.3	337.3	64	63.4	96.4	
2010	1,468.50	741.5	498.9	311.9	55.3	68.6	98.9	
2011	1,503.90	789.6	521.6	373.1	56.8	70.3	89.4	
2012	1,542.80	828.9	532.1	411.3	58.8	67.4	92.4	
2013	1,568.50	844.9	617.5	448.7	62	74.5	89.9	39.5

Data source: Government of Kenya (Various Issues)

Table 3.5: Enrolment at public technical institutions, 2009 to 2013

Institution	Gender	2009	2010	2011	2012	2013	% change
Technical Universities	Male	6,160	4,945	5,918	3,888	7,862	64.5
	Female	3,308	4,633	6,306	2,174	4,113	58.6
	Total	9,468	9,578	12,224	6,062	11,975	62.5
Institutes of Technology	Male	5,920	6,035	10,179	11,890	13,020	19.1
	Female	4,813	4,858	8,607	6,126	8,582	51.0
	Total	10,733	10,893	18,786	18,016	21,602	33.4
National Polytechnics	Male	4,225	3,701	5,122	4,986	5,304	7.5
	Female	2,774	2,499	3,081	2,805	3,216	14.8
	Total	6,999	6,200	8,203	7,791	8,520	10.4
Youth Polytechnics	Male	13,222	14,384	15,648	40,233	42,942	20.5
	Female	18,122	18,720	19,338	26,821	28,627	10.0
	Total	31,344	33,104	34,986	67,054	71,569	14.4
Technical Training Institutes	Male	12,514	12,908	16,719	16,263	18,936	21.4
	Female	9,923	9,970	13,255	12,505	15,407	29.2
	Total	22,437	22,878	29,974	28,768	34,343	24.8
Grand	Total	80,981	82,653	104,173	127,691	148,009	25.1

Source: KNBS (Various), Economic Survey

University education

The government's initiative to ensure increased access to university education is paying dividend (KNBS, Various Economic Survey). The number of universities, both public and private, increased from 32 in 2010 to 42 in 2013. The number of public universities increased to 22 and the number of public university constituent colleges stood at 9 in 2013, while private chartered accredited are 11. The undergraduate student enrolment increased by 41 per cent in public universities from 170,417 in 2012/13 to 240,711 in 2013/14 as shown in Table 3.6. Post-graduate degree enrolments increased from 6,920 in 2008/09 to 39,453 students in the 2013/14 academic year. This increase can be attributed to introduction of new courses, in addition to upgrading university colleges. Like public universities, private universities reported a surge in enrolment.

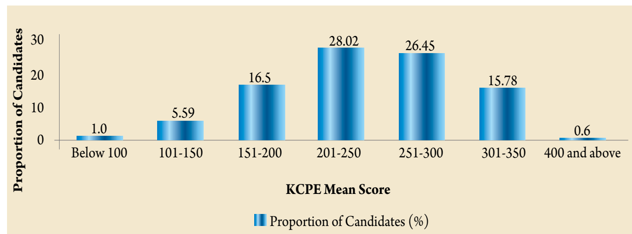
3.4.7 Learning outcomes

Primary school level: KCPE performance

The male Kenya Certificate of Primary Education (KCPE) candidates increased by 2.6 per cent from 2012 to 2013 and female candidates also increased by 4.3 per cent over the same period. This can be attributed to expansion in primary education enrolment. However, there was a slight decline in the national mean score in 2013 compared to 2012.

In 2014, 889,000 candidates sat for their KCPE examination compared to 839,759 in 2013. However, majority of 28 per cent scored between 201 and 250 marks out of the maximum possible of 500 marks (Figure 3.10). The mean score was 54.3, having increased slightly from 54.1 in 2013.

Figure 3.10: KCPE mean score, proportion of candidates (%), 2014



Data Source: Government of Kenya (2014e)

Secondary school level: KCSE performance

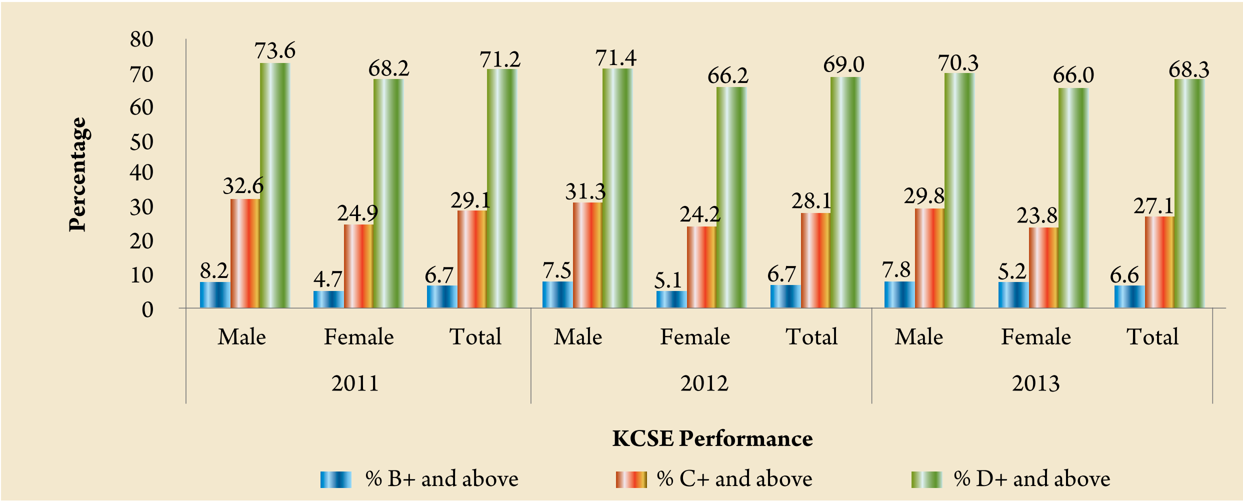
Despite the increase in secondary school enrolment and number of institutions of higher learning, a large proportion of KCSE candidates miss out on the limited available space in public universities or middle level colleges each year. As an example, although the Kenya Certificate of Secondary Education (KCSE) candidature increased from 434,121 in 2012 to 445,800 in 2013, only 27.1 per cent of these candidates achieved the minimum grade desirable for university admission of a C+ and

Table 3.6: Student enrolment in public and private universities, 2008/09-2013/14

Public Universities	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*
Undergraduate	89,404	108,528	134,395	141,764	170,417	240,711
Post-graduate	6,920	7,054	8,735	16,153	24,417	39,453
Other (Diploma and others)	4,324	7,118	7,796	5,904	6,856	25,515
Total	100,648	122,700	150,926	163,821	201,690	305,679
Private Universities						
Total students enrolment in private universities	22,198	20,089	31,309	21,443	37,671	48,648
Total university enrolment	122,846	142,789	182,235	185,264	239,361	354,327

Source: Government of Kenya (Various Issues)
*: Estimates

Figure 3.11: KCSE performance, 2011-2013 (%)



above. Only 6.6 per cent attained B+ and above in 2013 (Figure 3.11).

KCSE performance analysis by subject shows that the highest grade was attained for religious studies (Table 3.7). Performance for most examinable subjects was below 50 per cent, while performance for practical subjects such as metal works, electricity, home science and art and design was above 50 per cent.

In the 2014 KCSE performance, 31 per cent of students scored D and D+ (Figure 3.12). Moreover, 31 per cent met the minimum threshold of university entry grade of C+ and above compared to 27 per cent in 2013.

The quality of education must be addressed as the government implements reforms in the education sector. The focus on technical talent and general academic curriculum pathways, and the centrality of technology to teaching and learning and its

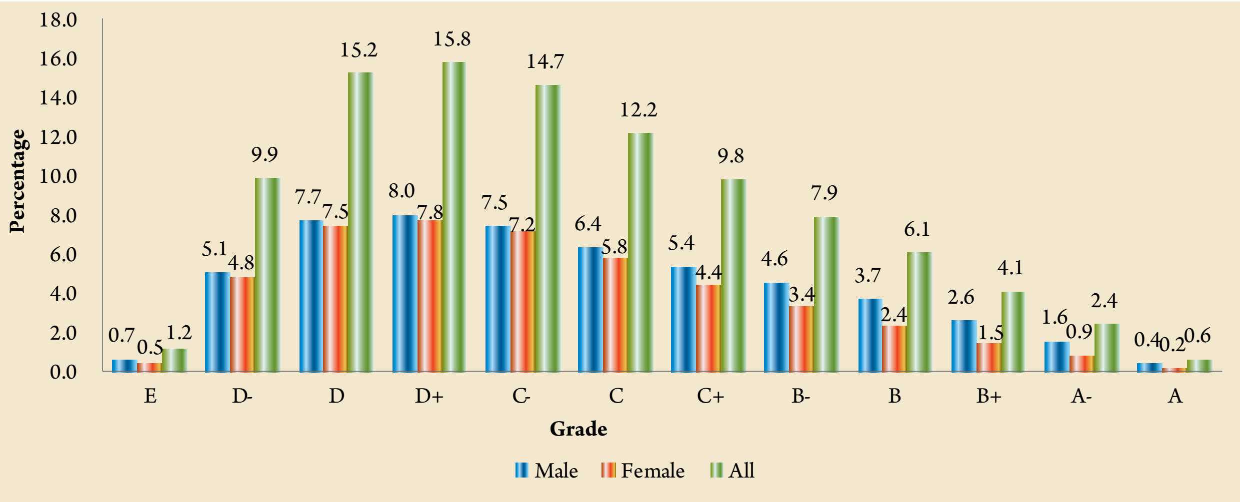
Table 3.7: KCSE examination candidates analysis, 2012-2013

	2012		2013	
	Candidates	Mean score %	Candidates	Mean score %
Hindu Religious Education (HRE)			100	80.00
Power and Mechanics	149	65.30	146	66.27
Electricity	214	60.60	172	60.08
Aviation Technology	118	59.90	158	59.33
Home Science	13,463	56.90	13,298	57.98
German	514	66.60	524	56.86
French	2,565	54.70	2,827	56.73
Drawing and Design	420	43.00	480	56.45
Building and Construction	376	42.10	330	56.29
Art and Design	1,162	63.80	1,151	56.00
Computer Studies	8,068	57.60	9,181	55.18
Metalwork	194	53.40	155	54.66
Woodwork	393	46.00	318	53.20

	2012		2013	
	Candidates	Mean score %	Candidates	Mean score %
Christian Religious Education (CRE)	313,816	44.00	331,046	47.96
History and Government	293,117	40.90	309,186	44.72
Geography	116,687	46.60	110,351	42.41
Kiswahili	433,878	35.80	445,546	41.60
Physics	118,508	37.90	119,862	40.10
Islamic Religious Education (IRE)	17,433	32.10	16,478	34.82
Agriculture	178,424	35.00	177,680	33.60
Biology	386,538	26.20	397,314	31.63
English	434,121	37.90	445,800	27.83
Mathematics Alternative A	433,014	35.80	444,792	27.58
Chemistry	427,303	27.90	439,941	24.83
Biology for the Blind	96	17.40	72	18.97
General Science	1,285	11.70	108	9.73
Mathematics Alternative B	1,281	9.50	1,104	8.65
Arabic	3,692	46.50		
Kenya Sign Language	224	61.00		
Music	1,237	50.60		
Business Studies	185,774	44.30		

Source: KNBS (Various), Economic Survey

Figure 3.12: KCSE performance, 2014



Source: KNEC (2015)

application on day to day life have also been emphasized in the education policy framework. The emerging sectors of the economy, especially the extractive industry, also come with professional and high technology skills demands. Transforming the country into an industrialized middle income economy, and attainment of the 10 per cent GDP growth rate as envisaged in Kenya Vision 2030, demands that the country repositions itself in order to meet the skills demands that come along with the middle income status.

3.4.8 Policy options

Addressing educational deficits in Kenya

In the short to medium term, the education sector policy interventions should focus on improving education quality and learning outcomes, strengthening TVET and life skills for youth with education deficits, eliminating inequalities in access to education at all levels, and deepening and reinforcing interventions on making education affordable to all Kenyans.

Improving education quality and learning outcomes

Towards improving the quality of education and learning outcomes, there is need to focus on:

(i) Quality of teaching resources and processes, including planning, research, problem solving and evaluation to ensure improved learning achievements, and appropriate professional skills development;

(ii) Labour market by promoting professionalism, knowledge and technical skills needed in the various sectors of the economy;

(iii) Developing new market-relevant programmes with a redefined curriculum that is oriented to problem-solving, life-skills, and technology;

(iv) Developing well-rounded graduates with entrepreneurial skills and societal responsibility;

(v) Enhancing capacity of teachers in curriculum delivery by incorporating technology in their training methods, and strengthening monitoring and evaluation of teaching and learning within the various education cycles; and

(vi) Improving coordination in the numerous interventions in skills development and training by developing an integrated human resource development policy and strategy for the country, to be implemented across all counties.

Strengthening TVET and life skills for youth with education deficits

Majority of the youth in Kenya have major education and skills deficits. Therefore, revitalizing technical education and training (both in technical training institutions and universities) could help reposition the country as a critical avenue for human resource development. Training programmes in this regard should ensure appropriate contribution to the economy and improved access to tertiary education. Creating and promoting an enabling environment for public-private partnerships for enhancing investment and deepening technical skills development in higher education could promote critical productive interaction between academia and the private sector, and specific industries and public institutions in all fields. There is also need to:

(i) Develop new forms of high technology, professional development and tertiary education delivery framework; and

(ii) Identify new sources of funding for higher education, especially through sustainable public-private partnerships.

Eliminating inequalities in access to education at all levels

Continued implementation of initiatives as reflected in commitments made by the government is critical. The major interventions include Free Primary Education (FPE) and Free Day Secondary Education (FDSE), school feeding and meals programme, establishment of low cost boarding primary and mobile schools in arid and semi-arid lands (ASALs), establishment of youth polytechnics in every ward and refurbishment of existing ones to target out-of-school youth for training and talent development; and establishment of multi-purpose development training institutes to target adult literacy and provide alternative basic education. There is also need to target those who are excluded after initial entry, those at risk of dropout, and the majority of those who are excluded from any form of post-primary education.

Deepening and reinforcing interventions on making education affordable to all Kenyans

The government should increase budget allocation to the education sector and especially to sustain FPE and FDSE, while ensuring equitable access to tertiary and higher education for all Kenyans. Moreover, there is need to deepen HELB reforms in order to expand the scope to cover potential learners from all tertiary education institutions.

3.5 Health

3.5.1 Introduction

Under the social pillar of Vision 2030, the government commits to improve the quality of life for all Kenyans by ensuring equitable, affordable, and quality healthcare of the highest standard. This commitment is anchored in Kenya's Constitution as a basic right. The Constitution further introduces two tier health systems, where the national government deals with health policies, national referral hospitals, capacity building and technical assistance to counties, while county governments deal with county health facilities and pharmacies, ambulance services, promotion of primary healthcare, licensing and control of selling of food in public places, veterinary services, cemeteries, funeral parlors and crematoriums, removal of refuse dumps, and solid waste management.

3.5.2 General health profile

The overall health status of Kenya's population has improved due to reduction in neonatal and infant death. Utilization of health services increased in the last quarter of 2013/2014 when primary healthcare services were declared free, including reimbursements for deliveries in government health facilities. Despite these achievements, about 26 per cent of Kenyan children are stunted and 8 per cent are severely stunted. Overall morbidity and mortality is high, particularly among women and children, according to the Kenya Demographic and Health Survey (KDHS) 2014.

Maternal mortality ratio (MMR) has remained high at 488 deaths per 100,000 live births (Table 3.8). This is expected to reduce given the massive campaign and investments in the health sector. Results shows that the number of mothers seeking skilled birth attendance in public health facilities increased by 25.0 per cent since the implementation of free maternity services. Maternal service utilization in public health facilities increased from 42.0 per cent to 66.0 per cent while maternal deaths decreased from 919 to 854, a 7.6 per cent decrease.

Table 3.8: Health indicators in Kenya, 2009-2014

Impact indicators	2009	2010	2011	2012	2013	2014
Maternal Mortality Ratio (MMR) per 100,000 live births	488	488	488	488	488	488
Neonatal Mortality Rate (NMR) per 1,000 live births	31	31	31	31	31	22
Infant Mortality Rate (IMR) per 1,000 live births	52	52	52	52	52	39
Under 5 Mortality Rate (U5MR) per 1,000 live births	74	74	74	74	74	52
HIV/AIDs Prevalence	7.2	7.2	7.2	5.6	5.6	6.0
Malaria	32	31	31	27	22	22
Life Expectancy at Birth (Female)	60	60	60	60	60	60
Life Expectancy at Birth (Male)	59	59	59	59	59	59

Source: KNBS (2014a), KDHS 2008/09

The Kenya Demographic Health Survey (KDHS) 2014 reveals a decline in levels of childhood deaths compared with the rates observed in the 2008/09 KDHS. For example, infant mortality rate decreased to 39 deaths per 1,000 live births in 2014 from 52 in 2008-2009. Similarly, the under-five mortality rate decreased to 52 deaths per 1,000 live births in 2014 from 74 in 2008-2009. The improvement in child survival in Kenya could be attributed to increase in mosquito net use in households, improvements in maternal health services, increase in the proportion of births assisted by a skilled provider and delivered in a health facility, and improvement in post-natal care.

3.5.3 Morbidity and mortality

Table 3.9 shows the major causes of deaths and Disability-Adjusted Life Years (DALYs) as per the analytics of the progress of the health sector for the last 20 years from the policy framework of 1994-2010 and as outlined in the Kenya Health Sector Strategic Plan (KHSSP) 2012/13.

From Table 3.9, there are similarities in the ranking between the causes of death and Disability-Adjusted Life Years (DALY's). However, HIV/AIDS remains the top killer disease and also tops the DALY's list. However, for purposes of monitoring mortality and morbidity trends, the government relies on District Health Information System (DHIS). The data presented below is therefore difficult to compare with the results presented above.

Table 3.10: Top 10 leading causes of death, 2014

Cause	Total	
	%	Number
Malaria	11.6	22,948
Pneumonia	10.9	21,640
Cancer	7.1	14,175
HIV/AIDS	6.2	12,235
Tuberculosis	5.5	10,986
Anemia	4.3	8,469
Road Traffic Accidents	2.4	4,710
Other Accidents	2.1	4,187
Heart Disease	2.5	5,030
Meningitis	2.3	4,555
All Other Causes	45.2	89,676
Total	100.0	198,611

Source: KNBS (2015), Economic Survey

Mortality data presented in Table 3.10 are based on in-patient data from Department of Civil

Table 3.9: Leading causes of deaths and DALY's in Kenya

Causes of Death			**Causes of DALY's**		
Rank	**Disease or injury**	**% total Deaths**	**Rank**	**Disease or injury**	**% total DALYs**
1	HIV/AIDS	29.3	1	HIV/AIDS	24.2
2	Conditions arising during peri-natal period	9.0	2	Conditions arising during peri-natal period	10.7
3	Lower respiratory infections	8.1	3	Malaria	7.2
4	Tuberculosis	6.3	4	Lower respiratory disease	7.1
5	Diarrhoea disease	6.0	5	Diarrhoea disease	6.0
6	Malaria	5.8	6	Tuberculosis	4.8
7	Cerebral vascular disease	3.3	7	Road traffic accidents	2.0
8	Ischemic heart disease	2.8	8	Congenital anomalies	1.7
9	Road traffic accidents	1.9	9	Violence	1.6
10	Violence	1.6	10	Uni-polar depressive disorders	1.5

DALY's = Disability Adjusted Life Years

Source: Ministry of Health (2012), Kenya Health Sector Strategic Plan 2012-2018

Registration and does not reflect the actual major causes of death and the ranking of the causes of death mortality country-wide. Malaria was the leading cause of mortality with 11.6 per cent of the total deaths. This was closely followed with pneumonia (10.9%), HIV/AIDS (6.2%), cancer (7.1%) and TB (5.5%). Despite efforts and interventions towards reducing malaria deaths, it leads among the top ten causes in mortality among pregnant and under-five children.

HIV/AIDS prevalence showed a decrease, according to the Kenya AIDS Indicator Survey (KAIS), from 6.3 per cent in 2012 to 5.6 per cent in 2013. The challenge, however, remains the co-infection of HIV/AIDs and TB. From Table 3.11, the number of people living with HIV/AIDS is estimated at 1.6 million, while the absolute number of new infections is estimated at 89,000 people.

Table 3.11: National HIV/AIDS estimates 2013

Indicator	Value	Range
Number living with HIV	1.6 million	1.5–1.7 million
New adult infections	89,000	69,000-110,000
New child infections	13,000	9,300-17,000
Annual AIDS deaths	58,000	49,000-72,000
Need for ART: Adults	760,000	730,000-800,000
Need for ART: Children	140,000	120,000-160,000
Mothers needing PMTCT	79,000	69,000-90,000

Source: Kenya AIDS Indicator Survey 2014

The decline in prevalence rates is attributed to better evidence, high investments and the Antiretroviral Therapy (ART) scale up. The KAIS comparative analysis indicates that in 2007, HIV prevalence was highest among persons aged 45-54 years, while in 2012, HIV prevalence was 0.9 per cent among children aged 18 months to 14 years, representing 101,000 children living with HIV. HIV prevalence reduced, but new HIV infections stabilized at 100,000 infections per year in the last decade. The new infections were higher than newly enrolled on ART annually, making the treatment programme unsustainable. Substantial progress has been made in HIV testing from the year 2007 to 2012.

The burden of HIV/AIDS in Kenya affects both adults and children. Estimates show that more women were living with HIV (58%) in 2013 compared to men. Although Kenya has seen a decline in HIV incidence rates among adults aged 15-49 from 0.62 per cent in 2000 to 0.44 per cent in 2013, the total number of people living with HIV was estimated to be 1.6 million. The burden encompasses the psychological effect, loss of productivity as well as direct cost to business remains indeterminate.

Cancer ranks third after infections and cardiovascular diseases. It accounts for 14,175 deaths reported in 2014. About 60 per cent of those who die are in the most productive years of their lives. Incidence of cancer is rapidly increasing, with an estimated 82,000 new cases reported annually in Kenya (Ministry of Health, 2014). According to the Ministry of Health Sector Report (KNBS, 2014), the risk of getting cancer before the age of 75 years is 14 per cent, while the possibility of death before same age is 12 per cent. The report states that cancer of the oesophagus, liver, breast, cervix, prostate, stomach, ovary, leukemia, colorectum and kaposis are some of the leading cancers in Kenya. Due to high demand, the cancer treatment centre at Kenyatta National Hospital is often full, with long queues of patients seeking admission and routine out-patient treatment.

3.5.4 Health investments

Health investments support the attainment of health goals and objectives. Health investments include organization of service delivery systems, health infrastructure, health workforce, health products and technologies and health financing. Organization of service delivery investments entails establishment of an appropriate health service delivery systems. Such a systems include community services, outreaches and mobile clinic services, planning for service provision, organization of facility-based services, supervision and training, emergency preparedness planning, and referral service management.

Health infrastructure

Health infrastructure investments are geared to ensuring appropriate physical infrastructure, equipment, transport and ICT for the delivery and management of health services. When health facilities are in close proximity to the community, accessibility and congestion costs are highly reduced.

The distribution of population per facility varies across the counties, with the highest and lowest at 64 and 8 serving every 100,000 persons in Nyeri and Mandera, respectively. The average number of facilities per 100,000 persons is 27, with 22 counties having 22 or more facilities serving 100,000 people. Generally, 2014 shows an improvement from the facilities listed in 2013 in terms of numbers and distribution of population per facility (Table 3.13).

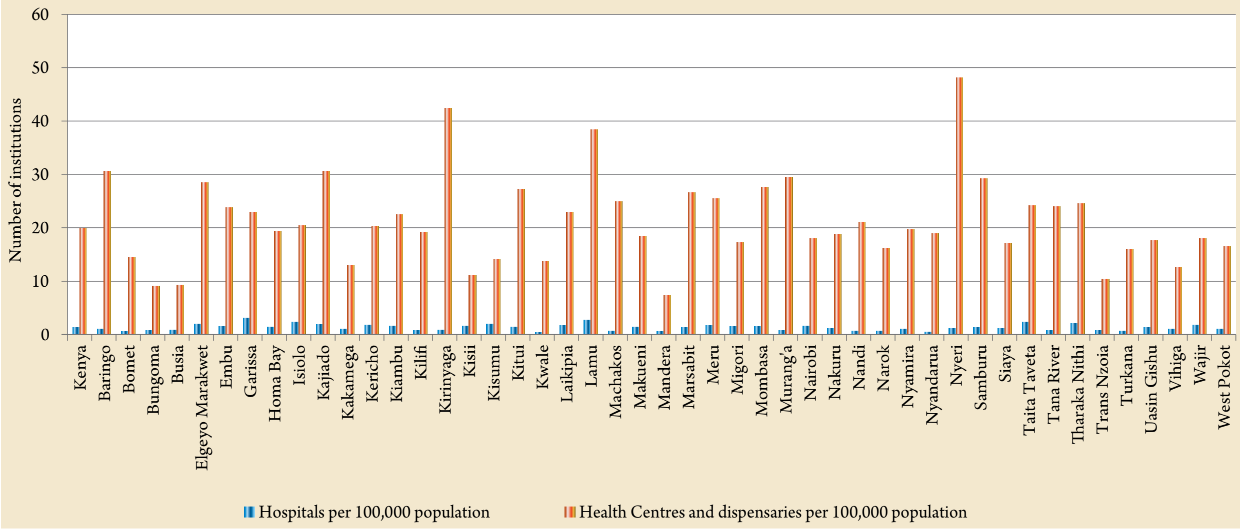
3.5.5 Health workforce

Health workforce investments define the inputs required to ensure the production and management of an effective, productive and appropriate motivated human resource base for delivery of health services. Like most countries in Africa, the shortage of healthcare workers is not unique to Kenya (KPMG, 2013). Kenya is one of the countries identified by the World Health Organization (WHO) as having a "critical shortage" of healthcare workers. The WHO has set a minimum threshold of doctors, nurses and midwives per population of 100,000 as necessary for the delivery of essential child and maternal health services. Kenya's most recent ratio stands at 20.7 per 100,000; this shortage is markedly worse in the rural areas where, as noted in a recent study by Ministry of Health (2014), understaffing levels of between 50 and 80 per cent were documented at provincial and rural health facilities.

Table 3.12 shows that there has been a general increase in the number of healthcare personnel over the years to an average of 21 doctors and 159 nurses for every 100,000 persons by 2014. This is below the WHO recommended average of 21.7 doctors and 228 nurses per 100,000 people, which is the required standard for optimal delivery of services. To deliver on the constitutional right to health, counties would be required to hire more health workers.

Distribution and deployment of health personnel is skewed in favour of urban centres, where advanced

Figure 3.13: Distribution of health facilities, in Kenya (2014)



Source: Kenya Health Policy, 2014

Table 3.12: Medical personnel in Kenya, 2013-2014

Type of Personnel	Registered Medical Personnel				In training	
	2013		2014		2013/14*	2014/15*
	Number	No. Per 100,000 Population	Number	No. Per 100,000 Population		
Doctors	8,682	21	9,149	21	3,457	3,279
Dentists	1,045	3	1,090	3	291	369
Pharmacists	2,202	5	2,355	5	826	969
Pharm. Technologists	6,204	15	7,041	16	434	610
BSc Nursing	1,873	4	2,418	6	2,736	3,979
Registered Nurses	37,907	91	41,371	96	2,708	2,702
Enrolled Nurses	26,841	64	27,186	63	279	509
Clinical Officers	13,216	32	15,960	37	1,125	1,583
Public Health Officers	8,637	21	9,039	21	568	751
Public Health Technicians	5,969	14	5,969	14	-	-
Total	112,576	269	121,578	282	12,424	14,751

Source: Government of Kenya (2015)

and specialized treatment is mostly available. The national government's effort to equip county general hospitals has been frustrated by lack of essential tools and medical and non-medical supplies in health facilities. Furthermore, poor remuneration and insecure working environment has contributed to low morale and productivity of health staff.

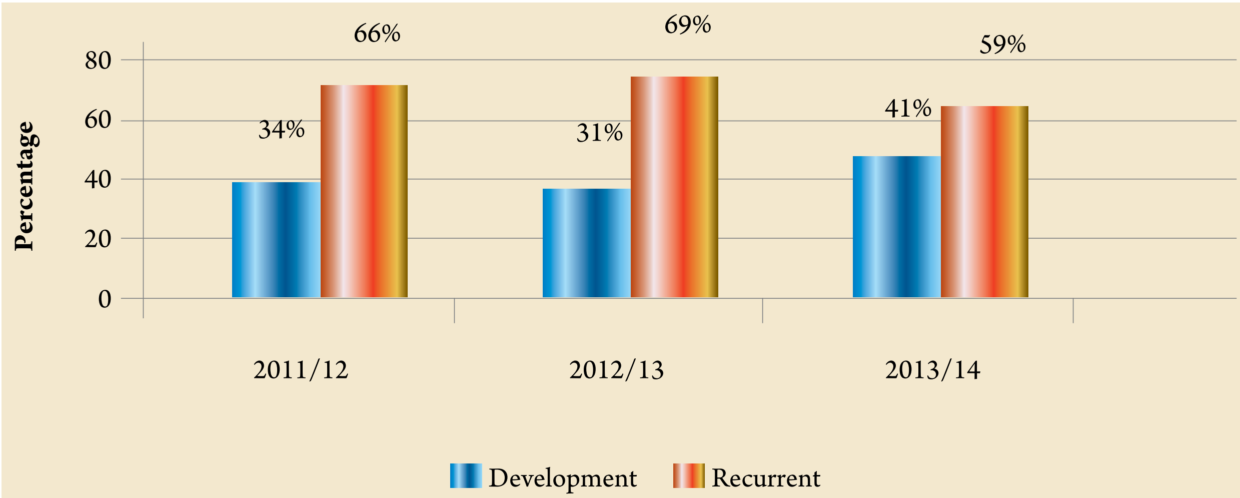
Health expenditure

Analysis of funds budgeted for the health sector and the actual expenditure shows that recurrent expenditure stood at 66, 69, and 59 per cent for 2011/12, 2012/13 and 2013/14, respectively. This recurrent expenditure far outweighs the development expenditure at 34, 31 and 41 per cent in the respective periods as illustrated in Figure 3.14. Recurrent expenditure comprises expenditure on personnel emoluments, supply of medical drugs and non-pharmaceuticals, goods and services (O&M). Development expenditure involves non-recurrent expenditure on physical assets and infrastructure. Notably, the national government allocation to the public health sector is below the Abuja Declaration target of 15 per cent.

Budget analysis for the health sector shows the absorption rate at 79, 87 and 69 per cent for 2011/12, 2012/13 and 2013/14, respectively. The absorption rate for recurrent expenditure, on the other hand, was 91 per cent, 100 per cent and 80 per cent, respectively. Development vote absorption rate was 63 per cent, 67 per cent and 58 per cent, respectively, over the same period (Figure 3.15). Expenditure analysis by programmes

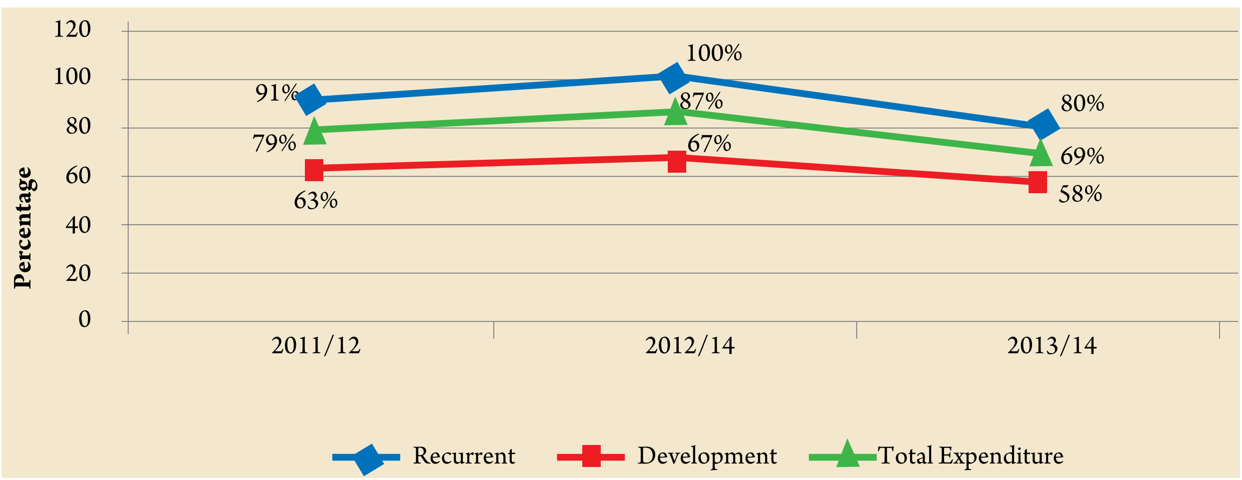
The MTP II identified four programmes in the health sector: curative health services; preventive and promotive health services; administration and planning; and research and development. Analysis of expenditure for the Medium Term Expenditure Framework (MTEF) shows that curative health (clinical) programmes used the largest share of financial resources (40%), closely followed by preventive and promotive health programmes (34%). Figure 3.16 shows the actual expenditure by programmes for the period 2011/12 to 2013/14

Figure 3.14: Actual expenditure, 2011/12-2013/14



Source: Ministry of Health (2014)

Figure 3.15: Execution of the health sector budget



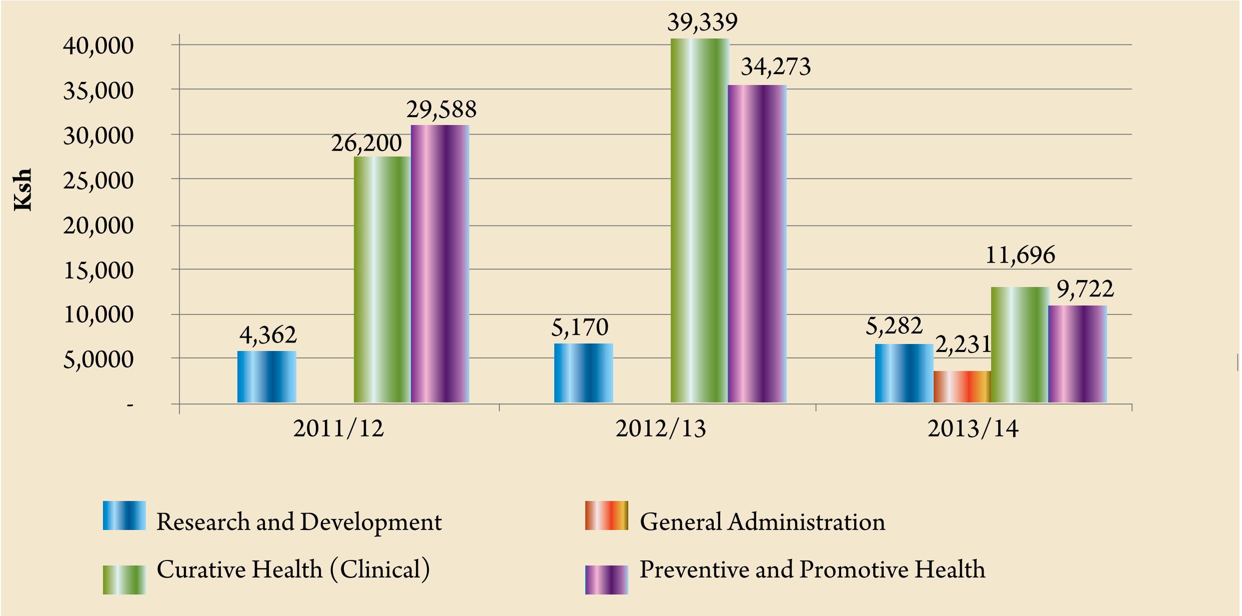
Source: Ministry of Health (2014b)

3.5.6 Health insurance coverage

In 2014, 17.0 per cent of Kenyans had health insurance cover compared to 17.1 per cent in 2013. This marginal change inferably implies that the aggressive campaign by NHIF and community-based health insurance groups has not been effective. However, across all the income groups, majority are covered by NHIF, with the poorest group having coverage of 93 per cent and the richest 83 per cent. Community insurance mostly covers the middle quintile group at 4 per cent, whereas private insurance mostly provides cover to the richest income group at 16 per cent.

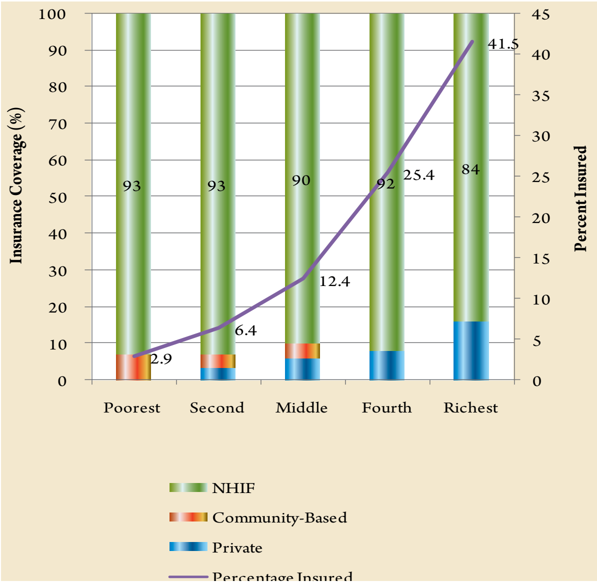
Figure 3.17 highlights the insurance coverage in the country among different income groups as well as the depth of insurance coverage by NHIF, and private and community-based health insurance. The fourth and richest quintiles have the highest insurance coverage of 42 per cent

Figure 3.16: Expenditure by programme, 2011/12-2013/14



Source: Ministry of Health (2014)

Figure 3.17: Depth of insurance coverage in Kenya, 2013



Source: Ministry of Health (2014), Kenya Household Health Utilization Report

3.5.7 Health Outcomes

Communicable diseases

In 2013/14, 69.2 per cent of infants were fully immunized. This coverage can be attributed to intensity of campaigns and health education, coupled with community support. For instance, Garissa County had the highest coverage of 89.2 per cent while Mandera County performed poorly with coverage of 34.9 per cent. Majority of the counties (85%) did not manage to achieve the target of 80 per cent, which means low immunization coverage.

The national target of putting all pregnant women who are HIV positive on ARVs was not achieved at both the county and national levels. Nationally, an average of 60.5 per cent eligible pregnant mothers were put on ARVs. Kisumu County had the highest with 83.4 per cent of pregnant mothers put on ARVs while Wajir County with 13.6 per cent had the least number. Consequently, the number of people tested for HIV rose to 8 million while 650,000 eligible clients were put on ARVs.

Malaria incidence rate declined in 2013/14, reducing from 32 per cent to 22 per cent due to significant distribution of long lasting insecticide-treated nets amongst the women of reproductive health and under-5 children.

Non-communicable diseases

Despite the government's effort to create awareness on risk factors of lifestyle-related NCDs, such diseases are on the rise and have become the leading causes of death. In 2013/14, for example, cases of diabetes increased by 0.02 per cent, while cases of blood pressure and mental health problems remained the same in the last two years. At county level, Nyeri County led with the highest number of people with high blood pressure at 3.98 per cent while Samburu County has the least at 0.09 per cent.

Burden of violence and injuries

The Kenya Health Sector Strategic Plan 2014-2018 (Ministry of Health) identifies a number of indicators to be monitored as outcome indicators in tracking the reduction of the burden of violence and injuries. These include: new outpatient cases of gender-based violence, new outpatient cases attributed to road traffic injuries, and new outpatient cases attributed to other injuries and deaths due to injuries.

The national burden attributed to injuries decreased insignificantly between 2012/2013 and 2013/14. Most counties had an increase in the levels of injuries in 2013/14 compared to 2012/13. In 2013/14, the top five counties with the highest level of increase in injuries were Nyeri, Machakos, Laikipia, Taita Taveta and Nakuru. Kakamega, Lamu, Vihiga, Elgeyo Marakwet and Homa Bay counties recorded the highest levels of decline. Data on injuries are still scanty, and some are not reported from communities. Efforts should be made to obtain data on injuries and violence, which are important indicators in measuring the burden of injuries and violence in the country.

3.5.8 Key challenges in the health sector

Improvements in the health sector notwithstanding, the sector faces challenges in areas such as deliveries by unskilled staff, health infrastructure, human resources, information systems and health financing. Decentralization of some health functions to the counties has been unforeseeably complex. The rising burden of non-communicable diseases and absence of data to inform policy is causing strain on health service delivery. The sector is also experiencing high turnover of skilled staff, due partly to lack of clear mechanism for human resource management.

3.5.9 Recommendations

The national and country governments:

(i) Should take cognizance of the inadequate budgetary allocations for the health sector and work towards improving the efficiency and effectiveness in the sector, while exploring mechanisms of mobilizing additional resources;

(ii) Should work closely especially when specialized clinical services are introduced to counties in order to ensure that counties are provided with policies and guidelines, and that adequate capacity and technical assistance is given to maintain the quality of these services; and

(iii) Need a written agreement on the shared responsibilities on procurement and distribution of commodities for programmes that are important for public health and which are heavily donor-funded, such as ARVs, TB drugs, Malaria drugs vaccines and family planning commodities.

PART II

SELECTED SECTOR PERFORMANCE

This part focuses on the performance of key selected sectors of the economy and infrastructure development. Specifically, it covers the analysis of the performance of Agriculture; Extractive Sector; Tourism; Manufacturing; Micro and Small Enterprises; Trade and Foreign Policy; Financial Services; Building and Construction; Transport; Energy; Water and Sanitation; and Information and Communication Technology

Chapter 4

Agriculture

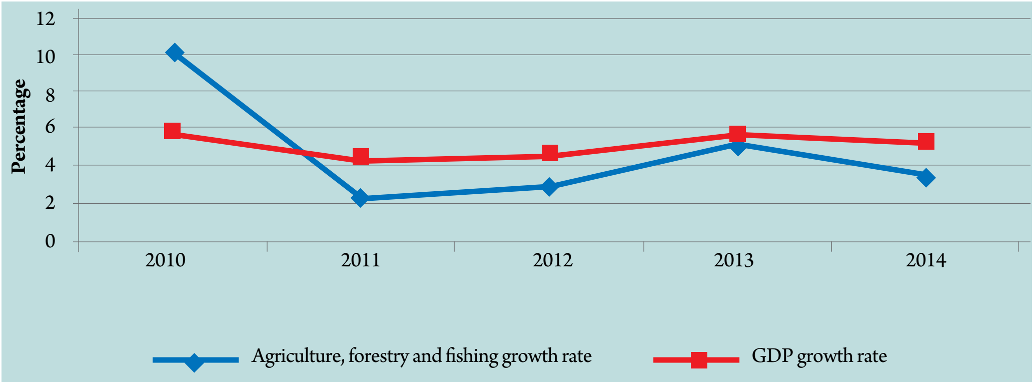
4.1 Introduction

This chapter provides an overview of the agricultural sector with an emphasis on agricultural productivity, which has stagnated over the last decade. The subsequent sub-sections highlight the performance of the sector based on production status for crops, livestock and fisheries, and provide an overview of the food security situation in Kenya. Agricultural investments are captured through public expenditure, which has stagnated at an estimated 5.0 per cent of total government spending.

4.2 Sector growth and contribution

The growth of the agricultural sector was in tandem with that of GDP growth between the period 2010 and 2014 as shown in Figure 4.1. Growth of the agriculture, forestry and fishing sub-sectors, however, declined from 5.2 per cent in 2013 to 3.5 per cent in 2014 due to decline in the total marketed value of agricultural production (KNBS, 2015). The average growth rate of 4.7 per cent for the agriculture sector since 2010 is an aggregate contribution of crops sub-sector, which comprises food, horticultural and industrial crops, among others. These contributed 72.0 per cent of the agricultural sector Gross Domestic Product (AgGDP) and about 19.7 per cent of the Gross

Figure 4.1: Trends in GDP growth rate in Kenya (2010-2014)



Source: KNBS (2015), Economic Survey

Domestic Product (GDP) in 2014. The livestock sub-sector contributed about 18.0 per cent of the AgGDP and about 4.9 per cent GDP. The fisheries sub-sector contributed about 0.8 per cent of GDP and 5 per cent of AgGDP (KNBS, 2015).

The agriculture sector is still the leading source of employment in the rural sector, accounting for an estimated 75.0 per cent of the labour force, in addition to accounting for 66.0 per cent of all manufactured goods.

Its contribution to GDP increased to 27.3 per cent in 2014 compared to 26.4 per cent in 2013. All the activities, namely growing of crops, support activities, animal production, forest logging, and fishing and aquaculture recorded slow growth during the year 2014. The mixed performance in the agriculture sector was mainly attributed to erratic rains, with some regions experiencing depressed rainfall (Figure 4.2).

4.3 Agricultural Productivity

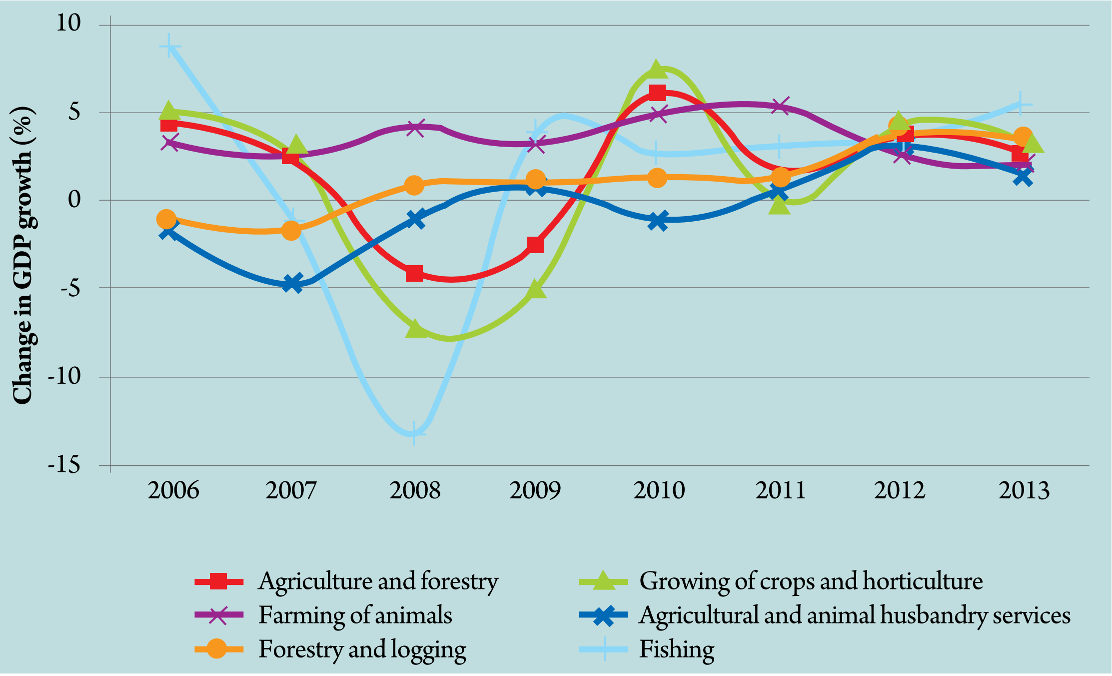
Agricultural productivity as measured by the value added per worker stagnated during the last decade (Figure 4.3). Plausible explanations include climate variability, and natural disasters such as droughts and/or floods. Other factors are low adoption of technology (such as superior crop varieties and irrigation technology) due to information asymmetry; inadequate access to relevant information; and lack of resources to implement the technologies (Alliance for a Green Revolution in Africa, 2013).

4.4 Agricultural Production

4.4.1 Food crops

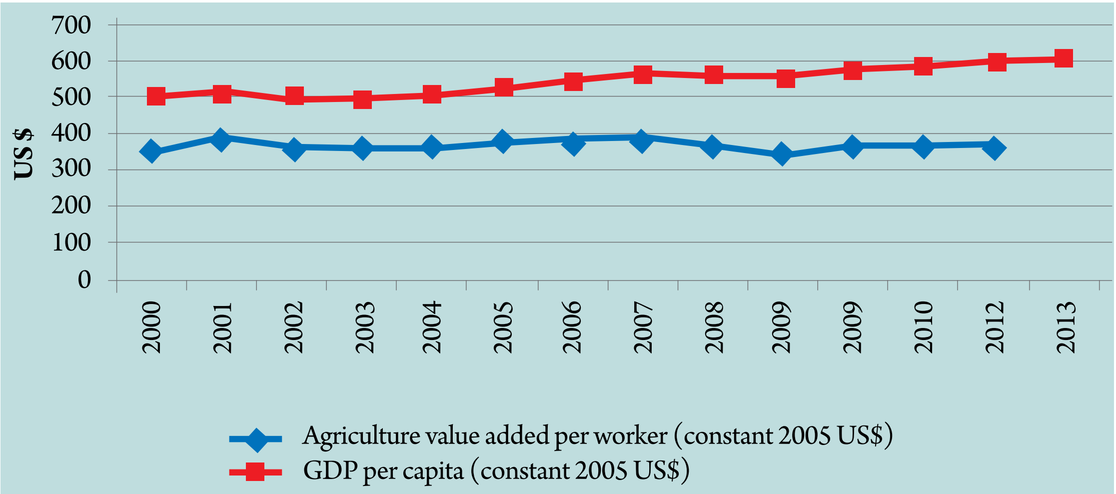
Agricultural production in Kenya is carried out through large and small scale production. Large scale production is typically capital-intensive, has higher use of input, better management skills, and thus higher yields. Small scale production, on the other hand, is labour-intensive with low use of inputs (KIPPRA, 2009). Therefore, a key driver of

Figure 4.2: Percentage change in agricultural GDP by activity



Source: KNBS (2015), Economic Survey

Figure 4.3: Agricultural value added per worker and GDP per capita (constant 2005 US$)



Source: World Bank (2014), World Development Indicators

productivity growth is increased use of fertilizer and good husbandry promoted by a functioning public and private extension service. In the last five years, the national government together with development partners has rolled out several programmes to improve access to inputs (fertilizer and seeds). This has been made possible by increased density of input stockists in farming areas, thus reducing transaction costs (ERA, 2012). However, total maize production declined in 2014 by 4.2 per cent to 39 million bags. Data on counties' maize yield shows that Trans Nzoia registered the highest yield of 47 bags per hectare. Rice production recorded an increase of 6.5 million tonnes in 2014 from 90,700 tonnes in 2013 (KNBS, 2015). Although wheat production increased to 228,900 tonnes in 2014, its share is only less than 15 per cent of the total wheat supply in the country (KNBS, 2015).

4.4.2 Industrial crops and horticulture

Tea, coffee and horticulture are Kenya's leading agricultural export earners. Overall, tea production increased to 445,100 tonnes in 2014 from 432,400 tonnes in 2013, coffee production increased to 49,500 tonnes in 2014 from 39,800 tonnes in 2013, and horticultural produce increased to 220,200 tonnes in 2014 from 213,800 tonnes in 2013. These figures represent a 2.9, 24.4 and 3.0 per cent increase in overall production for tea, coffee and horticulture, respectively. The cooperative sub-sector largely contributed to the increase in coffee production from 21,900 tonnes in 2013 to 32,700 tonnes in 2014 (KNBS, 2015). On the other hand, the smallholder sub-sector recorded the highest tea production increase to 262,400 tonnes in 2014 from 249,800 tonnes in 2013.

Table 4.1 shows the contribution of the different sub-sectors in horticulture in terms of volume and value. Notably, only 4.0 per cent of horticultural produce is exported, while the other 96 per cent is consumed locally (Ministry of Agriculture, 2011). Despite the decline in production between 2010 and 2012, which was occasioned by unfavourable weather, horticultural crops still fetched higher prices. Except for vegetables, all other horticultural crops increased in volume and value. The decline in vegetables volume and value could be attributed to issues related to maximum residue levels (MRLs) and interception of products that have deteriorated. Vegetables also experienced rising production costs and static sales prices in the context of a very competitive retail marketplace in Europe.

