Navigating Global Challenges
While Exploiting Opportunities
for Sustainable Growth

KENYA ECONOMIC REPORT 2014

Kenya Economic Report 2014

KENYA INSTITUTE FOR PUBLIC POLICY
RESEARCH AND ANALYSIS

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Navigating Global Challenges While Exploiting Opportunities for Sustainable Growth

The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Nairobi, Kenya
2014

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Contents

F

Figures and Tables

Figures

Tables

F

Foreword

The Kenya Economic Report (KER) 2014, the sixth in this annual series, is prepared by the Kenya Institute for Public Policy Research and Analysis (KIPPRA) pursuant to the KIPPRA Act No. 15 of 2006. This report analyzes recent economic developments in Kenya and provides medium term prospects for the next three years.

The report highlights Kenya's favourable growth prospects on account of improved macroeconomic stability, on-going upgrading of infrastructure and investment in irrigation, structural reforms following the implementation of the Constitution of Kenya, the discovery of oil and other minerals, regional integration that favours Kenya as a regional hub, and financial sector deepening. While growth for 2014 is projected at 5.1 per cent compared to the MTP II target of 7.2 per cent, the report argues for the need to develop a resilient and globally competitive economy as a strategy to navigate global challenges that may undermine Kenya's growth prospects.

The key global challenges include terrorism and transnational crime, risks of continued weak global growth, volatility in global oil prices, deterioration in terms of trade, effective management of the regional integration process, and vulnerability to climate change and variation.

As the country continues to implement the Constitution of Kenya (2010) and especially devolution, the government will continue to ensure effective management of transitional challenges related to coherent and effective coordination of policy, capacity constraints, and institutional reforms that are being implemented. The government is showing renewed commitment in addressing emerging security concerns and this is expected to enhance stability and law and order, which are the key foundations for economic development.

Sound macroeconomic management will have to be prudently managed to ensure that the Kenyan economy can respond flexibly to changes in the global economy. At the same time, it is critical to upgrade infrastructure, and to ensure that the business and investment climate is attractive to both domestic and foreign investors. Continued investment in irrigation and geothermal energy should be able to build Kenya's resilience to adverse weather conditions.

Overall, structural reforms that are being implemented are critical in enhancing public service delivery, efficient utilization of public resources, and provision of adequate incentives for long-term growth.

Ann Waiguru (OGW)
Cabinet Secretary
Ministry of Devolution and Planning
2014

Preface

The Kenya Economic Report (KER) 2014 is the sixth in a series of annual reports on the Kenyan economy prepared by the Kenya Institute for Public Policy and Analysis (KIPPRA) pursuant to the KIPPRA Act No. 15 of 2006. The report is prepared in consultation with the Ministry of State for Devolution and Planning, National Treasury and the Central Bank of Kenya.

The overall message of the Kenya Economic Report 2014 is that the growth prospects of Kenya are quite favourable following peaceful transition to a devolved governance system under the Constitution of Kenya 2010; implementation of structural reforms in line with the principles of the Constitution; discovery of oil, gas and other minerals; increased investment in key national and regional infrastructure projects; and on-going regional integration. Timely and effective implementation of the Medium Term Plan II should ensure that the Kenyan economy emerges strong and resilient to external shocks.

Part I of the report analyzes macroeconomic, governance and socio-economic performance. The economy is projected to grow by 5.1 per cent in 2014. Nonetheless, the performance is below the MTP II targets mainly due to weak global economic performance, security concerns, adverse weather conditions, delays in implementing key investment projects, high cost of doing business, and transitional challenges related to devolution. The Constitution provides for devolution of political, fiscal and administrative power to county governments and, therefore, effective county governments will ensure enhanced service delivery, efficient utilization of public resources, and an enabling business environment.

The report identifies some of the key challenges that need to be addressed effectively so as to put the economy on Vision 2030 growth path, which envisages the realization of a 10 per cent annual growth by 2017/18. The growing external trade deficit, now estimated at about 24 per cent of GDP, requires a structural transformation of the Kenyan economy by upgrading production and technological capability.

Part II of the report examines recent performance and underlying sector policy challenges and options in key sectors including agriculture, manufacturing, trade and foreign policy, financial services, micro and small enterprises, among other sectors. Part III of the report discusses Kenya's medium term prospects under different assumptions.

The overall theme of the report is 'Navigating Global Challenges While Exploiting Opportunities for Sustainable Growth'. While the growth prospects are positive, the government should continue implementing policies that enhance economic resilience and competitiveness of the economy. Infrastructure upgrading, macroeconomic stability and sound public expenditure management, and legal and regulatory reforms that improve service delivery and the business environment should be part of the overall growth strategy.

Dr. John M. Omiti
Executive Director
2014

Prof. Mohamed S. Mukras
Chair, KIPPRA Board
2014

Abbreviations and Acronyms

ACT	Artemisinin-based Combination Therapy
ADR	Alternative Dispute Resolution
AFC	Agriculture Finance Cooperation
AFIDEP	African Institute for Development Policy
AG	Attorney General
AGO	Automotive Gas Oil
AGOA	African Growth and Opportunity Act
AGPO	Access to Government Procurement Opportunities
AMISOM	African Mission to Somalia
ARD	Agriculture and Rural Development
ASALs	Arid and Semi-Arid Lands
ASCAs	Accumulating Savings and Credit Associations
ATAR	Adaptation Technical Analysis Report
BEC	Broad Economic Category
BRRU	Business Regulatory Reform Unit
CAADP	Comprehensive Africa Agriculture Development Programme
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CDF	Constituency Development Fund
CEmOC	Comprehensive Emergency Obstetric Care
CES	Compliance and Enforcement Standards
CFTA	Continental Free Trade Area
CH4	Methane
CHEWs	Community Health Extension Workers
CIC	Commission for the Implementation of the Constitution
CIDC	Constituency Industrial Development Centres
CIS	Credit Information Sharing
CMA	Capital Markets Authority
CO_2	Carbon Dioxide
COMESA	Common Market for Eastern and Southern Africa
CPA	Comprehensive Peace Agreement
CPI	Consumer Price Index
CPR	Contraceptive Prevalence Rate
C-section	Caesarean section
CSPs	Certification Service Providers
CTS	Crescent Takaful Sacco Society
CU	Custom Union
DFQF	Duty-Free-Quota-Free
DTD	Domestic Tax Department
DTMs	Deposit Taking Microfinances
EAC	East African Community
EACC	Ethics and Anti-Corruption Commission
EAMU	East African Monetary Union
ECDE	Early Childhood Development and Education
EFA	Education for All
EPAs	Economic Partnership Agreements
EPZ	Export Processing Zones
FBO	Faith-Based Organization

FDI	Foreign Direct Investment
FDSE	Free Day Secondary Education
FNSP	Food and Nutrition Security Policy
FPE	Free Primary Education
FSD	Financial Sector Deepening
FSI	Foreign Service Institute
FTA	Free Trade Area
GDC	Geothermal Development Corporation
GDP	Gross Domestic Product
GEMS	Growth Enterprise Market Segment
GER	Gross Enrolment Rate
GFEI	Global Fuel Economy Initiative
GHGs	Green House Gases
GITS	Government Information Technology Services
GNI	Gross National Income
GSP	Generalized System of Preferences
HDI	Human Development Index
HELB	Higher Education Loans Board
HFCs	Hydrofluorocarbons
HIV/AIDs	Human Immunodeficiency Virus/ Acquired Immuno-Deficiency Syndrome
HRH	Human Resource for Health
ICT	Information and Communication Technology
ICT4E	ICT for Education
IDC	International Data Corporation
IDF	Import Declaration Form
IDR	Import Dependency Ration
IEA	International Energy Agency
IEBC	Independent Electoral and Boundaries Commission
IMF	International Monetary Fund
IPOA	Independent Police Oversight Authority
IRA	Insurance Regulatory Authority
ISPs	Internet Service Providers
ITNs	Insecticide Treated Nets
IWRM	Integrated Water Resources Management
JAB	Joint Admissions Board
JKIA	Jomo Kenyatta International Airport
JMP	Joint Monitoring Committee
JSC	Judicial Service Commission
KAM	Kenya Association of Manufacturers
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KDF	Kenya Defence Forces
KDHS	Kenya Demographic and Health Survey
KEBS	Kenya Bureau of Standards
KEMSA	Kenya Medical Supplies Authority
KEPSA	Kenya Private Sector Alliance
KER	Kenya Economic Report
KICA	Kenya Information and Communications Act
KICC	Kenyatta International Conference Centre
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KIRDI	Kenya Industrial Research and Development Institute
KNBS	Kenya National Bureau of Statistics
KNCHR	Kenya National Commission on Human Rights
KOTDA	Konza Technopolis Development Authority
KPA	Kenya Ports Authority
KRA	Kenya Revenue Authority
KRBF	Kenya Roads Board Fund
KSG	Kenya School of Government
KTMM	KIPPRA-Treasury Macro Model
LAPSSET	Lamu Port and Southern Sudan-Ethiopia Transport
LoS	Levels of Service
LSK	Law Society of Kenya
MAFAP	Monitoring of African Food and Agricultural Policy
MDGs	Millennium Development Goals
MENWR	Ministry of Environment and Water Resources
MFA	Multi-Fibre Arrangement
MPI	Multidimensional Poverty Index
MSE	Micro and Small Enterprise
MTEF	Medium Term Expenditure
MTP	Medium Term Plan
NALEP	National Agricultural and Livestock Extension Programme
NCAPD	National Coordinating Agency for Population and Development
NCPB	National Cereals and Produce Board
NCPD	National Council for Population Development
NDMA	National Drought Management Authority
NEMA	National Environmental Management Authority

NEPAD	New Partnership for Africa's Development
NER	Net Enrolment Rate
NGEC	National Gender Equality Commission
NGO	Non-Governmental Organization
NHC	National Housing Corporation
NPSC	National Police Service Commission
NSSF	National Social Security Fund
NTSA	National Transport Safety Authority
ORT	Oral Rehydration Therapy
PAYE	Pay As You Earn
PETS	Public Expenditure Tracking Survey
PPPs	Public-Private Partnerships
PSC	Parliamentary Service Commission
PTA	Parents Teachers Association
RECs	Regional Economic Communities
REITs	Real Estate Investment Trusts
RMLF	Roads Maintenance Levy Fund
RoO	Rules of Origin
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Cooperative Societies
SADC	Southern African Development Community
SASRA	SACCO Societies Regulatory Authority
SEZ	Special Economic Zones
SF6	Sulphur hexafluoride
SGR	Strategic Grain Reserves
SMEs	Small and Medium Enterprises
SPA	Service Providers Agreements
SRO	Self Regulatory Organization
SSA	Sub-Saharan Africa
TCIP	Transparency and Communications Infrastructure Project
TEU	Twenty foot Equivalent Unit
T-FTA	Tripartite Free Trade Area
TI	Transparency International
ToT	Turn over Tax
TVET	Technical, Vocational Education and Training
UNDESA	United Nations Department of Social and Economic Affairs
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UN-Habitat	United Nations Human Settlement Programme
UNWTO	United Nations World Tourism Organization
VAT	Value Added Tax
WASH	Water, Sanitation and Hygiene
WHO	World Health Organization
WSA	Water Services Authority
WSR	Water Service Regulations
WSTF	Water Service Trust Fund
WSU	Water Service Utilities

Acknowledgements

This Kenya Economic Report (KER) 2014 was prepared and produced by staff of the Kenya Institute for Public Policy Research and Analysis (KIPPRA) under the overall leadership of the Executive Director.

The report was prepared in consultation with the Central Bank of Kenya, the National Treasury, the Ministry of Devolution and Planning, the Kenya National Bureau of Statistics, and the Ministry of East African Community, Commerce and Tourism. Comments and suggestions on earlier drafts of KER 2014 were very helpful in shaping the content and quality of analysis.

Executive Summary

The Kenya Economic Report (KER) 2014, whose theme is 'Navigating Global Challenges While Exploiting Opportunities for Sustainable Growth' analyzes the recent performance of the Kenyan economy and provides an assessment of the medium term prospects under different assumptions. In addition, the report highlights the key global and domestic challenges, and risks that need to be addressed or managed effectively so as to realize Kenya's medium term growth potential. The global challenges are particularly important due to the increasing openness of the economy. The report argues that Kenya's growth prospects are favourable on account of improved macroeconomic stability, the on-going upgrading of infrastructure and investment in irrigation, the structural reforms following the implementation of the Constitution of Kenya (2010), the discovery of oil and other minerals, regional integration that favours Kenya as a regional hub, financial sector deepening, public expenditure management reforms, and resource mobilization efforts. According to the report, Kenya registered a growth rate of 4.7 per cent in 2013 compared to 4.6 per cent in 2012 but is projected to reach 10 per cent in 2017/18 under the Medium Term Plan targets. However, growth for 2014 is 5.3 per cent compared to the MTP II target of 7.2 per cent.

There is need to respond effectively to key global challenges including terrorism and transnational crime, risks of continued weak global growth, volatility in global oil prices, deterioration in terms of trade, managing regional integration, and vulnerability to climate change and variation. On the domestic front, the government should ensure effective management of devolution, and especially transitional challenges related to coordination, capacity constraints, and institutional reforms in line with the principles of the Constitution of Kenya (2010), and address emerging security concerns. The report further argues that the government should aim at building a resilient and globally competitive economy as a strategy to navigate external challenges.

Macroeconomic Performance

The Kenyan economy recorded improved economic performance in 2013 by registering an annual growth of 5.7 per cent compared to 4.6 per cent in 2012. The macroeconomic environment continued to improve with further gains in price and exchange rate stability. The economy also grew by 5.3 per cent in 2014 and is projected to increase further to 6.1 per cent in 2015. Nonetheless, the performance remains below the MTP II targets, mainly due to the weak global economic performance, security concerns, adverse weather conditions, delays in implementing key investment projects in infrastructure and exploitation of mineral resources, the cost of doing business, and transitional challenges related to devolution. The macroeconomic environment has improved, thus supportive of growth. However, Kenya still faces the challenge of a large current account deficit, though it is driven by imports of capital goods for investment. Kenyan exports are largely primary goods such as tea, coffee and horticultural products. Therefore, export of manufactured goods mainly to the regional markets is becoming important. The key global challenges relate to the after-shocks of the global financial crisis in the form of weak global economic performance that might impact demand for Kenya's exports and remittances. Geopolitical uncertainties on the international oil market could impact global oil prices, while the on-going war against the Al Shabaab terrorist group and internal security concerns have adversely impacted tourism. Kenya's debt position remains sustainable; however, with the debut Euro bond, the commercial component of the debt will increase thus requiring the country to be more vigilant about exchange rate risks.

Governance

An assessment of Kenya's governance indicators reveals that the various reforms that have been implemented by the government since the Constitution was promulgated in 2010 may have started bearing fruit. Kenya's global competitiveness ranking and the Mo Ibrahim governance index improved in 2013/2014. However, despite Kenya's overall improvement, national security is ranked poorly and this is attributed largely to the various incidences of insecurity linked to grenade attacks in various parts of the country, cattle rustling and travel advisories.

The report argues that security is one of the most critical challenges the country is facing and thus the need to fast-track reforms in the security sector and increase resource allocation to security agencies. There is need to build on the gains made in judicial reforms by addressing the backlog of cases, and smooth implementation of the Constitution, which is expected to contribute to the stability and development of the economy.

Population Growth and Fertility

Kenya Vision 2030 identifies population growth and urbanization as key factors in the country's development. The population is growing at a rate of about 2.67 per cent per annum, which is above the world average of 2.4 per cent and the fertility rate is still high with over 4 children per woman. Given the levels of unemployment, the dependence ratio is estimated at about 2 persons for every working-age person. About 30 per cent of the total population lives in urban areas.

Demand for space in urban areas is pushing property prices up, forcing many of the urban dwellers to slums without basic amenities such as safe drinking water, toilets/sewerage systems, drainage systems and other infrastructure. This report calls for the government to refocus attention on urban planning so as to avoid mushrooming of slums. Kenya's population growth can best be managed through effective family planning programmes and increased reproductive health care. The use of Community Health Extension Workers may help reach a wider population.

Poverty and Inequality

More than three quarters of the world's poor live in Africa and yet African countries are among the fastest-growing economies in the world today. In Kenya, an estimated 21.5 million people still live below the poverty line, which accounts for about 49.5 per cent of the total population. Studies have shown that poverty is severe in some regions than in others. In 2013, several counties recorded high levels of poverty (over 80%); these include Turkana, Mandera, Wajir, Marsabit, Tana River and Kwale. However, on the positive side, poverty levels in counties such as Kiambu, Kirinyaga, Murang'a, Nyeri, Lamu, Meru, Kajiado, Narok and Nairobi are below 40 per cent.

While the government should continue focusing on medium and long term development goals, the effectiveness of the various targeted programmes need to be enhanced. These include cash transfer programmes that target orphans and vulnerable children, and people living with HIV/AIDS and the elderly; provision of free and compulsory basic education; school feeding programmes; provision of free maternal care; provision of free health care to children below five years; and credit provision to the youth and women intended to directly create jobs.

Labour Market and Employment

The share of the informal economy in total recorded employment is slightly more than 80 per cent and is growing relatively fast. The formal sector (both public and private) employment stood at about 17 per cent in 2013. Consequently, an important feature of employment in Kenya is the creation of low-quality jobs relative to the growth in the labour force, leading to unemployment and underemployment while informal sector employment continues to expand more rapidly. About 80 per cent of youth work in informal sector activities such as *Jua Kali,* self-employment, small-scale agriculture, and pastoralism.

Drawing on a synthesis of global studies on youth unemployment, this report identifies the following key constraints to youth employment: job-relevant skills, lack of labour demand, job-search and matching constraints, firm start-up constraints, and supply-side social constraints that require policy attention.

Health

In the recent past, the health sector has recorded mixed performance. The distribution of health facilities across the country shows regional disparities, mainly because regions are not uniform in size and population distribution. In 2013, about 57 per cent of health facilities had the basic infrastructure (water, electricity and toilets). Funds received by health facilities from the various sources were not adequate to meet their requirements, including pharmaceuticals and non-pharmaceuticals such as gloves, needles and syringes.

Diseases of the respiratory system are the leading cause of morbidity among the over-5 population, followed closely by malaria (both clinical and confirmed cases) and diseases of the skin. Clinical cases of malaria declined in 2013 compared to the same period in 2012. However, confirmed malaria cases went up. This may indicate the likelihood of misdiagnosis of clinical malaria especially given the fact that the numbers of clinical and confirmed cases differ significantly. In a survey conducted in 2012/13, it was found that about 30 per cent of clinicians could not diagnose malaria cases correctly, and the level of incorrect diagnosis increased to over 70 per cent if the malaria patient also had anaemia. Maternal and child health remain inadequate in many health facilities, with only about 2 out of every 10 government facilities offering Comprehensive Emergency Obstetric Care (CEmOC), which includes Caesarean section (C-section).

Education and Skills Development

While there has been remarkable increase in access and participation rates in education, still a considerable proportion of children are not in school, and regional inequalities persist. It is estimated that about 4 per cent of the children aged 6-13 years and 61.5 per cent of the youth aged 14-17 years are not in school. In addition, overall educational attainment remains low. On average, 25 per cent of the population has no education; 52 per cent has only primary school education and only 32.7 per cent of workers in the formal wage sector have attained secondary school education and above.

Targeted policy interventions are required to address cross-county disparities in educational attainment. Participation rates are particularly low in arid and semi-arid regions. Literacy levels are also low, suggesting the need to strengthen adult education programmes. Disparities at county level are further aggravated by inefficient utilization of available resources, manifested through teacher absenteeism and limited emphasis on monitoring of actual performance. This report recommends targeted programmes for vulnerable groups, including provision of physical infrastructure and teaching staff, addressing socio-cultural constraints, improving the learning environment, boosting awareness campaigns, pursuing interventions aimed at reducing the costs of education borne by parents, addressing the overall quality of education, and tailoring TVET programmes towards ensuring appropriate contribution to the economy.

Agriculture

The agriculture sector performance slowed in 2013 compared to 2012. The key underlying factor was declining productivity and adverse conditions arising from climate variability and extremes, low adoption of technology such as superior varieties and irrigation technology, unfavourable terms of trade, information asymmetry, and rising costs of agricultural inputs. In order to address the challenges facing the sector, this report advocates for increased investment particularly in infrastructure and technology, especially agro-technology in areas such as irrigation, breeding, soil nutrition and management, and post-harvest management. In addition, efforts should be directed towards encouraging peri-urban agriculture, strengthening supply chain linkages among various actors, bilateral and multilateral agreements to reduce non-tariff barriers, enhanced food market information systems, and price stabilization. These efforts should be supplemented with an effective vulnerability assessment to support social protection for the poor. Specific measures to address climate extremes include integrating traditional knowledge and practice, and promoting irrigation and livelihood diversification particularly in ASAL communities.

Increased concentration of Green House Gases (GHGs) in the atmosphere is associated with climate change and variability. This, in turn, has led to extreme weather conditions and disasters. It is projected that the annual global cost of climate change could be as much as 2.6-3.0 per cent of GDP. Major disasters in Kenya include droughts, floods and landslides. The impact of the drought that occurred in 2008/2011 is estimated at Ksh. 1.2 billion, and GDP growth slow down of about 2.8 per cent per annum.

The government has responded to the disasters by putting in place institutional and policy frameworks, including the development of the National Climate Change Response Strategy, 'ending drought emergencies campaign'; and establishing the National Drought Management Authority (NDMA). However, the response has largely been ineffective. There is need to focus on the underlying factors of vulnerability and remedy them through expansion of water storage, irrigation, drilling of dams in pastoralist areas, establishing disease-free zones, and improved breeding services. Investment in geo-thermal energy and irrigation will help address the impact of drought-related shocks on food security and electricity generation.

Tourism

Tourism has continued to under-perform in terms of tourist arrivals and tourism earnings. The dismal performance is due to a combination of factors that include the global economic slowdown in key tourist source markets (especially Europe) and insecurity-related incidents arising out of terrorism.

The Kenya Economic Report 2014 argues that the tourism industry has strong potential to deliver continued economic growth and employment for Kenya. However, there is need to address insecurity, explore alternative markets, develop alternative non-nature-based tourism products, launch a programme to brand Kenya as an environmentally-responsible low carbon footprint destination, promote alternative tourism development models that promote socio-economic development and enhance environmental sustainability, and fast-track completion of the National Wildlife Adaptation Strategy.

Manufacturing

The Kenya Vision 2030 recognizes the critical role of the manufacturing sector as a key economic pillar for industrialization. However, despite various interventions, the sector's contribution to GDP has continued to stagnate at about 10 per cent. The sector's growth improved from -0.6 per cent in 2012 to 5.6 per cent in 2013, mainly driven by the manufacture of cement, food and beverages. The booming construction sector continues to create positive spill-over effects on the demand for cement. The manufacturing sector has continued to face various challenges including high costs of production, competition from cheap imports, influx of counterfeits, low value-addition and erratic weather patterns given that the sector heavily relies on agro-processing.

Policy efforts should be directed towards addressing the aforementioned challenges, particularly through investment in infrastructure, effective policy coordination between the ministry concerned and other agencies, targeted efforts to reduce the cost of doing business, encourage the use of domestic goods and services within a competitive environment, and fast-track key policy initiatives such as special economic zones and industrial parks.

Micro and Small Enterprises

The Micro and Small Enterprise (MSE) sector accounts for about 75 per cent of all modern establishments in Kenya. It is estimated that about 11.1 million Kenyans are engaged in MSEs. Sixty (60) per cent of MSEs operate in the wholesale and retail trade sub-sector. Micro and Small Enterprises represent about 67.7 per cent of manufacturing firms but account for only 14.3 per cent of manufacturing value addition. The potential of MSEs contributing to the manufacturing sector thus remains fully untapped, hence requiring policy attention.

The recent key developments in the sector include the operationalization of the MSE Authority following the enactment of the MSE Act of 2012. Regarding procurement, in 2013/14, the preference and reservation of contracts and tenders for the youth and women was increased from 10 per cent to 30 per cent, and following the implementation of devolution, some licensing functions have been decentralized. This offers an opportunity for county governments to adopt innovative processes to improve business licensing, such as the web portal established by Nairobi County. Digitalization of the office of the Registrar of Companies should help reduce the number of days it takes to register a business. The government plans to establish "Biashara Kenya" as a vehicle to facilitate development of MSEs. Despite these policy developments, the following challenges are competing for policy attention: coordination of MSE activities; capacity building to facilitate access to government procurement; ensuring that licences by counties are introduced through a systematic, transparent and participatory process; fast-tracking the establishment of MSE parks; and collecting relevant data on MSEs to facilitate effective planning and policy development for the sector.

Infrastructure and Economic Services

Infrastructure and economic services recorded an overall drop in performance in 2013. In terms of contribution to GDP, the real estate, electricity and transport and communication sectors witnessed a reduction, while the construction and water supply sectors marked a slight improvement. The information and communications services portfolio recorded improvement with the roll out of broad band Internet infrastructure by operators. Investment in infrastructure development continued to receive prominent attention in the country's development agenda; the Vision 2030 Second Medium Term Plan (MTP II) and the Jubilee manifesto identified flagship projects vital to economic development. Key among these projects include: reduction of power cost; commissioning of the construction of the Standard Gauge Railway (SGR) project; streamlining of port operations and institutions at the port of Mombasa; and commissioning of the construction of the Greenfield Terminal project at Jomo Kenyatta International Airport (JKIA). These and other key projects and reforms within the sector are expected to see an improvement of key performance indicators in infrastructure portfolio. The major global challenges identified in the infrastructure sector include: inadequate household access to energy; low fuel economy and high emissions from the automotive sector; cyber crime and digital divide between urban and rural areas; lack of affordable and decent housing for low income groups; and inadequate access to water and sanitation services especially in rural areas.

In 2013, overall access to improved water and sanitation stood at 63 per cent and 30 per cent, respectively, against the respective targeted access levels of 70 and 43 per cent by 2015. Water utility improved water coverage from 52 per cent to 53 per cent and sanitation coverage from 69 per cent to 72 per cent. Global disbursements to Kenya on water and sanitation increased to about Ksh 18 billion in 2013, inclusive of receipts by government and non-government institutions, which was about 6 per cent of what Africa receives. In terms of national receipts from the donor community, the share of water and sanitation was about 4 per cent. The key challenges of the sector are inadequate infrastructure financing, huge non-revenue water, governance and management bottlenecks.

Fast-tracking of the Water Bill 2014 is important, as well as the need to increase infrastructure financing, encourage public-private partnership in the sector, capacity building initiatives, awareness creation in water conservation, and internalization of right to water, and proactive networking and engagement in the post-2015 water and sanitation agenda.

Trade and Foreign Policy

The wholesale and retail sector grew by 8.3 per cent in 2011, declined to 7 per cent in 2012, and improved to 8.5 per cent in 2013. The VAT Act and Finance Act enacted in 2013 were expected to increase government revenue. According to the draft National Trade Policy, access to finance is a key factor in the growth of the sector. The Small and Micro Enterprises Act of 2012 provides for the establishment of an SME Fund charged with the responsibility of financing and promoting the development of SMEs.

Regarding external trade, growth in Kenya's imports of goods from the rest of the world has outpaced exports. Consequently, Kenya's trade deficit has been growing, and stood at about 24 per cent of GDP at market prices in 2013. Kenya's exports are largely low value and low technology; mainly agro-based especially tea, coffee and horticulture. The key imports are industrial supplies, fuel and lubricants, and machinery and other capital goods. Kenya's trade, therefore, suffers a structural problem on account of the composition of the outputs produced in Kenya. Kenya is a major beneficiary of AGOA;

however, despite the fact that 6,400 products can gain market access under AGOA, Kenya exports garments and apparels almost exclusively. This can be taken to mean that Kenya lacks the capacity to take advantage of the market access offer. The current AGOA initiative will come to an end by end of September 2015. East African countries are expected to enter an Economic Partnership Agreement (EPA) with Europe in 2014.

There were important developments on regional integration and trade, especially the signing of the East African Monetary Union Protocol in November 2013. This sets the stage for the implementation of the convergence criteria on macroeconomic policy fundamentals leading to a single currency by 2023. The East African Community (EAC) is a major destination of Kenya's exports accounting for about 25 per cent of total exports. However, intra-EAC trade is still low at 11 per cent.

Regional integration is supported by Kenya's foreign policy, which is based on two pillars; namely, economic and peace diplomacy. Key aspects of Kenya's peace diplomacy include participation in AMISOM and the mediation process aimed at ending the South Sudan crisis. The stabilization of Somalia will remain a key agenda because of its implications on peace and security in Kenya, given the risks posed by terrorists.

Financial Services

The financial sector has a significant developmental role in the economy; under Vision 2030, it is required to drive the needed levels of savings to finance Kenya's investment needs. In 2013, the sector's growth improved to 8.1 per cent compared to a growth of 6.0 per cent in 2012. However, the sector's contribution to GDP declined from 5.2 per cent in 2012 to 4.8 per cent in 2013.

The sector has witnessed important developments in the recent past, including expansion in agency banking and mobile money transfers that have contributed to increased financial access; licensing of the Kenya Credit Providers Association to facilitate information sharing; the cheque truncation system that has reduced cheque clearance to one (1) day, enactment of laws on Real Estate Investment Trusts, and the implementation of the East Africa Payments System (EAPS) is expected to enhance cross-border payments.

Despite the positive improvements, key areas of policy concern include a large interest rate spread, and low listing of SMEs despite the introduction of the Growth Enterprise Market Segment (GEMS). Though there has been notable progress in the formal financial service access to 32.7 per cent in 2013 from 22 per cent in 2009, a significant proportion of Kenyans still lack access to formal financial services and products. The level of financial depth in terms of the share of credit to the private sector remains comparatively low.

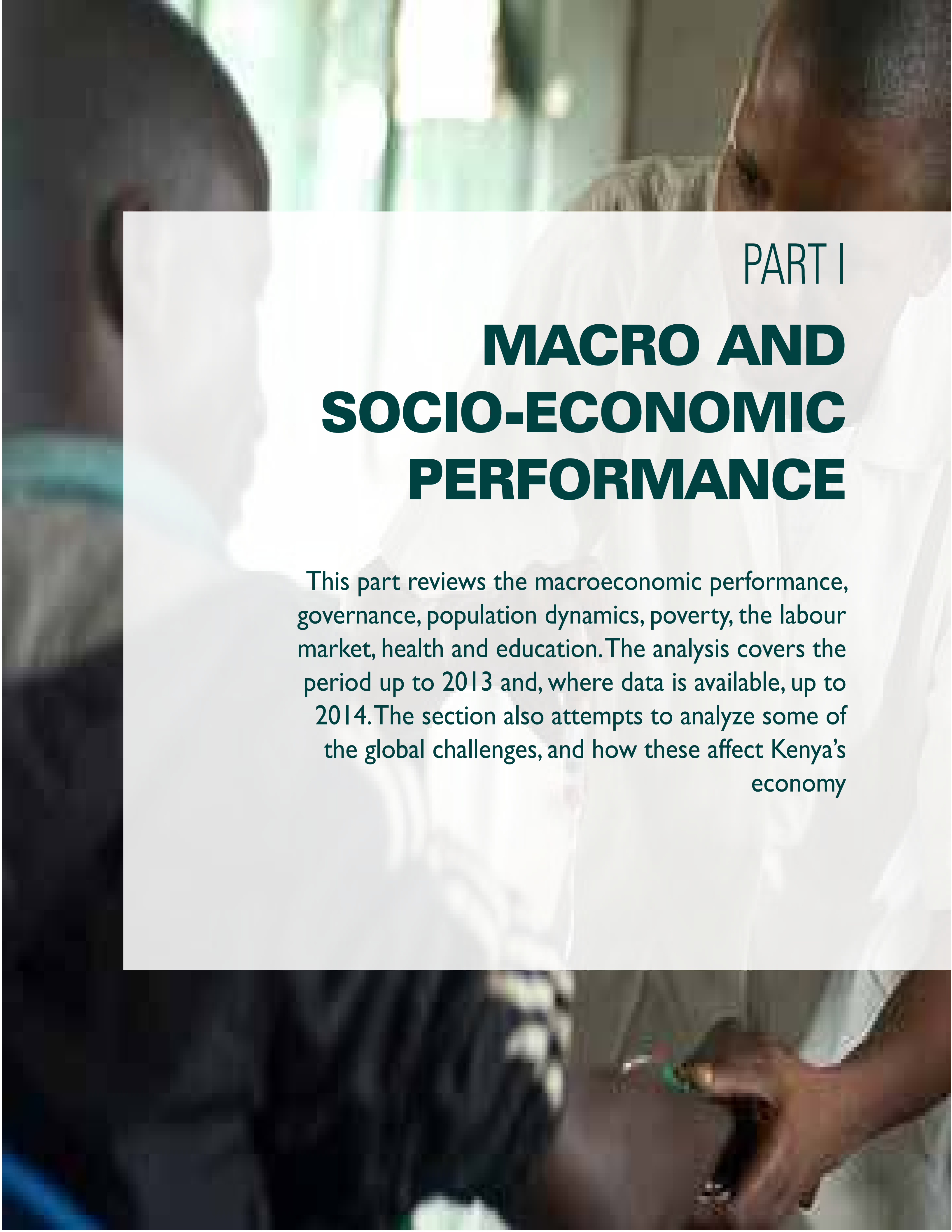
Information Communication Technology (ICT)

ICT has been identified as 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 knowledgeable and information-based economy by enabling access to quality, affordable and reliable ICT services in the country. ICT is expected to support economic development by bringing productivity and innovation across sectors. ICT has received prominence in the eyes of the public and decision makers because of its roles in service delivery. The Government of Kenya has initiated several programmes and developed policies to ensure ICT technologies are appropriately adopted in different sectors. Kenya is now regarded as a global technology centre as well as the Silicon Valley of Africa due to major products such as M-Pesa.

Medium Term Prospects

The economy registered a growth of 5.7 per cent in 2013 compared to 4.6 per cent in 2012. Medium term growth prospects are positive, predicated on the following key assumptions: (a) structural reforms and public investment in infrastructure will continue as planned, (b) the transition to the 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.

The economy is projected to grow by 5.1 per cent in 2014 and is projected to range from 5.8 per cent to 6.1 per cent in 2015. However, this growth falls below the MTP II target largely due to delays in the implementation of key projects and sluggish global growth. It is expected that the government will be able to effectively address concerns about security that impacted growth negatively in 2013.



PART I

MACRO AND SOCIO-ECONOMIC PERFORMANCE

This part reviews the macroeconomic performance, governance, population dynamics, poverty, the labour market, health and education. The analysis covers the period up to 2013 and, where data is available, up to 2014. The section also attempts to analyze some of the global challenges, and how these affect Kenya's economy

Chapter 1

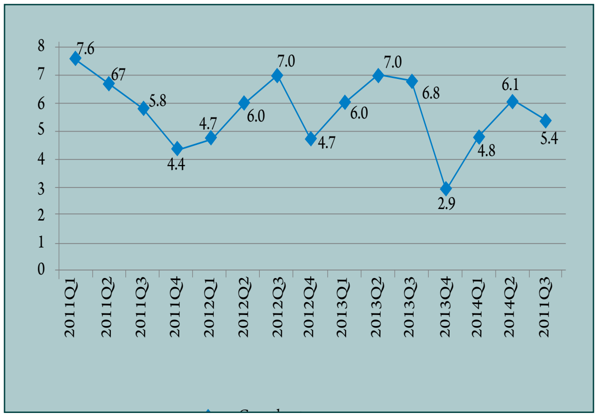
Macroeconomic Performance

1.1 Economic Growth

The Kenyan economy grew by 4.7 per cent in 2013. The improved growth was mainly due to relatively low and stable inflation rate, moderate interest rates, and a stable shilling against major trading currencies. The uncertainty due to the general elections held in March 2013, rising incidents of insecurity, and insufficient rains during the fourth quarter of 2013 impacted negatively on economic growth. Looking at quarterly statistics, the Kenyan economy advanced 4.1 per cent year-on-year in the first three months of 2014, unchanged from the 4.1 per cent growth rate in the previous quarter. Bad weather conditions and lower external demand hurt agricultural production, while activities in hotels and restaurants shrank by 3 per cent. In the same quarter of 2013, the economy grew at a faster rate of 5.2 per cent (Figure 1.1).

Growth was mainly supported by improved performances in financial intermediation, transport and communications, wholesale and retail trade, manufacturing, construction, and mining and quarrying (Table 1.1). Mining and quarrying recorded a significant growth of 9.9 per cent, which was mainly due to increased production and consumption of cement, and also significant expansion in the mining and quarrying sector. Financial intermediation also recorded strong growth from the fourth quarter of 2013, with an average of 8.3 per cent in the first quarter.

Figure 1.1: Quarterly GDP growth rates



Source: KNBS (2014), Economic Survey, First Quarter 2014 GDP release

In general, growth in most African countries has been strong, with growth in low income and fragile countries (Kenya included) averaging 5 per cent and 6 per cent in 2011 and 2012, respectively (IMF 2013). This is projected to increase to 6.4 per cent and 6.6 per cent in 2013 and 2014, respectively. Comparatively, Tanzania, Rwanda and Ethiopia recorded higher growth rates in the eastern African region, with growth rates of 6.9 per cent, 7.7 per cent and 7.0 per cent, respectively in 2012 (Table 1.2). Among the middle-income countries, Ghana and Zambia recorded impressive growth performances in 2012 with growth rates of 7.0 per cent and 7.3

Table 1.1: Sectoral sources of growth

	2012				2013				2014			
Quarter	1	2	3	4	1	2	3	4	1	2	3	4
Agriculture and forestry	3.5	2.1	2.0	4.1	6.3	6.6	6.4	0.9	2.2	2.1	6.8	3.8
Fishing	5.3	7.5	6.7	-3.9	12	7.8	1.2	1.2	0.9			
Mining and quarrying	14.7	20.8	18.3	22.2	11.6	-24.7	-5.2	-16.1	10.5	26.9	1.5	22.0
Manufacturing	-0.5	-2.2	-0.3	0.6	9.3	6.0	6.4	1.0	6.8	8.2	1.5	-2.7
Electricity and water	11.5	6.5	10.8	9.5	5.6	10.3	6.9	3.7	3.9	4.6	7.2	7.3
Construction	19.8	7.0	11.7	8.3	9.2	9.5	9.0	-3.2	7.8	16.7	8.8	19.3
Wholesale and retail trade & repairs	-3.1	11.6	17.2	2.1	15.7	11.3	5.7	2.7	9.7	5.2	5.3	7.9
Hotels and restaurants	8.3	-2.1	-3.2	6.4	-20.6	-0.6	13.4	1.1	-14.3	-19.2	-20.4	-15.9
Transport and storage	7.3	8.3	-2.0	-1.6	-8.9	0.9	2.7	9.8	3.7	5.7	7.8	2.9
Information and communication	14.5	-5.5	-12.7	13.4	14.6	11.7	12.7	10.7	12.7	8.1	16.1	15.8
Financial intermediation	0.3	5.2	7.2	11.2	10.6	9.8	7.0	5.4	7.9	7.9	7.2	10.3
Real estate, renting and business services	4.5	4.2	3.9	3.7	3.5	3.6	4.2	5.2	6.5	7.0	6.6	2.2
Public administration	5.8	2.9	2.5	4.7	5.6	6.1	2.2	-1.5	-5.3	16.2	0.4	10.9
Education	9.9	10.8	12.6	11.0	9.1	7.6	3.9	4.8	7.0	8.3	7.6	7.3
Other services	1.7	2.2	1.9	3.4	3.1	4.8	4.0	6.3	5.5	4.4	4.1	3.0

Source: KNBS (2014) Economic Survey, First Quarter 2014 GDP

per cent, respectively. The impressive growth in most African countries was mainly supported by stable macroeconomic fundamentals, with a decline in inflation rates resulting from stable global commodity prices and tight monetary policies. However, even with the projected improved performances, Africa could still face external risks to growth arising from the possibility of several more years of economic stagnation in the Euro zone, and a decline in investment in major emerging market economies (IMF, 2013). Thus, to safeguard against these external shocks, African countries should prioritize rebuilding of buffers to handle adverse external shocks while safeguarding long-term growth and developmental needs.

1.2 Fiscal Sector Performance

The fiscal performance in 2012/13 was largely characterized by increased government spending especially towards funding of the devolution agenda and implementation of the flagship projects under Vision 2030, which was against a backdrop of shortfalls in revenue collection. Revenue shortfalls were attributed to the non-passage of the Value Added Tax (VAT) Bill as anticipated, and also unfavourable macroeconomic conditions. Given the mounting expenditure pressures and revenue shortfalls, the overriding fiscal objectives during the year were to rationalize public spending by containing non-priority and non-productive

Table 1.2: GDP growth in selected African countries

	2009	2010	2011	2012	2013	2014
Kenya	2.7	5.8	4.4	4.7	5.8	6.2
Uganda	7.1	5.6	6.7	2.6	4.8	6.2
Tanzania	6.0	7.0	6.4	6.9	7.0	7.2
Rwanda	6.2	7.2	8.3	7.7	7.6	7.2
Burundi	3.5	3.8	4.2	4.0	4.5	5.1
Ethiopia	10.0	8.0	7.5	7.0	6.5	6.5
Botswana	-4.7	7.0	5.1	3.8	4.1	4.2
Ghana	4.0	8.0	14.4	7.0	6.9	6.8
South Africa	-1.5	3.1	3.5	2.5	2.8	3.3
Zambia	6.4	7.6	6.8	7.3	7.8	8.0

Source: IMF (2013)

recurrent expenditure, with the aim of managing the budget deficit and exercising prudent borrowing to ensure debt sustainability (KNBS, 2013).

1.2.1 Revenue performance

Actual total revenue including Appropriations-in-Aid (A-i-A) increased from Ksh 748.2 billion in 2011/12 to Ksh 847.2 billion (23.13% of GDP) in 2012/13 compared to a target in the revised budget of Ksh 915.3 billion (24.99% of GDP)–Budget Review and Outlook Paper, 2013. This represents a shortfall of Ksh 68.1 billion or 5.7 per cent deviation from the revised target. There was also a shortfall in external project grants in 2012/13, which amounted to Ksh 15.1 billion against a target of Ksh 55.3 billion, representing an absorption rate of 27.3 per cent of the committed amount. Programme grants

Table 1.3: Fiscal outturn (% of GDP)

	2010/11	2011/12	2012/13	2013/14*	2014/15**
Total revenue and grants	24.18	23.53	19.30	24.90	25.00
Revenue	22.07	23.06	18.80	22.90	22.90
A-I-A	2.11	1.77	1.50	1.60	1.60
Expenditure and net lending	29.40	29.21	24.80	35.20	32.40
Recurrent expenditure	21.46	19.95	17.90	19.20	18.40
Development expenditure	7.95	9.27	6.60	11.20	9.30
Deficit excluding grants (commitment basis)	(5.23)	(6.15)	(6.00)	(10.40)	(7.40)
Grants	0.68	0.47	0.580	1.80	1.60
Deficit including grants (commitment basis)	(4.55)	(5.68)	(5.60)	(8.70)	(5.80)
Deficit including grants (cash basis)	(4.30)	(5.29)	(5.1)	(8.50)	(5.80)
Financing	4.30	5.29	5.1	8.50	5.80
Foreign financing	1.03	3.04	1.4	5.90	2.10
Domestic financing	3.27	2.26	3.7	2.60	3.70

Source: Budget Review Outlook Paper (2012, 2013)
*Provisional
**Projection

amounted to Ksh 5.8 billion against a revised target of Ksh 18.9 billion, resulting into a shortfall of Ksh 13.1 billion. Provisional estimates indicate that revenue to GDP is expected to decline to 22.9 per cent in 2013/14.

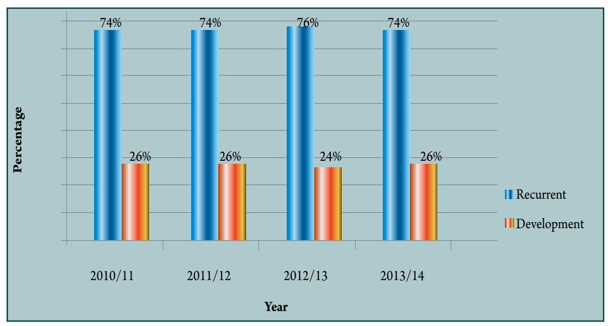
Looking at the different tax handles, only income taxes exceeded the target in 2011/12 and 2012/13 (Figure 1.2). VAT, Excise duty and Import duty collections fell below target, with VAT imports registering the widest shortfall of Ksh 19 billion. The impressive performance of PAYE can be attributed to its administrative ease, which is also as a result of the use of the Personal Identification Number (PIN) and also the self-assessment tax payment system.

1.2.2 Expenditure

Total expenditure and net lending increased from Ksh 948 billion in 2011/12 to Ksh 1,117 billion in 2012/13, even though the actual spending was lower than the target of Ksh 1,303 billion. The deviation between actual and targeted spending was mainly attributed to lower absorption rates in expenditure by line ministries, which was as a result of shortfalls in ordinary revenue. Looking at the composition of expenditure, recurrent expenditure increased from Ksh 941 billion in 2012/13 to Ksh 1.2 trillion in 2013/14 (24% increase), while development expenditure increased from Ksh 300 billion to Ksh 404 billion (35% increase).

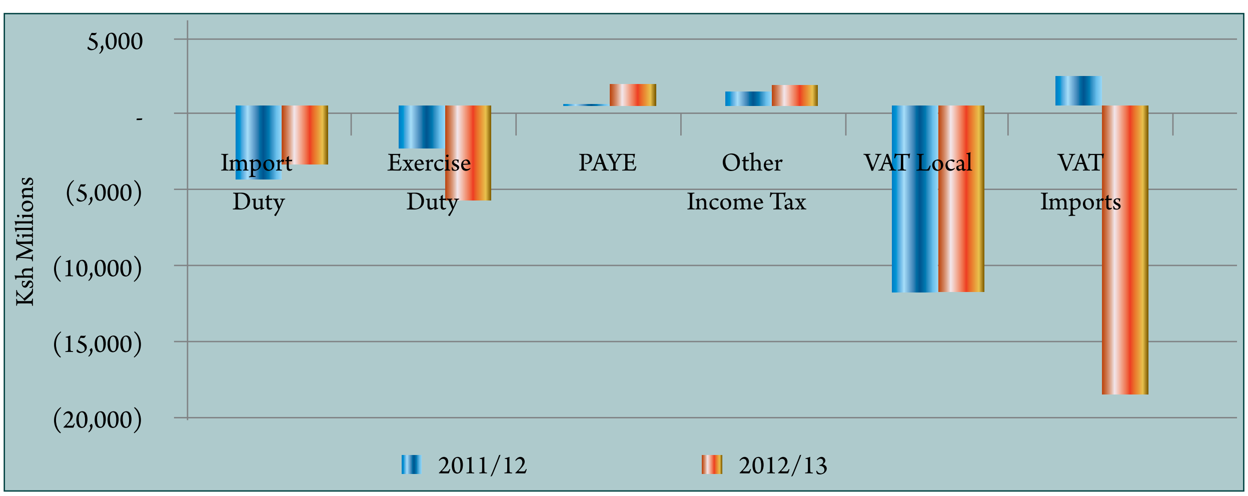
While there are significant increases in both recurrent and development expenditure over time, the proportion of recurrent expenditure in total expenditure remained constant over the period under review, apart from 2012/2013 when it increased to 76 per cent. The share of recurrent expenditure in total expenditure declined from 76 per cent in 2012/13 to 74 per cent in 2013/14, while the share of development expenditure increased from 24 per cent in 2012/13 to 26 per cent in 2013/14 (Figure 1.3).