4.4.3 Livestock production

Kenya has a very diverse livestock population due to its wide climatic and geophysical variation. From

Table 4.1: Volume and value of horticultural exports, 2010-2014

Year	Volume (MT)					Value (billions)				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Flowers	120.2	110.0	108.3	105.6	114.8	35.6	58.8	65.0	56.0	59.9
Vegetables	75.6	79.2	66.4	77.2	70.3	18.6	26.3	20.2	22.9	18.8
Fruits	32.5	27.1	31.1	31.1	35.1	2.8	3.5	4.7	4.8	5.4

Source: KNBS (2015), Economic Survey

Table 4.2, growth has been experienced in the sector. The higher goat and poultry production more than offset the lower cattle and pig production. There was a shift in preference from cattle to goats as they are more adaptable to climate change, more resilient and disease-resistant, and easier to transfer from one area to another. Reduction in cattle units can also be attributed to drought shocks and high mortality and de-stocking. Beef cattle, which are mainly produced in pastoral areas, frequently encountered increasing incidence of droughts and insecurity, leading to dwindling numbers.

Livestock products – milk, meat and eggs

Milk is an important livestock product; it is produced in 44 counties in Kenya, providing a gross value of Ksh 106.811 billion in 2012. Production at

Table 4.2: Livestock numbers 2010-2013

Type	Description	2010	2011	2012	2013	2014
Cattle						
	Dairy	3,673,212	3,739,161	4,155,121	4,505,582	4,316,153
	Beef	10,307,309	10,388,135	12,064,746	13,632,918	13,495,692
Sheep						
	Wool	788,775	798,289	1,549,387	1,094,018	862,455
	Hair	10,046,589	10,140,621	13,871,406	15,506,893	16,557,752
Goats						
	Dairy	257,643	294,279	270,433	360,495	377,528
	Meat	17,920,736	17,694,066	20,763,044	24,276,898	25,040,732
Pigs		342,585	344,155	380,225	432,979	430,844
Rabbits		633,728	674,897	722,079	871,558	874,565
Poultry	Broilers	2,213,750	2,600,924	2,717,046	2,745,188	4,069,729
	Layers	2,675,571	2,847,225	3,047,178	3,675,425	3,693,283
	Indigenous	24,538,906	26,219,935	27,553,228	32,569,198	33,088,442
	Others	779,568	639,807	656,692	539,889	575,457
Donkeys		989,389	946,319	1,342,722	1,713,382	1,882,785
Camels		1,535,473	1,787,379	2,824,688	2,899,244	2,937,262
Hives	Log	0	0	1,430,717	1,478,737	1,106,950
	KTBH	0	0	166,321	190,719	201,257
	Lang	0	0	120,309	123,268	116,585
Ostrich		1,041	978	6,073	3,668	2,928

Source: ERA (2015)

county level shows that more than 50 million litres are produced annually in 19 counties, with Kiambu, Nakuru, Bungoma and Nyandarua producing over 200 million litres each. Kiambu County leads with 334 million litres. In 2014, milk production increased to 541.3 million litres from 523 million litres in 2013 (KNBS, 2015).

Cattle are the dominant source of meat protein, supplying over 76.0 per cent of the animal meat protein, followed by mutton and poultry (Table 4.3). However, the number of cattle and calves slaughtered declined to 2.07 million in 2014 from 2.15 million in 2013. Slaughtered sheep and goats increased to 9.14 million in 2014 from 6.08 million in 2013, while slaughtered pigs decreased from 264,300 in 2013 to 257,200 in 2014 (KNBS, 2015).

Table 4.3: Type of animal meat protein contribution by %, 2014

Description (Kg)	Percentage contribution of animal protein
Beef	76.57
Mutton	16.06
Poultry meat	4.60
Chevon	2.14
Pork	0.38
Camel meat	0.23
Wool	0.02
Pork	0.38
Rabbit meat	0.00
Total	100

Source: State Department of Livestock (2015)

3.4.5 Fishery production

The harvest from fisheries (from lakes) has increased from about 120,000 metric tonnes in 2009 to about 134,000 metric tonnes in 2014 (KNBS, 2015). Fish farming, on the other hand, increased from 4,800 metric tonnes in 2009 to 24,000 metric tonnes in 2014 (Table 4.4), while production from marine fisheries remained relatively constant during the same period. The increase in fish production is attributed to an increase in area of farmed fish in the high aquaculture potential areas, and increased support from the Economic Stimulus Programme.

Table 4.4: Volume of fish production (metric tonnes), 2009-2014

Year	Fish farming	Fisheries	Marine fish
2010	12, 153	140,751	7,283
2011	19, 265	149,046	7,422
2012	21, 487	154,015	7,477
2013	23, 501	163,389	7,667
2014	24, 096	167, 859	7, 786

Source: KNBS (2015), Economic Survey

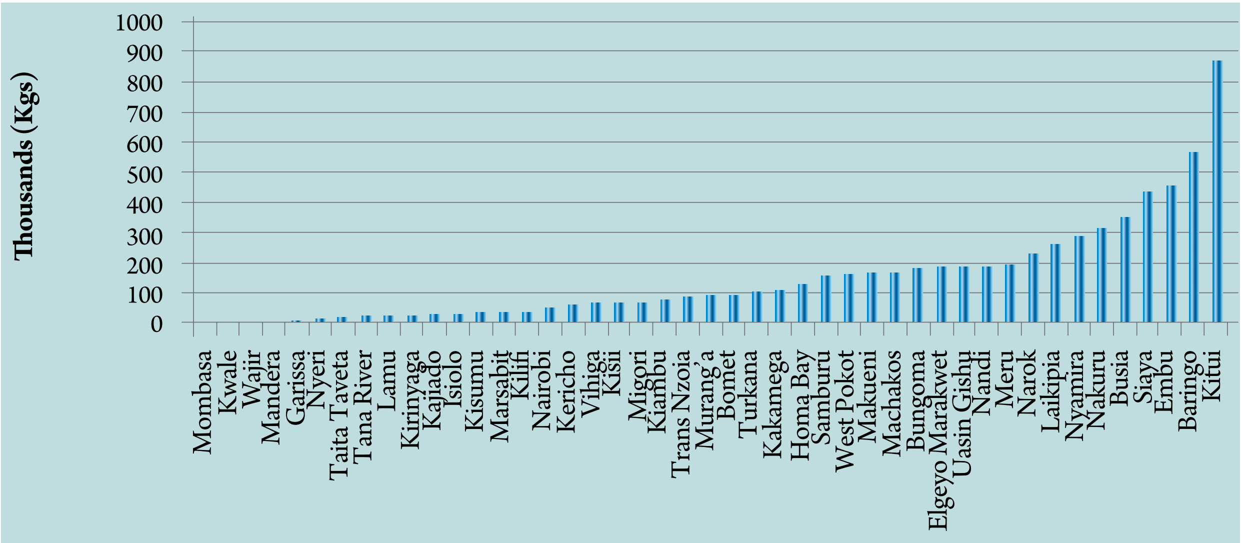
4.4.6 Apiculture

In 2012, Homa Bay County was leading in terms of honey production with over 2.7 million kilogrammes of honey harvested annually. Kitui, Narok, West Pokot and Nakuru follow with over 800,000–260,000 kilogrammes. However, in 2014, Nyandarua recorded a remarkable 11,449,500 kilogrammes followed by Tharaka Nithi with 1,382,029 kilogrammes. Kitui County reported over 800,000 kilogrammes and Baringo over 500,000 kilogrammes. This implies that this is an emerging sub-sector, with a relatively short turn-around time. Homa Bay County reported 133,168 kilogrammes in 2014 (Figure 4.4)

4.5 Cooperative Societies

The number of cooperative societies under pyrethrum (146) and cotton (60) has been stagnant since 2010. The number of cooperatives under sugarcane increased only until 2012, with a figure of 191. In total, agricultural societies have increased from 4,686 in 2010 to 5,340 in 2014 (KNBS, 2015). Agricultural cooperatives mainly participate in the marketing of members' produce, though some have ventured into manufacturing in a bid to add value to produce.

Figure 4.4: Honey production by county 2014



Source: ERA (2015)

4.6 Production from Irrigation Schemes

Production from irrigation schemes has steadily increased from 2009/2010 to 2013/2014. However, the acreage cropped in Ahero and West Kano declined, and this was attributed to the challenges faced by the farmers in accessing credit. In Mwea, the canals were lined, which increased the water supply and thus increased the yields in the irrigation scheme. In South West Kano irrigation scheme, production expanded from 3,000 to 3,546 acres (Table 4.5).

Table 4.5: Production from irrigation schemes, 2009/10-2013/14

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Mwea					
Area cropped - Hectares	7,431	10,526	10,629	10,629	10,629
No. of plot holders	4,936	7,178	7,178	7,178	7,178
Gross value of output (Ksh millions)	1,782	2,860	2,970	3,880	3,872
Payment to plot holders (Ksh millions)	1,341	2,080	2,197	2,793	2,522
All scheme areas					
Area cropped - Hectares	10,072	17,611	21,101	18,600	19,411
No. of plot holders	8,931	15,518	15,828	15,828	15,828
Gross value of output (Ksh millions)	2,097	4,338	4,932	4,347	4,536
Payment to plot-holders (Ksh millions)	1,535	3,138	3,637	3,205	3,345
Crops produced - Tonnes					
Mwea - Paddy	32,406	52,000	54,000	64,672	70,416
Ahero - Paddy	2,939	6,000	7,484	8,326	7,405
West Kano - Paddy	692	4,500	5,994	5,165	4,345
Bunyala - Paddy	1,161	3,200	4,666	4,278	4,289
South West Kano - Paddy	-	6,800	8,100	8,262	9,574
Total paddy	37,198	72,500	80,244	90,703	96,029

Source: KNBS (2015), Economic Survey

4.7 Food Balance Sheet

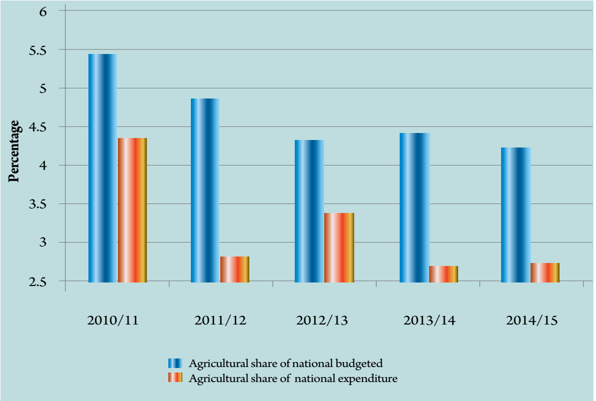
The total self sufficiency ration (SSR) declined to 75 per cent in 2014 from 80 per cent in 2013, leading to an increment in the import dependency ratio (IDR) from 23.3 per cent in 2013 to 29.0 per cent in 2014. The per caput daily supply of calories, proteins and fats all declined during the same period, while per caput caloric daily supply of vegetables and cereals increased and that of animal products declined.

The increasing population, significant reductions in the production of maize (a leading food crop for the country), and a decline in the number of cattle slaughtered by the Kenya Meat Commission and other abattoirs contributed to the reduction in per caput supply. While the country realized an increase in rice and wheat production, the share of these crops was not satisfactory to counteract the food supply shortage.

4.8 Overview of Budget Execution

Development expenditure in the agriculture sector, which comprises agriculture, fishing, forestry and hunting has been on a steady increase from 2010/11-2014/15 (revised estimates). The trend on the recurrent expenditure is in tandem with the overall expenditure in the sector. However, the allocation to the agriculture sector from the total national budget has declined from 5.4 per cent in 2010/11 to 4.2 per cent in 2014/15. The expenditure, on the other hand, has declined similarly from 4.3 per cent to 2.7 per cent Figure 4.5 (KNBS, 2015).

Figure 4.5: Shares of agricultural sector in the national budget and expenditure (%), 2010/11 -2014/15



Data Source: National Treasury (Various)

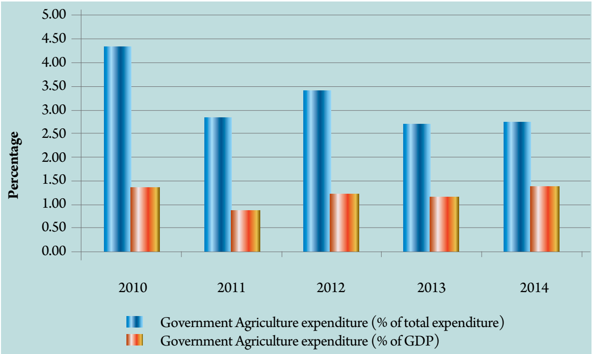
Table 4.6: Food balance sheet, 2010-2014

Indicator		2011	2012	2013	2014
Per caput daily supply	Calories - '000	2,253	2,447	2,284	2,257
	Proteins - Grammes	69	74	67	66
	Fats - Grammes	47	47	46	44
SSR (%)	Total	74.6	77.6	80.1	75.0
	Vegetable Products	71.5	75.1	77.7	72.0
	Animal Products	99.9	100.1	99.1	99.9
IDR (%)	Total	29.1	25.7	23.3	29.0
	Vegetable Products	32.6	28.4	26	32.0
	Animal Products	1.1	1.0	1.0	1.0
Per caput caloric daily supply/ per caput daily food utilization	Vegetables Products - '000 Kcl.	1,955	2,148	1,993	2,000
	Vegetable Utilization - Grammes	120	120	170	124
	Cereals - '000 Kcl.	959	988	917	977
	Cereal Utilization - Grammes	312	324	298	322
	Animal Products* - '000 Kcl.	298	299	291	256
	Animal Product Utilization - Grammes	48	47	50	46

Source: KNBS (2015), Economic Survey
Note: * = Animal product includes fish and sea food products

The share of spending in the agriculture sector in the national spending has averaged 3.0 per cent while that of GDP has averaged 1.0 per cent, yet the sector contributes about 25.0 per cent of national GDP, on average (Figure 4.6)

Figure 4.6: Trends in agricultural expenditure as a % of national expenditure and GDP, 2010-2014



Data Source: National Treasury, (Various)

The main development expenditures are grouped into five main programmes (Table 4.7):

The objectives of the programmes are to create an enabling environment for agricultural development, among others. Over the years, the actual expenditure in general administration and support services has been higher than the approved estimates while the opposite is true for all the other programmes. In 2013/14, the approved estimates for irrigation and drainage infrastructure were not spent.

4.9 Budget Absorption

Taking in to account the different State Departments, the absorption rates have varied over time, but are generally higher for the recurrent budget than for the development budget, indicating greater efficiency in disbursing the funds allocated to the recurrent budget. There is still a large portion of funds that are unspent every fiscal year. On average, absorption capacity for recurrent expenditure was 88 per cent higher than development expenditure, which stood at 74 per cent. The 2011/12 absorption capacity for recurrent expenditure declined to 64

Table 4.7: Ministry expenditure review by programme (Ksh millions)

Programme	Approved Estimates (Ksh millions)				Actual Expenditures (Ksh millions)		
	2011/12	2012/13	2013/14	2014/15*	2011/12	2012/13	2013/14
1. Policy, Strategy and Management of Agriculture (Renamed General Administration, Planning and Support Services in 2014/15)	3,445	2,999	1,219	2,284	2,886	2,588	1,106
2. Crop Development Management (Renamed Crop Development and Market Access Services in 2014/15)	12,765	14,465	12,978	15,179	11,075	10,779	10,748
3. Agribusiness and Information Management	4,638	3,990	11,962	-	3,589	3,886	9342
4. Irrigation and Drainage Infrastructure	0	0	12,092	11,850	0	0	9,370
5. Fisheries Development	4,332	3,587	2,941	2,134	3,512	2,995	2671
6. Livestock Resource Management and Development	7,002	7,492	4,678	5,533	6,428	7,321	3,971
Total	32,182	32,533	45,870	36,980	27,490	27,569	37,208

"*"=Printed Estimates, "-" = programme dropped
Source: ARUD Sector Report (2014)

per cent. Absorption capacity was highest in the State Department of Agriculture and lowest in the State Department of Livestock (Table 4.8)

Policy Recommendations

Strengthen producer groups/farmer organizations: Increased growth and development of the sector can be propelled through empowerment of producer groups, who will facilitate commercialization of agriculture. Agricultural cooperative societies have increased from 4,686 in 2010 to 5,340 in 2014. This trend needs to be encouraged as it is the stepping stone towards development of sustainable agro-industries, which in turn increase the demand for agricultural produce.

Continued investment in the agricultural sector: Spending to the agriculture sector from the total budget has declined from 4.3 per cent in 2010/11 to 2.7 per cent in 2014/15. This reduction has implication on food security, taking into account that the effects of climate change are evident. Investment in agriculture needs to be targeted in order to increase productivity and also increase the area under irrigation, not forgetting markets and market infrastructure. The current budget allocation to agriculture is still far from meeting NEPAD's target of agriculture budget of 10 per cent for African nations under the Maputo Declaration.

Table 4.8: Absorption capacity (%) 2009-2012, recurrent and development budget (%)

% Absorption Capacity						
Agriculture and Rural Development	Recurrent budget			Development budget		
	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12
Agriculture	98	97	102	67	62	74
Cooperatives	92	95	89	82	102	91
Fisheries	92	97	77	91	76	73
Lands	93	97	97	94	87	97
Livestock	88	98	86	59	70	94
Forestry	100	100	99	79	70	67
Research Institutes	100	98	101	73	68	73
Total	96	98	64	74	69	79

Source: MTEF 2013/14- 2015/16

Chapter 5

Extractive Sector

5.1 Introduction

Kenya is under-explored with regard to minerals, petroleum and natural gas resources. This is confirmed by the recent discovery of oil in Lokichar and water aquifer in Turkana, gas fields in Lamu, rare earth minerals (Niobium) in Kwale, and coal in Kitui despite many years of exploration. Following these discoveries, Kenya has witnessed increased exploration activities and huge interests by multinationals. The oil, gas and coal sector has the potential to generate significant direct and indirect benefits to the Kenyan economy and provide an important opportunity for economic development away from Kenya's main urban and commercial centres. However, questions have been raised on the country's preparedness to exploit the resources and how the negative impacts of mining will be mitigated once Kenya starts drawing out these resources. Managing high expectations from the communities around the mining areas and narrowing the gap in information asymmetry will be of major concern. Other concerns revolve around weak legislative and policy frameworks, security of the resources, and potential conflicts given that some resources have been discovered in areas bordering international contested boundaries between Kenya and her neighbours. The role that each of the national and county government would play in resource use, revenue management and benefit sharing by various groups is another emerging issue.

The recent focus on the extractive industry follows years of neglect of the sector despite its potential to drive the economy. The sector was excluded in the Kenya Vision 2030's priority sectors. However, following the discoveries of hydrocarbons and other minerals, the sector has been given prominence in MTP II as a priority sector.

5.2 Sector Performance

The contribution of the extractive sector to Kenya's economy has had mixed results. Kenya's extractive industry, until recently, has been dominated by production of non-metallic, low value minerals such as soda ash (used in glass making), kaolin (used to make ceramics) and fluorspar (an industrial mineral) as well gemstones such as ruby and tsavorite (garnet). Gold is mostly mined by small scale operators in the west and south-west of Kenya, although African Barrick Gold has a large exploration licence in the south-west. Meanwhile, coal deposits have been found in parts of Kitui County, with one block alone having over 400 million tonnes of recoverable coal.

The extractives industry in Kenya contributes a negligible 0.7 per cent to national GDP. Earnings from the sector increased by 36.0 per cent from Ksh 23,985.23 million in 2011 to Ksh 27,568.5 million in 2012. This is attributed to increased earnings in gold and soda ash (KNBS, 2013). Notwithstanding the production of gold and iron ore, Kenya's extractives industry is predominantly non-metallic minerals (Table 5.1)

Other minerals found in significant quantities include titanium in Kwale, fluorspar in Kerio Valley and gold deposits in Kakamega (Draft National Minerals and Mining Policy, 2010). A salient feature of the mining and oil industry is the dominance in exploration and exploitation of resources by multi-national companies (MNCs), which remain an indispensable source of capital and technology investment for the industry. The sector is also labour-intensive and has more than 300 local and foreign firms prospecting for minerals or producing on a small scale, with artisanal miners as key producers of gold and gemstones.

The largest potential reserves are heavy mineral sands in Kwale (50km south of Mombasa). These sands are now being mined and smelted by Base Titanium, a subsidiary of the Australian company Base Resources. The first 25,000 tonnes of illminate left Kenya bound for China in February 2014. The deposit in Kwale has a total of 146 million tonnes of heavy minerals, with additional reserves identified in the northern dune of the mining lease. As part of the Kwale acquisition, Base Titanium has also acquired an option from the government to purchase three further exploration projects along the coast to the north of Mombasa, which have a combined mineral resource of 1,388 million tonnes.

Until the announcement of commercially viable oil quantities in 2012, Kenya was dependent on downstream oil resources, importing crude petroleum and products to meet its fuel demand. In 2012, the import bill of petroleum products stood at Ksh 326.9 billion. Exploration for oil and gas in Kenya began in the 1950s, with the first well drilled in 1960. Subsequently, exploration continued at a low level, with only 33 wells drilled by 2012, and none of which indicated commercially attractive quantities of oil or gas. However, interest in Kenya increased after the discovery of large deposits of oil and gas in Mozambique, Uganda and Tanzania. In 2012, Tullow Oil, in partnership with Africa Oil and Marathon Oil began drilling in Turkana (in the

Table 5.1: Volume of mineral production, 2010-2014

Value (Ksh millions)	2010	2011	2012	2013	2014
Soda Ash (MT)	6980.0	7354.0	9388.0	8865.2	7840.8
Fluorspar (MT)	789.0	3 ,9 84.0	2942.0	1783.0	1901.0
Salt (MT)	35.0	140.3	65.7	71.6	173.5
Crushed Refined Soda (MT)	467.0	532.0	589.0	631.9	568.4
Carbon Dioxide (MT)	408.0	411.0	503.0	466.0	395.9
Diatomite(MT)	8.9	91.4	85.6	69.6	10.2
Gold (Kg)	6,217.0	5,650.8	13,919.70	7432.6	695.3
Gemstones (Kg)	226.4	230.9	157.5	411.0	263.6
Titanium Ore	-	-	-	-	
Illminate	-	-	-	-	3697.0
Rutile	-	-	-		4085.2
Zircon	-	-		-	1281.2
Total	**15,131.3**	**18,394.4**	**27,650.50**	**19,730.9**	**20,912.1**

Source: KNBS (2015), Economic Survey

Tertiary Rift Basin), and announced a discovery of an estimated 300 million barrels of oil. After drilling further exploration wells, Tullow announced in early 2014 that it had now identified 600 million barrels of oil. It is anticipated that reserves in the Tertiary Rift Basin will continue to rise to over a billion barrels after further exploration in the region has taken place. Exploration in the Mandera region is likely to result in further dramatic increases in the oil reserves. The Mandera basin may have up to 1.6 billion barrels of crude, which would increase oil reserves to approximately 2.6 billion barrels.

With oil currently priced at around less than U$ 60 per barrel, Kenya's oil wealth is at present an estimated US$ 150 billion. It is not yet clear whether exploration in the Lamu basin (on and offshore) will result in significant gas finds, as in the case of Mozambique. However, the general trend is that from being a shadow on the global oil map, Kenya has in the past two years emerged as one of the priority new regions, destined to take its place among neighbouring countries.

5.3 Recent Policy Developments

The Mines and Minerals Act dates back to 1940, and is therefore out of date with present-day global standards. A new Mining Bill is before the Senate as of July 2015. The Bill aims to provide Kenya with contemporary legislation with the aim of balancing investor interest with benefits to the Kenyan government and citizens.

The Ministry of Mining, a new government agency, was formed in March 2013. Previously, mining was governed by the Department of Mines and Geology, in the Ministry of Environment and Natural Resources. The Ministry is focusing on ensuring that the licensing system is transparent and competitive, through a computerized mining cadastre system launched in February 2015 by the Deputy President. The Ministry is also collating and analyzing geological data to ensure that the fiscal regime is attractive to investors, but also fair in terms of revenue streams to the government. The government is being supported in these endeavors by the Kenya Extractives Industries Development Programme (KEIDP), which is designed to ensure robust performance of an equitable, inclusive, stable and sustainable extractive industries sector.

Some of the resources such as oil and gas have been discovered in the locations where Kenya has boundary disputes with its neighbours, hence raising issues of security and conflict. For example, Kenya has a long standing dispute with Sudan over the Elemi triangle, and the block in which oil in Turkana has been discovered extends to this region. Besides, Kenya has dispute with Somalia along the coast in the block that the gas in Lamu has been discovered.

5. 4 Emerging Issues

5.4.1 Economic implications of oil and minerals

As Kenya starts oil production in the next few years, it is obvious that revenues and other economic benefits that will accrue from extractive activities have the potential to drive Kenya's growth and development depending on how they are managed. It is expected that oil is poised to substantially increase government revenue once full oil production commences as anticipated by 2018. The implication is that with oil and other mineral revenues, chronic budget deficits will be mitigated and an increase in receipts from exports due to mineral and petroleum exports will spur economic growth. Nonetheless, if this is to materialize, there is need for prudent and sustainable management of revenue from oil and other minerals. The sudden inflow of revenue accruing to petroleum may expose Kenya to the risk of undermining other sectors such as tourism and agriculture, thereby ushering in negative macroeconomic effects of resource-driven spending - the "Dutch disease". The resultant effect is vulnerability to the inevitable decline in production once the petroleum resource is exhausted.

5.4.2 Environmental management

Kenya's oil, gas and minerals have occurred in the ecologically sensitive regions. This calls for adequate safeguards to protect the delicate ecological balance. The Lamu basin, for instance, is integral in sustaining marine life while Mirima Hills of Kwale are a source of water to the coastal region, and classified as cultural heritage sites. This underscores the sensitivity and importance of the sustainable and responsible management of the environment given that any oil spillage, environmental destruction or safety hazard will have far-reaching local and international effects. In addition, waste management and disposal is already a challenge yet production is yet to commence. Currently, the waste from exploration activity is being stored in temporary locations. Actual disposal awaits the requisite waste management regulations from the National Environmental Management Authority (NEMA). This calls for rigorous, timely and sustainable interventions in as far as waste disposal and management is concerned. There is also need for institutional safeguards for people affected by oil exploration, production and related activities, yet such people are not directly employed in the industry.

5.4.3 Local content and participation

In the recent past, there has been an upsurge in demands by locals in Turkana, Kwale and Kitui counties for a fair share of the proceeds of coal, oil and minerals discovered in their vicinity. More prominently, national and county assembly leaders and the civil societies have been vocal in asserting the need for greater transparency, inclusion in decision making, and equitable sharing of the proceeds of minerals, oil and gas discovered in their localities. Amidst all these, it is imperative to note that the extractive industries is generally less-labour intensive and, as such, local content and participation should not be narrowed to job allocations. It should be more encompassing to cover procurement of local products and services, enhancing capacity of the local suppliers, and providing more opportunities to financial access.

5.4.4 Land rights and compensation

There is need for the government to entrench the categorical principle of compensation prior to acquisition, drawing on the guarantee of the customary and other rights to land laid down in the Constitution of Kenya 2010. While taking cognizance of the prevailing controversies surrounding the compensation of residents of affected areas in Kitui and Turkana, there is need to ensure that first, in handling compensation, that the resettlement action plan conforms to the principles of fairness, adequacy, promptness and quick settlement. This compensation should transcend land per se and cover aspects such as heritage and other livelihoods as well.

Secondly, there is need to define guidelines for prior and informed consent to land acquisition, including the guarantee of an open and transparent public hearing. During these hearings, it is imperative to provide full information in the applicable local languages on the proposed development, its potential benefits and its potential impacts at the local, regional and national levels, as well as the proposed resettlement and compensation measures for affected people. There is need for special emphasis on the involvement of women residents in public hearings, and the incorporation of their perspectives on resettlement and compensation measures.

Finally, it is important to urgently devise a policy of compensation that upholds the constitutional guarantees, and protects the land rights of persons living in current and prospective oil-rich areas so as to ameliorate the potential ramifications of unfair land alienation and malpractices accruing to oil and gas activity. This is particularly critical since land is not just the primary source of livelihood but also defines the way of life for many rural Kenyans.

5.5 Policy Recommendations

1. The laws being enacted in the extractives sector should aim to enhance openness and transparency, provide sufficient checks and balances, and mitigate abuse of office and corruption. Given the finite nature of the natural resources, there is need to deliberately desist from over-reliance on oil and mineral revenues, and instead use and distribute the benefits accruing to minerals and petroleum equitably and sustainably to enhance national unity and cohesion while at the same time nurturing and developing strong national institutions. Further, it is imperative to align the expenditure of revenue from the extractives to local needs to enable natives to bolster their capability to effectively participate in the oil and gas sector. Considering that the revenue management dimension of the natural resources sector are outlined in the Natural Resources (Benefit Sharing) Bill, 2014, and National Sovereign Wealth Fund Bill 2014, it is hoped that the Senate and the National Assembly will enact them into law expeditiously within the extended time, given the missed constitutional deadline.

2. There is need to enhance the National Environment Management Authority (NEMA), Kenya Wildlife Service, Kenya Forest Service, National Museums of Kenya, the Water Resources Management Authority and other state organs mandated to manage different aspects of the environment to efficiently and effectively monitor and regulate minerals and petroleum exploration and production activities and its ramifications on the environment. This may inevitably require an amendment to the Acts that establish the mandate and govern the operations of the respective agencies that superintend over the various aspects of the environment.

3. The national and county governments should strictly monitor and enforce local content provisions in all production sharing agreements, especially in areas such as labour, training and supply of local goods and services, and generally facilitate Kenyan natives and local businesses to effectively participate in the mineral, oil and gas sector. This needs to be provided for in the law, and there is need for a Bill on local content to address these concerns.

4. The consideration of land acquisition and compensation in the minerals and oil producing areas should take cognizance of the range of community land ownership patterns and the land rights of the people, as enshrined in the 2010 Constitution. These issues should be addressed through the proposed Community Land Bill 2015 and Evictions Bill 2015; the National Assembly and the Senate need to fast-track the process of enacting them into law with the extended period.

Chapter 6

Tourism

6.1 Introduction

The government has set a target of placing Kenya among the top ten long haul tourist destinations, aiming at 3 million international tourist arrivals, increasing annual bed occupancy rates to 65,000 bed nights, growing average expenditure per visitor to Ksh 70,000, and increasing tourism earnings, which are a major foreign exchange earner, to over Ksh 200 billion annually.

However, these efforts are hampered by travel advisory warnings from key source markets due to the threat of domestic and international terrorism. The impact to periphery sectors such as hotels has been significant, with some hotels having to lay off employees and close businesses.

6.2 Tourism Performance

The total contribution of tourism to GDP is about 10.5 per cent. The sector directly generated about 206,500 jobs in 2014 (3.5% of total employment). Leisure and business tourists (inbound and domestic) generated 62.5 per cent and 37.5 per cent of direct travel and tourism in 2014, respectively (WTTC, 2015).

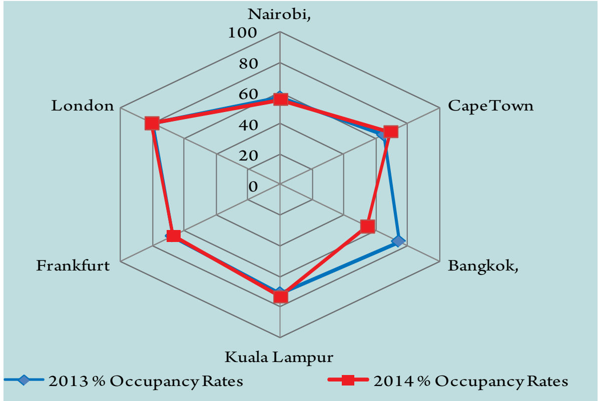
Visitor numbers to Kenya fell to 284,313 from 381,278 in January to May 2014, a drop of 25.4 per cent. The number of international conferences decreased by 19.4 per cent in 2014 mainly due to reduced business arrivals.

The bulk of tourist arrivals to Kenya are leisure visitors. Of these leisure tourists, 80 per cent of the total number of visitors to Kenya visit the country's 26 wildlife sanctuaries. The Maasai Mara and Tsavo (East and West) national parks remain favourites. The number of visitors to national parks and game reserves also declined from 2.3 million in 2013 to 2.1 million in 2014. Similarly, the number of visitors to museums, snake parks and other historical sites dropped by 10.4 per cent to stand at 690,900 in 2014 compared to 770,800 in 2013 (KNBS, 2015).

Overall, the number of bed nights occupied decreased in line with reduced visitor arrivals from 6,596,700 in 2013 to 6,281,600 in 2014. This is despite tourists from Africa taking the largest number of 3,397,200 bed nights in 2014. Kenya's performance on hotel occupancy rates remained relatively low at 55-57 per cent compared to other global cities such as Cape Town in South Africa, which stood at 65 per cent in 2013 and rose to 68.8 per cent in 2014. As indicated in Figure 6.1, other global cities in Europe and Asia have had occupancy rates above 70 per cent. For instance, London's occupancy rates in 2013 were 79.8 per cent and rose to 80.3 per cent in 2014. Similarly, Kuala Lumpur in Malaysia had occupancy rates of 70.9 per cent in 2013, rising to 72.8 per cent in 2014.

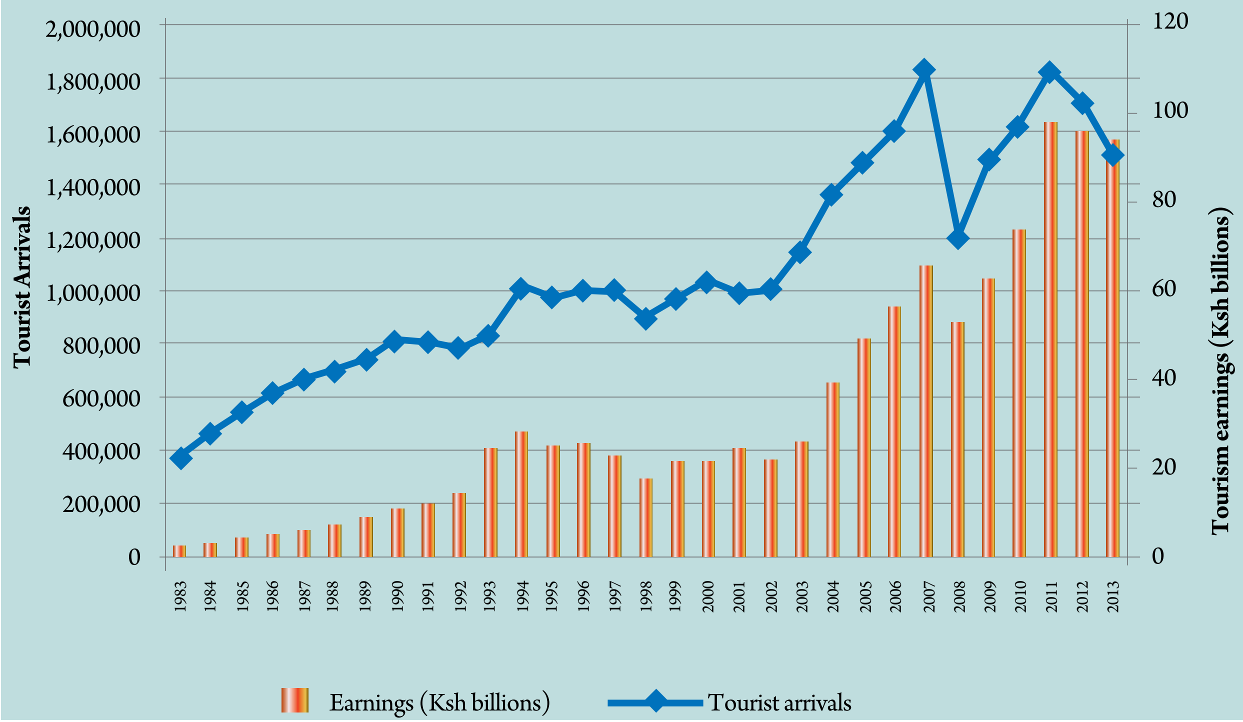
Occupancy rates in Nairobi hotels stood at 57.0 per cent in 2013 and dropped to 55.4 per cent in 2014. This situation is much worse for destinations such as the Coastal region, where average occupancy rates of less than 21 per cent were reported in some months of 2014.

Figure 6.1: Comparative cities' hotel occupancy rate, 2013-2014



Source: UNWTO (2014)

Figure 6.2: Tourism arrivals and earnings, 1983-2013



Data Source: KNBS (Various), Economic Survey

6.2.1 Overall tourist arrivals and earnings

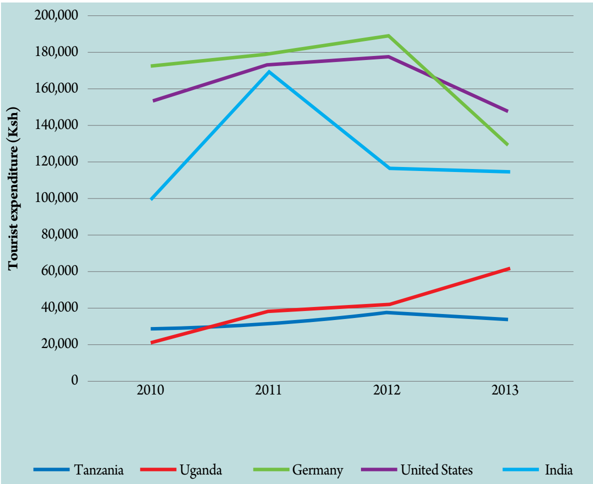
The low performance of tourism in terms of tourist arrival earnings is largely blamed on a combination of factors, which include the global economic slowdown in the key tourist source markets, especially Europe, insecurity-related situations arising from terrorism, and apprehension over the general elections held in March 2013.The declining trend can be traced to 2012 when the country recorded 1.78 million tourist arrivals down from the 1.82 million achieved in 2011 (Figure 6.2). In 2013, tourism arrivals fell to 1.51 million and tourism earnings fell to Ksh 94 billion from Ksh 97 billion in 2012.

Tourism in Kenya is characterized by two seasons: a high season from November to December and a shoulder season that coincides with winter season in Europe, leading to seasonal unemployment. Europe is one of the main sources of Kenya's tourism market, although non-traditional markets such as India and Poland performed well, and moved to among the top five tourist source markets.

6.2.2 Tourism expenditure patterns

Data on expenditure patterns for a few selected countries shows that tourists from Germany and the United States lead in spending. However, other emerging countries such as India have high per capita tourist expenditure that is close to those of traditional tourist markets.

Figure 6.3: Mean tourist expenditure trends in selected countries, 2010-2013



Source: MoEAACT (2013)

6.2.3 Domestic tourist market

While the Kenyan domestic tourism market only earns the country half the year's total tourism earnings, domestic tourism does not fluctuate nearly as much as international tourism arrivals and earnings. Domestic tourism offers Kenya an important opportunity that has helped the sector to remain resilient in the face of declining international tourists. In 2013, Kenya had a total of 6.5 million bed nights occupied, 41 per cent of which were occupied by Kenyan residents. The statistics show that domestic bed nights have been on the rise in the past five years, except for 2013 when they slightly declined.

Domestic tourists generated 58.1 per cent of direct travel and tourism GDP in 2014. Domestic travel spending is expected to grow by 5.5 per cent in 2015 to Ksh 233.9 billion, and rise by 5.2 per cent per year to Ksh 386.7 billion by 2025. This signals the growing importance of this market segment, if the current marketing strategies are sustained.

The government in 2014 introduced some measures to stimulate further growth in the domestic tourism sub-sector. A Domestic Stimulus Package launched in 2014 encompassed tax incentives to corporate and business entities to the tune of about Ksh 2.5 billion to enable them take their staff on holiday and deduct from their taxes. Duty and VAT exemptions for hotel refurbishing equipment were also included as incentives. Local tour operators have been facilitated by the government to access affordable credit through the Kenya Tourist Development Corporation (KTDC), Catering Training Levy and Development Trustee (CTLDT) and Tourism Trust Fund (TTF).

6.2.4 Air access

Air access is one of the key determinants of tourism sector growth and, in particular, the tourism charter business, which has specific focus on bringing tourists into the country. In the recent past, Kenya has seen the exit of major airlines due to the insecurity associated with the Coast region.

Table 6.1: Domestic tourism bed nights, 2008-2013

	2008	2009	2010	2011	2012	2013
Kenya residents	1,566.6	2150.9	2348.9	2603.4	2787.7	2699.1
Total hotel bed nights occupied	3699.0	6243.0	6662.3	7015.2	6860.8	6596.7
Share of bed nights by Kenya residents (%)	42	34	35	37	41	41

Source: KNBS (2014), Economic Survey

Based on statistics from the Kenya Airports Authority, the airport now has only six (6) scheduled and five (5) unscheduled charter flights operating. Twenty five (25) charter flights that were previously landing at the airport are no longer on the winter schedule, indicating that they have exited the market for the scheduled season.

According to the Infrastructure Consortium for Africa - ICA Study (2013), the level of liberalization of air services in Kenya is relatively low, indicating restrictive air travel when compared to countries such as South Africa at 11.6 and Tanzania at 11.4, while Kenya's index is 7.7.

Table 6.2: Air liberalization index

Country	Weighting (0 Restrictive; 50 Open)	Number of Bilaterals
Kenya	7.7	27
South Africa	11.6	54
Tanzania	11.4	23
Zambia	10.4	13
Egypt	7.0	41
France	13.6	63
UK	14.3	96

Source: Infrastructure Consortium for Africa Study (2013)

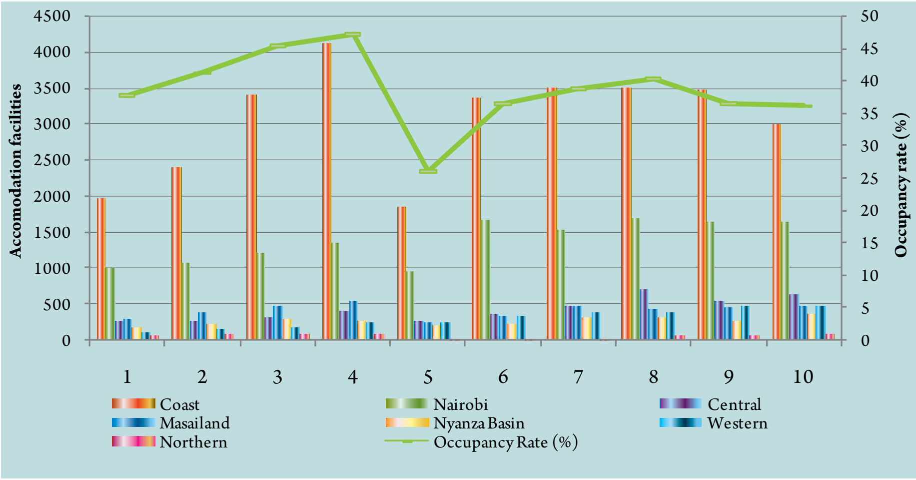
6.2.5 Hotel accommodation

The overall occupancy rate is low at an average bed occupancy rate of 36.1 per cent from the 36.4 per cent achieved in 2012 (Figure 6.4). However, interpretation of aggregated occupancy rates masks the skewed distribution of tourist class hotels across the country. Some parts of the country may have low occupancy rates, whereas other parts of the country operate at 80-90 per cent especially during the peak seasons of December to March. Similarly, during the wildebeest migration in the Maasai Mara in April to August, occupancy rates experience similarly high rates.

6.2.6 Conference tourism

Delegates attending conferences account for over 88 per cent of all delegates attending conferences (both domestic and international) in the country. Despite close to half a million delegates attending conferences in Kenya annually, the overall occupancy for domestic and international conferences is below 10 per cent and 4 per cent, respectively, as shown in Table 6.3, implying there is great unexploited potential in conference tourism in the county.

Figure 6.4: Accommodation facilities distribution and occupancy, 2007-2013



Source: Constructed from KNBS (Various), Economic Surveys

Table 6.3: Number of conferences held in Kenya, 2010-2013

	2010		2011		2012*		2013	
	Local	Inter.	Local	Inter.	Local	Inter.	Local	Inter.
No. of conferences	2,529	254	2,995	309	3,338	328	2,849	299
No. of delegates	383,441	30,554	408,596	33,566	413,037	35,663	401,809	40,109
% of total delegates	92.62	7.38	92.41	7.59	92.05	7.95	90.90	9.10
No. of delegate days	467,781	153,081	497,523	197,562	554,443	209,910	523,224	179,922
No. of delegate days available	5,368,174	5,368,174	5,520,344	5,520,344	5,652,611	5,652,611	5,498,958	5,498,958
Percentage occupancy	8.7	2.9	9.0	3.6	9.8	3.7	9.5	3.3

Source: KNBS (2012; 2014), Economic Survey

6.2.7 Tourism training

Tourism and hospitality sectors are labour-intensive. To maintain international standards, it is estimated that two professionally trained staff are required per bed (Government of Kenya, 2008). By 2008, the sector had only 10,000 trained staff and to achieve the Vision 2030 target set in Medium Term Plan I, the sector required an additional 30,000 trained staff. Kenya Utalii College is the mainstream hospitality training institution that continues to supply the core manpower for the hospitality and tourism sector. However, the college is severely constrained due to inadequate capacity to train for the whole sector. While there are other colleges and universities offering hospitality and tourism training, industry players are yet to embrace trainees from these colleges for some of the specialized courses. The argument has been that many of these colleges lack practical training facilities such as training hotels. Thus, some of the investors have to retrain the professionals graduating from these colleges or send them for refresher courses at Utalii College.

From Table 6.4, the overall number of Utalii College trainees has declined by 1.7 per cent in the past five years. However, the number of regular trainees, though averaging only about 18 per cent of total training, has grown by an average 4.4 per cent in the past five years. However, going by the projected training gap of 30,000 trainees by the Vision 2030, these numbers are still small. This, therefore, implies that the growth of tourism achieved between 2007 and 2012 was achieved in an environment of skills shortage in spite of the many youths who have completed school and university, and who require college training to become employable within the sector. Shortage of training facilities within the sector is thus a considerable hindrance to youth employment and tourism growth.

Table 6.4: Tourism training at Kenya Utalii College, 2009-2013

Year	No. of Trainees from Utalii College	Growth Rate	Refresher Course		% of Total	Regular Course		% of Total
2009	3,228	-	1,818	-	56.3	469	-	14.5
2010	2,985	-7.5	1,178	-35.2	39.5	533	13.6	17.9
2011	2,963	-0.7	1,494	26.8	50.4	613	15.0	20.7
2012	2,970	0.2	1,644	10.0	55.4	627	2.3	21.1
2013	3,001	1.0	1,450	-11.8	48.3	541	-13.7	18.0
Av. Growth		-1.7		-2.5			4.3	

Source: KNBS (Various Years), Economic Survey

6.3 Policy Recommendations

There is need to diversify the tourism sector by promoting domestic and regional tourism and explore other forms of tourism.

The government should consider reducing landing charges to improve air access, and develop infrastructure at small airports to increase local and international flights. This would boost growth of charter tourism and landing of big commercial airlines to some popular tourist destinations such as Malindi.

In spite of high employment multipliers, Kenya's tourism is yet to realize its full potential. The targeted number of tourists of three million tourists per year is yet to be attained. Thus, Kenya needs to do more to overcome barriers to growth in the tourism industry. The long term interventions include solving the problems of inadequate and costly air travel and visa requirements by liberalizing air travel and freeing the stringent visa regimes, and boosting the confidence of industry players to recruit employees from other colleges by investing in tourism and hospitality training. In particular, working with the private sector in developing curricula and support apprenticeship opportunities for youth to meet the needs of the sector would be a worthwhile intervention. Improving security is also an important policy priority.

Chapter 7

Manufacturing

7.1 Introduction

The manufacturing sector plays a vital role in Kenya's development agenda as anchored in the Vision 2030. Empirical evidence confirms that manufacturing sector drives growth through exports and employment creation (Szirmai, 2011). While manufacturing value added and employment are increasing in absolute terms, the contribution of the sector to GDP and total employment, respectively, are marginally declining. The sector growth declined from 5.6 per cent in 2013 to 3.4 per cent in 2014 (KNBS, 2015). The overall sector goal of the Vision 2030 is to increase manufacturing's contribution to GDP by at least 10 per cent annually (Government of Kenya, 2013a).

7.2 Review and Analysis of Recent Performance

7.2.1 Sector value added, contribution to GDP and structure

The manufacturing sector's value added in real terms increased from Ksh 403.1 billion in 2013 to Ksh 416.9 billion in 2014 (KNBS, 2015). The increase in sector value added can be attributed to modest inflationary pressure of 6.9 per cent (KNBS, 2015) and decrease in crude oil prices in the second half of 2014 (Husain et al., 2015). Overall, the manufacturing sector accounted for 10.0 per cent of GDP in 2014 compared to 10.7 per cent in 2013 (KNBS, 2015). The sluggish performance of the sector is due to a number of factors such as high costs of production, low productivity and loss of market share in the EAC market to imports from China and India (World Bank, 2014). Additionally, the Kenya Petroleum Refinery ceased operation in September 2013 (KNBS, 2015), thus adversely affecting the sector's output.

In terms of sector structure, the share of food, beverage and tobacco marginally increased from 37.5 per cent in 2013 to 37.7 per cent of the sector real GDP in 2014 (KNBS, 2015), thus increasing the dominance of food and beverage sub-sector. The Second Medium Term Plan (MTP II) of Vision 2030, however, envisages a diversified manufacturing sector. The growing prominence of food and beverage sub-sector reflects the benefits accruing from agricultural sector output, as well as high domestic demand. Food and beverage accounts for 38.1 per cent of the weight in the consumption basket (KNBS, 2014), which may explain the growth in food and beverage manufacturing sub-sector.

The share of Micro and Small Enterprises (MSEs) in manufacturing GDP increased from 11.2 per cent in 2012 to 11.7 per cent in 2013 (KNBS, 2014), an indication of increasing prominence of MSEs. Growth of manufacturing MSEs into medium and large enterprises is of policy interest, given that larger firms are associated with higher productivity due to capital intensity (Bigsten et al., 2010). The sector is also characterized by limited diversification into high value manufactures such as chemicals, pharmaceuticals and electronics. In 2014, chemicals and pharmaceuticals accounted for 8.0 per cent of manufacturing GDP while electrical, machinery and transport equipment accounted for 3.4 per cent of the sector GDP (KNBS, 2015). Experience from newly industrialized countries demonstrates that diversification into high value manufactures accelerates economic growth (Ajakaiye and Page, 2012; Hausman et al., 2007).

7.2.2 Sector growth

The 10 per cent annual growth in sector contribution to GDP envisaged in the Vision 2030 is imperative for Kenya's realization of industrialization agenda. The sector growth, however, declined from 5.6 per cent in 2013 to 3.4 per cent in 2014 (KNBS, 2015). High costs of production (KNBS, 2013a) and competition from imports (World Bank, 2014) are some of the challenges impeding sector's growth. The booming construction and real estate sectors,[1] however, continue to exert positive spillover effects on the sector, with consumption of cement in 2014 growing by 21.8 per cent to stand at 5.2 million tonnes (KNBS, 2015). Lack of industrial land, and inadequate budgetary allocation also constrain timely implementation of various projects such as SME parks and industrial clusters (Government of Kenya, 2013), which may have also suppressed growth of the sector.

7.2.3 Contribution to employment

The sector accounted for 12.1 per cent of the formal sector employment in 2014, compared to 12.2 per cent in 2013 (KNBS, 2015). The marginal decline is due to constraints impeding the sector, such as unfavourable costs of production (KNBS, 2013a) and competition from imports (World Bank, 2014). About 88 per cent of manufacturing sector employment is in the informal sector (Table 7.1). Although manufacturing informal employment is increasing in absolute terms, the growth slowed from 8.6 per cent in 2013 to 5.3 per cent in 2014 (KNBS, 2015) which reflects shifts of informal employment to less capital-intensive sectors such as trade and support services to transport activity.

7.2.4 Exports performance

The 2010 census of industrial production shows that 81.9 per cent of Kenya's manufactured goods are consumed locally, against exports accounting for only 18.1 per cent (KNBS, 2013a). The EAC market is a key potential market for manufactured exports. Although the Vision 2030 targets increasing share of Kenya's manufacturing exports to the EAC market from 7.0 to 15.0 per cent (Government of Kenya, 2007), the market share has not changed over the first medium term plan (Government of Kenya, 2013). More worrying, imports from India and China are denting Kenya's exports to the EAC market (World Bank, 2014), thus weakening export performance of the sector. Regional dynamics are also changing, with Uganda recording high manufacturing growth

*Table 7.1: Trends in sector contribution to formal and informal employments**

	2012	2013	2014	3-year average	Policy Issues
Formal Sector	12.6% (271,000)	12.2% (279,400)	12.1% (287,500)	12.3% (279,300)	• Declining contribution to formal employment • Majority of the sector employment is in informal sector
Informal Sector	18.6% (2.0 million)	19.1% (2.1 million)	18.9% (2.2 million)	18.9% (2.1 million)[2]	

Data Source: Author's compilation from KNBS (2015). *In parenthesis are the numbers of persons employed.

rate of 11.0 per cent in 2014 (Uganda Bureau of Statistics, 2015), which dampens Kenya's regional exports. Some of the institutional arrangements to boost exports of manufactured products include the Export Processing Zones (EPZ) and the African Growth and Opportunity Act (AGOA).