Figure 1.3: Proportion of recurrent and development expenditure in total expenditure



Source: KNBS (2014), Economic Survey

Figure 1.2: Deviations between actual and targeted revenue collections



Source: Budget Review Outlook Paper (2012, 2013)

In terms of spending on government functions, the central government has continuously spent more on economic services, general public services, education and debt repayments (Figure 1.4). The proportion of spending on economic affairs was 21 per cent in 2012/13 compared to 20 per cent in 2013/14. Similarly, the proportion of spending on education services, public debt and public order and safety also increased from 18 to 19 per cent, 18 to 22 per cent and 8 to 13 per cent, respectively, in 2012/13 to 2013/14. On the contrary, spending on economic services, health, defence and general public service declined from 21 to 20 per cent, 6 to 2 per cent, 6 to 5 per cent and 14 to 12 per cent, respectively, of total spending in 2012/13 to 2013/14. Spending on other industries stagnated at 1 per cent of total spending.

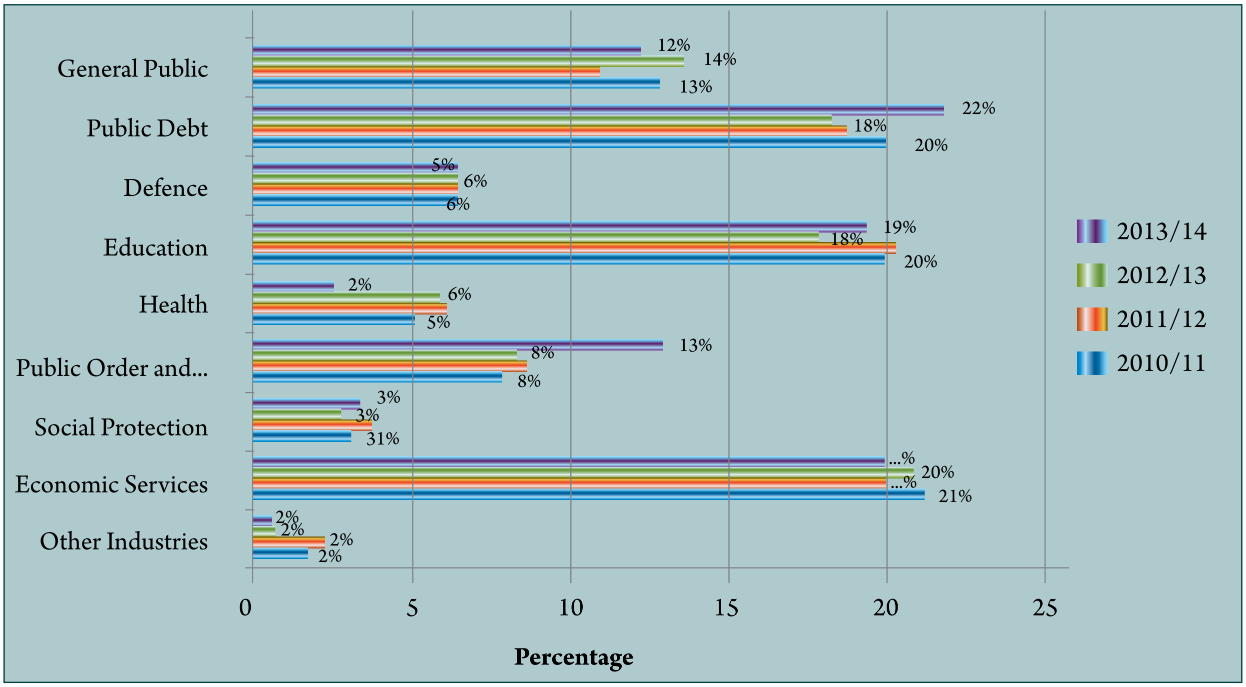
1.2.3 Fiscal deficit

In 2012/13, the overall fiscal balance on commitment basis (including grants) amounted to Ksh 248.9 billion (6.8% of GDP) against a target of Ksh 252.1 billion (8.6% of GDP). Overall fiscal deficit including grants on a cash basis amounted to Ksh 232.5 billion (6.4% of GDP) compared to a target of Ksh 299.9 billion (8.2% of GDP). Deficit financing was largely from domestic sources amounting to Ksh 169.8 billion, which slightly surpassed the target of Ksh 165 billion. External financing was only about one third of the target, which was Ksh 62.7 billion compared to a target of Ksh 144.1 billion. This represented domestic financing of 4.6 per cent of GDP and 1.7 per cent of external financing in 2012/13, as compared to domestic financing of 2.3 per cent of GDP and 3.0 per cent of external financing in 2011/12.

1.2.4 Overall public debt

The total public debt has almost doubled over the last five years, increasing from Ksh 918.8 billion (39% of GDP) in June 2009 to Ksh 1,713.1 billion (45% of GDP) in June 2013 (Table 1.4). This increase has largely been attributed to the widening of the budget deficit, which has resulted from increases in expenditure pressures coupled with revenue

Figure 1.4: Classification of government expenditure by functions



Source: KNBS (2014), Economic Survey

shortfalls, even though the government hopes to increase government revenue through enhanced tax administration, tax reform, and rationalization of expenditure. Given these trends, achieving a reduction in the overall proportion of public debt to GDP to about 41.7 per cent in 2015/16 as indicated in the Medium Term Fiscal Framework (2011/12–2015/16) might be a challenge.

The proportion of domestic debt to total debt has increased over time, from 44 per cent in June 2009 to 52 per cent in June 2013, while the proportion of foreign debt declined from 56 per cent in June 2009 to 48 per cent in June 2013. This is not in line with the debt management strategy of relying more on external borrowing (largely concessional debt) given the effect of excessive domestic borrowing on macroeconomic fundamentals, especially interest rates, inflation and exchange rates.

Achievement of a sustainable debt level is important. An unsustainable debt level will have negative effects on key macroeconomic variables (stability of inflation, interest rates and exchange rates), which would undermine the participation of the private sector in such areas as investment and employment creation. Earlier findings by the IMF showed that both domestic and foreign debts were sustainable given that the indicators were below the country-specific thresholds. However, the analysis further showed greater risk of unfavourable debt developments, especially under a shock to GDP growth, unchanged fiscal policy, or materialization of some contingent liabilities (IMF, 2012).

1.2.5 Inflation

The main aim of monetary policy is to achieve and maintain stability in the general level of prices; that is low inflation–and to sustain the value of the Kenya shilling. During the year 2013, the monetary policy stance adopted by the Central Bank of Kenya (CBK) resulted in stabilization and flattening of inflation between March and April (Figure 1.5). However, there was a steady increase in the rate of inflation from April to August 2013 from 4.05 per cent to 8.29 per cent, respectively. However, inflation rate gradually declined from August for the entire period under review. The overall annual rate of inflation stood at 5.7 per cent in 2013, down from 9.4 per cent in the previous year. This decline was attributed to increased food supply as a result of favourable weather conditions. The decline in inflation reflected a sustained decline in food prices,

Table 1.4: Size of public debt (Ksh billion)

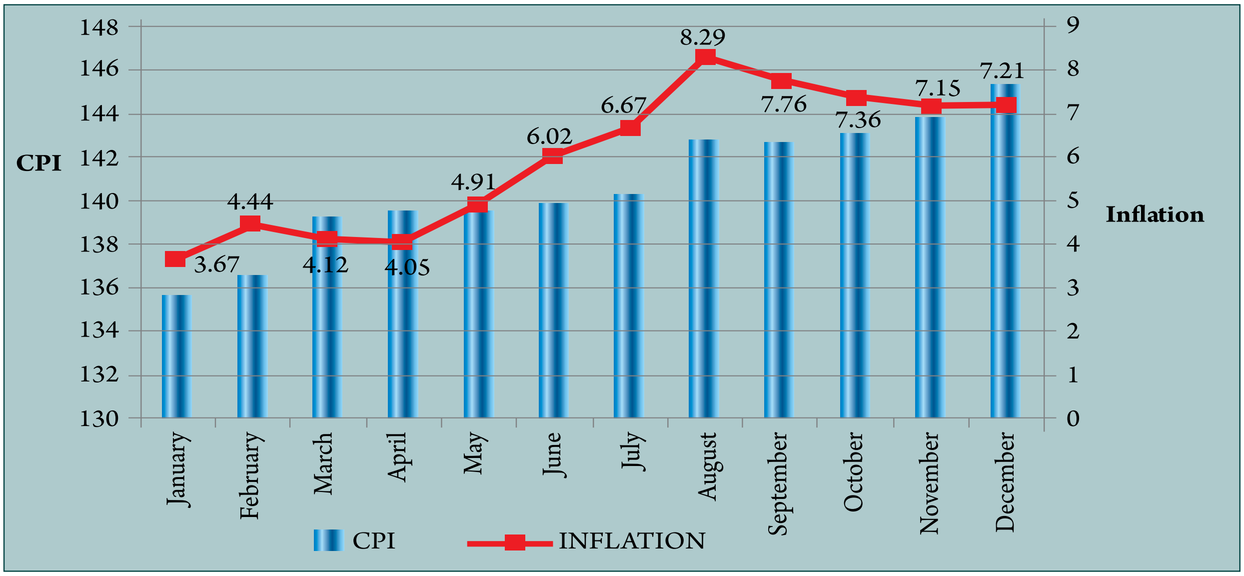
	June 2009	June 2010	June 2011	June 2012	June 2013	June 2014*
Domestic	410.7	534.0	624.8	768.6	889.1	1,078.8
Foreign	517.0	548.7	697.8	749.1	824.0	1,138.5
Total debt	918.8	1082.7	1322.6	1517.7	1713.1	2,217.3
As a % of total public debt						
Domestic	44	49	47	51	52	51
Foreign	56	51	53	49	48	49
As a % of GDP						
Domestic	17	21	21	23	23	28
Foreign	39	42	43	45	45	30
Total debt	39	42	43	45	45	58

Source: KNBS (2014), Economic Survey; * Provisional stabilization of world oil prices, and easing demand pressure in the economy.

A detailed analysis of the CPI reveals that the main drivers in the easing of inflation were health; transport; communications; furnishings, household equipment and routine household maintenance; housing, water, electricity, gas and other fuels (Figure 1.6).

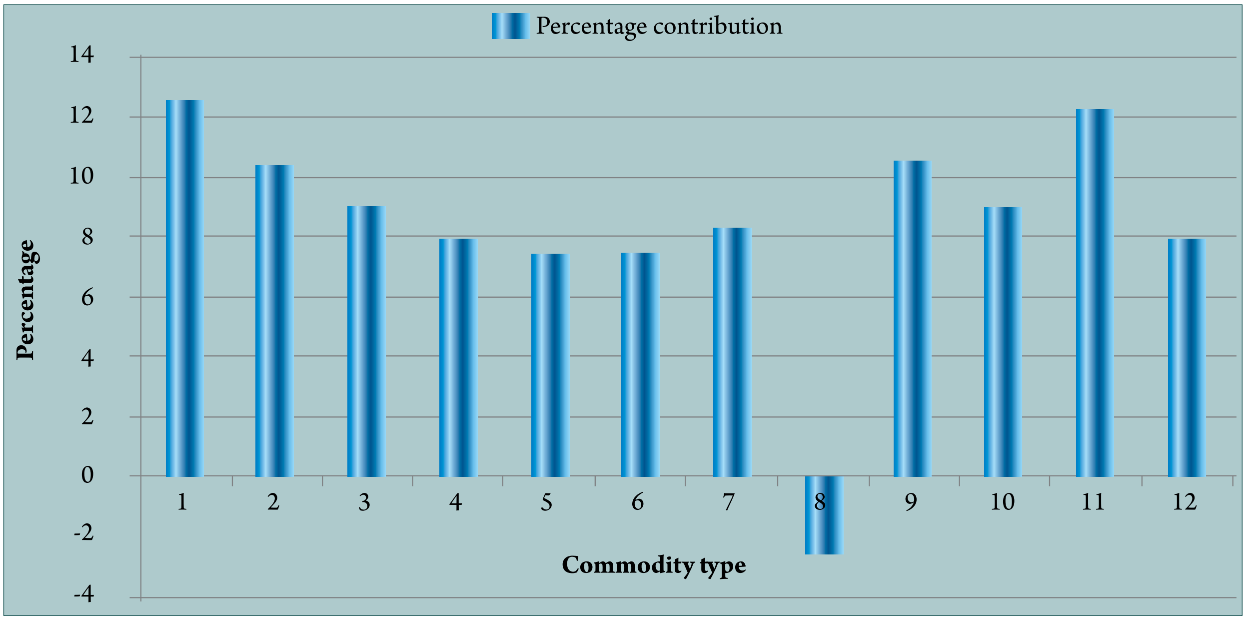
A review of inflation by income groups indicates that the lower income group is relatively disadvantaged

Figure 1.5: Overall Consumer Price Index (CPI) and inflation, 2013



Source: KNBS (2014), Economic Survey

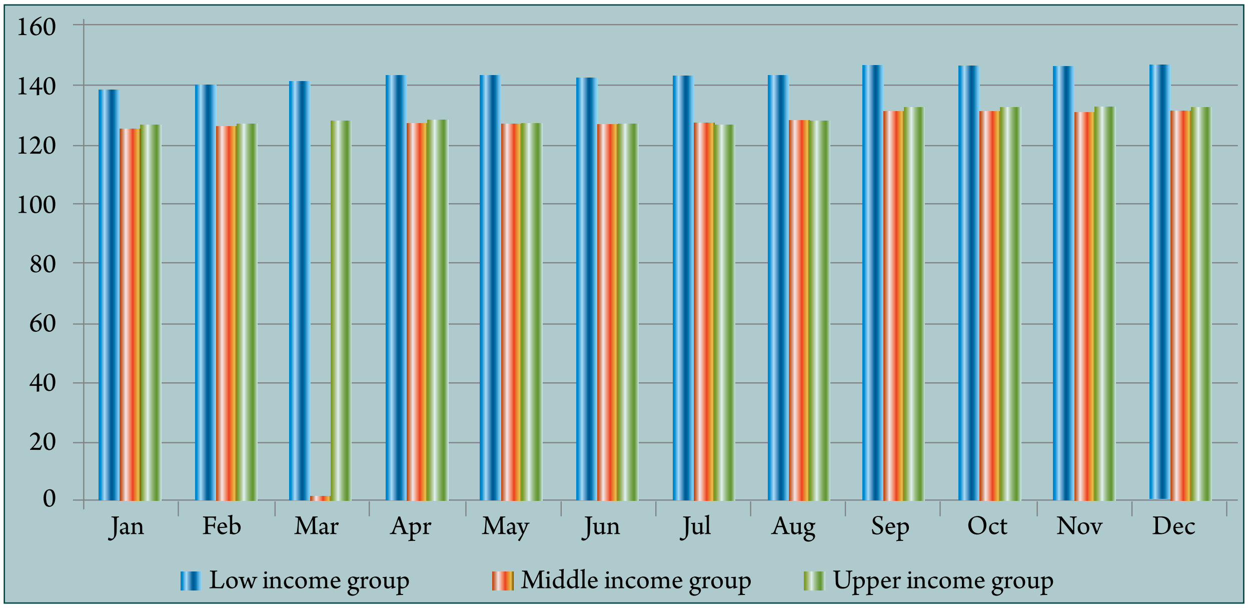
Figure 1.6: Commodity groups' contribution to inflation



Source: KNBS (2014), Economic Survey

NB: 1: Food & Non-Alcoholic Beverages; 2: Alcoholic Beverages, Tobacco & Narcotics; 3: Clothing & Footwear; 4: Housing, Water, Electricity, Gas and Other Fuels; 5: Furnishings, Household Equipment and Routine Household Maintenance; 6: Health; 7: Transport; 8: Communication; 9: Recreation & Culture; 10: Education; 11: Restaurants & Hotels; 12: Miscellaneous Goods & Services

Figure 1.7: Monthly CPI by income groups



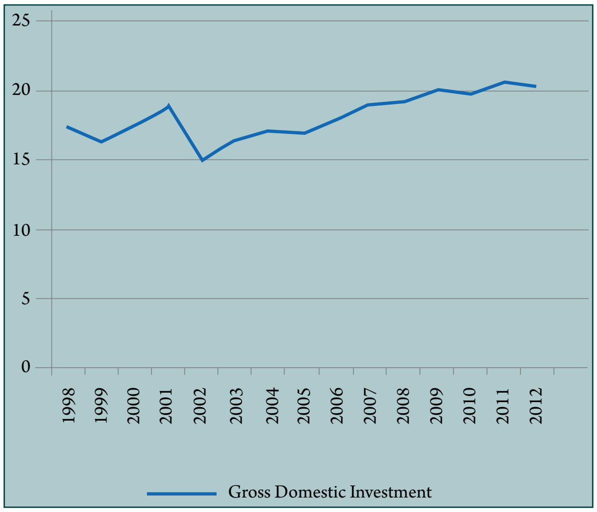
Source: KNBS (2014), Economic Survey

compared to the other income groups (Figure 1.7). This could be explained by the fact that food has the highest proportion in the share of inflation, and lower income groups spend their largest share of income on food.

1.3 Savings and Investment

The gross fixed capital formation grew from Ksh 403.6 billion in 2011 to Ksh 450.0 billion in 2012, representing 11.5 per cent increase. The assets that supported the growth are transport and other machinery equipment. The investment has been on an upward trend from 2002 to 2007 (Figure 1.8), then almost stabilizing from 2008 to 2012. In 2012, the gross domestic investment was 20.1 per cent, which was lower than the projected rate of 22.1 per cent for 2012/13 (MTP II). The government expects FDI to increase following the discovery of oil, gas, rare earth minerals and coal.

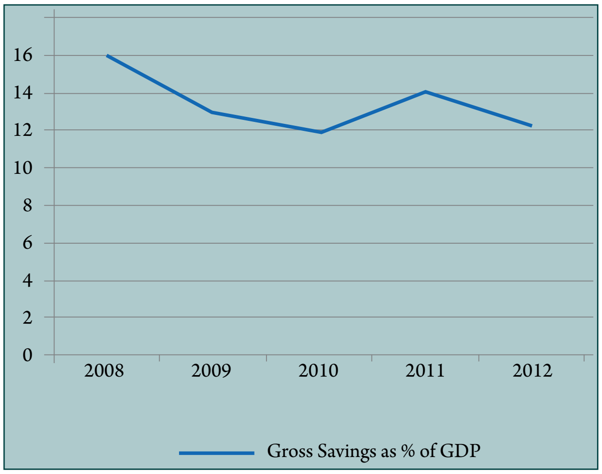
Figure 1.8: Gross domestic investment, 1998-2012



Source: Kenya Monthly Economic Review, August 2013

Gross savings as a percentage of GDP stood at 12.2 per cent in 2012, down from 14.0 per cent in 2011, while gross domestic savings as a percentage of GDP dropped from 6.3 per cent in 2011 to 5.0 per cent in 2012 (Figure 1.9).

Figure 1.9: Gross savings as a pe centage of GDP



Source: KNBS (2013), Economic Survey

Kenya's savings' rate has not followed the same trend as the rest of Sub-Saharan Africa (SSA). The savings rate has been lingering around 13-14 per cent of GDP over the last five years, and is much lower than the average for low-income countries (26% of GDP). In contrast, neighbouring Uganda and Tanzania have already passed the 20 per cent mark, even though their GNI per capita is less than US$ 550 compared to Kenya's US$ 820 (Kenya Economic Update, 2013).

To improve savings, the following can be undertaken:

- Strengthen property rights, especially around land titling, which will promote greater savings and investment by households in real estate;
- Improve the business environment and address infrastructural bottlenecks (especially energy and transport), so that businesses will have an incentive to save more and invest in new projects; and
- Shift public expenditure and spending more on infrastructure than on wages, goods and services.

1.4 Current Account

The current account deficit worsened to Ksh 412.4 billion in 2013 from Ksh 359.7 billion in 2012 as the value of exports decreased from Ksh 512.5 billion to Ksh 501.2 billion in the year (Figure 1.10). This can be attributed to increased value of imports, which is mainly heavy machinery for infrastructural development, while exports have largely remained to be primary agricultural commodities such as tea, coffee and horticultural produce. Whereas the export of services has had a surplus over the years, the mechandise trade deficit has always offset the surplus, resulting in a negative current account balance. The value of Kenya's imports is growing at a faster rate than its exports, thus worsening her balance of trade. The Economic Survey (KNBS, 2014) shows that the worth of imports increased to Ksh 1.4 trillion in 2013, slightly higher than Ksh 1.3 trillion in 2012. The ballooning import bill is caused by oil imports, as well as capital goods required for oil, mineral exploration activities and for the construction sector.

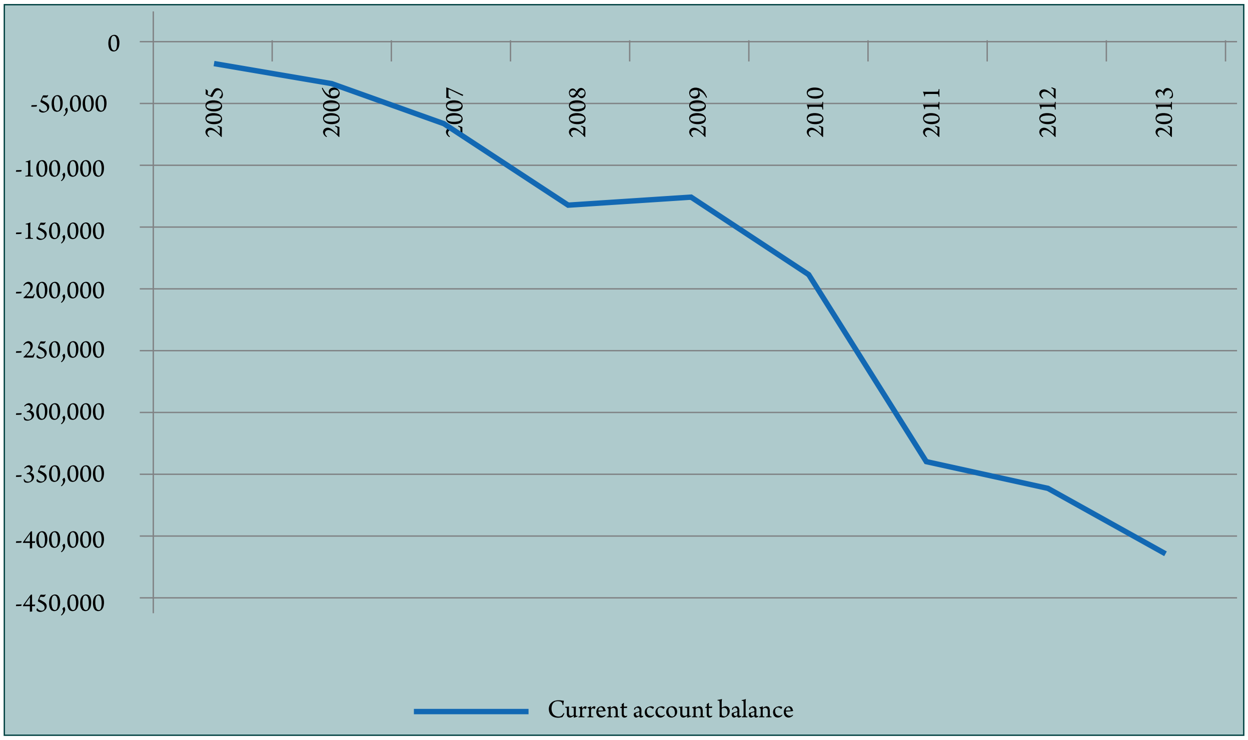
1.4.1 Current account: Q1 status, 2014

The deficit in the current account balance narrowed to US$ 4,340 million in the year to March 2014 from a deficit of US$ 4,601 million in the year to March 2013. The improvement was reflected in a 5.2 per cent increase in the services account surplus, which offset the deterioration in the merchandise account deficit. The deficit in the merchandise account worsened by US$ 62 million to US$ 10,917 million in the year to March 2014 from US$ 10,855 million in the year to March 2013. The deterioration in the deficit was attributed to a slowdown in receipts from merchandise exports from US$ 6,123 million to US$ 5,867 million.

Payments for merchandise imports declined by 1.1 per cent from US$ 16,979 million in the year to March 2013 to US$ 16,784 million in the year to March 2014. The slow down in payments was on account of reduced imports of oil, machinery and transport equipment. The oil import bill declined to US$ 3,711 million from US$ 4,044 million during the period under review, reflecting reduced importation of crude petroleum oils. The decline in payments for machinery and transport equipment was mainly on account of reduced imports of specialized industrial machinery, metal working machinery, office machines, electrical machinery and other transport equipment.

In terms of imports by source, imports from Africa increased both in value and percentage share to total imports. Imports from the rest of the world, however, declined with reduced imports from the United Arab Emirates, USA, Singapore, Germany, Saudi Arabia, Indonesia, France and Italy accounting for the decline. Imports from India, China, Japan, the United Kingdom, the Netherlands and Bahrain increased. Receipts from merchandise exports declined by US$ 256.4 million or 4.2 per cent to US$ 5,867 million in the year to March 2014. Reduced earnings from coffee, tea, oil products, raw materials, chemicals and related products and other non-categorized exports contributed to this decline. Earnings from coffee exports reduced by US$ 47 million to US$ 193 million from US$ 240 million in the year to March 2014, a phenomenon attributed to a reduction in both export quantities and prices, while the value of tea exports declined by US$ 86 million to US$ 1,147 million in the year to March 2014. The reduction in tea exports was largely on account of falling world tea prices. Other non-categorized exports also declined from US$ 1,234 million in the year to March 2013 to US$ 941 million in the year to March 2014. Earnings from exports of horticulture, manufactured goods and miscellaneous manufactured goods increased during the period under review. The value and share of Kenya's exports to Africa recorded a decrease from the previous period. This was largely reflected by a decline in exports to the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). Exports to the rest of the world also declined in value during the period under review, largely on account of reduced exports to the European Union, Pakistan and the United Arab Emirates (CBK, 2014).

Figure 1.10: Current account trend



Source: KNBS (2014)

1.4.2 Proposed current account policies

The government could consider the following current account policies:

- Impose a certain percentage tax on all imports to stem the rising tide of foreign goods;
- Reduce food imports by increasing allocations for irrigation, thus reducing dependence on rain-fed agriculture;
- Hasten the construction of the standard gauge railway, which could reduce the transport costs for businesses and make Kenya's exports more competitive globally;
- Propose some incentives for exporters to broaden diversification of the export base;
- Come up with mechanisms for value addition to improve agricultural export products to fetch higher prices in the international market; and
- Diversify exports so that manufactured products form a larger proportion of total exports, in order to increase the size of the market.

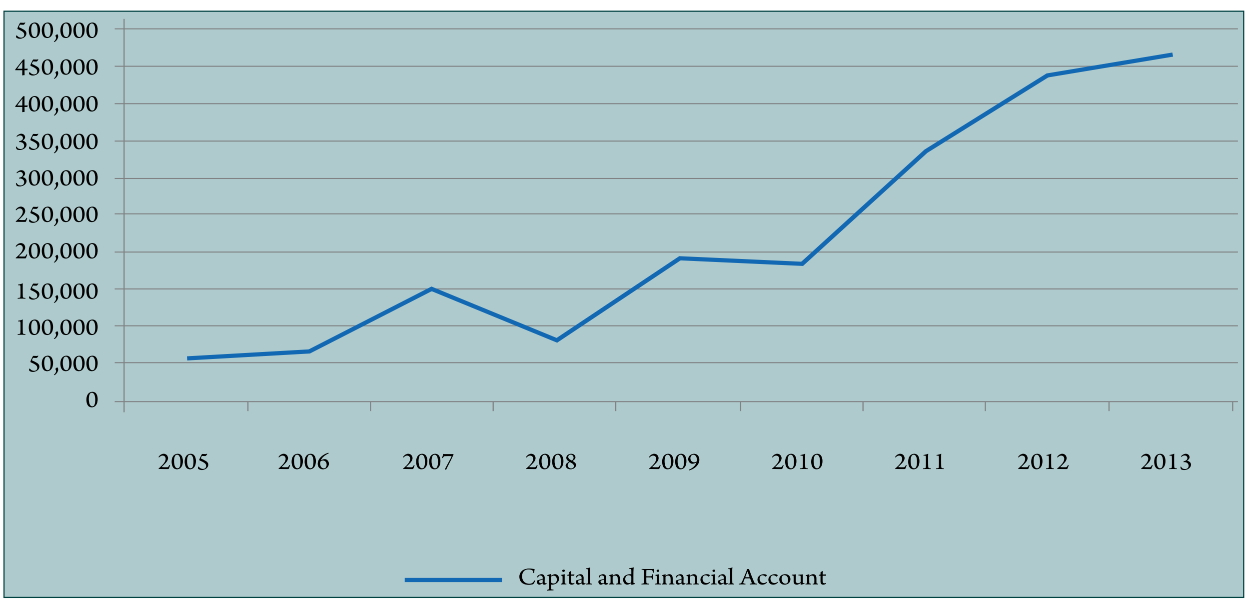
1.5 Capital and Financial Accounts

Kenya's capital and financial account position increased from Ksh 437,837 million in 2012 to Ksh 464,863 million in 2013 due to an expansion in net capital flows (Figure 1.11). The surplus in the foreign direct investment account more than doubled to Ksh 43,816 million in 2013, while net portfolio investment inflows increased from a deficit of Ksh 1,149 million in 2012 to a surplus of Ksh 201,120 million in 2013. This was a reflection of continued and increased participation by foreign investors at the Nairobi Securities Exchange market (KNBS, 2014).

1.6 Global Macroeconomic Challenges

In 2007, the global economy experienced its greatest crisis most comparable to the Great Depression of the 1930s. Originating in the United States, through unlimited borrowing by both hedge funds

Figure 1.11: Capital and financial account



Source: KNBS (2014)

and banks, and pushed onto borrowers through mortgages that were unsustainable, the credit bubble burst. Many institutions found themselves in need of bail outs, and borrowers lost homes and employment in thousands. This affected the global economy due to the interconnected nature of the world's economic structures.

High oil prices and geopolitical uncertainty

The complexities of the political stability in the Middle East brought to light by the events of the Arab Spring meant that oil prices continued to rise due to political and economic uncertainty in the region. Without guarantees of stability in supply, speculation caused upward pressure on oil prices, which in turn pushed up the cost of commodities for oil importing countries. Kenya being an oil importing economy has always been negatively affected by increase in oil prices. Increased oil prices results in increased production costs for manufacturers, which are passed down to the consumers, resulting in increased prices of commodities and consumer goods and overall inflation. Whereas Kenya is currently experiencing relatively stable inflation rates, the experience of high and unstable inflation in 2011/2012 exposed the vulnerability of the economy to external shocks. The increase in food prices due to weather-related disruptions, mainly drought, also led to decreased harvests and supply, thus pushing up food prices.

The manufacturing sector is affected by changes in oil and energy prices. With increasing oil prices in the global market since the global crisis, and regional political instabilities, the cost of production has invariably increased, pushing down profits and curtailing reinvestment and growth of the manufacturing sector.

Euro crisis and Kenya exports

The Euro zone crisis has resulted in some of Europe's economies resorting to requests for bailouts to remain functional. The crisis was caused by private sector borrowing and increased debt, which could not be serviced once the debt-fuelled boom collapsed. This crisis further intensified the weak global economic position and stability of individual country economies. Kenya's exchange rate was most notably affected by the global and Euro zone crisis. The rising oil prices and speculation of the collapse of the Euro placed pressure on the Kenya shilling, leading to its highest depreciation of all time in October 2011 at Ksh 105.7 to the US dollar. Through intervention by the Monetary Policy Committee, by December of 2012 exchange rate stability had been restored with appreciating values of Ksh 83.4 to the US dollar. This intervention had a further effect of balancing out existing inflationary pressures. That particular intervention undertaken by the Monetary Policy Committee to curb the inflationary and exchange rate pressures caused by increasing oil prices and the global and Euro zone crises also affected interest rates. Tightening of monetary policy prompted commercial banks to raise interest rates, which led to reduced liquidity or money supply in the economy, with interest rates peaking at 18.3 per cent in December 2011. With restored stability in exchange rates and inflationary pressures from the beginning of 2012, interest rates also experienced a decrease, and closed the year at 8.25 per cent in December 2012.

Declining foreign direct investment

Foreign direct investment flows from developed economies have declined as a result of declining financial markets. The global crisis resulted in financial tightening in the private sector, reduced borrowing, and consequently receding investments in subsidiary companies operating in host economies. The global and euro zone crises resulted in slow economic growth globally, and as such negatively affected the profitability and rate of returns on Foreign Direct Investment (FDI) to parent multinational corporations, which were forced to cut back on their investments, in many cases dissolving operations or through major cutbacks in budgets resulting in layoffs.

In addition to other factors, savings and investments contracted, but mainly due to the credit crunch experienced at a global level. Whereas the Kenyan economy was not as greatly affected like other developed economies, the trickle down due to the nature of trade and investment was experienced. Down-sizing of numerous multinational operations in Kenya in the wake of the global crisis is an indication of the shrinking foreign direct investment.

Tourism diversion

Increased acts of terrorism and civil unrest in various parts of the world have resulted in a shift in the tourism landscape at a global level. Fluctuations in political landscapes in some tourist destinations, coupled by unstable weather and climatic conditions in others, have meant that the global tourism arena is subject to change in ways that no longer guarantee predictability in global tourism earnings.

Kenya's horticultural exports accounted for 17.9 per cent of the country's GDP in 2012. The European countries import majority of these export products and, as such, the global and euro zone crises directly affects exports of Kenya's horticulture, in turn slowing down economic growth. This kind of demand side depression shows the effect of dependence of the Kenyan economy on global markets for growth.

Kenya's tourism was also affected by the global crisis, as well as travel advisories motivated by Kenya's military engagement in Somalia on the war on terrorism. This was also compounded by speculation in the months leading up to the 2013 general elections, further lowering the registered numbers of international tourists visiting the country.

The current account balance has widened in its deficit as a result of the global challenges. Whereas the value of total exports grew by 24.7 per cent between 2010 and 2011, the value of total imports grew at a faster rate of 38.9 per cent during the same period. The growth of imports can be attributed to the increased import of capital goods for infrastructure development. This, coupled with the depreciation of the Kenya shilling against other major world currencies, further visibly widened the trade deficit.

Emerging market economies and commodity prices

The rise of globalization in the past two decades has resulted in the inter-connectivity of developed and developing countries' economies. More and more developed countries are directly investing in growth projects in emerging economies and partnering with developing country governments on key socio-economic projects. This means that whereas shocks to the developed countries' economies affect the emerging economies to a larger degree, a slowdown in growth in the emerging economies does affect the investment potential of the developed countries.

Commodity prices also lead to changes in the global economy, with rises and falls generally affecting individual country economies in differing degrees. The World Bank has reported steadily declining commodity prices since 2009, except for oil due to the several global challenges. The global economy has registered a decrease in the prices of energy, food, beverages, raw materials, fertilizers, metals and precious metals.

Chapter 2

Governance

2.1 Introduction

Governance entails processes of decision making by political leaders and implementation and/ or non-implementation of the same decisions in a state. Governance relates to decisions that define expectations, grant power and/or verify performance in a sovereign nation. The government is the single biggest actor in governance. Good governance entails an ideal governing system, which is critical for social, economic, political, and cultural development. Good governance results in self-reliance, sustainable development and social justice.

The political pillar of Kenya's Vision 2030 envisages a country that is confidently moving into the future as one nation. It envisions a democratic system that is issue-based, people-centred, results-oriented and is accountable to citizens. An issue-based political society is one in which political differences are about means to meet the widest public interest of the nation. Achievement of the goals under the political pillar is imperative for the achievement of the goals of the other two pillars: economic and social.

As noted in Kenya's Vision 2030, transformation in political governance system and the devolved governance, as espoused in the constitution, should take five strategic initiatives, namely: Rule of law; Security, peace building and conflict management; Transparency and accountability; Democracy and public service delivery; and Electoral and political processes. These initiatives also form the basis of most governance performance indicators.

2.2 Governance Performance Indicators

Voice and accountability captures the extent to which citizens are able to participate in electing a government, freedom of expression, freedom of association, and a free media. Equal political participation by both genders is crucial for good governance. Decision makers and implementers in government ought to be accountable to the public, or the tax payer. A critical issue in accountability is information sharing and transparency, which all governance institutions need to promote.

Participation includes, among other things, public access to information, and public participation in decision making.

Public access to judicial and administrative redress, sometimes referred to as access to legal justice, recognizes that people have the right to know, to be informed and participate in decisions that affect them as well as seek redress.

Government effectiveness captures the quality of public services offered by the government, the quality of the civil service, and the degree of independence from political interference. It also looks at the quality of policy formulation, implementation, and how the government is committed to such policies.

Regulatory quality captures respect of citizens and the state for institutions of governance, especially those that deal with economic and social interactions. This makes it paramount for the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Rule of Law looks at legal frameworks and whether they are enforced impartially without discrimination. No person or group of persons should be allowed to behave as if they are above the law. Enforcement of Rule of Law requires that the Judiciary be free from any form of political manipulation or bias. This indicator also captures the extent to which citizens and state agents have confidence in and also abide by the laws governing the state.

Control of Corruption captures the perceptions and extent to which political and public power is used for private gain. It also includes cases of both grand and petty corruption.

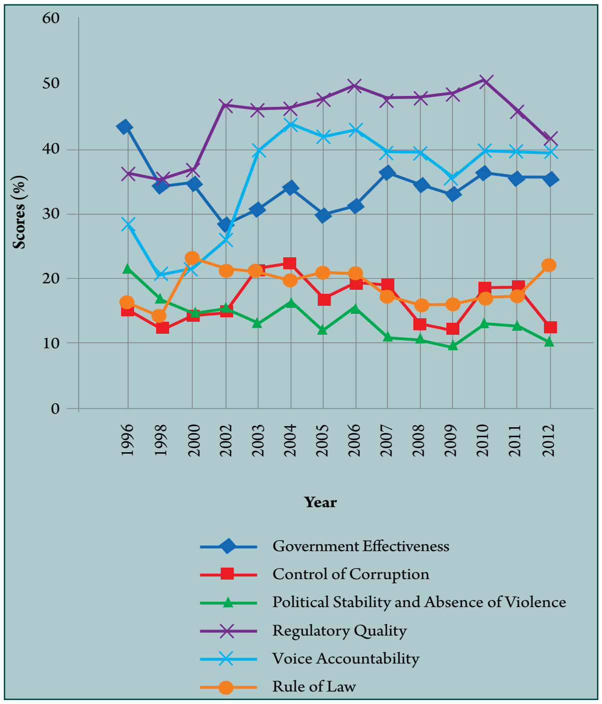
Political stability and absence of violence captures the likelihood of politically-instigated violence and terrorism. Here, the ability of the government to formulate and implement sound policies for governance is also taken into account. The likelihood of civil unrest and disturbances is also a key consideration in political stability.

2.3 Overall Performance

The Worldwide Governance Indicators (World Bank, 2013) report six aggregate governance indicators for the period 1996-2012. These are: (i) Voice and Accountability; (ii) Political Stability and Absence of Violence; (iii) Government Effectiveness; (iv) Regulatory Quality; (v) Rule of Law; and (vi) Control of Corruption.

Kenya's overall performance in the six indicators has remained below average since 1996. Kenya has been performing very poorly in the political stability and absence of violence indicator, where the scores have always remained below 25 per cent; the best performance being in 1996. The country dropped in the scores for control of corruption, partly because of the wrangling witnessed during the formation and appointment of office holders in the Ethics and Anti-Corruption Commission (EACC). This may have had an effect on the war against corruption. In 2011, Kenya had a score of 18.5 per cent, whereas in 2012 the score dipped to 12.4 per cent (Figure 2.1). This is a worrying trend considering that corruption virtually undermines all sectors. Apart from just compromising the quality of leadership, corruption has a direct impact on poverty levels and the entire quality of life for all citizens.

Figure 2.1: Overall governance performance



Source: www.govindicators.org (World bank, 2013)

Of the six indicators, Kenya has either dropped in its scores or stagnated, with the exception of Rule of Law, where there was an improvement from 17.3 per cent in 2011 to 22.3 per cent in 2012. This improvement in Rule of Law can be attributed to the enactment of a new Constitution, which has established various constitutional commissions that try to ensure transparency and accountability in the public sectors. Also, reforms in governance institutions and public service have played some role in improving service delivery to citizens. The government has also launched *Huduma Bora* Service Centres (one-stop service shops) for citizens to access and pay for government services electronically in order to reduce corruption and red-tape bureaucracy. A pilot centre was set up in Nairobi County, where citizens access a wide range of self-service counters linked to government databases, and such centres are expected to be rolled out in all the other counties. Citizens are, for instance, able to get birth certificates, get national identity cards, acquire passports, register business names, apply for marriage certificates, get driving licenses, get police abstracts, among other services, without having to move from one office to another.

The government has also established *Huduma Kenya* as a portal whose aim is to improve transparency and accountability in public service delivery. In the security sector, the National Police Service Commission (NPSC) and the Independent Police Oversight Authority (IPOA) have also been overseeing reforms in the National Police Service, which is the main enforcer of law. The Judicial Service Commission (JSC), on the other hand, has also implemented radical reforms in the Judiciary with the aim of improving service delivery to citizens and reducing the backlog of cases in the court system.

The various reforms that have been implemented by the government since the Constitution was promulgated in 2010 may have started bearing fruit. For example, Kenya's global competitive ranking improved from position 106 in 2012/2013 to position 96 in 2013/2014 as seen in Table 2.1.

Table 2.1: Select rankings on Global Competitive Index

Country	2011-2012	2012 - 2013	2013 - 2014
Switzerland	1	1	1
Singapore	2	2	2
Germany	6	6	4
Canada	12	14	14
Mauritius	54	54	45
South Africa	50	52	53
Uganda	121	123	129
Rwanda	70	63	66
Botswana	80	79	74
Kenya	102	106	96
Egypt	94	107	118

Source: World Economic Forum (2013)

However, this is below the best-performing countries in Africa, such as Mauritius, which improved in ranking from position 53 in 2012/2013 to position 45 in 2013/2014 out of the 148 nations surveyed. Botswana also improved in its ranking as seen in Table 2.1. Even though countries such as South Africa and Rwanda dropped in their global competitive ranking, they are still high compared to Kenya. Care needs to be taken not to erode the gains made. In the other five indicators, that is Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality and Control of Corruption, a lot more effort needs to be made to ensure that the country improves in its performance. Better implementation of police reforms would, for instance, greatly improve the Rule of Law, and Control of Corruption. It is also hoped that with devolution, Government Effectiveness will improve due to improved quality of public services and minimal political interference. If Kenya was to score above 50 per cent in all the six indicators, then the Global Competitiveness Index would improve, thus making the country more attractive to foreign investment, which is needed for the growth of the economy.

Kenya's ranking in the 2013 Ibrahim Index of African Governance improved from 25 in 2012 to 21 in 2013 as seen in Table 2.2.

Table 2.2: Selected rankings of countries in the 2013 Ibrahim Index of African Governance

Country	2011	2012	2013
Kenya	23	25	21
Mauritius	1	1	1
Uganda	20	19	18
Rwanda	25	23	15
Tanzania	13	10	17
Cape Verde	2	2	3
Burundi	37	37	40
Botswana	3	3	2

Source: 2013 Ibrahim Index of African Governance Report

The Ibrahim Index of African Governance provides a framework for citizens, governments, institutions and businesses to assess the effectiveness of delivery of goods and services, and policy outcomes across every country on the continent. It is worrying that no East African Community member state made it to the top ten. Indeed, despite Kenya's overall improvement in ranking, its national security is ranked among the worst in Africa according to the report. Kenya's performance has been largely affected by instability in Somalia and South Sudan, and the situation is likely to remain the same if the neighbouring conflicts are not resolved soon. Kenya also reported a high number of fatalities among civilians; the country has experienced several grenade attacks in various parts of the country, especially in Nairobi, Mandera, Garissa, Mombasa, and Wajir. Also, the country has lost security officers during poorly-coordinated rescue missions such as the 2012 Baragoi massacre where over 40 security officers lost their lives.

The Constitution makes several demands regarding governance reforms, and these reforms seem to be bearing fruit, considering that the Global Competitiveness Index has improved. Reforms in the security sector saw the establishment of the National Police Service Commission (NPSC) whose responsibility is to recruit and manage the police service. For a long time, Transparency International (TI) has ranked the National Police Service as one of the most corrupt institutions in Kenya. The establishment of the Independent Police Oversight Authority (IPOA) was meant to check the excesses of the police service. However, the police service still ranks poorly as an institution, hence the need to implement radical structural reforms, welfare reforms and sound policies to improve effectiveness. According to the East African Bribery Index (Transparency International, 2013), the Kenya police has share of bribe of 33.1 per cent in key sectors across East Africa (Table 2.3).

Table 2.3: Share of bribe (%) in key sectors across East Africa

Sector	Burundi	Kenya	Rwanda	Tanzania	Uganda
Educational institutions	13.2	9.8	0.7	8.0	7.7
Judiciary	27.8	12.0	5.3	15.8	18.1
Medical services	0.4	3.6	0.8	10.8	9.3
Police	52.0	33.1	18.4	25.1	27.0

Source: Transparency International (2013)

Thus, the National Police Service, which is the law-enforcing agent of the government, needs speedy implementation of reforms as per the requirements of the Constitution in order to reduce the prevalence of corruption in the National Police Service and improve Kenya's ranking.

According to the East African Bribery Index 2013 (Transparency International, 2013), the likelihood of encountering bribery incidences in Kenya is at 7.9 per cent as seen in Table 2.4.

Table 2.4: Comparison of countries by aggregate likelihood of bribery

Rank	Country	Bribery Aggregate (%)
1	Uganda	26.8
2	Burundi	18.6
3	Tanzania	12.9
4	Kenya	7.9
5	Rwanda	4.4

Source: Transparency International (2013)

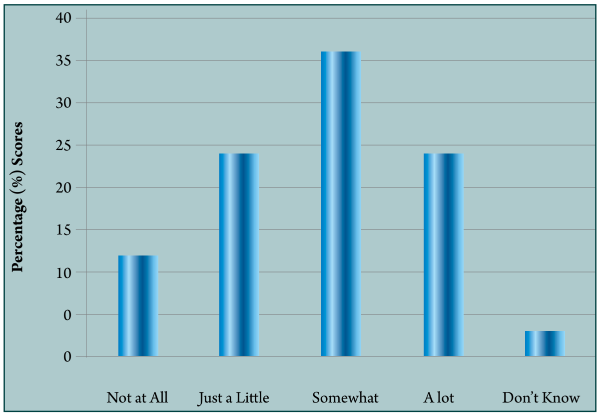
Though Kenya fares better than its neighbours in likelihood of bribery, more effort needs to be put in place to completely eradicate corruption. This would help attract foreign investment into the country and spur economic growth.

2.4 Review of Performance of Various Government Arms

2.4.1 The Executive

Since independence, the Executive has enjoyed immense powers, which have sometimes been abused under the pretext that members of the Executive were above the law. Article 143(4) of the Constitution limits presidential immunity in criminal cases; the protection of the President from criminal proceedings does not extend to crimes for which he/she may be prosecuted under a treaty that prohibits such immunity. Article 145 provides that the President can be impeached for a "gross violation" of the Constitution or other law, or for committing a crime under national or international law, or "gross misconduct" as determined by the National Assembly. However, this does not necessarily mean that the Constitution has given the Executive weak powers; it means that there are effective checks and balances. The National Executive comprises the President, the Deputy President, and the Cabinet. The formation of the National Executive must reflect regional and ethnic diversity of the country. The Constitution has reduced practices of political patronage, which had contributed to the creation and consolidation of perceptions of exclusion and marginalization among many Kenyan communities since independence. This will enhance accountability of the presidency to citizens. It should be noted that in a survey carried out in 2010/2012, the trust of Kenyans in the Executive was below 50 per cent as seen in Figure 2.2.

Figure 2.2: Trust in the Kenyan Executive



Source: Afrobarometer Round 5 (2010-2012)

The Executive is tasked with implementation of laws passed by the Legislature. The Executive runs the day-to-day functions of the government, and controls the military, police and the public civil service. It plays a supervisory role of all government operations through various government agencies. The Constitution of Kenya stipulates that the President ensures the protection of human rights, fundamental freedoms and the rule of law. Devolution in the country introduced a new system of 47 county governments, each with their own County Assembly and County Executive. The National Police Service, enforcement of the rule of law, and prison services are the responsibility of the national government. If the Executive midwifes proper implementation of the Constitution, then its trust is likely to improve.

Security is one of the critical challenges in the country and an area the Executive needs to re-examine holistically so as to reduce incidences of crime. Statistics released by the National Police

Service indicate that crime rates have not changed very much since 2009 as seen in Table 2.5.

There is an emerging threat to national security in form of domestic terrorism, perhaps relating to the involvement of the Kenya Defence Forces (KDF) in Somalia.

There is need to invest more resources in intelligence gathering, recruit more security officers, and equip them with modern equipment for fighting crime. The National Police Service still requires urgent welfare reforms such as proper housing for officers that appear to have stagnated, retraining of all serving police officers, and equipping them with essential tools such as body armour and more patrol vehicles to enable them respond quickly to any security threat. The National Police Service and other security agencies should put more effort towards crime prevention rather than the current tendency of over-reacting when crime has already been committed. They ought to be preventive by nipping criminal activities in the bud before they are executed. This is possible with good intelligence gathering and sharing between various security agencies.

Lawlessness and operations of criminal gangs undermine the quality of life of citizens. Focus should be on the productivity of the National Police Service in terms of crime detection, swift response, and management of security lapses. There is need for urgent changes to the police workforce policies and practices to assist police officers respond more effectively to the challenges the institution faces in a modern society, which is changing rapidly. This is because even criminal networks have adapted to this trend.

Table 2.5: Provisional number of crimes reported to the police, 2009-2013

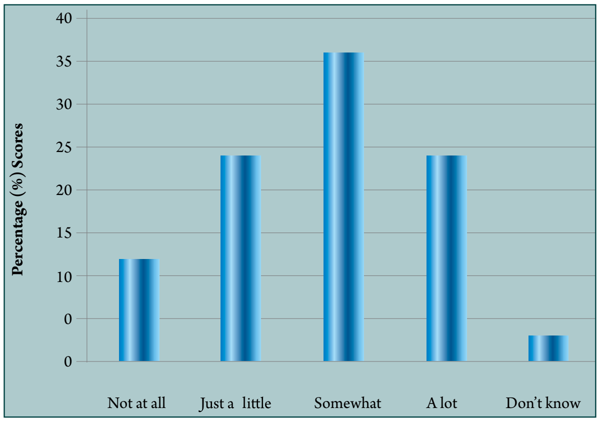
Crimes	2009	2010	2011	2012	2013
Homicide	2,214	2,239	2,641	2,761	2,878
Offences against morality	4,068	4,817	4,703	4,806	4,779
Other offences against persons	20,539	20,012	20,144	20,698	19,344
Robbery	2,938	2,843	3,262	3,262	3,551
Breakings	7,053	6,453	7,325	7,578	6,397
Theft of stock	2,876	2,244	2,269	2,377	1,965
Stealing	11,972	11,986	13,797	14,111	11,455
Theft by servant	2,732	2,591	2,889	2,984	2,702
Vehicles and other thefts	1,439	1,365	1,768	1,663	1,631
Dangerous drugs	5,541	5,081	4,649	4,181	4,316
Traffic offences	59	103	100	66	45
Criminal damage	3,417	3,327	3,345	3,769	3,603
Economic crimes	2,324	2,662	3,036	3,369	2,750
Corruption	158	62	52	49	57
Offences involving police officers	56	37	27	69	95
Offences involving tourists	5	1	0	0	14
Other Penal Code offences	4,864	4,956	5,726	6,109	6,250
Total	72,255	70,779	75,733	77,852	71,832

Source: Kenya National Bureau of Statistics (2014)

2.4.2 The Judiciary

Kenya's Judiciary has for a long time been perceived as inefficient, corrupt and lacking in integrity and independence. As seen in a survey carried out by the Afrobarometer Round 5, public trust in the judiciary is still below 50 per cent as indicated in Figure 2.3.

Figure 2.3: Trust in courts of law in Kenya



Source: Afrobarometer Round 5 (2010-2012)

Critical judicial reforms have been undertaken since the Constitution was promulgated in 2010. The structure of courts has changed tremendously in a sense that power is no longer concentrated in the hands of the Chief Justice. The Judiciary has decentralized its operations: the Supreme Court has its president, who is the Chief Justice; and the Court of Appeal also has its president; while the High Court has a Principal Judge who presides over their operations.

The Judicial Service Commission (JSC) established the Office of the Ombudsman to receive and address complaints by staff and members of the public against any misconduct of state officers. The JSC has also released a Code of Ethics and Conduct for the staff of the Judiciary and established a standing committee to handle enforcement and disciplinary issues relating to misconduct of Judiciary staff. The Chief Justice also launched an online Judiciary Service Desk to receive reports from the public on the performance of judicial officials in the country. This, in a way, has helped reduce inefficiency across the courts in the country.

This service desk allows for improved service to the public; optimizes the response time to requests and complaints; builds public trust; and ensures transparency and increased collaboration between the citizens and the Judiciary in service delivery.

Table 2.6: Provisional number of magistrates and judges, 2009-2013

Category of Magistrates	2009	2010	2011	2012	2013
Chief Magistrates	22	22	15	33	41
Senior Principal Magistrates	25	26	22	49	82
Principal Magistrates	52	69	69	81	101
Senior Resident Magistrates	87	93	89	78	80
Resident Magistrates	95	74	74	214	106
District Magistrate (II)**	0	74	69	0	0
Sub-total	281	358	338	455	410
Category of Judges					
Supreme Court Judges	0	0	7	6	7
Court of Appeal Judges	11	11	10	10	26
High Court Judges	46	45	70	70	86
Sub-total	57	56	87	113	119
Total Magistrates and Judges	338	414	425	568	529

Source: Judiciary, and Kenya National Bureau of Statistics (2014)
**: Provisional statistics

The number of Judges and Magistrates has been increasing (Table 2.6), since the JSC has recruited more personnel to help in dispensing justice to citizens.

However, the increase in personnel has not helped eliminate the backlog of cases (Table 2.7). The JSC should embrace other mechanisms of resolving disputes in the court processes so as to ease the current congestion. However, it is commendable that the Judiciary has concluded most petitions arising from the March 2013 general elections in a record of six months.

The number of pending cases as at the end of 2013 was 743,310. This is a challenge that ought to be given priority by the JSC. Delay in resolution of court cases makes citizens lack trust in the judiciary and results in lack of respect and trust in other institutions of governance. There is need for the JSC and the Judiciary to embrace Alternative Dispute Resolution (ADR) in its legal framework, so as to ease the backlog of cases in the court system.

The Constitution of Kenya requires that all Judges and Magistrates be vetted and those found unsuitable should not serve in the Judiciary. The vetting of judges is almost complete and the Judges and Magistrates Vetting Board, in its report in February 2013, stated that the Board has vetted 9 Court of Appeal Judges and 44 High Court Judges. Four (4) Court of Appeal Judges and 9 High Court Judges were found unsuitable. The vetting of all magistrates across the country is expected to follow.

Vetting is among some of the key tools of institutional reform, since it leads to changes in the makeup of the personnel of a public institution, with incompetent staff being removed from office. Vetting may also be a big step towards restoring public trust in the rule of law and also in mitigating against corruption in the judicial system.

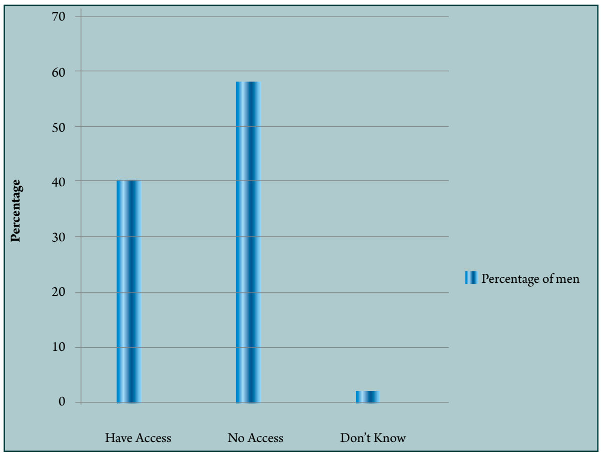
Table 2.7: Provisional consolidated caseload for all courts, 2012/2013

Year	Status of Cases	Magistrate's Courts	Kadhi's Courts	High Courts	Court of Appeal	Supreme Court	Total
2009	Filed	415,378	1,086	27,440	0	0	443,904
	Pending	732,482	2,150	106,898	0	0	841,530
	Disposed of	433,079	792	21,251	0	0	455,122
2010	Filed	371,697	2,432	20,428	0	0	394,557
	Pending	615,526	2,796	42,059	0	0	660,381
	Disposed of	488,653	1,786	85,267	0	0	575,706
2011	Filed	319,469	2,055	25,798	958	0	348,280
	Pending	596,283	3,265	50,462	5,714	0	655,724
	Disposed of	338,712	1,586	17,395	498	0	358,191
2012	Filed	315,206	2,421	27,614	1,126	17	346,384
	Pending	510,107	2,437	114,826	6,234	9	633,613
	Disposed of	313,457	3,123	21,290	606	8	338,484
2013	Filed	116,393	1,428	25,728	1,183	18	144,750
	Pending	595,248	8,283	133,450	6,322	7	743,310
	Disposed of	195,418	3,090	20,640	1,032	11	220,191

Source: Kenya National Bureau of Statistics (2014)
**: Provisional statistics

Other reforms initiated in the Judiciary include competitive appointment of senior judicial staff, plans for automation of court processes and digitalization of court registry, reconstitution of the Judicial Service Commission, and Judiciary Open Days. However, majority of Kenyans do not have access to judicial services. In a survey carried out by Infotrack Harris in 2012, more than 50 per cent of rural dwellers do not have access to legal services.

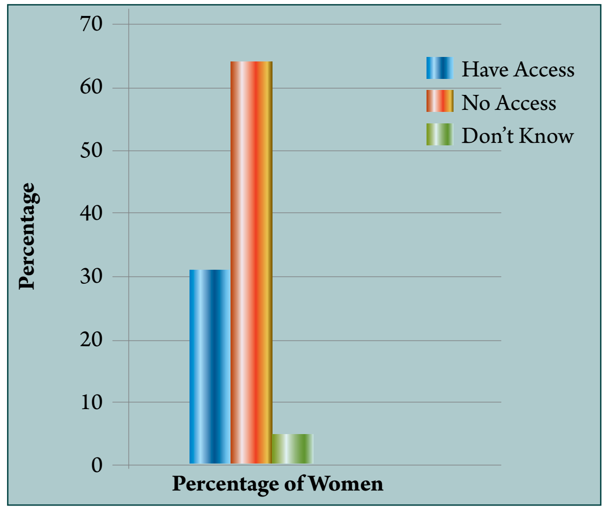
Figure 2.4: Rural men with access to legal services/aid



Source: Infotrack Harris (2012)

From the survey, 58 per cent of men in rural areas do not have access to legal services and aid compared to only 40 per cent who had access to legal services (Figure 2.4). This trend is even worrying when compared to rural women, with 64 per cent of rural women acknowledging that they have no access to legal services and aid compared to only 34 per cent of rural women with access to legal services (Figure 2.5). Thus, the Judiciary is yet to extend its services to citizens in rural areas. One of the ways to mitigate this is to have mobile courts.

Figure 2.5: Rural women with access to legal services/aid



Source: Infotrack Harris (2012)

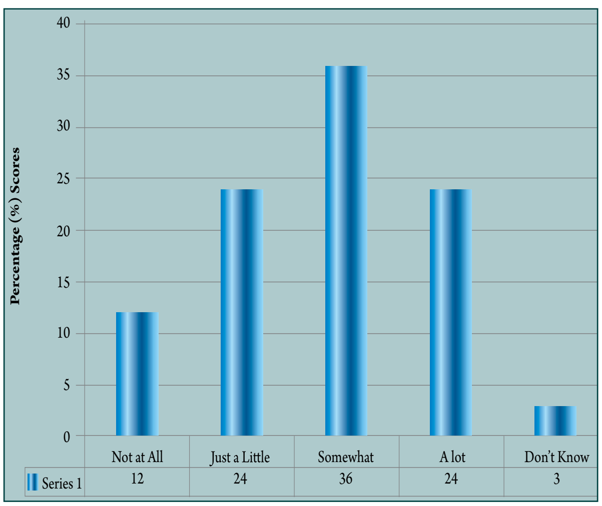
2.4.3 The Legislature

The Legislature plays a variety of constitutional roles, including legislation of laws, oversight over the Executive, and representing the electorate. A particularly important element of oversight concerns the budget–checking that spending decisions by the Executive are in line with national interests. Representation involves collecting, aggregating and expressing the concerns, opinions and preferences of citizen-voters.

In the bicameral legislature, the National Assembly has 349 members, excluding Speaker: 290 members elected for a five-year term in single-seat constituencies, 47 county women representatives and 12 nominated legislators to represent special interests. The Senate comprises 68 members: the Speaker, 47 directly elected from counties acting as single-seat constituencies, 16 women nominated by political parties, a man and a woman representing youths, and a man and a woman representing people with disabilities. The Senate has legislative and oversight authority over matters that exclusively affect the county governments (Article 96), and is to determine any resolution to impeach the President or Deputy President by the National Assembly (Article 145). Thus, the Senate is created to protect the interests of counties, while the National Assembly is supposed to represent the people of the constituencies and special interests (Article 95).

The Senate formulates policies and legislations affecting counties. The Senate also ensures that the principles of cooperation between national and county governments as envisaged by Articles 6(2) and 189 are adhered to in terms of legislation and implementation by national government policies regarding counties. For there to be proper accountability for the Senators, there is need for legislation to provide for mechanisms and ways in which Senators and Legislators in the National Assembly can be held accountable for their work. This is because most Kenyans have very little trust in the Legislature.

Figure 2.6: How much Kenyans trust Parliament



Source: Afrobarometer Round 5 (2010-2012)

Less than 30 per cent of Kenyans have a lot of trust in Parliament (Figure 2.6). This should be a concern to both chambers of the Legislature, and it is expected that when devolution is fully implemented, then the Legislature will improve its performance by passing bills and policies that improve the well-being of citizens, hence the credibility of the government.

2.5 Policy Issues and Recommendations

Kenya has improved in its Global Competitiveness Index ranking, but a lot more needs to be done to ensure that the country is stable and attracts foreign investment. While most constitutional commissions have been established and are operating, a number of challenges still remain in all the three arms of government.

2.5.1 The Executive

Building broad-based support for reforms: Implementation of reforms in the National Police Service has lost steam and may seriously affect the reforms being undertaken in the Judiciary. Moreover, the Senate and National Assembly do not seem to work in harmony, and the Executive seems helpless in ensuring harmony between these critical institutions.

Strengthening checks and balances: Articles 190 and 192 of the Constitution grant the national government and the President power to intervene in the running of county governments. Article 190 empowers the national government to intervene if a county government is unable to perform its functions or does not operate a financial management system that adheres to the requirements set by the Constitution. However, the Executive must ensure that constitutional commissions, constitutional office holders, and the entire civil service operate independently without any political interference.

Corruption: There is concern that corruption may devolve to the counties unless the Ethics and Anti-Corruption Commission (EACC) steps up the fight against corruption and starts prosecuting both national and county government officials implicated in graft. Moreover, the Executive must ensure fiscal discipline in the management of public funds both at the national and county levels to avoid wastage, misuse and/or embezzlement of tax payers' funds. In Kenya, however, impeachment of errant officials is extremely difficult, because they resort to courts to obtain injunctions.

Devolution: Management of devolved funds by county governments is a big challenge, even as they continue demanding for more financial allocations. The national government and constitutional commissions should ensure that the available resources are used prudently by county governments. By law, counties are entitled to at least 15 per cent of the total national revenue collected. Despite many counties currently enjoying adequate funding, there is still a feeling that budgetary allocations need to be increased, and that the national government is reluctant to do this. The Executive should make all effort to reach out across the political divide and all the 47 governors to demonstrate that devolution is fully embraced by both the national and county governments.

Building a competent and capable public service in counties: Capacity building for communities and local institutions in all counties is needed, especially in planning and monitoring, so that they understand and internalize the opportunities offered by the new policies and institutions for public participation, and develop skills and strategies for effective engagement in devolution. There is need for the public and private sectors to partner in building various capacities in all the 47 counties to ensure that service provision is not affected due to lack of qualified and/or inexperienced personnel.

Accountability and citizen participation: This is important in order to avoid cases of civil unrest that have been witnessed in counties over proposed taxation by some county governments. County governments should be accountable to residents in their respective counties. The Office of the Ombudsman, the Kenya National Commission on Human Rights (KNCHR) and the Commission for the Implementation of the Constitution (CIC) ought to ensure that citizens are not denied their constitutional responsibility of participating in making decisions that directly or indirectly affect them.

Terrorism and international criminal networks: Kenya's military incursion into Somalia to neutralize Al Shabaab terrorists has a huge financial burden to the economy of the country and the livelihoods of Kenyans. This intervention has seen terrorist groups such as Al Qaeda and Al Shabaab wage opportunistic attacks on Kenyan soil, with claims of possible recruitment of the unemployed youth to join terror cells. There has also been an increase in cases of poaching of Kenya's wildlife, with a direct impact on the country's security and economic growth. Appropriate security measures must be taken to protect Kenyans, and the country's wildlife from poachers who may have links to international criminal networks.

Management of ethnic diversity: Negative ethnicity is one of the hurdles to more rapid development in Kenya. The government needs to make the fight against tribalism and negative ethnicity its top priority. The Executive must eradicate the culture of intolerance, even as it tries to ensure equal opportunities as far as sharing of natural and political resources is concerned. Each ethnic group has the right to exist and be treated fairly and equally with all other communities, and the Executive should adopt a democratic style that accommodates every community in the country irrespective of political affiliations.

2.5.2 The Judiciary

Poor working environment: Judges and Magistrates have for a long time been working under poor conditions of service, with a single Judge/Magistrate expected to cover large areas and/or large population sizes in urban areas. This issue needs to be addressed urgently. Moreover, Judges and Magistrates should be provided with research staff to be able to discharge their mandate.

Support for junior Judiciary officers: Whereas Judges are provided with transport services to and from their work stations, Magistrates and other junior staff use private means to their work stations, yet Magistrates handle the bulk of the cases and some Magistrates cover remote and far-flung areas, thus making it impossible for them to rely on public transport. The JSC should facilitate transport for Magistrates, especially in hardship areas and those covering more than one work station.

Ignorance of citizens: Access to justice in Kenya is greatly hampered by ignorance by citizens on how the criminal justice system operates. Furthermore, most Kenyans are also not aware of their basic fundamental constitutional rights. This situation leads to miscarriage of justice. The JSC, in collaboration with other civic bodies, need to carry out intensive civic education on rights of citizens and the role of courts in settling disputes and criminal cases. The JSC and the Law Society of Kenya (LSK) should also consider establishing a fund to offer free litigation to citizens who may not be able to afford litigation costs in courts. This will, in a way, protect the rights of the vulnerable in society from being abused.

Delays in case rulings: In the past, court cases have taken even over a decade to be disposed off, sometimes due to reasons beyond the control of the Judge. An electronic-based system for monitoring and tracking overdue judgments and rulings should be set up in all courts. Fast-tracking computerization would ensure that court proceedings are recorded electronically to enhance supervision. The JSC should establish broad objectives and strategies, and identify key result areas and performance indicators upon which Judges will be evaluated. This may be structured in relation to integrity, training, sitting hours, number of cases heard and determined by each Judge or Magistrate, number of judgments and rulings delivered, and timely resolution of administrative issues. This can easily be done without fettering the discretion of Judges and Magistrates to determine cases on their own merit.

Re-training of judicial officers: The JSC must ensure that capacity building is not just a preserve of senior staff in the Judiciary but also of junior staff.

Entrenching Alternative Dispute Resolution (ADR) in court processes: As a way of reducing the backlog of cases in the Judiciary, it is prudent that the JSC finds a way of using ADR in resolving cases and disputes that most of the time can be addressed through mediation and reconciliation. ADR is also good in restoring relationships especially in conflicts involving communities.

2.5.3 The Legislature

Human resource: The Senate and the National Assembly do not have enough resources for permanent staff, and have few staff with specialized technology skills to conduct research for the legislators. Hiring of staff to conduct research for legislators would result in quality bills and healthy and informed debates.

Financial and administrative resources for ICT: The Kenyan Legislature ought to integrate information and communications technology if it is to transact its business efficiently and reduce paper work. The Parliamentary Service Commission (PSC) should encourage and empower legislators to use ICT in their research, so as to enrich legislative debates.

Respect for constitutional commissions: The current Legislature shows very little respect for constitutional commissions, especially when these commissions make decisions that some legislators do not agree with. Respect for constitutional commissions and other legal units of governance would help foster rule of law.

Unequal gender representation: The National Assembly and the Senate do not meet the minimum one third gender representation. Articles 27(8) and (81)b of the Constitution provide for no more than two thirds representation of one gender in elective and appointive positions. Unfortunately, Kenya's male-dominated National Assembly has still not passed the necessary legislation to put this constitutional principle into practice. It is important that the National Assembly and the Senate pass necessary legislation to guarantee equal gender participation in all state affairs, including political representation. The National Gender Equality Commission (NGEC), the Kenya National Commission on Human Rights (KNCHR), and the Independent Electoral and Boundaries Commission (IEBC) should all partner with civil society to ensure that women do not continue to be marginalized in political representation. The IEBC, in particular, must prevail on political parties to ensure that the one third gender requirement is adhered to by political parties when nominating candidates to vie for elective posts. IEBC should also consider putting in place incentives to encourage women to vie for elective posts by, for instance, reducing the nomination fee required to be cleared to vie for elective positions.

Weak political parties: Most political parties have an ethnic dimension and form alliances of ethnic communities to capture political power. Most do not have capacity for issue-based politics. The Independent Electoral and Boundaries Commission (IEBC) and the Parliamentary Service Commission (PSC) should organize capacity building sessions to empower political parties to ensure that they have a national appeal.

Issue-focused parliamentary debates: Kenya's legislature spends most of its time in political brinkmanship between the Senate and the National Assembly. The Parliamentary Service Commission (PSC) ought to build capacity of legislators to enhance their awareness in identifying issues that should take centre stage in parliamentary debates. This would result in bills and policies that help foster economic growth and improve the quality of governance in Kenya.

Capabilities of a bicameral parliament: The power of the Senate is directly linked to the strength of the county government. Ideally, the two chambers should not be endlessly competing for control of the national budget and political supremacy. The Commission for the Implementation of the Constitution (CIC) should give guidance to the Legislature whenever there is a dispute. The Supreme Court should also be a neutral arbiter and give directions that can be enforced legally, as opposed to simply giving advisory opinions whenever disputes are referred to it for interpretation.

Building capacity for county assemblies: The Public Service Commission needs to ensure that all the 47 County Assemblies have the capacity to draft and pass bills that increase the development and competitiveness of their counties.

Chapter 3

POPULATION GROWTH AND FERTILITY

3.1 Introduction

Kenya is experiencing demographic challenges stemming from high population growth rate associated mostly with high fertility rates. Decline in mortality and fertility rates in most parts of the world have led to fertility decline from a global average of 5 children per woman in 1950 to 2.5 in 2012. Kenya's population was estimated at 43 million in 2012, 44 million in 2013 and is projected to reach 65 million by 2050 (United Nations Department of Economic and Social Affairs- UNDESA, 2013). The 2012 population was 0.6 per cent of the world population estimated at 7.2 billion and the proportion is estimated to grow to 1.6 per cent of 9.6 billion by 2050.

Kenya's population growth rate is currently at 2.7 per cent, which is credited to a declining mortality as well as relatively high fertility rate. Although fertility rate is also declining as given by the number of children per female adult, the rate of decline is slower than the average global rate, given a fertility rate of 4.4 children in 2013, down from 4.5 children and 4.7 children in 2011 and 2009, respectively. This is way above the population replacement rate of 2.1 and the world average of 2.5.

Compared to other countries in Africa and elsewhere (Table 3.1), Kenya's fertility is still relatively high. For example, the fertility rate for South Africa is lower than the world average at 2.40 children per woman, while Botswana is at 2.64 children. Of the selected countries in Africa, Nigeria's fertility rate is highest at 6 children per woman. Canada, Germany and Malaysia are all below the replacement rate.

In effect, family planning can be used to control fertility through prevention of unwanted pregnancies, in addition to improved maternal and child health. According to the Population Reference Bureau–PRB (2011), 55 per cent of Kenyan women are not using family planning, and the poorest women have the highest unmet family planning needs. Table 3.2 shows that a total of 63 per cent of the lowest two quintiles have unmet family planning needs compared to 39 per cent of the two upper quintiles.

Table 3.1: Population status and projections–Kenya and comparator countries ('000)

Country	1950	2013	2025	2050	2100		2013	2012-2015
						Median age	Children per woman	*Population growth rate
Botswana	413	2,021	2,245	2,780	3,025	22.5	2.64	0.87
Kenya	6,077	44,354	59,386	97 ,173	160,423	18.8	4.41	2.67
Ghana	4,981	25,905	32,509	45,670	57,210	20.6	3.89	2.13
Malawi	2,881	16,363	22,776	41,203	84,986	17.2	5.42	2.85
Nigeria	37,860	173,615	239,874	440,355	913,834	17.8	6.00	2.78
South Africa	13,683	52,776	56,666	63,405	64,135	26.0	2.40	0.78
Tanzania	7,650	49,253	69,329	129,417	275,624	17.5	5.24	3.02
Uganda	5 ,158	37,579	54,832	104,078	204,596	15.8	5.91	3.33
Zambia	2,372	14,539	21,388	44,206	124,302	16.6	5.71	3.21
Australia	8 ,177	23,343	26,920	33,735	41,497	37.2	1.88	1.31
Canada	13,737	35,182	39,185	45,228	50,882	40.1	1.66	1.00
Germany	70,094	82,727	80,869	72,566	56,902	45.5	1.42	-0.11
Malaysia	6, 110	29,717	34,956	42,113	42,400	27.4	1.98	1.61
World						29.2	2.50	

Source: UNDESA (2013); *UNData—Medium variant

Table 3.2: Percentage reporting an unmet needs for family planning in Kenya

Wealth quintile	Limiting births	Spacing births
Poorest	10	20
Lower middle income	17	16
Middle income	12	11
Upper middle income	9	11
Richest	10	9

Source: Population Reference Bureau (2011)

The National Council for Population and Development (Government of Kenya, 2013) indicates that the uptake of contraceptives is lowest among the poor, less educated, young/adolescent girls actively involved in sex, and rural women. This shows that there is need to refocus family planning services to the lower-income segment of the society while educating young girls, rural women and poor women/couples on the reasons for and how to practise family planning to increase uptake of modern methods of family planning and their implications on fertility. This includes education on the various methods and their possible side effects. This should be done at the household and community level for greater impact. Community Health Extension Workers (CHEWs) can be an avenue for disseminating information on family planning to improve accessibility and effectiveness, and increase the contraceptive prevalence rate (CPR) beyond the 62 per cent targeted by 2010 (Government of Kenya, 2013).

Table 3.3: Proportion of population by age cohort

Ages	1969	1979	1989	1999	2009
0–14	48.3	48.3	47.8	43.7	42.9
15–34	30.4	32.3	33.0	35.6	35.4
35–60	15.9	14.6	14.4	15.4	16.6
*15–60	46.3	47.9	47.7	51.0	52.0
60+	5.4	4.6	4.8	4.7	5.0
**-15 & 60+	53.7	52.9	52.6	48.4	47.9
Unstated	-	0.2	0.1	0.7	0.1

Source: Government of Kenya (2013); * Working-age population; **Dependants

The proportion of the population aged 0-14 years declined from about 48 per cent (1969-1989) to nearly 43 per cent in 2009, while the proportion of the youth aged 15-34 years increased to over 35 per cent from 33 per cent (Table 3.3). The proportion of the elderly also depicted a moderate increase. The combined dependants' proportion declined from 53.7 per cent in 1969 to 47.9 per cent in 2009. The working-age proportion increased from 46.3 per cent in 1969 to 52.0 per cent in 2009. A large part of this increase is in the 15-34 age cohort.

Basically, this reflects increase in the youth cohort by a larger margin. Youth unemployment is 'a ticking time bomb' already exploding in the form of youth radicalization, widespread insecurity, and involvement in unrests such as the post-election violence experience.

With this growing youth bulge, the fertility reduction strategy must be coupled with increased investment in health, education, infrastructure and quality job creation. This will help harness the growing youth resource by making them better educated and healthier as more job opportunities are availed to them. It will also delay the onset of child bearing as they also space their children given higher demand for time, while reducing the youth fertility rate and subsequently that of the country. Controlling fertility and increasing labour productivity will enhance the country's ability to realize the demographic dividend; that is, age structure changes leading to an increase in working-age population proportion relative to the youthful population.

Kenya is likely to achieve the demographic dividend in the year 2050 (NCPD, 2014) if investments are put in place to reduce the number of dependants (those less than 15 years and those older than 64 years are fewer relative to the working population). However, to achieve this, the country needs to make investments in the social and economic sector. Integrated family planning, education and economic development policies facilitate a demographic dividend.

Unchecked population growth could exceed resources, thus denying the economy adequate resources for investment especially in education and health, which subsequently leads to a weaker labour force, lower productivity and slow economic growth. Changing marriage patterns, lower infant mortality that changes the desired number of children, and increased use of contraceptives are among the strategies that need to be enhanced to reduce fertility further.

3.2 Population Dependency and Employment

Half the population of Kenya falls below the median age of 18.8 years (Tables 3.1 and 3.4). This places the country among those with a relatively youthful population as compared to countries such as Canada and Germany, whose median age is over 40 years. A country with a very youthful population has a high dependency ratio.

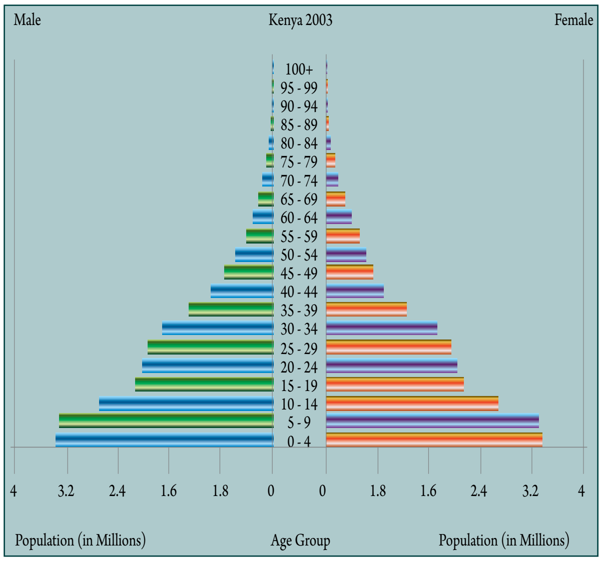
Table 3.4: Kenya's population age structure and median age 2013-2050, proportion of total

Age (years)	2013	2050
0 -14	42.2	31.1
15-59	53.5	59.3
60+	4.3	9.5
80+	0.4	0.9
Median age	18.8	25.5

Source: UNDESA (2013)

Kenya's working-age population (15-64 years) was nearly 20.9 million in the 2009 Population Census and is projected to grow to 25.4 million by 2015, 29.6 million by 2020 and to 38.8 million by 2030 (Oisebe, 2012). As shown in Tables 3.3 and 3.4 as well as Figure 3.1, Kenya's dependent population is just over 45 per cent, which is dependent on the other 55 per cent. With 55 per cent supporting themselves and the rest, then each working-age person is supporting about 1.81 people. Noting that unemployment in Kenya is about 14.6 per cent (World Bank, nd) then not all in the working-age cohort of the population are actually working. Instead, less than 50 per cent of the population supports everyone and hence the real dependency ratio is about 2 people for every working person.

Figure 3.1: Kenya's population pyramid in 2013



Source: Central Intelligence Agency - CIA (2013)

Compared to countries whose dependency ratio is less than 1.4, Kenya's ratio is relatively high. There is need to reduce unemployment, engage older people and improve family planning services to reduce the number of children being born and thus reduce the dependency ratio. This is likely to raise the country's median age which, given current trends, will still not reach Canada's level of 40 years soon.

In the developed countries where the aging population has become more prevalent due to good health services and lower fertility, the working age is being extended by increasing the retirement age. Given the lower unemployment levels in those countries, flexible work models are integrated into the work environment, such as working from home, part-time work, tele-work, and rotation among other forms (Glenn, Gordon and Florescu, 2012). Although this is only necessary for a small segment of Kenya's population, given that the majority of the older population is in rural areas and based in agriculture or pastoralism where working hours and retirement age are self-determined, it is imperative to think about those retiring from formal employment when they are still energetic. Giving them business/entrepreneurship skills training and access to credit is one way to keep them active and reduce dependency, while helping them create employment for themselves and the youth.

3.3 Population and Urbanization Challenges

Most of the population growth is occurring in urban areas. North America has the largest urban population, followed by Latin America and the Caribbean. Africa and Asia are the least urbanized but are projected to respectively reach 54 per cent and 55 per cent levels of urbanization by 2030 (UNDESA, 2005). Urbanization brings with it challenges of differing dimensions. The challenges include pollution, housing and traffic congestion, waste management, unemployment, poverty and crime, proliferation of slums, over-burdened infrastructure, among others. The global urban population has reached 52 per cent and is projected to grow to 58 per cent by 2025. This will be generating 2.2 billion tons of urban waste per year from 1.3 billion tons per year today. With most of this waste being non-biodegradable plastic, its disposal will be a major problem.

Demand for space is pushing property prices up, forcing many of the urban dwellers to slums without basic amenities such as safe drinking water, toilets/sewerage systems, drainage systems and other infrastructure. Given that more than half of the said global population growth will occur in Africa, in the "world's most economically, politically, socially and environmentally fragile countries" (Bloom, 2011), a significant proportion will be living in urban slums. Slums in Sub-Saharan Africa (SSA) are home to over 60 per cent of the urban population today. Although Kenya in conjunction with UN-Habitat

Table 3.5: Urban population in Kenya–Urban centres with over 100,000 people in 2009

Urban Centre	Population				
	2009	2010	2011	2012	2013
All Urban	11,545,571	12,007,394	12,487,690	12,987,197	13,506,685
Nairobi	3,133,518	3,258,859	3,389,213	3,524,782	3,665,773
Mombasa	938,131	975,656	1,014,682	1,055,270	1,097,481
Kisumu	388,311	403,843	419,997	436,797	454,269
Nakuru	307,990	320,310	333,122	346,447	360,305
Eldoret	289,380	300,955	312,993	325,513	338,534
Ruiru	238,858	248,412	258,349	268,683	279,430
Malindi	118,265	122,996	127,915	133,032	138,353
Naivasha	169,142	175,908	182,944	190,262	197,872
Kitui	109,568	113,951	118,509	123,249	128,179
Machakos	150,041	156,043	162,284	168,776	175,527
Thika	136,917	142,394	148,089	154,013	160,174
Mavoko	137,211	142,699	148,407	154,344	160,517
Nyeri	119,353	124,127	129,092	134,256	139,626
Vihiga	118,696	123,444	128,382	133,517	138,858
Kitale	106,187	110,434	114,852	119,446	124,224
Kericho	101,808	105,880	110,116	114,520	119,101
Kikuyu	233,231	242,560	252,263	262,353	272,847
Kangundo/Tala	218,557	227,299	236,391	245,847	255,681
Karuri	107,716	112,025	116,506	121,166	126,012
Garissa	116,317	120,970	125,808	130,841	136,074
Ngong	107,188	111,476	115,935	120,572	125,395

Source: KNBS (2012) and projections by author for 2010-2013

has ongoing slum-upgrading programmes in a few urban areas, the slum proliferation problem can only be nipped if county governments make a deliberate effort to prevent further slum development through urban planning and development.

Table 3.5 shows Kenya's major towns (those with over 100,000 inhabitants) and their population. To derive the urban centres population for the years 2010-2013, the 2009 population data is projected at 4 per cent per annum, which is the average rate of urban population growth. The 13 million 'all urban' population is about 30 per cent of the total population of Kenya, estimated at 43 million.

The population growth is both natural as well as from rural–urban migration in search of elusive employment, leading to urban poverty and slum development. County governments are encouraged to plan the budding of towns in good time, with Machakos City as an example. This will attract investment for job creation to reduce unemployment and poverty, and prevent slum development.

3.4 Population, Food Security, Environment and Climatic Change

Food production will need to increase by more than 70 per cent by 2050 to sustain the growing world population. Although Kenya's population is 0.6 per cent of the world population and growing at a faster rate than the global average, it is sitting on the unchanging 0.38 per cent of the world's land area. Securing this population with food will continue to be a major challenge. According to the Millennium Project (Glenn *et* al., 2012), some of the proposed solutions include agro-ecological farming, reducing meat consumption, salt water farming, as well as consumption of more nutritional foods. Besides food, the increasing population will require shelter development among other necessities of life. Shelter takes up space, reducing land that can be farmed. Globally, population pressure has degraded some 2 billion hectares of arable land (Hinrichsen and Robey, 2000). Since most of the building materials are extracted from the earth–wood, stones, cement, thatch/iron for roofing sheet, synthetic materials for paint manufacture, etc–environmental degradation ensues as forests are depleted, quarries dug, depleted minefields abandoned, among other ills. Cities will also sprawl to accommodate more urban populations. These ecological footprints are leading to rapid global warming and its subsequent effects.

Given that human activities aggravate global warming, climate change issues and population growth must be addressed simultaneously. The African Institute for Development Policy –AFIDEP and Population Action International–PAI (2012) estimated that each year, about 3 million people die from air pollution and 12 million from water-borne diseases/pollution. These are footprints of human activities, which have implications on ecological disaster. Water and energy shortages are some of the effects of this environmental degradation, and are a persistent problem especially in Kenya's urban areas.

Frequent flooding, unreliable rainfall and droughts leading to food shortages, and an increase in food demand are also prevalent in the country. This is particularly severe in areas with small-scale farming, which is more susceptible to climatic changes. About one third of Kenya's population is dependent on land. As the population grows, the land-holding capacity declines, land becomes degraded with overuse, overstocking, deforestation, fragmentation and reduction in per capita land holding (NEMA, 2011). Checking population growth and putting efforts in environmental conservation can allow more time to devise ways to improve living standards at sustainable levels. This was observed to work in the East Asian newly-industrialized countries following serious population growth rate reduction from the 1970s. Concerted efforts by all players and especially empowering local communities to participate in conserving their own environment leads to reduced environmental degradation (AFIDEP and PAI, 2012) both at the local and subsequently at the global level.

3.5 Global Population and Demographic Shift

The global population has increased by 2 billion over the last 25 years, surpassing the 7 billion mark in late 2011. It is likely to increase by at least 2 billion by 2050. Beyond the numbers, the world is faced with unprecedented diversity in demographic situations across countries and regions, as well as within countries. Such diversity is mostly found in evolving demographic structures and the changing proportions of youth and elderly groups, and in different rates of fertility, morbidity and mortality, population growth, urbanization, and internal and international migration.

In addition, there are persistent inequalities of income and opportunities within and across countries and regions. Such inequalities are often associated with aspects such as age, gender, ethnicity and race. National averages, which may show improvements at the country level, often hide severe sub-national disparities in economic opportunities and access to basic social and health services, including reproductive health services. Population dynamics, particularly in the context of persistent inequalities, will have major influences on development processes and on the inclusive and balanced growth and outcomes in the future. They also challenge the capacity of countries to achieve broad-based development goals.

Population dynamics–including changes in population growth rates, age structures and distributions of people–are closely linked to national and global development challenges and their solutions. Much of the projected growth in population in the coming decades will take place in developing and the least-developed countries, where it is likely to exacerbate poverty and add pressure on the economy, basic health and social services and the environment. Though mortality has been declining and people are living longer in all countries of the world, many developing countries have high fertility, unacceptably high rates of morbidity and mortality, and low life expectancy that hinders development.

3.6 Conclusions and Recommendations

3.6.1 Conclusions

The question that must be given serious attention as countries plan is whether the population challenge can be met with technological and institutional innovations. Kenya cannot wait for a population crisis before changing focus in order to accommodate requirements of the larger population, both for survival and for meaningful and improved standards of life. Her land size is static but fertility is still over 4 children per woman, and the population is growing at a rate of about 2.7 per cent per annum. The growth is much higher in urban areas, most of which are unplanned. Dependency ratio is high and so are unemployment levels. About a third of this population is dependent on land-holding capacity, which has declined due to degradation, overuse, overstocking, deforestation, fragmentation and reduction in per capita holding. These ecological footprints are leading to global warming.

Population growth rate should be curbed by intensifying family planning services to the low-income cohort of the population. For this, extensive use of Community Health Extension Workers is recommended, alongside changes in marriage patterns, lowering infant mortality to reduce the desired number of children and increased use of contraceptives, *inter alia,* for enhanced fertility reduction. All counties should focus on fertility issues for population growth control and dependency reduction, investment opportunities for job creation and poverty reduction, as well as urban planning for prevention of slum proliferation.

Urban slum development should be minimized through establishment of new planned towns and cities adjacent to existing ones. The slum proliferation problem requires deliberate effort to prevent further slum development through urban planning and development. This will also create investment opportunities in the new cities for employment generation, poverty reduction and, subsequently, habitat upgrading.

Local communities need information and empowerment to revamp their environment and curb degradation. They will improve participation if they are the primary beneficiaries of an improved environment in their habitat. Participatory environmental management is likely to be more effective with long-term effects. People at all levels should be involved in participatory policy formulation and implementation for lasting effect, not only on the environment, but also in climate change management and food security at sustainable levels locally and globally. Proposed food security solutions include agro-ecological and salt water farming, less to no meat consumption, and nutritional support.

3.6.2 Recommendations

Uncontrolled population growth can have serious ecological footprints leading to increased poverty, besides global warming. At 2.7 per cent, Kenya's population growth rate is above the world average rate of 2.4 per cent and way above the 2.1 per cent replacement rate. Kenya's dependency ratio is 1.81, but about 2 given the high rate of unemployment.

Kenya's population growth can best be controlled through effective family planning programmes and increased reproductive health expenditure. Kenya must change focus to accommodate requirements of the larger population for survival, meaningful and improved standards of life. With one third of Kenya's population dependent on land whose holding capacity is declining due to degradation from overuse, overstocking, deforestation, fragmentation and reduction in per capita land holding, communities must be empowered to prevent further degradation and maintain holding capacity as the population grows. There is need to increase expenditure on reproductive health so as to reduce total fertility and hence the population growth rate. This should be coupled with investment in health, education and infrastructure required for quality job creation to harness the increasing youth resource. There is also need to keep the older population active to reduce the dependency ratio. Counties should put in place urban planning and management structures to effectively keep pace with urban population growth. To control fertility, extensive use of Community Health Extension Workers is needed in order to reach a wider population with reproductive health services. To reduce fertility, there is need to advocate for changed marriage patterns, and reduction in infant mortality to change the desired number of children. To minimize population ecological footprints, there will be need to put in place participatory environmental conservation for lasting effects on climate change management and food security.

Chapter 4

POVERTY AND INEQUALITY

4.1 Introduction

Although poverty reduction and/or elimination have remained a top priority on the international development agenda (Dasandi, 2013), more than three quarters of the world's poor live in Africa. Many African economies are still grappling with it despite the global recognition that African countries are among the fastest-growing economies in the world today. There is evidence on the critical role of economic growth in poverty reduction and development of Sub-Saharan African countries. However, the benefits are still far from being realized. Gains from economic growth are not reaching the poor. Recent studies have shown renewed attention to understand the causes of differing levels of poverty and wealth around the world, with much emphasis being placed on the role of geography, government policies and, in particular, quality of domestic institutions in explaining differences in the levels of poverty and wealth (Dasandi, 2013). Moreover, some studies, for instance Dasandi (2013), have gone beyond to explore the effect of the broader international context in the analyses of poverty. In particular, the vast inequality between countries, which shapes both economic relations and international laws, has considerable impact on poverty around the world.

Despite all attempts to deal with the problems, the corresponding reduction in poverty and inequality has been minor, with the absolute numbers of people living in poverty remaining high (above 50%). Governments have invested considerable amounts of both human and financial resources to fight poverty. It is obvious that poverty is indeed complex now than before.

4.2 Poverty Definition, Measurement and Performance, 2009-2013

More recent approaches have attempted to redefine poverty as a complex and multidimensional issue, affecting the lives of many people (Alkire *et al.*, 2013). Poverty is not an easy concept to define; many definitions exist, influenced by different approaches and ideologies. The most commonly used is the monetary approach, which explains poverty in terms of income or consumption measures. Literature on this approach owes Sen (1976) a great deal. Three different measures of income or consumption are commonly used to assess poverty. These are headcount index, poverty gap index and poverty severity index. Other measures have viewed poverty as a function of lack of individual capabilities, such as education and health to attain a basic level of human well-being.

Multidimensional Poverty Index (MPI) is an index of acute multidimensional poverty. It assesses the nature and intensity of poverty at the individual level. It measures how many things poor people go without. MPI has three dimensions: health, education and living standards. These are measured using 10 indicators. This measure of poverty offers an essential complement to the commonly used income poverty indices.

Many middle income countries and low income countries are still poor. However, the nature and magnitude differ across countries. In 2013, it was found that a total of 1.6 billion people live in multidimensional poverty. Out of these, 51 per cent (844 million people) live in South Asia and 29 per cent (458 million people) in Sub-Saharan Africa. About 72 per cent of people affected by multidimensional poverty live in middle income countries.

In most societies, there are groups, especially rural women, youth, female-headed households, indigenous people, people with disabilities, widows and ethnic minorities that face deeply rooted inequalities. These inequalities are well pronounced along the different gender dimensions. The women suffer the most. For instance, women in the agriculture sector have one thing in common across all regions; they have less access than men to productive resources and opportunities. In the education sector, women lag behind men at all levels of education. Above all, women suffer higher incidences of income poverty than men. They are engaged in activities whose monetary value is either very low or zero, and yet they contribute significantly to economic growth. For instance, many women work in the care economy, which involves taking care of children, family, the elderly and the sick.

The level of deprivation in Kenya has persisted over the years. Income is the main factor explaining the level of deprivation. A predetermined poverty line is used to distinguish between the poor and the non-poor. In order to compute the poverty indices, household survey data is needed. However, it is very expensive and time consuming to collect household surveys every year. The most recent household survey dates as far back as 2005/06. An alternative method of predicting poverty using existing surveys (Mwabu *et al.*, 2003) has been used to obtain poverty statistics for the years where household surveys are missing.