The EPZ Authority promotes and facilitates export-oriented investments. The EPZ is particularly crucial for the garment sub-sector, which accounts for 53.1 per cent of EPZ exports (Exports Processing Zones Authority, 2013). In 2014, the EPZ recorded export sales growth of 19.7 per cent to stand at Ksh 53.2 billion, which mirrors increased number of gazetted zones, which increased from 50 to 52 (KNBS, 2015) and entrance of more firms such as ADEC Group and Wondernut International EPZ Ltd (Exports Processing Zones Authority, 2014). The Special Economic Zones Act 2015[3] aims to provide a favourable business environment, including integrated infrastructure and wide fiscal incentives to attract investments in the industrial sector. The Special Economic Zones will address the challenges that have stifled EPZ performance over the years, primarily high costs of production due to inadequate infrastructure (Export Processing Zones Authority, 2013). The Africa Growth and Opportunity Act (AGOA), which has been extended by 10 years up to 2025 (AGOA, 2015), is a boon for manufacturing sector exports as it provides duty-free treatment to US imports of apparel and other selected imports from eligible Sub-Saharan African countries. In 2014, exports of garment and apparel under AGOA increased by 24.2 per cent to Ksh 30.1 billion, reflecting increased investments in the sub-sector, which grew by 10.3 per cent in 2014 (KNBS, 2015).

7.3 Policy Developments

7.3.1 Second Medium Term Plan

The Second Medium Term Plan of the Vision 2030 has prioritized a number of flagship projects, such as establishment of special economic zones in Mombasa, Kisumu and Nairobi, and development of Small and Medium Enterprises (SMEs) industrial parks in each of the 47 counties (Government of Kenya, 2013). Development of industrial clusters is generally targeted at harnessing the benefits of agglomeration economies and targeted infrastructure development, which would lower the production costs required to enhance the competitiveness of manufactured goods.

Other priorities by the Second Medium Term Plan include revitalization of iron and steel industry, and development of technical human resources to support growth of industries. The role of research and harnessing of natural products has also been given priority. On industrial research, the government plans to transform the Kenya Industrial Research and Development Institute (KIRDI). Table 7.2 shows progress made in 2014.

7.3.2 Fiscal measures 2014/15

In the 2014/15 budget, the government implemented a number of fiscal measures to

Table 7.2: Vision 2030 MTP II goals and progress made as of 2014 [4]

MTP II goals	Progress and impacts
Establishment of special economic zones	• In 2014, the Special Economic Zones (SEZs) Bill was developed and submitted to the National Assembly. It was enacted in 2015. • Lands for special economic zones were identified in Mombasa (Dongo Kundu) and master planning commenced.
Revival of iron and steel industry	The Ministry through the Numerical Machining Complex (NMC) designed hydraulic brick-making machines for production of bricks for local market.

MTP II goals	Progress and impacts
Development of technical human resources to support growth of industries	The Ministry and the Anti-Counterfeit Agency trained 34 magistrates and 10 prosecutors to improve efficiency in managing intellectual property rights-related cases. Anti-Counterfeit Agency investigated complaints relating to 180 cases and seized goods valued at over Ksh 203 million.
• Prioritize role of research and harnessing of natural products • Transform the Kenya Industrial Research and Development Institute (KIRDI)	• The Ministry through KIRDI developed laboratories for research in food processing, leather processing, renewable energy and natural products. KIRDI designed and produced 840 arc wielding machines.
Improve business environment	• The Ministry is coordinating government reforms in collaboration with State Law Office, Ministry of Lands and Housing, Kenya Power and Lighting, Ministry of Devolution and Planning, and KenTrade. • Facilitation of private sector dialogue through the presidential roundtable. • Adoption of mobile phone technology to search and reserve a name, and roll out of Huduma centres. These initiatives have reduced searching and reserving of business name from three days to immediate. • Introduction of performance monitoring and measurement helped reduce the number of days to get electricity from 160 days to 30 days. • Various laws have been reviewed and strengthened to enforce contracts. Some relevant laws include Law of Contract Act, Cap. 23; Chattels Transfer Act, Cap. 28; Trade Disputes Act, Cap. 234; and Consumer Protection Act No. 46 of 2012. • Online reporting of tax obligations (i-tax), consolidation of payment of taxes (PAYE, NSSF fees) and adoption of mobile phone technology for payments of small amount of taxes by KRA have simplified tax payment procedures. Number of payments was reduced from 41 to 17.

Source: Ministry of Industrialization and Enterprise Development (2014)

promote growth of local industries (Government of Kenya, 2014), including:

(i) Allocation of Ksh 3 billion for revival of the textile and leather industries. The revitalization of the textile and leather industries is a boon for employment creation due to relatively high labour intensity and linkages with the agriculture sector (NESC, 2011).

(ii) Increasing import duty on locally available iron and steel products from 0 per cent and 10 per cent, respectively, to 25 per cent to cushion local industries from cheap imports. This intervention can also play a significant role in improving the deteriorating trade balance.[5] Imports of iron and steel rose by 56.4 per cent in 2013 to stand at 1.2 million tonnes (KNBS, 2014). However, such initiative should be cognizant of local production capacity to minimize unintended negative effects on the iron and still industry.

(iii) Exemptions from import duty on machinery, spares and inputs for direct and exclusive use in the development and generation of solar and wind energy. This initiative is targeted at lowering costs of energy, which ranks high among the challenges faced by manufacturers (according to the 2010 census of industrial production).

(iv) Exemptions from execution of security bond (equivalent to taxes payable) by gazetted manufacturers and millers of refined industrial sugar and wheat. The purpose of security bond is usually to ensure performance of some specified obligations such as payment of customs duties, customs penalties and to ensure the importer abides by laws and regulations governing importation of the goods. In Kenya, the Commissioner of Customs may require a person to give security to facilitate compliance with the customs and excise law, and for protection of relevant government revenue.[6] Exemption from execution of security bond was intended to lower administrative barriers for importation of intermediate products for use by local industries (Government of Kenya, 2014).

7.3.3 Market access policies

To enhance market access for locally manufactured products and boost local industries, the Public Procurement and Disposal Regulations of 2013 compel all international suppliers and contractors to source at least 40 per cent of the tender requirement from local enterprises (Government of Kenya, 2013). Further, the Ministry of Industrialization and Enterprise Development is developing a 'Buy Kenya Build Kenya' policy to boost local consumption of domestically manufactured goods. While the policy is imperative in addressing high unemployment especially among the youth through support of local industries, there is need to holistically address supply-side factors such as price and quality, as well as accommodate EAC initiatives to have a common market. The United Nations Industrial Development Organization ranks Kenya in terms of industrial competitiveness at position 108 out of 142 economies (UNIDO, 2015). The rankings measure the ability of countries to produce and export manufactured goods competitively (UNIDO, 2013). To counter cheap imports from other countries, enhanced competitiveness of manufactured products is therefore imperative.

7.3.4 Off-peak power tariffs

High costs of energy remain a priority policy intervention for Kenya's industrialization agenda. About 60 per cent of manufacturing enterprises cite high cost of energy as the major impediment to their competitiveness (KNBS, 2013b). The government plans to offer cheaper off-peak electricity tariffs to industrial enterprises. Progress is being made towards the initiative, including soliciting feedback from industries to understand their electricity demand patterns, and consider how implementation of the programme affects revenue of Kenya Power and Lighting Company.[7] The initiative will encourage manufacturers to shift part of production to off-peak period in a move that will lower demand for power during peak hours. While the firms may incur adjustment costs, the initiative is central in lowering the cost of production and boosting capacity utilization.

7.4 Challenges

7.4.1 High cost of production and competition from imports

High cost of production attributable to costs of electricity, fuel, raw materials, credit, transportation, and volatility in supply of power are cited by manufacturing enterprises in Kenya as the major constraints impeding their competitiveness (KNBS, 2013b). High cost of fuel, electricity and raw materials were all identified by more than 55 per cent of the manufacturing enterprises as major reasons for low capacity utilization (Figure 7.1).

With regard to high costs of credit, contributing factors include high operating costs, non-performing loans and weak competition in the banking sector (Oduor et al., 2011; Were and Wambua, 2014). The government introduced licensing of credit reference bureaus to share credit information, and also introduced the Kenya Banks' Reference Rate (KBRR) aimed at ensuring transparent credit pricing (Central Bank of Kenya, 2014). Credit information sharing has recorded significant improvement, with credit reports requested by banks increasing by 31 per cent in 2014 to 1.7 million (Central Bank of Kenya, 2014).

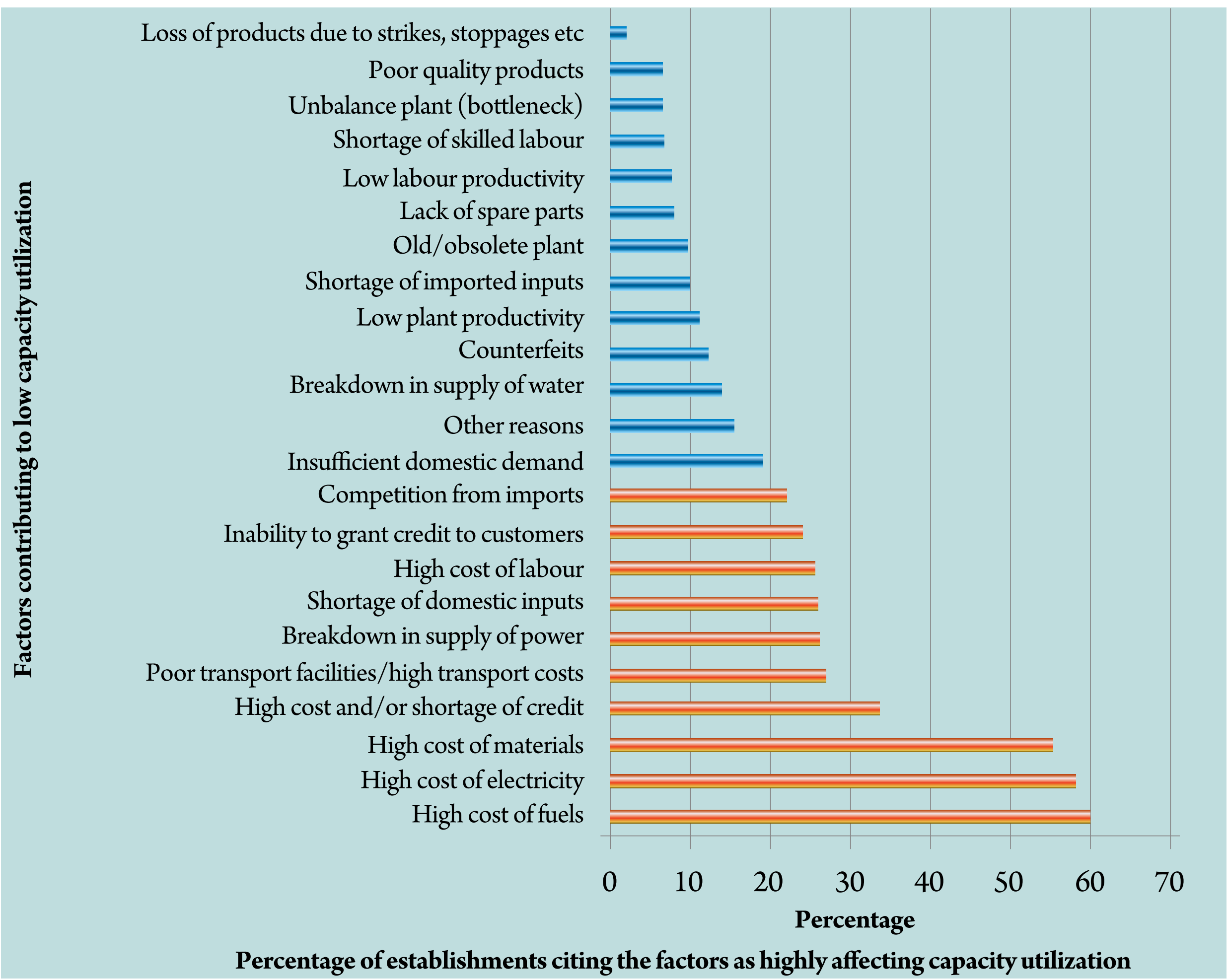
In 2014, interest rate spread (i.e. average lending rate minus average deposit rate) marginally declined from 10.34 per cent in 2013 to 9.18 per cent in 2014 (Central Bank of Kenya, 2014). Significant reduction in interest rate requires holistically addressing the multiple issues that are identified as drivers of cost of credit, such as dominance of the banking industry by a few large banks, and non-performing loans.

In line with the Vision 2030, the government has recently continued to scale up investments in geothermal and wind energy. Some of the energy projects implemented in 2014 include Olkaria IV and Olkaria I with a capacity of 140 megawatts each, Ngong I Wind Phase 2 (6.8 megawatts), Ngong II wind (13.4 megawatts) and Wellhead plants (KNBS, 2015). Consequently, electricity generation from geothermal plants increased from 1,780.9 GWh in 2013 to 2,917.4 GWh in 2014 (KNBS, 2015). Construction of the Standard Gauge Railway connecting Kenya to other East African countries , mainly Uganda, South Sudan and Rwanda will further position Kenya on a trajectory of reducing the costsof doing business.

As shown in Figure 7.1, other constraints cited by manufacturing enterprises include shortage of domestic input (26.1%), competition from cheap imports (22.1%), insufficient domestic demand (19.0%) and influx of counterfeit products (12.3%).

In combating counterfeits and substandard products, the government has put in place regulations (Government of Kenya, 2013) to facilitate track and trace of excisable goods. One of

Figure 7.1: Factors contributing to low productivity among Kenyan industrial enterprises[8]



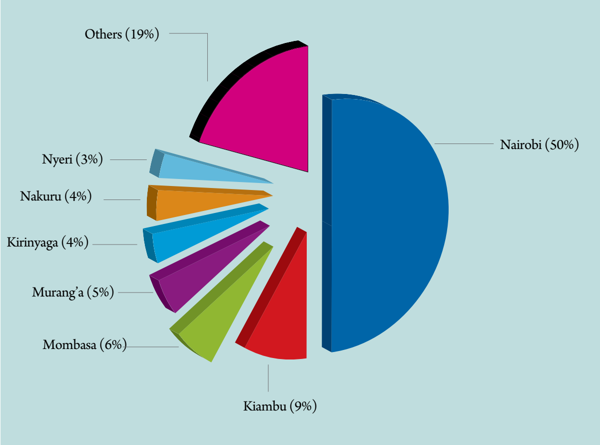
Data Source: KNBS (2013b)

the persistent challenges in combating counterfeits and substandard products is the weak inter-agency collaboration in intelligence sharing, market surveillance and enforcement (Kieyah et al., 2014). The Kenya Association of Manufacturers and the National Council on Administrative Justice together with other agencies mandated to combat illicit trade developed an enforcement manual in 2014 to combat illicit trade. The manual acts as a guide for prosecutors and enforcement agencies with regard to illicit trade, including counterfeits (National Council on Administration Justice, 2014). However, institutional arrangements are required to enhance inter-agency approach to counter trade in counterfeit goods.

7.4.2 Unbalanced regional distribution of manufacturing enterprises

As a strategy for creating decent jobs across the country, the government aims to increase the share of manufacturing enterprises located outside major urban centres to over 50 per cent (Government of Kenya, 2012). However, Nairobi, Kiambu, Mombasa and Murang'a account for 70 per cent of the enterprises (Figure 7.2). The unequal distribution of enterprises can be explained by industry location choice theory (Weber, 1909), in which profit maximizing firms locate their establishments so as to minimize production and distribution costs. Some of the advantages for firms to cluster in a geographical area include agglomeration economies, mainly due to reduced transportation costs and inter-linkages of activities across the value chain (Alcácer and Chung, 2013; Alcácer and Delgado, 2013; Porter, 1996). Improved infrastructure can, however, lower transportation costs and hence encourage industries to disperse (Glaeser, 2010). While clustering has benefits in lowering costs of production, policy measures that encourage industrial dispersion will give small enterprises flexibility in location choice and hence growth of indigenous industrial sector (Newman, 2015).

Figure 7.2: Cross-county spatial distribution of manufacturing establishments



Data Source: KNBS (2013)

7.4.3 High Informality

Majority of the manufacturing sector employment is in the informal sector. The informal sector provides employment opportunities for those outside the formal sector, but it is characterized by low wages, little contribution to exports (Bigsten, Kimuyu and Soderbom, 2010) and generally lack social security benefits for its employees (Benjamin et al., 2014). Thus, informal sector contributes less to provision of quality employment. Informality is driven by incentives to minimize tax and compliance costs as well as other external factors such as credit constraints that limit growth (Bigsten et al., 2004). To create quality jobs, policy should mitigate some of the constraints limiting transformation to formal enterprises.

7.5 Conclusion

The manufacturing sector is vital for economic growth and creation of quality jobs, accounting for 10 per cent of GDP and 12.1 per cent of formal employment in 2014. While the performance of the sector in terms of value added and employment are increasing in absolute terms, its share in GDP and total employment is declining. Some of the challenges facing the sector include high cost of production, informality and influx of cheap imports and counterfeits. Regional dynamics such as rebound of manufacturing in Uganda also dampens Kenya's exports to the EAC market. The sector is also characterized by limited diversification into high value manufactures such as electronics and chemicals. High concentration of industries in major urban areas limits dispersion of quality jobs.

7.5.1 Policy recommendations

(i) The costs of production remains a major impediment to Kenya's manufacturing investments and competitiveness. To further lower costs of production, continued investments in infrastructure and green energy is imperative. Efforts to reduce the cost of production should also include lowering costs of credit.

(ii) To address counterfeits, there is need for enhanced inter-agency collaboration involving Anti-Counterfeit Agency, Kenya Revenue Authority, Kenya Bureau of Standards and Ethics and Anti-Corruption Commission for surveillance and enforcement.

(iii) To complement efforts geared towards lowering costs of production, there is need to expedite development and implementation of market access policies such as Buy Kenya Build Kenya policy to promote growth of micro and small enterprises.

Endnotes

1. In 2014 the construction and real estate sectors recorded improved growth rates of 13.1 per cent and 5.6 per cent, respectively (KNBS, 2015).

2. Taking into account 2.1 million employment in informal sector and 279,300 employment in formal sector, the former accounts for 88 per cent of sector employment on average.

3. Both EPZs and SEZs have some common characteristics that involve provision of favourable business environment through taxes and other incentives, but SEZs encompass a wider range of activities such as ICT parks, industrial parks, free trade zones and recreational centres (Export Processing Zones Authority, 2013).

4. The 'Ministry' in this table refers to the Ministry of Industrialization and Enterprise Development.

5. Import coverage ratio (Total exports ÷Total imports) x100%), which stood at 43.8 per cent in 2009 has since deteriorated to 33.2 per cent as of 2014 (KNBS, 2015). This means that the extent to which imports are covered by exports is declining.

6. This is provided for under Section 160(1) of the Customs and Excise Act, Cap. 478.

7. Source: Key informant interview with Energy Regulatory Authority, August 2015.

8. About 93 per cent of the 2,252 establishments are manufacturing establishments, thus the data largely reflect experiences of manufacturing enterprises. 94.8% of the responses were at establishment level, with only 5.2% at enterprise level.

Chapter 8

Micro and Small Enterprises

8.1 Introduction

The definition of Micro and Small Enterprises (MSEs) applied in this chapter is enterprises, whether formal or informal, which employ 1-50 persons. This sector plays an important role in the economy given that majority of all enterprises in Kenya constitute MSEs.

This chapter reviews the performance of the MSE sector with respect to employment, number of establishments, value added (of the manufacturing sector), and the contribution made by the sector to the exchequer.

The chapter will also review recent government initiatives carried out to improve the business environment.

8.2 Recent Performance

The Micro and Small Enterprise (MSE) sector is an important sector especially as a source of goods, services and employment. In 1999, when the last comprehensive survey was conducted, the sector was estimated to employ over 50 per cent of the working population (accounting for 2.3 million people). As much as majority of the MSEs in Kenya operate informally, there are over 41,000 formal MSEs, employing for over 42 per cent of the working population. Data on formal (modern) establishments as obtained from the Kenya National Bureau of Statistics (KNBS) Statistical Abstracts does not include data on small non-agricultural rural establishments and smallholdings that are outside scheduled areas.

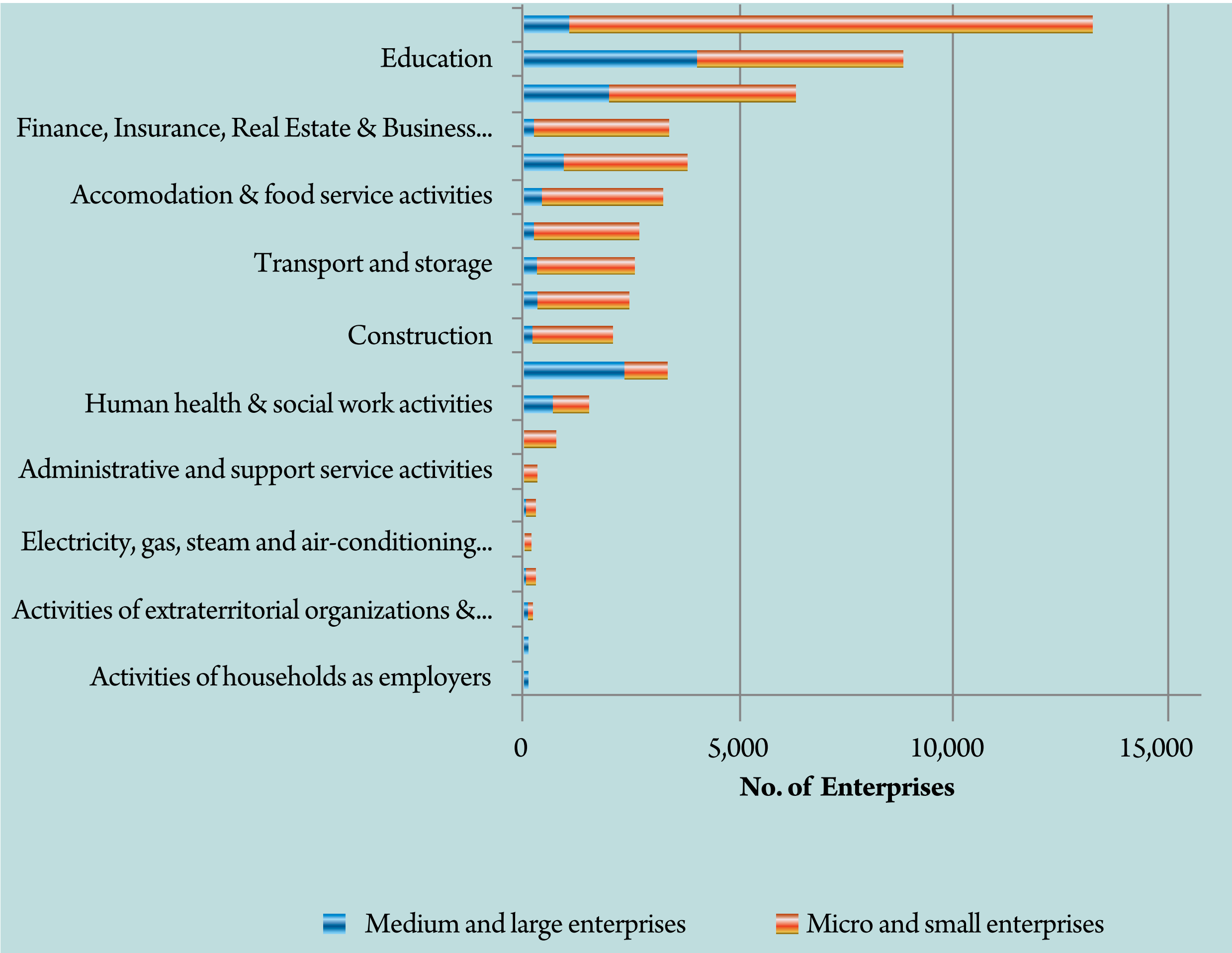
8.2.1 Number of establishments

Majority of modern enterprises operating in Kenya, regardless of the business category, have less than 50 employees as illustrated in Figure 8.1. This is due to the fact that over 75 per cent of all modern establishments in Kenya are MSEs.

There has been a gradual increase in the number of modern micro and small enterprises over the years. This is especially the case in wholesale, retail, trade, restaurants and hotels, which employ the largest number of employees.

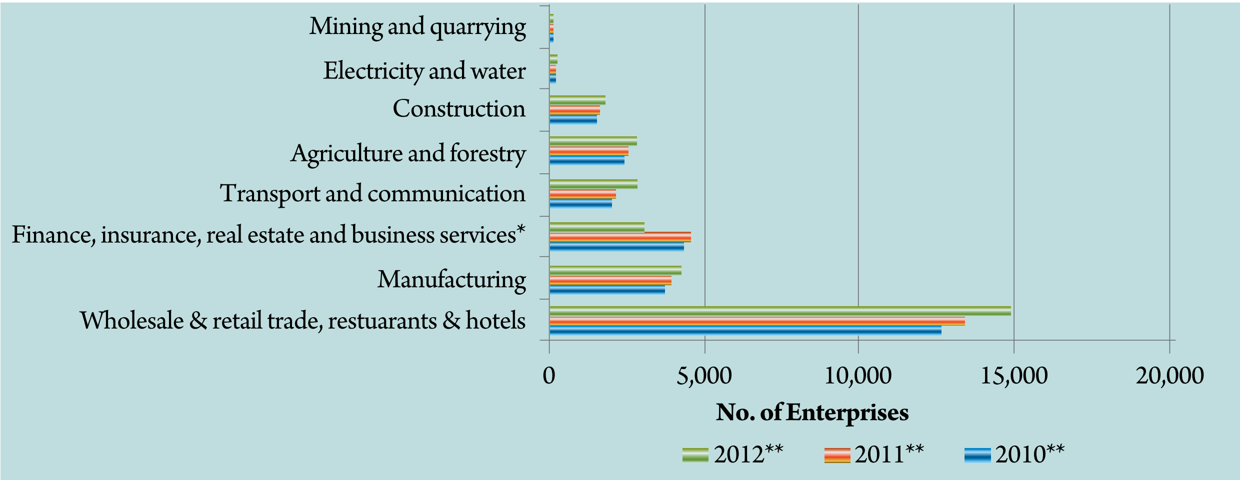
Based on the laws of Kenya, businesses can operate as sole proprietorships, partnerships or companies.[1] As established in the 1999 National Baseline Survey on MSEs (the most comprehensive survey carried

Figure 8.1: Micro and small enterprise establishments (2012)



Data source: KNBS (2013b)

Figure 8.2: Micro and small enterprise (Nos. 2010-2012)



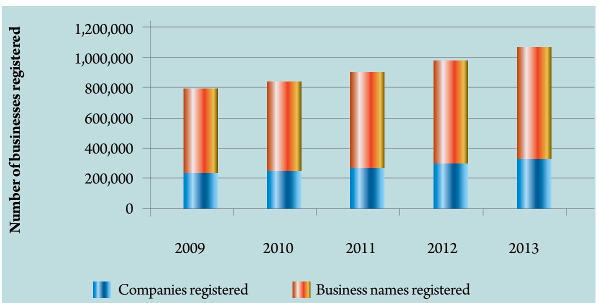
Data Source: KNBS (2013b)

* The decline between 2011 and 2012 is due to the introduction of a new classification on professional, scientific and technical activities, which was formerly classified under business services

**Data for 2013 unavailable from 2014 Statistical Abstract out to date), 71.9 per cent of MSEs operate as sole proprietorships.

In Kenya, business name registration is the simplest and most affordable way to register a business and is, therefore, widely used by MSEs. This is presented in Figure 8.3. The data reveals that the number of business names registered in Kenya is double that of newly registered companies.

Figure 8.3: Business names registered



Data Source: KNBS (2014b)

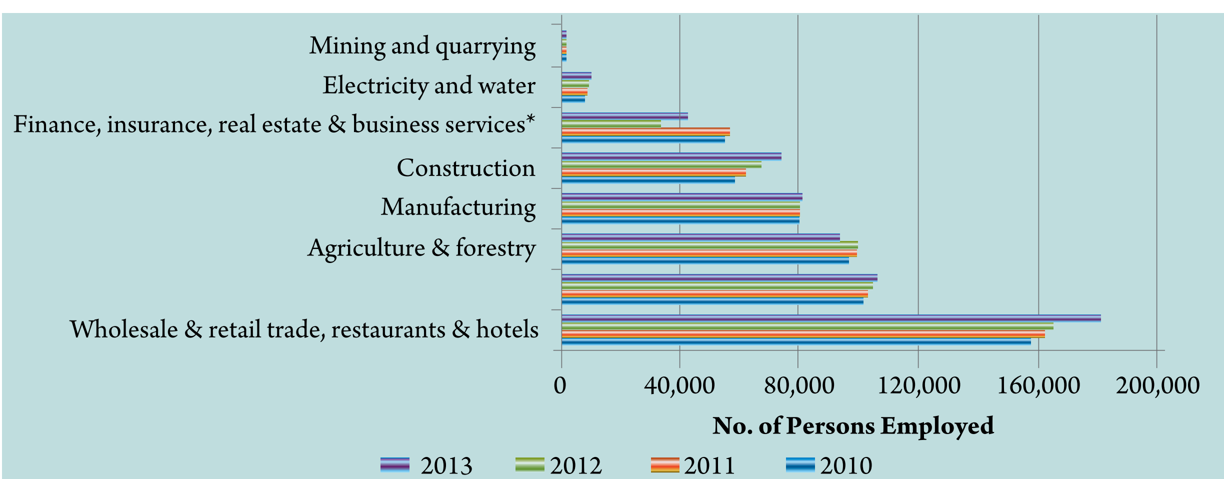
8.2.2 Employment in the MSE sector

As illustrated in Figure 8.5, half of the employment in the sector emanates from enterprises with between 20 and 49 employees. Employment within MSEs is largely in the services sector. The services sector further presents growth in employment. The data reveals stagnation in employment in the manufacturing sector while agriculture and forestry sector experienced a slight decline in employment in 2013 when compared to 2012. The agricultural sector employment is seasonal in nature, which may explain the decline.

Data on MSEs in 2013 shows an interesting transformation when compared to 2003. The decline could be as a result of graduation of micro enterprises to small enterprises or may simply represent a scenario whereby enterprises are starting small as opposed to micro. This, however, presents an opportunity for the government to lay emphasis on policies on graduation of enterprises from micro to small.

The shift in enterprise structure in Kenya may be due to the policy developments in the sector, some of which include the establishment of Sessional Paper No. 2 of 2005 on Development of MSEs for Wealth and Employment Creation for Poverty Reduction; improved financial access through SME banking; enactment of the Micro Finance Institution (MFI) Act; development of MSE worksites; improvements with respect to information technology, which

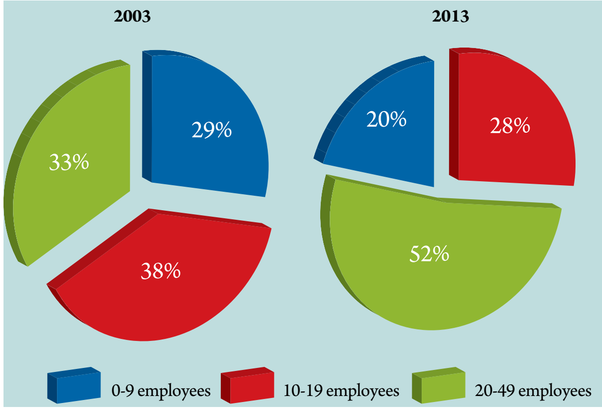
Figure 8.4: Employment trends within MSEs (2010-2013)



Data Source: KNBS (2014b)
*The decline between 2011 and 2012 is due to the introduction of a new classification on professional, scientific and technical activities which was formerly classified under business services

contributes to growth in electronic commerce; and more recently the enactment of the Micro and Small Enterprise Act in 2012; among other recent developments.

Figure 8.5: Employment in MSEs in 2003 and 2013

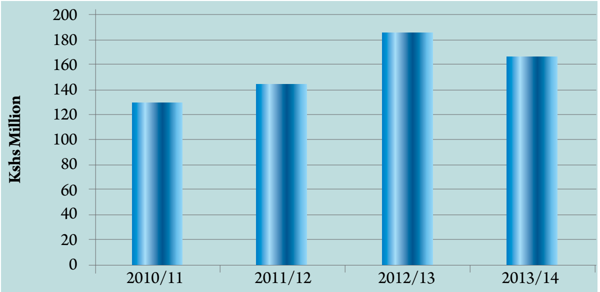


Source: KNBS (2003) and KNBS (2014)

8.2.3 Tax performance

In 2006, Turnover Tax (ToT) was introduced through amendment of the Income Tax Act (Cap 470), and this applies to businesses with annual turnover of between Ksh 500,000 and Ksh 5 million. The tax which came into effect from January 2007 is 3 per cent of gross receipts of the business (KIPPRA, 2014). As shown in Figure 8.6, ToT contributions decreased slightly from Ksh 185 million in 2012/13 to Ksh 166 million in 2013/14. The decline could be an indicator of a decline in gross sales by registered MSEs. This may also mark a decline in the businesses registered for ToT, given that the law establishes that a business with an income of below Ksh 100,000 in a year can apply for de-registration and businesses with over Ksh 5 million could request for a change of status.[2]

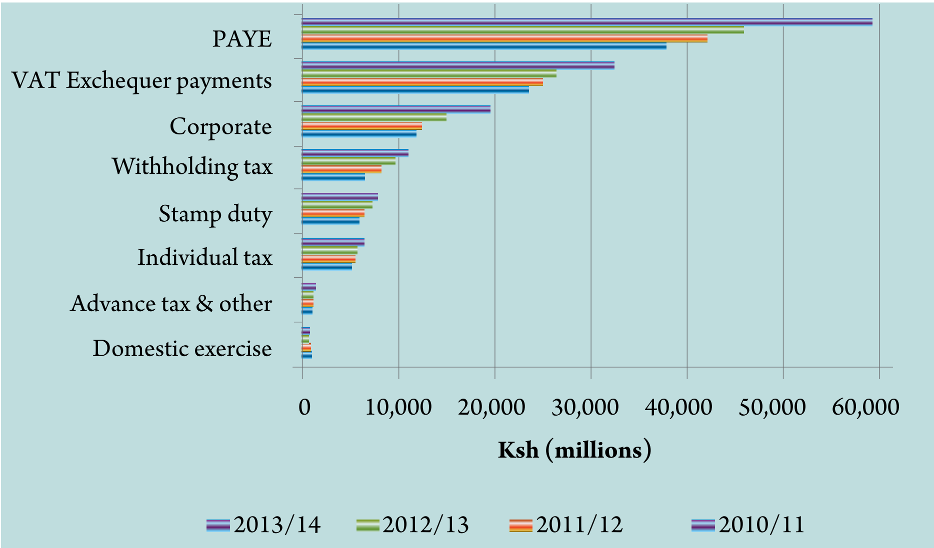
Figure 8.6: Turnover tax



Data Source: Domestic Tax Department (DTD), Small and Micro Taxpayers, Kenya Revenue Authority

Tax contribution from the sector shows that there has been a gradual increase over the years (Figure 8.7). The increase in Pay As You Earn (PAYE) is as

Figure 8.7: Tax performance for small and medium enterprises



Data source: Domestic Tax Department (DTD), Small and Micro Taxpayers, Kenya Revenue Authority a result of the initiatives targeting county payrolls, while VAT increase is as a result of taxpayer recruitments by the Kenya Revenue Authority (KRA) and the introduction of VAT on goods and services that were previously VAT exempt (KRA, 2014).

8.2.4 Manufacturing value addition

MSEs in manufacturing, which represent over 60 per cent of establishments and accounting for 29 per cent of those employed in manufacturing, contributed to 11.7 per cent of manufacturing value added (KNBS, 2014a), presenting low value addition amongst MSE manufacturing firms. This reveals low net output of manufactured goods from the MSE sector. Low value addition in MSE manufacturing firms may be a result of a number of things, including limited access to technology and limited research and development (R&D) activity, which is characteristic of MSEs in Kenya.

As indicated in the previous chapter on manufacturing, manufacturing activity in Kenya is concentrated in the agribusiness sector with very limited manufacturing in high technology products.

8.3 Policy Developments

8.3.1 Business registration and incorporation

As noted above, majority of MSEs in Kenya operate informally. Policy initiatives aimed at improving the business registration and incorporation process in Kenya should therefore aim to lower transaction costs, which are likely to encourage transition of firms from informality to formal. This section reviews government initiatives aimed at improving business registration services in Kenya.

The Companies Act received Presidential Assent in September 2015. It addresses incorporation, registration, operation, management and regulation of companies in Kenya. The Act recognizes electronic signatures, unlike the repealed Act.

Another recently enacted statute also addressing business registration services, the Business Registration Service Act No. 15 of 2015 was assented in September 2015. The Act introduces a Business Registration Service to be governed by a Board consisting of the Solicitor General, Principal Secretary in the Ministry responsible for matters relating to trade, Principal Secretary in the National Treasury, Registrar General, and four other members appointed by the Cabinet Secretary.

The Service is expected to carry out the following functions:

- Implement policies and laws that relate to registration of companies, partnerships, firms, individual and corporations carrying on a business;[3]
- Carry out all relevant registrations and maintain the registers; and
- Carry out relevant research and carry out dissemination of findings.

Business Registration Service, once established, will be the single authority responsible for registration of companies, partnerships and sole proprietorships. Registration of companies, partnerships and businesses registered under a business name is currently undertaken by the Registrar of Companies or the Registrar-General, which is under the Attorney General as established by the respective law, and located in Nairobi.

The Business Registration Service, which is also to be located in Nairobi, can establish branches in other parts of the country and can collaborate with other state agencies to ensure reasonable access of services. This provision should encourage the establishment of additional offices outside Nairobi and/or encourage collaboration with other related services by other agencies, consequently, lower transaction costs associated with registering a business, given that currently, business registration is centralized in Nairobi.

8.3.2 Service delivery through one-stop shops

One of the challenges facing MSEs in Kenya is the multiplicity of registration, licensing and other statutory agencies who are further located in different physical premises. The government effort to bring together such services is an important policy undertaking that would introduce efficiency and lower transaction costs.

In August 2013, the government launched Huduma centres aimed at improving public service delivery while also bringing relevant government agencies into one single location. Currently, there are 19 Huduma centres in 17 counties. There are plans to establish Huduma centres in all 47 counties. The centres offer a number of services to citizens and investors in a single location. The centres offer a number of services relevant to MSEs, which include search and reservation of business names, obtaining single business permits (Nairobi), registration for NHIF and NSSF and assessment payment of stamp duty. The services are, however, not comprehensive from a business point of view as an entrepreneur would be forced to visit other agencies to ensure statutory requirements are addressed especially as regards licensing.

8.3.3 Trade licensing

Trade licensing is a function of the County governments. A number of counties have subsequently introduced relevant laws establishing trade licenses and the fees. Nairobi Country, for instance, enacted the Nairobi City County Finance Act No. 2 of 2013, which provides the licensing framework, fees and charges for Nairobi. This, however, saw an increase in most of the fees and charges in Nairobi previously provided as Single Business Permit. A number of sub-sectors were affected by a 50 per cent license fee increase, for instance:

- Medium trader shop or retail service: 5-20 employees and/or premises of 50-3000 square metres;
- Medium communications company: 21-40 employees and/or premises of 300-500 square metres;
- Small private health facilities with up to 10 beds; and
- Medium workshop/service/repair contractor with 6-20 employees and or premises of 25 square metres to 500 square metres.

Nairobi further introduced an e-payment system under Nairobi County Web Portal. This is expected to introduce efficiency and lower transaction costs.

The 2014-2015 Budget Statement recognized the importance of the e-Registry in facilitating trade licenses for small scale businesses, noting that it would be made fully operational in 2014/2015. The registry was introduced following the recommendation in 2006 by the Working Committee on Regulatory Reforms for Business Activities in Kenya, but is yet to be fully operationalized. The e-Registry, for instance, is not comprehensive. For the licenses hosted, however, an entrepreneur can easily access relevant licensing requirement as well as the relevant forms electronically without having to physically visit the relevant licensing authority.

8.3.4 Business environment

The Micro and Small Enterprise (Amendment) Bill 2015 was introduced at the Senate to amend the Micro and Small Enterprises Act (No. 55 of 2015) by revising the definition of "micro enterprise" to include informal sector enterprises that do not have a specific location. The current definition of micro enterprises established two criteria: annual turnover does not exceed Ksh 500,000; employs less than 10 people and whose total assets and investment of a specific level; that for manufacturing sector firms should not exceed Ksh 10 million, those in service Ksh 5 million. The Bill proposed including a third category of enterprises - informal sector. No asset limit is established but a detailed description is provided: "where the enterprise does not operate from a designated location, including vendors, hawkers, market traders, livestock traders, fishmongers, artisans, handcraft traders, sand harvesters, cyclists and public transport operators."

The Amendment Bill further establishes cooperation between the Micro and Small Enterprise Authority and the county government.

The 2013 Budget Statement introduced the establishment of a Biashara Kenya Bill aimed to benefit the MSE sector. It states that: "through the enactment of Biashara Kenya Bill now under formulation, we shall provide a one-stop shop solution to all small and medium size enterprises covering the entire business chain – such as skill and business development, product standardization and branding, access to credit, business incubation services, and market access.

The Biashara Kenya is also presented in the Second Medium Term Plan 2013-2017 as a strategy to provide funding and leverage investment for the sector by transforming the Youth Enterprise Development Fund and the Kenya Industrial Estates into a new national enterprise. The MTP II further widens the scope of the fund to include enterprise parks targeting the youth.

8.3.5 Incubation services

A number of universities in Kenya offer incubation services, including University of Nairobi's School of Computing and Informatics (C4DLab), Strathmore University's iLab, Kenyatta University's Chandaria Business Innovation and Incubation Centre to name a few. In 2015, University of Nairobi launched Africa Technology and Innovation Accelerator (AfTIA) aimed at enhancing the University's capacity to incubate and accelerate business start-ups. Some of the challenges facing MSEs in Kenya relate to limited access to appropriate technology, infrastructure and business support services. Further, MSEs experience a low survival rate, whereby a number shut down within just a few years of operation (Government of Kenya, 2005). The Government of Kenya has started to acknowledge the important role played by incubators as evidenced in the National Industrialization Policy Framework for Kenya, which calls for the enactment of National Industrial Incubation policies.

8.3.6 Other initiatives

In July 2015, Kenya hosted the 6th Annual Global Entrepreneurship Summit, which brought together business leaders, government officials, investors and entrepreneurs. This was the first summit held in Sub-Saharan Africa. During the Summit, President Barack Obama, the President of the United States of America, made a number of financial commitments from banks, foundations and philanthropists from the USA to support Kenyan entrepreneurs and social enterprises. The support is, however, not limited to finance as it includes technical and incubation support. A number of entrepreneurs were showcased during the Summit, presenting a picture of innovative youthful entrepreneurs in Kenya.

8.4 Outstanding Challenges

Despite the past and ongoing policy reforms, the process and costs associated with starting a MSE in Kenya is high. There is multiplicity of agents to interact with in the course of business, such as Registrar of Companies, county governments, licensing agencies, Kenya Revenue Authority (KRA), the National Social Security Fund (NSSF), and the National Hospital Insurance Fund (NHIF). Most procedures have to be undertaken at the respective government agent, which introduces inefficiencies and increases transaction costs. The Huduma centres are providing some assistance but not all business-related public sector services are available.

As noted earlier, the government introduced a licensing e-registry, which has improved service delivery to some extent, given that an entrepreneur can obtain the license application form and licensing requirements for the single business permit online. However, the action is limited to downloading the application form. The entrepreneur is not able to submit the application or make payments online using the licensing e-registry.

The regulatory costs typified by the increased licensing costs introduced by the Nairobi City County Finance Act No. 2 of 2013 are likely to have an adverse effect on MSEs operating from Nairobi. The government has further recognized this challenge, and aims to ensure that regulatory fees and charges are rationalized in the 2014/2015 Budget Statement.

8.5 Good Practice: Country Reviews

Inefficiencies have a higher impact on MSEs compared to larger enterprises due to the costs they impose on the enterprise. The government, therefore, places an important role in providing a good working environment for MSEs, especially as regards business registration and licensing activities. A review of the business registration procedures and reforms introduced in the selected countries considered top performers, according to the World Bank Doing Business surveys, are summarized below:

Table 8.1: Business registration

Practice	Relevant procedures and reforms
Automation of starting business and related services	• In 2003, Singapore implemented Bizfile, an integrated internet-based online registration, filing and information retrieval system. The implementation of Bizfile reduced costs of starting business and facilitated updating of information upon successful filing from 2-3 weeks to within 30 minutes (World Bank, 2008). • Mauritius implemented the Companies and Business Registration Integrated System (CBRIS), which is a web-based portal where entrepreneurs can incorporate a company, file statutory returns, pay fees, register businesses and search for diverse business information electronically. • For Rwanda, there is no fee for online registration.
Consolidation of starting business procedures through one-stop shop	• In Rwanda, the Rwanda Development Board, which was established in 2008 consolidated several government agencies. The Board is based in Kigali, but has eight district offices. Application forms are consolidated through one-stop shop. • Singapore in 2004 merged the Registry of Companies and Business (RCB) and the Public Accountants Board (PAB) to form the Accounting and Corporate Regulatory Authority (ACRA) to provide a one-stop shop for entrepreneurs. ACRA performs both administrative and advisory services.
Facilitation of parallel procedures	• In Mauritius, payment of license fees, registration with social security service and preparation of company seal are done concurrently to shorten the time associated with starting a business.

Practice	Relevant procedures and reforms
Simplifies incorporation documents.	• In Rwanda, one application form is used to capture all the information required by the relevant agencies. • Furthermore in Rwanda, the business registration number (unique enterprise code) is also the tax identification number. • In 2010, Singapore simplified business start-up procedures by introducing a single simple online form to incorporate the company and register for taxes simultaneously.
Costs[4]	• According to the World Bank , majority of the top ten economies charge a fixed registration fee that is limited to administrative costs. The size of the business or nominal share capital is not considered.

Source: KIPPRA (forthcoming), Starting a Business in Nairobi in 2014

An important reform activity that governments have introduced to improve the business environment is the merging or integrating of government agencies offering business services with the aim of introducing efficiency as established in Rwanda, Singapore and Mauritius. This has the added advantage of lowering transaction costs associated with enterprises meeting statutory obligations.

8.6 Policy Recommendations

There is a need to reduce the costs associated with registering a business. As indicated earlier, informality is a persistent challenge that plagues these enterprises. With the enactment of the Companies Act No. 17 of 2015, transaction costs associated with business registration are expected to reduce given the provision for electronic documentation and the introduction of model articles of companies. The full operationalization of the Companies Bill should therefore be prioritized.

Transaction costs associated with registering a business could be further mitigated through a one-stop shop for MSEs. The Huduma centres should be enhanced and facilitated to host all relevant business registration service providers, including the business registration service. The implementation of e-registry would be beneficial in licensing, given that a business operator would have the option of using the e-registry without having to physically visit the relevant licensing agencies.

As much as the government has embarked on integrating business registration services through the Business Registration Service Act 2015, this is limited to business registration and further to formal enterprises. Other business services such as registration of tax with revenue authorities, national social security and national health insurance are not included. The government should, therefore, prioritize further integration of relevant business services provided by the government.

Finally, there is need to review the requirements for incubation services appropriate for MSEs while developing the national industrial incubation policy to ensure that the provisions are effective in addressing the needs of the business start-ups.

Endnotes

1. As governed by the Registration of Business Names Act; the Limited Partnership Act; The Partnerships Act; and the Companies Act.
2. See the Income Tax (Turnover Tax) Rules, 2007 section 6(4) and section 7(1), respectively.
3. As provided in business name, bankruptcy, societies, hire purchase, trade unions, chattels transfers adoptions, coat of arms, books and newspapers, the national flags emblems and names laws.
4. Good practices available from http://www.doingbusiness.org/data/exploretopics/starting-a-business/good%20practices

Chapter 9

Trade and Foreign Policy

9.1 Introduction

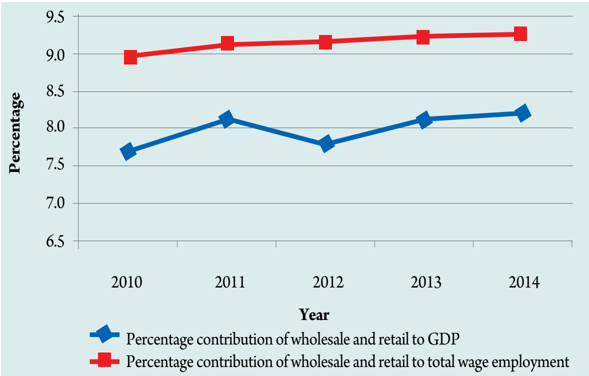
This chapter provides an analysis of Kenya's performance in domestic and international trade. In particular, it focuses on the contribution of domestic trade to GDP and wage employment; the structure of exports and imports; and export destination and sources of imports in both regional and international markets. On foreign policy, Kenya's peace diplomacy and economic diplomacy are evaluated in the light of Kenya's new foreign and diaspora policy documents launched in January 2015.

9.2 Domestic Trade

Domestic trade in Kenya constitutes distribution, wholesale trade and retail Trade. The wholesale trade entails distribution of merchandise received from producers and manufacturers. It involves supply of merchandise to the retailers, market support services and provision of market logistics. The retail sector, on the other hand, entails the sale of merchandise with minimal transformation and provision of services related to the same. By virtue of being the last point of distribution in the supply chain, retailers normally sell goods in smaller quantities as compared to the manufacturers, producers and wholesalers.

The sector's percentage contribution to GDP exhibited an upward trend from 2010 onwards, except for the dip it took in 2012. As from that point up to 2014, the sector has consistently increased its percentage contribution to GDP. The contribution to GDP in 2010 was 7.7 per cent, which increased to 8.1 per cent in 2011 only to dip in 2012 by 0.3 percentage points. It eventually improved to 8.2 per cent by the year 2014. Despite the improved performance since 2013, a study by KIPPRA in 2015 revealed that the new county administrative system has posed a major challenge especially to the informal traders and small and medium scale enterprises. The need for revenue generation has resulted into the county governments imposing a number of trade taxes and levies, thereby creating an environment that affects business growth. New levies such as inter-county trade licenses have been introduced while, on average, the cost of the Single Business Permit has risen threefold in most counties. The cost of doing business has thus increased amid complaints from the business people.

Figure 9.1: Wholesale and retail sector contribution to GDP (%) and percentage contribution to total wage employment



Data Source: KNBS (2015)

Figure 9.1 shows that the sector's percentage contribution to employment generation has been increasing over time. The sector maintained its position as one of the highest generator of wage employment in Kenya, with contribution to total wage employment increasing from 8.96 per cent in 2010 to 9.24 per cent in 2014. Buoyed by the growth of the middle income class, the country has witnessed an upsurge in the number of supermarkets and retail stores in the recent past. A number of supermarkets have opened up new branches in various parts of the country, and this partially explains the growth in employment within the sector. Apart from that, new entrants especially medium and small scale enterprises, have contributed heavily to wage employment generation in this sector. On the downside, establishment of supermarkets within residential areas poses a threat to the growth and development of small retail shops located there. This is because customers prefer to purchase basic commodities from the supermarkets, leaving the small retailers disadvantaged.