Figure 4.1 shows poverty estimates for 2005/06. Poverty estimates on the extreme left are actual figures as computed by the Kenya National Bureau of Statistics. The rest of the poverty indices are based on the national survey conducted in 2005/06 (KIHBS 2005/6 data set). The second bar shows poverty rates for 2005/06 as computed using the Predicting Model and Welfare Monitoring Survey data for 1997 (the most recent survey by then). Similarly, using the KIHBS 2005/06, we predict poverty indices for all the years for which we do not have national household survey data sets (2007-2013).

According to Figure 4.1, about 21.5 million people still live below the poverty line. This accounts for about 49.5 per cent of the total population. Over the last five years, poverty has declined marginally from 50.9 per cent in 2009 to 49.7 per cent in 2011 before rising to 49.8 per cent in 2012. A regional perspective indicates glaring disparities. In rural areas where nearly 75 per cent of the total population lives, poverty has persistently stagnated at an average of 55 per cent during the last five years. This is over and above the national average of about 50 per cent. In the urban areas, about 36 per cent of the population is trapped in poverty. It is worth noting that while absolute poverty declined slightly between 2009 and 2013, the total number of people falling into poverty has been rising significantly. For instance, between 2012 and 2013, it increased by 0.4 percentage points.

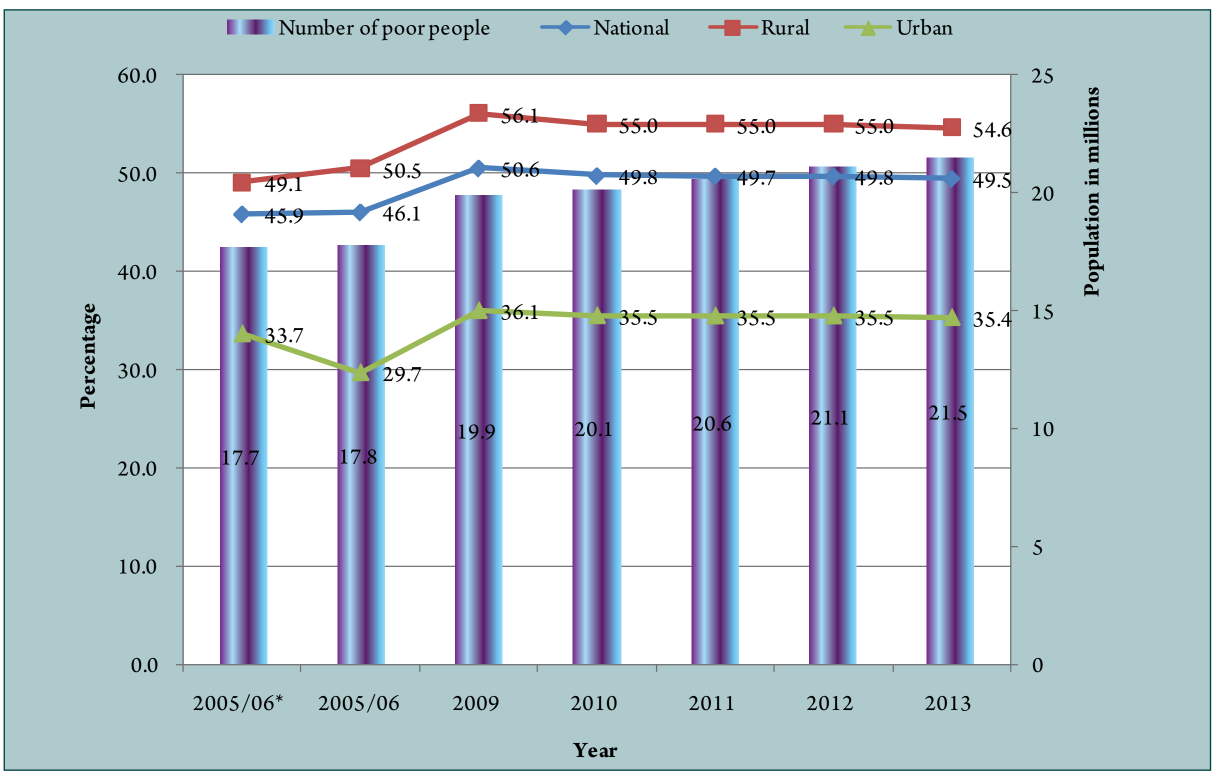
Given that a larger share of the population lives in the rural areas, and the informal sector is large, increasing productivity in smallholder farming and in the informal economy is fundamental for growth, creation of good quality jobs, and poverty reduction.

In Kenya, several studies (Collier and Lal, 1980; Greer and Thorbecke, 1986; Mwabu *et al.*, 2000; Government of Kenya, 1998; 1999) have classified the poor into various categories such as subsistence farmers, AIDS orphans, female-headed households, elderly-headed households, child-headed households, the landless, disabled, households headed by people without formal education, pastoralists in drought-prone districts, unskilled and semi-skilled casual labourers, and street children and beggars.

Other studies have also shown that poverty is severe in some regions than others. In 2013, several counties recorded high levels of poverty (over 80%). These were Turkana, Mandera, Wajir, Marsabit, Tana River and Kwale. Similarly, several counties recorded poverty levels below 40 per cent (these were Kiambu, Kirinyaga, Murang'a, Nyeri, Lamu, Meru, Kajiado, Narok and Nairobi). Kajiado County had the lowest poverty amongst all (below 20%).

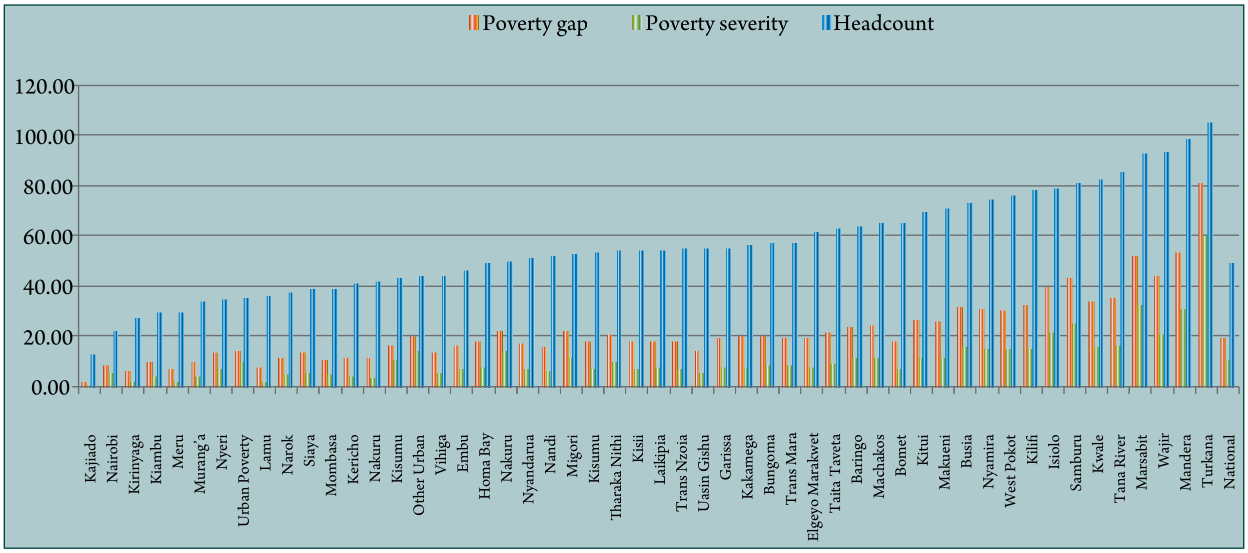
The poverty gap tells us how far below the poverty line the income of the poor is. It can be used to determine the amount of resources that would be required to bring the incomes of every poor person to the poverty line, and thus eliminate poverty. According to Figure 4.2, regions with low poverty tend to have lower poverty gap measures compared to regions with high poverty. This means that the per capita cost of eliminating poverty is higher in some counties than in others. For instance, the cost of eliminating poverty in Turkana is twice the cost of eliminating poverty in Isiolo, and three times the cost in Kisii, Kericho, Uasin Gishu, Nakuru , Migori, Tharaka Nithi, Garissa, Kakamega, Bungoma Trans Mara, Elgeyo Marakwet, Taita Taveta, Baringo and Machakos.

Figure 4.1: Poverty headcount and number of poor people, 2005-2013



Source: KIPPRA predicting poverty model
NB: * Poverty estimates using KIHBS 2005/6. Using the predicting model we also predict for 2005/6

Figure 4.2: Urban-rural poverty indices by county, 2013



Source: Projections using KIPPRA Poverty Predicting Model

Similarly, it would cost Kajiado, Nairobi, Kirinyaga, Kiambu, Meru, Murang'a, Lamu and Mombasa the least amount of resources to eliminate poverty in the region. In terms of severity of poverty, the poor individuals living in Turkana make the highest contribution to the poverty gap. This is followed by Mandera, Marsabit and Samburu. This means that there are wide disparities/inequalities among the poor. More importantly, poverty has an institutional dimension to it.

4.3 Poverty Reduction Efforts

Over the years, poverty reduction has been a priority of the Government of Kenya. This commitment is articulated in key development plans, including Vision 2030. The promulgation of the Constitution of Kenya in 2010 is another indicator of the effort to fight poverty. These policy documents underscore the importance of promoting equity and reducing poverty and inequality at all levels. International commitments include ascension to various conventions, and to the Millennium Development Goals (MDGs) whose goal number one is to reduce extreme poverty and hunger by half by the year 2015.

Effective poverty reduction processes should help people to improve the poor's capabilities and functioning in such a manner that they can take care of their affairs and needs. A pattern of inclusive growth is essential to poverty reduction in Kenya. The design and implementation of policies and institutions conducive to inclusive growth require a better understanding of the relationships linking growth, inequality and poverty (Go *et al.*, 2007). It is of utmost importance to ensure that the gains in economic growth also create jobs and help rescue millions of people from poverty. Such outcomes are predicated on the adoption and implementation of pro-poor policies and correct strategies for economic development. For instance, redistribution of gains from growth towards the poor will not only require higher levels of growth to lift people out of poverty, but also development policies that address the problem of acute and pervasive income/consumption inequality.

To this end, the government embarked on several programmes to aid in addressing both long-term and short-term poverty. The main objective of such programmes is to increase the incomes of the poor to the extent that they can meet their consumption needs now and also invest in the health and education of their children. These include cash transfer programmes, which target orphans and vulnerable children, people living with HIV/AIDS and the elderly; provision of free and compulsory basic education; school feeding programmes; provision of free maternal care; and provision of free health care to children below five years. Credit provision to the youth and women is intended to directly create jobs for the youth and women.

Chapter 5

LABOUR MARKET AND EMPLOYMENT

5.1 Overall Performance

Kenya's labour allocation comprises public and private formal sectors, the informal economy, the self-employed, and unpaid family workers. A majority of the workers are employed in the informal economy. The share of informal economy employment was 82.5 per cent in 2012, up from 80.3 per cent in 2008. The formal (wage) sector (both public and private) employment stands at about 16.9 per cent, having reduced from 19.0 per cent in 2008 (Table 5.1). However, the growth rates in recorded informal economy employment have been relatively higher than in formal sector employment.

Table 5.1: Labour force and total recorded employment in modern establishments, 2008-2013

Indicator	2008	2009	2010	2011	2012	2013
Labour force (million)	15.9	16.4	16.9	17.4	17.6	17.8
Formal private sector employment ('000)	1,309.0	1,347.0	1,396.0	1,441.0	1,493.6	1,577.3
Formal public sector employment ('000)	597.0	612.0	620.0	643.0	662.1	688.5
Total formal employment ('000)	1,906.0	1,959.0	2,016.0	2,084.0	2,155.8	2,265.7
Self-employed and unpaid family workers ('000)	67.4	67.5	69.8	73.8	76.9	83.8
Informal sector ('000)	8,039.5	8,676.6	9,371.1	9,958.3	10,549.4	11,175.3
Total	10,012.5	10,703.1	11,457.1	12,116.2	12,782.0	13,524.8
Private as % of formal sector	68.7	68.8	69.2	69.1	69.3	69.6
Public as % of formal sector	31.3	31.2	30.8	30.9	30.7	30.4
Formal sector as % of total employment	19.0	18.3	17.6	17.2	16.9	16.8
% Self employed	0.7	0.6	0.6	0.6	0.6	0.6
% Informal sector	80.3	81.1	81.8	82.2	82.5	82.6

Source: Kenya National Bureau of Statistics - KNBS (Various)

It is estimated that about 11.2 million persons were engaged in the informal economy in 2013, up from 8 million in 2008.

In the formal segment of the market, the private sector employs more workers than the public sector, and the share of formal public wage employment declined from 31.3 per cent in 2008 to 30.4 per cent in 2013. Private sector wage employment constituted 69.6 per cent of the recorded employment, having declined from 68.7 per cent in 2008. During the period 2008-2013, the proportion of informal sector employment to total employment in the economy grew from 80.3 per cent in 2008 to 82.6 per cent in 2013. Predictably, formal sector employment shrunk from 19.0 per cent of total employment in 2008 to 16.8 per cent in 2013. There was a marked increase in the employment of workers in the informal sector. Another feature characterizing employment creation is the low formation of quality jobs relative to the growth in the labour force, leading to unemployment and under-employment, and high growth in informal sector employment compared to formal sector employment.

According to data presented in Table 5.2, a large proportion of the wage employment in the public sector comprises of teaching staff (40%), followed by the central government's employees (34%). However, the situation is likely to change slightly as counties employ more workers under the devolution process.

5.2 Public Sector Wage Bill

Despite the fact that the formal public sector accounts for 30.4 per cent of wage employment, the public sector wage bill as a percentage of GDP, which is an indicator of the public service personnel cost share of the total economy, was 13.3 per cent in 2012 and 11.4 per cent in 2008/09. The public wage bill almost doubled from Ksh 241 billion in 2008/09 to Ksh 458 billion in 2012/13 (Table 5.3). This is in excess of 40 per cent of total revenue and grants. Although Kenya's economy has experienced continued recovery from the economic downturn encountered in 2008 when the country recorded a low GDP growth rate of 1.5 per cent, down from 7.0 per cent in 2007, the wage bill is expanding at a higher rate, which is way above the desired international standard of not more than 38 per cent recommended for countries in Sub-Saharan Africa. GDP growth picked up from 2009, reaching 4.4 per cent in 2011, with growth projected at over 5.6 per cent for 2012.

The central government's wage bill as a percentage of total recurrent revenue and grants was 48.2 per cent in 2008 and 47.0 per cent in 2012. The changes in the public wage bill are, however, expected to be on an upward trend owing to the various

Table 5.2: Wage employment in the public sector, 2008-2012

	2008	2009	2010	2011	2012	2013
Central government	196.8	200.6	212	219.9	222.6	232.2
Teachers Service Commission	236.8	245.4	243	258.7	267.6	277.7
Parastatal bodies	82.4	84.4	84.8	86	90.6	92.6
Majority control by the public sector	39.7	40.6	40.8	41.4	43.6	44.5
Local/county government	40.9	41.0	39.2	37.3	37.7	41.6
Total	596.6	612	619.8	643.3	662.1	688.5
% TSC	40.0	40.0	39.0	40.0	40.0	40.0
% Central government	33.0	33.0	34.0	34.0	34.0	34.0
% Local/county government	6.86	6.70	6.32	5.80	5.69	6.04

Source: Kenya National Bureau of Statistics - KNBS (Various)

Table 5.3: Central government revenue, expenditure and employee compensation as a % of GDP, 2008-2012

	2008	2009	2010	2011	2012
Total public wage bill *	240,500.0	279,232.0	314,484.0	360,188.0	457,547.0
GDP at market prices (Ksh million)	2,107,589.4	2,366,984.2	2,553,733.0	3,048,867.0	3,440,115.0
Total revenue and grants (Ksh million)	498,895.4	574,135.1	673,269.7	781,627.8	971,325.3
Total recurrent expenditure*	435,542	510,516	592,400	697,528	1,056,669
Total expenditure (Ksh million)	679,390.1	741,763.0	872,793.4	990,044.8	1,282,088.3
Total debt	759,331.3	918,778.7	1,082,652.2	1,322,598.3	1,517,729.7
Wage bill as % of GDP	11.4	11.8	12.3	11.8	13.3
Wage bill as % of revenue	48.2	48.6	46.7	46.1	47.1
Wage bill as % of total expenditure	35.4	37.6	36.0	36.4	35.7
Wage bill as % of Debt	31.7	30.4	29.0	27.2	30.1
Growth in wage bill (%)		16.1	12.6	14.5	27.0
GDP growth rate (%)	1.5	2.7	5.8	4.4	4.6

Source: KNBS (2013), Economic Survey; * Salaries and Remuneration Commission (SRC)

reforms in government, including implementation of the Constitution (2010) and the envisaged decentralization structures. In 2009, the wage bill as a percentage of national revenue in comparator countries was 41.1 per cent for Ghana, 38.7 per cent for Liberia and 26.9 per cent for Senegal (IMF, 2010).

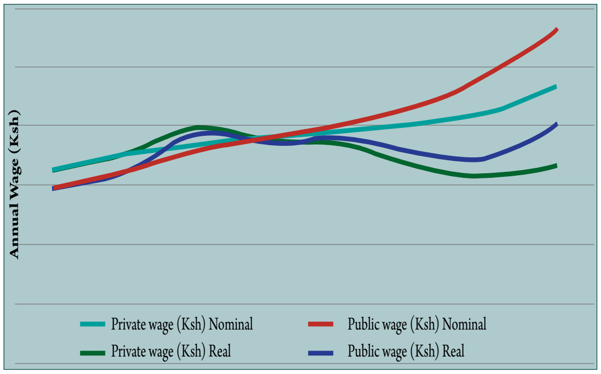
The implementation of the 2010 Constitution ushered in a devolved system of government. This implies that substantial resources, both recurrent and development, will be required to finance the expanded government services, including the increasing wage bill. The high and rising public wages are likely to become unsustainable and will make the national and county governments unable to effectively deliver on the country's medium and long term development plans.

5.2.1 Trends in average public and private sector wages (current and real wages)

Table 5.4 and Figure 5.1 show the trends in average public and private sector wages. Until 2009, the average annual earnings were higher in the private sector than in the public sector. Since then, the trend has reversed in favour of the public sector, and the gap is even getting wider, with the 2012 average nominal wage per public sector employee being Ksh 460,665 compared to the private sector's average of Ksh 420,578. The real public sector wage was estimated at Ksh 346,208 in 2012, while the private sector average real wage was Ksh 316,082 in the same period.

Further, annual real earnings improved from -10.3 per cent to 7.7 per cent between 2008 and 2013 (Table 5.4).

Figure 5.1: Annual average wage earnings per employee (nominal and real, Ksh)



Source: KNBS (Various), Economic Survey

Table 5.4: Annual growth in wage employment, prices and earnings, 2006-2012

Indicator	2008	2009	2010	2011	2012	2013
Private wage (Ksh) nominal	369,439	384,429	391,769	404,521	420,570	467,690
Public wage (Ksh) nominal	360,414	380,454	402,329	432,522	485,016	565,755
Private wage (Ksh) real	397,717	376,707	370,958	334,564	316,076	335,042
Public wage (Ksh) real	388,001	372,812	380,957	357,722	346,509	405,295
Changes in nominal wages						
Private (%)	4.4	4.1	1.9	3.3	4.0	11.2
Public (%)	11.4	5.6	5.7	7.5	12.1	16.6
Changes in real wages						
Wage employment (%)	1.8	2.8	2.9	3.4	3.4	5.1
Average earnings at current prices (%)	5.7	4.5	3.1	4.6	6.6	13
Consumer prices (inflation rate %)	17.8	9.9	3.5	14.5	10	4.9
Real average earnings (%)	-10.3	-4.9	-0.4	-8.6	-3.1	7.7

Source: KNBS (Various), Economic Survey

5.3 Youth Employment

Kenya, like most developing countries, has a large population of young people. The youth aged between 15 and 34 years represent about 35 per cent of the total population. In addition, the labour force growth is likely to be high in the short and medium term, given that the country has a relatively large total fertility rate of 4.6 per cent (in 2006/07) and a relatively large proportion of the population (about 45%) aged less than 15 years.

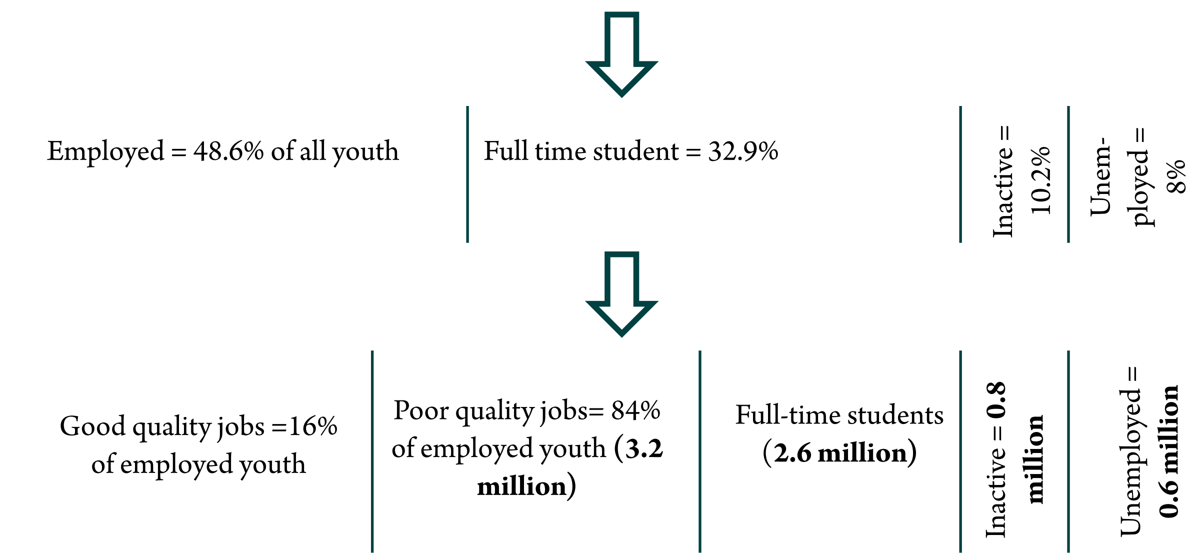
Out of the total youth population (aged 15-24) of 7.9 million persons, about 48.6 per cent are employed and nearly 33.0 per cent are full-time students (Figure 5.2). Even so, it is important to gauge the quality of jobs held by the employed youth. About 84 per cent of the employed youth and 80 per cent of those aged 15 to 34 years work in informal sector activities. These include workers in the informal sector (*jua kali*), self-employed (informal), small-scale agriculture, self small-scale agriculture, pastoralist employed, self-pastoralist and private household.

In developing countries, high poverty rates combined with lack of social protection instruments such as unemployment transfers usually compel many job seekers to seek employment in the informal economy as a survival strategy. This makes official unemployment appear low, but in reality the employment of the majority only hides disguised unemployment and under-employment and the phenomenon of "working but poor." The labour market is thus characterized by poor-quality jobs (associated with the informal economy) and high levels of underemployment associated with largely seasonal activities in the expansive agricultural sector. In Kenya's case, besides tackling open unemployment, policy interventions should also focus on how to maximize the benefits from the low productivity informal economy jobs. There is also need to address inactivity as a separate challenge affecting the youth.

5.3.1 Youth employment interventions

To identify youth employment interventions in the short to medium term, it is important to identify constraints that may limit the youths' access to jobs. From a synthesis of global studies on youth employment (Cunningham *et al.*, 2010), some of the proposed general categories of constraints that

Figure 5.2: Diagrammatic depiction of youth (15-24) employment challenge, 2009



Source: Authors' computations from KNBS (2009), 2009 Kenya Population and Housing Census data

limit young people's access to the labour market include:

(i) Job-relevant skills constraints, including insufficient basic skills, technical skills mismatch, behavioural skills mismatch, or insufficient entrepreneurial skills, which are all pertinent for Kenya. As an example, about 10 per cent of all youth never attended school.

(ii) Lack of labour demand, both at the macro-level through slow job growth and at the micro-level through employer discrimination.

(iii) Job search and matching constraints characterized by lack of information about job openings and lack of a database on skills availability in the country.

(iv) Firm start-up constraints, including lack of access to financial capital or business networks.

(v) Social constraints on the supply side, such as social norms that limit skills development or labour market entry.

The proposed interventions that correspond to the constraints are summarized in Table 5.5, adapted from Cunningham *et al.* (2010). The selected interventions are evidence-based programme interventions that correspond to the constraints considered above.

5.3.2 Job-relevant skills constraints

Training interventions can yield promising results to overcome a range of skills deficit. Potential evidence-based interventions include information about the value of education and information on returns to technical specialties. Providing information on returns to technical specialties can help individuals improve the choice of the area of specialization for better future returns. Interventions with mixed evidence include second-chance programmes, which include literacy and numeracy programmes, and accelerated learning programmes. They are designed to impart basic skills to youth who did not acquire them by the time they left school. Others include on-job skills training, and teaching of behavioural skills in school systems or training programmes.

Table 5.5: Labour constraints and evidence-based interventions

Constraints		Possible active labour market policy interventions Evidence-based interventions
Job relevant skills constraints	Insufficient basic skills	Information about the value of education
	Technical skills mismatch	Training and comprehensive programmes Information on returns to technical specialties
Lack of labour demand	Slow job growth economy	Wage and training subsidies
	Employer discrimination	Affirmative action programmes
Job search constraints	Job matching	Employment services
Firm-start up constraints	Lack of access to financial or social capital	Comprehensive entrepreneurship programs
Social constraints on the supply side	Excluded group constraints (gender, age, ethnicity)	Target excluded groups participation in programmes Non-traditional skills training Safe training/employment spaces for specific groups

Source: Adapted from Cunningham *et al.* (2010)

5.3.3 Lack of labour demand

There are many job seekers who are willing to provide labour but no suitable jobs can be found. In Kenya, this is mainly characterized by a large increase in the working-age population, and stifled job creation. There are a number of tested short-run programmes that the government can implement to stem unemployment in the short run. These include public service programmes such as the national youth service. Public service programmes impart skills and increase employability. The programmes are known to increase more positive attitudes towards employment and increase further education by participants. Public works programmes–including programmes such as the *Kazi Kwa Vijana (KKV)* are not known to increase employment beyond the life of the programmes. They are also not cost effective. However, the programmes can still be used to alleviate pervasive unemployment in the short run.

5.3.4 Firm start-up constraints

These can be due to a number of constraints, including entrepreneurial skills constraints or limitations to financial capital. Identifying which constraints affect young people's ability to start a business is important towards designing better interventions. Most successful interventions include comprehensive entrepreneurship programmes. The successful programmes (such as Technoserve in Central America) are thought to owe their success to access to credit, combined with intense business mentoring. New entrepreneurs may also face financial constraints that can be addressed partly through microfinance.

5.4 Further Employment Interventions and Perspectives

Given the large size of the informal workforce in Kenya and its likely persistence in the medium and long term, it is perhaps time for interventions to accommodate a more heterodox approach.

Interventions that address unemployment must include appropriate regulations, laws and policies to correct weaknesses in existing regulations, laws and policies on the informal economy (Chen *et al*., 2002).

There are some approaches considered appropriate to the informal sector. For macro policies, there is need to balance incentives to formal and informal businesses without harming either. Secondly, urban policies need careful design and implementation. Examples are land use policy or zoning policy, which is affected by high demand for the most lucrative places (such as bus termini). Urban areas should also be carefully planned or altered to include provision of basic infrastructure facilities for informal businesses. Finally, in some cases, implementation of existing regulations can go a long way to improve outcomes in the informal economy. A source of useful lessons can be gleaned from the implementation of the *Michuki rules* that seemed counterproductive in the short run but which resulted in some formalization of some public transport services.

Chapter 6

Health

6.1 Introduction

For the last one year, there have been a lot of changes in the Kenyan economy emanating from a new constitutional dispensation and a new political regime. The 2013 national elections actualized the county governments in accordance with the Constitution of Kenya 2010, which not only introduced new systems but has also defined new ways of delivering services. For instance, the Ministry of Health has been left with the main role of designing and defining healthcare policy, with provision of primary healthcare mainly delegated to the county governments. However, the goal of healthcare provision remains the improvement of health outcomes in the country. To achieve this goal, the government, the private sector, and households continued to invest in healthcare. As

Figure 6.1: Health inputs, outputs, and outcomes

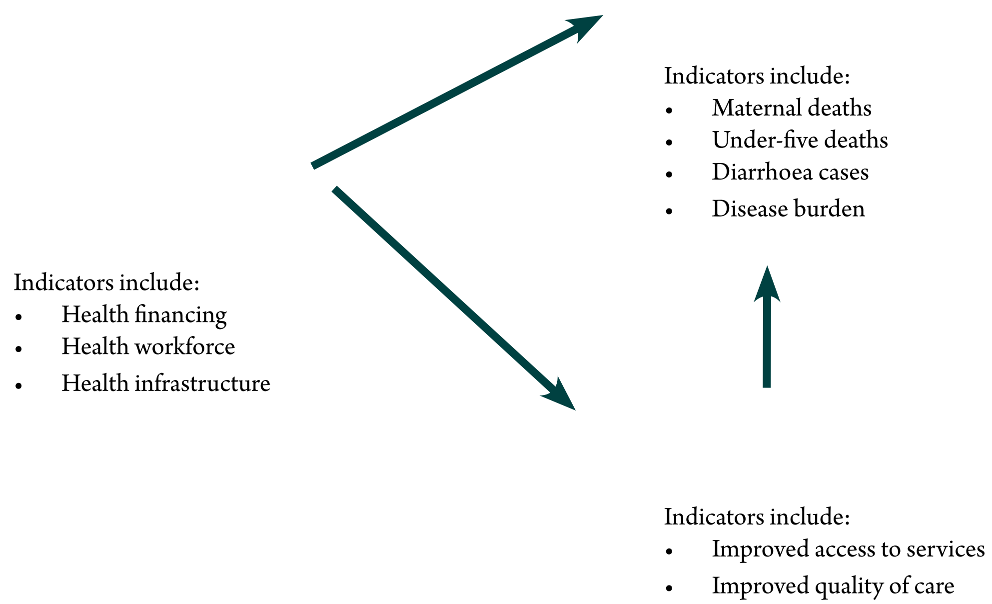


Figure 6.1 shows health investments are the inputs into the health system. Health inputs are among the determinant factors in health production, health stock and health outcome or health equation. Thus, a country invests in health by financing, human capital, and infrastructure among other things in order to improve health outputs and outcomes, which are in most cases measured by mortality, morbidity and life expectancy.

A number of policies intended to improve service delivery and health outcomes have been pronounced since the new government took office in 2013. The free delivery policy was launched in June 2013, which led to the waiver of fees charged for delivery in all public health services. Similarly, the government also abolished the 10/20 policy of charging user fees in government dispensaries and health centres. Healthcare services in these facilities are now free. Between July and December 2013, 2,481 dispensaries and 832 health centres were covered under this programme and received Ksh 389.5 million as compensation for the user fees waived. As a result, there was a 50 per cent increase in the number of visits to primary healthcare facilities from 12 million to 18 million between June and December 2013, compared to the same period in 2012. These two policies – free delivery and free primary healthcare – symbolize the government's commitment to Universal Health Coverage, a concept that is gaining momentum both at the global and national platforms as the MDGs framework nears its end.

Recognizing the dire shortage of health workers in the country, the Ministry of Health allocated Ksh 3.1 billion for the recruitment of 30 community nurses and Ksh 522 million for hiring of 10 community health workers in each constituency. A further Ksh 1.2 billion was also allocated for provision of housing units to health workers. The government, in conjunction with the National Housing Corporation, has taken the initiative of improving health facilities in slums in Nairobi, Mombasa and Kisumu. This initiative was allocated Ksh 200 million in the 2010/2014 financial period. In addition, there has been a shift from manual information to digital information systems in public health facilities so as to enhance the efficiency of service delivery.

6.2 Health Sector Inputs, Outputs, and Outcomes

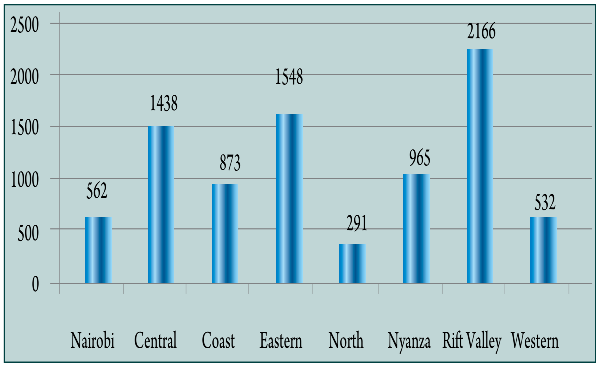
6.2.1 Health inputs

There is agreement in literature (Grossman, 1972; Mwabu, 2007) that health is produced. In the production of health, health inputs are invested. Among these inputs is medical care, which is provided by health professionals found in health facilities. These facilities become effective health inputs if there are medical drugs and supplies. The availability of medical supplies is guaranteed through health financing.

Health infrastructure

The availability of health facilities in Kenya is very important, not only because their availability implies physical access to healthcare, but also because public resources are shared according to facilities. The distribution of health facilities in the country shows regional disparities, mainly because regions are not uniform in size and population distribution. For instance, whereas the former Rift Valley Province has the highest (2,166) number of health facilities, its population is also high, approximated to be 11 million in 2013 (KIPPRA, 2013). The former North Eastern Province with a population of about 2.5 million has the lowest (291) number of facilities as shown in Figure 6.2.

Figure 6.2: Number of government health facilities in Kenya, 2012



Data source: KNBS (2013)

However, behind the number of facilities is the size of the population. For instance, when the number of facilities is shared among the population it serves, it is found that there are 18 facilities in the former Central Province region serving a 100,000 population, which is higher than Rift Valley with 14 facilities per 100,000. This means that one facility is serving more people in Rift Valley than in Central, a fact that implies congestion.

The physical presence of a health facility, however, does not automatically imply that it is able to provide adequate and quality care. Other factors come into play: for instance, does the facility have electricity, access to water and a toilet? A study by KIPPRA/Ministry of Health (2013) shows that only about 57 per cent of the health facilities surveyed had the basic infrastructure (water, electricity and toilet). Availability of basic infrastructure also varies with ownership and location of facilities. About 49.2 per cent and 85.6 per cent of public and private facilities, respectively, and 54.8 per cent and 68.7 per cent of rural and urban facilities, respectively, met the basic infrastructure requirement. This implies that even with the availability of health facilities in a region, half of them lack basic facilities.

Human resource for health

Human resource for health (HRH) is one of the most important components of health systems. In the last one year, the number of health professionals per a 100,000 population increased only marginally. There are many challenges facing the human resources for health, including brain drain of trained health workers and inability to attract health workers to underserved regions, beside the administrative issue of who between the county and national government should manage HRH.

Table 6.1 shows that there was a significant increase in the ratio of registered medical personnel per 100,000 populations from 258 in 2012 to 269 in 2013. By cadre, the ratio of doctors, pharmaceutical

Table 6.1: Number of registered health professionals per 100,000 population in Kenya by cadre

Type of personnel	2012	2013
Doctors	20	21
Dentists	2	3
Pharmacists	6	5
Pharmaceutical Technologists	13	15
BSc. Nursing	4	4
Registered Nurses	86	91
Enrolled Nurses	65	64
Clinical Officers	28	32
Public Health Officers	20	21
Public Health Technicians	15	14
Total	258	269

Source: KNBS (2014)

technologists, registered nurses, clinical officers and public health officers per 100,000 population increased during the period under review, while the ratio of pharmacists, enrolled nurses and public health technicians per 100,000 population declined. For every doctor, there are 4.3 registered nurses and 1.5 clinical officers.

Because qualified health professionals are becoming limited, there is need to think of quicker and efficient alternatives. According to AMREF,[1] there is overwhelming evidence that clinical officers are able to undertake more than 60-80 per cent of doctors' tasks. Whereas it takes 5-6 years to train a doctor in Kenya, it takes half the time to train clinical officers at less than half the cost and even lesser time to train nurses. Research also shows that clinical officers in most cases undertake doctors' tasks effectively. For instance, research in Malawi (Chilopora *et al.*, 2007) shows that maternal and neonatal lives are saved by clinical officers who perform emergency obstetric operations. It has been argued that clinical officers and doctors have similar health outcomes to patients and hence substituting them would be cost-effective. Nevertheless, it is important to engage the clinical officers and nurses in continuous training so as to enable them carry out more complicated functions effectively.

Health products

Health products include both pharmaceuticals and non-pharmaceuticals, for instance gloves, needles and syringes, among others. The availability of health products in the country largely depends on how much money is allocated to them viz-a-viz the requirements of health facilities (Table 6.2).

There was a decline in the annual requirements of facilities for both pharmaceutical and non-pharmaceutical products. Similarly, the amount of money received for health products from various sources declined significantly during the two-year period, with the exception of non-pharmaceuticals purchased from MEDS' funds, which increased by 400 per cent between 2012 and 2013. Of the four sources of funds for health products analyzed, allocations to KEMSA are the highest followed by user fees, implying that user fees play an important role in making health products available in health facilities. Overall, the funds received by health facilities from the various sources were not adequate to meet their requirements, leading to significant gaps for this important health input. For the pharmaceuticals, this gap in funds increased by 594 per cent between 2012 and 2013, whereas for the

Table 6.2: Expenditure on health products (Ksh million), 2012-2013

	Pharmaceuticals			Non-pharmaceuticals		
	2012	2013	% change	2012	2013	% change
Requirements from annual quantification	4,621.8	3,263.9	-29	2,118.4	1,086.3	-49
Amounts received in past 12 months						
Kenya Medical Supplies Agency (KEMSA)	3,201.3	2,437.7	-24	620.2	246.3	-60
Mission for Essential Drugs and Supplies (MEDS)	197.6	36.3	-82	0.8	4.0	400
Others (donations, etc)	337.8	14.9	-96	136.6	0.06	-99
Amounts procured using user fees in past 12 months	782.9	65.6	-92	725.4	69.6	-90
Total amount received for health products	4,519.5	2,554.5	-43	1,483.0	319.7	-78
Gap/surplus (requirements less total amount received)	102.3	709.4	594	635.4	766.6	21

Source: Ministry of Health (2014), Health Information Management System [2] non-pharmaceuticals the increase in the gap was 21 per cent during the same period.

The deficit in funds for health products partly explains why they are largely unavailable in most health facilities. The PETS+ report (KIPPRA/ Ministry of Health, 2013) shows that only 50.8 per cent of public and not-for-profit facilities in the country have all essential medicines. However, availability reduces to 49.4 per cent in public facilities compared to 56.2 per cent in private not-for-profit facilities. In addition, availability of essential medicines follows a hierarchical structure, with 66.9 per cent of hospitals and only 48.8 per cent of dispensaries stocking essential medicines.

Health financing

Health financing is controversial because resources are scarce and therefore allocations to the health sector are often inadequate. The scarcity of resources has made governments to allocate resources to only the most urgent expenditure items, but which are not necessarily important. For instance, whereas curative care is urgent (because people are already sick), preventive and promotive care would be the most important in health because it would save the health system a lot of resources as preventive ailments would be prevented and managed, and not end up as costly curative cases.

In the financial year 2013/2014, the government allocated the Ministry of Health about Ksh 30 billion (Table 6.3). This was about half of what the Ministry had been allocated in previous years. The reduction was necessitated by the transfer of many functions from the national to county governments. However, of interest would be to examine how much of the allocation was directly spent on medical care (such as in health professionals, medical drugs and supplies), the outcome of which would be reflected in health indicators such as mortality and life expectancy.

Table 6.3: Ministry of Health total recurrent and development expenditure (Ksh million), 2011/12-2013/14

	2011/12	2012/13	2013/14*
Gross recurrent	40,016	55,980	23,000
Gross development	20,275	22,710	7,006
Total	60,291	78,690	30,006
Analysis of expenditure			
Compensation to employees	27,310	39,023	1,755
Use of goods and services	17,608	19,961	927
Grants, transfers and subsidies	12,432	15,520	17,440
Acquisition of non-financial assets	2,867	4,089	2,064
Others	74	97	7,820
Total expenditure (Gross)	60,291	78,690	30,006

Source: Ministry of Health (2013) Health Sector Working Group Report. Medium Term Expenditure Framework (MTEF) for the Period 2014/15-2016/17; Government of Kenya (2014)[3]

*Estimates

An analysis of the expenditure shows that when the salaries of the health professionals were transferred to county governments, the compensation to employees handled by the national government reduced drastically from 49.6 per cent in 2012/2013 to 5.8 per cent in 2013/2014. This implies that the largest budget item for health at the national level is grants, transfers, and subsidies. With reallocation of the health budget to counties, expenditure on goods and services reduced from 25.4 per cent in 2012/2013 to 3.1 per cent in 2013/2014. Thus, to an extent, devolution of health services has transferred over 50 per cent of the national government burden to counties.

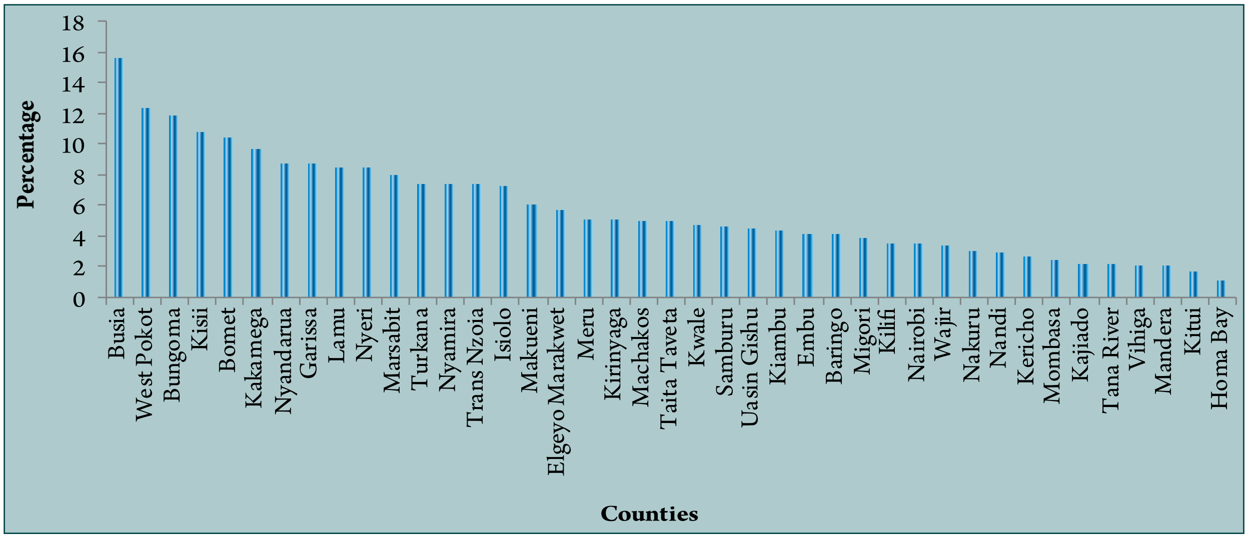
Further analysis of the health expenditure reveals that for every Ksh 100 allocated to the Ministry of Health, Ksh 45 goes to employees' compensation. This means that only 55 shillings is left for all the other functions of the Ministry, including procurement of drugs and medical supplies, operations and maintenance, infrastructure development, and promotive and preventive healthcare. This could explain why facilities sometimes have medical personnel who lack adequate resources to offer the required medical care. It could also explain why public facilities frequently run out of drugs and medical supplies. It also provides clues as to why public facilities continue to charge user fees to raise extra funds for purchase of drugs and medical supplies. The health expenditure and utilization surveys in Kenya (see for example Ministry of Health, 2009) have shown that people shun public facilities because of cost and lack of drugs, distance from their homes, and lack of/inadequate health personnel leading to long queues and waiting times. As a result, whereas medical care in public facilities could be free, one would be forced to buy drugs from private pharmacies because of their unavailability in the public facilities.

Figure 6.3[4] shows the county governments' health expenditures as a percentage of their total expenditures for the financial year ending June 2014.

Only 5 of the 41 counties included in Figure 6.3 have health expenditures that are 10 per cent or more of their total expenditures, with Busia leading at 15.6 per cent. On the other hand, 22 counties have health expenditures that are less than 5 per cent of their total expenditures, with Homa Bay County having allocated only 1.06 per cent of its total expenditures to health. Whereas the amount allocated to health has a direct impact on health outcomes, it remains to be seen how counties want to reduce health inequalities and disparities, because the impact of health expenditure on health outcomes would largely depend on the proportion allocated.

The low (and declining) investment of the government in the health sector implies that the cost burden of healthcare in the country is increasingly borne by the households. In order to protect households from catastrophic healthcare expenditures, the government instituted the National Hospital Insurance Fund (NHIF) as a way of promoting universal health coverage. Initially,

Figure 6.3: County health expenditures as a % of total expenditures



Data source: Commission on Revenue Allocation (2013). County budgets: 2013-2014 the Fund was meant to cover only workers in the formal sector but coverage has since been expanded to those in the informal sector and the population at large.

6.2.2 Health sector outputs

Outputs of the health system can be measured through health services such as availability of drugs, admissions, and episodes of care from one or more entities. Health outputs measure the contribution of health inputs to better health. They also indicate the extent of the quality of healthcare.

Incidence of diseases causing morbidity

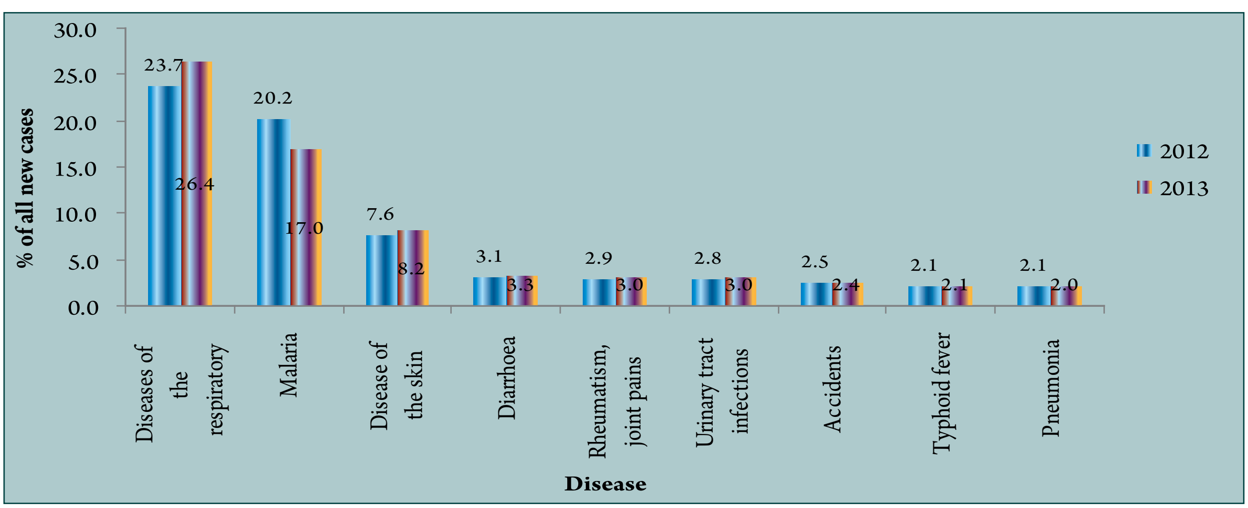
An increase in disease incidence would imply inability to control its spread. For instance, if the quality of insecticide-treated nets (ITNs) or anti-malarial drugs is compromised, then there will be spread of malaria as well as more malaria-resistant cases. Figure 6.4 shows the leading causes of morbidity among the population over the age of 5 for the years 2012 and 2013. In total, these nine diseases contributed to 67 per cent and 67.3 per cent of all new cases of diseases in 2012 and 2013, respectively.

Diseases of the respiratory system were the leading cause of morbidity among the over-5 population in 2012 and 2013, followed closely by malaria (both clinical and confirmed cases) and diseases of the skin. Whereas there was a decline in the number of new cases of malaria, accidents and pneumonia, the opposite was true for the diseases of the respiratory system, diseases of the skin, diarrhoea, rheumatism and urinary tract infections. The increase in the diseases prevalence implies that healthcare services were not adequate to halt their spread.

Figure 6.5 shows the leading causes of morbidity among the under-5 population. In total, these nine diseases contributed to 85.3 per cent and 84.6 per cent of all new cases in 2012 and 2013, respectively, meaning that for the under-5 population, fewer diseases have a bigger impact on their morbidity compared to the population above the age of 5. Between 2012 and 2013, there was an increase in the incidence of respiratory diseases, skin diseases, pneumonia, and ear infections while incidences of malaria declined significantly among the under-5 population.

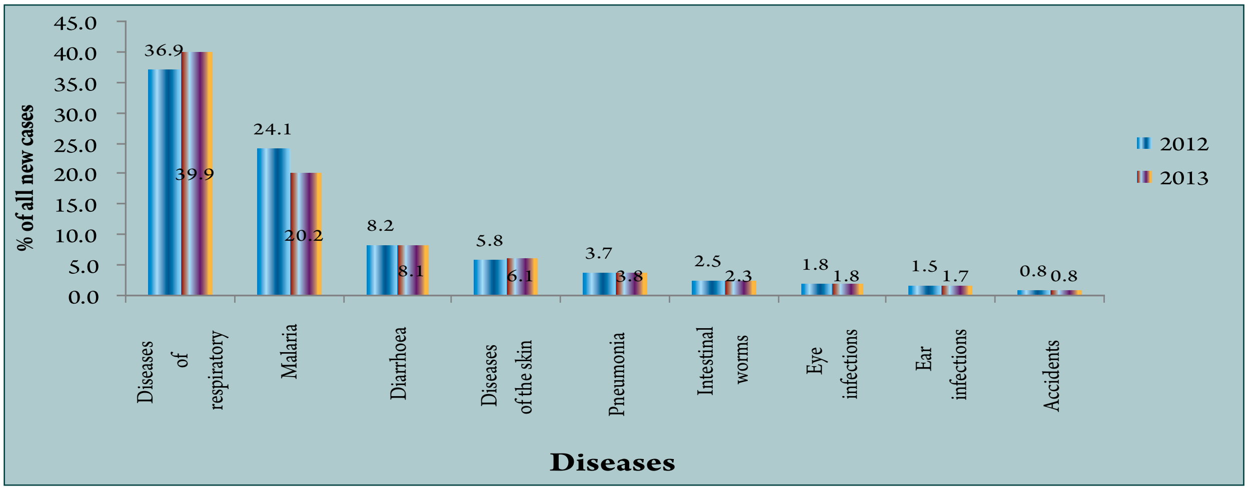
Comparing figures 6.4 and 6.5 shows that the burden of the diseases causing morbidity differs with the population group. Whereas diseases of the

Figure 6.4: Incidence of diseases causing morbidity in Kenya (for over-5 population), 2012-2013



Data Source: Ministry of Health (2014), Health Information Management System

Figure 6.5: Incidence of diseases causing morbidity in Kenya (under-5 population), 2012-2013



Source: Ministry of Health (2014), Health Information Management System

respiratory system are the leading cause of morbidity for both the under-5 and overall population, the burden is greater among the under-5. The burden of malaria is also greater among the under-5 population, while the burden of skin diseases is greater among the over-5 population compared to the under-5 population. Diarrhoea is the fourth leading cause of morbidity among the over-5 population but third among the under-5 population. Thus, the scenario presented above is one where there was no significant decline in the prevalence of diseases causing morbidity in under-5 children. This is despite the continued policy by the government of free medical care for under-5 in public facilities. However, the adherence of the policy has been wanting as reported in KIPPRA/Ministry of Health (2013). The report notes that about 65 per cent of dispensaries and health centres in Kenya charged consultation fees for under-5 children. This would partly explain why the children may not access adequate medical care and hence the continued high prevalence of preventable diseases.

Incidence of malaria

Malaria is one of the leading causes of morbidity and mortality in the country. As one way of analyzing the quality of care and hence the health sector outputs, it is expected that if proper diagnosis and treatment of malaria was undertaken, malaria cases should show a decline. Clinical malaria refers to cases where the symptoms diagnosed lead to malaria, while confirmed malaria refers to laboratory tested and confirmed cases. Whereas figures 6.4 and 6.5 show a general decline in all new cases of malaria, Table 6.4 shows that when dis-aggregated by type, new cases of clinical malaria declined significantly but new cases of confirmed malaria increased.

Table 6.4: Number of clinical and confirmed malaria cases, 2012-2013

	Clinical		Confirmed	
	2012	2013	2012	2013
January	221.4	139.0	75.5	68.2
February	218.6	147.4	67.7	89.7
March	174.1	106.1	60.8	75.8
April	149.0	102.7	51.5	82.7
May	180.1	120.8	62.2	107.7
June	199.7	143.6	67	128.3
July	209.3	142.6	71.6	123.5
August	167.8	112.1	59.7	81.6
September	130.5	19.8	50.1	17.1
October	170.2	-	59.5	-
November	169.1	-	59.4	-
December	96.1	-	40.8	-

Source: Ministry of Health (2014), Health Information Management System (2014)

- Data not available

Clinical cases of malaria in 2013 declined compared to the same period in 2012. However, confirmed malaria cases went up. This indicates several things. One, there is a likelihood of misdiagnosis of clinical malaria especially given that the number of clinical and confirmed cases differ significantly. KIPPRA/ Ministry of Health (2013) found out that about 30 per cent of clinicians could not diagnose malaria cases correctly, and the level of incorrect diagnosis increased to over 70 per cent if malaria presented itself with anaemia.

Secondly, whereas the decline in clinical malaria could imply improved healthcare quality, the increase in confirmed malaria cases shows poor healthcare, which may include lack of insecticide-treated nets (ITNs) and ineffectiveness in artemisinin-based combination therapy (ACT) treatment regimen. Thus, by examining malaria cases, one would conclude that health outputs have declined in 2013, thereby implying low quality of healthcare.

Incidence of diarrhoea

The incidence of diarrhoea may, to an extent, indicate the quality of hygiene in the country. It is expected that one of the outputs from investments in promotive and preventive healthcare is the level of hygiene, with an impact on diarrhoea cases. Diarrhoea is caused by pathogens that are transmitted through contaminated food, water and other unclean surfaces. The transmission from one person to another is possible if it is not controlled. For instance, public health officers would be required to create awareness to the public on proper hygiene, including waste disposal, regular cleaning of hands and importance of clean water. If no investments are geared towards promotive care, then high diarrhoea cases are likely to be observed.

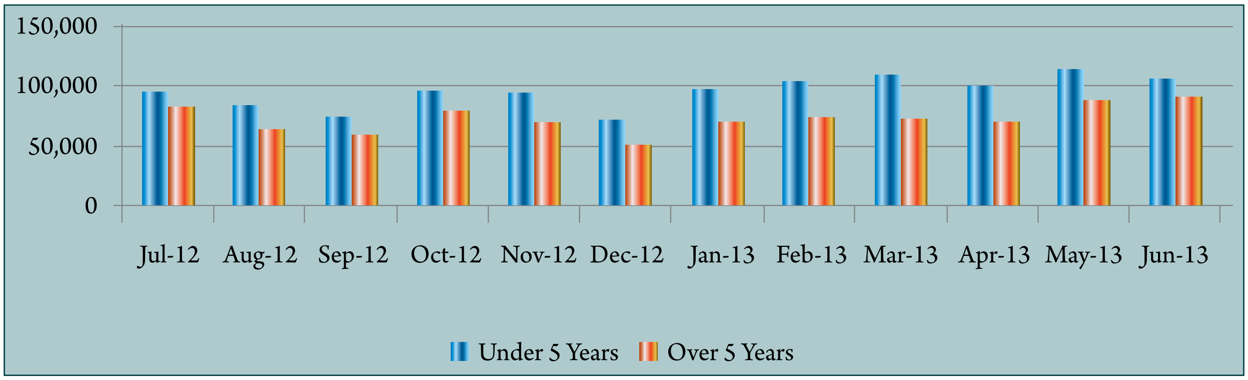
For instance, Figure 6.6 shows that the six-month period to June 2013 had high incidences of diarrhoea compared to the six months of 2012. This could denote several things: one, the level of preventive and promotive care went down; two, disease transmission was not successfully controlled; and three, the quality of treatment for initial cases was not 100 per cent successful, hence the spread and increased cases of diarrhoea.

Figure 6.6 also shows that at any given point in time, the incidence of diarrhoea is higher in children below the age of 5 than in the population over the age of 5 years. Diarrhoea is among the three leading causes of morbidity among under-5 children despite the fact that it is easy to prevent and manage through zinc supplements and oral rehydration therapy, the WHO-recommended treatments for diarrhoea. The uptake of these two treatments for diarrhoea is, however, low in Kenya. Data from the 2008/09 KDHS (KNBS and ICFMacro, 2010) shows that only 4 of the 771 under-5 children who had suffered from diarrhoea in the 2 weeks preceding the survey were administered with zinc. In light of the severity of diarrhoea, particularly among the under-5, the Ministry of Health developed a scale-up strategy for the use and access of zinc and oral rehydration therapy (ORT) in late 2013. This shows that child health has been inadequate in most health facilities for a long time.

Availability of obstetric care

Obstetric care has a direct link to maternal health. This is because it involves the management of pregnancy, delivery and post-natal care. Obstetric care as a measure of health output shows the preparedness of health facilities to offer quality maternal healthcare. Availability of obstetric care as a health output indicates whether there are investments to prevent the major causes of maternal mortality that include post-partum haemorrhage, sepsis, obstructed labour and hypertensive disorders. Recent statistics on maternal mortality are worrying as they stand at over 400 per 100,000 live births in Kenya (KNBS and ICFMacro, 2010). A report by the National Coordinating Agency for Population and Development (NCAPD) shows that over 50 per cent of the causes of maternal mortality

Figure 6.6: Incidence of diarrhoea among under-5 and over-5 populations, 2012-2013



Source: Ministry of Health (2013) Health Information Management System

in Kenya are preventable because they arise from post-partum haemorrhage (excessive bleeding, 25%), sepsis (bacterial infection, 15%), and unsafe abortion (13%). These can be prevented if adequate obstetric care is offered in our health facilities.

Table 6.5 shows that, on average, about 8 out of every 10 public and faith-based health facilities offer basic obstetric care (BEmOC). This means that 80 per cent of the facilities in the country are able to provide services such as parenteral antibiotics, removal of placenta, sedatives and oxytocin drugs, among other basic things. However, only about 2 out of every 10 government facilities are offering comprehensive emergency obstetric care (CEmOC), which includes Caesarean section (C-section) and blood transfusion. The situation is the same in not-for-profit facilities because only 22 out of 100 FBO facilities offer comprehensive care. This implies that only very few facilities are offering surgery, anaesthesia and blood transfusion, which are necessary for emergency obstetric care. Thus, in terms of the quality of maternal care, most facilities have only limited capacity despite the fact that most of the level 4 facilities are expected to have the capacity to offer CEmOC.

Table 6.5: Availability of obstetric care by facility ownership, 2013

Facility owner	Percentage of facilities with basic emergency obstetric care (BEmOC)	Percentage of facilities with comprehensive emergency obstetric care (CEmOC)
Government (public)	83.54	17.72
Private not-for-profit (NGO)	62.50	12.50
Private not-for-profit (FBO)	77.12	22.03

Source: (KIPPRA, 2013)

While examining the availability of obstetric care, it is also important to examine the quality of such care as it significantly contributes to the maternal health outcomes. Conditions such as obstetric fistula[5] are as a result of poor-quality care provided to mothers during delivery. The quality of BEmOC and CEmOC offered in Kenya's health facilities – particularly public facilities – is wanting. A BEmOC facility is required to be stocked with all the necessary medicines and medical supplies required to prevent or manage pregnancy and delivery-related complications, but this is not the case in most facilities in the country. KIPPRA (2013) reveals that only 58.4 per cent of public facilities and 62.1 per cent of private not-for-profit facilities had all the medicines needed by mothers during pregnancy and delivery. This explains the current status of maternal mortality, where at over 400/100,000 live births, it is far from the MDG target of 147/100,000.

Availability of obstetric care by facility type

Looking at the facility types, all sub-district and district hospitals offer BEmOC. But the problem is their location from the communities they are supposed to serve. About 3 out of every 10 of the district hospitals do not offer CEmOC. The number is even low for the lower-level facilities such as dispensaries and health centres. For instance, whereas only about a half of the dispensaries offer BEmOC, only about 2 per cent offer CEmOC (Table 6.6). Yet, these are the facilities closest to the communities. Physical access to health facilities can only be improved by establishing them near the communities.

Table 6.6: Availability of obstetric care by facility type, 2013

Facility type	Percentage of facilities with BEmOC	Percentage of facilities with CEmOC
Dispensary	52.48	1.98
Health Centre	93.57	15.00
Sub-District Hospital	100.00	23.08
District Hospital	100.00	71.43
Nursing Home	85.71	71.43
Other Hospital	94.44	83.33

Source: (KIPPRA/Ministry of Health, 2013)

It is also instructive to note that more than three-quarters of nursing homes and other types of hospitals offer both BEmOC and CEmOC. These are mainly the facilities owned by private and Faith-Based Organizations.

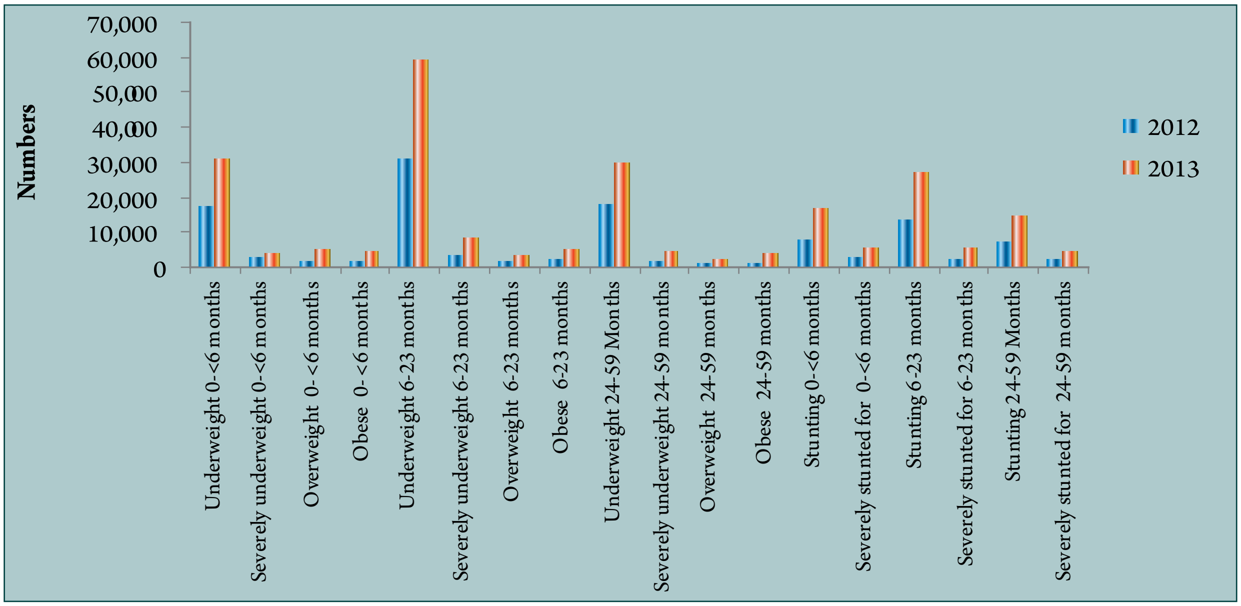
Nutrition

Nutrition, particularly of children below the age of five, is a key indicator of a country's health system. High incidences of being underweight and stunting may indicate lack of adequate meals or nutrients. Incidences of overweight and obesity, on the other hand, may indicate an increase in consumption of processed foods in the country, as well as unbalanced diets.

Figure 6.7 shows the major indicators of nutrition among under-5 female children. Among the girls between the ages of 0 and 6 months, majority are underweight, whereas majority of the girls between 6 and 59 months are severely underweight. On the other hand, majority of the under-5 girls suffer from severe stunting. The greatest incidences of being severely underweight and severely stunted are among girls aged between 6 and 23 months. It is also noted that the situation worsened in 2013 for both males and females.

Figure 6.8 shows the major indicators of nutrition among under-5 male children. Incidences of being underweight are the highest among all age categories of this population but highest among boys between the age of 6 and 23 months. This differs from girls below 5 months who had higher incidences of being severely under-weight. In addition, majority of the under-5 boys suffer from stunting, with the greatest incidence of stunting among boys aged between 6 and 23 months. Thus, boys also differ from girls as far as growth in height is concerned. This analysis points to gender disparities in nutrition in which boys fare better than girls and this has also been reported in previous studies conducted in various settings. Anecdotal evidence shows that such disparities largely emanate from cultural feeding practices where boys get bigger and better shares than their female counterparts. An interesting finding is that children between the age of 6 months and 23 months have the worst nutrition outcomes compared to other age categories. This is an important age in the life of a child since solid

Figure 6.7: Weight and height, females (0-59 months), 2012-2013



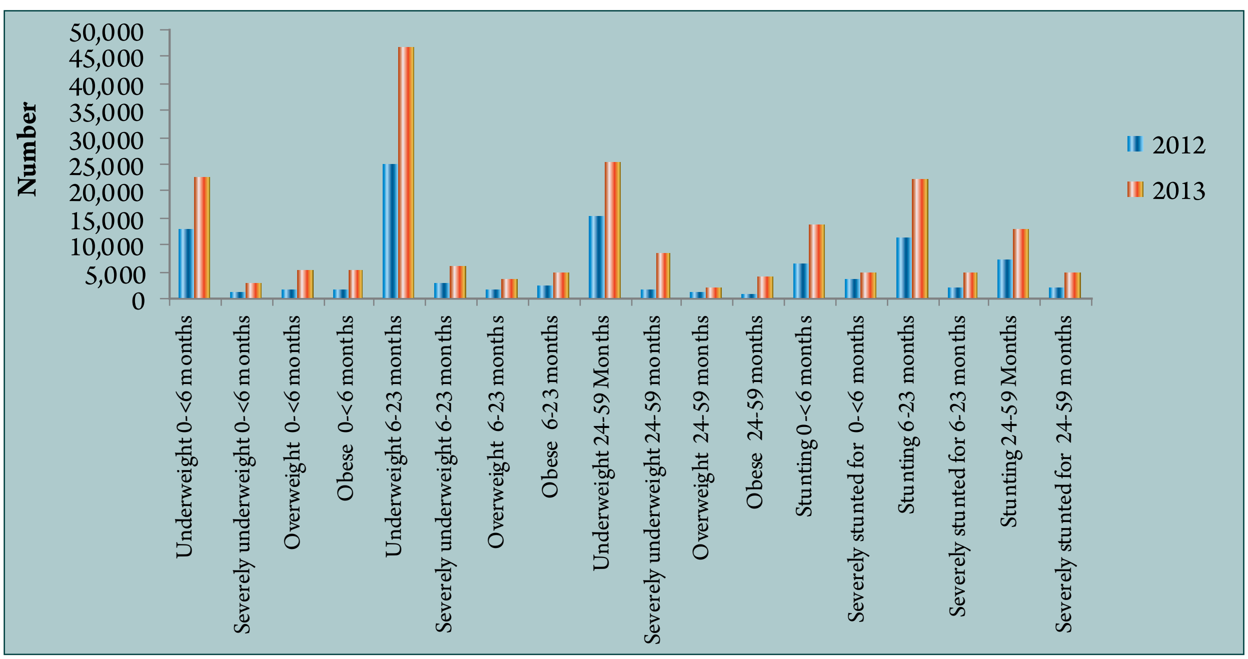
Source: Ministry of Health (2014), Health Information Management System

foods are introduced to a child at around the age of 6 months (assuming exclusive breast feeding). Hence, the nutrition patterns of this age group require further investigation and intervention.

6.2.3 Health sector outcomes

When the government and households make health investments, the objective is to improve health outcomes. Health outcomes are conventionally measured through such indicators as levels of mortality (or deaths), morbidity (or disease incidence) and life expectancy. For mortality, the main indicators include infant and under-5

Figure 6.8: Weight and height, males (0-59 months), 2012-2013



Source: Ministry of Health (2014), Health Information Management System mortality. The argument is that before any other person is provided with healthcare, children are given a priority. Therefore, the mortality of children reflects the situation of a country's health system.

Death (mortality) levels and causes

The two major single causes of death in Kenya are pneumonia and malaria, followed by cancer, TB, and HIV/AIDS, which make the top five causes of mortality. This shows that even with the latest emergence of non-communicable diseases (NCDs) such as cancer, the communicable diseases are a threat to the country's populace. The emergence of HIV/AIDS shifted the focus from malaria, despite the fact that malaria continues to cause many deaths, especially to pregnant mothers and children. It is, therefore, not surprising that cases of anaemia (which is correlated with malaria) are increasing. This means that even with the emergence of new diseases, the traditional causes of death should not be ignored, especially in terms of policy and resource distribution.

As Figure 6.9 shows, pneumonia leads as a main cause of mortality in many regions in the country. These include Nairobi, Central, North Rift and South Rift regions. However, it is the second cause of mortality in Coast, Nyanza, and Eastern regions. This shows that it is only in North Eastern and Western region that pneumonia does not feature as first or second cause of death.

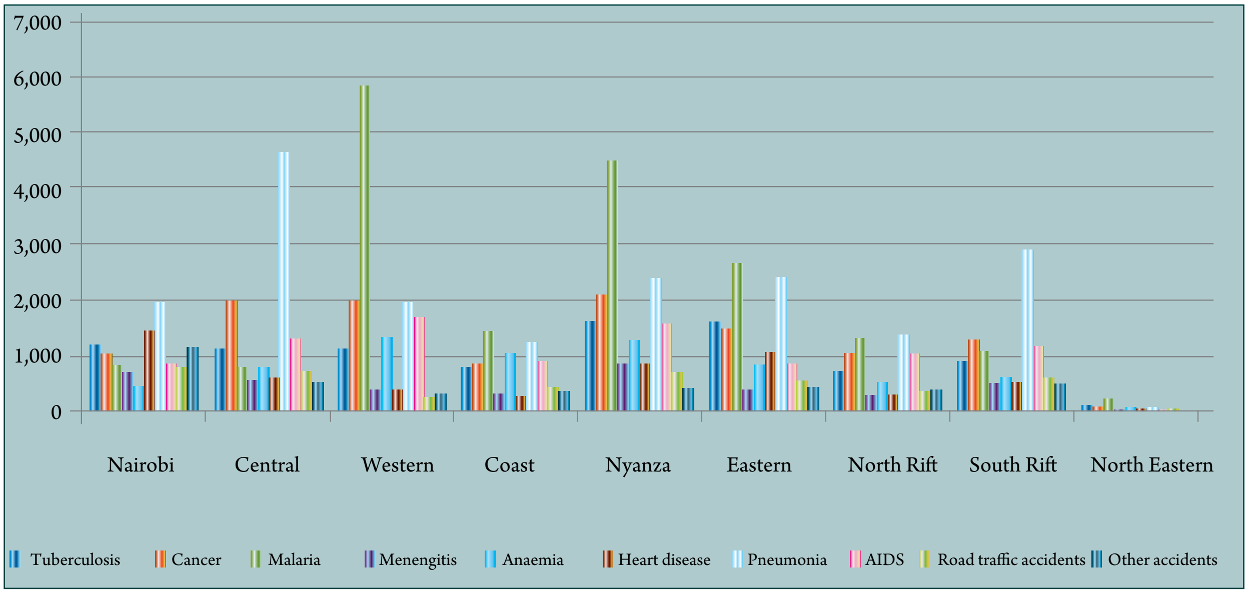
On the other hand, malaria leads in five regions as the main cause of death and is second in one. TB, Cancer, and HIV/AIDS were not the leading causes of death in any of the regions. However, they were among the top five causes in almost all the regions. There is no region that never reported cancer among the top five causes of death, whereas it was only Western and Coast regions that never registered TB among the top five causes of death. However, North Eastern, Nairobi, and Eastern regions did not register deaths from HIV/AIDS among the top five.

Road traffic accidents do not feature among the top five causes of death in any of the regions. This may appear to show that whereas it is a preventable cause of some deaths in the country, it should not be a cause of alarm more than some of the top five causes of deaths in the country. The scenario presented above shows that the fight against diseases such as malaria, TB and HIV/AIDS is far from being won even with funding from global initiatives.

Morbidity levels in Kenya

Morbidity levels are an indicator of health outcomes because they reflect not only the incidence of diseases but also the most prevalent health conditions. In Kenya, the two leading causes of morbidity are diseases of the respiratory system and malaria (Figures 6.4 and 6.5). This correlates with the main causes of death as noted earlier. Although the incidences of skin and diarrhoeal diseases are also high, they do not seem to contribute to deaths. However, their high level means they consume a lot of resources that would otherwise be invested in reducing high levels of mortality. Diarrhoea and skin diseases are related to hygiene and hence can be prevented cost effectively. What comes out, however, is that pneumonia incidence is relatively low at 2.9 per cent. Previous analysis shows that it is one of the leading causes of mortality. This may imply that from the few cases of pneumonia, most of them end up fatal. The 2013 PETS report (KIPPRA/Ministry of Health, 2013) revealed that whereas clinicians would diagnose pneumonia 81 per cent of the times, it was only 49 per cent of the times that they prescribed full treatment. This means that with no full treatment, most of the affected are likely to die in the process. Incidences of accidents (including traffic accidents) were at 2.2 per cent in the period under review. This is, however, among the top ten causes of people visiting health facilities in Kenya.

Figure 6.9: Leading causes of death by region



Data source: Ministry of Health (2014)

Life expectancy

Life expectancy has also been used as an indicator of the performance of the health sector. Life expectancy at birth shows how many years a child born today is expected to live given the prevailing social and economic circumstances. Table 6.7 shows that whereas life expectancy in the last decade has been on an upward trend, the performance has not been consistent over the years. On average, life expectancy has not gone beyond 57 years since 2002. Nevertheless, the noted improvement over the years correlates with the improvement in infant and child mortality noted elsewhere, which reflects an improvement in health services.

Females have in most cases registered higher life expectancy than males. This confirms what has been noted that a boy-child is more vulnerable in the first five years of life than a girl child. For instance, a boy-child born in 2011 was expected to live for 55.96 years compared to 58.26 years of a girl-child. This is despite the fact that both face similar health situations such as free under-5 health services and immunization. However, if health services were to improve further, like in many developed countries, life expectancy is expected to rise to levels of 70 and 80 years like in Europe and some East Asian countries. This would only happen with increased investments in the health system.

6.3 Conclusions

The physical presence of a health facility does not automatically imply that it is able to provide adequate and quality care. The availability of other essential services comes into play; this includes for instance, availability of electricity, access to water and toilets. A study by KIPPRA (2013) showed that about only 57 per cent of the health facilities surveyed had the basic infrastructure such as water, electricity and toilets.

Health financing comes out as the most important health input because it is the facilitator of health infrastructure, human resources, and medical drugs and supplies. The funds received by health facilities from the various sources during the review period were not adequate to meet their requirements, leading to significant gaps for this important health input.

Table 6.7: Life expectancy in Kenya[6]

	2002	2003	2004	2005	2007	2008	2009	2010	2011
Male	44.0	48.1	48.5	51.1	55.24	54.0	57.0	55.42	55.96
Female	46.4	46.3	46.5	53.1	55.37	55.0	58.0	57.63	58.26
Kenya	45.2	47.2	47.5	52.1	55.31	54.0	56.0	56.50	57.08

Source: Ministry of Health (2014)

Also, of the funds allocated to the Ministry of Health, less is allocated for direct health consumables such as drugs and medical supplies. On average, for every Ksh 100 allocated to the Ministry, Ksh 45 goes to employees' compensation, leaving only Ksh 55 for all the other functions of the Ministry, including procurement of drugs and medical supplies; operations and maintenance; infrastructure development; and promotive and preventive healthcare. This could explain why facilities sometimes have medical personnel who lack adequate facilities to offer the required medical care. It could also explain why public facilities frequently run out of drugs and medical supplies. Extending the explanation further, it could provide clues as to why public facilities continue to charge user fees to raise extra funds for purchase of drugs and medical supplies.

On the disease burden, diseases of the respiratory system are the leading causes of morbidity among the over-5 population, followed closely by malaria (both clinical and confirmed cases) and diseases of the skin. Between 2012 and 2013, there was an increase in the incidence of respiratory diseases, skin diseases, pneumonia, and ear infections while incidences of malaria declined significantly in 2013 among the under-5 population.

Clinical cases of malaria in 2013 declined compared to the same period in 2012. Whereas the decline in clinical malaria could imply improved healthcare quality, the increase in confirmed malaria cases show poor healthcare, which may include lack of ITNs and ineffectiveness in ACT treatment regimen. Thus, by examining malaria cases, one could conclude that health outputs have declined in 2013, thereby implying low quality of healthcare.

Maternal and child health are inadequate in many health facilities. For instance, only about 2 out of every 10 government facilities are offering comprehensive emergency obstetric care (CEmOC), which includes Caesarean section (C-section). The situation is the same in not-for-profit facilities because only 22 out of 100 FBO facilities offer the comprehensive care. This implies that very few facilities are offering surgery, anaesthesia and blood transfusion, which are necessary for emergency obstetric care.

Nutrition is also key for preventive and promotive care. However, the situation in the country is not good enough. For instance, children between the age of 6 months and 23 months have the worst nutrition outcomes compared to other age categories. This is an important age in the life of a child since solid foods are introduced to a child at around the age of 6 months. Nutrition has substantial influence on child mortality.

6.4 Recommendations

Given the foregoing, it is clear that the government needs to commit a lot of resources to the health sector in line with the Kenya Health Policy 2012-2030. This will involve promoting the policy orientations stated in the Policy, including health financing, health workforce, health infrastructure, leadership/governance, health products and service delivery systems.

However, to improve the health outcomes, there would be need to enhance allocative efficiency such that for every health input invested in the health sector, there would be both immediate and long-term health outcomes. For instance, enhanced immunization (and not immunization campaigns) against all childhood diseases and boosting of nutrition for children would go a long way in improving future productivity and life expectancy. Adequate supply of drugs and medical supplies together with availability of health professionals would improve access to quality healthcare. However, making drugs and medical supplies available without adequate health professionals will only result to inefficiencies and waste.

End Notes

1. http://www.amrefuk.org/what-we-do/strategic-priorities/health-workers/item/165-clinical-officers, accessed on 20th May 2014.
2. https://hiskenya.org.
3. Performance Contract between the Government of Kenya and the Cabinet Secretary, Ministry of Health
4. This figure excludes 6 counties: Kisumu, Laikipia, Murang'a, Narok, Siaya, and Tharaka Nithi, due to missing data on health expenditures.
5. Obstetric fistula is an injury to the reproductive system of a woman during delivery, caused by prolonged labour, which leaves women leaking urine and faeces. An entire ward at the Kenyatta National Hospital is dedicated to women with obstetric fistula.
6. The source of 2010 and 2011 is: http://countryeconomy.com/demography/life-expectancy/kenya; other years: Human development reports, various..

Chapter 7

EDUCATION AND SKILLS DEVELOPMENT

7.1 Introduction

Education, training and skills development are important for any country's sustainable development. The Government of Kenya, with support from various education stakeholders and the private sector, has continuously invested in human resource development. According to Kenya Vision 2030 and its Medium Term Plan II (2013-2018), the government aims to make Kenya a globally competitive economy by 2030, characterized by a strong human capital base. The Constitution of Kenya, the Basic Education Act of 2013, and Sessional Paper No. 14 of 2012 provide for Free and Compulsory Basic Education, with basic education now encompassing pre-primary, primary and secondary education. The MTP II objective under the education sector also highlights the need to mainstream pre-primary and secondary education into basic education; improve the quality of education while ensuring a sustained balance between basic education quality and quantity; mainstream information communication technology (ICT) into learning and teaching processes; and address inequalities in education provision and learning outcomes. Moreover, at higher education level, the main aim is to exploit knowledge and skills in science, technology and innovation for global competitiveness; and revitalize the technical education sub-sector and youth polytechnics.

However, the success of the education and training sub-sector in terms of meeting the various national targets is dependent on levels of investment, resources allocated to the sector, efficiency in resource utilization, the cost of education, among other factors.

7.2 Provision and Investment in Education Services

Kenya has experienced rapid expansion in the education sector in the recent past. Investment in education grew at an increasing rate between 2010 and 2013 (Table 7.1). The number of education institutions increased by 4.9 per cent from 74,408 institutions in 2010 to 80,172 institutions in 2013. Pre-primary education centres increased by 3.2 per cent from 38,523 institutions in 2010 to 39,758 centres in 2012 and 40,145 centres in 2013. During this period, pre-primary public education centres increased by 2.8 per cent, while private education pre-primary centres increased by 3.8 per cent. The number of primary schools rose by 3 per cent from 29,161 to 30,122 with public (4%) schools increasing at a higher rate than the private (1%) primary schools. The number of secondary schools increased by 12.8 per cent, from 7,308 in 2010 to 8,197 (24% in private) in 2012. In 2013, there were 30,122 primary schools and 8,848 secondary schools in the country. Overall, the number of private education learning institutions increased at a higher rate than for public institutions.

At the tertiary level, the number of technical training institutions decreased by 13.8 per cent from 818 in 2010 to 705 TVET institutions in 2012 and 748 in 2013. The decline could be attributed to the closure of some institutions perhaps due to under-performance, and the conversion of some technical polytechnics and middle-level colleges into university colleges. The number of universities increased by 9.3 per cent from 32 universities in 2010 to 35 universities in 2012 and 50 universities in 2013. Despite the expansion in formal schooling

Table 7.1: Number of educational and training institutions, 2010-2013

School category	2010	2011	2012	2013
Pre-primary	38,523	39,500	39,758	40,145
Public	23,980	24,588	24,654	24,702
Private	14,543	14,912	15,104	15,443
Primary	27,489	28,567	29,161	30122
Public	19,059	19,848	20,307	21,205
Private	8,430	8,719	8,854	8,917
Secondary	7,308	7,297	8,197	8,848
Public	5,296	5,311	6,188	6,807
Private	2,012	1,986	2,009	2,041
Pre-primary teacher training colleges	125	122	125	131
Public	20	20	20	22
Private	105	102	105	109
Primary teacher training colleges	110	112	118	123
Public	21	21	21	22
Private	89	91	97	101
Secondary diploma colleges	3	3	3	3
TIVET institutions	818	629	705	748
Youth polytechnics	765	585	647	701
Institutes of technology	24	14	14	9
Technical training institutes	22	26	35	35
National polytechnics	5	2	7	3
Polytechnic university colleges	2	2	2	0
Universities	32	34	35	52
Public	7	7	8	22
Private	25	27	27	30
Total	74,408	76,264	78,102	80,172

Source: KNBS (Various), Economic Survey

in the county, the sector faces challenges in terms of financing, affordability, inequalities in access to schooling, low education attainment and unsatisfactory quality of education.

7.3 Trends in Education Spending

7.3.1 Sources of financing of education

Over time, the financing and provision of education in Kenya has remained a partnership between the government (national, local and county governments), households and communities, development partners, the private sector, civil society organizations, and internally-generated funds by individual institutions.

In 2010, overall education spending (public and other stakeholders) in absolute terms was estimated at Ksh 326 billion (12.8% of GDP), having increased by 74.9 per cent from Ksh 186 billion in 2006 (11.5% of GDP). This was partly due to increased household spending in the sub-sector and increase in school enrolments. In 2010, public spending (through ministries in charge of education) before restructuring into one ministry in 2013 was estimated at Ksh 188 billion or 58 per cent of total education spending (Table 7.2).

Public financing, which covers capitation grants to schools, is intended to lower the cost of schooling while maintaining the quality of education. According to the Free Primary Education (FPE) and Free Day Secondary Education (FDSE) guidelines, the funds cover the cost of instructional materials, operations and maintenance, and activity fees. Overall, the central government's resources mainly cover inputs such as as personnel emoluments for teaching staff and education administration staff at all levels, capitation grants for primary and secondary education, provision of bursaries for the needy, and some operations and maintenance costs. At the post-primary education level, the government subsidy to both public day and boarding secondary schools covers instructional materials, schools repairs and maintenance, local transport and travel, administration costs, activity fees, personnel emoluments for a minimum number of non-teaching staff, and basic medical costs. The level of transfers from the central government to counties and schools depends on enrolment at each level.

Parents, through user fees, cover the boarding costs and any other indirect schooling costs. In 2010, household spending was estimated at Ksh 109.5 billion or 33.6 per cent of total education expenditure. Resources raised through user fees

Table 7.2: Sources of education spending by source (%), 2006-2010

	2006	2007	2008	2009	2010
Central government	61.1	57.7	57.2	57.6	57.9
Constituency Development Fund (CDF)	1.9	1.9	1.7	1.5	1.6
Local government authorities/County governments	0.5	0.5	0.5	0.6	0.6
Household (parents)	28.9	32.3	31.7	32.5	33.6
NGOs and religious bodies	1.5	1.3	1.2	1.1	1.0
private sector and companies	0.03	0.03	0.03	0.03	0.03
External loans and grants	2.6	2.9	4.46	2.48	0.73
Internally-generated funds	3.5	3.3	3.3	4.2	4.7
Total education expenditure (Ksh millions)	186,303	226,751	263,280	294,463	325,707
Total education expenditure	11.5	12.4	12.5	12.4	12.8

Source: Ministry of Education, Science and Technology, UNESCO and Kenya National Bureau of Statistics - KNBS (2013), Economic Survey are used to finance pre-primary, boarding costs and non-salary inputs at various levels. Households also finance all indirect costs (such as uniforms, transportation, and meals, among others). The sector also gets support from non-public entities, including NGOs (1%), development partners (0.73%), faith-based organizations (FBOs), individuals, and corporate organizations whose contributions come in the form of improvement of school infrastructure and support to needy students.

Resources from the Constituency Development Fund (CDF) and Local Authorities Trust Fund (LATF) are mainly invested in infrastructure development. County governments are also expected to finance some education inputs, especially pre-primary education and youth polytechnics. Financing from the local authorities is through on-budget and project support, which was estimated at 2.2 per cent of the education budget in 2010. Internally-generated resources constitute 4.7 per cent of the overall education budget. However, spending varies across functional classifications and sub-sectors.

Despite the extensive off-budget spending by non-government agencies and households at both national and sub-national levels in the education sector, the off-budget resource flows are rarely reported in national accounts. Further, off-budgetary expenditures are vulnerable to weak financial and education management information systems. The limited reporting of government and non-government transparency in spending undermines accountability and efficient management of public resource spending. Further, reporting and monitoring of activities implemented using the decentralized funds and off-budget expenditures are weak.

7.3.2 Education spending by functional classification

Primary education receives the largest share (39%), followed by secondary education (23%) and university education (19%) (Table 7.3). In absolute terms, primary education spending increased during the review period, although the share of the sub-sector spending declined from 44.5 per cent in 2009/10 to 39 per cent in 2012/13. The decrease in the share of primary education spending can be attributed to the expansion of the tertiary education sub-sector. As an example, technical education sub-sector spending increased from 5.08 per cent in 2009/10 to 5.81 per cent in 2012/13, while

Table 7.3: Public education expenditure by sector, recurrent and development (%), 2009/10-2012/13

	2010/11	2011/12	2012/13
General administration and planning	9.47	6.63	6.61
Primary education	45.43	41.70	38.97
Teacher education	3.13	3.99	2.79
Special education	0.11	0.21	3.07
Early childhood education	0.25	0.19	0.70
Secondary education	25.27	24.65	22.63
Technical education	4.83	6.05	5.81
University education	11.51	16.57	19.43
Total education expenditure (Ksh billions)	179.00	207.46	247.71
Recurrent (%)	89.21	89.81	89.43
Development (%)	10.79	10.19	10.57

Source: Kenya National Bureau of Statistics - KNBS (Various)

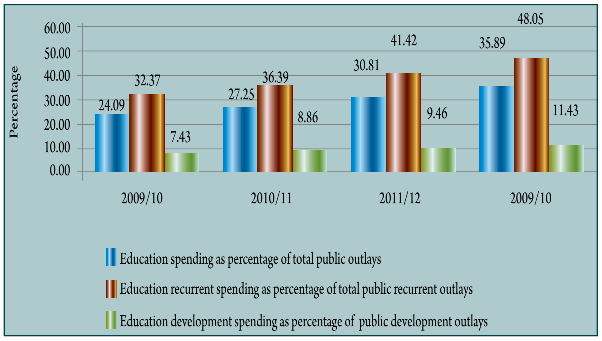
university education spending share increased from 12.7 per cent to 19.4 per cent during the review period.

Variations in expenditure across levels suggest that the government may need to ring-fence basic education expenditures that have direct impact on the quality of education outcomes, while improving efficiency in utilization of available resources. Teacher education, technical education, special needs education and pre-primary education will require additional support given the importance of the sub-sectors in improving the quality of education and contribution to sustainable skills development.

7.3.3 Recurrent and development

The share of recurrent expenditure in total education spending decreased from 89.8 per cent to 89.4 per cent in 2012/13, while development expenditure increased from 10.2 per cent in 2011/12 to 10.5 per cent in 2012/13. The improvement in development spending can be attributed to the increased spending in infrastructure development.

Figure 7.1: Recurrent and development spending, 2009/10-2012/13



Source: Ministry of Education (2013), Education Sector Report

7.3.4 Higher Education Loans Board (HELB)

At tertiary education level, the number of students receiving the HELB loan increased from 110,218 in 2011/12 to 118,600 in 2012/2013, while the amount awarded increased from Ksh 4.59 billion to Ksh 5.2 billion over the same period, respectively (Table 7.4). HELB started funding TVET students through bursaries in 2011/2012 with an initial allocation of Ksh 100 million from the Exchequer, which supported 8,000 students in TVET institutions.

The increasing number of students in universities and middle-level colleges and also the increase in the number of students graduating from secondary education calls for concerted efforts to funding tertiary education in order to ensure that tertiary

Table 7.4: Summary of loans and bursaries by HELB: 2009/10-2012/13 to universities and TVET institutions

	Undergraduate loans		Post-graduate loans		Bursaries		Scholarships		TVET	
Year	Benefici-aries	Total Ksh (million)	Benefici-aries	Total Ksh (million)	Benefici-aries	Total Ksh (million)	Benefici-aries	Total Ksh (million)	Benefi-ciaries	Ksh (mil-lion)
2009/10	69,400	2,973	1,279	157.7	18,996	85.4	37	11.2	-	-
2010/11	77,143	3,304	976	119.2	17,031	82.3	50	15.0	-	-
2011/12	110,218	4,590	1,126	136.4	17,031	82.3	66	18.2	8,000	85
2012/13	118,600	5,168	1,920	205.0	17,031	82.3	77	21.0	10,000	115

Source: Ministry of Education (2013), Education Sector Report education expansion is equitable in terms of access and completion.

7.3.5 Education spending relative to GDP

Public education spending as a percentage of GDP increased from 6.5 per cent in 2009/10 to 7.5 per cent in 2012/13. The share represents 34.9 per cent of total government outlays in 2011/12, up from 27.6 per cent in 2009/10 (Table 7.5).

Table 7.5: Spending in education as a % of GDP and total outlays, 2010/11-2012/13, Ksh billion

	2010/11	2011/12	2012/13
Total Ministry of Education % of GDP	7.0	6.8	7.2
Total Ministry of Education % Government of Kenya total expenditure	27.2	30.8	35.9
Total Ministry of Education recurrent % Government of Kenya total recurrent	36.4	41.4	48.0
Ministry of Education development % of Government of Kenya development	8.9	9.5	11.4
Ministry of Education recurrent % of Ministry of education expenditure	89.2	89.8	89.4
Ministry of Education development % of Ministry of Education expenditure	10.8	10.2	10.6
Appropriations in Aid (External financing) % of Ministry of Education	0.8	0.7	0.6

Source: Government of Kenya (Various)

7.3.6 Salary and non-salary spending

Another positive trend in education spending relates to the increase in the share of non-salary spending from 30.3 per cent to 31.7 per cent in 2012/13. In particular, basic education spending increased from 70.3 per cent to 71.0 per cent in 2013 (Table 7.6). Personnel emoluments as a percentage of GDP remained below 5.0 per cent during the review period, but increased from 4.5 per cent in 2009/10 to 4.9 per cent in 2012/13.

7.4 Performance of the Education Sector

7.4.1 Access and participation

Increased spending in the education sector has contributed to considerable progress in improving overall enrolment levels in the sector. However, marked differences remain across levels of education and across regions. The country has also implemented various policies, legal and regulatory reforms in the education sector aimed at aligning it to the Constitution and Vision 2030, as well as international commitments such as the Millennium Development Goals (MDGs). These interventions have resulted in expansion of the education sector, including improved access and equity in education; improved quality, transition and relevance; and

Table 7.6: Salaries and non-salary spending, 2009/10-2012/13

	2009/10	2010/11	2011/12	2012/13
Total salaries as % of total education expenditure	69.7	68.0	70.8	68.3
Total non-salaries as % of total education expenditure	30.3	32.0	29.2	31.7
Total salaries as % of GDP	4.5	4.8	4.8	4.9
Basic education % of total education spending	70.3	77.3	74.7	71.0
Total education spending (Ksh billion)	154.4	179.0	207.5	247.7
GDP at market prices (Ksh. Billion)	2,367.0	2,553.7	3,048.9	3,440.1

Source: Government of Kenya (2013)

deepening integration of science and technology in the sector. Overall, all sub-sectors of education recorded remarkable increase in access and participation rates during the review period.

7.4.2 Early childhood development and education

Enrolment in Early Childhood Development and Education (ECDE) increased from 2.1 million children in 2010 to 2.4 million in 2012. The Gross Enrolment Rate (GER) increased from 60.9 per cent in 2010 to 69.0 per cent in 2013 (Table 7.7). The Net Enrolment Rate (NER) increased from 50 per cent to 53.5 per cent during the same period.

Table 7.7: ECDE gross enrolment rates and net enrolment rates, 2010-2013

Level	2010	2011	2012	2013
Total enrolment ('000)	2,193	2,370	2,406	2,465
Teachers (both public and private)	94,429	97,146	99,889	101,062
Gross enrolment rate	60.9	65.6	66.3	69.0
Net enrolment rate	50.0	52.4	53.3	53.5

Source: Kenya National Bureau of Statistics - KNBS (Various)

The ECDE enrolment is, however, expected to increase at a higher rate owing to mainstreaming of pre-primary education into basic education and county governments' investment into the sub-sector, starting 2014. In 2012/13, the government spent about Ksh 1.6 billion on ECDE. Going forward, sub-sector support, including recruitment of teachers for county governments, is expected to increase.