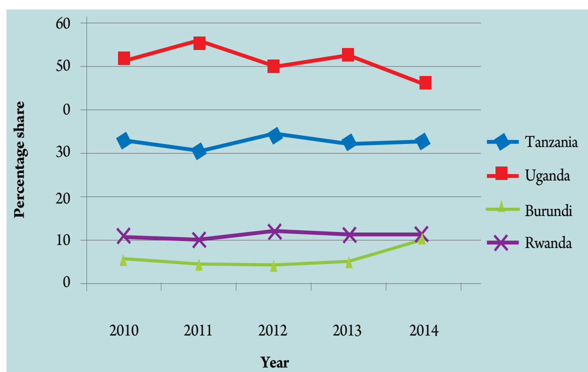
The wholesale and retail sector is a key sector in the Kenyan economy. According to the draft National Trade Policy (Government of Kenya, 2009), the government intended to do away with legislation that was not based on health, security and environment in order to create a conducive environment for growth in the wholesale and retail sector. However, with the inception of a devolved system, the implementation of the above will now be within the jurisdiction of the respective county governments.

9.3 Regional Trade

9.3.1 East African Community

The East African Community (EAC) comprises Kenya, Uganda, Tanzania, Rwanda and Burundi. The EAC integration is meant to deepen the region's growth and development. The major achievements under the economic pillar have been the establishment of the Customs Union in 2005, the Common Market in 2010, and the signing of the Monetary Union Protocol in 2013. Other notable achievements include reduction of national trade barriers, implementation of preferential tariff discount, and free movement of stocks, among others.

Figure 9.2: Kenya's exports to EAC partner states (% share)

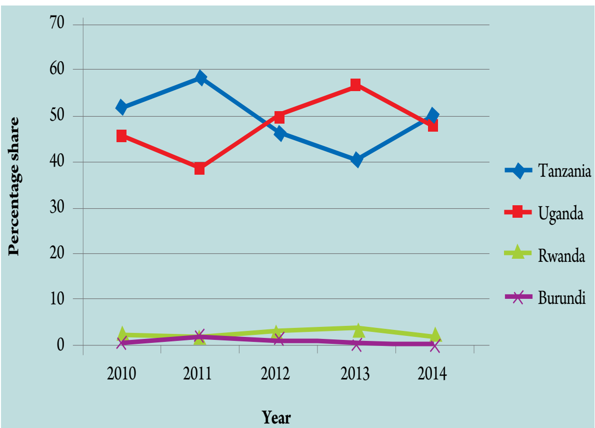


Source: KNBS (2015)

The EAC is the leading destination for Kenyan exports. For example, in 2014, Kenya's exports to EAC comprised 52 per cent and 23 per cent of its total exports to Africa and the rest of the world respectively (KNBS, 2015). Of the 52 per cent exports to Africa, 48, 34, 11 and 6 per cent went to Uganda, Tanzania, Rwanda and Burundi, respectively (Figure 9.2). Between 2013 and 2014, Kenya's exports to EAC declined slightly.

This could be attributed to a number of reasons, including relocation or closing of some firms from Kenya, such as Eveready and Cadburys, due to unfair competition, among other factors. Likewise, a number of Kenyan firms have established subsidiaries in Uganda and Tanzania, for example in cement and steel manufacturing. Besides that, stiff competition from Chinese and Indian products may also have affected the demand for Kenyan products in the EAC. Kenya's major exports to Uganda comprise lime, cement and fabricated materials.

Figure 9.3: Kenya's imports from the EAC states (% share)



Source: KNBS (2015)

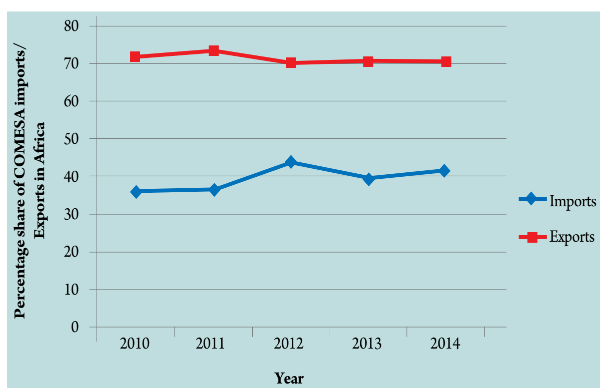
On the other hand, Kenya's imports (Figure 9.3) from the EAC grew by approximately 27.2 per cent in 2014 from Ksh 28,811 million in 2013 to Ksh 36,659 million in 2014. Most of these imports were mainly from Uganda and Tanzania, whose exports into Kenya jointly amounted to Ksh 35,914 million. The share of imports from Tanzania increased to 50 per cent in 2014 from 40 per cent in 2013. From Uganda, Kenya mainly imports tobacco, raw cane sugar and unmilled maize, while from Tanzania, unmilled maize was the major import commodity. The increase in imports is as a result of the country's inability to produce adequate supply of particular commodities such as sugarcane to satisfy local demand.

9.3.2 Common Market for Eastern and Southern Africa

The Common Market for Eastern and Southern Africa (COMESA) economic community comprises 19 member countries: Burundi, Comoros, DRC Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Seychelles, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. The regional bloc is one of the most important export destinations for Kenya's exports in Africa. Even though the region accounted for approximately 70.7 per cent of exports to Africa, there has been a decline in Kenyan exports to the country's main trading partners within COMESA in 2014 (Figure 9.4).

In 2014, the total import bill from COMESA countries accounted for 41.3 per cent of the total import bill from Africa, amounting to Ksh 60,361 million. This was an increase from the Ksh 58,265 million registered in the previous year. During this period, Egypt remained the major source of Kenya's imports within the region, exporting to Kenya goods valued at Ksh 25.5 billion. The trade balance improved in 2014 following the consistent decline observed between 2011 and 2013.

Figure 9.4: Kenya's percentage share of COMESA imports and exports within Africa



Data Source: KNBS (2015)

The country's trade performance within the COMESA region has been impressive, going by the positive trade balance between 2010 and 2014.

Kenya's main export products to the COMESA region have been manufactured goods. These are cement, lubricating greases, palm oil and salt, among others. Kenya's imports from COMESA comprise raw sugarcane, cleansing preparations, napkins, napkin liners and sanitary materials, among others. Despite the positive trade balance, Kenya has seen some level of decline in exports due to competition from other countries such as China and the EU. The country needs to increase the number of manufactured products in order to effectively maximize on the COMESA agreement.

On sugar imports from COMESA, Kenya has benefitted since 2003 from sugar safeguard measures under Article 61 of the COMESA Treaty to allow the domestic sub-sector time to grow and become competitive. In effect, Kenya has exhausted the maximum allowable safeguard period of 10 years. Sugar is a sensitive product for Kenya with regard to trade relations with COMESA, given that sugarcane growing is the main economic activity for farmers in Western parts of the country. In 2014, Kenya obtained a further one year extension of the sugar safeguard. In obtaining the safeguards, the Kenya government committed itself to undertake the following reforms: the privatization of state-owned millers; the adoption of a cane pricing formula; the adoption and implementation of an energy policy to facilitate co-generation of electricity and ethanol production; and substantial infrastructure development fund (partly financed with EU support). The one year sugar safeguards extension granted in 2014 expired at the end of February 2015 and was again extended in March 2015 for one year. Kenya sought for extension of the safeguards because the government contends that the sector is not yet ready for competition with duty-free imports of sugar. The country is unable to compete with duty free imported sugar because inefficiencies at grower level increase the cost of production, leading to low supply of cane to local millers. These inefficiencies account for the high production costs of local sugar and eventually render the commodity's final price uncompetitive. The extension is meant to give the country adequate time to implement reforms that include privatization of state-owned sugar mills; conducting research on new early maturing, high cane sucrose content varieties; and paying farmers on the basis of sucrose content instead of weight.

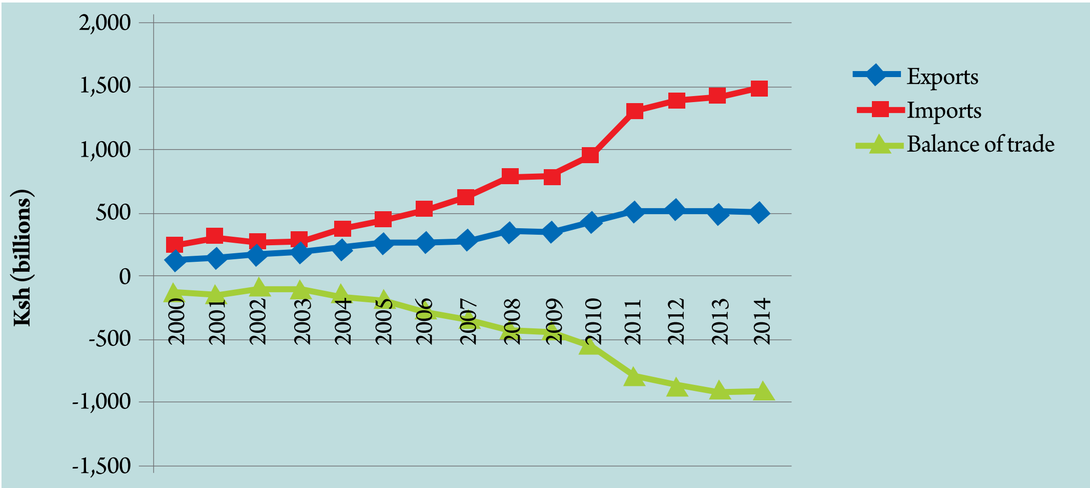
9.3.3 Tripartite Free Trade Area

The Tripartite Free Trade Area (TFTA) was launched on 10th June 2015 to address the issue of overlapping and often conflicting preferential free trade regimes. This agreement brings together three major regional economic blocs in the continent: Common Market for Eastern and Southern Africa (COMESA), East Africa Community (EAC) and Southern African Development Community (SADC). This measure was taken to boost the performance of intra-regional trade, something which was previously undertaken by the respective regional trade agreements. It is expected that the new bloc's population of 626 million people will provide a good platform for trade and economic cooperation to thrive. The bloc, however, has a long way to go since there are quite a number of issues to be resolved for its economic impact to be felt. These are for example: Rules of Origin, trade exemptions and trade liberalization, among others. It is important for the respective member states to sensitize its citizens on the possible benefits of the TFTA.

9.4 International Trade Performance

The gap between exports and imports for Kenya has been widening over time, worsening the balance of trade (Figure 9.5). The gap between exports and imports was lowest in 2002 and started widening rapidly from 2010 to 2013. A possible explanation for the widening trade gap for Kenya can be derived from the nature of exports and imports. The large import bill relative to exports can partly explain why the exchange rate has become volatile. Kenya exports mainly primary commodities (Figure 9.6) but imports high value and manufactured

Figure 9.5: Kenyan exports, imports and balance of trade (Ksh billions), 2000-2014



Data Source: KNBS (Various years), Economic Survey

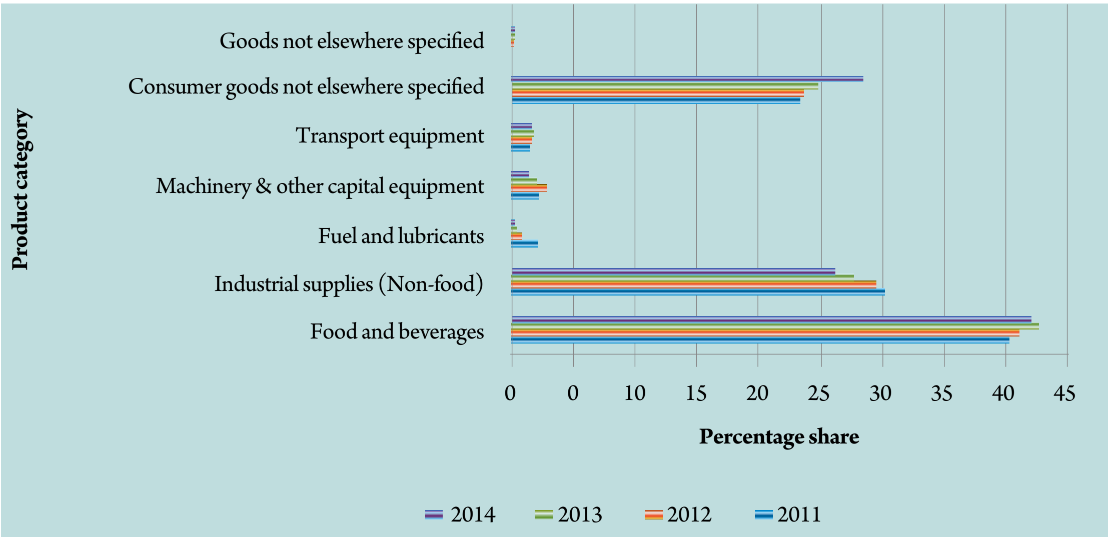
products. This reflects a structural weakness of the Kenyan economy, which has not diversified exports. However, this does not necessarily imply that agricultural commodity exports should decline, but the range of products for export should be increased.

Primary commodities are prone to price fluctuations in the international market. Growth of imports could be explained by increased demand for capital goods, especially for infrastructure development such as roads, railways and geothermal development and also the rising middle income earners with sophisticated tastes for imported products.

9.4.1 Export structure

Kenya exports largely food and beverages, accounting for more than 40 per cent of exports as shown in Figure 9.6. Since independence, Kenya's main exports have been tea, coffee and horticulture.

Figure 9.6: Structure of Kenyan exports (% share), 2011-2014



Data Source: KNBS (2015)

9.4.2 Destination for Kenyan exports

In 2014, the top five export destinations for Kenyan commodities were Uganda, Tanzania, The Netherlands, United States, and United Kingdom, in order of highest volume to the lowest. Exports to Uganda declined in 2014 relative to 2013 while exports to Tanzania and United Kingdom remained flat over the same period. However, there was significant growth of exports recorded in 2014 compared to 2013. Exports to Uganda could have declined because, just like Kenya, Uganda imports refined oil products from the international markets because the oil refinery at Mombasa is no longer in operation. Another possibility is that some of the Kenyan companies have subsidiaries in Uganda, which reduces the need to import. It is important to note that the two countries that are the leading export destinations (Uganda and Tanzania) are in the EAC, highlighting the importance of regional trade for the Kenyan exports.

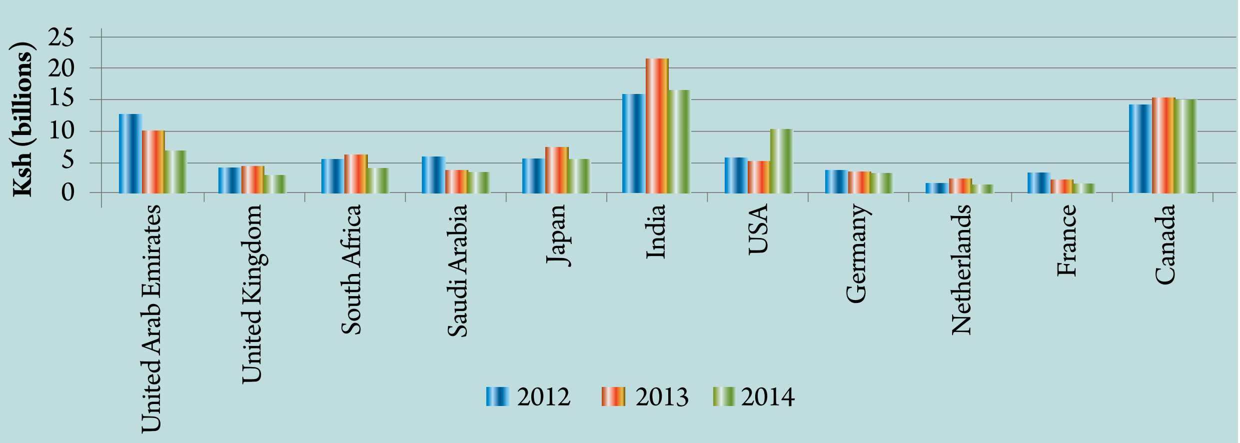
9.4.3 Import structure

Kenyan imports comprise industrial supplies, fuels and lubricants and machinery and other capital equipment. With such high value imports relative to the low value export products, Kenya has been witnessing worsening trade balance over time. In 2014, Kenya imported from India, China and United Arabs Emirates at volume rates of 16.3, 15.4 and 6.4 per cent of its total imports, respectively. Imports from India were mainly textiles, machinery and motor vehicles and pharmaceuticals, while Chinese imports constitute motor vehicles, heavy machinery and textiles. Kenya imports very little from Africa, with the exception of South Africa, which accounts for 4 per cent to the total imports as shown in Figure 9.7.

9.4.4 Exports and terms of trade

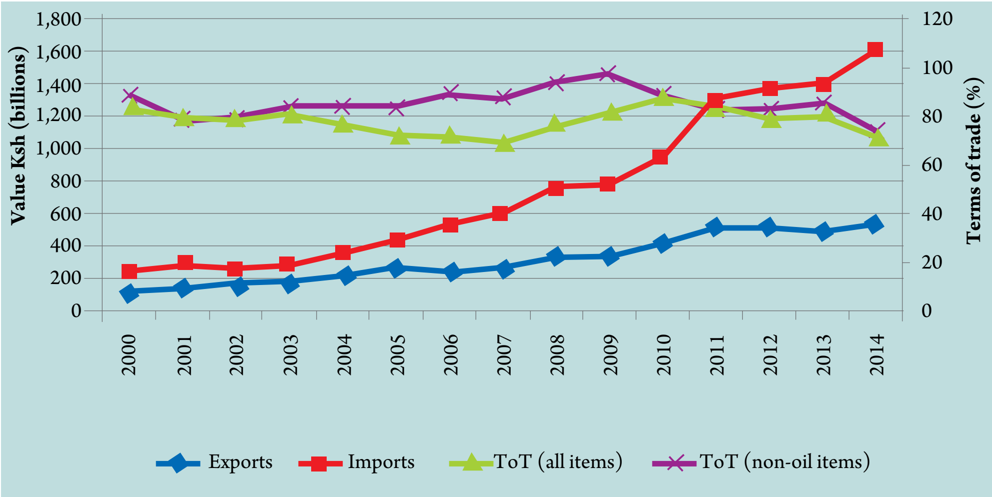
A term of trade (ToT) is a measure of the rate of change of one good or service for another when one or two countries trade with each other. It is computed as the ratio of export price index to import price index. For a country's participation in international trade to be considered to be beneficial, the ToT should be within the opportunity cost ratios for the trading partners. When export price rises faster than import prices, the ToT index will rise. This implies that fewer exports have been given up in exchange for a given volume of imports. On the other hand, when import prices rise faster than export prices, the ToT deteriorates, meaning that a larger volume of exports have to be sold to finance a given amount of imports. From the foregoing, it is apparent that exchange and inflation rates can affect the direction of the ToT.

Figure 9.7: Source of Kenyan imports (monthly average, Ksh billions), 2012-2014



Data Source: KNBS (2015)

Figure 9.8: Kenyan exports and imports of goods (Ksh billions) and terms of trade (%), 2000-2014



Data Source: KNBS (Various years), Economic Survey

According to Figure 9.8, Kenya's ToT has been deteriorating because its export prices are highly susceptible to the volatility of the international commodity market. Moreover, import prices, on average, are relatively higher than export prices. Declining ToT has serious implications on macroeconomic stability, and thus the welfare of Kenyans.

9.4.5 Trade between Kenya and the United States

The Africa Growth and Opportunity Act (AGOA) is an American legal framework aimed at encouraging export-led growth and thus economic development for Sub-Saharan Africa (Williams, 2015). It is a non-reciprocal trade preference scheme to eligible African countries and it offers duty free access to some 7,000 tariff lines (at the HS8-digit level) into the US market.

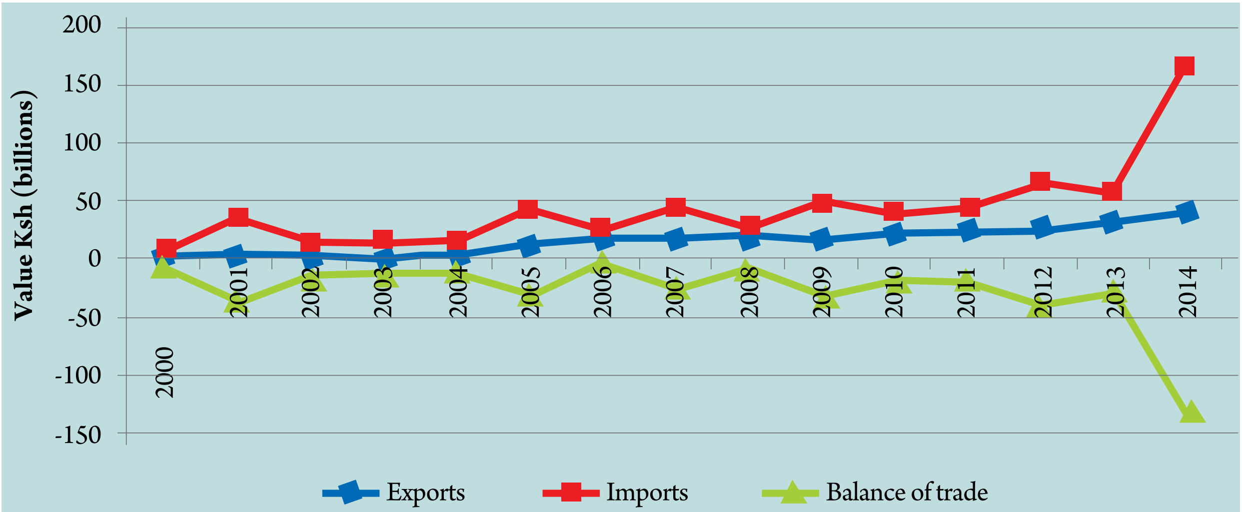
Kenya is a major beneficiary of AGOA as evidenced by a steady rise of Kenyan exports to the US (Figure 9.9), largely driven by exports of textiles, which comprised about 62.8 per cent of Kenya's total exports to US in 2014. Other important exports by Kenya to the US include green coffee, nuts, tea and steel making materials. Together with apparels, these products comprised 83.0 per cent of Kenya's exports in 2014. This illustrates high concentration of exports in a few products despite the fact that Kenya can export about 7,000 products under AGOA.

In 2014, there was 152 per cent increase of Kenya's imports from the United States, which mainly comprised civilian aircraft, engines and equipment parts. Other imports included drilling and oil equipment, pharmaceutical preparations, telecommunications equipment, newsprint, and wheat. Such unexpected surge of imports deteriorated the balance of trade as shown in Figure 9.9.

9.4.6 Trade between Kenya and the European Union

Kenya was negotiating the European Partnership Agreement (EPA) under the umbrella of the EAC. The EPA negotiations were in trade in goods, but future negotiations are likely to be opened in the area of trade in services, labour and environmental issues. The EPA was initialed on 14th October 2014 by all the five EAC partner states. The agreement is now undergoing legal scrubbing for it to be signed and finally ratified by both the EAC and the EU.

Figure 9.9: Trade between Kenya and the United States (Ksh billions), 2000-2014



Data Source: KNBS (Various years), Economic Survey

Undoubtedly, the concluded EPA trade arrangement will generate opportunities of global market accessibility. However, for Kenya to benefit from such a trade arrangement, it must address the following challenges (Condon and Stern, 2011). First, the supply-side constraints should be addressed to reduce production costs. Second, the nature and flexibility of rules of origin applicable will be key in reducing the cost of production. Third, there is need to pay close attention to the scale and longevity of the preferences.

Kenya's access to the EU market is declining and will continue to decline in future because of three reasons. First, international trade negotiations under the auspices of the WTO have served to reduce tariffs and other barriers to international trade. Second, the EU has over time been negotiating bilateral trade arrangements with other countries and regions of the world, such as Colombia, which is a large-scale producer of cut flowers as Kenya. Third, the Common Agricultural Policy (CAP) reforms by the EU have had the effect of lowering commodity prices in the European internal market. This is especially the case as regards agricultural products. This lowers the prices that Kenyan producers face in the EU market.

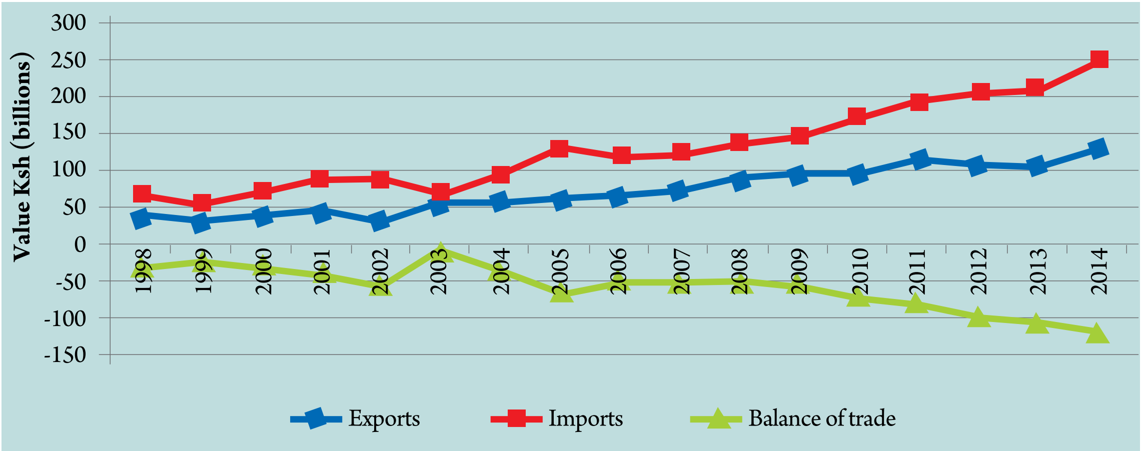
In spite of trade preferences that Kenya has been enjoying in the EU market, imports are growing more than exports, worsening the balance of trade (Figure 9.10). This indicates that while trade preferences are important for trade, the ability to export cannot be guaranteed or be realized automatically but it has to be developed.

9.5 Kenya's Foreign Policy

9.5.1 Introduction

After years of concerted efforts, Kenya Foreign Policy and Diaspora Policy documents were launched in January 2015. This was a landmark in the country's international relations as the two policy documents are critical in shaping and guiding the country's engagement with the external environment. Kenya's new foreign policy orientation champions pan-African ideals through the promotion of regional and continental integration and emphasizing intra-African trade as one of the cornerstones of the continent's socio-economic and political unity. Similarly, Kenya recognizes that the achievement of its national interests is intrinsically linked to Africa's stability, peace, unity and prosperity. As a result, Kenya hopes to engage actively in the AU's emerging governance, peace and security

Figure 9.10: Kenya's exports, imports and balance of trade with the EU, 1998-2014 (Ksh billions)



Data Source: KNBS (Various years), Economic Survey

architecture that are central to Africa's stability and sustainable development. Kenya has also played an important role in the development of AU's Agenda 2063, which was adopted in January 2015 during the 24th AU Summit in Addis Ababa, Ethiopia.

9.5.2 Peace diplomacy

Kenya plays a significant role in promoting peace, security and stability in the continent, especially in the Horn of Africa and the Great Lakes region. Security and peace challenges in the region include terrorism, armed conflicts, proliferation of illegal firearms, and transnational crimes such as money laundering, human and drug trafficking and poaching. Kenya is increasingly becoming a strategic state in the war against international terrorism in the Eastern African region. In September 2014, Nairobi hosted the Peace and Security Council Summit to discuss terrorism menace in Africa. Kenya is also among the six African countries that will benefit from the US' Security Governance Initiative (SGI). The SGI was launched after the US-Africa Leadership Summit in August 2014 in Washington DC. It is a form of counter-insurgency programme whose main goal is to strengthen economic development by enhancing security. Kenya Defence Forces' engagement in Somalia under the African Mission in Somalia (AMISOM) peace enforcement is a radical shift from traditional peacekeeping to a more robust engagement in which the KDF have played a major role in downgrading the Al-shabaab threats in Southern Somalia (Kenya Defence Forces, 2014).

Kenya is a central actor in finding a lasting solution to the South Sudan conflict and is working closely with Inter-Governmental Authority on Development (IGAD). Kenya's South Sudan policy is guided by the desire for stability necessary in securing her economic interests and growing diplomatic profile in the region and beyond (International Crisis Group, 2015). In addition, Kenya has been instrumental in the formation of the East African Standby Force (EASF), which officially became operational in December 2014. The EASF comprises 10 countries in the Eastern African region and is one of the regional Peace Support Operations (PSOs) of the African Standby Force (ASF), comprising military, police and civilian units. The countries comprising the EASF are Kenya, Ethiopia, Burundi, Comoros, Djibouti, Rwanda, Seychelles, Somalia, Uganda and Sudan. The ASF is one of the key pillars of the African Peace and Security Architecture that was established in 2002.

Other Kenyan engagements on peace diplomacy pillar in the review period include Kenya's contribution to the peace fund aimed at developing African military capabilities, a pledge of US$ 1,000,000 in early 2015 to support the establishment of African Union Court of Justice, and the contribution of military troops, police and other personnel to various missions including African Mission in Somalia (AMISOM), the United Nations Mission in South Sudan (UNMISS), United Nations - African Union Mission in Darfur (UNAMID) and the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA).

9.5.3 Economic diplomacy

Economic diplomacy seeks to realize a robust and pragmatic economic engagement between Kenya and the rest of the world. Kenya is a key driver of the EAC integration process. The EAC partner states have deepened regional integration through implementation of single customs territory, single tourist visa and removal of work permit fees among some EAC states in the last one year. The EAC has also made significant progress in infrastructure development projects, especially the ongoing construction of Standard Gauge Railway from Mombasa to Nairobi, the refurbishment of the Northern Corridor, expansion of the Port of Mombasa and the ongoing work on Lamu Port South Sudan-Ethiopia-Transport (LAPSSET) corridor, among others. In January 2015, Kenya, Uganda and Rwanda launched One Area Network Agreement (OANA) that aims at lowering the cost of cross-border communication services. Furthermore, the EAC telepresence video conferencing was launched in February 2015 during the 16th Ordinary Summit of the EAC Heads of State in Dar es Salaam, Tanzania. The various integration activities undertaken are in line with Kenya's policy of regionalism and economic diplomacy objectives. The establishment of a single window custom clearing system and one stop border post has reduced transit time for transportation of goods between Kenya, Uganda and Rwanda.

Kenya has also enhanced her economic diplomacy and development agenda in the review period by deepening bilateral ties with a number of countries through State visits, high-level business forums/ delegations and signing of Memorandums of Understandings (MoUs), agreements and Joint Commission for Cooperation. Some of the major achievements in bilateral arrangements in 2014/2015 include signing of Kenya-China Memorandum of Understanding on Establishing a Bilateral Steering Committee (BSC); Kenya-Sri Lanka agreement on the avoidance of double taxation and agreement on reciprocal promotion and protection of investment; Kenya-Egypt Joint Commission for Cooperation under which two agreements and three MoUs were signed; the signing of the Bilateral Air Services Agreement (BASA) between Kenya and Vietnam, leading to Kenya Airways flights from Nairobi to Hanoi; reinstatement of Kenya Airways frequencies to Tanzania that had been reduced from 42 to 14; Kenya-Denmark policy paper on cooperation on health sector, green growth development; and promotion of regional security. Kenya also signed five agreements with Chile (Government of Kenya, 2015).

9.5 Conclusion

The wholesale and retail sector is a major contributor to Kenya's GDP growth. In addition, it is a major employer considering that most medium and small scale enterprises take part in this sector. This sector therefore has greater potential for growth and employment generation.

On regional trade, Kenya seems to be losing grip of its traditional regional export markets (EAC and COMESA) to countries such as China and India. Products from both countries are providing stiff competition in Kenya's leading export destinations. Kenya enjoys preferential market opportunity in the EU under the EPA and in the US under the AGOA. However, trade preferences alone cannot change the export structure. Kenya has been unable to take advantage of these trade preferences to develop new products for export, or increase the volume of the existing ones. Given that the EU and the US are signing trade agreements with other countries and regions of the world, this implies that Kenya has to work on its competitiveness because preference margins in these markets will continue to decline.

Kenya's new foreign policy is expected to enhance the country's multidimensional engagement with the rest of world if the policy is effectively implemented. Currently, Kenya is positioning herself as an anchor state in Eastern and Central Africa due to vibrant peace diplomacy and economic diplomacy. While the region has potential for faster economic growth and development, armed conflicts, terrorism, and transnational crimes remain a major challenge to regional peace, security and peace.

9.6 Policy Recommendations

It is important for the government, both national and county, to create a conducive environment for domestic trade to thrive by improving the infrastructure to be used by business people. Specifically, there is need to construct market facilities at strategic locations in order to improve business for the wholesale and retail sector. Secondly, there is need for tax harmonization at the national and county government in order to deal with the rampant double taxation at county level. Third, there is need to reduce the bureaucracy of business registration process. Finally, to enhance its regional competitiveness in maize and sugar, Kenya must reduce production costs, including raising value addition to a level that competes with Chinese products.

World trade is more competitive today than in any other period, thus for Kenya to benefit from trade preference schemes such as the AGOA and EPAs, there is need to enhance the capacity to export, and also develop new products. There should be concerted effort to increase the volume of the traditional exports such as tea, horticulture and coffee.

On foreign policy, Kenya should be in the fore-front in enhancing peace and security in the region. The deployment of more security officers to man the Kenya-Somalia border, the involvement of local border communities in community policing, and engaging the youth in border towns of Garissa, Wajir, Lamu, Mandera counties in economic activities will go a long way to contain the Al-shabaab insurgents. Kenya should also seek support from countries such as Israel, US, Saudi Arabia that have ably dealt with cross-border terrorism.

Chapter 10

Financial Services

10.1 Introduction

Kenya's financial sector is composed of banking, capital markets, insurance, pension schemes, and Savings and Credit Cooperative Societies (SACCOs). Informal financial services such as Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs) are also part of the sector. The sector has a significant developmental role in the economy, especially in mobilizing savings to finance investments. In 2014, the sector grew by 8.3 per cent compared to 8.1 per cent in 2013. The sector's contribution to Gross Domestic Product also increased to 6.7 per cent in 2014 from 6.6 per cent in 2013 (KNBS, 2015). As more reforms continue to be undertaken, the sector's contribution to GDP is likely to keep on increasing.

10.2 Structure of the Sector

In 2014, the financial sector comprised 43 commercial banks, 1 mortgage finance company, 8 representative offices of foreign banks, 9 micro-finance banks, 87 foreign exchange bureaus, 13 money remittance providers and 2 credit reference bureaus (Central Bank of Kenya, 2015a). In the same period, there were 49 insurance companies, 198 licensed insurance brokers, 29 medical insurance providers (MIPs) and 5,155 insurance agents. Other insurance players included 133 investigators, 108 motor assessors, 25 loss adjusters, 2 claims settling agents, 8 risk managers and 24 insurance surveyors (Association of Kenya Insurers, 2015). The pension industry had 1,232 retirement benefit schemes, 19 registered fund managers, 29 administrators and 10 custodians (Retirement Benefits Authority, 2014a). Nairobi Securities Exchange (NSE) is the only stock market in Kenya. In 2014, 184 SACCOs had been licensed as deposit takers (SACCO Societies Regulatory Authority, 2014a).

10.3 Policy Changes

Transparency in pricing of banking services was introduced in 2014 through reference interest rate called Kenya Banks Reference Rate (KBRR). The KBRR is an average of Central Bank Rate (CBR) and the 91-day Treasury bills. The new pricing window allows the borrowers to compare and negotiate lending rates across banks. Such exercise promotes transparency and competition in the pricing of credit. The use of the all-inclusive annual percentage rate (APR) in loan pricing was also rolled out to supplement the KBRR. Banks are mandated to explain to their customers and the Central Bank of Kenya (CBK) the composition of the premium they charge above KBRR. The details of the premium will periodically be published by the CBK on its website.

The CBK signed a memorandum of understanding with the Competition Authority of Kenya (CAK) to provide a framework for collaborative engagement of the two institutions on matters of competition and other issues. While National Payments System (NPS) Act was operationalized in 2014 through a legal notice (Government of Kenya, 2014a), the East Africa Payment System, which went live in 2013 was officially launched in 2014 (CBK, 2015c). The payment system is part of a wider plan to interlink commercial banks in the region in order to address deficiencies in the current cross border payment methods through enhanced efficiency and risk controls.

The Credit Reference Bureaus (CRBs) can now use agents to deepen their services across the country. CRBs can now sub-contract agents to deliver credit reports to the public on request, and also receive complaints. In addition, the Credit Reference Bureau Regulations 2013 mandate microfinance banks to participate in credit information sharing. Further, banks and microfinance banks are statutorily required to submit to the CRBs not only the information of defaulting clients but also information of clients with good loan repayment records (Government of Kenya, 2014b).

In the capital markets, the Capital Markets Authority (CMA) approved the NSE to operate as a demutualized entity. The demutualization process, which means separation of ownership from trading rights, was completed when NSE offered its shares to the public through an initial public offer (IPO) and its shares listed on the main investment market segment of the NSE. To strategically position the capital market in support of Vision 2030 goals, CMA unveiled the Capital Markets Master Plan for the next 10 years (CMA, 2015a). Also, a Capital Gains Tax of 5 per cent on transfer of investment shares was re-introduced through the Finance Act 2014 (Government of Kenya, 2014c).

Further, the NSE advanced the trading and settlement of Government of Kenya Treasury bonds as part of its effort to broaden and deepen the bonds market. This development has enabled the achievement of a settlement cycle that ranges from T+3 (i.e. transaction completed 3 days after the date of trade) to T+0 (i.e. transaction completed on the date of trade). This innovation is expected to enhance the liquidity of the fixed income securities market segment and guarantee faster settlement in the trading of bonds (NSE, 2014). Additionally, the dematerialization-conversion of paper into electronic format of corporate bonds commenced during the year. This comes after a completion of dematerialization of equities quoted at the NSE (Central Depository and Settlement Corporation, 2015). Finally, in the insurance industry, the Insurance Amendment Act 2014 was signed into law (Government of Kenya, 2014d). The mandate and the function of the Insurance Regulatory Authority (IRA) will now be separate and distinct from the objectives of supervision. Further, IRA is now allowed to accord assistance to the investigations of contraventions of legal or regulatory requirements by entities operating in Kenya. This move is expected to tighten supervision, leading to stability in the industry.

10.4 Banking Sector Performance

10.4.1 Assets, deposits and profitability

In 2014, the Kenyan banking sector registered improved growth in assets. This was driven by growth in deposits, injection of capital and retention of profits. The sector's assets grew by 18.4 per cent. The loans and advances and government securities were major components of the assets, accounting for 58.8 per cent and 20.8 per cent of total assets, respectively. While the gross loans and advances grew by 22.9 per cent, the deposit base increased by 18.4 per cent due to aggressive mobilization of deposits by banks, remittances, and receipts from exports. Deposits from customers that continued to form the major source of funding for the banking sector accounted for 71.6 per cent of total funding liabilities. The banking sector recorded an increase of 12.2 per cent growth in pre-tax profits, from Ksh 125.8 billion in 2013 to Ksh141.1 billion in 2014 (CBK, 2015a).

In 2014, there were nine micro-finance banks (MFBs) approved by the Central Bank of Kenya (CBK, 2015a). In 2014, loans granted by the MFBs increased by 42.5 per cent to Ksh 39.2 billion from Ksh 27.5 billion in 2013. While the deposit base stood at Ksh 35.9 billion, MFBs' pre-tax profit increased by 89 per cent to Ksh 1 billion in 2014 from Ksh 530 million in 2013. The increase in branches, aggressive efforts to mobilize deposits and marketing units are some of the factors that contributed to the growth.

10.4.2 Access to banking services

The expansion of bank branches and Automated Teller Machines (ATMs), the use of agency banking model and mobile banking continued to enhance access to banking services. Domestically, commercial bank branches increased from 1,342 in 2013 to 1,443 branches in 2014, representing a growth of 7.5 per cent. The branch network for the micro-finance banks also increased from 91 branches in 2013 to 97 branches in 2014. In the same period, branches of commercial banks in the East African region and South Sudan increased by 9.4 per cent from 288 to 315 branches. The on-going regional integration efforts in East Africa have provided opportunities for commercial banks to expand their operations. The ATMs also increased to 2,613 in 2014 from 2,487 in 2013. In the last five years, the number of ATMs has increased by 32 per cent. This can be attributed to adoption of cost effective channels of offering bank services as a result of increased competition. The agency banking model also witnessed growth, with 16 commercial banks and 3 micro-finance banks authorized to offer banking services through agents as at 2014 compared to 13 commercial banks (with no micro-finance bank) in 2013 (CBK, 2015a).

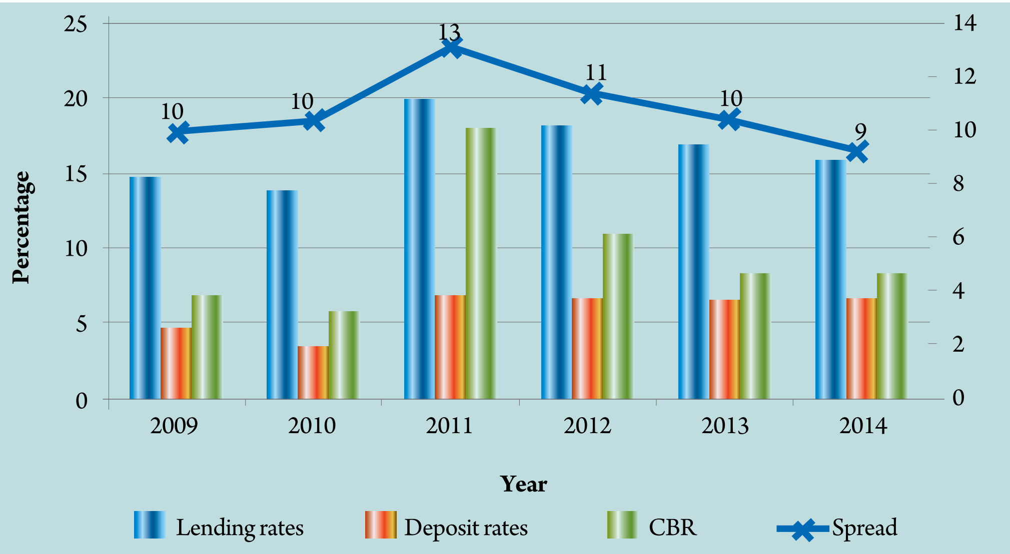
The competition in the mobile banking services is likely to grow following approval of Equity bank's one year trial to roll out mobile banking services (Competition Authority, 2015). Finserve, which is a mobile banking subsidiary of Equity bank, will now rival other mobile network operators, including the giant Safaricom, in offering mobile banking services. This development, coupled by the continuation of other banks to embrace mobile banking services, is expected to deepen access of banking services in Kenya. Financial access especially to the Islamic community in Kenya is also expected to deepen following the move by major banks in the country to open their doors to Islamic banking products as a result of the growing demand for *Sharia* compliant banking services. All these efforts boost Kenya's position as a financial hub in the East African region.

10.4.3 Cost of credit

The average lending rates decreased marginally from 16.99 per cent in 2013 to 15.99 per cent in 2014. In the same period, the average deposit rates increased marginally to 6.81 per cent from 6.65 per cent in 2013. These marginal changes could be attributed to the steadiness of the CBR, which remained at 8.50 per cent in 2014 (CBK, 2014). Figure 10.1 shows the trend in interest rates for the period 2009-2014. Despite the reduction in the average lending and average deposit rates, the interest rate spread continued to be high at 9 per cent against the Vision 2030 target of 6 per cent.

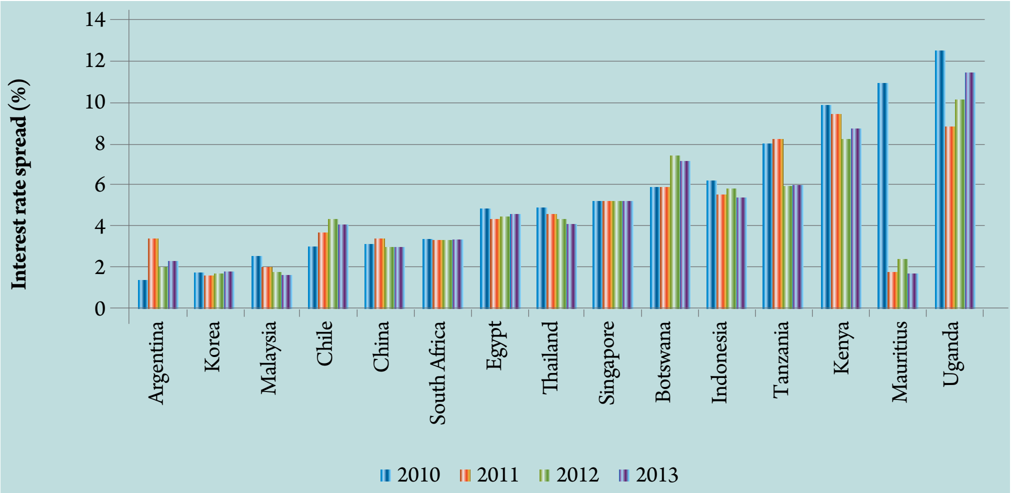
Indeed, the interest rate spread has averaged 10 per cent over the last ten years. Following the launch of the KBBR, the lending rates are expected to decline significantly. Also, issuance of the sovereign bond is expected to reduce the government's domestic borrowing, thereby easing pressure on interest rates. Low interest rate spread will signal increasing efficiency in the financial market. The interest rate spread in Kenya is still high when compared to aspirator countries such as Argentina, Korea, Malaysia and Chile, whose rate is below 4 per cent (Figure 10.2).

Figure 10.1: Interest rates in Kenya



Data Source: Central Bank of Kenya (2015d)

Figure 10.2: Interest rate spread for selected countries

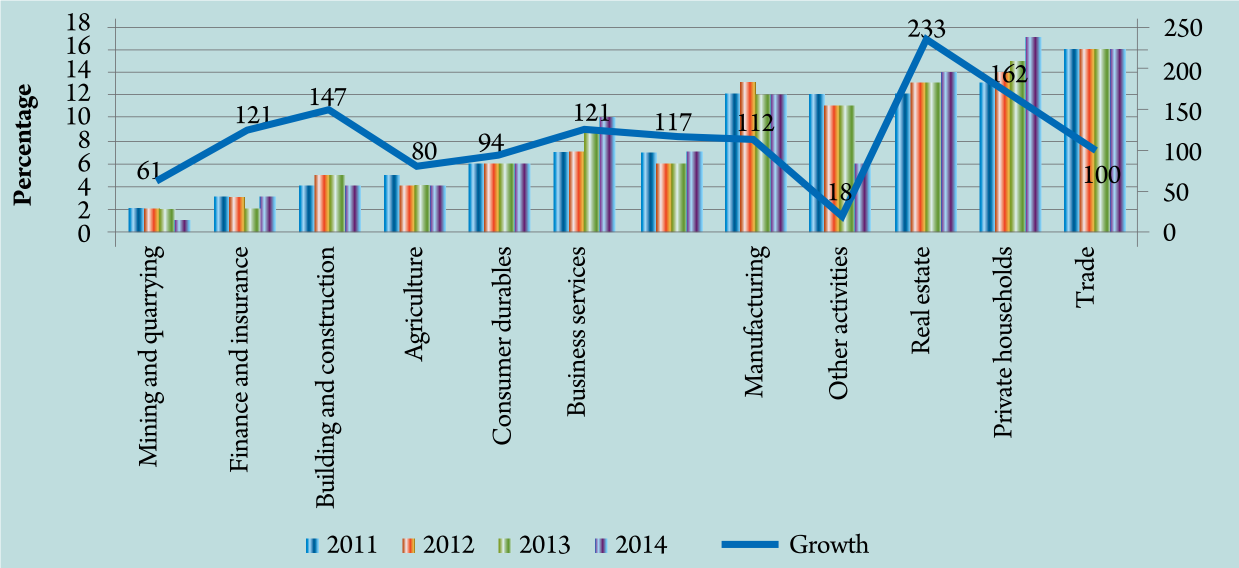


Data Source: World Bank (2015)

10.4.4 Credit to the private sector

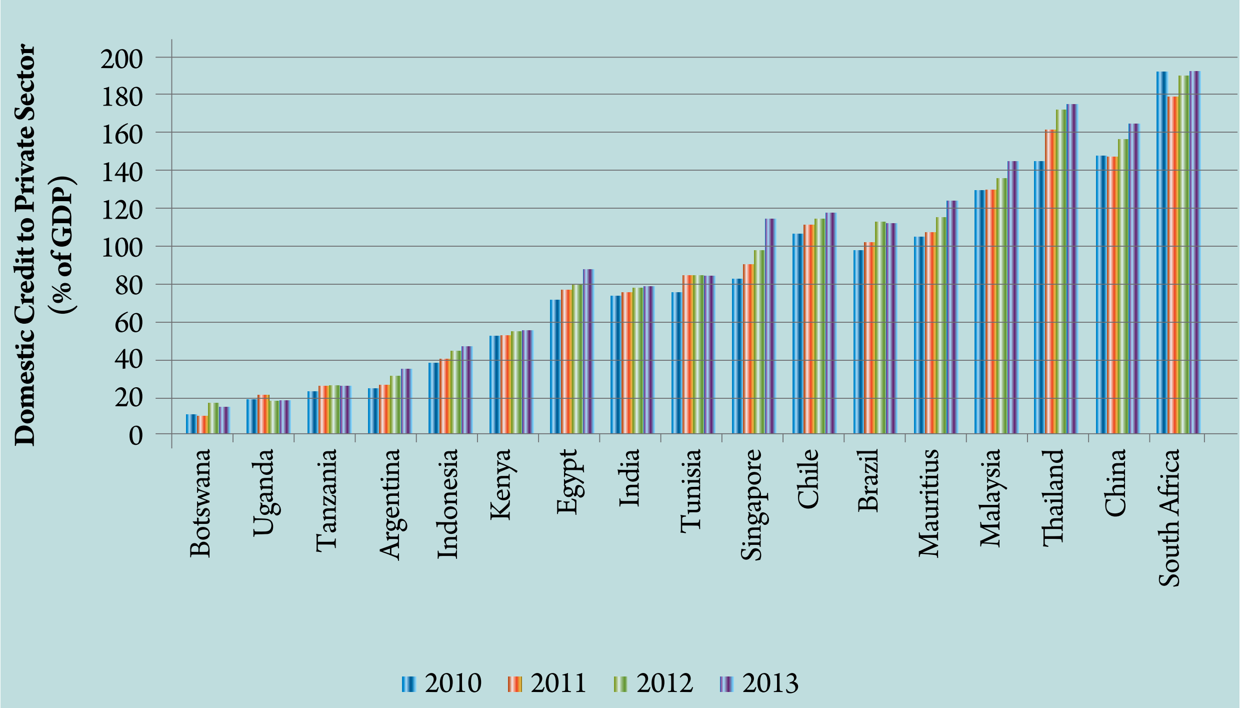
Private sector credit grew by 20 per cent from Ksh 1.6 trillion in 2013 to Ksh 1.9 trillion in 2014 as a result of increased demand for credit from various economic sectors. The credit growth was mainly witnessed in private households, trade, manufacturing, transport and communication; and real estate sectors (CBK, 2015a). With issuance of a sovereign bond, the government domestic borrowing is likely to reduce, thus making banks allocate a larger proportion of their funds to the private sector. The provision of more credit to the private sector is important in order to support high economic growth and generally the expansion of other sectors of the economy. This notwithstanding, the business services, building and construction, households, and real estate have been the leading sectors with the highest credit growth between 2011 and 2014 (Figure 10.3). The priority sectors of Vision 2030 (including agriculture, trade and manufacturing) have, however, achieved a slower credit growth.

Figure 10.3: Private sector credit distribution



Data Source: Central Bank of Kenya (2015d)

Figure 10.4: Domestic credit to the private sector (% of GDP) for selected countries



Data Source: World Bank (2015)

When compared to aspirator middle income countries, Kenya's private sector credit average is marginally above 50 per cent of GDP (Figure 10.4). Countries such as South Africa, China, Thailand, and Malaysia have high levels of private sector credit as a result of low interest rate.

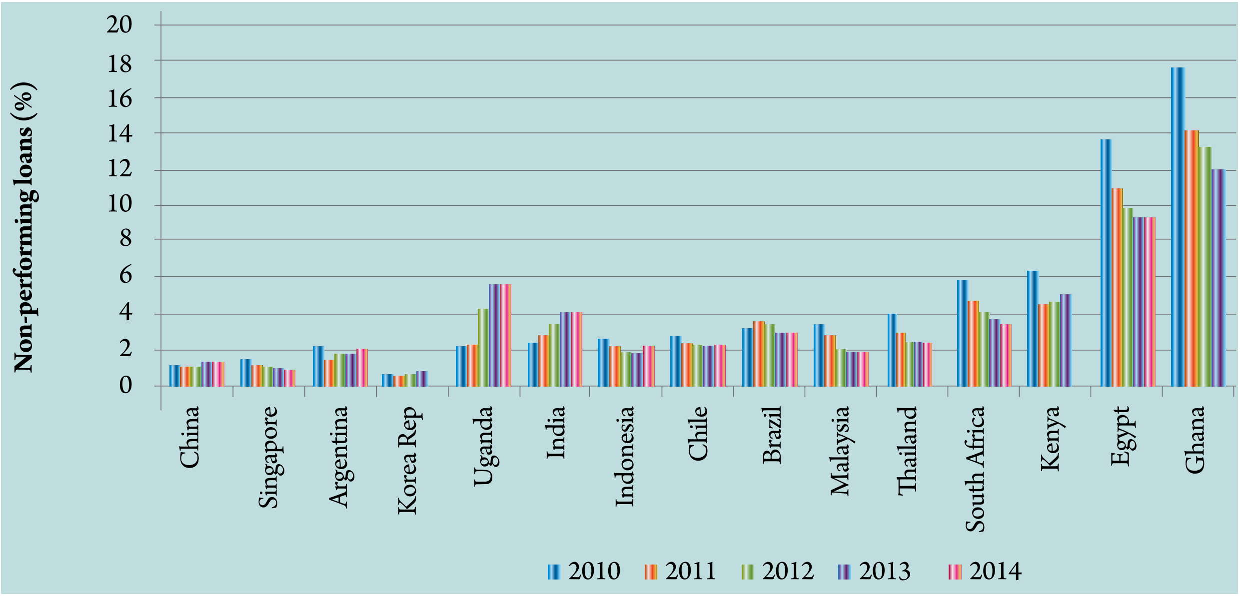
10.4.5 Non-performing loans

In 2014, the stock of gross non-performing loans (NPLs) grew by 32.4 per cent from Ksh 81.8 billion in 2013 to Ksh 108.3 billion. The spillover effects of high interest rates experienced in 2012 and lag-effects of reduced economic activities before and after the March 2013 general elections may have led to the growth in NPLs. The ratio of gross NPLs to gross loans also increased from 5.2 per cent in 2013 to 5.6 per cent in 2014. The coverage ratio (a percentage of specific provisions to total NPLs), however, declined from 44.4 per cent in 2013 to 41.1 per cent in 2014. This was due to a higher growth in NPLs than the increase in provisions. The quality of assets (proportion of net non-performing loans to gross loans) reduced from 2.2 per cent in 2013 to 2.5 per cent in 2014 (CBK, 2015a). It is expected that continued use of the Credit Information Sharing mechanism launched in 2010 will eventually deal with the problem of NPLs. As at 2014, CRBs provided a total of about 5.4 million credit reports requested by commercial banks, micro-finance banks and customers compared to 3.6 million credit reports requested in 2013 (CBK, 2015a). The ratio of NPLs to gross loans in Kenya, though declining, remains high when compared to aspirator countries (Figure 10.5).

10.5 Capital Market Performance

The stock market performance continued to improve in 2014 as a result of high number of investors. High investor gains, especially in the stock market, are likely to have been the driving factor. As at 2014, the Central Depository and Settlement Corporation had 2.6 million accounts with 3,000 to 5,000 transactions daily, compared to 20,000 accounts in 2004 with 200 to 300 transactions a day (Central Depository and Settlement Corporation, 2015). There was one IPO when the NSE self-listed, thereby becoming a demutualized exchange. Further, the growth enterprise market segment got a boost when three firms were listed, i.e. Atlas Development and Support Services Ltd, Flame Tree Group Holdings Ltd and Kurwitu Ventures Ltd.

Figure 10.5: Non-performing loans for selected countries



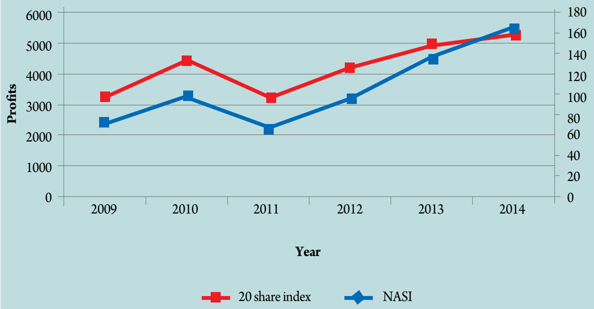
Data Source: World Bank (2015)

Kurwitu Ventures became the first Sharia-compliant firm to list at the NSE. This brought the number of listed companies in 2014 to 64 from 61 companies in 2013. CMC Holdings remained suspended during the year pending the resolution of corporate governance challenges and finalization of a takeover bid. Further, Access Kenya was suspended from trading until further notice following a take-over notice, pending full disclosure on the proposed takeover offer and its implications.

10.5.1 Stock indices

In 2014, the NSE 20 Share Index closed at 5,112.65 points from 4,926.97 points in 2013, thereby increasing by 3.8 per cent (Figure 10.6). Similarly, the Nairobi All Share Index (NASI) initiated in 2008 also recorded an increase of 19.2 per cent to close at 162.89 points from 136.65 points in 2013 (CMA, 2015). The continued rise in the indices means increased share prices and investor gains.

Figure 10.6: Nairobi Securities Exchange 20 Share Index and NASI

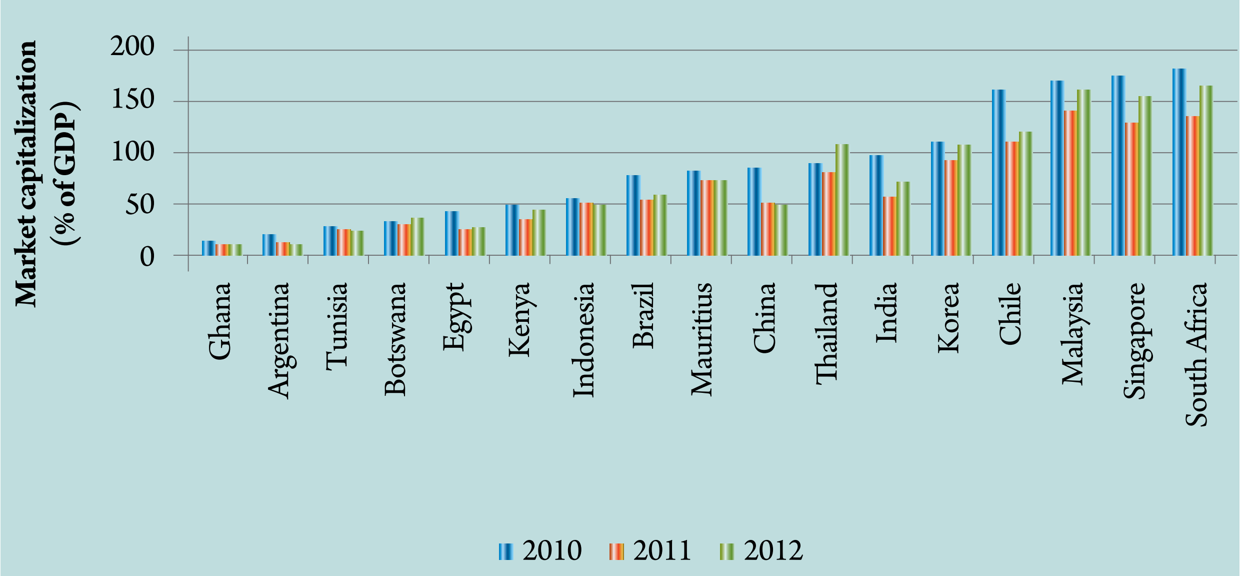


Data Source: CMA (2015)

10.5.2 Stock market capitalization

In 2014, market capitalization, a measure of stock market development, increased by 19.5 per cent to Ksh 2.3 trillion from Ksh 1.92 trillion in 2013 (CMA, 2015). This increment shows continued stock market development in Kenya. Market capitalization in Kenya nevertheless remains low when compared to other countries (Figure 10.7).

Figure 10.7: Stock market capitalization (% of GDP) of selected countries



Data Source: World Bank (2015)

10.5.3 Bonds market

Kenya achieved a milestone when a sovereign bond was successfully issued. The bond was over-subscribed by over 500 per cent. The government took US$ 2.0 billion against US$ 8.8 billion offered at an average interest rate of 6.6 per cent. The sovereign bond is trading in the Irish Securities Exchange. Locally, the government and the corporate sector continued to tap the bonds market to finance the increasing investment demands. This comes in the wake of enhanced efficiency in the bond trading system. In 2014, British American Investment (Britam) issued a corporate bond to be used in funding strategic business initiatives. The bond will be issued in two tranches. The first tranche will amount to Ksh 3 billion with the option to take up an additional amount of up to Ksh 1 billion in a green shoe option (uptake of more than targeted amount), while the second tranche will amount to Ksh 2 billion. Similarly, UAP Holdings, CIC Insurance Group, and NIC Bank issued a 5-year bond worth Ksh 2 billion, Ksh 5 billion and Ksh 5.5 billion, respectively. Also, Commercial Bank of Africa issued a six-year bond worth Ksh 7 billion, with CFC Stanbic Bank issuing a 7-year bond worth Ksh 5.1 billion. Total bonds market turnover was Ksh 506.2 billion in 2014 compared to Ksh 452.5 billion in 2013. Treasury bonds continued to dominate the bonds market, accounting for 99.8 per cent of total bonds turnover (CMA, 2014b).

10.6 Insurance, SACCOS and Pensions

The insurance industry's gross written premiums in 2014 increased by 20.3 per cent to Ksh 157.21 billion compared to Ksh 130.7 billion in 2013. This growth could be attributed to the initiative by the government to insure civil servants and the disciplined forces. The increase in commissions and expenses in the industry by 21 per cent to Ksh 49.4 billion could have caused a decline in the industry's profit before tax to Ksh15.5 billion from Ksh 17.8 billion in 2013. Claims incurred in the industry increased by 25.8 per cent to Ksh 82.36 billion in 2014. The insurance industry assets grew by 16.3 per cent to Ksh 417.4 billion as at the end of 2014. In the same period, the liabilities also increased by 15.6 per cent to Ksh 328.7 billion (AKI, 2015). The issuance of Prudential Guideline on Incidental Activities in 2013, approving banks to partner with insurance companies in offering bancassurance services (banks only act as a distribution channel for provision of insurance products), gained momentum when 4 banks were granted approval. This move is expected to enhance insurance penetration rate, which continues to be steady at 3 per cent due to a large proportion of Kenyans being uninsured.

In the cooperative sector, the SACCO Societies Regulatory Authority (SASRA) had licensed a total of 184 SACCOs as deposit-taking institutions as at 2014. In 2014, total assets, deposits, and loans and advances from deposit-taking SACCOS grew by 17.2, 12.7 and 15.5 per cent, respectively (SASRA, 2014b). Some of the factors contributing to this growth include increase in the membership, and continued efforts by SACCOs to attract more deposits by marketing, and new products development. To enable them deal with liquidity problems, SACCOs adopted the CRB mechanism where NPLs will be listed with the CRBs. This initiative is expected to reduce information asymmetry between the SACCOs and their members, which is critical in the appraisal of loan requests. However, Jijenge SACCO Ltd became the first SACCO to be placed under statutory management by SASRA over its inability to meet financial obligations. A Statutory Manager was appointed for a period of six months to exclusively manage the affairs of Jijenge SACCO Ltd (SASRA, 2014a).

In the pensions industry, a product targeting low income segment was introduced. The M-Pension product by CPF Financial Services is a mobile-based pension plan targeting workers in the informal sector and earning less than Ksh 10,000 per month. The users will be allowed to make daily contributions of between Ksh 50-300. With the already established Mbao Pension Scheme, this new product will help loop in more people into pension schemes, hence increase the country's savings and reduce dependency especially at old age. As at the end of December 2014, the assets in the pension industry had grown by 13.1 per cent to Ksh 788.15 billion from Ksh 696.7 billion in December 2013. Fund managers and insurance issuers continued to hold majority of these assets at 86.4 per cent, with the NSSF following with 7.8 per cent and property investments directly managed by scheme trustees holding 5.7 per cent. Individual retirement benefit schemes continued to register growth. Membership to these schemes increased by 12.5 per cent from 113,316 members in 2013 to 144,680 members in 2014. The Mbao Pension Scheme targeting the informal sector continues to drive growth in membership (RBA, 2014).

10.7 Conclusions and Recommendations

10.7.1 Conclusions

As outlined in Vision 2030, the financial services sector is critical in achieving the required economic growth by mobilizing domestic and international resources to finance the required levels of investments. To achieve this goal, the deepening of the financial markets through enhanced access, efficiency and stability are crucial. Several policy concerns emanate from the review and analysis of the sector in 2014.

The Capital Gains Tax on transfer of investment shares was re-introduced through the Finance Act 2014. However, the tax may have a long term effect on the trading of shares at the NSE, especially the stock market liquidity.

Despite the significant developments witnessed in the SACCOs' sub-sector, issues of governance to the already licensed deposit-taking institutions have emerged. Jijenge SACCO Ltd became the first SACCO to be placed under statutory management by SASRA over its inability to meet its financial obligations.

Finally, although the economy has over the years witnessed growth in domestic credit to the private sector, priority sectors of Vision 2030 such as agriculture, trade and manufacturing have achieved a slow credit growth. Therefore, the investment needs and growth of these sectors may be adversely affected.

10.7.2 Recommendations

There is need to carefully design and implement the Capital Gains Tax on transfer of investment shares, so that the activities and especially the liquidity of the market at the NSE are not disrupted. This should also apply to future taxes that may have a long term effect on the activities of the NSE. This is important in order to safeguard the stock market development that continues to be realized.

It is crucial to make sure that SASRA has the capacity to regulate and supervise the licensed SACCOs. Indeed, SASRA is supervising more institutions than CBK and IRA. Licensed deposit-taking SACCOs constitute over 75 per cent of membership, assets, deposits and capital of the entire industry in Kenya. Therefore, the stability of deposit-taking SACCOs is important for the industry.

Finally, increasing credit to the priority sectors of Vision 2013 is important in order to support economic growth and realization of Vision 2030 goals. There is need, therefore, for the government to use persuasion and urge banks to lend to these sectors so that the economy realizes its growth objectives.

Chapter 11

Building and Construction

11.1 Introduction

The building and construction sector is critical in creating a platform for the realization of the country's Vision 2030. Enhanced development of this sector reduces the cost of doing business in the country, increases the productive capacity of the economy, and creates employment in the economy, among other effects. The real estate sector and in particular residential housing is important in determining the quality of life for citizens through provision of adequate and decent housing and living standards. This chapter highlights the performance of the sector by tracking key indicators, and providing a synthesis of the emerging issues for succinct policy recommendations.

11.2 Overall Performance of the Building and Construction Sector

The construction sector registered a growth of 13.9 per cent in 2014, an improvement from 5.8 per cent growth in 2013 while the real estate sector had a growth of 5.6 per cent in 2014 compared to 4.1 in 2013. The construction sector contributed 4.5 per cent and 4.8 per cent to GDP in 2013 and 2014, respectively. The contribution of construction and real estate to GDP is shown in Table 11.1.

Table 11.1 Contribution of construction and real estate to GDP (%), 2011-2014)

Activity	2011	2012	2013	2014
Construction	4.4	4.5	4.5	4.8
Real Estates	8.1	8.0	7.9	7.8
Total Contribution	12.5	12.5	12.4	12.6

Source: KNBS (2015), Economic Survey

Although there was a decline in contribution of real estate in 2014, the overall sector performance was buoyed by the construction sub-sector, which had a net trade-off effect. Table 11.1 shows that the contribution to GDP by the construction and real estate activities in the economy increased to 12.6 per cent in 2014. The contribution by real estate developments to GDP declined from 7.9 per cent in 2013 to 7.8 per cent in 2014. Some of the selected indicators that attest to this performance are shown in Table 11.2.

The selected indicators shown in Table 11.2 indicate an improved performance in the last three years.

Table 11.2 Selected indicators for the building and construction sector, 2011-2014

Indicators/Years	2011	2012	2013	2014
Cement Consumption ('000 tonnes)	3,870	3,991	4,266	5,196
Loans and Advances from Commercial Banks to the Sector (Ksh millions)	50,805	69,183	70,770	80,406
Reported Completions of New Private buildings (Nairobi)and Public Buildings (Nation-wide)	5,604	7,496	6,699	7,189
Value of New and Private Buildings (Ksh millions)	42,464	48,273	54,001	59,558

Source: KNBS (2015), Economic Survey

The consumption of cement in 2014 increased by 21.8 per cent to stand at 5.2 million tonnes up from 4.3 million tonnes in 2013. This increased consumption of cement is explained by increased construction activities and projects in the roads, rail and other sectors. The production side of cement also witnessed increased growth rate of 16.3 per cent in 2014 compared to 7.8 per cent in 2013. Increased consumption and production of cement translated to increased market for the cement manufacturing companies, which significantly contribute to employment creation. Credit to the sector from commercial banks in terms of loans and other advances increased from Ksh 70.8 billion in 2013 to Ksh 80.4 billion in 2014, further indicating increased activity in the sector.

The reported completions of new private and public buildings rose by 7.3 per cent in 2014 compared to 2013 figures. The bulk of these were private residential buildings, indicating the continued dominance of the private sector in real estate. The Kenya Housing Survey conducted in 2012 revealed that the major constraint to timely completion of buildings cited by both individual and institutional private developers was flow of funds. Based on the survey, 40 per cent of individual private developers and 32 per cent of institutional developers interviewed reported that their buildings were occupied before full completion.

Private developers are the leading producers of both residential and non-residential buildings. In Nairobi County especially, production of both residential and non-residential buildings by private developers has been on the increase in the last three years, with the number of reported completions of new private residential buildings rising from 4,512 units in 2011 to 6,026 units in 2014, and the reported completions of new private non-residential buildings rising from 505 units in 2011 to 920 units in 2014.

The public sector, on the other hand, has not been consistent in production of both residential and non-residential buildings. For instance, reported completions of new public residential buildings increased from 587 units in 2011 to 2,015 units in 2012. However, this fell to 243 units in 2014. On the other hand, no new public non-residential building was reported in 2011 and 2014, but 20 new public non-residential buildings were reported in 2012. With the advent of devolved government in 2013, it is anticipated that the number of public non-residential units will increase to cater for county and sub-county administrative offices. Since the private sector has proved to be more consistent in production of both types of buildings, the government has engaged the private sector through public-private partnerships (PPPs) to increase production of buildings in view of the increasing demand for decent housing in most urban centres in the country. The Ministry of Lands, Housing and Urban Development in 2014 produced a Feasibility Report for the proposed housing development at Park Road, Starehe and Shauri Moyo sites for civil servants housing scheme under PPPs with service availability payments (SAP) in Nairobi City County. The purpose of the report was to aid in determining the viability of undertaking the project in keeping with the provisions of the PPP Act 2013. The report recommended the SAP model of PPPs, where a private concessionaire would be procured on the basis of Design Build Finance Operate and Transfer model and be paid out of the monies collected from the purchasers over a period of 18 years, with an affordable mortgage scheme offered by the government and from tenants of the housing units.

The high rate of urbanization in Kenya comes with increasing demand for provision of decent and affordable housing among other infrastructural facilities. Therefore, the decline in production of new residential buildings by both public and private sector developers from 6,839 units in 2012 to 6,269 units in 2014 indicates inadequate supply. This calls for greater synergy in the production of residential buildings to reduce the gap between supply and demand for housing in urban centres.

Cognisant of the need to provide decent housing to the public, which is a constitutional right, the government through the National Housing Corporation (NHC) is making effort to provide and facilitate access to affordable housing. These efforts saw NHC complete 243 residential units in Nairobi in 2014. During the same period, NHC partnered with Housing Finance Company of Kenya to produce additional 161 residential units. At the end of the year 2013, NHC was constructing several houses, including 45 bungalows in Nyeri, 199 flats in Nairobi, 48 flats in Mombasa and 44 National Police Service Housing units in Nairobi. Additionally, 84 housing loans amounting to Ksh 132.9 billion were disbursed to 16 counties in 2013 by NHC.

The national government reduced its budgetary allocation for housing sub-sector, which saw the approved expenditure decline from Ksh 7.0 billion in the financial year 2013/2014 to Ksh 5.1 billion in 2014/2015. There has been a decline in budget absorption rate in the sub-sector since 2011; the budget absorption rate dropped from 99.6 per cent in 2011 to 86.6 per cent in 2014. At 86.6 per cent absorption, the sector would be judged to perform relatively well in comparison with other sectors of the economy. However, the 10 percentage points decline over the years would need to be further interrogated for policy intervention, in order to attract more financing from the government and other players in the sub-sector. Increased support to low income housing and informal settlement improvement would increase the absorption rate and provide socio-economic benefits to target communities.

11.4 Emerging Issues and Conclusion

- Scarcity of and limited access to land especially in major urban areas is a major challenge in the sector. Population growth in urban areas and development pressure driven by improved economic prospects serve as explanatory factors. The scarcity of land in major urban areas in the country has led to inflated prices of the available land. Particularly, in Nairobi City, the cost of land has escalated in the last five years. The high cost of land in the city is increasingly making building and construction projects financially unsustainable to developers. This has in turn led to urban sprawl as developers seek affordable land in satellite towns in the environs of Nairobi.

- Cost, process and duration of obtaining development approvals from mandated county governments and mandated authorities is a challenge to the sector. Moreover, county government levies were increased on the onset of devolution in 2013, and further increases proposed in 2014. Secondly, development approval processes and requirements are not uniform across counties, leading to information asymmetry, investor uncertainty and limited transparency. Further, there are processes and development fees payable to other sector agencies such as the National Environmental Management Authority (NEMA) and the National Construction Authority (NCA). In aggregate, the processes and fees have led to increased cost of development borne by the investors, and further affected the ease of doing business.

- The quality of buildings and safety of occupants is a challenge in the sector. There is great concern on the quality of buildings across the country in view of the collapse of buildings as witnessed in Nairobi and Kiambu counties in 2014. The challenges in quality of buildings mainly results from poor coordination of government agencies in enforcement and supervision, violation of the construction regulations on standards, use of low quality building materials, and use of unqualified personnel for construction. There is also a challenge in the enforcement of building codes and inspection regimes of construction works due to limited human resource capacity *vis a vis* the magnitude of projects under construction.

- Rapid urbanization and informal settlements: While the government has made efforts to upgrade the informal settlements in the country, more will need to be done as the urban population increases and other informal settlements come up. The urban population has increased rapidly in the last two decades from 19 per cent of the Kenyan population in 1999 to 32 per cent in 2009. The urban population is projected to increase to 50 per cent of the total population by year 2030. In view of inadequate supply of decent and affordable housing, the increasing urban population threatens to lead to development of more informal settlements.

- High cost of financing housing development: Housing developments in Kenya are mostly financed through borrowed funds from commercial banks, micro-finance institutions, Savings and Credit Cooperative Societies (SACCOs) and housing schemes. According to Government of Kenya (2015), average commercial banks mortgage interest rates in December 2010 and December 2011 were at 14.36 per cent and 16.36 per cent, respectively, while for SACCOs, the average interest rates were at 12.40 per cent and 12.10 per cent for the respective periods. The individual private developers interviewed in the study indicated that commercial banks and microfinance institutions charged an average interest rate of 19.6 per cent and 19.2 per cent per annum, respectively. The high and fluctuating mortgage interest rates results in very few Kenyans being able to take up mortgages to purchase or construct houses.

- The establishment of devolved units presents an opportunity for the sector, driven by the need for provision of housing for county public officers and staff. The private sector capacity and interest in real estate development presents an opportunity to harvest the private sector capacity and efficiency in increasing the production of residential and non-residential buildings through initiatives such as PPPs. The initiative of the Ministry of Devolution and Planning, through National Youth Service (NYS), to improve on housing, water and sanitation and other infrastructural facilities, is an opportunity to upgrade the informal settlements in the country.

11.5 Policy Recommendations

To address the challenge of scarcity and high cost of land, there is need for effective long-term land use planning at the county and sub-county level. Land use policy instruments should be applied to identify land for infrastructure development and deferred land for future public utility. From the practice of urban management, various instruments have been applied in different jurisdiction to control speculation on land. One such instrument is the Certificate of Lease and letter of allotment for land in urban areas. The conditions contained in these documents bind the land occupier to first develop the property before selling it. Secondly, the occupier may be expressly prevented from selling/transferring the land for a specified period from the time of allotment. Selective densification of existing developments should be pursued at the local level to encourage optimal utilization and maximize return on investment.

The costs and processes for development approval should be harmonized and simplified under a single entity (one-stop shop). Creating a one-stop shop approval process would enhance awareness of approval requirements, transparency and even enable the creation of an online approval system.

PPP initiatives in the housing sector should undergo rigorous financial and economic assessment to safeguard the welfare of the urban poor, while at the same time offering attractive packages for the private sector. Innovative instruments to enhance the level of home ownership across all income groups should be developed.

A National Housing Price index should be developed to provide quarterly data for decision support and policy making in the real estate market. In keeping with proven global practice, the national government in conjunction with county governments and sector stakeholders should engage in availing data to build the index.

There is also need to enhance mechanisms for monitoring compliance with approved building plans and regulations to ensure that the buildings developed are up to the required standards in order to avert cases of collapse of buildings. Enforcement of building standards and inspection should be enhanced by increasing the capacity of assigned personnel and application of Information and Communication Technology (ICT) for monitoring.

Finally, the government should promote the use of alternative good quality building materials (such as stabilized soil blocks, reinforced concrete panels, prefabricated panels) and technologies such as solar energy systems, rain water harvesting, sewer treatment system to help reduce the housing development costs.

Chapter 12

Transport

12.1 Introduction

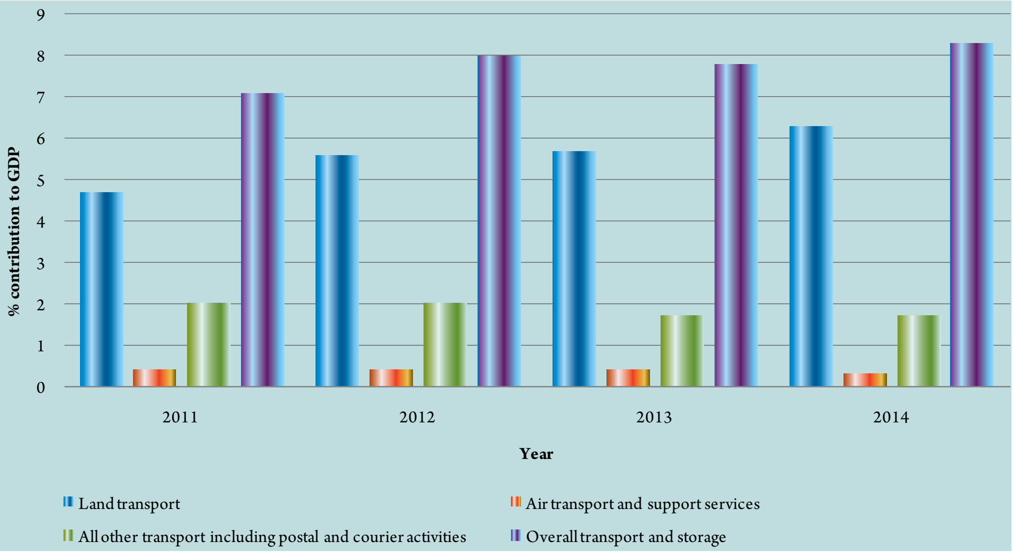
The transport sector will plays a vital role in the attainment of Kenya Vision 2030. By enhancing accessibility and mobility of factors of production, performance in the transport sector directly affects the performance of multiple sub-sectors in the economy. It also has transmission effects that determine the cost of goods and services. The development of the transport sector in Kenya has significant influence on economic activity in the East African Community by facilitating the ease of movement of people, goods and services.

This chapter reviews the performance of the road, rail, air and maritime transport sub-sectors by tracking indicators related to economic, financial, technical, social and environmental realms.

12.2. Transport Sector Performance

The transport and storage sector recorded mixed performance across the various sub-sectors in the period under review. The sector's production increased in 2014 to Ksh 444 billion compared

Figure 12.1: Contribution to GDP (% contribution 2011-2014)



Source: KNBS (2015), Economic Survey

to Ksh 371 billion in 2013 in terms of gross value added (KNBS, 2015). The overall value of outputs for transport-related sub-sectors also increased from Ksh 768.3 billion in 2013 to Ksh 873.3 billion in 2014. The sector's overall contribution to GDP grew from 7.8 per cent in 2013 to 8.3 per cent in 2014 (Figure 12.1). Land transport continued to dominate the transport sector with a 6.3 per cent contribution to GDP in 2014 compared to 5.7 per cent in 2013.

12.3 Road Transport

The Kenya Roads Board collected revenue under the Annual Public Roads Programme (APRP) worth Ksh 28.3 billion in the year ended June 2014. These comprised Road Maintenance Levy Fund (RMLF) and transit tolls (Kenya Roads Board, 2014). This marked an increase from the 2013 amount of Ksh 25.3 billion. In line with the country's strategy to accelerate economic growth, development expenditure on roads increased from Ksh 64 billion in 2013/2014 to Ksh 94 billion in 2014/2015 (KNBS, 2015). Similarly, expenditure on maintenance and repair of roads rose to Ksh 120 billion in 2014/2015 from Ksh 87 billion in 2013/2014. Despite the budgetary allocations and revenue streams, the roads sector is experiencing short falls in funding. According to the Roads Sector Investment Programme (RSIP), a total of Ksh 130 billion is required annually to finance the sector. Therefore, the national government has been exploring alternative sources of funding, such as public-private partnerships (PPPs) and infrastructure bonds to fill the financing debt. Examples of these efforts include the launch of the Roads Annuity Programme.

The road inventory in Kenya has improved in the last three years. The coverage of bituminous roads increased from 11,230Km in 2013 to 13,000Km in 2014. Similarly, the coverage of earth/gravel rose from 52,410Km in 2013 to 63,100Km in 2014. The construction, rehabilitation, and upgrading of roads is expected to improve overall road density and accessibility in the country. This will improve the sector's role in facilitating trade, development and economic activity.

Road traffic indicators across the country witnessed increased intensity. This was manifest by traffic congestion in major urban areas and along main throughfares. The traffic situation can be explained by the increase in vehicle population mainly from imports, in relation to constrained infrastructure capacity and limited mobility options. It is anticipated that with increased economic growth and improved access to credit, there will be growth in vehicle population and, therefore, increased traffic intensity. Registration of new motor vehicles increased from 94,017 vehicles in 2013 to 102,606 vehicles in 2014. However, the registration of new motor cycles has been higher, averaging 117,000 motor cycles per year between 2010 and 2014. The motorcycle services provided in the country have contributed to improved mobility options, accessibility and employment in urban and rural areas. However, significant externalities have been observed mainly in the form of high rate of accidents, and greenhouse gas emissions.

With a total of 2.01 million vehicles on the roads as at 2013, the economy continues to face greater exposure to negative externalities such as higher fuel consumption (demand), pollution from vehicle-related green house gas emissions, road crashes and injuries, and increased public health expenditure on account of emissions-related diseases. A study by the Energy Regulatory Commission on fuel economy revealed that between 2010 and 2012, the average fuel consumption was 7.5 litres/100Km and the average Carbon Dioxide (CO_2) emissions was 181.7g/km for light duty vehicles in Kenya. The trend for fuel consumption and vehicle emissions of the vehicle fleet was increasing. The total number of road crashes reported declined from 8,193 crashes in 2011 to 5,672 in 2014. Between 2013 and 2014, the number of persons killed through road crashes declined to 2,907 from 3,191, and the number of those injured also reduced (KNBS, 2015). This reduction could be indicative that the road safety initiatives introduced by the National Transport and Safety Authority (NTSA) and sector stakeholders are bearing positive results.

Some of the major developments to be tracked in the road sub-sector are highlighted below:

- **The launch of the Roads Annuity Programme** in July 2014 aims to achieve construction of 10,000Km of roads by 2017. The initial phase of the programme targets 2,000Km of roads to be developed through a tripartite model comprising contractors, financial institutions and the government[1]. Project preparation for the initial phase begun in the first quarter of 2014/2015, with construction scheduled for January 2015.

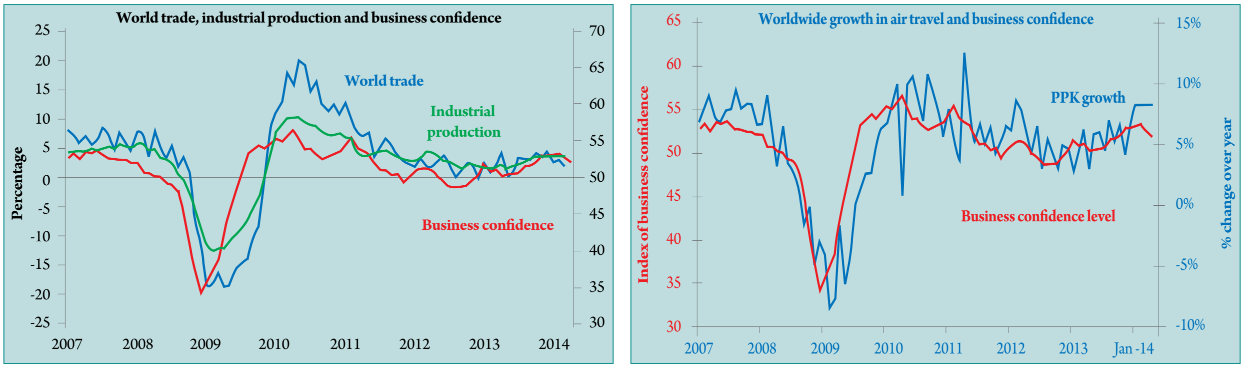
- **Mass rapid transit options in Nairobi City County were initiated**. The government identified and begun preliminary designs for mass rapid transit options in Nairobi City County, bringing together neighbouring counties of Kajiado, Kiambu and Machakos. The initial plans seek to first deploy Bus Rapid Transit on select road corridors given the lower per kilometre cost of this option. An interim team and authority to spearhead this metropolitan/inter-county initiative was created.

- **A cashless fair system for the public transport sector** was also launched in November 2014. The system was expected to improve performance in the sector through enhanced accountability, efficient revenue collection for operators, and convenience for commuters. However, the initiative has witnessed mixed results with limited uptake by commuters and operators. The system design and inter-operatability capacity are some of the reasons advanced for the low uptake.

12.4 Air Transport

Globally, the air transport sector has experienced constrained performance between 2010 and 2012, with robust improvement witnessed towards 2014 (International Air Travel Agency, 2014). This trend has been influenced mainly by trends in world trade, industrial production and business confidence. Increased jet fuel prices have also influenced the sector. The sector witnessed good positive performance as indicated by fuel use per revenue tonne kilometre (RTK), which continued to reduce, leading to savings of up to 14 million tonnes of Carbon Dioxide (CO_2) emissions and US$ 4 billion of fuel costs. While cyclical economic upturn has faltered, air travel growth remained robust (Figure 12.2).

Figure 12.2: World economic upturn versus air transport growth



Source: IATA (2014)
NB: RPK- Revenue Passenger Kilometre

In Kenya, the air transport industry has experienced a drop in passenger traffic between year 2011 and 2014. A total of 8.7 million passengers were recorded in 2011 compared to 8.2 million passengers in 2013 and 8.6 million passengers in 2014 (KCAA, 2014). Air freight (cargo and mail) traffic also experienced a drop in performance between year 2011 and 2014. Consequently, revenue accruing to the industry also recorded a decrease following the trends in passenger and freight traffic. Demand for domestic air transport has witnessed an increase, indicating growing preference for air travel over other modes. It is estimated that domestic aircraft movements rose from 174,882 landings and take-offs in 2011 to 176,503 in 2014. Performance in the aviation industry was affected by global factors as well as adverse travel advisories arising from insecurity, and route cancellation on account of the Ebola outbreak.

Recent developments in the sector in 2014 include the opening of Terminal 1A at the Jomo Kenyatta International Airport (JKIA). The terminal will handle an additional 2.5 million passengers with improved facilities and user experience. The Kenya Airports Authority (KAA) also renamed all terminals in keeping with international standards, achieving the separation of departures and arrivals. Despite the recent threats to air travel, the sector remains optimistic, projecting an increase in passenger traffic towards the 9 million mark, with increased flight frequencies to existing and new routes.

12.5 Rail Transport

The rail transport sector continued to gain prominence within the overall transport portfolio. The sector attracted approximately Ksh 400 billion in financing both from public and private sector sources. Public sector financing was mainly towards the Standard Gauge Railway (SGR) project, with China providing the bulk of funds while the national government sought to raise financing through the railway development levy and budgetary allocations. In the private sector, Rift Valley Railways (RVR) through its concession with the governments of Kenya and Uganda secured funding for the deployment of rolling stock and improvement of infrastructure and systems. RVR successfully completed development of 73Km of new railway line and also launched a satellite cargo tracking and train navigation system in its operations (KNBS, 2015).

Investments and development of the sector translated to improved performance between 2013 and 2014, marking a 24.3 per cent increase in freight tonnage. As reported in the Economic Survey 2015, revenue per tonne kilometre declined. This could be explained in terms of decline in efficiency, in the sense that there was less revenue generated moving a tonne of cargo per kilometre, indicating higher costs in operation over the same distance covered in the previous year. This might be indicative of reduced efficiency. The passenger journeys continued to decline since 2011 from 6.0 million to 3.8 million in 2014. This could be explained by user preference for alternative modes such as road and air for long haul services. However, this is likely to change with the development of commuter rail services in Nairobi and Mombasa.

The emerging issues in the sector revolve around securing rail corridors and concomitant land acquisition, compensation and resettlement procedures for existing and proposed lines. Increasing the ridership of commuter rail services and achieving an effective modal shift from car/trucks to rail use is also another challenge.

12.6 Port and Maritime Transport

The Port of Mombasa continued to register a rise in traffic handled, which has been on an upward trend between 2013 and 2014. In 2014, the total import and exports traffic handled was 24,875 Deadweight tonnes (DwTs) up from 22,307DwTs in 2013. However, container traffic increased from 894,000 Twenty Foot Tonnes equivalent units (TEUs) in 2013 to 1,012,002TEUs in 2013. Efficiency indicators at the port have continued to improve since the streamlining of operations by various actors at the port.

The launch of the Port of Mombasa and Northern corridor charter[2] in 2014 is expected to catalyze improved performance in efficiency and service delivery. The charter establishes a permanent framework of collaboration that binds the port community to specific actions, collective obligations, targets and timelines. The charter brings together 13 public sector institutions, 8 private sector institutions in cargo and service provision, and 3 special interest group partners. The charter entails six targets, namely: Transform Mombasa port into a high performing landlord port by 2016; Achieve an average of 120,000Km per truck per annum; Grow cargo off-take by rail to above 35 per cent of throughput by December 2018; Increase liquid bulk holding capacity to 11 million tonnes by December 2014; Integrate all systems of port community members to the Kenya National Electronic Single Window System by December 2014; and achieve 70 per cent cargo throughput via the green channel. The targets are assessed to be strategic in addressing past challenges experienced at the port by local, regional and international stakeholders. Therefore, effective monitoring and evaluation of the implementation of these targets will be critical.

12.7 Emerging Issues and Conclusion

The roads sub-sector faces challenges emanating from limited funding and increased cost of construction driven by land acquisition and compensation, as well as rising per-kilometre unit cost of construction. Local contractors face capacity constraints when compared to foreign firms. Road traffic congestion is posing a challenge to an increasing number of urban areas and throughfares. Road safety and security is still of concern in the sector, although it is noted that motorcycle-related casualties and fatalities are the main cohort witnessing poor performance.

Despite these challenges, immense opportunities for road sector financing exist through private sector sources. Enhancement of commuter rail services and launch of Bus Rapid Transit projects provide a good opportunity for managing traffic congestion. Initiatives driven by the National Transport and Safety Authority (NTSA) such as roadside alcohol breathalyser tests, enforcement of speed limits and regulations for the public transport sector have recorded success in improving road safety and security.

The Port of Mombasa, and Northern Corridor Charter, provide the greatest opportunity in addressing challenges within the maritime and ports sector. These challenges manifest in congestion, delays and high port handling costs. There is also need to ensure that there will be sufficient effective demand in the future to take up the increased port capacity being created for optimal use. The SGR and urban commuter rail projects face challenges in land acquisition and compensation. This is likely to affect project lead times and escalate costs. Lack of a clear framework of establishing land values is a major challenge. However, the projects present opportunities for youth employment, supporting local entrepreneurs, reducing road congestion, and advancing sustainable transport.

Within the air transport sector, key challenges revolve around exposure to global shocks and local factors. Public health concerns arising from disease outbreaks in various parts of the world are a challenge to the sector. International security and safety concerns driven by terror attacks affect the sector adversely. Travel advisories, geo-political factors, political uncertainty and increase in fuel prices also pose major challenges to the sector. The national carrier, Kenya Airways, continues to face significant competition from regional and global airlines, especially for passenger traffic. However, opportunities exist through improved disease and security surveillance, expansion of air port infrastructure, and advances in air-craft technology for long haul efficiency.

12.8 Policy Recommendations

Based on the foregoing analysis, the following key policy recommendations can be advanced:

- **Sustainable transport** principles should be adopted in formulation of projects in the sector. This will be critical in addressing the negative externalities associated with transport systems during construction, operation and maintenance. The national and county governments should invest in non-motorized transport and public transport rather than preference for private transport, as a priority. Infrastructure should be developed to provide adequate space and facilities for walking, cycling, bicycle parking and persons with disability. These should be integrated with public transport. The policy should target to achieve a reduction in private car use through push and pull instruments. Transport and land use planning should be integrated throughout the project life-cycle. Mechanisms for managing travel demand should be incorporated in County Integrated Development Plans to enhance sustainability.

- **Review of road project assessment methods:** The methods applied in assessment of road projects should be reviewed with the aim of including non-financial components. Beyond estimation of financial costs and benefits, environmental, social and political economy components should be accorded enhanced weights. The evaluation should apply multiple criteria, with weights allocated based on participation and broad consultation. Alternative project designs and proposals should be developed and subjected to evaluation based on set out guiding principles.

- **Enhanced capacity to NTSA** should be provided. This will improve the technical and human resource capacity necessary for road safety and transport sector regulation and enforcement. The geographic reach, presence and effectiveness of NTSA will need to be enhanced. To effectively monitor and evaluate road safety indicators, NTSA's capacity for road crash data surveillance and research will need to be enhanced. This should aim to leverage on technology devices that accurately capture crash details from the point of accident, up to the national reporting level. The road crash data procedures and systems currently applied by the National Police Service will therefore need to be reviewed and modernized.

- **Forward long term spatial planning** should be enhanced to secure land for transport infrastructure projects. This will greatly reduce the impact of land acquisition, compensation and resettlement currently affecting flagship projects. Completion of the National Spatial Plan should therefore be given top priority in allocation of funding and time. County Spatial Plans should also be prioritized, taking into account spatial needs for proposed and future transport infrastructure projects.

Endnotes

1. http://www.kura.go.ke/index.php/media/news-a-events/98-kenya-set-to-build-10000km-of-roads-through-alternative-financing.html

2. http://www.ttcanc.org/documents/Port_Comm_Charter_Final.pdf.

Chapter 13

Energy

13.1 Introduction

The Kenya Vision 2030 has identified energy as a key foundation and one of the infrastructural enablers upon which the economic, social and political pillars of this long-term development strategy will be built. Energy security, therefore, remains a matter of national priority. The successful implementation of the flagship projects highlighted in the Vision will greatly depend on supply of adequate, reliable, clean and affordable energy. In particular, the demand for electricity will increase, since it is a key driver of the commercial sector of the economy. The level and intensity of commercial energy use in the country is a key indicator of the degree of economic growth and development. The energy sector is therefore expected to remain a key player in overall improvement in the general welfare of the population and climate change mitigation. This chapter reviews performance of the electricity, petroleum, renewable, coal and nuclear energy portfolios. Emerging issues are highlighted to give focus to policy recommendations.

13.2 Electricity Sector performance

Total installed electricity generating capacity increased from 1,717.8MW in 2013 to 1,798.6MW in 2014, representing about 4.7 per cent increase. The main source of the increased installed capacity was from geothermal energy, which witnessed an increase of 111MW in 2014. This was followed by hydro, which contributed 31MW. In line with the sector's strategy of reducing reliance on thermal energy, there was a reduction of thermal installed capacity by 61MW in 2014. In terms of renewable energy, geothermal power generation increased by 63.8 per cent due to expanded installed capacity in 2014 (KNBS, 2014). Despite the decrease in thermal installed capacity, electricity generated from thermal rose by 19.6 per cent between 2013 and 2014 while the overall electricity generation grew by 8.2 per cent.

Geothermal energy is one of the cheapest forms of energy, while thermal sources are relatively more expensive in terms of unit costs (US dollar cents/ KWh). This implies that increasing the share of geothermal energy in the overall energy mix would translate to a reduction in the cost of power. With further addition of geothermal power (280MW) to the national grid, the sector set a target to reduce the cost of power by 30 per cent. Generally, when cost of electricity falls, the consumers energy bills are expected to fall, followed by an increase in demand for electricity. Lower energy bills also imply low cost of production for the manufacturing and the service industries, which translates to expansion of supply and lower prices of inputs and consumer goods.

However, the effect of the reduced generation costs on consumer energy bills will only be realized progressively as the share of thermal energy decreases and that of geothermal increases. Increase in electricity tariffs by the primary power utility, Kenya Power and Lighting Company, could also have had an effect of offsetting the expected gains from cheaper generation costs.

In regard to demand, the domestic demand for electricity increased by 12.1 per cent from 6,928.1 million KWh in 2013 to 7,768.6 million KWh in 2014 (KNBS, 2015). The primary consumer of power were the medium and large commercial consumers and industrial users, accounting for 54 per cent consumption compared to 45 per cent by domestic and small commercial users. It is anticipated that the implementation of the Vision 2030 flagship projects will increase the demand for electricity going forward. The number of customers connected under the Rural Electrification Programme (REP) rose by 12.1 per cent to stand at 528,552 customers as at the end of June 2014, up from 453,544 customers in 2013. Electricity demand continued to increase due to intensification of rural electrification, and increased domestic, commercial and industrial consumption. Improvement in the transmission systems led to a decrease in transmission losses (Table 13.1).

Kenya's performance in per capita electricity consumption is significantly below selected countries (Figure 13.1). The undesirable situation which has persisted over the last decade can be attributed to low generation capacity and low levels of connection. However, with the new plan of 5000+ MW, the government aims to expand development of electricity supply projects, by increasing installed capacity to 6, 762 MW by 2017. In order to absorb this additional supply of electricity, the government has identified projects such as iron ore smelting, electrified standard gauge and light rail, ICT parks and the LAPSSET projects. Increased domestic connection to power in urban and rural areas will also improve per capita consumption.

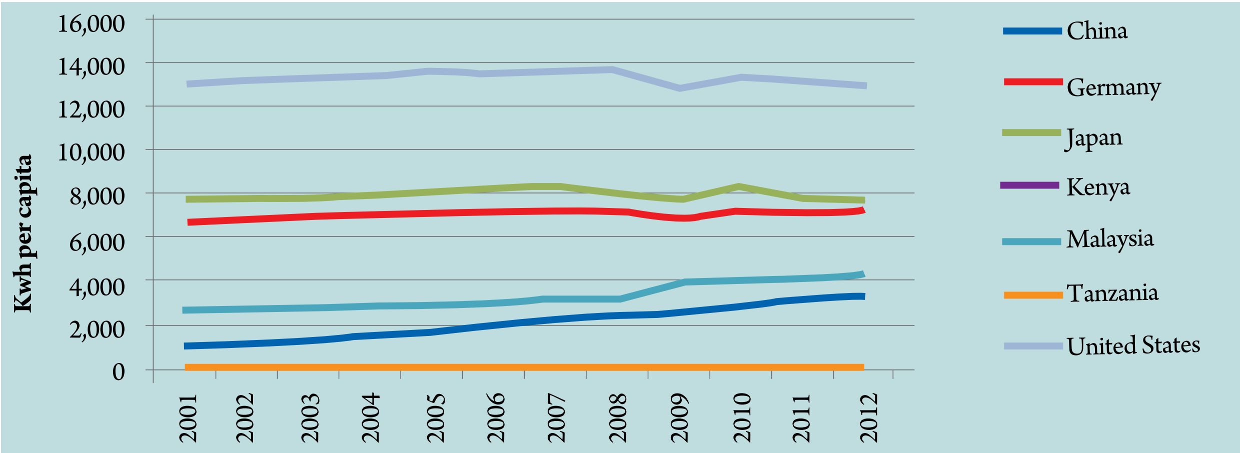
Kenya has stepped up efforts to produce electricity from renewable sources. This is aimed at reducing the cost of energy, and increasing the share of clean energy in the national energy mix in response to climate change.

Table 13.1: Electricity demand and supply balance

	2011	2012	2013	2014*
Electricity Demand (Kwh)				
Domestic and Small Commercial	2,471.40	2,568.50	2866.10	3273.8
Large and Medium	3,440.30	3,409.20	3585.30	3891.5
Off-peak	37.90	36.00	32.70	33.7
Street Lighting	17.90	20.60	17.20	22.5
Rural Electrification	306.10	380.10	426.80	547.1
Total Domestic Demand (KWh)	6,273.60	6,414.40	6,928.10	7,768.6
Exports to Uganda and Tanzania	37.30	32.70	43.70	30.5
Transmission Losses and Unallocated Demand*	1,248.90	1404.20	1476.10	1339.3
Total Domestic = Total Supply (KWh)	7,559.80	7,851.30	8,447.90	9,138.7
Imports from Uganda and Tanzania	33.9	39.1	49.9	158.4
Net Generation (KWh)	7,525.90	7,812.20	8,398.9	8,980.3

Source: KNBS (2015), Economic Survey
*Losses in transmission lines from generation plant to sub-station, influenced by quality of network, distance and other factors.

Figure 13.1: Electricity per capita consumption



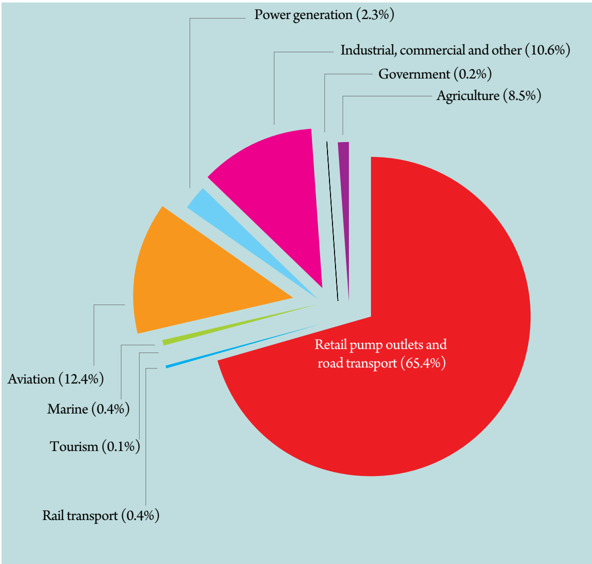
Source: International Energy Agency - IEA (2012)

13.3 Petroleum Demand

The demand for petroleum products rose from 3.7 million tonnes in 2013 to 3.9 million tonnes in 2014, increasing net domestic sales by about 6.2 per cent (KNBS, 2015). The rise in demand is explained by high consumption rate especially by the retail pump outlets at 70 per cent, followed by aviation sector consumption at 13 per cent. Figure 13.2 shows the domestic sales per sector. Consumption of fuel for power generation dereased from 372,000 tonnes in 2009 to 984,000 tonnes in 2014. This decrease can be explained by the shift from producing power using thermal sources to renewable energy sources.

The demand for light diesel oil was high in 2014 and stood at 1.7 million tonnes compared to 1.6 million tonnes in 2013. Motor gasoline and jet fuel had the second and third highest demand at 903,800 tonnes and 529,300 tonnes, respectively. Among the least demanded fuels were aviation spirit and heavy diesel oil at 23,000 tonnes and 3,000 tonnes, respectively (KNBS, 2015).