7.4.3 Primary education

Primary school enrolment increased from 8.8 million (4.5 million boys and 4.3 million girls) in 2010 to 9.85 million (4.75 million boys and 4.62 million girls) in 2011 and further to 9.97 million (5.01 million boys and 4.96 million girls) in 2012 (Table 7.8). The gross enrolment rate increased from 109.8 per cent in 2010 to 115.0 per cent in 2011 and further to 115.8 per cent in 2012. The net enrolment rate increased from 91.4 per cent in 2010 to 95.7 per cent in 2011 and 95.9 per cent in 2013.

The improved performance of the primary education sub-sector can partly be attributed to sector reforms implemented during the review period. Key among these reforms include: emphasis on universal primary schooling as a flagship MDG target and Free Primary Education (FPE) programme introduced in 2003. The FPE programme supports the expansion of public primary schools' physical infrastructure and provides per capita grants for teaching and learning materials, operations and maintenance and personnel emoluments for teaching staff (Government of Kenya, 2005).

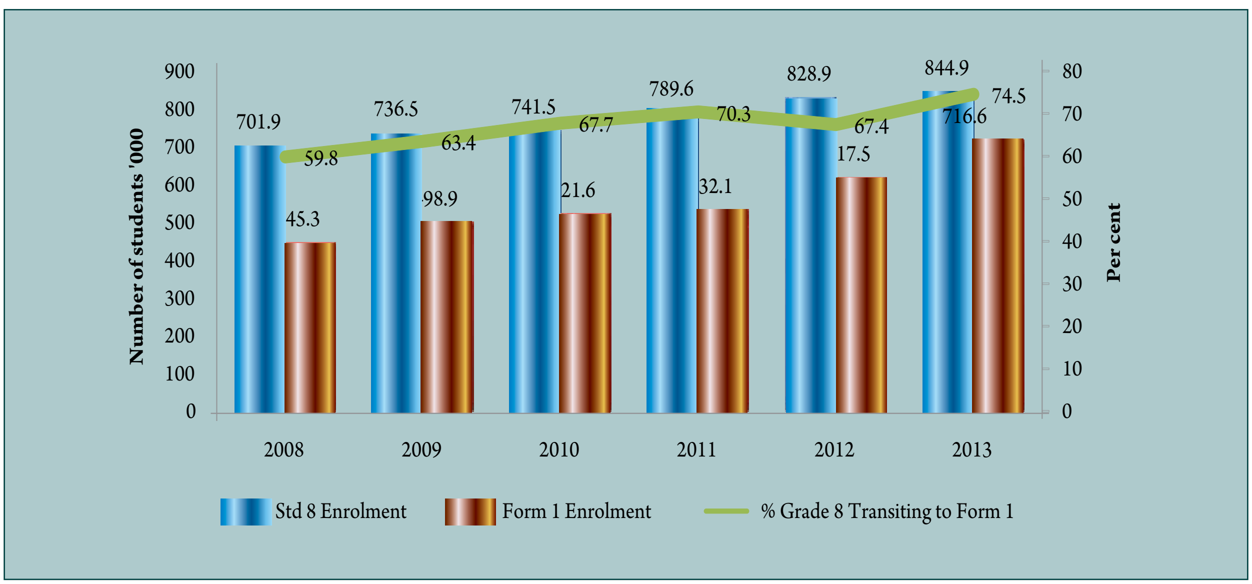
Table 7.8: Primary education gross enrolment rates and net enrolment rates, 2010-2013

Level	2010	2011	2012	2013
Total enrolment '000	9,381	9,858	9,971	10,183
Enrolment (public) '000	8,283	8,762	8,863	9,187
Enrolment (private) '000	1,098	1,096	985	998
Gross enrolment rate	109.8	115	115.8	119.6
Net enrolment rate	91.4	95.7	95.3	95.9
Teachers	173,388	174,267	176,243	199,686
GPI	0.97	0.98	0.99	0.98
Completion	76.8	74.6	80.3	81.3
Transition to secondary education	72.5	73.3	76.6	77.5
Alternative basic education				
Non-formal education enrolment ('000)	143.4	177.8	182.1	189.7
Adult education enrolment '000	265			

7.4.4 Primary completion and transition levels

The pupil completion rate, which is the population of Standard 8 candidates as a percentage of all the 13 year-olds, dropped from76.8 per cent in 2010 to 74.6 per cent in 2011 then increased to 80.3 per cent in 2012 and 81.3 per cent in 2013. However, there was a steady increase in the admission rate from primary to secondary school from 63.4 per cent in 2009 to 70.3 per cent in 2011 before dropping to 67.4 per cent in 2012. There was, however, some improvement of 7.1 per cent point with 74.5 per cent in 2013. This measure of transition captures the admission rate total number of students who are admitted to Form One the subsequent year. However, not all those who are admitted actually

Figure 7.2: Actual transition rates, 2008-2013



Source: KNBS (2013), Economic Survey

report for Form One, hence resulting in an even lower actual transition rate (Figure 7.2).

As an example, in 2008, only 63.4 per cent of class eight enrolment progressed to Form One the following year. The rate improved to 70.3 per cent in 2010 before dipping to 67.4 per cent in 2011. This was lower by 10 percentage points when compared with the reported transition rate of 73.3 per cent. In 2012, the actual transition rate was 74.5 percent. It is, therefore, important to assess the contributing factors to the low actual transition rate relative to the reported admission rate over time.

7.4.5 Secondary education

Secondary education enrolment rose from 1.76 million in 2011 to 1.91 million in 2012 and 2.10 million in 2013 (Table 7.9). The gross enrolment rate increased to 48.8 per cent in 2011, 49.3 per cent in 2012 and further to 56.2 per cent in 2013, while the net enrolment rate increased from 32.7 per cent in 2011 to 33.1 per cent in 2012 and further to 39.5 per cent in 2013, implying about 60.5 per cent of the secondary education school age population was not in school by 2013.

The expansion in secondary school enrolment can be attributed to the recent reforms in the sector, including Free Day Secondary Education (FDSE) policy, which involves government disbursement of capitation grants to public secondary schools at Ksh 10,265 per student since January 2008, and the affirmative action of expanding secondary education streams to at least three streams per class. However, the net enrolment rate of 39.5 per cent is still below the target of 65 per cent by 2015. Consequently, the national and county governments will need to improve access and eliminate inequalities in secondary education across all regions.

Although transition from secondary education to university education was at 6.5 per cent in 2009, the university education gross enrolment rate remained low at 4.1 per cent in 2011 compared to the national target of over 10 per cent (Government of Kenya, 2007). Aggregate tertiary education gross enrolment rate, when technical education is included, was estimated at 13.2 per cent in 2011.

7.4.6 Technical, vocational education and training

Technical, Vocational Education and Training (TVET) facilities comprise three (3) national polytechnics, one (1) technical trainers' college, 35 technical colleges, and nine (9) institutes of technology. Other sectors such as health also operate a number of tertiary training institutions. In addition, there are 701 youth polytechnics distributed throughout the country. The private sector operates a number of commercial colleges that offer various middle-level courses, mainly in non-technical areas of training. The total enrolment in TVET programmes increased from 47,625 in 2005 to 127,691 in 2012.

Table 7.9: Secondary gross enrolment rates and net enrolment rates, 2010-2013

	2010	2011	2012	2013
Total enrolment ('000)	1,701.50	1,767.70	1,914.80	2,104.3
Gross enrolment rate	47.8	48.8	49.3	56.2
Net enrolment rate	32.0	32.7	33.1	39.5
Teachers	53,047	56,735	59,273	65,494
GPI	0.86	0.87	0.88	0.87
Completion	76.8	74.6	80.3	86.0

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

Despite the increase in enrolment and the number of institutions of higher learning, a large proportion of KCSE candidates miss admission either in the university or middle-level colleges each year. About 50 per cent of the students enrolled in Kenyan universities are self-sponsored, showing that access is skewed in favour of the rich. It is estimated that only 35 per cent of the qualified students get admitted into local universities every year. For instance, out of the 357,488 candidates who sat for the 2010 KCSE examination, only 97,137 (27%) attained C+ grade, which is the required minimum for admission into university. Out of this, 32,000 joined public universities and about 10,000 joined private ones. The remaining 260,351 will have to seek places in middle-level colleges or drop out of the system. There are a number of youths left without any skills and this poses a threat to the achievement of the country's development agenda.

7.4.7 University education

University education has rapidly expanded to ensure that Kenyans access higher education and provide the much needed skilled manpower for the country. The number of universities, both public and private increased from 32 in 2010 to 35 in 2012, comprising 8 public universities, 15 constituent colleges and 25 private universities (13 chartered, 9 with letters of interim authority and 3 registered). There were 52 universities in 2013. The total expenditure on university education and higher education support services sub-programmes was Ksh 18,589 million and Ksh 2,340 million for recurrent and development expenditures, respectively.

The annual admission to public universities under the Joint Admissions Board (JAB) increased by 31.6 per cent from 12,261 in 2007/08 to 16,134 in the 2008/09 academic year, by 24.4 per cent to 20,073 in the 2009/10 academic year, and by 20.6 per cent to stand at 32,820 in the 2010/11 academic year. The achievement was as a result of increased capacity in the constituent colleges, and special considerations to vulnerable groups. Enrolment stands at 183,497 and is expected to increase drastically in the current year with the planned accelerated intake of the 2009 and 2010 cohorts, and the creation of the Open University and the Pan African University.

Enrolment and retention in universities was further enhanced through increased provision of bursaries. A total number of 8,386 students were awarded bursaries amounting to Ksh 380 million in 2009/2010. The number of government-sponsored students admitted to public universities per year increased from 16,134 in 2009/10 to 32,648 in 2011/12 and the beneficiaries for bursaries

Table 7.10: Tertiary enrolment, 2009-2013

	2009	2010	2011	2012	2013
Technical education enrolment '000	81	82.7	104.2	127.7	148.0
Teacher training colleges '000	26.3	28.5	29.6	30.7	37.1
Enrolment (male) '000	13.0	14.4	14.8	15.2	18.0
Enrolment (female) '000	13.3	14.0	14.7	15.5	19.0
University education enrolment '000	177.7	177.6	215.7	240.6	324.6
Enrolment (male) '000	110.3	107.7	117.7	135.4	193.2
Enrolment (female) '000	67.4	69.9	80.6	105.1	131.4
Transition from secondary to tertiary education (technical and university)			13.3		
Tertiary gross enrolment rate			4.1		

Source: Kenya National Bureau of Statistics - KNBS (Various), Economic Survey increased from 71,349 in 2009/10 to 95,198 in 2011/12 (Ministry of Education, 2011).

Table 7.11: Admission trends to public universities: 2009/10-2012/13

Academic Year	Number Qualified (C+ and above)	Joint Board Admissions	% Admitted
2009/10	72,590	20,073	27.07
2010/11	81,000	24,216	33.4
2011/12	97,134	32,648	33.6
2012/13	119,658	41,999	35.0

Source: Ministry of Education (2013)

7.5 Education Outcomes

7.5.1 Adult literacy

The Medium Term Plan for Kenya's Vision 2030 recognizes the need to have literate citizens and sets a target of increasing adult literacy rate from the current 61.5 per cent to 80.0 per cent by 2015. Table 7.12 shows the extent of inequality in literacy across counties. The data illustrates the disadvantages of counties in the Northern region. The greatest attainments were recorded in Nairobi and Nyandarua counties. Wajir, Kitui, Garissa and Mandera counties were the most disadvantaged, as they had the lowest literacy levels.

From a policy perspective, improving literacy rates across counties will require not only increasing enrolments but also concerted efforts to reach the

Table 7.12: Selected human development indicators, 2009

	Literacy	Enrolment rate	Education Index	HDI Index		Literacy	Enrolment rate	Education Index	HDI Index
Nairobi	88.1	71.3	0.825	0.653	Kisumu	82.6	72.8	0.793	0.554
Nyandarua	89.8	71.5	0.837	0.612	Migori	75.3	72.5	0.743	0.467
Nyeri	73.1	64.7	0.703	0.589	Homa Bay	55.2	72.6	0.610	0.479
Kirinyaga	72.2	74.5	0.729	0.581	Kisii	82.1	76.9	0.804	0.606
Murang'a	77.3	74.4	0.763	0.601	Nyamira	72.5	73.7	0.729	0.474
Kiambu	86.5	73.0	0.820	0.634	Turkana	65.9	79.8	0.705	0.566
Mombasa	54.0	65.4	0.578	0.499	West Pokot	77.8	82.4	0.794	0.602
Kwale	58.6	66.8	0.613	0.477	Samburu	64.7	78.9	0.694	0.588
Kilifi	67.5	69.0	0.680	0.551	Trans Nzoia	65.2	55.9	0.621	0.594
Tana River	79.2	55.5	0.713	0.569	Baringo	81.1	76.4	0.795	0.600
Lamu	66.2	74.3	0.689	0.553	Uasin Gishu	69.0	71.2	0.697	0.601
Taita Taveta	31.4	49.8	0.375	0.389	Elgeyo Marakwet	76.4	64.7	0.725	0.556
Marsabit	78.3	71.2	0.759	0.622	Nandi	51.1	62.5	0.549	0.487
Isiolo	42.8	60.1	0.486	0.458	Laikipia	48.3	56.4	0.510	0.528
Meru	62.3	72.5	0.657	0.513	Nakuru	27.0	55.9	0.366	0.412
Tharaka Nithi	80.7	75.0	0.788	0.586	Narok	70.2	79.2	0.732	0.601
Embu	34.5	57.2	0.421	0.424	Kajiado	16.9	39.3	0.243	0.333
Kitui	19.9	40.0	0.266	0.383	Kericho	82.4	75.1	0.800	0.626

	Literacy	Enrol-ment rate	Education Index	HDI Index		Literacy	Enrol-ment rate	Education Index	HDI Index
Machakos	44.5	71.4	0.535	0.519	Bomet	49.5	59.1	0.527	0.466
Makueni	59.4	77.2	0.653	0.488	Kakamega	66.8	73.2	0.689	0.542
Mandera	38.0	48.3	0.414	0.453	Vihiga	62.2	71.0	0.652	0.425
Wajir	13.3	39.8	0.221	0.359	Bungoma	69.4	71.5	0.702	0.487
Garissa	19.6	53.1	0.308	0.393	Busia	74.8	72.0	0.739	0.552
Siaya	74.8	70.6	0.734	0.453	National	63.7	67.4	0.649	0.527

Source: UNDP (2010)

non-literate population, who are beyond the school-going age bracket. Both the 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.

7.5.2 Human Development Index

Further, within Kenya, there are regional disparities in human resource development (Table 7.12). In 2009, Wajir County recorded the lowest Human Development Index (HDI) of 0.359, while Nairobi County recorded the highest HDI of 0.653. Table 7.12 shows that most counties have relatively low human development index. Majority (42) of the counties have HDI of between 0.4 and 0.7. Thus, although the national HDI measure may indicate that the country has an above average HDI of about 0.527, most counties would not meet the target of 1 unless targeted interventions are put in place. Close to 7 counties recorded HDI of less than 0.4.

7.5.3 Education Index

The Education Index is a weighted average of the adult literacy index and the combined primary, secondary, and tertiary gross enrolment. In the computation of the Education Index, the adult literacy index and gross enrolment rate (GER) index are given weights of 2/3 and 1/3, respectively. In 2009, Kenya achieved an Education Index of 0.649 with a high of 0.837 (Nyandarua) and a low of 0.243 for Kajiado.

7.6 Learning Achievements

7.6.1 Primary education KCPE performance

Pass rates at the end of the primary school cycle are promising but performance in languages is still wanting. Both the number and proportion of learners scoring 250 marks in the Kenya Certificate of Primary Examination (KCPE), taken at the end of the primary cycle, have been on the rise since 2010 from 54.3 per cent in 2010 to 56.0 per cent in 2012 and 54.1 per cent in 2013 (Table 7.13). The number of primary education end-cycle exam (KCPE) candidates increased from 746,080 students in 2010 to 839,759 in 2013. The mean performance in Kiswahili Insha, Mathematics, Science and Religious Education was on an upward trend. The mean score for English Language declined from 49.1 per cent in 2010 to 48.2 percent in 2012 but increased to 53.1 in 2013. That of Composition declined from 42.7 percent in 2010 to 42.4 per cent in 2012 and further to 41.9 in 2013, while that of Kiswahili Lugha declined from 52.8 per cent in 2010 to 46.4 per cent in 2012 and further to 45.8 in 2013.

In absolute numbers, there has been a reduction in KCPE performance based on the difference between the 2012 and 2013 KCPE performance index, but this varies from large percentage increases in Nairobi, Homa Bay, Turkana, Samburu, Mombasa, Marsabit, Kwale and Wajir counties, and large reductions in Nandi, Uasin Gishu, Baringo, Vihiga, Nyandarua, Laikipia, Tana River, Kitui and Isiolo counties as shown in Figure 7.3. The smallest decline

Table 7.13: KCPE performance, 2010-2013 (%)

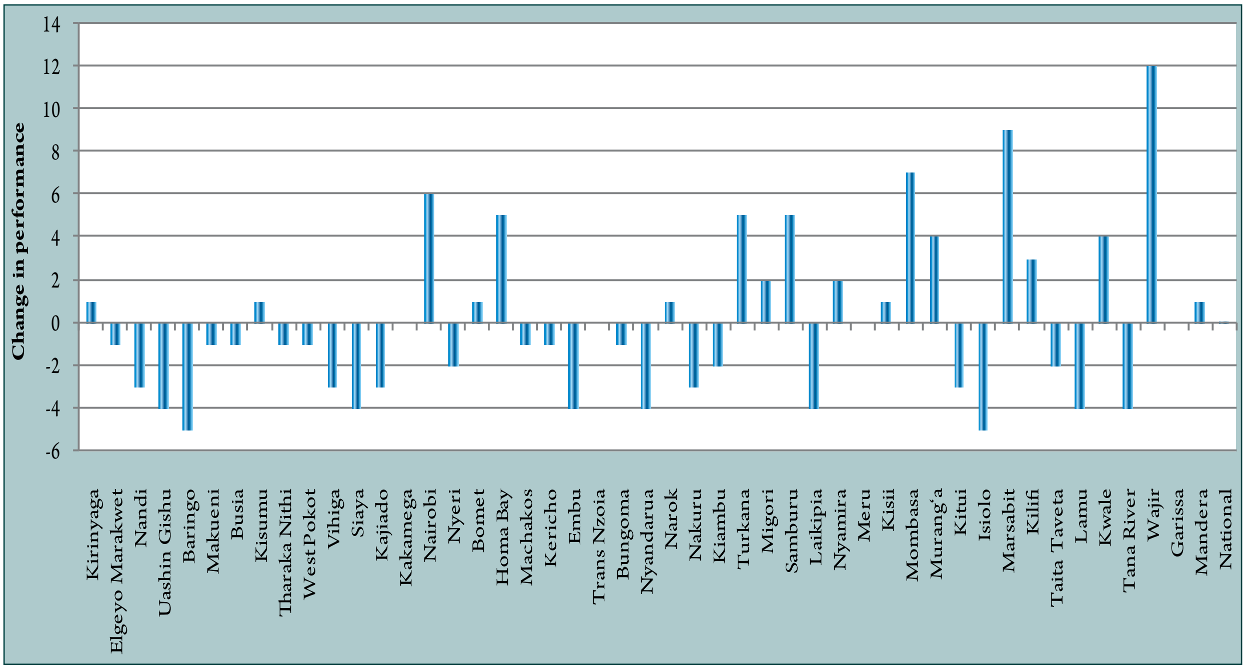
Number of candidates	2010	2011	2012	2013
Male	388,221	400,814	415,620	426,369
Female	357,859	375,400	396,310	413,390
Total	746,080	776,214	811,930	839,759
Subject				
English Language	49.12	47.10	48.16	53.06
English Composition	42.70	42.45	42.43	41.90
Kiswahili Lugha	52.76	41.46	46.38	45.78
Kiswahili Insha	50.30	54.68	54.98	52.43
Mathematics	53.80	52.18	56.30	52.86
Science	60.86	67.48	62.76	61.82
Social Studies	64.93	56.32	60.87	54.75
Religious Education	60.07	62.45	75.75	70.43
National Mean score	54.32	53.02	55.95	54.13

Source: Kenya National Bureau of Statistics - KNBS (Various)

in absolute terms occurred in Elgeyo Marakwet, Busia, West Pokot, Kericho and Bungoma counties.

Regional disparities in primary education end-cycle performance index can be explained by various factors, including limited policy focus on the actual teaching and learning processes in schools, long distances that children have to cover in order to get to school, especially in marginalized areas, inadequate school infrastructure and learning

Figure 7.3: Change in KCPE performance by county between 2012 and 2013



Source: Ministry of Education (2013), Management Information System materials, direct and indirect costs of schooling, and retrogressive socio-cultural practices.

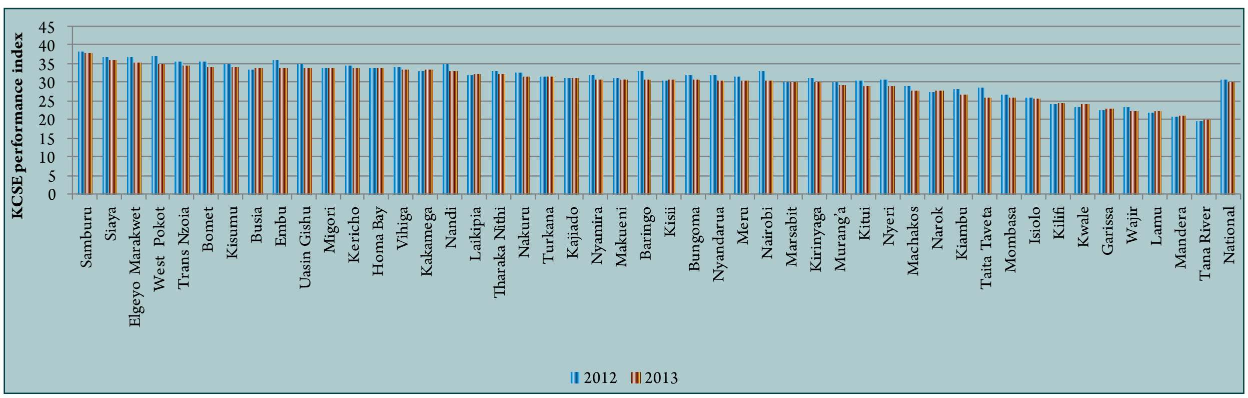
7.6.2 Learning outcomes at secondary level

The KCSE candidature increased from 354,341 in 2010 to 445,520 in 2013. However, only about 28 per cent of these candidates achieved minimum grades considered desirable for admission into the university; that is grade C+ and above for university education. Only 6.6 per cent attained B+ and above in 2011 and 2013 (Table 7.14).

Thus, about 72.9 per cent of these candidates do not achieve minimum grades considered desirable for admission into the university or other middle-level colleges, notably grade C+ and above. The mean score is, however, particularly lower for female candidates across all the years relative to their male counterparts.

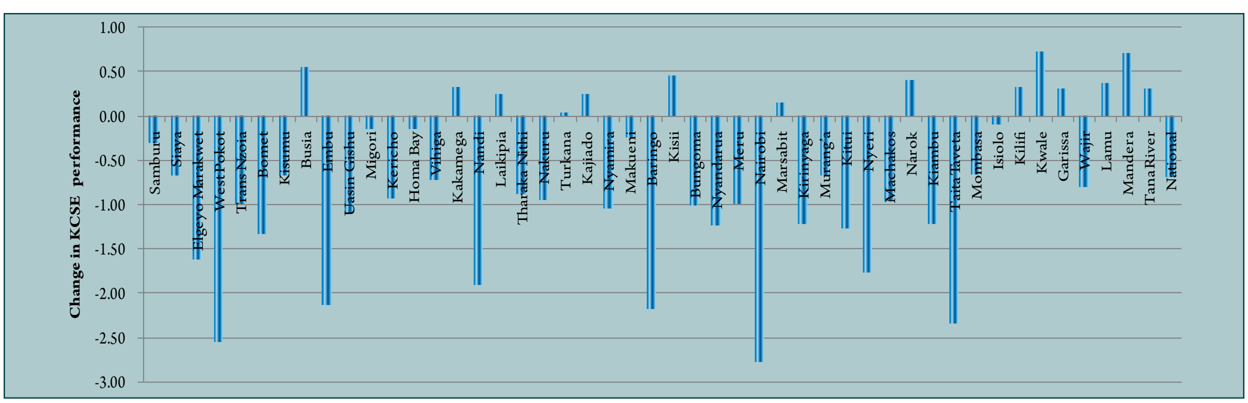
A county-level comparative analysis shows that the secondary education performance index in summative examinations and learning achievements declined in 34 counties between 2012 and 2013 (Figure 7.4). The proportion of candidates attaining C+ and above also declined from 30.7 per cent in 2010 to 28.1 per cent in 2012. This is a major policy issue since majority of the learners have not attained the requisite skills at this level of schooling.

Figure 7.4: KCSE performance index, 2012 and 2013



Source: Ministry of Education (2013), Management Information System

Figure 7.5: Change in KCSE performance index



Source: Ministry of Education (2013), Management Information System

Table 7.14: Performance in KCSE, 2010-2013

KCSE Grade	2010			2011			2012			2013		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
A	934	632	1,566	1,315	615	1,930	1,277	698	1,975	1,855	867	2,722
A-	4,425	2,140	6,565	6,322	2,741	9,063	5,947	3,288	9,235	6,276	3,492	9,768
B+	8,620	4,117	12,737	11,150	5,240	16,390	11,753	5,977	17,730	10,776	6,237	17,013
B	11,616	6,557	18,173	14,793	8,151	22,944	15,962	9,221	25,183	15,315	9,341	24,656
B-	15,103	9,624	24,727	18,344	11,771	30,115	18,936	12,174	31,110	18,216	12,648	30,864
C+	19,502	13,864	33,366	22,474	16,742	39,216	22,180	16,291	38,471	21,836	16,515	38,351
C	24,329	19,440	43,769	27,631	22,334	49,965	27,134	21,771	48,905	26,492	22,079	48,571
C-	28,178	24,232	52,410	31,955	26,890	58,845	31,582	27,166	58,748	32,385	28,378	60,763
D+	30,497	26,265	56,762	34,093	29,760	63,853	35,655	31,548	67,203	37,703	34,100	71,803
D+	29,532	27,329	56,861	32,995	31,397	64,392	37,694	35,872	73,566	39,672	38,505	78,177
D-	20,245	20,962	41,207	23,741	23,532	47,273	26,436	25,997	52,433	28,542	27,251	55,793
E	3,227	2,971	6,198	3,684	2,916	6,600	4,263	3,621	7,884	3,913	3,126	7,039
Total	196,208	158,133	354,341	228,497	182,089	410,586	238,819	193,624	432,443	242,981	202,539	445,520
% B+ and above	7.1	4.4	5.9	8.2	4.7	6.7	7.9	5.1	6.7	7.8	5.2	6.6
% C+ and above	30.7	23.4	27.4	32.6	24.9	29.1	31.3	24.2	28.1	29.8	23.8	27.1

Source: Kenya National Bureau of Statistics - KNBS (Various)

7.6.3 Education and status of employment

The effects of low education attainment are also observed in the labour market, with over 67 per cent of workers not having attained secondary education and above (Table 7.15). A large proportion (44%) of workers in subsistence agriculture do not have any qualifications, compared with 11 per cent in the formal wage sector. However, a majority of workers in subsistence agriculture have primary education (37%) in the form of Kenya Certificate of Primary Education, whereas in the formal sector, a large proportion of workers have secondary education (32%).

Majority of males and females in the non-wage sector have had only primary education. The statistics also indicate that the sample proportions for formal wage sector workers with secondary education exceed those for non-wage sector workers. In terms of rural and urban residence of paid workers, about 43 per cent of workers in urban areas have completed secondary education and above; the corresponding sample proportion for rural workers is about 21 per cent.

7.6.4 Overall education attainment for Kenya

Despite the introduction of Free Primary Education (FPE) in 2003 and Free Day Secondary Education (FDSE) in 2008, a substantial proportion of the population has no education (Figure 7.6), and eligible children are reportedly still out of school. Close to 25 per cent of the population does not have any education. Thus, although the introduction of subsidized schooling was intended to increase enrolment and retention and transition from primary to secondary education, a high number of youths are still out of school perhaps due to various socio-economic factors.

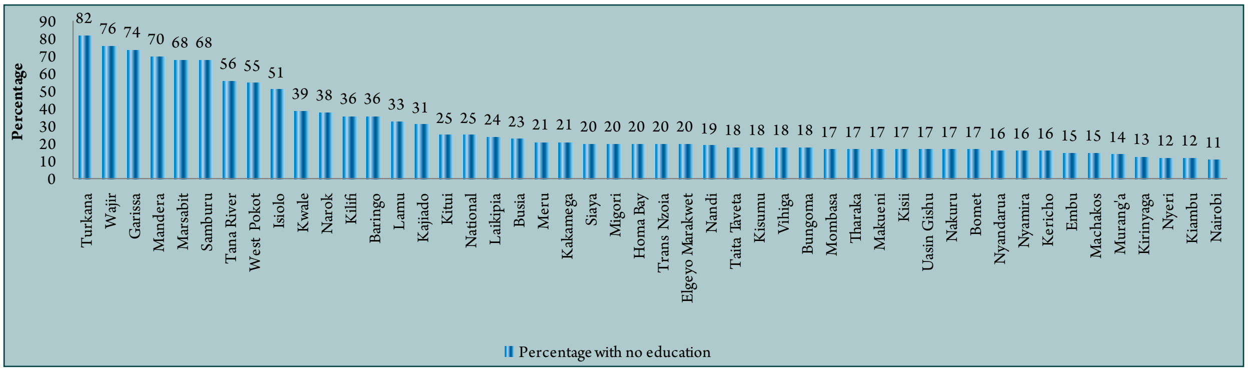
Some of the deterrent factors to school enrolment include socio-cultural factors, limited infrastructure

Table 7.15: Education attainment by employment status, 2009

All				Rural areas			Urban areas		
Employment status	None	Primary	Secondary+	None	Primary	Secondary+	None	Primary	Secondary+
Work for pay	11.1	20.7	32.7	8.5	15.5	21.0	23.5	33.6	43.2
Family business	14.0	12.6	13.3	13.6	10.8	10.1	15.8	16.9	16.1
Family agricultural holding	44.4	37.3	20.2	50.0	45.9	34.3	17.1	16.0	7.5
Intern/volunteer	1.7	0.8	1.2	1.4	0.8	1.0	3.1	1.0	1.3
Retired/homemaker	14.7	9.6	6.6	13.9	8.4	5.9	18.7	12.3	7.1
Fulltime student	1.2	12.1	18.6	13.2	13.2	21.9	1.5	9.5	15.6
Incapacitated	1.2	0.4	0.2	1.2	0.5	0.3	1.6	0.4	0.2
No work	12.1	6.5	7.3	0.3	5.0	5.5	18.8	10.2	9.0

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

Figure 7.6: Average population with no education, 2009



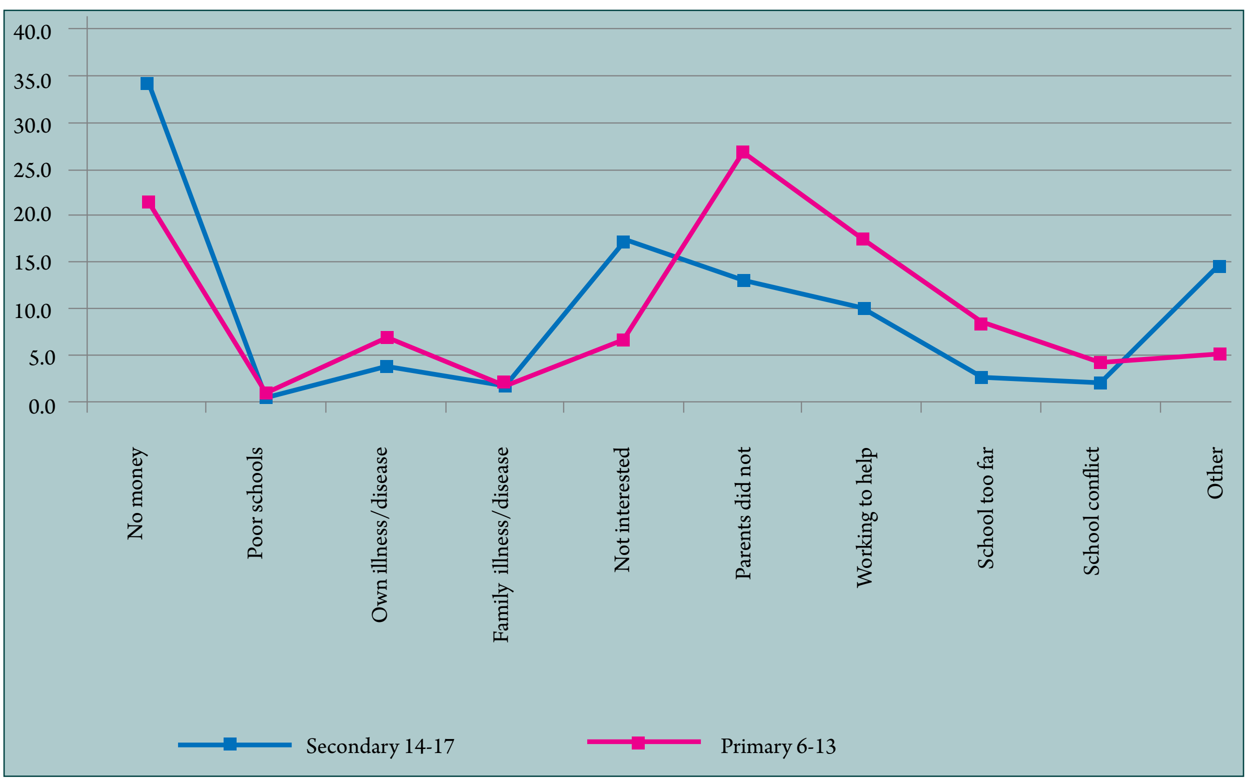
Source: Society for International Development - SID and Kenya National Bureau of Statistics - KNBS (2013)

in arid and semi-arid lands, and long distances to school (which all tend to negatively impact more on girls than boys), cultural bias, early marriages and associated parental responsibilities leading to dropouts and high poverty incidence.

Figure 7.7 provides some of the reasons why some children are out of school. On average, the issue of lack of money cuts across both primary and secondary school, though it is more prominent for children in secondary school. While the parental decision to enrol in school is a factor that affects enrolment mainly in primary school, lack of interest is the second highest factor that affects enrolment in secondary school.

Lack of interest could be as a result of unfavourable school environment, especially for adolescent

Figure 7.7: Reasons for being currently not in school

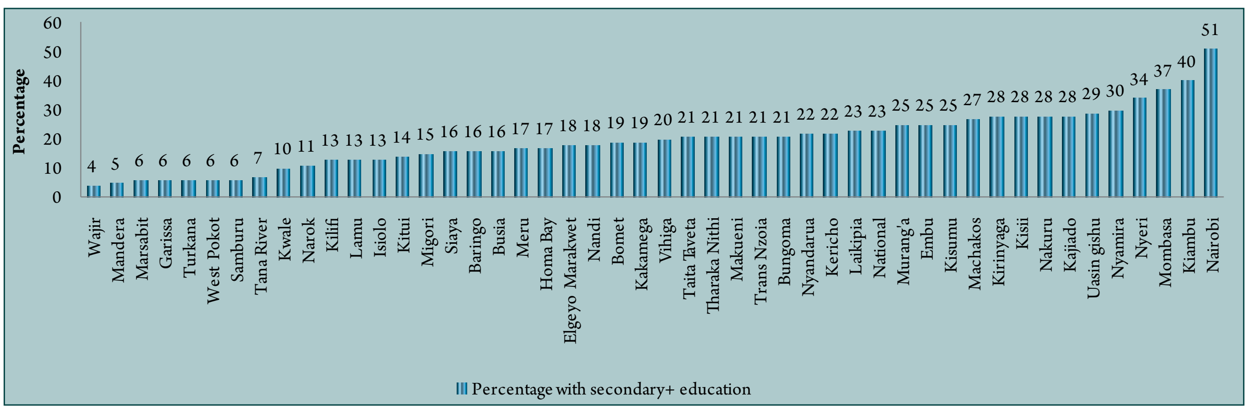


Source: Author's computation using Government of Kenya (2009) girls, and poor socio-economic and environmental conditions especially in the urban informal settlements (slum areas) where close to 60 per cent of the urban population lives. Child labour (paid and unpaid) is also one of the main obstacles to education participation.

However, majority (52%) of Kenyans have only attained primary level of education and only 23 per cent have attained secondary education and above. Regional analysis indicates that Nairobi County has the most educated population with over 51 per cent of the population having attained secondary education and above. Mandera (5%) and Wajir (4%), Turkana, West Pokot and Samburu (6%) have the lowest level of education attainment, with majority of the population (over 90%) not having attained secondary education. Figures 7.8 and 7.9 show the share of the population with primary and secondary education by county.

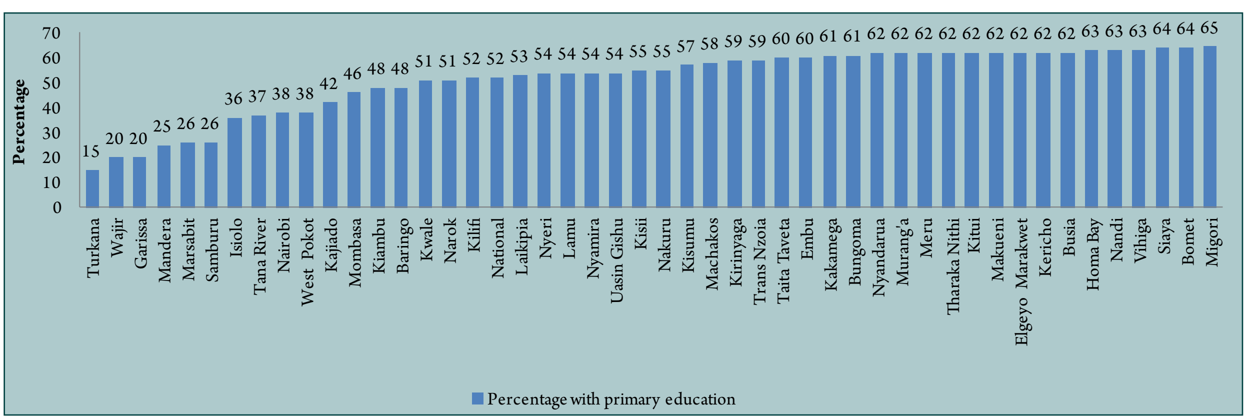
There are unique social, religious, cultural and economic challenges facing various categories of children in their quest for participation in education. Further, school managers at all education levels have introduced levies, which are largely responsible for keeping school-age children and youth out of school. On the other hand, some parts of the country could be lacking adequate schooling infrastructure and may be characterized by unfavourable learning conditions.

Figure 7.8: Average population with secondary education, 2009



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

Figure 7.9: Average population with primary education, 2009



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

Further, despite high spending on the sector by the government, households spend substantial resources on education. This takes the form of Parents and Teachers Association (PTA) charges, development charges, examination fees, sports fees, boarding fees and other school fees. Fees at private education institutions are high when compared to public education institutions. All these expenditures constitute off-budget spending on education, but the data is rarely available to enable assessment of the aggregate cost burden of schooling on households, government and other stakeholders, despite the free schooling interventions.

7.7 Global Education and Training Challenges

In absolute terms, the education system in Kenya has experienced massive expansion in enrolment and number of institutions over time. The sector, however, faces challenges of access, equity, quality, relevance and efficiency in the management of educational resources. The big question is whether the country is producing the kind of human capital it needs to transition into a middle-income country by 2030.

Education and training are the main mechanisms for acquiring knowledge and skills. Current issues in education and training in Kenya are many and range from policy and regulatory problems to ensuring compliance with the Education Act. The government has shown commitment in achieving development commitments such as the Millennium Development Goals (MDGs) and Education for All (EFA). It also hopes to address issues of access, equity, quality, relevance, service delivery, curriculum, teacher development and management as well as trainers in the areas of technology and entrepreneurial skills development.

The education sector plays a key role in providing the required knowledge, skills and attitudes necessary for growth and global competitiveness. The education sector programmes such as Free Primary Education and Free Day Secondary Education have been geared towards improving efficiency in the core service delivery of providing accessible, equitable and quality education and training. The sector, by ensuring the provision of an all-inclusive quality education that is accessible and relevant to Kenyans, contributes substantially to economic growth, expansion of employment opportunities and an overall healthy population.

Despite these positive steps made in the education sector, a lot still needs to be done. Rapid population growth and the resulting youth bulge remain major concerns in the context of widespread un(der) employment. Students in institutions of higher learning do not just need employment; they also need to create jobs based on what they learn. Therefore, what matters most is to make sure that the education system delivers the skills needed in emerging economies, and incubates entrepreneurs. In turn, as people become more educated and healthier, they will have fewer children.

This creates the possibility of a demographic dividend, similar to what underpinned economic take-off in other parts of the world. Today, Kenya has more adults than children, more potential workers than dependants, and an increasingly urban population. This could free up resources; when families have higher incomes but fewer children, each child receives more attention (personal and financial). Nationwide, the demographic dividend could translate into an education dividend as well. Education matters a lot as it is one of the single most powerful predictors of future income and social mobility.

Kenya's education landscape is changing rapidly. At independence, most adult Kenyans had received no formal education. Since then, there have been two statistical watershed moments. First, since 1980, the number of Kenyans with primary education has exceeded those with no education. Just over a decade later, those with secondary education also exceeded those with none. Today, a majority of Kenyans have had the benefit of attaining basic education, and almost all children are going to school, except in Northern and North-Eastern parts of Kenya.

The country has 25 million people above the age of 15. About half of them (13 million) have received primary education (up from 11 million in 2000). But the most rapid increase has been in secondary education. In 2000, Kenya had less than 4 million people with secondary education. This number has risen to 7 million today, and is expected to triple to 20 million by 2035. Tertiary education is also picking up from a low base and by 2020, the number of Kenyans with a university degree is also expected to exceed those without any formal education.

Before 2050, there will be a final major cross-over. By 2035, more Kenyans will have received secondary education than primary. Kenya will have 45 million people above the age of 15 (and some 70 million in total), 45 per cent will have completed secondary education, 44 per cent primary education, and 6 per cent university, and only 5 per cent of Kenyans will not have had any formal education. Just a few years ago (in 2000), three quarters of Kenyans had no or just primary education.

However, putting children in school is only a first step; they also need to be learning something useful there. The focus must now switch from quantity to quality education. Getting good learning outcomes will require significant investments in educational personnel and infrastructure. While class sizes are somewhat manageable in the cities, they are very large in rural areas. Moreover, on average, 13 per cent of teachers do not report to school, and many struggle to teach core foundational reading and mathematical skills. As a result, many children fail basic reading and mathematics tests, even with several years of schooling. Teachers and administrators need to be trained. For instance, head teacher leadership is critical to ensure high standards, and to interface with parents. Unless these quality bottlenecks are tackled, there is no guarantee that Kenya's education dividend will pay off. Kenya has taken the necessary first step; most children are now in school and are staying there longer than most of their parents did.

7.8 Conclusions and Policy Options

7.8.1 Conclusions

Despite Kenya's free primary and secondary education policies that greatly subsidize basic education, it is estimated that about 4 per cent of children aged 6-13 years and 61.5 per cent of the youth aged 14-17 years are not in school, and there are regional inequalities in educational attainment. The majority of the population is still stuck at low levels of educational achievement. On average, 25 per cent of the population has no education; 52 per cent has only primary education and 67 per cent of the population has not attained secondary education and above. The effects of low education attainment are also observed in the labour market, with only 32.7 per cent of workers in the formal wage sector having attained secondary education and above.

County-level analysis shows that various counties are at different levels of human resource development. Consequently, differentiated policy interventions are required both in the short and medium term to ensure that each county meets both the national and international commitments in educational development, such as the MDGs by 2015. Although there has been a substantial increase in participation rates at all levels of education, there are disparities across regions and counties. The HDI and participation rates are particularly low among some counties, especially in arid and semi-arid lands and those within pockets of poverty. Primary education recorded the highest participation rate, while access rates at ECDE, secondary and tertiary education are still low. Literacy levels are still low in some counties, hence the need to strengthen adult education programmes in the affected areas.

Education spending is highly decentralized but there is an uneven degree in attainment of education outcomes and policy targets. As a result, households spend substantial resources to help improve service delivery at local levels. Disparities in education outcomes at county level are further aggravated by inefficient utilization of available resources manifested through unsatisfactory learning outcomes and limited emphasis on monitoring of actual teaching and learning in educational institutions. The integrated public financial management system in the education sector is either weak and or non-existent, especially at sub-national levels, resulting in under-reporting of off-budget education expenditures.

7.8.2 Policy options

Interventions for universal access to basic education

Following the introduction of Free Primary Education (FPE) in 2003, additional pressure has been exerted on existing physical infrastructure and teaching staff. This has resulted in overcrowding in some schools, which is not conducive to good learning. In addition, there is a limited number of primary schools serving those in arid and semi-arid lands, urban slums and other areas with "pockets" of poverty. The fact that the net enrolment ratio in primary education is about 95.9 per cent implies that about 4.1 per cent of the primary school-age population is out of school. Regional disparities are also apparent, with some counties recording the lowest net enrolment rates. Thus, within the targeted programme for the vulnerable groups, both demand- and supply-side constraints affecting the effectiveness of free schooling should be considered. Some of these constraints could include ensuring adequate provision of physical infrastructure and teaching staff, improving the school learning environment, and addressing socio-cultural factors that work to constrain children from enrolling in schools. There is also need for detailed analysis of vulnerabilities in education, special education, talent development and support for alternative programmes such as informal education and open secondary education schooling.

Address demand-side constraints

Girls are less likely to attend school than boys (Onsomu *et al.*, 2006). Perhaps this is due to some retrogressive socio-cultural perceptions that the expected future returns from male children to households are greater than for female children, especially after marriage. On the other hand, the age factor tends to hinder enrolment at both primary and secondary school levels. This can be associated with the fact that an average child enrolled at any particular class in relation to a given class cohort has a higher likelihood of dropping out of school. This may also be associated with behavioural changes among adolescents, who find themselves enrolled in a lower grade compared to their age mates and, therefore, make them have negative attitudes towards education. To address these demand-side challenges, which may hinder the country from attaining the MDGs on education, there is need for awareness campaigns on the expected long-term returns for basic education regardless of gender. The main reasons advanced for low school enrolments for both primary and secondary education, including limited education infrastructure and indirect costs of secondary education, need to be addressed.

Deepening adult education programmes

Illiteracy has been associated with negative effects on household enrolment choice for school-age children, both at primary and secondary education levels. On the other hand, literate household heads are likely to provide a conducive learning environment for their children, while supporting them through their learning processes. Thus, any improvement in household income through poverty eradication interventions, for instance, is likely to have a positive effect on enrolment. This can be through the implied improvement in household economic capabilities.