Figure 13.2: Net domestic sale of petroleum fuels by consumer category, 2014



Data Source: KNBS (2015), Economic Survey

World statistics show that oil and gas will continue to be important energy sources. The discovery of oil and gas in Kenya is expected to improve the nation's energy security in the long-term. As at 2014, a total of 22 prospecting oil companies were carrying out exploration activities within the four major sedimentary basins covering a total area of about 491,396km². These basins are Lamu (261,000km²), Anza (43,404,000km²), Mandera (81,319km²) and Tertiary Rift (105,673km²). As at

2014, a total of 38 exploration wells had been drilled by various oil companies (Government of Kenya, 2015). According to a report by the civil society on oil and gas 2014, there are gaps in the existing policies and legal frameworks relating to licensing, revenue sharing, institutional development and environmental sustainability. The inadequate capacity challenges by the government and its agencies can affect the effective exploitation of the resources for the benefit of the people. Citizens also lack awareness on the benefits and dangers associated with oil exploitation (KCSPOG, 2014).

13.4 Coal Exploration and Production

Coal in Kenya is mainly used by cement manufacturers to complement heavy fuel oil for process heat. Between 2010 and 2014, the average consumption of coal was 230,000 metric tonnes per annum (Table 13.2).

Table 13.2: Coal imports, 2010 to 2014

Year	2010	2011	2012	2013	2014
Coal imports in '000 tonnes	165.2	236.3	211.3	208.9	328.7

Data source: KNBS (2015), Economic Survey

Coal consumption is expected to increase with the discovery and mining of coal deposits in Mui Basin in Kitui County and other parts of the country. The government is also carrying out exploration of coal at Taru Basin in Kwale and Kilifi counties in the coastal region. A 960MW coal power plant in Lamu is expected to be completed in 2017. The Ministry of Energy has also identified and established access to six coal exploratory drilling sites in Meru/Isiolo (Government of Kenya, 2015).

13.5 Renewable Energy

According to the National Energy and Petroleum Policy (Government of Kenya, 2015), 69 per cent of electricity is generated using renewable energy sources while 31 per cent is from fossil fuels. Kenya uses hydro, solar, wind, geothermal, thermal, biofuel, biogas as well as biomass to provide energy. There is still high unexploited potential in renewable energy sources, including ocean energy. A 140MW geothermal plant was launched in October 2014. Installation of wind energy generation facility in Marsabit was planned to be complete by December 2014. The government is committed to promotion of investment in the renewable energy sector. Additionally, 300MW from Lake Turkana wind power plant are expected to be generated by 2017.

13.6 Nuclear Energy

The Kenya Vision 2030 notes the need for increased reliable and affordable electricity to cater for the ever increasing commercial, industrial and household demand. The need for nuclear energy is premised on the fact that, with the rising demand for power in the country due to the accelerated investment in the economy, it is one of the forms of energy that can produce enormous amounts of electricity at a relatively economical cost. Development of policy, legal and institutional mechanisms to guide the sector have been initiated. The Kenya Nuclear Electricity Board in conjunction with the International Atomic Energy Agency (IAEA), undertook a pre-feasibility study in Kenya in 2014. The study highlighted the gaps to successful actualization of the nuclear energy programme in the country. The key priority issue identified was the need for capacity building for human resource and institutional capacity.

13.7 Emerging Issues and Conclusion

The discovery of various natural resources such as geothermal, oil, gas and coal has resulted in high expectations, contestations and conflicts among communities where these resources have been discovered. This could lead to delay in project implementation. There is also a possibility of operational uncertainty regarding the extent of responsibility between the two levels of government and the respective county governments where such resources have been discovered.

As renewable energy sources become more prominent due to their availability and mitigating effects on climate change, the challenge remains in financing such technology and making it appropriate for large scale deployment in diverse economies.

On the demand side, electrification access rate in 2014 was still low at 32 per cent nationally, while rural electrification access was only at 19 per cent (African Development Bank, 2014). The low rate is due to high connection costs beyond the reach of urban and rural poor, and inadequate spatial access/coverage.

A Canadian exploration company, Africa Oil, and its partner Tullow Oil, reported fresh discoveries of oil and natural gas in Ngamia-2 well in Turkana. This discovery will increase the energy supply to the country as well as reduce the costs of electricity to consumers. There exist opportunities for youth employment in this sector across a diverse set of skills.

There are existing public-private partnerships in the energy sector. For instance, Barclays Bank of Kenya (BBK) has invested Ksh 26 million in "Light up Kenya", an initiative aimed at moving more than 100,000 rural establishments to solar energy. The first phase of this initiative will be implemented in partnership with the Kenya Girl Guides Association. The initiative is part of a wider Barclays Bank energy agenda, in which the bank is partnering with Kenya Energy Generating (KenGen) company and Kenya Power and Lighting Company in their quest to provide clean energy. The bank has also invested Ksh 13.4 billion to increase the capacity of the Thika Power plant by 60MW.

The African Development Bank also launched the Last Mile Connectivity Programme (LCMP) in partnership with the Government of Kenya. LCMP aims to support the government's initiatives of ensuring increased electricity access to Kenyans, particularly among the low income groups. The existing distribution transformers will be exploited to the maximum through extension of the low voltage network to reach households located in the vicinity of these transformers (African Development Bank, 2014)

The Power Africa Initiative provides a great opportunity for transforming the energy sector. The initiative seeks to double the number of people with access to power in Sub-Saharan Africa. It will focus on developing wind, solar, hydropower, natural gas, and geothermal resources in the region to enhance energy security, decrease poverty, and advance economic growth[1]. In addition, the US House of Representatives passed the Electrify Africa Act of 2014, which points to the U.S. government's broad commitment to providing access to electricity .

13.8 Policy Recommendations

- To address the issue of cost of energy and transmission losses, efficient integrated human settlement planning should be enhanced to reduce the distance between power distribution and transmission points. This will ease the contribution of electricity distribution costs to the Levelized Cost of Electricity (LCOE). The planning initiative will need the engagement of the national, county and sub-county administrations.

- To reduce contestations and conflicts associated with the energy projects, there is need to adequately engage the host communities and local leaders to build awareness and support. In addition to carrying out awareness on the benefits and dangers of energy resources, there is need to invest on domestic capacity to tap the resources discovered. Benefits to host communities should be negotiated affirmatively. Policies and legal frameworks relating to licensing, revenue sharing, institutional development, and environmental sustainability should be developed.

- Petroleum demand continues to grow and affects the balance of trade, foreign exchange demand as well as exerting pressure on the Kenyan currency. The transport sector is identified as the major consumer driving the growth in demand for petroleum products. To address this challenge, initiatives to improve national vehicle fleet fuel efficiency and travel demand management strategies will need to be adopted. A shift to cleaner fuel standards for the East African Community member countries will also help to mitigate the impact of the sector to climate change.

- Finally, there is need to invest in cost-effective technologies of electricity production from renewable energy sources. Remote rural households in sparsely populated areas should be supported through development of mini-grid and off-grid renewable energy technologies. Research on cost–effective renewable energy technologies should also be enhanced.

Endnotes

1. http://www.usaid.gov/sites/default/files/documents/1860/power-africa-overview.pdf

Chapter 14

Water and Sanitation

14.1 Introduction

Every Kenyan has a right to clean and safe drinking water and in adequate quantity as well as to reasonable standards of sanitation. These are entitlements provided under economic and social rights in the Constitution of Kenya (Government of Kenya, 2010), Article 43 (b and d). According to the Vision 2030, the entire population should have access to improved water and improved sanitation by 2030. In the Second Medium Term Plan (MTP II) of Vision 2030 under the social pillar, focus is drawn to improving access to clean water and improved sanitation by households as one measure towards improving healthy living. The plan considers improving and expanding water infrastructure through collaborative efforts among the national government, county governments, development partners and other sector players, including communities.

Water and sanitation is one of the devolved functions for which the Constitution envisages shared responsibility, mutual cooperation and consultation between national and county governments. The national government has the responsibility to ensure good management and allocation of water resources, and the county governments have the responsibility to oversee efficient delivery of water services. In 2014, the mandate of water and sewerage was under the Ministries in charge of Environment, Water and Natural Resources (MEWNR) while sanitation functions were under the Ministry of Health (MoH).

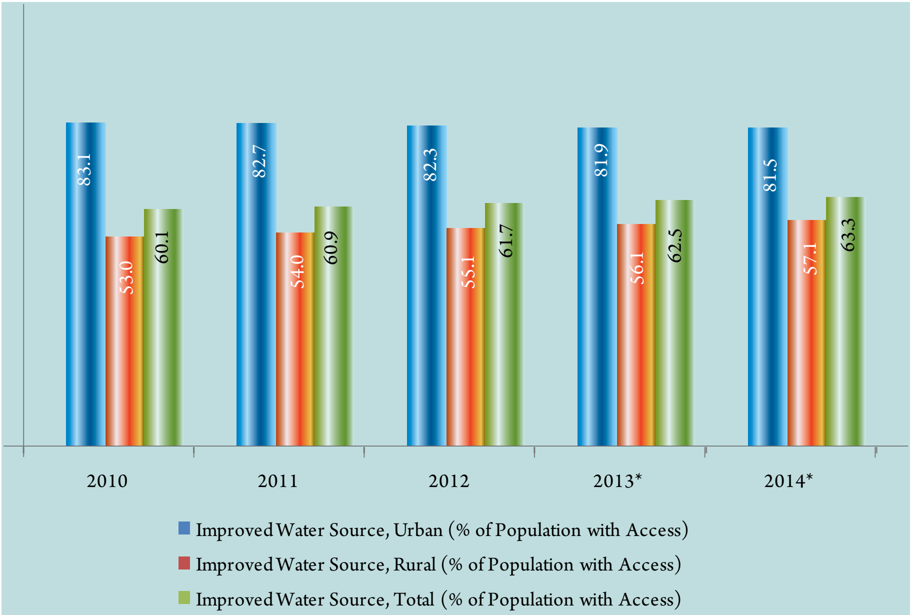
Direct contribution of the water sector to Kenya's Gross Domestic Product (GDP) is estimated at about 1 per cent (KNBS, 2015). This translates to over Ksh 42 billion of GDP as at 2014. Water and sanitation sector has directly offered formal employment to over 8,500 people; this is exclusive of those employed in the bottle water industry. KNBS (2015) estimates the cumulative employment to be over 10,400 people. This chapter reviews the performance of the sector and the key underlying policy issues.

14.2 Water

14.2.1 Access to water

In 2014, access to improved water is estimated at 63.3 per cent at national level, disaggregating to 81.5 per cent and 57.1 per cent for urban and rural population, respectively, as shown in Figure 14.1. This performance is below Kenya's target of 76 per cent for 2015. Globally, the MDG target on water

Figure 14.1: Population accessing improved water in Kenya



Source of data: WHO and UNICEF JMP (2014) and World Bank (2014) Databank
*= KIPPRA estimateS

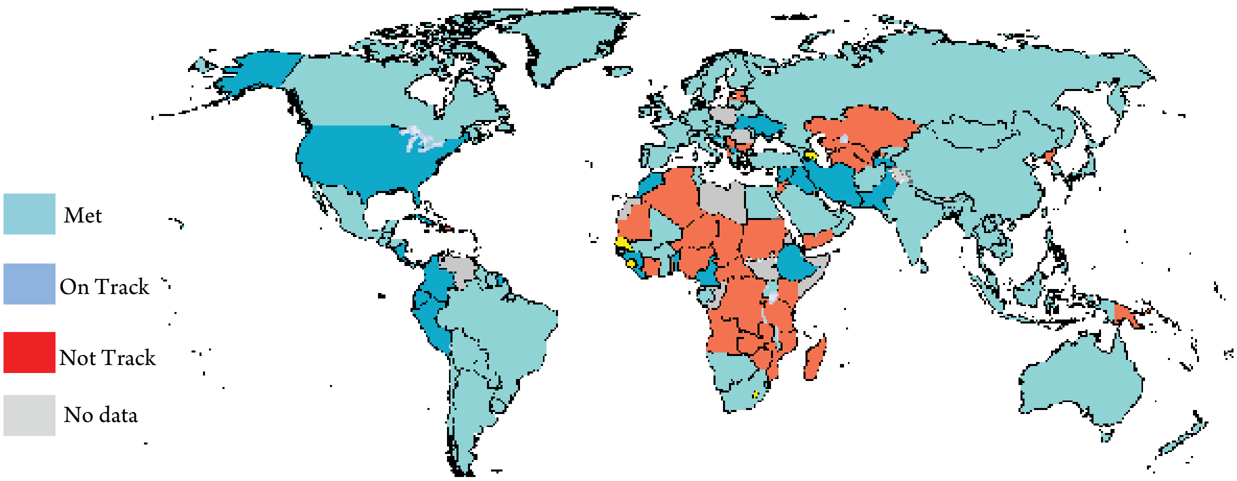
coverage for 2015 is 88 per cent, WHO/UNICEF JMP (2014). In addition, this performance is below the national targets reflected in MEWNR (2014) and Water Services Regulatory Board - WASREB (2014), which indicate that by 2015 Kenya should have 80 per cent of urban population and 75 per cent of rural population accessing improved water. Further, the 63 per cent population accessing improved water is composed of 20 per cent accessing water piped on the premises (piped water into dwelling or yard/plot) and 43 per cent accessing water on other improved sources such as public tap or standpipe, tubewell or borehole, protected dug well, protected spring and rainwater. On the other hand, 24 per cent of the population use surface water and 15 per cent source from other unimproved water sources such as unprotected springs, unprotected dug wells, cart with small tank/drums, tanker-trucks and bottled water.

WHO and UNICEF JMP (2014) indicates that Kenya was among the 45 countries not on track with MDG drinking water targets as at 2014, whereas the rest of the 31 countries were on track and 116 had already met the targets. Figure 14.2 shows the regional mapping of the status of the countries that have either met, are on track, are not on track or have no sufficient data on their progress. In the post-MDG debate, it is recommended that the countries that lag behind in meeting the MDG by 2015 should be supported to complete the MDG phase to empower them pursue the sustainable development goals agenda ably. Kenya should use this time to position herself to benefit from global water initiatives.

14.2.2 Performance of water utilities

A country's collective resolve to improve the status of water services can be traced through the performance of water utilities.[1] This is because all efforts aimed at providing water services to the population in the service area are mobilized around the water utilities. In 2014, the sector showed mixed performance both for urban and rural water utilities. Water coverage by water utilities in their service area was 53 per cent in 2014, falling 10 percentage points below the national average performance of 63 per cent. The national average includes both populations accessing water services from the water utilities supply chain and those sourcing water elsewhere.

Figure 14.2 Progress of countries towards achieving MDG on targets for improved drinking water



Source: WHO and UNICEF JMP (2014)

This is discussed in the next subsections, under the performance of urban and rural water utilities.

Water utilities are mainly assessed based on water coverage in terms of population that can access improved water, non-revenue water (water losses after extraction and treatment), revenue turnover (income from sale of water), revenue collection efficiency (proportion of billed water which is collected), ability to recoup operations and maintenance costs (O+M coverage, which is obtained as a ratio of collected revenue to O+M costs), metering ratio (proportion of connections with meters), creation of employment, and hours of supply (data on hours of supply is not valid, according to WASREB 2013 and 2014).

Urban water utilities

In 2014, the utilities were expected to have performed as follows; water coverage, 55 per cent, non- revenue water, 40 per cent; turnover Ksh 16.5 billion; revenue collection efficiency, 86 per cent, coverage of O+M costs, 120 per cent, metering ratio, 91 per cent, and employment about 7,400 people. This is based on the performance in the previous year(2013) and policy developments in the year 2014, such as sensitization on the water utilities on good corporate governance principles and practices, the need for increasing water coverage, non-revenue water guidelines and monitoring and evaluation tracking systems using the Water Regulatory Integrated System (WARIS).

In 2013, Kenya had about 66 water utilities serving urban population in around 154 towns. Water coverage by these urban utilities grew from 53 per cent to 54 per cent. Though there was an improvement in non-revenue water, the utilities continued to lose a lot of treated water, which accounted for 42 per cent, but improving from 44 per cent in the previous year. The total turnover from sale of water by the utilities was Ksh 14.6 billion. This was only able to recover operations and maintenance costs up to 113 per cent. O+M coverage is the ratio of collected revenue to O+M costs, thus 100 per cent O+M coverage is a break-even point. The utilities reported revenue collection efficiency of 85 per cent, 4 percentage points lower than the previous year 2013, besides improvement in metering ratio from 79 per cent to 89 per cent. This means that 15 per cent of the revenue is in arrears. Metering is supposed to assist billing and revenue collection. In terms of employment creation, the number of staff in urban utilities is 7,321 people. If the utilities reduce non-revenue water to the permissible 20 per cent and improve on collection efficiency and water coverage, they are bound to increase revenue by almost 50 per cent, thus raise over Ksh 20 billion. Total connections were 1.1 million. Sewerage coverage has remained low, with 21 per cent of urban population having access to sewerage services. This means that the adoption of waste water recycling is limited in Kenya.

Table 14.1 shows the performance of the urban utilities in 2010-2014. This is premised on the assumption that investment in infrastructure and efficiency in using resources will not decline over the period, and the fact that infrastructure development takes time to establish. The 2014 projection is the best case scenario of a forecast relying on trend analysis with moving average of consecutive years.

Table 14.1: Performance of urban water utilities on Water

Key Performance Indicators	2010	2011	2012	2013	2014*
Water Coverage (%)	48	52	53	54	55
Non- Revenue Water (%)	45	45	44	42	40
Turnover (Ksh billions)	9.4	11.6	12.5	14.6	16.5
Revenue Collection Efficiency (%)	82	84	89	85	86
O+M Cost Coverage (%)	109	113	105	113	120
Metering Ratio (%)	82	87	79	89	91
Employment	6,637	6,697	7,191	7,321	7,321

Source of data: WASREB Impact Reports with * being KIPPRA estimates

Rural water utilities

In 2014, the rural water utilities were expected to meet the following water targets: water coverage, 52 per cent; non-revenue water, 50 per cent; turnover close to Ksh 1 billion; revenue collection efficiency, 92 per cent; coverage of O+M costs,110 per cent; metering ratio, 78 per cent; and employment about 1,200 people. This is based on performance in the previous year (2013) and policy developments in the year 2014, such as sensitization by water utilities on good corporate governance principles and practices, the need to increase water coverage, and non-revenue water guidelines and monitoring and evaluation tracking systems using the Water Regulatory Integrated System (WARIS).

In 2013, there were about 36 rural water utilities in Kenya. This number is expected to go higher in 2014, especially through community-based water initiatives. Water coverage by rural utilities grew from 51 per cent to 52 per cent. These utilities improved in reducing non-revenue water but continued to lose a lot of treated water, which accounted for 50 per cent of treated water (five percentage points improvement from previous year). The total turnover of the utilities was about Ksh 700 million, which is able to recover operations and maintenance costs up to 150 per cent. If the utilities reduce non-revenue water to the permissible 20 per cent level, they are bound to increase revenue by almost 30 per cent, thus raising over Ksh 1 billion. The utilities reported revenue collection efficiency of 93 per cent, besides improvement in metering ratio from 75 per cent to 78 per cent. In terms of employment creation, the number of staff employed by rural utilities is about 1,188 people. Total connections were 140,000 spread over 63 towns.

Table 14.2 shows the performance of the utilities in 2010-2014, with projections on the likely performance in 2014. This is also pivoted on the assumption that investment in rural infrastructure, community mobilization and efficiency in using resources will not decline over the period. This is the best case scenario of a forecast relying on trend analysis, with moving average of consecutive years.

14.2.3 Water sourcing

The total available water resource in the six catchment areas in Kenya is estimated at 22.6 billion M^3 per year, and this is projected to increase to about 26.6 billion M^3 per year by 2030, according

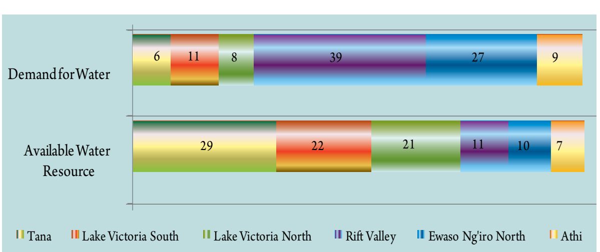
Table 14.2: Performance of rural water utilities on water

Key Performance Indicators	2010	2011	2012	2013	2014*
Water Coverage (%)	37.0	45.0	50.0	51.0	52.0
Non-Revenue Water (%)	61.0	63.0	57.0	55.0	50.0
Turnover (Ksh billions)	0.4	0.5	0.6	0.7	0.9
Revenue Collection Efficiency (%)	82.0	87.0	84.0	91.0	92.0
O+M Cost Coverage (%)	92.0	96.0	109.0	104.0	110.0
Metering Ratio (%)	58.0	72.0	68.0	75.0	78.0
Employment (staffing)	1,067	1,121	1,244	1,188	1,200

Source of data: WASREB Impact Reports with * being KIPPRA estimates

to Water Resources Management Authority (2013). The share of the available water per catchment area is provided in Figure 14.3, showing that the Tana basin has the highest share of 29 per cent and Athi basin the lowest (7%). On the demand side, in the National Water Master Plan for 2030, the Ministry of Environment, Water and Natural Resources - MEWNR (2013) indicates that Kenya's demand for water is about 3.1 billion M^3 per year, which is expected to increase to 11.1 billion M^3 per year by 2030 mainly due to population growth. This is water demanded for domestic, industrial, irrigation, livestock, inland fisheries and wildlife. The report indicates that Kenya's demand for water will be half of the available water per year by 2030. In terms of demand for water, Rift Valley basin has the largest share of 39 per cent followed by Ewaso Ng'iro basin with 27 per cent. This may be largely explained by the population size and the economic activities, especially irrigation, which has high water demand. Though Tana basin has the largest share of water resource, it has the lowest share of demand for water.

Figure 14.3: Share of available water resources and demand by basin



Source of data: WRMA (2013)

Water sourcing challenges in 2014 were on scarcity, the right of ownership, right of use, water revenue sharing, harvesting and storage. The Water Bill (2014), once enacted, will offer an opportunity to dissect these problems. In addition, the Natural Resources Revenue Sharing Bill (2014), once enacted, will seek to resolve the disquiet over sharing of water revenue. In the bill, water is among the natural resources to be discussed; how the benefits accruing from them should be shared among various stakeholders. This is also an opportunity to offer leadership on conflicts over water among county governments and communities. Stakeholders in the water sector should therefore focus on issues related to ownership, right of use, revenue sharing and water harvesting and storage.

The discovery of a water aquifer in Turkana in 2013 raised expectations of Kenyans and more so residents of Turkana County and its neighbours. This increases the potential in Northern Kenya to enhance access to water in the region and also transform agriculture. In 2014, the MEWNR commissioned borehole drilling and laying of water distribution pipes to Lodwar town and its environs. This is also expected to increase Kenya's per capita fresh water profile, which has remained low, reaching lower than 647 M^3 in 2014. However, there are indications that the underground water is too salty and would have to be desalinated before it can be used for human consumption, livestock or irrigation. This is an expensive and energy-intensive process.

14.3 Water Policy Developments

The water reform agenda, especially starting from the enactment of the Water Act (2002), has seen improvement in the performance of the water sector. Some of these gains are improvement in resource management and service delivery, decentralization of resources and planning units, separation of water utilities from local government authorities, limiting activities on which water revenue is dispensed, and bringing in professionalism in the operations of the sector.

At the top of the water reform agenda are two crucial legislations under debate, the Water Bill 2014 and the Natural Resources Revenue Sharing Bill 2014. It is expected that once enacted, the changes through the Water Bill (2014) will promote the reform agenda of the sector towards improved performance in both management of water resources and delivery of water services, as well as creating an enabling environment for cordial interaction among the various sector players.

For instance, the bill seeks to realign the sector to conform to devolution (since water is a devolved function); enhance water harvesting and storage; and improve regulatory framework for water sourcing, service delivery and public works. In addition, the Natural Resources Benefits Sharing Bill 2014 seeks to resolve the conflicts on sharing of revenue from water among the community, county governments and national government. However, caution should be taken on water revenue sharing to put controls on activities permissible to allocation of water revenue, such that the sharing of revenue contributes to sustainable development of the sector. Ownership of water resource should be viewed from national than county levels. Ideally, demarcation of water resources should be based on water basins and not governance, administration or legislative boundaries. Sharing of water revenue should observe equity, national interests and promotion of activities aligned to enhancing water and sewerage coverage as well as conservation.

In addition, a number of policy initiatives were rolled out in 2014 towards improving water service delivery and efficiency. The main among these initiatives were smooth transfer of water utilities to the county governments with capacity building meetings conducted, establishment of the non-revenue water standards and guidelines, development of guidelines on investment planning, and financial strategy in the water services sector, among others.

14.4 Key Challenges in the Water Sector

In 2014, the sector continued to face potential hindrance to its progress based on the performance of the water utilities. Key among these challenges were: low recovery of operations and maintenance costs by water utilities, high non-revenue water, huge investment demand for infrastructure development, non-adherence to corporate governance guidelines, water sourcing disputes, water pricing, water revenue sharing, inadequate service to population in urban informal settlements and rural areas, as well as limited internalization of the social and commercial orientation of water and sanitation services. These are articulated in WASREB (2013, 2014) and have been long standing as indicated in MTP II and Ministry of Water and Irrigation - MWI (2007), among other policy documents. The way forward on these issues is articulated in the conclusion and recommendations sub-section, at the end of this chapter.

14.5 Sanitation

14.5.1 Introduction

Poor sanitation threatens public health in terms of ill-health, sickness and increase in health costs. Access to improved sanitation should be viewed from household level to public places such as schools, open markets, hospitals, recreational parks, among other dwellings of people. Sanitation is seen in terms of waste disposal and general cleanliness towards basic hygiene and health standards.

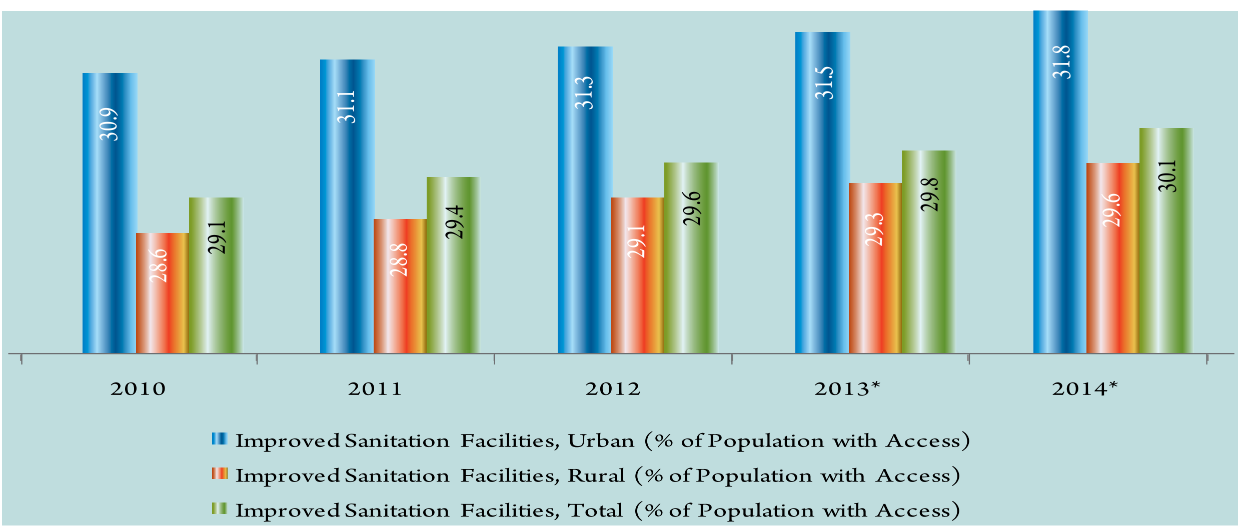
14.5.2 Access to improved sanitation

Access to improved sanitation is estimated at 30.1 per cent of population at national level, with urban and rural population claiming access of 31.8 per cent and 29.6 per cent, respectively, as shown in Figure 14.4. This performance is equally below the 2015 MDG target of 75 per cent reflected by the Ministry of Water and Irrigation - MWI (2007) in its National Water Services Strategy, which targeted improved sanitation coverage of 77.5 per cent urban and 72.5 per cent rural by 2015. Similarly, the global MDG sanitation coverage target for 2015 is 75.0 per cent as indicated by WHO and UNICEF JMP (2014). The 30 per cent of Kenyan population accessing improved sanitation have access to either flush toilets, piped sewer system, septic tank, flush/pour flush to pit latrine, ventilated improved pit latrine, pit latrine with slab, composting toilet and special case facility. The remaining 70 per cent is separated to either using flush/pour flush to elsewhere, pit latrine without slab, bucket, hanging toilets or hanging latrines or no facilities or bush or open field. Open defecation is estimated at 13 per cent (WHO and UNICEF JMP, 2014). What is not reported and should be followed up in subsequent reporting are the number of public sanitation facilities and management status. Private sanitation facilities are expected to be captured in the 2019 census.

The national household census of 2009 showed that out of 8,767,954 households, around 70 per cent use pit latrine and about 14 per cent use bushes. Households with access to sewer services are around 8 per cent while around 5 per cent use ventilated improved pit (VIP) latrines, and the remaining 3 per cent either use septic tanks, cess pool or buckets (Figure 14.5). These figures may have changed marginally over the period 2010 to 2014.

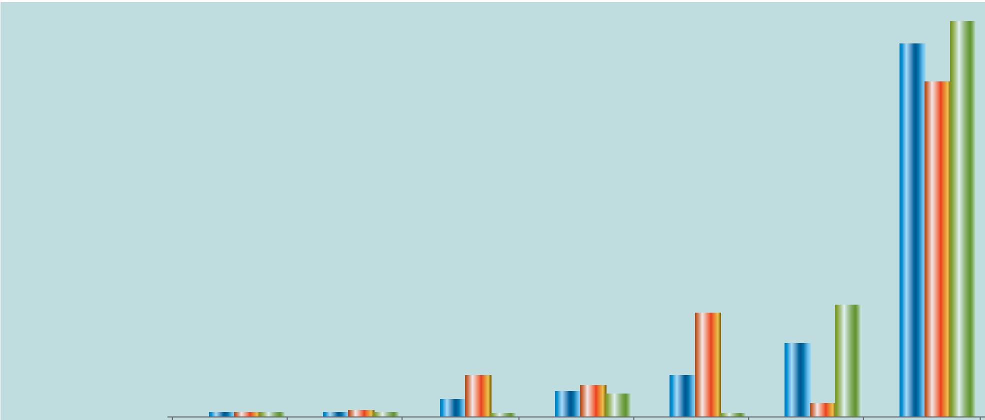
Globally, Kenya is among 78 countries that are not on track towards meeting the MDG on sanitation (WHO and UNICEF JMP, 2014). The rest of the countries, 77 had already met the target and 29 were on track. Figure 14.6 shows the regional maps and the status of the countries that have either met, are on track, are not on track or have no sufficient data on their progress. In the post-MDG debate, it is recommended that the countries that lag behind in meeting the MDG by 2015 should be supported to complete the MDG phase to empower them pursue the sustainable development goals agenda. Kenya should use this time to position herself to benefit from global sanitation initiatives.

Figure 14.4: Population accessing improved sanitation



Source of data: World Bank (2014) databank; *KPPRA estimates

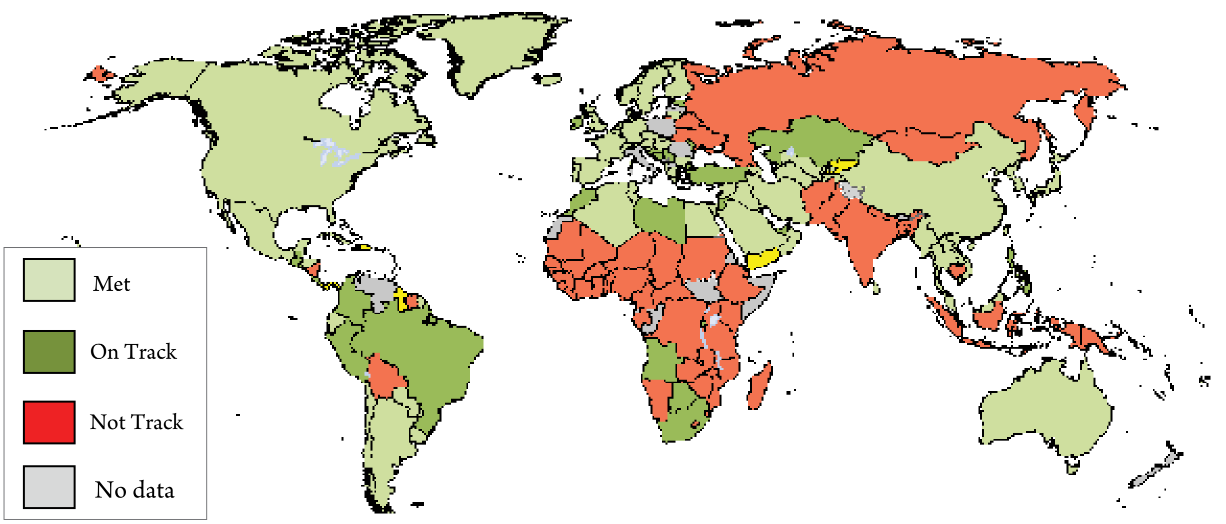
Figure 14.5: Main means of human waste disposal (% of households)



	Bucket	Cess Pool	Septic Tank	VIP Latrine	Main Sewer	Bush	Pit Latrine
National (%)	0.26	0.34	3.41	4.91	7.69	13.65	69.57
Urban (%)	0.55	0.73	8.03	5.92	19.51	2.56	62.50
Rural (%)	0.07	0.09	0.48	4.27	0.18	20.69	74.07

Source of Data: KNBS (2010), National Household Census of 2009

Figure 14.6: Progress of countries towards achieving MDG targets on improved sanitation



Source: WHO and UNICEF JMP (2014)

14.6 Performance of Sanitation Utilities

The utilities are evaluated on sanitation coverage and quality of water. Sanitation coverage is the percentage of population within the service area of the utility that has access to sanitation facilities. Water quality is assessed on chlorine residuals and bacteriological quality. These are weighted averages of the number of tests conducted as a percentage of the number planned. This is weighted at 67 per cent, as well as the number of samples that are within the required norm (standards) of bacteriological quality as a percentage of the total samples taken.

14.6.1 Urban utilities and sanitation

Urban water utilities increased sanitation coverage from 69 per cent to 73 per cent. The quality of water achieved 93 per cent rating for both chlorine residuals and bacteriological quality. The number of residual chlorine tests conducted as a percentage of the number planned was 90 per cent, while compliance of the tests within the norm increased to 97 per cent. The number of bacteriological tests conducted as a percentage of the number of tests planned was 90 per cent and the samples in compliance with the norm were 99 per cent. Table 14.3 shows the performance of the urban utilities in 2010-2014, with projections on the likely performance in 2014.

Table 14.3: Performance of urban water utilities on sanitation

Key Performance Indicators	2010	2011	2012	2013	2014*
Sanitation Coverage (%)	55	69	69	73	75
Water Quality - Residual Chlorine (%)	88	91	92	93	94
Water Quality - Bacteriological (%)	71	81	72	93	94

Source of data: WASREB (2013, 2014) with * being KIPPRA estimates

14.6.2 Rural water utilities and sanitation

In 2014, sanitation coverage is expected to have reached 71 per cent. Water quality in terms of chlorination is estimated at 94 per cent, and bacteriological tests at 78 per cent. An issue of concern is that water tankers are legal, yet their water is classified as unimproved water, since its quality cannot be accounted for, thus exposing the public to external costs in terms of health risks and costs.

In 2013 and in comparison with 2012 performance, sanitation coverage rose from 70 per cent to 71 per cent. Quality of water chlorine residuals was 93 per cent and on bacteriological 69 per cent. The number of residual chlorine tests conducted as a percentage of the number planned was 90 per cent, while compliance of the tests within the norm increased to 98 per cent. The number of bacteriological tests conducted as a percentage of the number of tests planned was 53 per cent and the samples in compliance with the norm were 99 per cent. However, 46 per cent of rural utilities did not report on this indicator. Table 14.4 shows the performance of the rural utilities in 2010-2014, with projections on the likely performance in 2014.

Table 14.4: Performance of rural water utilities on sanitation

Key Performance Indicators	2010	2011	2012	2013	2014*
Sanitation Coverage (%)	80	82	69	70	71
Water Quality - Residual Chlorine (%)	86	91	94	93	94
Water Quality - Bacteriological (%)	61	80	60	69	78

Source of data: WASREB (2013, 2014) with * being KIPPRA estimates

14.7 Sanitation Policy Issues

There is no integrated sanitation policy in Kenya. Various actions in the sector are based on the Public Health Act (2012) and the Water Act (2002) and their derived guidelines. Sanitation is a devolved function, thus county governments are expected to take the leading role. There are challenges with collection of data, especially on key sanitation indicators. The level of open defecation is also high and should be discouraged. Open defecation is exposure of human waste in a manner that contaminates the human operating environment and water cycle.

It is important to take stock of sanitation facilities especially in schools, health facilities, market places, recreational parks, slaughter units and other public places. Three ministries are crucial in improving the status of sanitation in Kenya: Ministry of Environment, Water and Natural Resources; Ministry of Health and Sanitation; and Ministry of Devolution and Planning. These ministries need to set up a joint monitoring and advisory team to oversee the development of sanitation policy and its implementation. This will position the country towards implementation of the Sustainable Development Goals.

14.8 Conclusion on Water and Sanitation

Based on the performance, policy developments and challenges in the water sub-sector, there is need for a game changing plan. This plan should tackle the challenges while ensuring there is equity between the rural and urban population with respect to access to improved water and sanitation. Water utilities need to improve in their efficiency to enhance service delivery and operate sustainably. The water and sanitation policies need to be put in place. The Water Bill (2014) and the Natural Resources Revenue Sharing Bill (2014) should be fast-tracked and passed.

14.9 Recommendations on Water and Sanitation

Going forward, Kenya should focus on increasing access to improved water and sanitation. There is also need to domesticate the agenda of Sustainable Development Goals, which is succeeding the MDG agenda. To fulfil this, the following recommendations are made against each challenge discussed in this chapter:

1. On water coverage, more utilities should be established both in urban and rural areas. Community-based water utilities should be encouraged and supported. The use of modern technologies in service delivery and water recycling should be adopted.

2. On low recovery of operations and maintenance costs by water utilities, there is need to sensitize the water and sanitation users on their responsibility to pay for the services received. There is also need to increase metering ratio and revenue collection, and reduce non-revenue water losses.

3. On high non-revenue water, the water utilities should follow the non-revenue guidelines issued by the regulator. This will help in tracking of water flow in the distribution lines and detection of points of losses. The public should be sensitized on where and how they can report any cases of illegal water connections and water vendors.

4. On huge investment demand for infrastructure development, the sector needs to embrace public-private partnerships as an alternative to the traditional funding model of state grants, and donor dependence.

5. On non-compliance to corporate governance guidelines, county governments should implement performance-based contracting for both the management and staff of water and sanitation utilities, besides increasing its presence in calling for responsibility and accountability by the water utilities, and public participation.

6. On water sourcing disputes, water pricing, and water revenue sharing, stakeholders need to view water as a collectively-owned resource whose management must be based on basin levels and not administrative units. The regulator should ensure the utilities keep the water tariffs low and charge the legal water tariffs, especially the water vendors and kiosks. The public should be encouraged to participate in negotiations for water tariffs, which is their right according to the Constitution (2010) and Water Act (2002). Water revenue should be ring-fenced to ensure that the revenue is

ploughed back into water conservation of water towers in order to increase access to water. The use of water revenue for non-water purposes should be discouraged.

7. On service to population in urban informal settlements and rural areas, slum upgrading schemes should be encouraged and rolled out in all urban areas, especially in matters related to water and sanitation. Community-based projects offer a gateway to increasing ownership of such initiatives by the locals, and reducing vandalism, and operations and maintenance costs.

8. On social and commercial orientation of water and sanitation services, the utilities should practice cost minimization strategies, innovate in investment refinancing, and adopt output maximization strategies such as increasing coverage and water production.

9. On sanitation, there is need to design a sanitation policy to eliminate open defecation and contamination of water. Sanitation facilities should be increased and households must be made to use toilets. The sewerage system needs to be expanded to cover all urban areas.

10. Monitoring and evaluation could ensure regular and systematic data collection and updating, for evidence-based policy formulation and implementation.

11. On the pending Water Bill and Revenue Sharing Bill, Parliament and the Senate should fast-track the passing of these bills..

12. Post-2015 agenda, Kenya should position herself to benefit from sustainable development goals (SDGs) on water and sanitation. Since the global community appreciates that the initial status of various countries in 2000 and commitment to the MDGs had effect on the differences in achievement of the MDG across countries, more commitments will be made globally to boost the countries lagging behind in MDGs to catch up with the rest and empower them towards the SDGs.

Endnotes

1. Water utilities are water service providers registered to offer water services. They are either public or private.

Chapter 15

Information and Communication Technology

15.1 Introduction

Kenya has embraced the use of ICT services both in public and private sectors. In the public sector, ICT services are heavily used to improve efficiency in service delivery as well as making services available to Kenyans. In the private sector, ICT services contribute to efficiency as well as increasing profits. Kenya has a number of services being offered using ICT-based platforms, such as mobile money transfer service, e-banking and e-marketing and millions of Kenyans are accessing these essential services. The government has further implemented several initiatives in order to develop the sector as highlighted in this chapter.

The ICT sector is a key enabler to the attainment of the goals and aspirations of the Vision 2030. The thrust of the vision with regard to the ICT sector is to transform Kenya into a knowledge and information-based economy by enabling access to quality, affordable and reliable ICT services in Kenya. ICT is expected to support economic development, thus bringing productivity and innovation across sectors.

15.2 Sector Performance

Generally, the Information and Communication Technology (ICT) sector recorded impressive growth in many aspects (KNBS, 2015). The penetration of technology into the country has increased as demonstrated by increase in the number of cellular service subscribers, significant increase in terms of Internet users, reduced telecommunication costs, and heavy investment in the ICT sector.

Employment in the telecommunication operators increased to 6,201 in 2014 and this can largely be attributed to the entry of Equitel into the sector as well as increase in new services by the existing operators (KNBS, 2015). Likewise, the value of ICT output increased to Ksh 262.3 million in 2014 from Ksh 232.7 million in 2013. However, the value of exports for ICT equipment declined to Ksh 1.3 billion in 2014 from Ksh 2.3 billion in 2013.

The number of internet users went up to 26.1 million. Similarly, the number of mobile service subscribers has gone up to about 33.6 million. The number of mobile money services users has gone up to 26 million and likewise the amount of money transacted in 2014 went up to over 2.3

trillion shillings from 1.9 trillion in 2013. The value of ICT output increased by 12.7 per cent to stand at Ksh 262.3 million in 2014, compared to Ksh 232.7 million in 2013 because of several digital initiatives by public and private sectors. In 2014, the value of exports declined by 45.3 per cent to stand at Ksh 1.3 billion in 2014, while the total value of imported ICT equipment stood at Ksh 41.7 billion in 2014, to which a huge share went to purchase of telecommunication facilities.

Mobile cellular subscriptions

Kenya has recorded a significant growth over the last few years in terms of mobile cellular subscriptions. The number of Kenyans using new forms of cellular services such as data has increased rapidly. Ownership of mobile phones has increased, although Kenya still lags behind other countries such as Ghana and Korea Republic. The mobile cellular subscription includes both post-paid and prepaid subscriptions. More recent statistics of quarter 3 (2014/15) from the Communications Authority of Kenya indicate that the number of subscribers has significantly increased to 34.7 million users following entry into the market by Finserve Africa Limited (Equitel), a Mobile Virtual Network Operator. Safaricom has the highest number of subscribers due to its huge infrastructural investment, as shown in Table 15.2.

Table 15.1: Mobile cellular subscriptions (per 100 People)

Country/Year	2010	2011	2012	2013	2014
Kenya	61	67	71	71	74
Ghana	72	85	101	108	115
Rwanda	33	40	50	57	64
Korea Republic	105	108	109	111	116

Source: World Bank (2015)

Table 15.2: Mobile subscription per operator as at March 2015

Name of operator	Total subscribers
Safaricom Ltd	23,347,191
Airtel Networks Ltd	7,015,602
Finserve Africa (Equitel)	665,661
Telkom Kenya (Orange)	3,766,003
Total subscriptions	34,794,457

Source: Communications Authority of Kenya (2015)

Fixed and mobile rates

As shown in Table 15.3, calling rates have been fairly stable for mobile to mobile local call as well as mobile to fixed local call. Price per short message service (sms) has also been declining. It is estimated that telecommunication companies are generating less revenue from voice and sms because users are preferring to use free voice and messaging services from communication applications such as Skype and Whatsup (KNBS, 2015).

Internet users

Over the last few years, Kenya has continued to record significant growth in terms of Internet usage as compared to other African countries. The growth can be attributed to efforts that are already underway, initiated by both public and private sectors. The growth is expected to continue as the country continues to put fibre cable across the country. Currently, there are three major submarine cables, namely SEACOM, TEAMS and EASSY. The advent of better international connectivity is going to increase the number of Internet users. This growth will also lead to growth of new industries such as Internet-enabled service providers, mobile content delivery service providers, and mobile virtual network operators such as Equitel. According to the Communications Authority of Kenya, the wide adoption of Internet technology to offer government e-services has driven the growth of

Internet. This will provide significant opportunities for economic growth. The number of Internet users in 2014 increased by 23 per cent to stand at 26.2 million (Table 15.4). Likewise, the number of licensed Internet Service Providers (ISPs) increased to 185 in 2014 from 171 in 2013 (KNBS, 2015). The data market and in particular the mobile data has continued to expand as reflected by the increase in number of users. Likewise, the cost of internet services has declined significantly following several initiatives by different players.

Table 15.3: Fixed and mobile rates (Ksh)

	2010	2011	2012	2013	2014
Cheapest recharge card value	5.00	5.00	5.00	5.00	5.00
Average price of a one minute mobile to mobile local call	3.29	3.29	3.57	3.86	3.11
Average price of a one minute mobile to fixed local call	10.26	2.93	3.17	3.25	3.25
Average price per sms	1.50	1.50	1.50	1.50	1.00

Table 15.4: Internet users (per 100 People)

Country/Year	2010	2011	2012	2013	2014
Kenya	**14.0**	**28.0**	**32.1**	**39.0**	**43.4**
Ghana	7.8	14.1	12.3	12.3	18.9
Rwanda	8.0	7.0	8.0	8.7	10.6
South Africa	24.0	34.0	41.0	48.9	49.0
Korea Republic	83.7	83.8	84.1	84.8	84.3

Source: World Bank (2015)

Mobile money services

Mobile money services recorded a very positive growth in terms of the number of agents who facilitate transfer of money, from 32,949 in 2010 to 121,924 in 2014 as shown in Table 15.5. Likewise, the number of mobile money transfer service subscribers increased from 10 million in 2010 to about 26 million subscribers in 2014. In addition, the amount of money transferred increased from Ksh 90 billion in 2010 to Ksh 2.3 trillion in 2014. This growth can be partly explained by entry of several players in mobile money services, such as Mobikash Africa and Mobile Pay Limited, in addition to Safaricom, Airtel, Essar and Telkom Ltd. More recently, the market has seen an entry by Finserve Africa Limited (Equitel), a Mobile Virtual Network Operator.

Domains registered

A domain refers to administrative autonomy, authority or control of the Internet. It is denoted by domain name. The number of organizations both in public and private sectors using domain names (Table 15.6) continue to rise. There were 314 government entities with domain names in 2014 as compared to only 157 in 2011. This can be attributed to the efforts made by the ICT Authority to offer e-services. However, the number of go.ke domains reduced from 339 in 2013 to 314 in 2014 following the merging of several ministries under the current government. Several institutions of higher learning have continued to register domains in order to attract more students and particularly because of e-learning-based technologies. Likewise, companies have also taken up web technology after realizing the competitive advantage the technology offers.

Table 15.5: Mobile money services

	2010	2011	2012	2013	2014
Mobile money transfer agents	32,949	42,313	49,079	93,689	121,924
Mobile money transfer services subscribers ('000)	10,615	17,396	19,319	26,016	26,023
Total transfers(in Ksh billion)	90	487	672	1,902	2,372

Source: KNBS (2015)

Table 15.6: Domains registered

Sub domain	Users	2011	2012	2013	2014
.ac.ke	Institutions of higher education	341	603	737	792
.co.ke	Companies	12,798	22,607	27,643	35,274
.go.ke	Government entities	157	278	339	314
Total domains	14,160	25,013	30,585	38,533	

Source: KNBS (2015)

Media frequencies

Kenya is transforming into an information society where information is created, stored and shared to support economic, political and social activities. The number of TV frequencies rose from 91 in 2011 to 339 in 2014, while radio frequencies increased from 346 to 575 over the same period (KNBS, 2015). More TV frequencies are expected to be recorded in the next few years with adoption of digital transmission technologies in the sector. The digital TV platform could lead to the growth of new industries such as mobile content delivery service providers. According to the Communication Authority of Kenya 2014 report, the number of licensed content service providers rose from 188 in 2013 to 221 in 2014. Currently, there are several IPTV service providers such as Zuku providing TV content over the digital network. Safaricom Ltd is one of the latest companies to apply for license to offer IPTV services. Likewise, Kenya is likely to record increased demand for radio frequencies in the next few years because of better communication infrastructure.

Networked readiness

Global Information Technology Report ranked Kenya 86 out of 143 countries in terms of network readiness in 2015 (Table 15.7). Kenya ranked relatively better than most of the African countries due to several initiatives undertaken by both public and private sectors.

Table 15.7: The Networked Readiness Index

Country	Score	Position (out of 143 countries) -2015
Korea Republic	5.5	12
Brazil	3.9	84
South Africa	4.0	75
Rwanda	3.9	83
Kenya	3.8	86
Ghana	3.5	101

Source: World Economic Forum (2015)

Cyber security

Kenya like many other African countries performs poorly in terms of securing its computing services. According to a report from Ministry of Information, Communications and Technology, Kenya loses more that Ksh 2 billion to cyber criminals. It is estimated that figures could be higher because most of the cyber security-related frauds are either under reported or undetected. Most of the attacks involve financial crimes. According to Kenya Cyber Security report 2014, Kenya faces various threats raging from insiders threats, VOIP fraud, abuse of social media, denial of service attacks, and espionage to online and mobile banking frauds. The report indicates that in 2013, the number of cyber threat attacks detected in the Kenyan cyberspace grew by 108 per cent to 5.4 million attacks compared to 2.6 million attacks detected in 2012. This means that the number of attacks more than doubled. The report indicates that Kenyan cyber space experiences cyber attacks from different countries such as China, Germany, USA, Brazil and India.

Table 15.8: Secure Internet servers (per 1 million people)

Country/Year	2010	2011	2012	2013	2014
Kenya	3	3	4	5	8
Ghana	2	2	3	3	4
Rwanda	1	1	2	3	4
South Africa	61	72	82	86	116
Korea Republic	1,128	2,496	2,752	1,995	2,177

Source: World Bank (2015)

Despite having initiatives such as formation of the national Computer Incident Response Teams (CIRTs) and revision of Cyber Security Master Plan, Kenya is performing poorly in terms of detecting and responding to different computer crimes. The rate of securing the computing services has not matched the significant growth seen in the sector (Table 15.8). A possible explanation to this huge discrepancy is as result of low priority the security domain has received over the years. This is a serious concern that can easily reverse all the gains in the ICT sector.

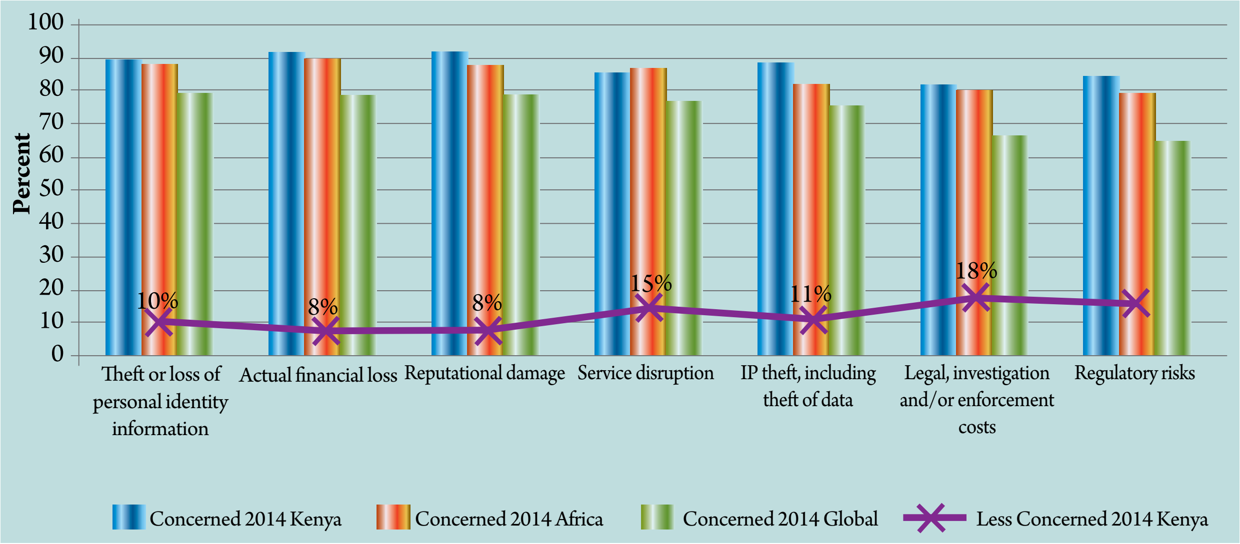
The concern of computer security is further illustrated by a study prepared by Price Water House Coopers (PWC, 2014). The report indicates that cyber security is a major concern in the ICT industry both in Kenya as well as in Africa. Various aspects of cyber security such as theft or loss of personal identity information and financial loss require immediate attention both at local and international levels.

In terms of how computer users perceive cyber crime, more Kenyans are becoming aware of the crime (Figure 15.2). This can be attributed to the recent initiatives from public and private sector to educate Kenyans about cyber security incidents.

Employment, revenue and investment

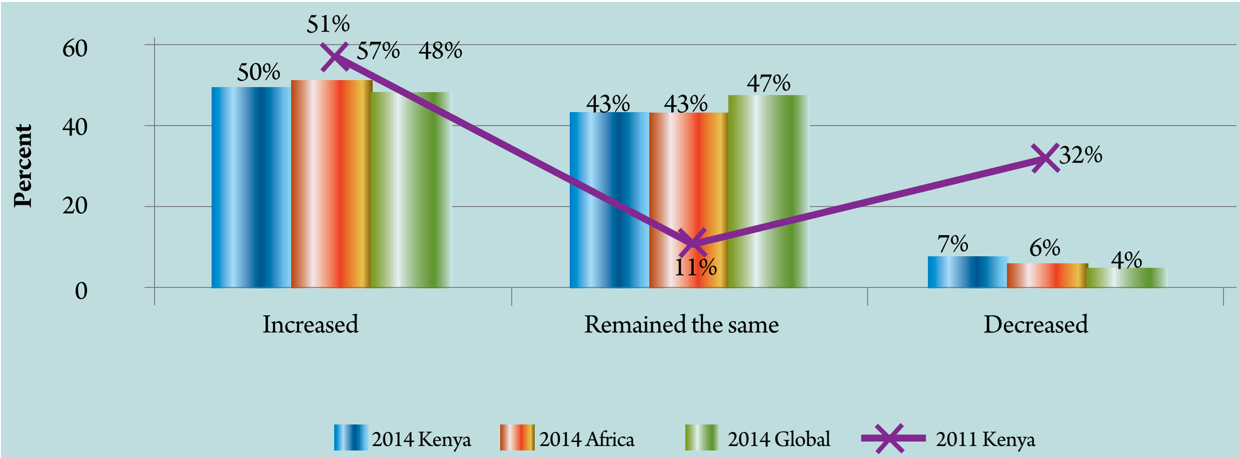
Employment in the telecommunication operators increased to 6,201 in 2014 while those for ISPs increased to 6,237 (Table 15.9). This can largely be attributed to the entry of Equitel into the telecommunication sector, and increase in new

Figure 15.1: Cyber crime report



Source: PWC (2014)

Figure 15.2: How perception of risk of cyber crime has changed



Source: PWC (2014)

services by the existing operators. In addition, the telecommunication operators invested Ksh 32.5 billion in 2014, which in return generated revenue of Ksh 173.6 billion. Likewise, ISPs invested Ksh 3.4 billion in 2014, which in return generated revenue of Ksh 15.7 billion. The huge revenue by operators is attributed to the huge demand in data market as well as money transfer services. In addition, the increase in investment can be attributed to the recent upgrade of network infrastructure to offer cheaper and better services. For instance, Safaricom recently rolled out its 4G services using LTE technology, and has invested heavily in fiber optic cable expansion programme. Similarly, Airtel has been investing in better technologies to offer better services.

The value of exports for IT equipment declined to Ksh 1.3 billion in 2014 from Ksh 2.3 billion in 2013. The export of reception apparatus for radio broadcasting, automatic data processing machines and storage units, and telecommunications equipment recorded a decline because of various reasons. The digital TV migration led to limited export of reception apparatus, while availability of better technologies to keep large databases such as cloud computing led to a decline in export of storage units. In addition, with the change of technology from 2/3G technologies to 4G, many telecommunication operators are looking for ways to upgrade their infrastructure, and hence less export of the existing technologies.

15.3 Recent Initiatives and Policy Developments

Kenya has recently initiated several programmes and developed strategies and policies to ensure ICTs

Table 15.9: Employment, revenue and investment Trade in ICT equipment

		2011	2012	2013	2014
Employment (Number)	Telecommunication operators	5,827	5,542	5,668	6,201
	Internet Service Providers (ISPS)	7,482	7,184	7,076	6,237
Annual Investment (Ksh billions)	Telecommunication operators	34.6	33.8	30.4	32.5
	Internet Service Providers (ISPS)	5.2	6.4	3.7	3.4
Annual Revenue (Ksh billions)	Telecommunication operators	22.5	134.1	152.5	173.6
	Internet Service Providers (ISPS)	11.7	12.8	14.6	15.7

Source: KNBS (2015)

are appropriately adopted in different sectors. The government has embarked on using technology to transform service delivery. For example, more than 16 Huduma centres across the country have been introduced with the aim of providing citizens with access to more than 25 government services from one-stop shop citizen service centres. More citizen-focused services will be deployed at Huduma centres country-wide. It is estimated that more than 2,500 Kenyans access government services at Huduma centres on a daily basis.

The government has also embraced ICT to digitize several services across several sectors. For example, by visiting www.ecitizen.go.ke, Kenyans can now register businesses, search for business names, contact and apply for marriage certificates, apply and renew passports, apply and renew driving licenses, and apply for land rent clearance certificates, among other online services. In addition, several efforts have been put in place to digitize government records in several registries across many ministries such as Ministry of Lands, Housing and Urban Development. The government has attempted to create digital profiles for all civil servants, a move that has yielded positive gains in terms of identifying ghost employees in the government payroll. Other related initiatives include the introduction of i-Tax online e-services to improve the efficiency in tax collection; use of Integrated Financial Management Information Systems (IFMIS) that offers a unified financial management solution to government offices; and e-procurement system to address procurement-related challenges.

Similarly, the government has rolled out an initiative to diffuse ICT know-how to the rural and marginalized areas to address regional disparities. This is an ambitious programme that entails creation of several digital villages across the country. The services include, but not limited to, e-mail and internet access but also e-government services - police abstract forms, tax returns, and driving licence applications.

The Government of Kenya is setting up a technology park at Konza as part of the Vision 2030 flagship project on 5,000 acre site. The park is expected to host a business processing outsourcing (BPO) park, science park, convention centre, mega mall, hotels, international schools, world class hospitals, championship golf course, financial district, and high speed mass transportation and integrated infrastructure. The park will enable job creation, and also provide the necessary environment to attract investment. So far, initial steps are underway to prepare for the take-off of the project. The authority to spearhead the Konza project has been established and appointment to several key positions has been done.

In order to enhance integration of ICT into teaching and learning, the government has developed a plan to introduce computers to class one pupils. It is expected that laptops will improve learning by providing a means to access and use learning materials from different sources. So far, an institutional framework has been created to address ICT integration in education. Moreover, it is expected that in the next few months, most primary schools will be connected to the national power grid. Poor distribution of power is one of the factors that has delayed the implementation of the computer programme in schools.

The Communications Authority of Kenya has recently led the country to switch-over to digital broadcasting systems in conformity with the resolutions of the 2nd Session of the Regional Radio Communications Conference 2006 (RRC-06). It was mandatory for all countries to migrate to digital broadcasting technologies by June 2015. Digital broadcasting technologies allow multiple broadcasting services, improved video and audio quality, as well as digital dividends that will emanate from greater spectrum efficiency due to the additional number of programmes that can be accommodated in any one frequency channel. The digital migration programme was executed and the country has already migrated to digital broadcasting platform.

The government has recently formulated a National Broadband Strategy to make Internet access available and affordable to all Kenyans. The cost of accessing Internet services has continued to decline and more citizens are able to access the service. Other recent strategies include an e-government strategy to guide the development of ICT in the country. More recently, the County ICT roadmap project kicked off in March 2015 to reduce the digital divide gap at county levels.

In order to address the rising cases of information and cyber-related crimes, notable progress was made through enactment of the Kenya Information and Communications Act (Cap 411A) and the Kenya Information and Communications (Electronic Certification and Domain Name Administration) Regulations. These provide for a legal and regulatory framework for electronic certification services to empower the Communications Authority to license and regulate the activities of Certification Service Providers (CSPs) in Kenya. CSPs are expected to perform a trusted role in verifying the identities of parties in electronic transactions. The Authority will provide the assurance that the CSPs responsibilities are met and that these services are made available with high integrity, security and service standards. In this regard, the Authority is implementing a Public Key Infrastructure (PKI) - a system for the creation, storage and distribution of digital certificates to be used to verify that a particular public key belongs to a certain entity. PKI creates digital certificates that map public keys to entities, securely storing these certificates in a central repository, and revoking them if needed.

In addition, the Critical Infrastructure Protection Bill has recently been shared with the stakeholders, which is a critical stage towards addressing cyber-related crimes. Other cyber security-related initiatives include: Revision by the ICT Authority of the National Cyber Security Strategy; Initial efforts to develop Cyber Forensic Lab; and ICT Authority to consolidate all the cyber-related management activities to be under one roof, including the management of government websites. In addition, the government has recently formed the national Computer Incident Response Teams (CIRTs) to respond to computer-related incidents.

Other ICT recent initiatives and projects include expansion of connectivity across the major towns, installation of CCTV cameras in major towns across the country, local content programme (such as Tandaa Digital Content Grants and Open Data Portal), introduction of ICT curriculum at secondary school level, and opening up of mobile virtual network operator services such as Equitel (a mobile money service under Equity Bank).

15.4 Challenges

Kenya has continued to attract global attention since the invention of the mobile money transfer service - MPesa and other similar services from Airtel and Orange. The massive investment and adoption of ICT in Kenya across the many sectors of the economy is now almost unparalled in Africa. This has inevitably also opened up the country's cyber space to more risks, both at national and international levels. Securing the Kenyan cyber space has always been a challenge due to lack of a legal framework to handle cyber-related crimes. Unfortunately also, most technology users in Kenya lack basic understanding of what information security entails. Information security and privacy of data receives low priority from top management in many organizations because perhaps the cost of having up to date security solution is way too high for an average Kenyan.

Cyber security could take many forms such as privacy of data, cyber terrorism, cyber welfare and warfare, underground Internet, espionage and cyber infrastructure vandalism. Many organizations are reactive and not proactive when it comes to addressing these issues of information security.

In terms of digital divide, Kenya has a huge gap between demographics and regions that have access to modern information and communications technology, including telephone, television, personal computers and the Internet.

With the increased use of technology in Kenya, cyber bullying has become increasingly common among teenagers and at work places. This is an action of harming or harassing via information technology networks in a repeated and deliberate manner, and takes many forms such as posting rumours or gossips about a person in the Internet, bringing about hatred in others' minds and thereby severely defaming and humiliating the victims. Other forms of cyber bullying include cyber stalking and cyber harassment.

Another emerging phenomenon is that of hacktivism, or the act of hacking, or breaking into a computer system, for a politically or socially-motivated purpose. It could take the form of creating software and websites to champion human rights, or accessing information or having a platform that offers anonymous communication in order to air out grievances to authorities. It is an emerging issue that could lead to political and social conflicts among different communities.

Other developments include the emergence of digital currencies such as Bitcoin, which can be used locally without appropriate legal frameworks.

15.5 Policy Recommendations

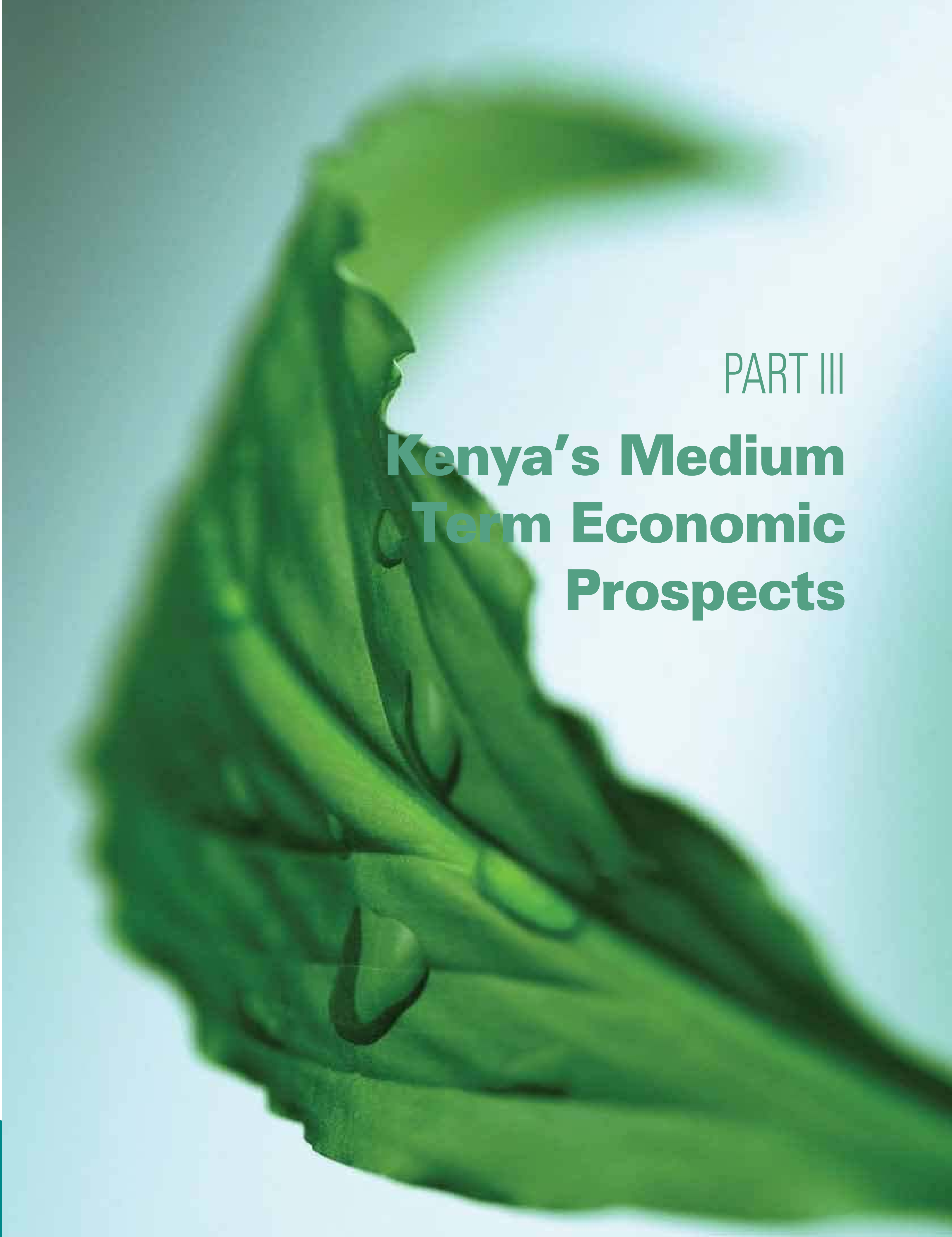
Based on the aforementioned challenges and trends in statistics in the sector, there are a number of policy recommendations that need to be considered.

Firstly, there is need to formulate and implement appropriate policies to ensure that the public is aware on safety and security matters of technology. In addition, the Ministry should develop appropriate laws and regulations that protect against cyber crimes, and also develop better coordination and strengthening of cyber-related efforts in order to have a more unified mechanism of addressing cyber-attacks, at both local and international levels. The efforts should also focus on training adequate personnel with appropriate skills to deal with all types of cyber crimes.

Secondly, there is need for appropriate laws and regulations on the usage and adoption of emerging technologies such as cloud and mobile computing, telecommuting and proper usage of technology in work places.

PART III

Kenya's Medium Term Economic Prospects



Chapter 16

Medium Term Economic Prospects

16.1 Introduction

This chapter analyzes the prospects in the medium term for key macroeconomic indicators and selected sector indicators. Projections mainly cover general economic performance (economic growth, inflation, exports, imports) but also education and poverty situation in the country.

16.2 Macroeconomic Performance

The KIPPRA Treasury Macro-Model (KTMM) is the forecasting framework upon which macroeconomic prospects are generated. The model has captured actual data and information for the period 2012 up to December 2014. The medium term projections for the macroeconomic indicators cover the period 2015-2018.

16.2.1 Recent macroeconomic performance

The growth rate in 2014 was 5.3 per cent, which was slightly lower than the 5.7 per cent growth rate in 2013. This level of economic growth in Kenya is expected to generate the much needed impetus to boost Kenya's development agenda in achieving a growth rate of 10 per cent in the medium term.

Among all the economic sectors, the tourism sector had a slump due to insecurity. The global oil prices that had stabilized at low levels towards the end of 2014 later started to increase. Although there was a slight increase in inflation from 5.7 per cent in 2013 to 6.8 per cent in 2014, inflation in the country was fairly stable, with highest levels of 8.3 per cent recorded in August, lowest of 6.0 per cent in December and an annual average of 6.8 per cent.

16.2.2 Economic Projections for 2015-2018

Kenya is projected to reach 7.1 per cent economic growth rate in 2018 (Table 16.1), a performance close to 8.4 per cent recorded in 2010. Medium term growth prospects are positive, predicated on the following key assumptions:

- Structural reforms and public investment in infrastructure will continue as planned, thus improving the business environment and the potential GDP of the economy;

- A stable political climate will prevail, and county governments will be growth-oriented;
- Favourable weather conditions will prevail to sustain improvements in agricultural output;
- There will be a stable regional and global economic environment for Kenya's trading partners; and
- Security status will continue to improve.

16.2.3 MTP II Targets

The Medium Term Plan II projections reflect favourable macroeconomic conditions such as expected increases in foreign direct investment to support exploration and extraction of oil, gas and minerals; and price stability. Additionally, major foreign investments are anticipated for the Lamu Port and Southern Sudan-Ethiopia (LAPSSET) corridor, modernization of the Port of Mombasa; Mombasa-Malaba railway; expansion of Jomo Kenyatta International Airport; Ethiopia power interconnectivity; completion of Olkaria IV; and carbon credits.

Table 16.2: Real GDP and sectoral growth targets, 2012-2017

	2012	2013	2014	2015	2016	2017
Overall GDP	4.6	6.1	7.2	8.7	9.1	10.1
Agriculture	3.8	5.1	6.5	6.8	7.1	6.7
Industry	4.5	6.0	7.6	8.6	10.1	10.2
Services	4.8	6.5	7.3	9.4	10.0	10.1

Source: MTP II (2013-2017)

The targeted economic growth for 2013 was almost achieved as the economy registered 5.7 per cent growth rate. However, for 2014, economic growth rate was way out of the target of 7.2 per cent, as actual growth was only 5.3 per cent. The MTP projections were ambitious, predicated on favourable economic environment and timely implementation of flagship projects.

16.2.4 Education sector prospects

Analysis of the medium term prospects for the education sector were done using the Education Financial Simulation Model. The projections' assumptions are consistent with the national education policy commitments. These include integration of Early Childhood Development Education (ECDE) into basic education, implementation of Free Primary Education (FPE)

Table 16.1: Economic projections for 2015-2018

	2012	2013	2014	2015	2016	2017	2018
GDP Growth	4.6	5.7	5.3	5.8	6.5	6.8	7.1
Inflation	9.6	5.7	6.8	6.1	6.0	5.1	5.0
Private Consumption	5.8	8.2	5.5	6.9	6.1	6.5	6.8
Government Consumption	7.0	5.0	2.7	3.8	5.6	5.8	5.4
Private Investment	8.0	2.5	7.9	8.1	8.5	9.5	6.9
Government Investment	18.0	13.7	12.0	8.1	6.8	7.0	6.9
Exports of goods and services	-0.4	-0.6	2.3	4.3	4.7	5.2	5.1
Imports of goods and services	5.1	0.3	9.7	5.0	5.2	6.5	5.2
Current Account Balance	-10.5	-10.5	-11.0	-12.2	-13.1	-14.7	15.1
Public Expenditure (% GDP)	25.2	26.3	28.5	28.4	27.3	26.2	25.1
Interest Rate	12.8	8.9	8.9	8.3	8.3	8.3	8.4

Source: KIPPRA estimates using the KIPPRA-Treasury Macro-Model (KTMM) and Free Day Secondary Education (FDSE). According to Sessional Paper No. 14 of 2012, the government reaffirms its policy commitment to integrate at least one year of ECDE in basic education. This covers children aged 4-5 years. On the other hand, the entry age for primary education is set at 6 years. Thus the ECDE age cohort and the proportion enrolled in Standard 1 (population aged 6 years) provides the base for projecting ECDE, primary and secondary school age population, and enrolment. Other assumptions include school age population growth rate of 2.6 per cent, and less than 5.0 per cent repetition and dropout rate. Table 16.3 presents education projections for the period 2015-2018.

Projections for enrolment for school age-populations at ECDE (4-5 years), primary (6-13 years) and secondary school (14-17 years) are expected to increase between 2014 and 2018. Table 16.3 shows prospects of corresponding enrolments in ECDE, and public primary and secondary schools at 81.4 per cent, 104.0 per cent and 64.0 per cent, respectively.

According to the 2009 Population Census, the school-age population for ECDE schooling (4-5 years) was estimated at 2.4 million. This is expected to rise to 3.0 million in 2016 and 3.3 million by 2018, assuming the population growth rate of 2.6 per cent across all school age population groups. Primary school-age population (6-13 years) is projected to rise to 11.6 million by the year 2018, while at secondary school level the school-age population (14-17 years) is projected to increase to 3.9 million by 2018. The population aged 18-25 years was projected to increase from 6.1 million in 2009 to 6.8 million by 2018.

Total primary school enrolment is expected to grow at a steady rate during 2014-2018 following the stabilization of the impact of Free Primary Education (FPE), with enrolment expected to increase to 12 million by 2018 (Table 16.3).

Table 16.3: Education projections, 2014-2018 (millions)

School age population	2014			2015			2016			2017			2018		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
4-5 Years	1.5	1.5	3.0	1.5	1.5	3.0	1.6	1.5	3.1	1.6	1.6	3.2	1.7	1.6	3.3
6-13 Years	5.1	5.1	10.2	5.4	5.3	10.7	5.5	5.5	11.0	5.7	5.6	11.3	5.8	5.7	11.6
14-17 Years	1.8	1.7	3.5	1.8	1.8	3.6	1.9	1.8	3.7	1.9	1.9	3.8	2.0	1.9	3.9
18-25 Years	3.1	3.2	6.3	3.2	3.2	6.3	3.2	3.3	6.5	3.3	3.3	6.7	3.4	3.4	6.8
Total Basic Education Enrolment	7.8	7.3	15.1	8.3	7.6	15.9	8.5	7.8	16.3	8.7	8.0	16.7	9.0	8.2	17.1
ECDE	1.1	1.1	2.2	1.4	1.1	2.5	1.4	1.1	2.5	1.5	1.1	2.6	1.5	1.2	2.7
Primary	5.5	5.1	10.6	5.7	5.3	11.1	5.9	5.5	11.4	6.0	5.6	11.7	6.2	5.8	12.0
Secondary	1.1	1.1	2.3	1.2	1.2	2.3	1.2	1.2	2.4	1.2	1.2	2.4	1.3	1.2	2.5
Public Enrolment	7.0	6.5	13.5	7.5	6.8	14.3	7.7	7.0	14.7	7.9	7.1	15.0	8.1	7.3	15.4
ECDE	0.8	0.8	1.6	1.1	0.8	1.8	1.1	0.8	1.9	1.1	0.8	1.9	1.2	0.8	2.0
Primary	5.1	4.7	9.8	5.3	5.0	10.3	5.5	5.1	10.6	5.6	5.2	10.8	5.7	5.4	11.1
Secondary	1.1	1.0	2.1	1.1	1.1	2.2	1.1	1.1	2.2	1.2	1.1	2.3	1.2	1.2	2.3
% Public															
ECDE	71.4	71.2	71.3	77	71.2	74.5	77	71.2	74.5	77	71.2	74.5	77.0	71.2	74.5
Primary	92.7	92.7	92.7	92.8	92.9	92.8	92.8	92.9	92.8	92.8	92.9	92.8	92.8	92.9	92.8
Secondary	93.9	92.9	93.4	93.9	92.9	93.4	93.9	92.9	93.4	93.9	92.9	93.4	93.9	92.9	93.4
Targeted GER (%)															
ECDE	74.4	73.6	74.0	90.4	72.0	81.4	90.4	72.0	81.4	90.4	72.0	81.4	90.4	72.0	81.4
Primary	107.0	101.0	104.0	107.0	101.0	104.0	107.0	101.0	104.0	107.0	101.0	104.0	107.0	101.0	104.0
Secondary	63.8	64.0	63.9	63.9	64.1	64.0	63.9	64.1	64.0	63.9	64.1	64.0	63.9	64.1	64.0

Source: Education Simulation Model

Overall, the demand for education is expected to increase due to the proposed education reforms (Sessional Paper No. 14 of 2012, Basic Education Act of 2013) and increase in school age population. The expansion is as a result of a number of factors, including: the impact of free primary education and hence the growth in numbers completing class 8; the policy of increasing the transition rate to over 75 per cent from year 2012; secondary education expansion interventions, including the implementation of Free Day Secondary Education policy; and internal efficiency gains in primary and secondary schools.

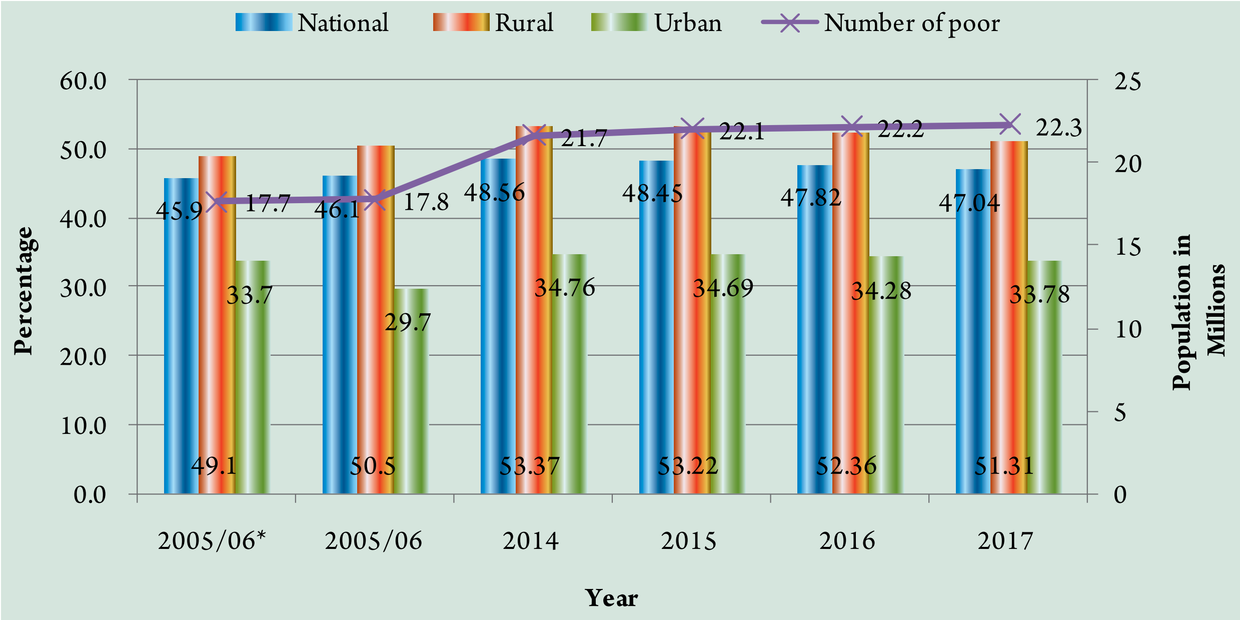
However, despite the anticipated gains from increases in education enrolment, the expected increase in demand for schooling has major financial implications for both the national and county governments. Provision of basic education for about 17.1 million children (ECDE, primary and secondary education) by 2018, and tertiary education and skills development programmes for about 6.8 million youth by 2018 is going to be a big challenge.

16.2.5 Poverty projections and medium term prospects

Poverty is a function of changes in GDP growth rate and Gini coefficient. The projection methodology is based on the idea that changes in poverty over time and space are determined by changes in economic growth and distribution of income. As economic growth increases, poverty decreases, and as inequality worsens, poverty increases. In this section, we use values (coefficients) from the results of poverty regressions in Ali and Thorbecke (2000), who estimated a cross country poverty regression for Sub-Saharan Africa, Kenya included. We make a strong assumption that the estimated coefficients apply outside the sample period.

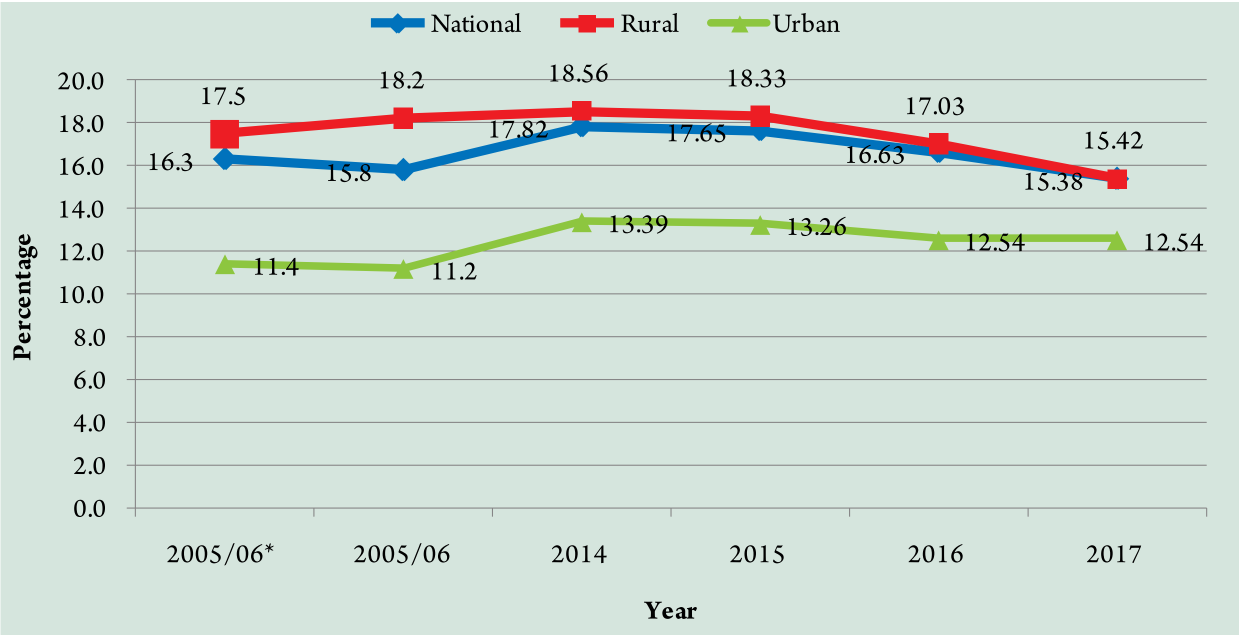
The data on GDP growth and income distribution are obtained from government documents and published literature. In the absence of annual data on the Gini coefficient, estimates are commuted. The poverty rates are obtained using the Kenya Integrated Household Budget Survey - KIHBS 2005/6 to project the poverty rates.

Figure 16.1: National poverty headcount



Source: Authors' computations based on 2005/6 KIHBS data

Figure 16.2: Poverty depth/gap



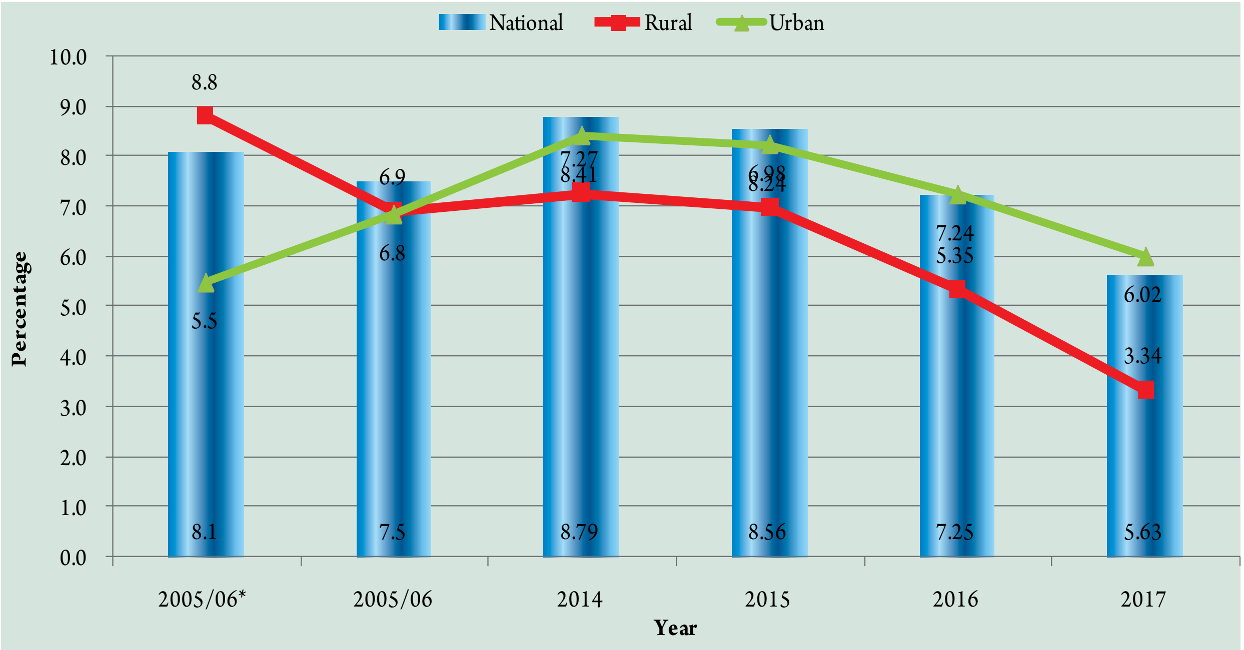
Source: Authors' computations based on 2005/6 KIHBS data; * based on estimates

Both rural and urban absolute poverty rates will continue to decline between 2014 and 2017, with improvement in the economic environment of the country. However, the projected decline in absolute poverty rate may only be sustained if economic growth trickles down to the poor. The number of poor people is expected to increase from 21.7 million in 2014 to 22.3 million in 2017.

Using an alternative measure, poverty depth/gap, which measures how far below the incomes of the poor are from the poverty line, the model projections show that incomes of the poor would decrease incredibly between 2014 and 2017 from 18.6 per cent to 15.4 per cent at the national level, 17.8 per cent to 14.4 per cent and 13.4 per cent to 12.5 per cent for rural and urban areas, respectively, during the same period (Figure 16.2).

Similarly, the severity as a result of good economic environment and long-term impact of social protection programmes will be realized by the very poor in the long-term. Rural poverty is projected to experience the highest impact. Poverty severity will decline from 8.41 per cent to 3.30 per cent in rural areas, while urban poverty severity will decline marginally from 7.3 per cent to 6.0 per cent. The decline is much lower than the national poverty severity.

Figure 16.3: Poverty severity



Source: Authors' computations based on 2005/6 KIHBS data; * based on estimates

PART IV

Empowering Youth Through Productive and Decent Employment

Chapter 17

State of Kenyan Youth with a Focus on Labour Market Indicators

17.1 Introduction

Kenyan youth are the epicentre of the government's transformative agenda because the 15-34 years cohort that comprises the youth accounts for 35 per cent of the total population, and 60 per cent of the labourforce. Thus, youth empowerment initiatives are central in the development agenda, including Kenya's commitment to international efforts such as the Commonwealth Plan of Action for Youth, which provides the blueprint for youth development. Moreover, Kenya subscribes to the World Programme of Action for Youth (WPAY) policy framework and practical guidelines for national action and international support to improve the welfare of the youth.

Regionally, Kenya also champions the African Youth Charter (2006) and the Decade Plan of Action for Youth Development and Empowerment (2009-2018). The Charter serves as the political and legal framework for action. It takes stock of the education, employment and other African youth-related issues. At the summit held in Kenya, Head of States and Governments of the 12 member states of the International Conference on the Great Lakes Region (ICGLR) declared "the youth unemployment crisis as a disaster that can undermine our economies, threaten the peace and destabilize our institutions if it not addressed".

Locally, the government's commitment to youth empowerment is enshrined in several provisions of the Constitution. Specifically, Article 55 mandates the State to take measures, including affirmative action programmes, to employment accessibility, among others, that include access to education and training, and political, social and economic representation and protection from harmful cultural practices and exploitation. In view of the aforementioned commitments, the government's effort to implement youth empowerment activities is imbedded in the National Youth Policy, the National Youth Council (NYC) Act, and the Sector Plan for Labour, Youth and Human Resource Development and National Action Plan on Youth Employment.

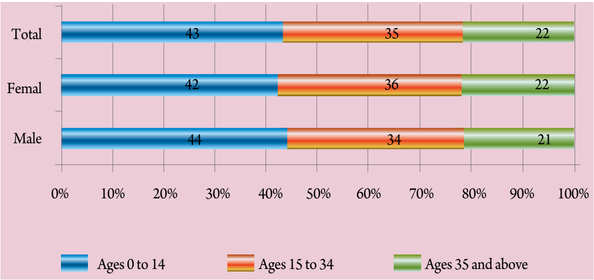
The government's commitment notwithstanding, the profile of the majority of youth, nonetheless, casts doubt on whether the youth are prepared to take up the transformation responsibilities. On average, the youth live on the periphery and are excluded from participating in the formulation of policies that affect them. They face a host of challenges, including unemployment, under-employment, and social issues of alcoholism and drug abuse. Such challenges demand for public policy intervention. The government is alive to this policy demand as evidenced by its commitment to the youth agenda, through initiatives such as the Uwezo Fund, Youth Access to Government Procurement Opportunities, and Youth Enterprise Fund.

Undoubtedly, youth unemployment is the most critical challenge confronting the youth. Therefore, it is important to interrogate the state of youth unemployment and under-employment. Conducting such exercise requires careful profiling of the youth based on socio-economic activities, and status of unemployment and under-employment.

17.2 Demographic and Socio-economic Profile

The annual population growth rate for Kenya increased steadily from 2.5 per cent in 1948 and peaked in 1979 at 3.8 per cent. Albeit still high, the annual population growth rate declined to 3.4 per cent in 1989 and further to 2.5 per cent in 1999. The 2009 census indicates that the 1999-2009 inter-census population growth rate was 3.0 per cent per year, still among the highest in the world. Kenya's population structure is captured by the 2009 census, as shown in Figure 17.1.

Figure 17.1: Structure of the population in Kenya, 2009



Data Source: KNBS (2009), Kenya Population and Housing Census

The total population was estimated at about 35 million in 2005 and nearly 40 million in 2009 (Table 17.1). The population in 2014 is projected at 44 million. The relatively large proportion of children (age 0-14) of 43 per cent in 2009 implies that Kenya has a high child dependency ratio (i.e., the number of children per one working age person) estimated at 78 per 100 workers (Table 17.1). A high child dependency ratio implies that relatively large investments would need to be made in schooling and child care. All else equal, savings and other investments would be stifled and economic growth curtailed in a high child dependency nation.

Table 17.1: Selected characteristics of the population, 2005/06 and 2009

	2005/06	2009
Population aged 0-14 – Children (%)	41.9	43.0
Population aged 15-64 – Working age population (%)	54.2	55.0
Population aged 65+ (%)	3.6	3.0
Child dependency ratio (under 15 as a % of working-age population)	-	78.0
Elderly dependency ratio (aged as a % of working-age population)	-	5.0
Overall dependency ratio (%)	84.0	82.4
Total population (millions)	35.5	38.6

Data source: KNBS (2007) and World Bank (2011; 2014)

Table 17.2: Distribution of 15-34 years by selected background characteristics and sex, Kenya 2009

	Female		Male		Total	
	%	Number	%	Number	%	Number
Background characteristic						
Age (Years)						
15-19	29.3	2,044,730	32.1	2,119,390	30.7	4,164,120
20-24	28.8	2,006,940	26.3	1,737,080	27.6	3,744,020
25-29	23.8	1,658,870	22.8	1,505,310	23.3	3,164,180
30-34	18.1	1,258,180	18.7	1,236,310	18.4	2,494,490
Total (aged 15-34)	100.0	6,968,720	100.0	6,598,090		13,566,810
Residence (15-34)						
Urban	32.6	1,930,040	30.0	1,978,070	30.3	4,114,750
Rural	60.3	3,572,740	62.5	4,123,380	62.3	8,445,590
Peri-urban	7.2	425,640	7.5	496,640	7.4	1,006,470
Schooling status (15-34)						
At school	24.9	1,738,640	32.2	2,123,760	28.5	3,862,400
Left school	63.2	4,406,170	57.7	3,804,180	60.5	8,210,350
Never went to school	11.3	786,940	9.5	628,920	10.4	1,415,860
Don’t know	0.5	36,970	0.6	41,230	0.6	78,200
Marital status						
Never married	43.8	305,381	65.0	429,112	54.1	734,493
Married	52.4	365,174	33.7	222,491	43.3	587,665
Widowed, divorced, separated	3.8	26,317	1.2	8,206	2.5	34,523
Household headship						
Head	14.6	1,006,620	36.3	2,360,120	25.1	3,366,740
Spouse	37.8	2,607,100	0.8	54,060	19.9	2,661,160
Other	47.6	3,279,080	62.8	4,081,290	55.0	7,360,370
Orphanhood (father alive)						
Yes	71.9	5,010,200	72.5	4,785,520	72.2	9,795,720
No	26.0	1,811,040	25.0	1,647,710	25.5	3,458,750
Don’t know	2.1	147,480	2.5	164,860	2.4	321,340

Data Source: KNBS (2009), Kenya Population and Housing Census

Table 17.2 provides a profile of male and female youth by age, residence, schooling status, marital status, and orphanhood. Nearly one third of all male and female youth aged 15-34 years are teenagers. This large group of teenagers is likely to be economically dependent on other individuals within the working age population, thus putting pressure on savings, investment and growth. The silver lining is that with the right interventions, there are opportunities to reap a population dividend from this apparent youth bulge.

The population share of each cohort declines as the age bracket rises from 15-19 to 30-34 years. Most of the youth (62%) and over 60 per cent for either sex reside in rural areas. This should inform the relative weights in interventions for rural versus urban areas. With respect to schooling status, there is an implied inequality in education across sex. Whereas about one third of all males were at school, only about one quarter of all female youth were at school in 2009. In addition, 11 per cent of females and 9.5 per cent of males never attended school.

A larger proportion of female youth were married (52%) relative to only 34 per cent of male youth. This is in conformity with the observation that females tend to get married to older males. About one quarter of all youth reported that their father was not alive. This affects their socio-economic outcomes such as education, since single mothers have a higher likelihood of being poor and deprived as found in studies on poverty in Kenya (Mwabu et al., 2002).

17.3 Activity Status

For purposes of the labour market, individuals can be classified as active or inactive. The active population is the sum of those employed and unemployed. The inactive population includes full time students, homemakers, the incapacitated, the retired, and those not active due to other reasons. Sometimes, those not searching for work are included among the inactive category.

The youth aged 15-34 years numbered about 13.6 million and represented about 35 per cent of the total population. About 70 per cent of the youth were active while 30 per cent were inactive. Approximately 62 per cent were employed while nearly 9 per cent of the total youth population were unemployed (Table 17.3).

Figure 17.2 shows that a larger share of the economically active population is the youth, constituting 46.3 per cent of the economically active population. The relatively large share (18.5%) of reported economically active children (aged 5 to14 years) is noticeable and suggests that child labour could be a significant challenge in Kenya, given that about half of the employed children work for long hours that would not allow them to attend school. The implication of this observation is that a significant number of children would graduate into youth with minimal skills to effectively participate in the labour market. The high incidence of economically active children could be a manifestation of high poverty levels. This scenario also suggests that current efforts to promote primary school access, such as the free primary education policy, should be supported by additional well targeted interventions.

Among the youth, the 15-19 age group has the largest share of inactive individuals, constituting about 58 per cent of the total inactive individuals within the youth group (Table 17.4). The largest proportion of inactive youth (about 70%) was full time students. This was equivalent to nearly 20 per cent of the total youth population in 2009. Even if full time students are omitted, the remaining forms of inactivity still affect a larger proportion of the total youth population (9.5%) relative to the unemployed (8.6%) (Table 17.5).

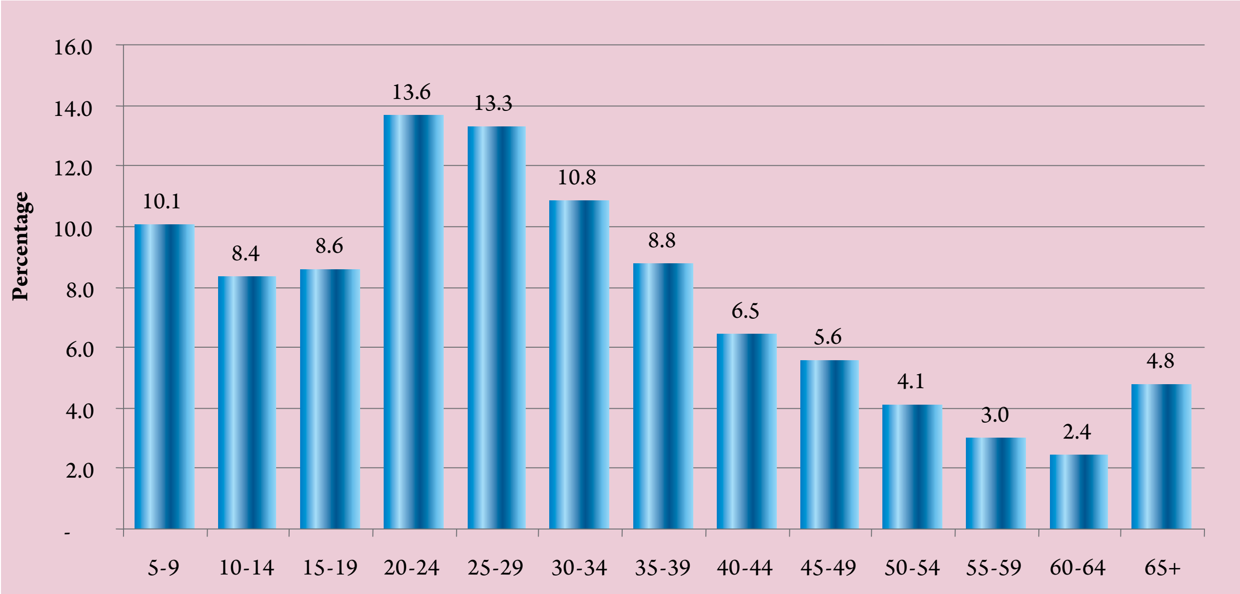
A split of the inactive group by age category suggests that inactivity seems to decline as individuals get older, given that younger youths account for most of the inactivity. About 88 per cent of the inactive youth aged 15-19 were full time students. For the other youth categories aged 20-24, 25-29 and 30-

Table 17.3: Activity status of the youth aged 15 to 34 by sex, 2009

	Male	Female	Total
Population aged 15-34 years	48.6	51.4	13,566,810
Active population (employed and unemployed)	51.5	48.5	9,532,520 (70.1% of total youth)
Inactive population	41.9	58.1	4,034,290 (30.0% of total youth)
Employed	51.3	48.7	8,370,220 (87.8% of active population)
Unemployed	52.9	47.1	1,162,300 (12.2% of active population)

Data Source: KNBS (2009), Kenya Population and Housing Census

Figure 17.2: Distribution of economically active population by age group, 2009



Data Source: KNBS (2009), Kenya Population and Housing Census

34, the proportion of full time students among their inactive population was about 54, 17 and 9 per cent, respectively. Most of the inactive older youth, that is about 78 per cent of the 25-29 and 84 per cent of the 30-34 year olds, are homemakers (Table 17.5).

Table 17.6 introduces the sex dimension and shows that the distribution of inactivity varies by sex. A relatively larger proportion of inactive male youths (87%) are full time students relative to only 52 per cent of females. On the other hand, females are more likely to be homemakers than their male

Table 17.4: Distribution of the population aged 5 years and above by activity status, 2009

Age group (Years)	Employed No. (%)	Unemployed No. (%)	Inactive No. (%)	Total No.
5-9	2,067,910 (37.0)	-	3,518,180 (63.0)	5,586,090
10-14	1,717,960 (34.1)	310 (0.0)	3,316,910 (65.9)	5,035,180
15-19	1,460,210 (35.1)	308,320 (7.4)	2,395,590 (57.5)	4,164,120
20-24	2,379,420 (63.6)	423,410 (11.3)	941,190 (25.1)	3,744,020
25-29	2,468,070 (78.0)	269,220 (8.5)	426,890 (13.5)	3,164,180
30-34	2,062,520 (82.7)	161,350 (6.5)	270,620 (10.8)	2,494,490
15-34	8.4 million (61.7)	1.2 million (8.6)	4.0 million (29.7)	13.6 million
35-39	1,687,520 (84.5)	109,640 (5.5)	200,270 (10.0)	1,997,430
40-44	1,249,580 (85.2)	78,180 (5.3)	139,520 (9.5)	1,467,280
45-49	1,087,420 (85.8)	60,560 (4.8)	119,660 (9.4)	1,267,640
50-54	796,280 (83.8)	49,250 (5.2)	104,760 (11.0)	950,290
55-59	579,960 (81.5)	36,010 (5.1)	96,070 (13.5)	712,040
60-64	465,770 (78.2)	33,540 (5.6)	96,210 (16.2)	595,520
65+	887,430 (66.7)	95,190 (7.2)	347,940 (26.1)	1,330,560

Data Source: KNBS (2009), Kenya Population and Housing Census

Table 17.5: Inactive youth per cent of total by age categories 15-34 years, 2009

	15-19	20-24	25-29	30-34
Homemaker	11.3	43.8	77.6	84.2
Full Time Student	87.5	53.5	17.2	8.8
Incapacitated	0.6	1.3	2.4	3.3
Other	0.6	1.5	2.8	3.7
Total	100.0	100.0	100.0	100.0
Total (number)	2,395,590	941,190	426,890	270,620
Share of Inactive to Total Inactive Youth Population (%)	59.4	23.3	10.6	6.7

Data Source: KNBS (2009), Kenya Population and Housing Census

counterparts, with proportions of 46 and 9 per cent, respectively. These differences could be explained by cultural norms and practices such as early marriage of girls, among other factors.

It should be noted that some categories of inactive individuals may be involved in useful activities. Inactive individuals could be caring for family members who are young, old, sick or disabled. In some situations, a high inactivity rate for women aged 25 to 34 years may be due to their leaving the labour force to attend to family responsibilities such as child bearing or child care.

There is a strong link between the education status and the activity status of the youth. As indicated in Table 17.7, the unemployed and inactive youth have a larger proportion of youth (about 19%) who never attended school relative to the overall youth average of about 11 per cent. Evidently, education and skills development would be important interventions to move youth towards jobs.

Table 17.6: Inactive youth aged 15 to 34 by sex, 2009 (%)

	Male (%)	Female (%)	Total (%)
Full Time Student	87.4	52.1	66.9
Homemaker	9.5	46.2	30.8
Incapacitated	1.4	0.9	1.1
Other	1.7	0.9	1.2
Total (%)	100.0	100.0	100 .0
Total individuals	1,689,750	2,344,540	4,034,290

Data Source: KNBS (2009), Kenya Population and Housing Census

Table 17.7: Various groups of youths and their characteristics, 2009

Selected Categories	% of youths who never attended school	Mean age (Years)	% of females	% residing in rural areas
All youth	10.6	24	51.3	62.2
Employed youth	11.2	26	48.5	63.4
Unemployed youth	19.2	24	81.6	57.5
Inactive youth	18.4	23	47.2	51.5

Data Source: KNBS (2009), Kenya Population and Housing Census

17.4 Youth Unemployment

In this sub-section, the openly unemployed are defined to include: (i) those that have taken action in seeking work and have not found work; and (ii) those whose work is not available. This definition is akin to the narrow definition of unemployment.