Make education costs affordable

Direct education costs include tuition fees, payments for school supplies, uniforms, development projects, additional textbooks, contributions for special projects and activities, transport and other related costs. Although primary and secondary day education are free, households are meeting indirect education expenditures. According to a recent UNESCO analysis (UNESCO-Ministry of Education, 2013), households cover about 33 per cent of education costs in the county, while the government covers about 58 per cent of schooling costs. High education costs have a significant and negative impact on access to schooling. School fees, for instance, reduces the probability of enrolment choice especially among the low-income quintiles. Consequently, policy interventions aimed at lowering the cost of education on households, including fee waivers for poor children, would improve school participation. The policy reforms on free primary (starting 2003) and secondary education (starting 2008) are laudable but it will be important to establish the actual costs of education and the realistic unit cost of schooling in order to guide urgent reforms in education financing. It is important to ensure that no additional levies are charged by schools through full implementation of the set fee guidelines, especially at secondary education.

Addressing educational deficits in Kenya

Every Kenyan has a right to access quality and relevant education and training. There should be an enabling environment, opportunities and mechanisms to provide opportunities to those seeking to pursue quality education at all levels irrespective of region, gender, ethnicity, religion, political affiliation or social status. Attention should be given to teaching resources, planning, research and evaluation to ensure improved quality of education.

There is need to focus on demands for the labour market in order to promote the professionalism, knowledge and qualifications needed in the various sectors of the economy. New market-relevant programmes with redefined curricula imparted with life-skills and technology should be developed.

TVET rebranding is needed with a view to repositioning the sub-sector as a critical avenue for human resource development. Training programmes should be tailored towards ensuring appropriate contribution to the economy, and improved access to tertiary education.

Partnerships and linkages with industries are critical. Creating and promoting an enabling environment for public-private partnerships for enhancing investment in technical training could promote close and productive interaction between academia, the private sector and public institutions in all fields.

Moreover, there is need to appreciate the importance of early childhood education and its impact on latter years of education and labour market outcomes. There is also need to address issues of disparities, inequalities, despair and deficits in both skills and values, and also make deliberate interventions targeting 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.

PART II

SELECTED SECTOR PERFORMANCE

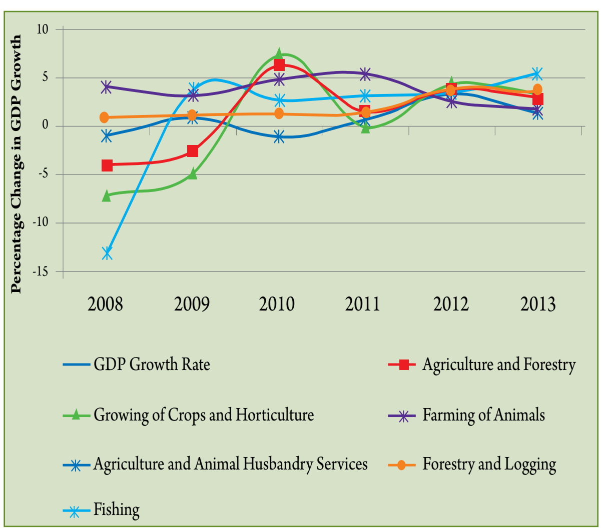
Chapter 8

Agriculture

8.1 Overall Performance

The agriculture sector has recorded mixed growth since 2009, with 6.4 per cent growth in 2010, slowing down in 2011 to 1.5 per cent, increasing to 3.8 per cent in 2012, but slowing down again to 2.9 per cent in 2013. Figure 8.1 shows the percentage change in GDP growth for the different sub-sectors of agriculture.

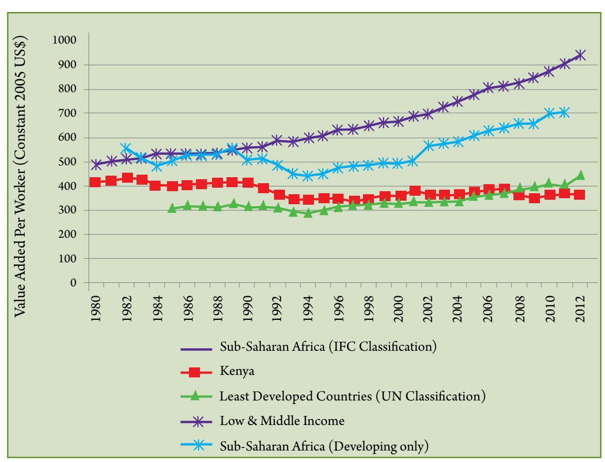
Figure 8.1: Percentage change in GDP growth for sub-sectors in agriculture, 2008-2013



Source: KNBS (2014), Economic Survey

Taking into account the value added per worker of the sector, it is evident that agricultural productivity is declining steadily compared to other Sub-Saharan African countries (Figure 8.2). The possible explanations include climate variability and natural disasters such as droughts and/or floods; low adoption of technology such as irrigation technology due to information asymmetry; or inadequate access to relevant information and at the same time lack of resources to implement the technologies. In addition, international terms of trade have been largely unfavourable. Moreover, the rising costs of agricultural inputs, fertilizers and agro-chemicals due to high crude prices have not helped the sector either.

Figure 8.2. Agriculture value added per worker, 1980-2012



Source: World Bank (2003), World Bank database

8.2 Agricultural Production

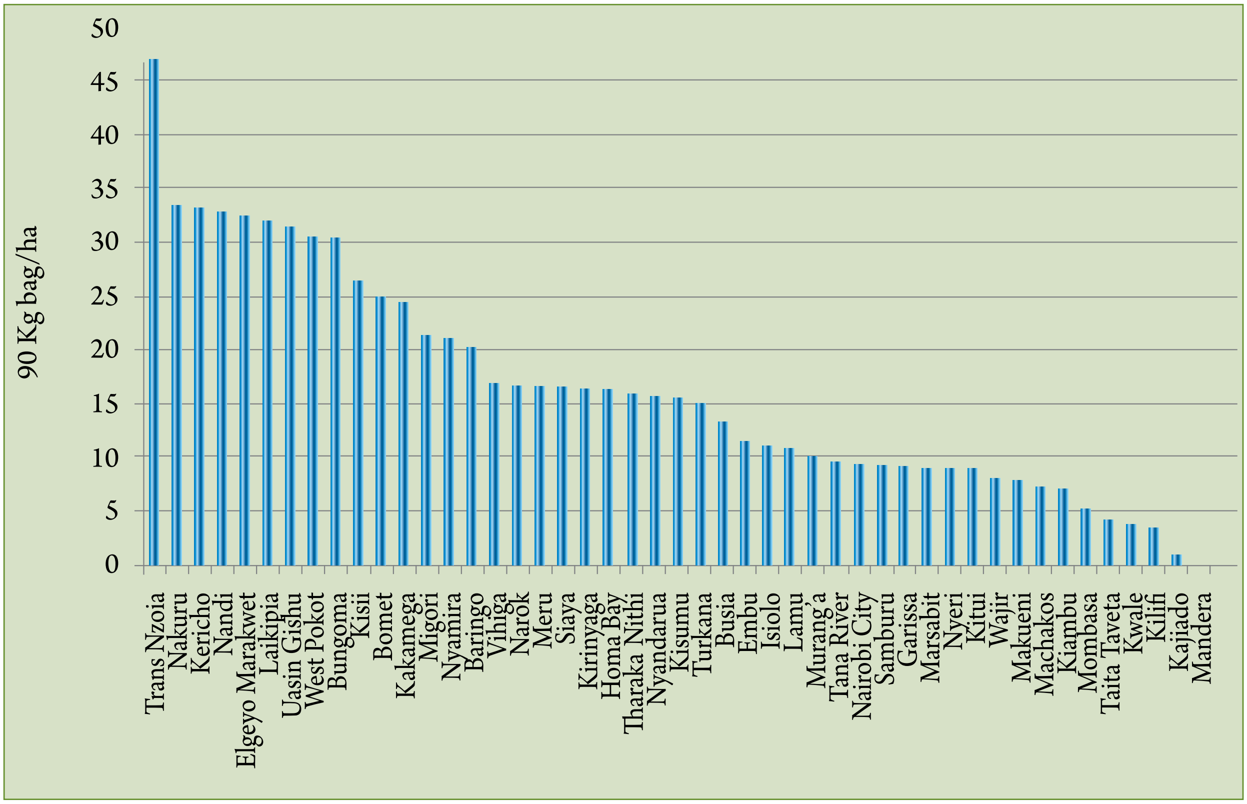
Agricultural production in Kenya is carried out in two distinctly different systems. The first is large-scale production that is typically capital intensive, has higher input use, better management skills, and thus higher yields. The second is the small-scale production that has higher labour intensity and lower input use (KIPPRA, 2009). Therefore, a key driver to productivity growth involves increased fertilizer use 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), made possible by increased density of input stockists in farming areas, thus reducing transaction costs (Ministry of Agriculture, 2012).

8.3 Food Production

Figure 8.3 shows that Trans Nzoia County has the highest productivity of 47 bags/ha of maize compared to other counties. Kericho, Nakuru, Nandi, Laikipia, Elgeyo Marakwet, West Pokot, Bomet, and Bungoma counties recorded an average of 30 bags/ha. Beans, on the other hand, recorded an average of 9 bags/ha in 8 counties. The output recorded is attributed to the production system, whereby beans are inter-cropped usually in small scale production systems while maize is produced in pure stand in large-scale production systems.

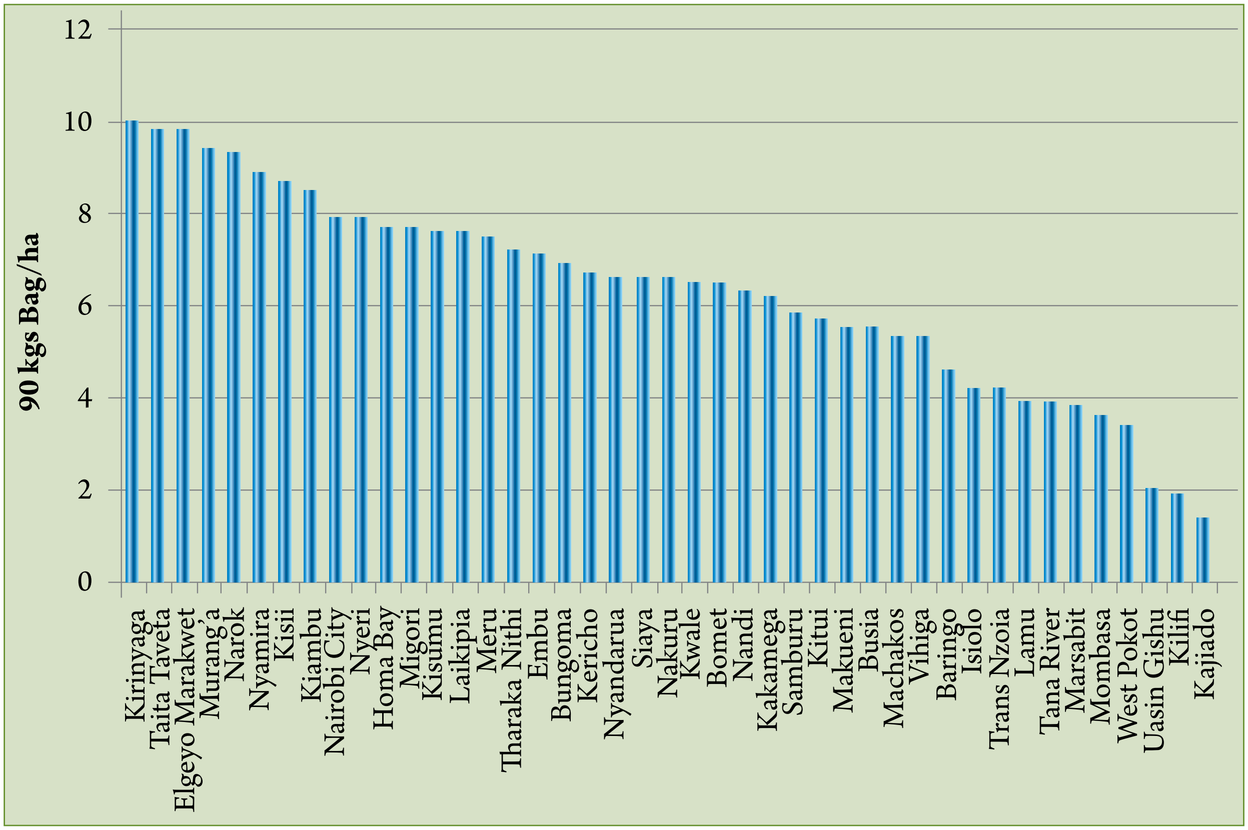
Tea, coffee and horticulture are Kenya's leading agricultural export earners. These crops recorded decline in production in 2013. However, the value of exports was higher than the previous years due to domestic currency earning. Tea earnings increased by 17 per cent, while coffee earnings increased by 50 per cent. Horticultural earnings increased by 8 per cent. Horticulture was the second-leading foreign

Figure 8.3: Dry maize productivity by county, 2012



Source: State Department of Agriculture (2013)

Figure 8.4: Bean productivity by county, 2012



Source: State Department of Agriculture (2013)

exchange earner. Table 8.1 shows the contribution of the different sub-sectors in horticulture in terms of volume and value. Only 4 per cent of horticultural produce is exported, with the other 96 per cent being consumed locally (Ministry of Agriculture, 2014).

8.4 Livestock Production

From the data in Table 8.2, growth in the livestock sector has been nominal. The livestock production sub-sector is growing faster compared to any other agricultural sub-sector in Kenya. Recent statistics point that the livestock sub-sector in Kenya accounts for approximately 10 per cent of the national Gross Domestic Product (GDP). This is 30 per cent of the agricultural GDP. It employs about 50 per cent of the national agricultural workforce and about 90 per cent of the Arid and Semi-Arid Land (ASAL) workforce. About 95 per cent of household income in ASALs comes from this sub-sector (Behnke and Muthami, 2011).

Table 8.1: Volume and value of horticultural exports, 2009-2013

Year	Volume (MT)					Value (billions)				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Flowers	87.0	120.2	121.9	123.5	105.6	30.8	35.6	44.5	42.9	56.0
Vegetables	72.5	75.6	68.1	133.9	77.2	16.3	18.6	20.0	30.9	22.9
Fruits	72.5	44.2	37.1	123.0	31.1	2.3	2.8	3.6	13.9	4.5

Source: Horticultural Crops Development Authority (2014)

Table 8.2: Livestock numbers, 2010-2012

Type	Description	2010	2011	2012
Cattle	Dairy	3,673,212	3,739,161	4,155,121
	Beef	10,307,309	10,388,135	12,064,746
Sheep	Wool	788,775	798,289	1,549,387
	Hair	10,046,589	10,140,621	13,871,406
Goats	Dairy	257,643	294,279	270,433
	Meat	17,920,736	17,694,066	20,763,044
Pigs		342,585	344,155	380,225
Rabbits		633,728	674,897	722,079
Poultry	Broilers	2,213,750	2,600,924	2,717,046
	Layers	2,675,571	2,847,225	3,047,178
	Indigenous	24,538,906	26,219,935	27,553,228
	Others	779,568	639,807	656,692
Donkeys		989,389	946,319	1,342,722
Camels		1,535,473	1,787,379	2,824,688
Hives	Log	0	0	1,430,717
	KTBH	0	0	166,321
	Lang	0	0	120,309
Ostrich		1,041	978	6,073

Source: State Department of Livestock (2013)

8.4.1 Annual production of milk, meat and eggs

Milk is an important livestock product; it is produced in 44 counties in the country, providing a gross value of Ksh 106.8 billion in 2012. Production by county shows that more than 50 million litres are produced annually in 19 counties, with Kiambu and Murang'a producing over 200 million litres, while Nyandarua County leads with 285 million litres annually (Figure 8.5).

Cattle are the predominant source of protein, supplying over 75 per cent of animal meat protein, followed by mutton and poultry as shown in Table 8.3.

Table 8.3: Type of animal meat protein contribution by %, 2012

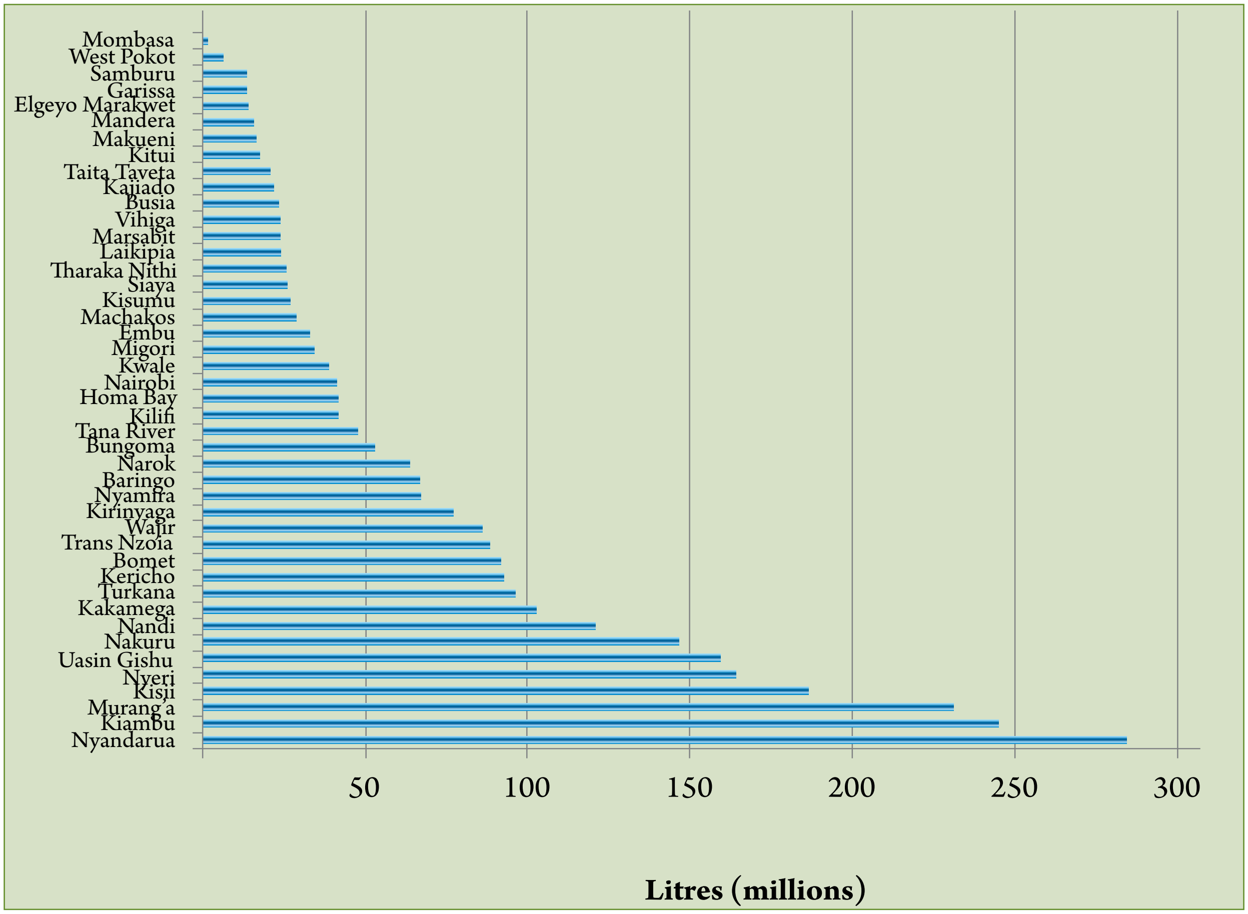
Description (kg)	% contribution of animal protein
Beef	76.57
Mutton	16.06
Poultry meat	4.60
Chevon	2.14
Pork	0.38
Camel meat	0.23
Wool	0.02
Rabbit meat	0.00
	100.00

Source: State Department of Livestock (2013)

8.5 Fish Production

The harvest from fisheries (from lakes) has decreased from about 136,000 metric tonnes in

Figure 8.5: Milk production by county, 2012



Source: Ministry of Agriculture (2013)

2009 to about 123,000 metric tonnes in 2011. Fish farming has increased from 4,895 metric tonnes in 2009 to 12,153 metric tonnes in 2010 and further to 23,501 metric tonnes in 2013 (Table 8.4), while marine fisheries has remained relatively the same.

Table 8.4: Volume of fish production (metric tonnes), 2009-2013

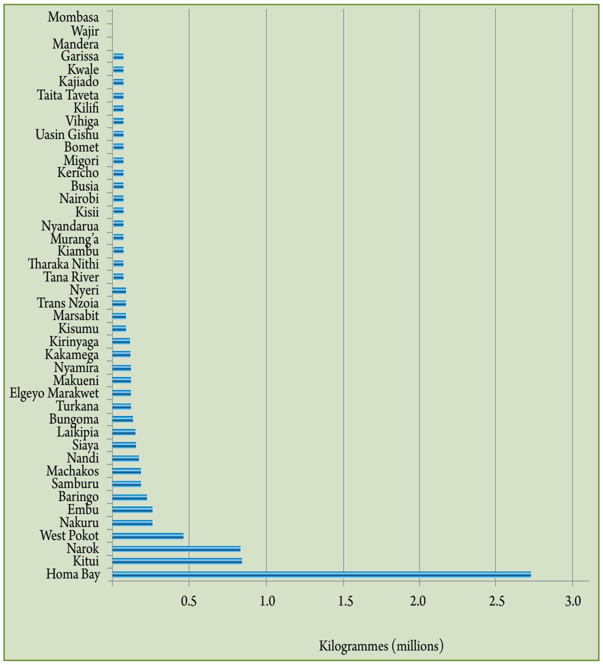
Year	Fish farming	Fisheries	Marine fish
2009	4,895	133,600	7,926
2010	12,153	140,751	8,406
2011	19,265	149,046	8,572
2012	21,487	154,015	8,865
2013*	23,501	161,849	9,138

Source: Ministry of Agriculture (2014)*Provisional

8.6 Bee Keeping

Bee keeping (apiculture) is gaining popularity in the counties due to the fact that the products are not highly perishable, namely honey and wax. Figure 8.6 shows that Homa Bay County leads in terms of production, with over 2.7 million kilogrammes of honey harvested annually. Kitui, Narok, West Pokot and Nakuru counties follow with over 800,000 kilogrammes coming from Kitui and slightly over 260,000 kilogrammes from Nakuru.

Figure 8.6: Honey production by county, 2012



Source: Ministry of Agriculture (2013)

8.6 Overview of Budget Execution

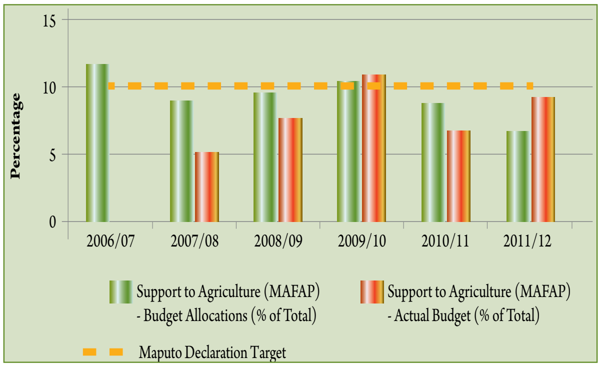
Highlights of the budget execution will follow the Monitoring of African Food and Agricultural Policy (MAFAP) methodology, which proposes to capture all public expenditures that are undertaken in support of food and agriculture sector development regardless of the ministry that implements the policy or the source of funding. This includes public expenditures in the rural areas, which play an important role in the sector. The methodology proposes the following classification, which encompasses relevant expenditure items (OECD, 2008) such as: agriculture-specific policy expenditures (distinction between support to producers and other agents in the value chain, and general sector support); agriculture-supportive policies expenditure; and non-agricultural expenditures.

The agriculture and rural development sector in Kenya is under political oversight by the following ministries: Agriculture, Livestock and Fisheries Development and Cooperatives and Marketing Development. Other sector-related ministries include: Water and Irrigation, Natural Resources and Environment, Forestry and Wildlife, Ministry of Regional Development Authorities, and Ministry of Lands. Expenditures by these ministries are normally considered when measuring support to agriculture and rural development in Kenya.

Most of the expenditure that supports development of the agriculture sector occurs outside these key agriculture sector ministries and institutions. In Kenya, the supportive ministries include: Ministry of State for Development of Northern Kenya and Other Arid Lands, Ministry of Health (rural health), Ministry of Education (rural education), Ministry of Special Programmes, and Ministry of Roads (rural roads).

The approved budget in support of food and agriculture sector development covered in this analysis[1] grew by 63 per cent in nominal terms from 2006/07 to 2011/12, reaching Ksh 105.82 billion. The total actual expenditure has grown at a slightly higher pace and has increased by 149 per cent between 2006/07 and 2012/13, reaching Ksh 75.32 billion. The growth in capital expenditure for the agriculture sector is much slower than the total national capital expenditure growth. In relative terms, the MAFAP analysis indicates that national agricultural spending declined from 6 per cent of total government spending in 2006/07 to 5 per cent in 2011/12.

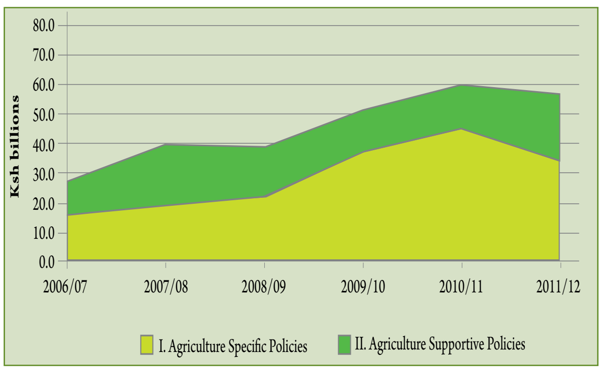
Figure 8.7: Share of measured support to agriculture in the total government expenditure in Kenya



Source: MAFAP (2014)

Agriculture-specific expenditure accounted for an average of 60 per cent of total expenditure in support of food and agriculture sector development for the period under review (Figure 8.7). The proportion of agricultural supportive expenditure in overall agricultural support grew from 45 per cent in 2006/07 to 56 per cent in 2011/12 after dipping slightly to 40 per cent in 2009/10. In nominal terms of the level of spending, agriculture-specific expenditure more than doubled over the period of analysis from Ksh 15.2 billion in 2006/07 to Ksh 30.5 billion in 2011/12, while agriculture supportive expenditure increased by about a half, only from Ksh 12.3 billion in 2006/07 to Ksh 20.06 billion in 2011/12 (Figure 8.8).

Figure 8.8: Composition of public expenditures in Kenya, 2006/07-2011/12

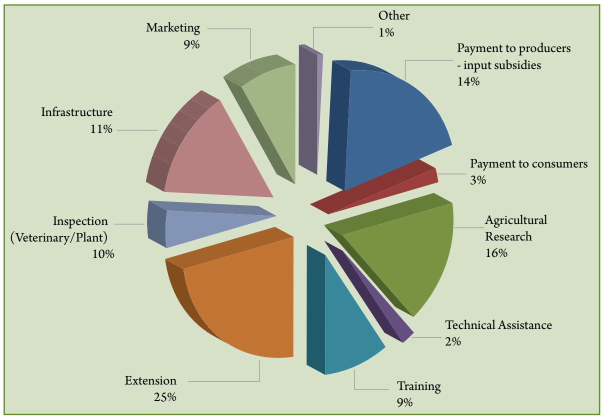


Source: MAFAP (2014)

During the period under review, the largest share of payment to agents in the agriculture-specific expenditure supported extension at 25 per cent followed by agricultural research at 16 per cent, input subsidies at 14 per cent, and infrastructure and veterinary services at 11 and 10 per cent, respectively. This expenditure is a reflection of two of the six interventions identified in the Agriculture Sector Development Strategy (ASDS, 2010-2020) to fast-track growth in agriculture. The two interventions aim to improve the delivery of research, extension and advisory services and improve access to quality inputs and financial services (Figure 8.9).

The other components of the payments to agents in the agri-food sector were payments to producers in form of input subsidies. These were investments in on-farm irrigation and livestock breeding programmes, in addition to on-farm services such as veterinary services, and variable inputs (seed, fertilizer). Their importance in the agriculture-specific expenditures increased over time. There was also some expenditure on payments to consumers, particularly on school feeding programmes. The share of these expenditures also increased in the analyzed period. There were no payments to processors, traders, transporters and inputs suppliers.

Figure 8.9: Composition of agriculture-specific expenditures in Kenya, average 2006/07-2011/12



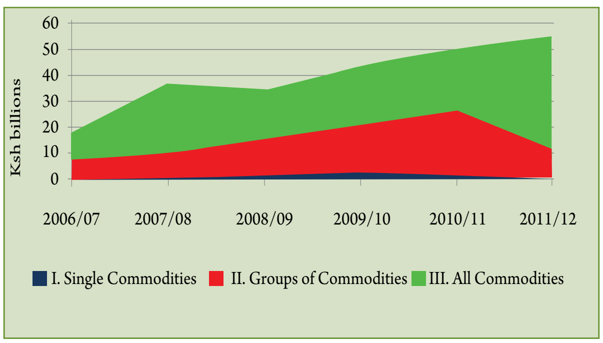
Source: MAFAP (2014)

Agriculture-specific expenditures can also be decomposed by commodities they intend to support. Each expenditure measure within this category has been attributed as an appropriate commodity depending on whether it supports an individual commodity (e.g. dairy for the Smallholder Dairy Commercialization Programme), a group of commodities (e.g. livestock for the Livestock Breeding and Laboratory Services) or all commodities (for the National Agriculture and Livestock Extension Programme–NALEP).

Expenditures in support of all commodities are the most important throughout the period under review and represent more than 60 per cent, on average, of agriculture-specific spending over the period under review (Figure 8.10). Expenditures in support of groups of commodities constitute about 37 per cent of agriculture-specific spending, while support to individual commodities account for only a small proportion of spending in this category over the 2006 -2012 period.

Among expenditures in support of individual commodities, the largest share goes to maize, followed by cotton, silk, coconut, coffee and tea. Among expenditures in support of groups of commodities, the biggest share goes to livestock, followed closely by crops, then horticulture, fish, forestry, crops and horticulture, sheep and goats, apiculture and livestock.

Figure 8.10: Agriculture-specific expenditures in Kenya: Support to commodities, 2006/07-2011/12



Source: MAFAP (2014)

In summary, the level of expenditure on agriculture falls well below the target of 10 per cent of total government spending recommended by the Comprehensive Africa Agriculture Development Programme (CAADP). Even if all donor contributions to agriculture and rural development were covered, the level of spending would still not reach the target. However, even these scarce resources would contribute more to achieving better sector performance if budget allocations were fully used.

Secondly, the composition of public expenditure in support of food and agriculture sector development could still be improved. The composition of public expenditure is just as, if not more, important as the total level. There may be trade-offs between spending in different categories (for example, spending on rural infrastructure versus subsidies for seed and fertilizer) and there may be complementarities (for example, between spending on extension services and the development of infrastructure that would enable farmers to get their output to the market). Investments in agricultural infrastructure, both on and off-farm, are a key element in reducing transaction costs and improving farmers' access to markets. However, there is no support to storage development and there is very little support to marketing.

8.7 Food and Nutrition Security

The United Nations defines food and nutrition security as "all people at all times having both physical and economic access to the basic food they need". The Kenya Food Security Steering Group, 2008, extends this to define food security as "a situation in which all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food, which meets their dietary needs and food preferences for an active and healthy life". Sessional Paper No. 10 of 1965 noted that hunger, disease and ignorance were the major challenges in Kenya and, over the years, the three have received considerable attention from policy makers and Kenya's development partners. In the recent past (2011), the government developed a national food and nutrition security policy, which aims at building synergies and assisting in the implementation of various government policies and strategies that focus on assuring food nutritional security for its population. The government's initiatives to revive the economy and the agriculture sector are fully in line with its international commitments and declarations to end hunger and extreme poverty, including those made at the World Food Summit of 1996, the United Nations Millennium Development Goals (MDGs), and the Comprehensive Africa Agriculture Development Programme (CAADP) of the New Partnership for Africa's Development (NEPAD). The food and nutrition policy takes into account the constitutional rights of citizens; that is, basic human rights, child rights and women's rights, including the universal 'Right to Food'. This includes sufficient intake of calories and nutritious diets that guarantee health, growth and development at all stages of life and for all citizens. The Constitution also ensures that annual reports are made to the National Assembly on the progress made by the country in fulfilling its international obligations related to agriculture, food and nutrition security, and domestication of international and regional treaties and conventions related to agriculture and nutrition.

Kenya suffered droughts in 2000, 2004, 2006, 2009 and 2011 and floods in 1997/98, 2002 and 2006. In each case, at least 2 million people faced starvation, and at least US$ 1.5 billion was spent getting food aid to vulnerable people. The proportion of undernourished people in Kenya has remained virtually stagnant since 1990 at 32 per cent, although in absolute numbers the figure has grown from 8 million to 11.2 million. Extreme weather conditions have been occurring with greater frequency and severity, and the Medium Term Plan II (2013-2017) for the implementation of Vision 2030 highlights climate change and population as important for sustainable development.

As highlighted in the Medium Term Plan (2013-2017) of Vision 2030, nutrition deficiency disorders, among other things, still dominate the morbidity profile in the country. Therefore, poor nutritional status is a challenge in Kenya because malnutrition is an underlying factor accounting for 54 per cent of deaths among children under-5 years. Many other children are stunted due to long-term deprivation of quality nutrition. Over 70 per cent of children less than five years suffer from vitamin A deficiency. Also, malnutrition is not only a problem of children; there are many adults who are suffering as well. For instance, it is estimated that 55 per cent of women of reproductive age are anaemic. Table 8.5 shows the food balance sheet from 2009 to 2013. Notably, the per capita daily supply of proteins increased from 60 kilocalories in 2009 to 74 kilocalories in 2012, but decreased to 67 kilocalories in 2013. The caloric daily supply for vegetable products increased from 1,657 kilocalories in 2009 to 1,993 kilocalories in 2013 as shown in Table 8.5.

A number of food items form a significant proportion of the basket of goods consumed by the population, notably maize (both loose grain and flour), wheat, sugar, palm oil (in the form of cooking fat), beans, rice, bovine meat (with bones) and potatoes. Kenya's per capita daily calorie intake has increased from 1,954 kilocalories in 2009 to 2,284 kilocalories in 2013 (KNBS, 2014). Of this, maize accounts for 27 per cent, wheat 11 per cent, sugar 7 per cent, pulses other than beans and peas 7 per cent, rice and palm oil 5 per cent, and bovine meat 3 per cent. Sweet potatoes and cassava each account for just over 1 per cent of caloric intake, while potatoes account for less than 1 per cent. This is above what the Food and Agriculture Organization

Table 8.5: Food balance sheet, 2009-2013

Indicator		2009	2010	2011	2012	2013*
Per capita daily supply	Calories	1,954	2,153	2,253	2,447	2,284.0
	Proteins	60	66	69	74	67.0
	Fats	42	49	47	47	46.0
Per capita caloric daily supply	Vegetable products	1,657	1,829	1,955	2,148	1,993.0
	Cereals	941	976	959	988	917.0
	Animal products	297	325	298	299	291.0

Indicator		2009	2010	2011	2012	2013*
Self sufficiency ratio (SSR)	Total	63.7	75.4	74.6	77.6	80.1
	Vegetable products	58.9	72.1	71.5	75.1	77.7
	Animal products	100.2	100.3	99.9	100.1	99.1
Import dependance ratio (IDR)	Total	39.5	28.2	29.1	25.7	23.3
	Vegetable products	44.7	32	32.6	28.4	26.0
	Animal products	0.9	0.9	1.1	1	1.0

Source: KNBS (2014)
*Provisional

of the United Nations (FAO) and the World Health Organization (WHO) document as the minimum dietary requirements for Kenya, which is recorded as 1,760kcal/person/day. This number establishes a cut-off point, or threshold, to estimate the prevalence (%) of the undernourished population (FAOSTAT, 2012).

A country's ability to satisfy its food requirements is measured by use of the Self-Sufficiency Ratio (SSR), which compares quantities produced locally with the total food required. Reliance on imports to supplement domestic food deficit is represented by the Import Dependency Ratio (IDR), which measures the quantity of imports in relation to the total food supply. Although the country's reliance on own production had improved significantly by the year 2012 as reflected by the SSR, the country is still not self-sufficient in food production and has to rely on importation (25.7%). The country has remained self-sufficient in the supply of animal products, which have consistently registered an SSR above 100 per cent (KNBS, 2014).

8.7.1 Key global challenges in ensuring food security

The following are some of the key global challenges in ensuring food security for Kenya:[2]

(i) Lack of a coherent and effective system of governance of food security at both national and international levels.

(ii) Kenya, like many developing countries, does not have a fair chance of competing in world commodity markets.

(iii) Farmers do not have access to modern inputs to boost food production and productivity, and thus the need to mobilize substantial additional public and private sector investments in agriculture and rural infrastructure, particularly in low-income and food-deficit countries such as Kenya.

(iv) The need to adapt to climate change and mitigate negative effects.

Some of the solutions to food insecurity include:

Increased investments in agriculture

There is need to increase investments in the sector, especially in agricultural research science and technology and development of rural infrastructure (feeder roads storage and markets). Support activities are further needed at the sub-regional level to help build and improve infrastructure (roads, water, markets and electricity) as stipulated in the national Food and Nutrition Security Policy (FNSP) 2011. Public spending in agriculture and rural development has only averaged at about 4 per cent per annum of national expenditure for the last four years. This falls short of the 10 per cent target set out under the Maputo Declaration. It is, therefore, critical to mobilize financial resources to the agriculture sector in order to tackle the infrastructural deficit facing the sector and increase its supply-side flexibility. Investments should target irrigation, drainage systems and promotion of small-scale value adding practices.

Technical interventions

The agriculture sector in Kenya is dominated by small-scale farmers with static or declining agricultural productivity. In order for Kenya to enhance agricultural productivity, there is need to adopt agro-technology (e.g. biotechnology) to spur agricultural development and food production. The government should take advantage of the bilateral ties it enjoys with countries that have advanced agro-technology to develop Kenya's agriculture sector. Close collaboration with Israel, Brazil, China, India, Malawi, South Korea and South Africa could help Kenya in realizing the development of the agriculture sector.

South Korea also has vast wealth of knowledge on agro-technology. South Korea's agricultural technologies include biotechnology, breeding, soil and nutrition management, agricultural mechanization and post-harvest management. Since Kenya and Brazil are both situated on the tropics, Kenya's agricultural research institutions could work closely with Brazil research institutions to acquire relevant agro-technology in order to boost food production.

Kenya can borrow experience from Israel on desert agriculture. Israel's irrigation farming techniques could be beneficial to farming in Kenya's Arid and Semi-arid Lands (ASALs). Given that there are 23 counties classified as ASALs, support for activities such as community fodder/pasture banks and reseeding, re-stocking and de-stocking when and where appropriate, are necessary for ensuring food security in these counties. Further, promotion of livelihoods diversification in these fragile areas is needed as they may be unable to support sustainable livelihoods under the current conditions (FNSP, 2011).

In the crop-producing counties, inputs still remain a challenge of farmers due to not only high fertilizer prices, but also access constraints to vital inputs that impact negatively on crop yields. Kenya relies on the global market for its fertilizer supplies. However, there is need for private sector interventions at the county level to cushion farmers from the high fertilizer prices (FNSP, 2011).

Encouraging peri-urban agriculture

There is potential to improve food access and overall food security and nutrition conditions in urban and peri-urban areas through agriculture (crops and livestock). However, there is inadequate support, guidance and concerted effort to develop this potential in all urban and peri-urban areas (FNSP, 2011). Use of kitchen gardens by urban households can reduce their dependence on the market for some food items such as vegetables. For instance, in the financial year 2011/12, the government sought to promote kitchen gardens in the semi -formal settlements by providing two empty sacks, soil, pebble stones, manure and seedlings of vegetables to each household in five urban slums in Nairobi.

Strengthening the supply chain and linkages

Strengthening the food supply chain and linkages among the chain actors, as well as improvements in pricing and supply management policies is crucial in addressing price volatility. Currently, traders offer 'throwaway prices' to take advantage of deficiencies in the market, including lack of market information and weaknesses in price determination. The maize and vegetable glut is usually artificial, as prices remain high in distant markets in urban areas or in arid parts of the country where there is huge demand. The government needs to consider reviewing its rural development and agricultural marketing policies to improve rural infrastructure, and provide short-term financing instruments and storage facilities so that farmers do not have to dispose of their produce immediately after the harvest to meet urgent cash needs.

Increase competition in the food market sub-sector

The food industry, specifically maize, wheat, edible oils and sugar is characterized by an oligopolistic market structure where just a few firms control almost the entire market. Due to the fact that there are a few operators in a given sub-sector, the prices are usually higher than they otherwise should be. In the event of a price shock (price increase), prices are likely to remain high for a long time. It is important that the government actualizes the competition policy to increase the number of actors in food processing for the benefit of the consumer. This is because increased competition mostly leads to near-efficient prices.

Enhancing food market information systems

There is need to put in place mechanisms that provide accurate market information on both global and local markets. Currently, there is inadequate capacity on the part of the government and other organizations to produce consistent, accurate and timely agricultural market data and analysis, especially in response to weather shocks such as floods or droughts. Likewise, information is required on production forecasts, information on food stocks, and monitoring of food prices on both cash and future markets. Kenya is currently facing a maize disease that is likely to reduce harvest, but the magnitude of the damage and the effects on production and prices is not known. Enhancing market information and early warning systems would enable both the government and private sector to plan ahead.

Market-based insurance system

Based on the past experience of producers losing their assets without any compensation strategies in the country, there is need to put in place market-based insurance to shield both crop and livestock farmers against drought and other natural disasters. The reduced risk faced by farmers can encourage them to invest in more-profitable technologies that raise their productivity and income. However, future prospects by smallholders in developing countries to manage price risks seem to be problematic because very few Least Developed Countries (LDCs) have commodity exchanges. The government can also use weather-index-based insurance-first used in Ethiopia (2006) and in Malawi (2008 to date) to manage production risks (FAO, 2011).

Deepening regional integration by removing non-tariff barriers

EAC countries are conscious of the challenges related to food security, climate change, and trade and, hence, they are striving to develop regional policies to deal with these challenges. The EAC Food Security Action Plan (2011-2015), which serves as a guide to the implementation and actualization of the regional food security objective and the EAC Climate Change Policy are being implemented. A clear policy at regional level is required to guide imports or exports of food, and for balancing policies aimed at generating foreign exchange and promoting food self-sufficiency. This will include the establishment of a regional grain reserve to stabilize markets during times of stress. More so, the elimination of export bans during times of shortage in any country will go a long way in reducing food shortage among the member countries. The removal of the non-tariff charges such as import declaration form (IDF) fees, quality standards, safety standards, phytosanitary requirements, customs entry documents, customs clearance procedures and weighbridge will also contribute to ease regional trade.

Price stabilization

The two approaches of realizing price stability are setting official market prices (for instance, certain provisions of the Essential Goods Control Act 2011) and through public sector market interventions. The main objective of this intervention is to keep prices within the preset price band. For price stabilization to be successful in Kenya, there is need to have adequate institutional and physical market infrastructure, an effective system of floor and ceiling prices, and availability of funds for purchasing and stocking operations.

There is also need to regulate the food market to eliminate speculation. During periods of maize shortages, the government mostly waives duty on imports because market players are known to hold maize in order to cause artificial shortages that push prices up. On the other hand, Kenya's Strategic Grain Reserve (SGR) that is under the National Cereals and Produce Board (NCPB) is mandated to maintain a stock of up to 4 million bags of maize and a cash equivalent of a similar value. One of the limitations of the SGR is that it has only maize grain, which may not necessarily be the staple food for those communities that often experience famine and hunger.

The government, therefore, should ensure that it has an assortment of foodstuff in the SGR to meet the different social cultural dietary needs of various communities in the country. As the population grows, it is imperative that the volume of foodstuff in the reserve be increased to respond more effectively.

Social protection

The right to social security entails the right to access and maintain benefits, whether in cash or in kind, without discrimination in order to secure protection from lack of work-related income caused by sickness, disability, maternity, employment injury, old age, etc. It has been acknowledged that social protection instruments are very critical in addressing the impact of food crisis on the most vulnerable members of society. In order for social protection to succeed in Kenya, there is need to have effective vulnerability assessment system, and disaster preparedness. Measures to cushion the poor from hunger and famine could include direct cash transfers or food vouchers, food aid, school feeding, access to health facilities and public work programmes.

8.8 Climate-related Disasters

Increased concentration of GHGs in the atmosphere is associated with changes in climate system. These include changes in the frequency, intensity, spatial extent, duration and timing of extreme climate events. Although extreme events occur naturally in all parts of the world, some regions are more vulnerable to certain hazards than others. Figure 8.11 shows trends in occurrence of disasters for the period 1990-2000. The figure shows a general increase in frequency of all forms of disasters, although floods and storms have recorded the highest increase. Disasters are a major obstacle to sustainable development and decent people's lives and livelihoods. Between 2000 and 2011, the combined effect of damages from disasters was estimated at US$ 1.3 trillion and 1.1 million people killed (Kelett and Spark, 2012). However, projections show that the annual global cost of climate change for 2030 could be as much as 2.6-3.0 per cent of GDP (IPCC, 2012). Among the Eastern Africa countries, Kenya suffered the greatest effects of drought (Figure 8.12). Each year, on average, 97,526 persons per million are affected in one way or another, compared to only 10,899 persons in Uganda.

Kenya has five major disaster zones: ASALs, central Rift Valley (between Baringo and Kajiado counties), the plains of Lake Victoria, and Mt Kenya region. Each of these regions experiences different forms of disasters in terms of frequency of occurrence, extent of coverage, timing, and severity of impact. Under a changing climate, the complexity of disasters has radically been changed and people's coping capacity eroded. Table 8.6 gives the situation of climate disasters in Kenya. Between 1993 and 2010, Kenya declared 7 natural disasters out of which 5 were drought-related (Huho and Mugalavi, 2010).

Drought is the leading natural disaster in Kenya. The country experiences different forms of drought. Meteorological drought occurs on the basis of the degree of inadequacy of precipitation, in comparison to a normal or average amount, and the duration of the dry period. Agricultural drought links various characteristics of meteorological drought to agricultural impacts, focusing on precipitation shortages. Because of the high dependence on rain-fed agriculture, agricultural drought explains the susceptibility of crops to water deficiencies during different stages of crop development and conditions of pasture. Hydrological drought is caused by persistent low water flow in rivers and streams, and is linked to water security.

The 2008/11 drought was one of the worst in Kenya's history. The estimated impact of the drought was Ksh 1.2 billion, and GDP growth slowed down by 2.8 per cent per annum. There are huge disparities across the sectors on the impacts of drought. The livestock sector, on average, accounts for 72 per cent of all damages and losses from drought. Other affected sectors are agriculture (13%), water and sanitation (9%), electricity (3%), and nutrition (1%). Apart from economic loss, drought is associated with a high number of climate refugees and migration as communities move to less hostile environments. Often, this gives rise to resource-use conflicts with local communities.

The environmental impacts of drought include wind erosion, reclining wetlands and poor sanitation. In some areas, droughts catalyze desertification, leading to loss of natural resources (EEN, 2004).