The open unemployment rate, the ratio resulting from dividing the total number of unemployed by the corresponding labour force, was about 16 per cent and 13 per cent among the youth aged 15-19 and 20-24 years, respectively, in 2009. In 2005/06, the youth aged 15-19 and 20-24 years had unemployment rates of 25 per cent and 24 per cent, respectively, compared to the overall unemployment of 12.7 per cent for the working age group. In 2009, male youth aged 20-24 years had an unemployment rate of 13.6 per cent relative to the females' rate of 12.6 per cent. According to ILO (2005), female unemployment rates may often be underestimated for various reasons, including their disproportionate engagement in unpaid home production, which means they are excluded from the labour force, and the greater likelihood of their being discouraged job seekers. For the Kenyan case, the sex gaps are relatively narrow as is evident from Table 17.8.

Urban unemployment rates are twice as large as the rural rates for the 15-19 and 20-24 age groups. Rural unemployment rates for the youth groups were higher for males relative to females. In urban areas, female unemployment rates are larger except for the 15-19 age groups for which males have larger unemployment rates than females (Table 17.8).

A look at the unemployed youth suggests that just about one third had taken active steps in seeking work in the last seven days preceding the census.

Table 17.8: Unemployment rates (%) in Kenya by age group and sex, 2005/6-2009

Age brackets	2005/06			2009		
	Total	Male	Female	Total	Male	Female
Total (rural + urban)						
15-19	25.0	22.4	27.7	15.8	16.5	15.1
20-24	24.2	21.0	27.3	13.1	13.6	12.6
25-29	20.9	20.2	21.5	8.5	8.7	8.3
30-34	8.3	8.1	8.5	6.4	6.5	6.3
15-64 (rural + urban)	12.7	11.2	14.3	8.6	8.8	8.3
Urban						
15-19	16.1	15.1	16.8	27.2	29.4	25.5
20-24	34.9	33.7	35.8	19.1	17.7	20.4
25-29	24.8	24.6	24.9	10.9	9.4	12.7
30-34	8.0	8.0	7.9	7.6	6.5	9.2
15-64 (urban)	19.9	15.0	25.9	11.0	-	-
Rural						
15-19	21.3	22.2	20.5	13.0	13.8	12.0
20-24	30.7	29.3	32.0	9.9	11.4	8.5
25-29	17.8	17.1	18.5	6.9	8.0	5.8
30-34	8.6	8.1	9.1	5.6	6.3	4.9
15-64 (rural)	9.8	9.5	10.2	5.6	-	-

Sources: KNBS (2008) and computations from KNBS (2009), Kenya Population and Housing Census data

Table 17.9: Distribution of the unemployed by action taken and age groups, 2009

	Seeking Work (Action Taken) (%)	(No Action Taken) (%)	No Work Available (%)	Total (number)
15-19	16.1	11.0	72.9	616,640
20-24	34.2	15.4	50.4	846,820
25-29	35.5	14.5	50.0	538,440
30-34	31.2	12.9	55.9	322,700
35-39	28.8	11.5	59.8	219,280
40-44	22.4	10.7	66.9	156,360
45-49	21.4	9.7	68.9	121,120
50-54	15.0	8.4	76.5	98,500
55-59	12.9	8.5	78.6	72,020
60-64	8.4	5.8	85.8	67,080
65+	5.0	3.9	91.1	190,380

Data Source: KNBS (2009), Kenya Population and Housing Census

The remaining proportion either had not taken any action or reported that no work was available. Those who had taken active steps in seeking work in the last 7 days were about 36 per cent for the 25-29 year olds and 31 per cent for the 30-34 year olds. These shares could suggest there is some level of discouragement experienced by young job seekers.

Relative to the attainment of only primary education, the proportion of those unemployed generally decreases with increase in the level of education (Kabubo-Mariara, 2003 and Onsomu and Munga, 2010). The only exception is individuals with secondary education, who exhibit a higher chance of being openly unemployed relative to those with only primary education. This could be interpreted as a reflection of preference for wage employment among the relatively more educated individuals in an environment characterized by restricted expansion of formal sector jobs.

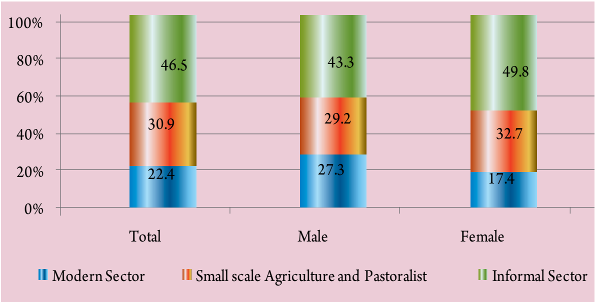
17.5 Youth Employment

About 62 per cent of the youth aged 15-34 years are employed, which is consistent with employment rates in most developing countries. The relatively high poverty rates, combined with the absence of social protection instruments such as unemployment transfers, compel many job seekers to seek economic engagement as a survival strategy. This explains the large and growing informal activities. As a result, official unemployment appears low, but in reality the engagement of the majority is actually disguised employment and the related problems of under-employment.

Although a large proportion of the youth are employed, there is evidence to suggest that the quality of the jobs is low. A general measure used to approximate good versus poor quality jobs is to estimate the proportion of informal sector jobs or vulnerable employment. As of 2009 through 2014, it is estimated that more than 80 per cent of total employment was in the informal sector (KNBS, Various Economic Survey). Most of these individuals were own account workers and contributing family members. These jobs are deemed to be of poor quality because they lack contractual arrangements and hence job security, and also lack social protection and social safety nets. In addition, the jobs are usually associated with poor working conditions. A large share of informality may be an indicator of lack of growth in the formal economy and widespread poverty. The poverty link is related to the fact that workers in vulnerable employment lack the social protection to guide them against social and economic shocks. In addition, they are unlikely to make savings for times of low demand (ILO, 2011).

The 2009 census data had responses for an individual's major employer. The responses were used to re-categorize employed persons into three non-overlapping sectors of the economy. These are: (i) modern (mainly wage employment); (ii) informal sector; and (iii) small scale agriculture and pastoralist activities. The modern sector includes employment in the private sector, county governments, national government, the Teachers Service Commission, state-owned enterprises, local and international NGOs, and FBOs. The proportions are summarized in Figure 17.3.

Figure 17.3: Main employer by broad sectors for 15-34 age group by sex (%), 2009



Source: KNBS (2009), Kenya Population and Housing Census

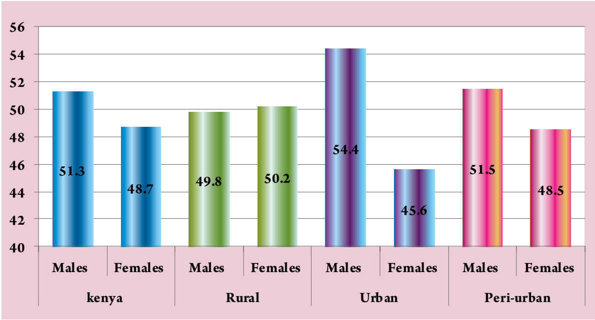
A look at sectoral distribution indicates that nearly 47 per cent of the employed youth aged 15-34 years are engaged in informal activities. In addition, small scale agriculture and pastoralism is a main employer of almost one third of the employed youth, which is equivalent to at least a fifth of the total youth population. Only 22 per cent of the youth reported that their main employer was "modern" or what could be considered formal or wage employment, suggesting that a majority of the youth (over 78%) hold relatively precarious non-wage jobs with little or no social protection.

Relative to males, a larger proportion of employed female youth are found in the informal sector and agricultural activities. Male youth are more likely to be engaged in modern activities (about 27%) relative to females (17%). Further, only 20.5 per cent of the employed youth aged 15-34 years are working in non-vulnerable jobs. Majority (79.5%) are working in vulnerable employment.

17.6 Regional Distribution of the Employed Youth

Out of the over 8 million employed youth, about 64 per cent were working in rural areas while nearly 30 per cent were in urban areas. The rest were working in peri-urban areas (Figure 17.4). Of the total number employed in urban areas, the share of males is about 54 per cent. The females' share to the total number is slightly larger than that of males in rural areas. This is consistent with the finding that females are likely to be involved in agro-based activities.

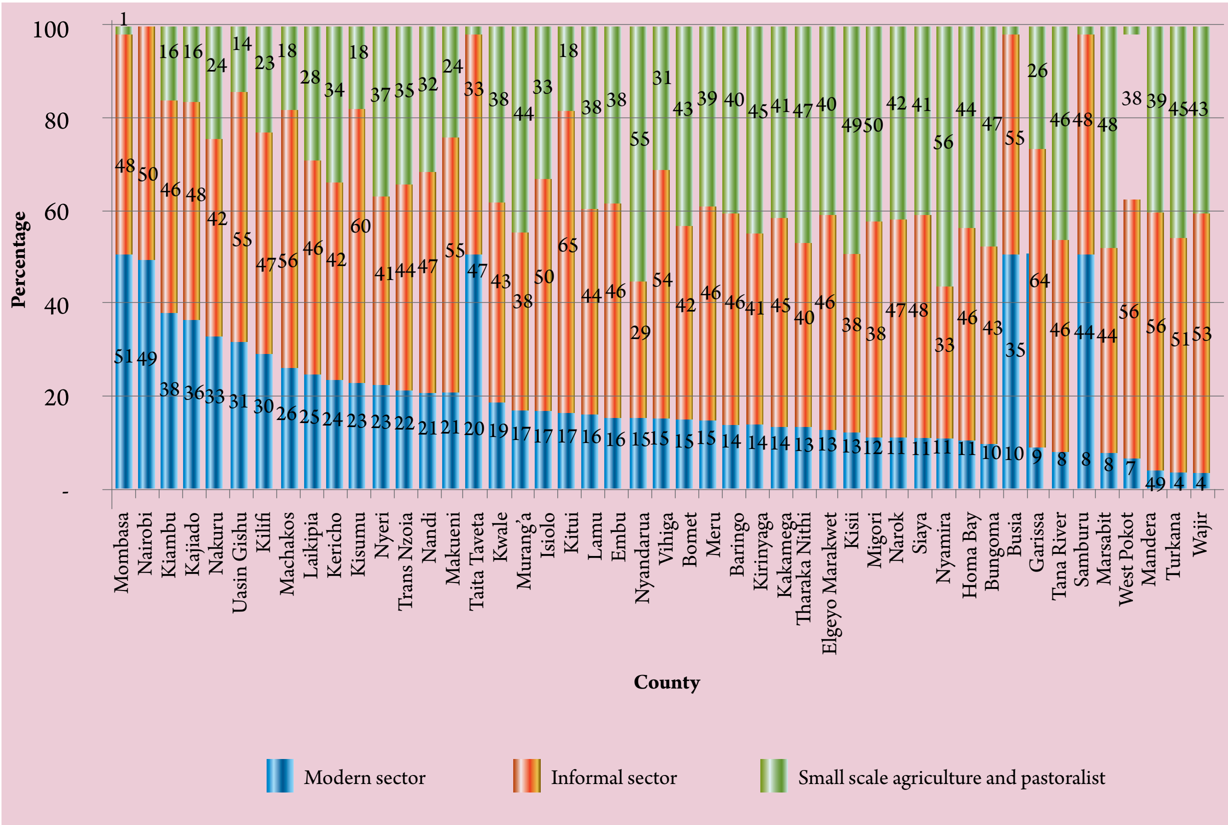
Figure 17.4: Persons in employment (%) aged 15-34 by residence and sex, 2009



Data Source: KNBS (2009,) Kenya Population and Housing Census

With respect to counties, the more urbanized counties such as Nairobi and Mombasa tend to have, on average, a higher percentage of youth employed in the modern sector (Figure 17.5). In Mombasa and Nairobi counties, the share of youth employed in modern sector are 51 per cent and 49 per cent, respectively. Kiambu and Kajiado follow with 38 per cent and 36 per cent, respectively. Less urbanized counties such as Wajir, Turkana, Mandera, West Pokot, Marsabit and Samburu have more than 90 per cent of their employed youth engaged in either informal activities or small scale agriculture and pastoralist activities.

Figure 17.5: Main employer of youth (15-34 years) by broad sectors and county, 2009



Data Source: KNBS (2009) Kenya Population and Housing Census

17.7 Youth Under-employment

Evidence indicates that under-employment, defined as working for less than 29 hours per week in the week prior to the Survey, has been a growing challenge. It increased from 5 per cent of those employed in 1999 to 21 per cent of those employed in 2005-06. It is associated with greater levels of poverty. As an example, Pollin et al. (2007), using the 2005/06 household budget survey data, find that compared to a poverty rate of 46 per cent for the overall population, 70 per cent of the under-employed are poor.

A focus on the youth aged 15-34 years indicates that as many as 1.4 million were under-employed in the week preceding the census (if their activity is restricted to their main employer). This is about 16 per cent of all the employed youth. Under-employment is fundamentally a rural phenomenon, with 83 per cent of all under-employed residing in rural areas. Urban and peri-urban areas account for about 10 per cent and 7 per cent of the under-employed, respectively. Given the high correlation between under-employment and the incidence of poverty, efforts to address joblessness should also address the plight of the under-employed youth.

17.8 Explanations

Kenya's youth unemployment and under-employment are attributed to a number of factors, including: slow, erratic or declining economic growth; rapid growth of the population; low levels of human capital development; unsatisfactory quality of education; skill deficits and mismatch; and information asymmetry in the labour market.

17.8.1 Low economic growth

Kenya's GDP growth rate as a measure of economic growth has been historically erratic and unable to gather adequate momentum. Since 1966, Kenya experienced growth of 6 per cent and above only in seven years, with most of years falling in the 1960s and 1970s.

From 1983-1987, average real economic growth declined from 3.6 per cent to 1.6 per cent in 1998-2002 period (Table 17.10). Notably, it has been difficult for Kenya to attain and sustain a high economic growth rate over time. In addition, the episodes of higher economic growth rate have been associated with larger increases in informal sector employment.

Table 17.10: Average growth rates and average number of jobs created

Period	Average real growth rate	Proportion of informal sector employment	Average number of jobs created ('000)
1983-1987	3.6	17.1	66.8
1988-1992	3.5	31.7	227.7
1993-1997	3.0	20.3	82.1
1998-2002	1.6	70.2	435.0
2003-2007	5.4	77.6	521.1
2008-2012	4.7	81.5	660.4
2013-2014	5.5	82.6	767.8

Source: Computed from KNBS (various), Economic Survey

Such erratic growth rates have been attributed to the five-year cycle of the electoral process. The elections have come to be associated with uncertainty, which usually dampens investments and growth. In 2013, the economy was on a recovery phase with growth rate of 5.3 per cent, which later decelerated to 5.3 per cent in 2014.

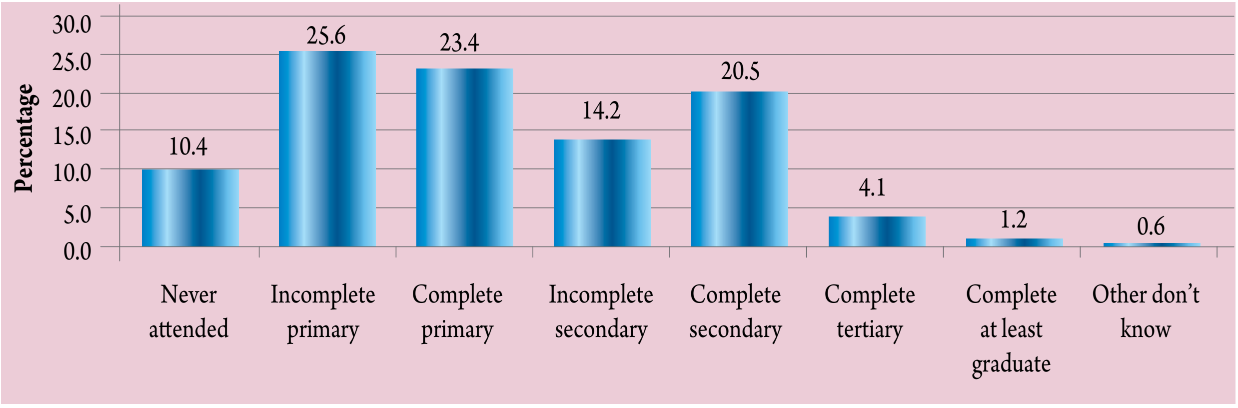
17.8.2 Low human capital development

Evidently, nutrition and stimulation during the first 1,000 days of life are crucial for a child's education outcomes, and later overall labour market productivity. Kenya faces challenges on this front as one third of Kenyan children are stunted.

Notwithstanding the importance of education as prerequisites to employment, about 10 per cent of Kenya's youth either 'never attended school' or 'did not complete primary education.' Even with the introduction of free primary and secondary education, about 14 per cent of the approximately 10.6 million children (aged 5-14 years) left school or never attended school in 2009, and about 68 per cent of secondary school age youth (age 14-17 years) were not in school.

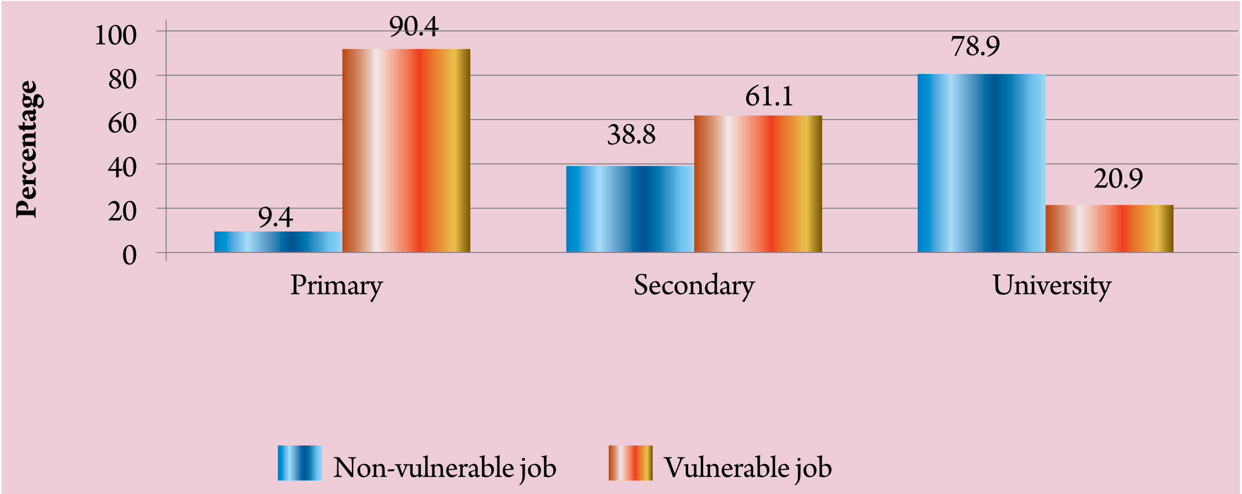
Educational attainment of youths aged 15-34 is illustrated in Figures 17.6 which shows that 62 per cent of the youth have below secondary level education, 34 per cent have secondary education and only 1 per cent has university education.

Figure 17.6: Highest level of education attainment by youths, 15-34 years, 2009



Data Source: KNBS (2009), Kenya Population and Housing Census

Figure 17.7: Distribution of the employed among the youth by highest level of education attainment (% of total)



Source: Authors' computations from KNBS (2009), Kenya Population and Housing Census data

Figure 17.7 suggests that the level of education seems to propel youth to higher niche jobs, since the more educated youth have a lower likelihood of getting employment in vulnerable jobs.

It is sufficient to observe that a majority of Kenya's youth are still stuck at low levels of education and training achievement. The low education attainment is observed in the labour market, with only 32.7 per cent of workers in formal wage sector having attained secondary education and above.

Furthermore, the aforementioned challenges of low economic growth and human capital development are complemented by poor quality of education. For instance, of the 448,700 candidates who sat KCSE in 2013, about 72 per cent did not achieve minimum grades considered desirable for admission into universities or other middle level colleges.

17.9 Skill Deficit and Mismatch

There is skill mismatch problem and weak linkage between education and the labour market. This can be confirmed with the high unemployment among university graduates, which is estimated at about 18 per cent. Government policy and public investment has focused disproportionately on formal private sector development and on education that is geared to private sector employment.

17.10 Under-developed Job Search Infrastructure

Labour market systems and job search infrastructure is under-developed. Majority of the jobseekers (83%) depend on informal channels to obtain a job, notably friends and relatives; 11 per cent of job seekers contact employers directly; while only about 6 per cent use formal channels (Wambugu, Onsomu and Munga, 2012).

Table 17.11: Job search method use in the week before the survey

Job search method	Frequency	%
Formal	93	5.91 (6.73)
Informal	1,308	83.15 (80.52)
Direct contact	172	10.93 (12.74)
Total	1,573	100.00

Source: Wambugu, Onsomu and Munga (2012)

The information constraint is likely to amplify frictional unemployment, and may also worsen the discrepancy between demand and supply of specific types of skills. Over-reliance on informal job search channels may promote inequalities, since those without, or with weak social networks, will most likely remain disadvantaged in terms of accessing decent employment, especially in the formal employment sector.

Chapter 18

Review of Youth Employment Policies and Interventions

18.1 Introduction

This chapter provides a review and analysis of sectoral youth employment-related policies and programmes. The common denominator of these policies/strategies is a focus on youth empowerment through economic growth; skills development and capacity building; provision of relevant support especially in financial and market linkages; and increasing agricultural productivity as well as developing a strong industrial base. The plethora of policies notwithstanding, Kenya is still grappling with the issues of growth and productivity in agriculture and manufacturing, and skills development. Inferably, the ineffectiveness of these policies suggests misdiagnosis of the problem or poor implementation or both.

Besides the broad policy framework, there are numerous sectoral policies and interventions to tackle unemployment. It would actually be impractical to complete a census of all the initiatives. This section attempts to cluster the interventions and summarize salient features of these interventions in a broad manner. Specifically, the interventions are summarized in a tabular format following the classifications of Godfrey (2003) and Betcherman, et al (2007) who used nine sub-categories of interventions in the labour market. These categories are:

1. Making the labour market work better for young people;
2. Improving chances of young entrepreneurs;
3. Post-formal schooling training;
4. Addressing training market failures by providing information, credit, and other financial incentives;
5. Implementing programmes to counteract residential segregation of disadvantaged youth;
6. Improving labour market regulations to the benefit of young people;
7. Initiating programmes for overseas employment of young people;
8. Exploring comprehensive approach to tackle unemployment; and
9. General programmes such a voluntary national service programmes.

18.2 Sector's Youth Employment Policies, Programmes and Initiatives

The government has implemented various policies, programmes and initiatives to empower the youth as embodied in Kenya Vision 2030; Sessional Paper No. 3 of 2007; National Youth Policy of 2007; and National Action Plan on Youth Unemployment (2014-16). Table 18.1 provides analysis of youth employment programmes and initiatives; their features; challenges that have impeded their effectiveness; and proposed improvements in design and implementation.

Table 18.1: Review of youth employment programmes and initiatives

Category	Kenyan Examples (and Implementers)	Features of Effective Programmes	Challenges Facing the Kenyan Initiatives	Proposed Improvement in Design/Implementation
Making the labour market work better	*Kazi Kwa Vijana (KKV)* Roads 2000 Maintenance Programme	Projects should target poorest households Projects should have work schedules that are harmonized with the survival requirements of the poorest households and should be located close to where the poorest live Projects should preferably have long term employment opportunities and/or a clear exit strategy	Lack of solid targeting strategies, thus excluding the poorest households The programme roll outs are rarely synchronized with the survival requirements of the intended beneficiaries Most interventions are short term in nature and were designed not to exceed 6 months (e.g. KKV) and do not have a clear exit strategy – such as training of beneficiaries Inadequate monitoring and evaluation framework – due to lack of initial baseline data	Should make use of targeting mechanisms (e.g. use of community-based targeting) that ensure inclusion of the poorest individuals so as to maximize benefits (McCord, 2004 and McCord, 2005) Interventions need to take into account seasonality in time use and time poverty to maximize benefits to the targeted households. Adoption of flexible part time work is superior to non-flexible work, and the provision of pre-school and other related services is known to enhance participation of the most vulnerable individuals, including women Medium to long term interventions are known to be more effective. Possible exit plans for such programmes are usually in the form of training schemes that take into account skill needs. The government can build partnerships with the private sector and link its programmes to other development initiatives such as the Uwezo Fund, YEDF, and Women Enterprise Fund

Category	Kenyan Examples (and Implementers)	Features of Effective Programmes	Challenges Facing the Kenyan Initiatives	Proposed Improvement in Design/Implementation
Promote entrepreneurship	Uwezo Fund (GoK) Youth Enterprise Development Fund (GoK) Women Enterprise Fund (GoK) Small and Medium Enterprise Fund (SME Fund) - GoK Micro Enterprise Support Trust (MESPT) (GoK and the EU) Grassroots Business Initiative – Trust Fund (IFC) Business Incubation Centres (KIRDI, KIE and YEDF)	Offer training and mentorship to beneficiaries Have inbuilt evaluation mechanisms to assess impacts and areas for improvement Requires adequate infrastructure and strong public-private partnership (PPP) Entrepreneurial, technical and managerial skills critical for start-up business Remove accessibility cost to programmes	The initiatives lack in-built evaluation mechanisms (no baseline information), thus difficult to determine weaknesses and identify lessons Mentorship of entrepreneurs is usually weak Interventions inherently assume existence of entrepreneurs Assumption that youth problem is homogeneous	Build strong evaluation mechanisms for all programmes. Some evaluation results suggest that startups invest more in training and mentorship of beneficiaries The approaches to offer funding appear disjointed and synergies will be reaped from merging the separate Government of Kenya supported funds Need to develop single comprehensive overarching strategies or policies – such as a national strategy or policy on business incubation Need to conduct collaborative research on the programmes design and implementation Subsidize the cost of accessing the funds
Post-formal schooling training	The Youth Employment Scheme-Micro Small Enterprise (YES-MSE) Programme National Youth Talent Academy (NYTA) National Industrial Training Authority		Some programmes are donor supported and may raise sustainability questions	
Addressing training market failures by providing information, credit, and other financial incentives	Kenya Jua Kali Voucher Programme	Address training market failures Do not distort the market Improves quality of training	Examples of programmes not sustained and it was difficult to phase out the training subsidy Complex and costly implementation	It is important to promote willingness of clients to pay for training Build a scholarship fund given the large number of poor individuals and households

Category	Kenyan Examples (and Implementers)	Features of Effective Programmes	Challenges Facing the Kenyan Initiatives	Proposed Improvement in Design/Implementation
Improving market regulations to the benefit of young people (and affirmative action programmes)	Enactment of the MFI Act Public Procurement and Disposal Act 2005 Preference and Reservations Regulations of 2013 Access to Government Procurement Opportunities (AGPO) Decent Work Country Programmes (DWCPs) (ILO) Labour laws enacted in 2007 Minimum wages adjustments		Youth disproportionately affected by information asymmetry – lack of information on available opportunities Youth capacity or capability is weak Public employment services are weak Disjointed coordination of MSEs Lack of an integrated Human Resource Development Policy and Strategy and nascent entrepreneurial attitudes amidst minimal entrepreneurial training provided by the interventions Most of these programmes still lack a systematic impact assessment	National information campaigns should accompany new initiatives Need to sensitize and train the youth-led establishments on market access and other issues
Initiating programmes for overseas employment of young people	Kenya Foreign Policy Diaspora Policy	Tap into skills and resources of nationals Strong bilateral agreements for worker protection	The country tends to lose skilled and much needed labour, such as medical doctors and engineers to labour export programmes Bilateral agreements for worker protection with main labour export markets still weak For some cadre of workers, exploitation, mistreatment is common	Continuously work towards improving the terms of engagement of skilled personnel
Exploring comprehensive approach to tackle unemployment	Youth and Women Empowerment through Sustainable Urban Agriculture Project Kenya Youth Empowerment Project (KYEP) and Kenya Youth Empowerment Programme (YEP)	Programmes that encourage NGOs to serve as participant advocates to protect the rights of the poor	Conflict between conventional understanding and project offering High employer expectations Lengthy processes in procurement of trainers NGOs are usually a strong advocate in most development projects in Kenya	Wider collaboration can be sought from NGOs
General programmes such a voluntary national service programmes	National Youth Service (GoK)	Have wide mandates that include youth empowerment Can be used to develop assets that are useful to the poor		Skills transfer to the youth should be prioritized Effective monitoring and evaluation of impacts and identification of areas for improvement will require detailed baseline information

Chapter 19

Proposals for Enhancing Youth Employment in Kenya

19.1 Introduction

Based on the situational analysis of youth, and the various policies and interventions, it is clear that youth unemployment is a key policy concern. This chapter therefore provides a broad synthesis of policies and strategies geared towards tackling the youth unemployment problem.

19.2 Accelerate Economic Growth and Transformation

Political and governance obstacles form part of the priority agenda to spur economic transformation and growth. On the whole, implementation of the growth strategy contained in Vision 2030 and governance reforms enshrined in the Constitution are critical for tackling the youth development agenda. The country needs to mainstream and fast-track the implementation of the two documents. This will provide perhaps the most viable vehicle for true economic takeoff.

In the wake of the creation of county governments, great care should be taken to avoid proliferation of levies that can harm the business environment. Barriers facing MSEs such as complex and complicated licensing and business registration procedures should be addressed to reduce the cost of doing business.

19.3 Promote the Pro-Youth Sectoral Employment Initiative

For every 10 youthful persons, 6 reside in rural areas. In addition, nearly 80 per cent are engaged in either the informal sector or small scale agriculture and pastoralist activities. As a major contributor of economic growth, agriculture is the leading youth employer and it holds the promise of resolving youth employment. However, it faces some key challenges as summarized below.

Besides agriculture, there are several other sectors that hold promise for youth employment. These include tourism, transport, ICT, and building and construction. Most of the interventions in these sectors would revolve around building the capacity

Challenge and Implication	Possible Interventions	Implementers
• Inadequate infrastructure in rural areas. This has stifled profitable investment opportunities in agriculture and the informal sector in large sections of rural economies	• Enhanced infrastructure investments in rural areas, including: access roads, power and water supply, market spaces, education centres and extension services. In pastoralist communities, there is need for abattoirs. Although some abattoirs have been constructed, there is need to enhance this effort through additional investments in refrigeration facilities and training of workers in sanitary, hygiene and technical operations	National government; County governments
• Failure to reform land policy, leading to limited access to land especially by the youth	• Need to improve access to land by fast-tracking land titling across all regions in Kenya	National government; National Land Commission
• Limited skills, hence low productivity and less attractiveness of agriculture and informal sector activities to the youth • Low value addition in agriculture and informal activities	• Incorporate agriculture in school curriculum from basic primary level – focused on boosting early interest in the sector • Enhance post-education training and capacity building, especially in agribusiness activities to improve productivity and profitability as well as attractiveness of the sectors • Target specific sub-sectors for export commodities by offering specific vocational training skills and technological upgrading of youth • Expand and set up jua kali sheds in rural areas	National and county governments; Kenya Industrial Estates (KIE)
• Stigma of youth and preference for wage employment in the formal sector	• Campaigns aimed at changing perceptions should be combined with actual improvements in agricultural outcomes	
• Lack of a coherent approach to value addition and industrialization	• There is no need to reinvent the wheel. Implement promising but unimplemented policies, including: • The Master Plan for Kenya's Industrial Development 2007, which included recommendations for the development of the agro-processing sector, agro-machinery, and electronics and ICT; • Others are the 1996 Sessional Paper on Industrial Transformation; and the National Export Strategy	National government

of youths to take part in these growing sectors, including conceptualization of projects, building and construction, operation and maintenance.

The stark reality is that the informal sector is not transitory, but rather enduring and growing and will undoubtedly be an employer of the majority of youths for the foreseeable future. As an example, using an employment satellite account created in the input-output table for Kenya for 2009, multiplier analysis indicated that about 87 per cent of new jobs would be in the informal sector following economic growth. The proposed interventions towards addressing the needs of the informal sector are numerous and cannot be exhaustively discussed here. The key proposals include:

(i) Full implementation of international commitments on labour. These include the elimination of discrimination in respect of employment and occupation. The government and other stakeholders should intensify the efforts to set up social security, pension funds and savings schemes for both formal and informal sector workers;
(ii) Continually remove obstacles that constrain formalization of establishments. In addition, incentives can be designed to promote more formal operations. A possible incentive would be to offer lower taxes or lower levies for any establishments that meet a certain threshold of formality; and
(iii) Support the upgrading of the informal sector, e.g. develop skills and support market access of participants within the informal economy.

To enable growth and development of small businesses, both formal and informal, it is proposed that the country develops a National Incubation Strategy. The strategy should clearly spell out the national priority industries and provide clear admission criteria for potential beneficiaries. The national and county governments can provide incentives that encourage private sector participation in incubation service provision, such as industrial parks.

19.4 Family Planning Strategies

Education, especially of the girl child, and reduction in child mortality (which is relatively high in Kenya) are known to be effective in reducing fertility. Among other interventions, reduction in child mortality will require enhanced investments in quality health infrastructure and human resources, particularly in marginalized regions.

19.5 Human Capital Development

The government with support from stakeholders should invest in early childhood development and health. This will call for an assessment of the status of children and provision of appropriate dietary advice and/or supplements. This will secure children for more effective participation in all spheres of life. In addition, the government and other stakeholders need to appreciate the importance of early childhood education and its impact on later years of education and labour market outcomes.

There is need to focus education on skill transfer so as to minimize skill gaps. The Vision 2030 recognizes the need for literate citizens to usher in transformation into an industrialized middle income economy. Some proposed interventions towards addressing education deficits include:

(i) Regular review of education curriculum to address the changing needs and demands in education and labour market, and enhance quality and relevance;
(ii) Address inequalities in access to education. This can be achieved by extending well-targeted scholarships and vouchers in all levels of education. Vouchers in vocational training would be key to enhancing skills of the youth; and
(iii) Focus on the teaching and learning processes, efficiency in use of available resources, planning, research and problem solving approaches in education delivery as opposed to academic summative evaluations at end of education cycles.

The challenges related to skills mismatch can be ameliorated by building close ties between the business community and education institutions. This can be achieved in ways suggested in the table below.

Some Suggestions on Dealing with Skills Mismatch	Implementers
• Have industrialists sit in as members of the boards of educational institutions and provide input into the curricular • Industrialists should also provide input during curriculum reviews • Create and promote an enabling environment for public-private partnerships for enhancing investment especially in vocational and in technical education	• Ministry in charge of education; Education institutions • Industry
• Widen school to industry link programmes that aid students in appreciating the relevance of theory in the world of work. This will include internship and apprenticeship programmes • As suggested in the Vision 2030 Sector Plan for Labour, fast-track the implementation of the Sessional Paper on Industrial Training and Attachment	• National government • Ministry in charge of education • National Industrial Training Authority
• Teacher placements in business or industries during school holidays to sensitize teachers on skills their students should acquire	• National and county governments • KIE
• Strengthen career advisory services to not only students and jobseekers but also trainers	• Education institutions

19.6 Basic Education Reform

The previous chapters highlighted that nearly 11 per cent of all youth never attended school based on the census data. Many more drop out of primary education, suggesting that a huge proportion of youth have never had or have little formal education. These youth may need a "second chance" to basic education and training. The following broad intervention areas are proposed:

(i) Despite the Free Primary Education policy, about 2 million children could be missing out on primary education in any given year owing to their poverty status. From the Vision 2030 Sector Plans for Education and Labour, it is not clear what interventions will be implemented for these children to go back to school. It is proposed that children missing out on primary education should be identified and targeted, with one of the ongoing social transfer programmes such as cash transfers.

(ii) Given the huge number of youth who have at best only a secondary education, it will be important to enhance access to vocational training centres. The intention to establish model vocational training centres in every county in the period 2013-17 by the government is welcome. Also welcome is the intention to enhance the skills of instructors. Even so, given the high poverty rates across the country, the vocational skills training envisaged will materialize if supported by subsidies to potential students, and full scholarships for the neediest.

(iii) There is need to make vocational institutions much more attractive and relevant to the youth.

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Annex

Annex Table 3.1: Education public spending by economic classification (2011/12-2013/14) (Ksh millions)

	Approved			Actual				
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	% budget execution (2013/14)	Actual % (2013/14)
Recurrent expenditure	160,572.49	216,475.20	237,963.22	188,650.49	215,715.28	229,387.86	96	96
Compensation of employees	115,209.98	142,753.00	157,062.36	147,449.98	142,521.91	156,795.89	100	66
Use of goods and services	4,097.08	4,973.50	4,017.60	4,078.85	4,819.26	2,961.75	74	1
Current grants and transfers	18,492.90	46,595.80	50,449.32	14,308.40	46,234.37	48,739.74	97	20
Other recurrent expenditures	22,772.53	22,152.90	26,433.94	22,813.26	22,139.74	20,890.48	79	9
Development expenditure	7,675.20	16,704.10	19,207.40	5,324.20	13,556.80	9,505.50	49	4
Acquisition of non-financial assets	965.70	1,205.70	8,278.74	654.60	1,059.50	2,775.39	34	1
Grants and transfers	3,624.90	13,417.00	6,606.98	1,688.30	10,467.90	4,324.52	65	2
Other development expenditure	3,084.60	2,081.40	4,321.68	2,981.30	2,029.40	2,405.59	56	1
Total expenditure	168,247.69	233,179.30	257,170.62	193,974.69	229,272.08	238,893.36	93%	100%

Source: Education Sector Report (2015)

Annex Table 3.2: Literacy and gross enrolment ratios for selected countries, 2014

	Literacy			Gross Enrolment Ratios				
Country	Adult	Youth	Population with at least some secondary education	Pre-primary	Primary	Secondary	Tertiary	Primary school dropout Rates
	(% ages 15 and older)	(% ages 15-24)	(% ages 25 and older	(% of children of pre-school age)	(% of primary school age population)	(% of secondary school-age population)	(% of Tertiary school age population)	(% of primary school cohort)
Norway	-	-	97.1	99	99	113	73	0.7
United States	-	-	95.0	73	99	94	95	6.9
Germany	-	-	96.6	112	101	102	57	3.4
United Kingdom	-	-	99.9	85	107	97	61	..
South Korea	-	-	82.9	118	104	97	101	1
Japan	-	-	86.4	87	103	102	60	0.1
Indonesia	92.8	98.8	44.5	42	109	81	27	12.0
Botswana	85.1	95.2	75.5	18	106	82	7	7.0
Egypt	73.9	89.3	51.2	27	109	76	29	1.1
South Africa	93.0	98.8	74.3	77	102	102	-	-
Kenya	72.2	82.4	28.6	51	112	60	4	-
Rwanda	65.9	77.3	7.7	13	134	32	7	64.4
Nigeria	51.1	66.4	-	13	81	44	10	20.1
Tanzania	67.8	74.6	7.4	34	93	35	4	18.6
Uganda	73.2	87.4	28.8	14	110	28	9	75.2

Source: UNDP (2014)

Annex Table 3.3: Distribution of health facilities in Kenya, 2014

County	Population 2012	No. of hospitals level 4-6	Hospitals per 100,000 population	No. of health centres and dispensaries (level 2-3)	Health centres and dispensaries per 100,000 population
Kenya	40,700,000	512	1.3	8,104	19.9
Baringo	593,840	6	1.0	182	30.6
Bomet	782,105	5	0.6	113	14.4
Bungoma	1,473,458	12	0.8	134	9.1
Busia	796,646	7	0.9	74	9.3
Elgeyo Marakwet	396,663	8	2.0	113	28.5
Embu	550,438	8	1.5	131	23.8
Garissa	457,068	14	3.1	105	23.0
Homa Bay	1,033,941	14	1.4	201	19.4
Isiolo	206,306	5	2.4	42	20.4
Kajiado	732,356	14	1.9	224	30.6
Kakamega	1,781,528	17	1.0	232	13.0
Kericho	799,515	14	1.8	162	20.3
Kiambu	1,734,694	27	1.6	391	22.5
Kilifi	1,179,956	10	0.8	227	19.2
Kirinyaga	564,022	5	0.9	239	42.4
Kisii	1,234,634	20	1.6	137	11.1
Kisumu	1,030,986	21	2.0	145	14.1
Kitui	1,061,296	15	1.4	290	27.3
Kwale	69,412	3	0.4	96	13.8
Laikipia	417,538	7	1.7	96	23.0
Lamu	106,877	3	2.8	41	38.4
Machakos	1,174,587	8	0.7	293	24.9
Makueni	946,292	13	1.4	175	18.5
Mandera	1,005,003	6	0.6	73	7.3
Marsabit	312,325	4	1.3	83	26.6
Meru	1,448,606	24	1.7	369	25.5
Migori	981,319	15	1.5	170	17.3
Mombasa	995,334	15	1.5	275	27.6
Murang'a	1,013,325	8	0.8	299	29.5
Nairobi	3,324,894	54	1.6	599	18.0
Nakuru	1,693,008	21	1.2	318	18.8
Nandi	802,347	6	0.7	169	21.1
Narok	908,597	6	0.7	147	16.2
Nyamira	640,844	7	1.1	126	19.7
Nyandarua	631,034	3	0.5	119	18.9
Nyeri	832,877	10	1.2	401	48.1
Samburu	239,416	3	1.3	70	29.2

County	Population 2012	No. of hospitals level 4-6	Hospitals per 100,000 population	No. of health centres and dispensaries (level 2-3)	Health centres and dispensaries per 100,000 population
Siaya	902,753	11	1.2	154	17.1
Taita Taveta	297,579	7	2.4	72	24.2
Tana River	258,261	2	0.8	62	24.0
Tharaka Nithi	389,731	8	2.1	96	24.6
Trans Nzoia	875,697	7	0.8	91	10.4
Turkana	868,209	6	0.7	139	16.0
Uasin Gishu	940,112	12	1.3	165	17.6
Vihiga	594,457	6	1.0	75	12.6
Wajir	566,454	10	1.8	102	18.0
West Pokot	525,970	5	1.0	87	16.5

Source: Government of Kenya, Kenya Health Policy (2014)

Annex Table 3.4: Health service outcome indicator results, 2013/14 communicable conditions

County	% of fully immunized infants	TB treatment completion rate (2012 Data)	% HIV + pregnant mothers receiving preventive ARVs	Number of eligible HIV clients on ARVs	% targeted under 1's provided with LLITNs	% targeted pregnant women provided with LLITNs	Under 5's treated for diarrhoea	% school age de-wormed reported in health facilities
Baringo	63.5	87.91	56.0	2,085	0.0	36.2	26.8	48.6
Bomet	60.2	91.99	46.2	3,764	3.0	49.1	27.6	13.4
Bungoma	54.3	86.2	37.2	13,680	0.0	39.6	9.6	13.4
Busia	98.7	82.93	48.1	18,071	0.0	85.2	25.5	12.6
Elgeyo Marakwet	69.1	83.44	20.3	1,546	0.0	46.2	41.9	37.8
Embu	70.1	90.4	61.6	4,693	0.0	37.7	16.5	44.0
Garissa	89.2	88.4	49.3	766	0.0	2.6	26	8.8
Homa Bay	65.3	83.57	67.2	46,251	7.8	65.0	16.2	17.0
Isiolo	81.6	84.36	28.8	1,486	0.0	72.8	35.0	9.8
Kajiado	62.7	90.55	56.1	5,310	0.0	67.1	34.6	44.3
Kakamega	64.3	90.4	61.7	19,879	0.0	48.2	12.8	19.6
Kericho	64.0	90.6	44.7	9,398	21.0	50.4	117.5	33.8
Kiambu	78.3	87.37	44.4	23,012	0.0	28.3	27.1	20.9
Kilifi	83.4	85.5	36.6	12,799	48.0	81.7	27.0	42.6
Kirinyaga	73.0	87.13	87.3	6,822	9.6	54.8	31.3	0.0
Kisii	63.1	87.28	62.4	15,775	31.9	52.9	13.8	13.9
Kisumu	63.9	85.08	83.4	52,288	0.0	97.1	19.2	8.8
Kitui	71.1	87.83	41.9	9,714	21.4	52.1	22.1	33.0
Kwale	79.6	83.8	59.7	3,945	0.0	75.9	19.5	3.5
Laikipia	77.2	84.33	55.9	5,184	0.0	0.2	18.6	52.1
Lamu	73.1	82.65	52.4	598	0.0	88.8	42.2	0.7
Machakos	67.8	86.59	65.1	14,349	0.0	45.2	22.5	54.2
Makueni	67.4	89.10	73.6	11,027	0.0	39.1	20.0	44.4
Mandera	34.9	89.13	22.5	201	0.0	0.1	7.7	0.4
Marsabit	86.8	94.81	35.1	749	0.0	5.5	34.3	11.4
Meru	63.5	83.62	43.4	10,345	0.0	36.4	12.4	23.2
Migori	79.4	89.77	67.0	39,405	2.6	74.2	16.7	27.4
Mombasa	59.3	88.03	46.3	31,449	5.8	44.0	21.7	9.6
Murang'a	61.8	90.74	72.0	11,287	0.0	47.4	22.8	35.3
Nairobi	94.5	84.69	69.1	94,264	0.0	1.0	25.7	10.7
Nakuru	75.9	85.97	58.6	22,188	0.0	1.2	22.7	21.2
Nandi	68.1	88.00	65.1	6,383	1.1	44.2	20.6	25.1
Narok	69.0	89.39	31.3	4,031	0.3	46.5	22.5	30.5
Nyamira	60.1	90.11	59.5	7,706	37.7	46.1	12.4	5.4
Nyandarua	73.4	89.66	70.5	4,452	0.0	0.4	15.3	80.7
Nyeri	63.8	87.58	41.6	12,369	0.0	0.8	18.7	27.9

County	% of fully immunized infants	TB treatment completion rate (2012 Data)	% HIV + pregnant mothers receiving preventive ARVs	Number of eligible HIV clients on ARVs	% targeted under 1's provided with LLITNs	% targeted pregnant women provided with LLITNs	Under 5's treated for diarrhoea	% school age de-wormed reported in health facilities
Samburu	71.7	87.12	42.9	556	2.2	0.8	40.6	35.5
Siaya	60.1	82.52	81.0	48,456	26.4	59.9	18.1	22.0
Taita Taveta	58.6	86.4	63.6	3,253	0.0	49.3	19.7	33.8
Tana River	64.1	85.71	45.6	521	0.0	47.7	31.0	0.7
Tharaka Nithi	52.2	89.16	46.8	5,221	0.0	44.0	14.3	34.1
Trans Nzoia	57.6	86.16	44.5	2,159	0.0	45.8	13.9	13.9
Turkana	46.8	91.06	29.4	3581	0.0	5.1	18.7	7.7
Uasin Gishu	74.0	88.91	29.8	18,657	6.5	56.8	20.0	46.6
Vihiga	73.1	87.68	69.6	8,455	0.0	44.5	7.1	18.3
Wajir	80.8	90.65	13.6	230	0.0	0.3	22.1	22.9
West Pokot	59.1	88.43	37.7	1,408	0.0	48.5	28.5	24.9
Kenya	69.2	87.50	60.5	2,085	7.5	37.7	22.3	23.4

Source: Ministry of Health (2014), Kenya Household Health Utlilization Report

Annex Table 3.5: Health service outcome indicator results 2013/2014, non-communicable diseases

County	% new outpatients with mental condition	% new outpatients with high blood pressure	% new outpatients with diabetes	County	% new outpatients with mental condition	% new outpatients with high blood pressure	% new outpatients with diabetes
Baringo	0.06	0.29	0.10	Marsabit	0.22	0.48	0.26
Bomet	0.08	0.39	0.09	Meru	0.23	1.67	0.51
Bungoma	0.11	0.79	0.17	Migori	0.05	0.38	0.15
Busia	0.06	0.67	0.12	Mombasa	0.16	1.76	0.79
Elgeyo Marakwet	0.13	0.25	0.11	Muranga	0.40	3.89	0.93
Embu	0.28	0.69	0.49	Nairobi	0.33	1.85	0.76
Garissa	0.11	0.64	0.20	Nakuru	0.12	1.22	0.74
Homa Bay	0.05	0.27	0.11	Nandi	0.11	0.40	0.08
Isiolo	0.16	0.59	0.08	Narok	0.07	0.41	0.17
Kajiado	0.13	1.49	0.65	Nyamira	0.09	0.72	0.21
Kakamega	0.10	0.62	0.13	Nyandarua	0.39	3.17	1.13
Kericho	0.16	0.64	0.13	Nyeri	0.55	3.98	1.13
Kiambu	0.17	2.71	1.00	Samburu	0.12	0.23	0.04
Kilifi	0.16	1.12	0.23	Siaya	0.09	0.60	0.16
Kirinyaga	0.17	1.31	0.66	Taita Teveta	0.43	2.37	0.53
Kisii	0.11	0.67	0.33	Tana River	0.16	1.12	0.12
Kisumu	0.07	0.82	0.24	Tharaka Nithi	0.27	1.25	0.20
Kitui	0.14	1.48	0.29	Trans Nzoia	0.22	0.80	0.50
Kwale	0.13	1.12	0.2	Turkana	0.11	0.15	0.07
Laikipia	0.52	5.69	0.67	Uasin Gishu	0.27	1.02	339
Lamu	0.30	0.96	0.49	Vihiga	0.14	1.06	0.20
Machakos	0.18	2.18	0.59	Wajir	0.20	0.43	0.11
Makueni	0.22	1.92	0.40	West Pokot	0.11	0.09	0.06
Mandera	0.11	0.35	0.09	Kenya	0.18	1.32	0.41

Source: Ministry of Health (2014), Kenya Household Health Utlilization Report

Annex Table 3.6: Violence and injuries indicators

County	% new outpatient cases attributed to other injuries 2012/13	% new outpatient cases attributed to other injuries 2013/14	Difference	County	% new outpatient cases attributed to other injuries 2012/13	% new outpatient cases attributed to other injuries 2013/14	Difference
Baringo	2.5	2.25	-0.25	Marsabit	1.6	1.78	0.18
Bomet	1.9	2.03	0.13	Meru	2.3	2.15	-0.15
Bungoma	2.7	2.23	-0.47	Migori	1.5	1.03	-0.47
Busia	1.5	1.18	-0.32	Mombasa	1.9	1.87	-0.03
Elgeyo Marakwet	4.0	3.12	-0.88	Muranga	2.2	2.44	0.24
Embu	2.4	2.33	-0.07	Nairobi	2.2	2.30	0.1
Garissa	1.7	1.52	-0.18	Nakuru	2.0	2.53	0.53
Homa Bay	1.5	0.87	-0.63	Nandi	2.4	2.15	-0.25
Isiolo	1.7	2.16	0.46	Narok	2.4	2.06	-0.34
Kajiado	2.6	2.53	-0.07	Nyamira	2.8	2.26	-0.54
Kakamega	3.2	1.77	-1.43	Nyandarua	2.4	2.9	0.5
Kericho	2.0	1.96	-0.04	Nyeri	1.5	2.88	1.38
Kiambu	2.5	2.76	0.26	Samburu	2.2	2.15	-0.05
Kilifi	2.1	2.22	0.12	Siaya	1.6	1.36	-0.24
Kirinyaga	2.4	2.53	0.13	Taita Teveta	2.0	2.66	0.66
Kisii	3.0	2.52	-0.48	Tana River	1.6	1.45	-0.15
Kisumu	1.3	1.23	-0.07	Tharaka Nithi	1.7	1.33	-0.37
Kitui	2.4	2.37	-0.03	Trans Nzoia	2.7	3.22	0.52
Kwale	1.6	1.36	-0.24	Turkana	1.6	1.45	-0.15
Laikipia	1.7	2.37	0.67	Uasin Gishu	2.9	3.05	0.15
Lamu	2.2	0.94	-1.26	Vihiga	2.5	1.43	-1.07
Machakos	3.3	4.06	0.76	Wajir	1.5	1.96	0.46
Makueni	2.9	3.26	0.36	West Pokot	2.3	2.35	0.05
Mandera	1.4	1.59	0.19	Kenya	2.2	2.18	-0.02

Source: Ministry of Health (2014)

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