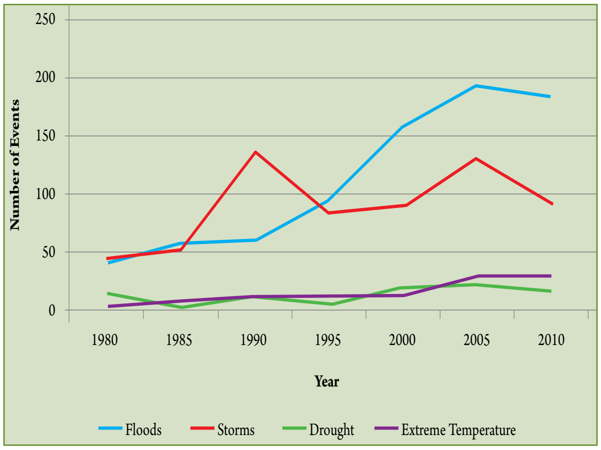
8.9 Linking Drought to Food Security

Kenya's climate has undergone major changes in recent years. The main climate variables that affect agricultural production are temperature, precipitation, atmospheric pressure and humidity, wind and sunshine and cloud cover (UNDP, 2013). The agriculture sector is highly sensitive to climate change and variability because it is dominated by rain-fed agriculture. Already, high temperatures in many parts of the country have reduced crop and livestock production and induced new pests and diseases. Further, changes in precipitation patterns increase the likelihood of short-term crop failure and ultimately long-term decrease in productivity. Like many other parts of the Horn of Africa, climate extremes cause crop failure and death of livestock, thereby affecting food security.

Drought has become more frequent and severe in many parts of the country. In the last 100 years, Kenya has had 28 major droughts, three of them in the last decade (UNEP, 2007; Murungaru, 2003). During the last half of the 20th century, droughts in Kenya occurred in 1951, 1952-55, 1957-58, 1974-76, 1980-81, 1983-85, 1987, 1992-93, 1995-96, 1999-2000 and 2004-06 (Ngaira, 2004). Between 1993 to date, Kenya has declared seven national disasters in 1992-93, 1995-96, 1999-2001, 2004-2006 and 2008-2009 due to droughts and 1997-98 and 2003 due to floods. The high frequency of occurrence of droughts means that the recovery period has increasingly been reduced. The National Climate Change Response Strategy shows that since the 1960s, surface temperature has generally increased over vast areas of the country (Government of Kenya, 2010).

As a consequence, the coping capacity of many households, particularly among pastoral communities has been compromised and they are unable to participate economically and to be food self-sufficient. About 70 per cent of Kenya's land mass is affected by drought. Due to widespread drought, vulnerability to food insecurity is high, especially among pastoralists and small-scale agriculturalists in the ASALs of the country (UNDP, 2005). In effect, drought is closely intertwined with many rural livelihoods. As people's coping strategies become less effective and unsustainable, the number of people vulnerable to food insecurity will continue increasing and many people will be forced to live under chronic food shortages (Huho & Mugalavai,

Figure 8.11: Trends in global climate-related disasters, 1980-2000

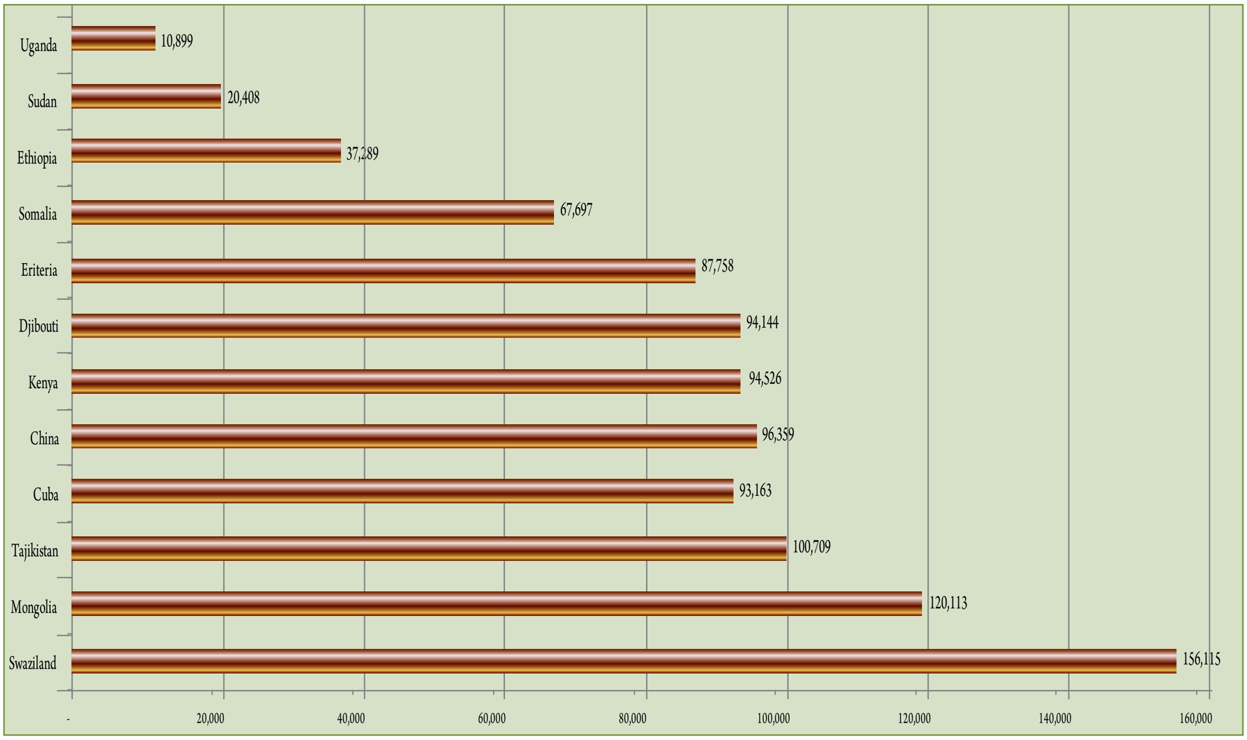


Source: unisdr.org/we/inform/disaster-statistics

2010). In some cases, drought introduces new challenges that further stress already vulnerable communities.

In ASALs, frequent climate variability and drought result in livestock morbidity and mortality because of reduced forage and water, increased disease incidences and a breakdown of marketing infrastructure. The fisheries sub-sector also experiences negative impacts of climate change. Changes in temperature in the aquatic environment destroy breeding sites and influence the feeding behaviour and composition of fish species. As a consequence, some species that can be farmed in certain areas shift to new ones. In the marine environment, there is evidence of a thinning in species and biomass abundance owing to the effects of temperature on nesting and feeding grounds. In some cases, catches of non-resident species have been reported, and the threat of alien species is real. These factors constrain the livelihoods of the fisher folk.

Figure 8.12: Number of people affected by disasters (average per year per 1 million), 2000-2009



Source: UNDP(2010)

8.10 Policy and Institutional Framework

For long, disasters have been managed in a policy lacuna. The process of developing a policy framework started in 2009 with the formulation of a draft National Policy for Disaster Management in Kenya. The policy sought to build a safe, resilient and sustainable economy and society. The policy is founded on four elements derived from the Hyogo Framework, namely: disaster prevention, mitigation preparedness, response, recovery and reconstruction (Government of Kenya, 2009).

The Sessional Paper No. 8 of 2012 on the National Policy for the Sustainable Development of Northern Kenya and other Arid Lands was formulated to harness the full development potential of drought affected parts of Kenya (Government of Kenya, 2012). The policy provides an environment to fast-track sustainable development in these areas (traditionally perceived to be marginalized) through increased investments and ensuring that the use of resources is fully reconciled with the realities of people's lives. To mitigate the effects of drought, the policy calls for systematic strengthening of those strategies traditionally employed by communities to adapt to climate variability and manage risks from natural disasters.

In 2011, the government developed a 10-year programme–'ending drought emergencies campaign'–to consolidate drought mitigation measures based on experiences acquired over years. The aim was to ensure that drought does not remain a humanitarian emergency in the country. During the same period, the National Drought Management Authority (NDMA) was gazetted. The National Drought and Disaster Contingency Fund was set up under Legal Notice No. 171. Article 43 of the Constitution requires the state to take legislative, policy, and other measures to achieve the progressive realization of the Bill of Rights, including the right to freedom from hunger. Further, the NDMA provides the institutional framework for meeting the international obligations under the Hyogo Framework for Action.

Table 8.6: Situation of disasters in Kenya

Year	Type of natural disaster	Region affected	No. of people affected
2009/10	Floods	Nyanza, Busia, Tana River Basin	
2004 /05	Drought	Widespread	2-3 million
2004	Landslides	Nyeri, Othaya, Kihuri	5 deaths
2002	Landslides	Meru Central, Murang'a, Nandi	2,000
2002	Floods	Nyanza, Busia, Tana River Basin	150,000
1999/2000	Drought	Widespread	4.4 million
1997/1998	El Niño floods	Widespread	1.5 million
1995/96	Drought	Widespread	1.41 million
1991/92	Drought	Arid and Semi-Arid Counties, Rift Valley, Eastern and Coast	1.5 million
1985	Floods	Nyanza and Western	10,000
1983/84	Drought	Widespread	200,000
1982	Floods	Nyanza	4,000
1980	Drought	Widespread	40,000
1977	Drought	Widespread	20,000
1975	Drought	Widespread	16,000

Source: UNDP (nd), Namaa (2010)

Although not specifically created to address climate change, the Equalization Fund allows 0.5 per cent of national revenue to be allocated to targeted marginalized areas for a minimum period of 20 years. This is an important mechanism for financing climate response. Another important measure was the allocation of Ksh 400 million during the 2011/12 Budget for Livestock Development Fund to support the construction of four export-standard abattoirs in ASALs.

8.8.4 Shifting from risk-reduction to risk management

Drought has a long history in Kenya. Without proper management, drought triggers other man-made tragedies such as famine, widespread displacement and death. This makes drought unique from other forms of disasters. The process of preparing for and responding to drought is more complex and requires political will at the earliest stage. Experience shows that measures used to manage past droughts have largely failed to curb the menace. This is mainly due to their orientation to risk reduction as opposed to risk management. To be effective, drought response should address the underlying factors of vulnerability to drought, so as to increase coping capacity of the affected communities. Such measures include ensuring the sustainable recovery of livelihoods to enable communities deal with the recurring problem of drought. More importantly, there is need to stimulate innovation to encourage new patterns of responses through increased participation of social organizations at the local level. To this end, working with the county government would encourage appropriate responses specific to local circumstances. Increasing the country's water storage capacity would enable expansion of irrigable land and reduce over-dependence on rain-fed agriculture. Dams in pastoral areas should be constructed and be accompanied by other measures such as establishment of disease-free zones, improvement of breeding services, and promotion of efficient marketing to increase livestock production among pastoral communities.

The need to adopt long-term solutions to addressing drought is essential. In particular, it may be necessary to diversify the economy as well as livelihoods of communities most vulnerable by promoting less climate-sensitive activities. In addition, ASAL communities' adaptive capacity can be enhanced by increased investments in infrastructure such as roads and irrigation and through greater awareness. It is also important for national and county government to support measures to identify, document and upscale appropriate traditional knowledge and practices as a drought management strategy.

8.9 Conclusions

In the last few years, Kenya has had to deal with the problem of food and nutrition insecurity due to a number of supply and demand factors. On the supply side, high global petroleum prices have led to increased costs related to local food production and supply. The increase in prices of food has also been caused by the rapid and significant seasonal fluctuations in supply. On the demand side, population growth has also outstripped production of food crops. Other factors include effects of droughts and/or floods, pest and disease incidences to livestock and crops, and poor road infrastructure in some areas, poor agronomic practices, among others.

The level of expenditures on agriculture falls below the targeted 10 per cent of total government spending recommended by CAADP. However, even these scarce resources would contribute more to achieving better sector performance if budget allocations were fully used. The composition of public expenditures in support of food and agriculture sector development could still be improved.

Suggestions to improve food and nutrition security include increased investments in agriculture, adoption of modern technology to reduce the yield gap, strengthening the food supply chain and linkages among the chain actors, as well as improving pricing and supply management policies to address price volatility. There is need to put in place mechanisms that provide accurate information at both global and local levels to facilitate response to weather shocks such as floods or droughts.

End Notes

1. The expenditures include both policy transfers in support of food and agriculture and policy administration costs. They include funding from national resources and from foreign aid.
2. World summit on Food Security, Rome, Italy, 2009: http://www.fao.org/wsfs/world-summit/=/en/

Chapter 9

Tourism

9.1 Global Performance Review

9.1.1 Tourist arrivals

Africa's tourism performance for 2013 was buoyant. The Sub-Saharan global tourism performance for 2013 grew by an average 5 per cent, exceeding the projections by 52 million tourists. This growth was achieved in spite of the global challenges of recession and the threat of terrorism. This growth was strongest in the destinations of emerging economies in Asia/ Pacific region and Africa. This higher-than-expected growth is an indication that travel and tourism is now a consumer pattern for both the advanced and emerging markets, confirming the importance of tourism as a source of economic growth.

Regional market analysis shows that while Europe in general grew by 5 per cent, Central and Eastern Europe grew by 10 per cent. Africa, Asia and the Pacific regions grew by 6 per cent while America's growth was only 2 per cent. This growth was expected to continue in the second half of 2013, but at a gradually slower pace. The United Nations World Tourism Organization (UNWTO) forecasted growth in 2013 to end at 4 per cent or slightly above, thus exceeding the initial estimate for the year.

Growth for Northern Africa was at 4 per cent, slightly lower than the global level. This performance was, however, a good indicator that the continent had overcome the after-effects of the Arab Spring, which had afflicted Northern Africa's tourism. Kenya recorded a growth of 4 per cent while South Africa, the largest destination in Sub-Saharan Africa, reported a 3 per cent increase in tourist arrivals.

9.1.2 Tourist expenditures

Trends on outbound tourism expenditure at the global level indicate that the emerging markets of China and Russia are among the top ten most important source markets in terms of expenditure. For instance, in China, outbound tourism expenditure grew by 31 per cent, while in Russia it grew by 22 per cent. While Brazil is not among the top ten, its outbound tourism expenditure grew by 15 per cent. In contrast, traditional markets such as Canada, France, United States, Germany and the United Kingdom had modest to flat growth rates ranging between 3 per cent and 2 per cent to no growth. In others such as Japan, Australia and Italy, there was negative growth in outbound tourism expenditures. Thus, a clear pattern emerges where spending in traditional tourist markets has slowed down considerably, while emerging markets are behind the resilient growth in global tourism both in terms of tourist volumes and expenditure.

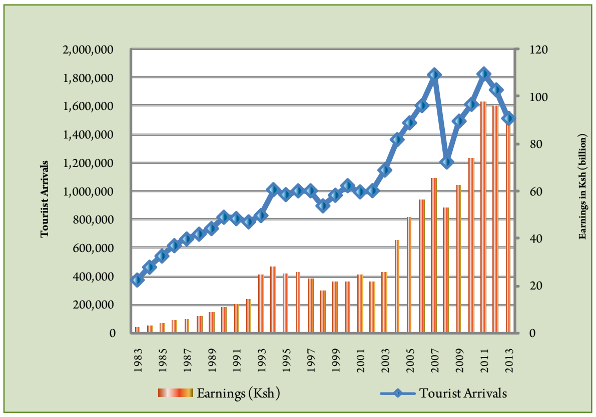
It is important to note that China, which was ranked number 7 in terms of outbound tourist spending in 2005, was ranked number 1 in 2012, overtaking Germany, United States and United Kingdom (Table 9.1). Such a ranking in terms of spending and the big market (China) offers Kenya an opportunity to diversify her traditional tourism markets.

9.2 Performance of Kenya's Tourism Sector

9.2.1 Tourist arrivals and earnings

Tourism continued to under-perform in terms of tourist arrivals and tourism earnings. The decline that started in 2012 persisted in 2013 and is largely attributed to a combination of factors that include the global financial crisis in key tourist source markets, especially Europe, insecurity-related situations arising out of terrorism, and the apprehension over the general elections that were held in March 2013. As a result, in 2012, Kenya recorded 1.781 million tourist arrivals down from the highest level of 1.823 million achieved in 2011 (Figure 9.1). Tourism earnings in the same year fell to Ksh 96 billion from Ksh 97 in the previous year. In 2013, tourist arrivals continued to fall to 1.51 million and tourism earnings fell to Ksh 94 billion.

Figure 9.1: Tourist arrivals and earnings, 1983-2013



Source: KNBS (Various), Economic Surveys

Regional market share analysis of tourists coming to Kenya in 2013 indicates that Europe still retains its position, accounting for an average of 42 per cent of Kenya's tourists (Figure 9.2). This is followed by a 24 per cent market share for Africa and the Indian Ocean region, indicating the growing importance of Africa as a regional source market for Kenya's tourism. America and Asia accounted for 14 per cent and 13 per cent of the market shares. The seasonal nature of some of the markets such as Europe shows a decline of the tourist market share during the low season months around April, May and June. January, which is a high-season month, the market share from Europe was slightly lower, reflecting the apprehension over the 2013 March elections.

Table 9.1: Top tourism global spenders, 2005-2012 (US$ million)

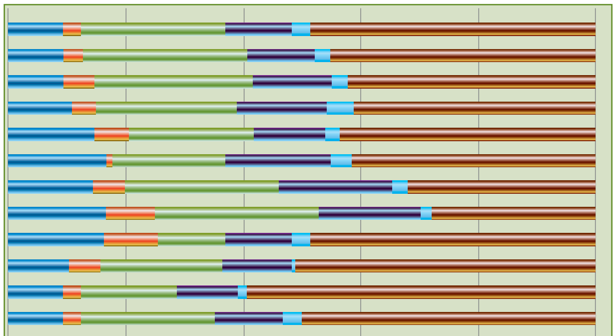
	2005	Rank	2010	Rank	2011	Rank	2012	Rank	2012 % of growth
China	21.8	7	54.9	3	72.6	3	102.0	1	9.5
Germany	74.4	1	78.1	1	85.9	1	83.8	2	-
United States	69.9	2	75.5	2	78.7	2	83.7	3	-
United Kingdom	59.6	3	50.0	4	51.0	4	52.3	4	4.9
Russia	17.3	8	26.6	9	32.5	7	42.8	5	4.0
France	31.8	4	39.0	5	44.1	5	38.1	6	-
Canada	18.0	9	29.6	6	33.3	6	35.2	7	3.3
Japan	27.3	5	27.9	7	27.2	9	28.1	8	2.6
Australia	11.3	10	22.2	10	26.7	10	27.6	9	2.6
Italy	22.4	6	27.1	8	28.7	8	26.2	10	2.4

Source: UNWTO (2013)

9.2.2 Airlift capacity

Insufficient airline capacity has impeded Kenya's ability to exploit regional tourism, and direct flights to long-haul destinations (Table 9.2). In addition, lack of direct flights between the US and Kenya (reason being that Kenya does not meet US security standards) means that Kenya cannot exploit this market. In December 2013, the arrival of two chartered flights at the Moi International Airport, Mombasa (the Thomson Dream Liner with 277 high-spending tourists from the UK, and the Condor from Germany) shows that the tourism sector in Mombasa is recovering from the negative publicity created by Al-Shabaab related incidents in the previous year.

Figure 9.2: Regional tourist arrivals market shares 2013



	Jan.	Feb.	Mar.	Apr.	May	June	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Asia	11,537	7,010	7,263	11,151	12,281	14,122	20,561	18,805	9,249	8,426	7,441	8,420
Middle East	2,899	2,685	3,693	6,302	6,183	5,388	1,339	7,542	3,399	4,646	2,600	2,742
Africa & Indian Ocean	25,021	11,261	14,552	20,172	20,912	25,602	23,782	27,382	20,602	24,052	22,112	22,16
Americas	12,967	7,588	7,601	7,378	12,911	18,922	22,051	15,551	12,991	11,989	9,068	10,33
Oceania	3,727	1,137	1,116	1,151	1,385	2,605	4,507	3,263	3,937	2,493	2,100	2,829
Europe	55,844	43,313	35,722	22,262	20,743	31,175	51,035	55,683	34,953	37,443	35,594	43,66

Source: Kenya Tourism Board (2013)

9.2.3 Hotel accommodation

The overall occupancy rate remains low at an average bed-occupancy rate of 36.4 per cent. This was a drop from the 40.3 per cent achieved in 2011 (Figure 9.3). However, interpretation of aggregate occupancy rates masks the skewed distribution of tourist-class hotels across the country. Some parts of Kenya have low occupancy rates whereas others operate at 80-90 per cent occupancy rates, especially during the peak seasons of December-March. Similarly, during the wildebeest migration in the Maasai Mara in April-August, occupancy rates are high in this destination.

Although tourism investment data is not readily available, hotel accommodation investment has been on an upward trend in the recent past. A number of international class hotels have invested in accommodation facilities across the country. Apart from these international investments, there has also been considerable investment in medium-scale hotels and accommodation facilities across the country. A number of hotels have come up across the country, such as Kempinski in Nairobi (200 rooms), Boma Hotel in Nairobi (148 rooms), Hemingsways (45 luxury suites), Eka Hotel (4 star), Best Western Premier (96 guest rooms including 6 luxury suites, which opened towards the end of 2013),[1] and Virgin Group investment in Maasai Mara named Mahali Mzuri lodge. Other prospective hotel investments include those of Radisson Blu, Park Inn, Three Cities and Lansmore branded hotels. There are also huge investments in non-traditional accommodation facilities such as villas, eco-lodges and golf resorts around the country, which will help close gaps in the demand for accommodation as tourism volumes grow.

9.2.4 Conference tourism

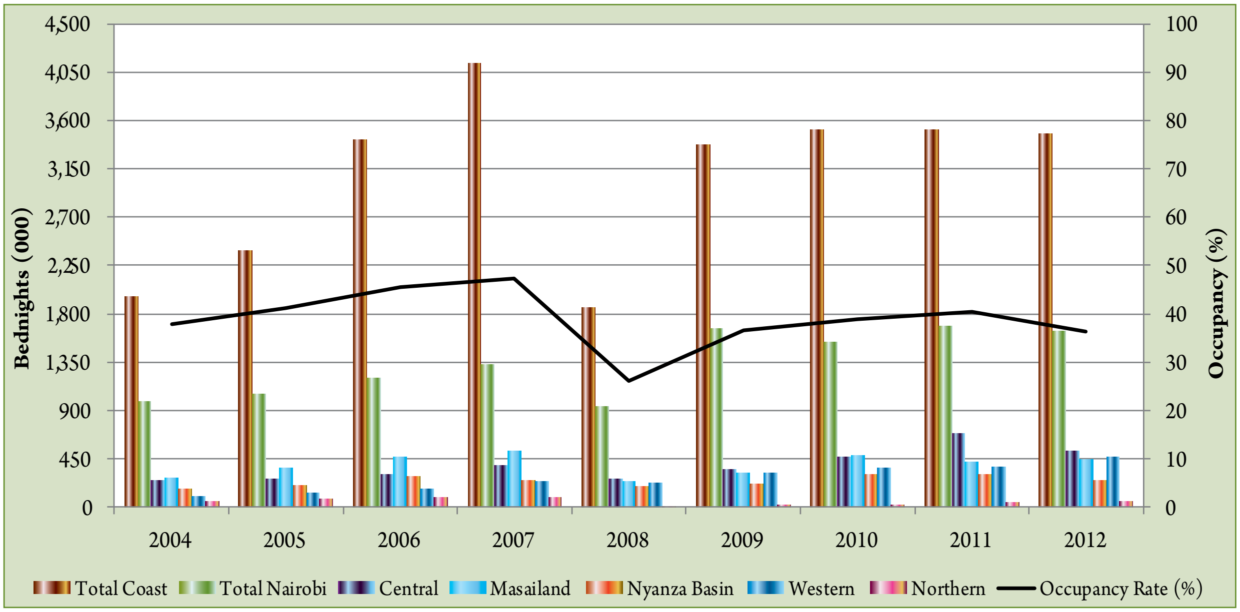
Delegates attending local conferences account for over 88 per cent of all delegates attending conferences (both domestic and international) in the country (KNBS, 2013). Despite close to half a million delegates attending conferences in Kenya annually, the overall occupancy for domestic and international conferences is below 10 per cent and 4 per cent, respectively, implying there is unexploited potential in conference tourism in the county (Table 9.3).

Table 9.2: Airlift capacity for major African destinations, 2012 (No. of airlines)

City/ Continent	Addis Ababa	Cape Town	Dar es Salaam	Durban	Kigali	Mombasa	Nairobi
Africa	29	8	12	2	9	7	32
Asia	5	1		1			4
America	2			1			
Europe	6	6	4	5	3	4	7
Middle East	6	2	3	1	1	2	7

Source: MEAACT (2012)

Figure 9.3: Available bed nights, distribution and occupancy, 2004-2012

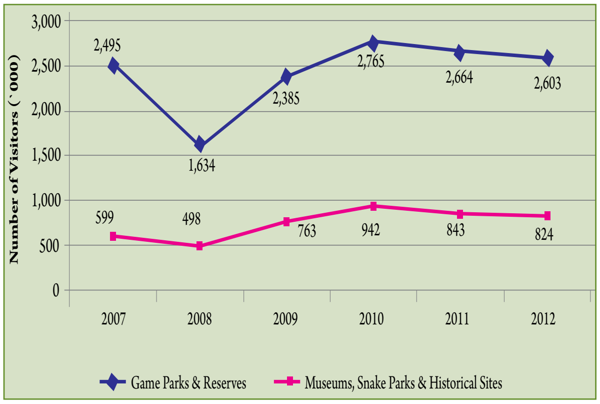


Source: Constructed from KNBS (Various), Economic Surveys

9.2.5 Visitors to national parks and museums

Due to the decline in growth in total arrivals in 2012 by around 2.3 per cent over the previous year, the number of visitors to museums, snake parks and historical sites reduced by a similar magnitude (Figure 9.4).

Figure 9.4: Visitors to game parks and reserves, 2007-2012



Source: Constructed from KNBS data, 2007-2013

Table 9.3: Number of conferences held in Kenya, 2009-2012

	2009		2010		2011		2012*	
	Local	International	Local	International	Local	International	Local	International
No. of conferences	2,258	196	2,529	254	2,995	309	3,338	328
No. of delegates	228,165	29,025	383,441	30,554	408,596	33,566	413,037	35,663
Total no. of delegates (Local + International)	257,190	413,995	442,162	448,700				
% of total delegates	88.71	11.29	92.62	7.38	92.41	7.59	92.05	7.95
No. of delegate days	459,512	137,804	467,781	153,081	497,523	197,562	554,443	209,910
No. of delegate days available	5,255,810	5,255,810	5,368,174	5,368,174	5,520,344	5,520,344	5,652,611	5,652,611
Percentage occupancy rates	8.7	2.6	8.7	2.9	9	3.6	9.8	3.7

Source: KNBS (2012; 2013), Economic Survey

9.3 Global Challenges

9.3.1 Key development challenges in tourism

Through its many linkages to various sectors, including agriculture, manufacturing, transport, ICT and services in general, tourism has good potential to contribute to employment and development. However, tourism growth is susceptible to both domestic and external macroeconomic shocks. Key global challenges that affect Kenya's tourism development through multiplicity of transmission channels include security/conflicts; environmental/ecosystem degradation (e.g. water towers) leading to human-wildlife conflicts; poaching and trade in illegal wildlife products; climate change; disease outbreaks; the global financial downturn; and seasonality.

9.3.2 Spill-over effects of the global financial and macroeconomic shocks on tourism

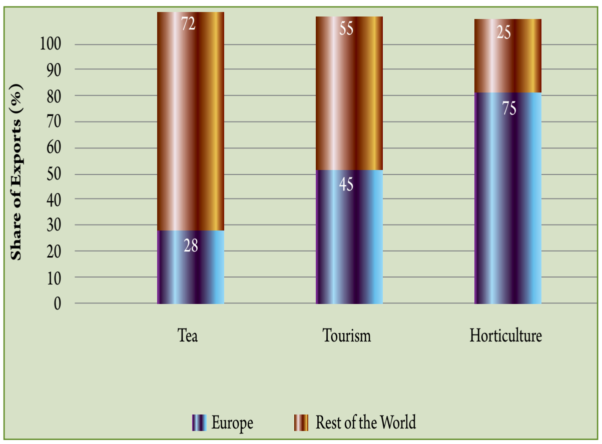
The global financial crisis that started in 2007/08 had an enormous impact on economies, with stock markets falling, and financial institutions collapsing. Governments intervened with bailouts while refocusing on regulatory reform. Even though there was some respite towards the end of 2009 and the beginning of 2010, the 2011/2012 period was characterized by additional economic turmoil of sovereign debt crises in Europe, high deficit levels, pressure on the stability of the Euro-zone, and falling stock market prices.

As a developing country, Kenya has not been left unscathed by the spill-over of this crisis. This has been felt through decline in the value of the Kenya shilling, resulting into worsening of balance of payments; stock exchange heavy sell-offs; pressure on trade and trade prices; and decline in foreign direct investment and equity investments. Although, initially, pressure was also felt through the high current account deficit and exchange rate and inflation rate, the exchange rate stabilized and inflation was contained at below 10 per cent during the 2012/2013 period.

Europe's economic woes, although now easing out, posed a challenge for Kenya's economy in 2012/13. This is true given that Kenya's economic prospects are connected to the economic performance of the Euro-zone through several transmission mechanisms. These include uncertainty in global capital markets and trade, which contributes to the volatility of the Kenyan shilling; and over-dependence of Kenya on traditional exports such as the "big three", namely: tea, tourism and horticulture. Together, they make up more than a third of Kenya's total exports, mainly sold to Europe (Figure 9.5).

The weakening of European economies and, consequently, decline in purchasing power resulted in decline of tourists coming to Kenya from the Euro-zone, one of Kenya's traditional source markets. As unemployment rates rose, consumers started cutting down costs related to leisure activities, which include outbound travel and tourism spending.

Figure 9.5: Europe as a key trading partner for Kenya's top exports



Source: World Bank estimates based on Kenya Tourism Board and Central Bank of Kenya data

According to *The Economist* (2013), since the financial crisis began, the number of long-term unemployed people has doubled to almost 17 million. In countries such as Spain, it is estimated that 3 million people have been out of employment for longer than one year (Figure 9.6). This is about the same number as in America, whose labour force is considerably larger. This trend can be self sustaining as skills deteriorate due to disuse for long periods of time and, therefore, their probability of getting employed becomes smaller the longer they remain unemployed. For most OECD countries, however, the high and growing proportion of the long-term unemployed is a threat to their economic growth. This state of affairs is leading to fewer European outbound tourists or less spending by tourists.

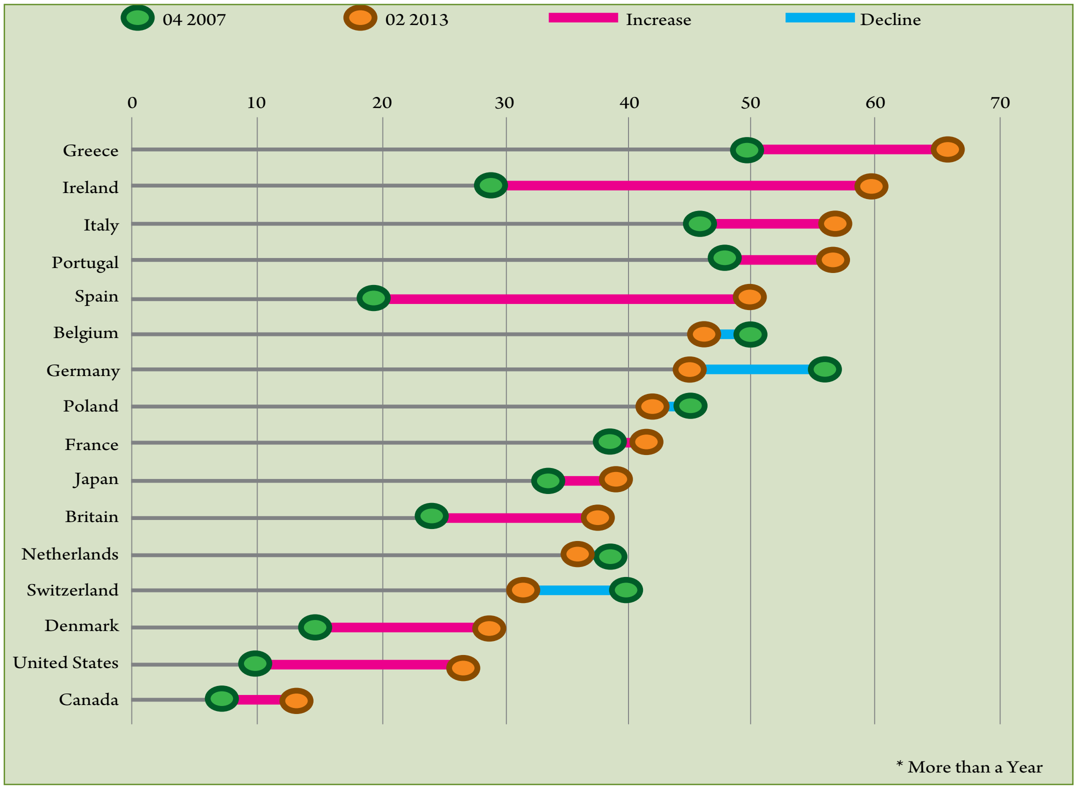
The rise in the cost of living occasioned by global macroeconomic shocks hurt Kenya's tourism too. Kenya's current account deficit rose by 36 per cent or US$ 4.5 billion in 2012, saddled by a steep surge in the value of imports. The country exported US$ 6.13 billion worth of goods against US$ 16.3 billion worth of imports, leaving a gap of US$ 10 billion (i.e., unfavourable balance of trade). Given that oil is the biggest item on the imports, and accounts for 25 per cent of total imports, any rise in its pricing often spreads across the entire economy, causing a general surge in the cost of goods and services—including tourism. Volatility of oil prices and the volume of exports, which are highly dependent on the weather, pushed the value of the shilling downwards. The rise in the cost of living made Kenya to be perceived by tourists as being a less-competitive destination in Africa (*Business Daily*, 2012; *Euromonitor*, 2012). In order to weather the crisis, apart from observing sound macroeconomic stability policies, Kenya should also seek to diversify tourist source markets, for example to Russia, China and Brazil (Isabella *et al*., 2012).

9.3.3 Relatively high travel costs

Travel cost in terms of real costs (airfares) and the opportunity cost of time to Africa and to Kenya from the main tourist-generating countries remain higher than the global average. High air fares, long-duration flights and limited choice of flights continue to impede tourism growth in Kenya. Air fares from Tokyo to East Africa cost twice as much as to other global destinations, and the flight duration takes 50-80 per cent more time (Table 9.4).

Similarly, air fares between China and East Africa cost 50-80 per cent more than to other global destinations. Air fares between Korea and East Africa are at par with the global averages, but the flights duration takes 50 per cent more time with more than one stopover.

Figure 9.6: Euro-zone long-term unemployment as a percentage of total unemployed persons, 2007-2013



Source: Adapted from *The Economist* (2013)

9.3.4 Conflict/insecurity as a global challenge to tourism

Tourism has been hailed as "the global peace industry," and it is frequently implied that there is a natural link between tourism and peace. In 1929, for instance, the British Travel and Holidays Association declared "Travel for Peace" as the theme of its inaugural meeting. In 1967, the UN's International Tourism Year adopted as its slogan, "Tourism: Passport to Peace". While tourism and peace have often been linked, the connection is not guaranteed. As recent cases on India, Nigeria and Kenya demonstrate, creating the connection between tourism and peace requires that the conditions on both sides of the equation be right: peace must be more than an absence of conflict, and benefits from tourism must be shared with local communities and the environment. Terrorists are increasingly targeting sites frequented by international (inbound) tourists. For instance, in November 2008, a terrorist attack in Mumbai targeted the Taj Mahal Palace Hotel, a famous landmark for international business and vacation travellers. Such attacks are usually an attempt to focus global attention on grievances of terrorist groups (Martha, 2009).

The changing face of global conflict has adversely affected Kenya's tourism. In 2010, a British woman was kidnapped along the Kenyan coast, while in October 2011, three tourists and two aid workers were kidnapped in Lamu and Dadaab refugee camps, respectively, by Somali militants. In September 2013, there was an attack on an up-market mall (Westgate Mall) in Nairobi where gunmen shot and wounded several people, resulting in at least about 60 deaths. The after-effects of the attack, apprehension over the March 2013 general elections, the outbreak of a fire at the Jomo Kenyatta International Airport, and the subsequent travel advisories led to mostly a negative growth rate in tourism between the years 2012 and 2013. The terror-related incidences involving explosions of improvised explosive

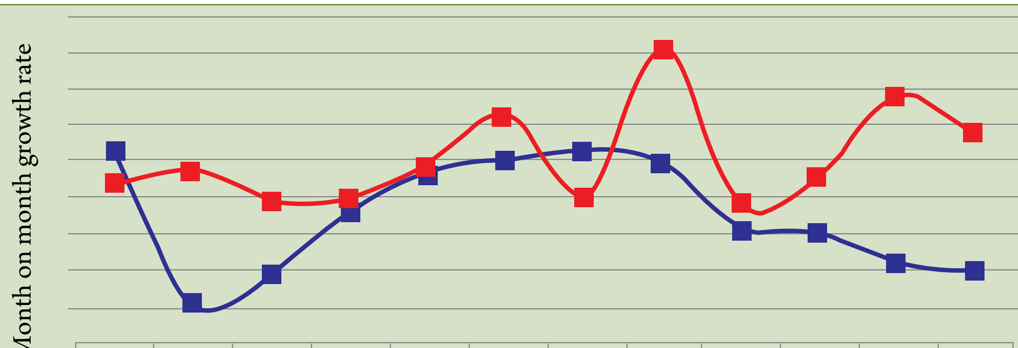
Table: 9.4: Comparative airfares and flight durations between East Africa and Asia and other global destinations

	Tokyo			Beijing			Seoul			New Delhi		
East Africa	Cheapest Return	Shortest time (hrs)	Least Stops	Cheapest Return	Shortest time (hrs)	Least Stops	Cheapest Return	Shortest time (hrs)	Least Stops	Cheapest Return	Shortest time (hrs)	Least Stops
Dar es Salaam	1,802	22.55	2	1,480	18.35	1	851	19.3	1	851	11.55	1
Nairobi	1,606	19.15	1	1,399	17.05	1	833	16.5	1	740	11	1
Entebbe	1,814	24.15	2	1,492	20.15	2	1,684	20.5	2	869	13	1
Addis	1,789	17.1	1	1,644	16.15	1	1,659	16	1	751	6.1	0
GLOBAL												
London	830	12.15	0	894	11.15	0	1,019	12.10	0	698	9.20	0
Paris	818	12.30	0	890	11.00	0	858	12.05	0	655	9.00	0
New York	654	12.30	0	1,089	13.30	0	1,160	13.35	0	1,074	16.05	0
Dubai	854	14.05	0	1,170	8.35	0	753	10.10	0	310	3.20	0

Lowest cost < US $ 1100 Medium Cost US $ 1101 - US $ 1,900 High cost US$ 1901
Source: TICAD IV (2009)

devices (IEDs) in major towns such as Nairobi and Mombasa are likely to continue undermining Kenya's struggling tourism sector, unless curbed. It is this growth in terrorism-related incidences caused by Al-Shabaab[2] militants and its affiliates in the East African region that has in the recent past, resulted in travel advisories being issued against Kenya by Western governments. This has led to decreased tourist arrivals from key markets, especially the UK and the USA. As a result, due to declining passenger numbers, a number of international airlines such as Virgin Atlantic pulled out of the lucrative London-

Figure 9.7: Monthly comparisons of tourist arrivals growth rates between 2012 and 2013



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
JKIA % Change	2.5	-39.1	-31.1	-13.7	-2.2	0.1	2.9	0	-18.3	-19.7	-27.7	-29.6
MIAM % Change	-6.0	-2.5	-10.6	-10.5	-1.2	12.8	-9.6	31.3	-12.0	-4.5	18.2	8.0

Source: Kenya Tourism Board (2013)

Nairobi route that serves mainly business and leisure travellers.

The persistent advisories against travel to Kenya over security fears, combined with the Euro-zone crisis, increased fuel costs, and rising taxes led to a drop in tourist numbers by 29,000 to 1.23 million in 2012, while earnings from tourism dropped by 2 per cent to Ksh 96.02 billion. This trend spilled into 2013, when tourist arrivals dropped further to 1.09 million and earnings to Ksh 94 billion. Europe remains Kenya's main source of tourists, accounting for 43 per cent of all arrivals. Arrivals from the UK dropped by 8.5 per cent to 185,976 in 2012. Italy, the third-largest market, recorded a 14.6 per cent drop in the number of visitors to 82,330, while German arrivals declined by 4 per cent to 65,000. France recorded the highest decline of 28.9 per cent to 34,290.

However, it has been argued that some of the travel advisories are based on double standards. For instance, when the US and UK have suffered terrorism threats/attacks in the past, their governments deliberately took different approaches on the terrorism issue, with their statements having a reconciliatory tone that assured visitors of their safety. [3]

9.3.5 Climate change and tourism

Climate change is a long-term change in the statistical distribution of weather patterns (average temperature, precipitation and wind) over periods of time that range from decades to millions of years. It may be a change in the average weather conditions or a change in the distribution of weather events with respect to an average, for example, greater or fewer extreme weather events. Climate change may be limited to a specific region, or may occur across the whole earth. This may occur due to natural variability or as a result of human activity.[4] Natural occurrences such as the recent volcanic ash episodes in Europe and the Tsunami in Asia have had impacts on global travel.

It is predicted that by year 2020, about 75 to 250 million people will be water stressed, there will be 50 per cent reduction in rain-fed agricultural production, hence increased food insecurity. As a result, increased irrigation activities will put pressure on available land, currently shared between farming, urbanization, mining, national parks and other land uses. In Kenya, these will pose a threat to sustainability of game/safari tourism products. Already, land encroachment around the Nairobi National Parks via human settlement/real estate development is threatening to block the natural wildlife migration routes to the south of the park.

With the increase in global warming, low-lying coastal areas are vulnerable to sea rises. This will require the cost of adaptation to be about 5 to 10 per cent of GDP. Arid and semi-arid land in Africa is projected to increase by about 5-8 per cent by 2080. Global average annual temperatures have increased by 1°C (15% rise) between 1960 and 2003. Already, the effects are visible in that 82 per cent of the icecap on Mt Kilimanjaro has melted and is projected to vanish in 15-20 years' time (Munyiri, 2012).

The sector is also considered to be a contributor of greenhouse gases, which in turn contributes to global warming. The contribution of tourism is mainly through transport/travel-related activities through land, rail, sea and air transport; means that release greenhouse gases into the atmosphere (Munyiri, 2012).

Tourism in Kenya is susceptible to negative effects of climate change because climate change affects a wide range of environmental resources that are critical attractions for tourists, such as wildlife, biodiversity, and water levels and quality. Several possible future risks associated with climate change include:[5]

- Coastal inundation and erosion, damaging coastal infrastructure and ecosystems that can impact tourist establishments situated close to the coast;

- Extreme events such as frequent droughts that can negatively impact wildlife and biodiversity, leading to fewer opportunities for tourism;

- Gradual changes in temperature and precipitation, prompting species to migrate to more favourable habitats, hence negatively impacting certain locations for wildlife-based tourism;

- Changing environmental conditions caused by climate change, such as infectious diseases, wildfires, insects or water-borne pests (jellyfish, algae blooms, etc).

- Extreme weather events, which can reduce access to tourist destinations due to damage to road infrastructure. For instance, the flash flooding in the Maasai Mara in 2011 and the reduction in Mara River flows (partly due to climatic variations, and/or degradation of the Mau catchment) has negatively impacted the annual migration of wildebeests through the Mara River from the Serengeti National Park in Tanzania to Kenya's Maasai Mara reserve. Droughts are also pushing lions closer to waterholes adjacent to human settlements, fuelling human-wildlife conflict.

- Increase in average annual temperatures, which are likely to severely compromise or eliminate certain ecologically-sensitive tourist destinations, such as the snow caps of Mount Kenya, sensitive marine ecosystems, and coastal rainforests, including bleaching of Kenya's coral reefs.

- Increased incidences and transmission of wildlife diseases from a changing climate, including babesiosis and trypanosomiasis, as well as a number of intestinal and external parasites; for instance, in 2007, the Grevy's Zebra population in Samburu National Reserve was severely threatened due to an outbreak of anthrax caused by drought in Northern Kenya.

In addition to global warming and other sustained negative climate change effects, coastal tourism facilities and attractions risk being submerged; siltation and coral reef bleaching could take place; drought could strike key national parks (e.g. Mara and Amboseli) as rivers and lakes dry up (e.g. Mara River, Lake Elmentaita, Lake Baringo and Lake Nakuru). Mt Kenya and Mt Kilimanjaro will also gradually lose their "snow-capped" status if the global warming trend goes unabated. Disappearance of these natural and ecological tourism attractions coupled with prolonged droughts could further fuel human-wildlife conflicts. Furthermore, human encroachment on protected areas and resultant upsurges in poaching activities and decline in wildlife population could see the collapse of Kenya's tourism sector in the long term (Munyiri, 2012).

9.3.6 Brand credibility perception at the global level

Tourism is largely a brand and image-driven industry. One of Kenya's main tourism demand challenges is that of image and brand credibility. This arises out of unwarranted negative perceptions due to isolated security or politically-related incidences. The situation is worsened by lack of investment into building a sustainable brand. Images of political conflicts and strife afflicting a few African countries are summed up as the total image for Africa by the international media, with no distinctions between the many largely safe and stable countries such as Kenya. Due to the relatively low marketing budgets, some of the negative images such as the post-election violence in Kenya take too long to dissipate even when the country has resolved and moved forward.

9.3.7 Current policies addressing the global challenges in tourism

Tourism is a highly climate-sensitive industry for Kenya due to the dependence of the sector on wildlife and biodiversity. The government has begun to recognize the climate change challenges facing the tourism sector, and has taken first steps to increase climate resilience. For instance, the government has committed to developing a National Wildlife Adaptation Strategy to provide a framework for addressing climate change impacts on the wildlife sector.

In line with this, the Adaptation Technical Analysis Report (ATAR), an outcome of the National Climate Change Action Plan[6] process, has identified adaptation actions that could enhance the resilience of the tourism sector, including:

- Recognizing and better understanding climate change impacts in the sector, including increased research to better understand impacts and inform policy and planning.
- Increasing the knowledge base on climate risk and vulnerability, in which vulnerability assessments are informed by models generated from data obtained from each climatic and ecological zone.
- Completing the National Wildlife Adaptation Strategy would be a crucial first step in the mainstreaming process. Greenhouse gas emissions in the tourism sector are low relative to Kenya's overall national emissions, but many low carbon actions can be applied, such as solar water heating, the use of energy-efficient lighting and appliances, and the use of more efficient passenger vehicles.

The MTP II has been developed within the precincts of the new Constitution. It flags out the development of the coastal beach ecosystem management, which includes: re-development of Kilifi, Kwale and Lamu into modern resort destinations; upgrading transport infrastructure; beach management programmes; niche product development; and enhanced security and safety, including establishment of a coast guard service. Other flagships include implementation of premium parks and under-utilized parks, including the fight against poaching and insecurity in the parks; dealing with human-wildlife conflict; development of the Maasai Mara National Reserve as an independent flagship project, implementation of the Mara Ecosystem Area Plan; and implementation of a tourism niche products programme. These proposed initiatives touch on infrastructure, security and conservation of biodiversity, which are essential for tourism sector growth.

To enhance the management of the environment and natural resources, the government plans to develop a National Green Economy Strategy; to implement the National Climate Change Action Plan; expand the Urban Rivers Rehabilitation Programme; modernize meteorological services for accurate weather surveillance; and implement waste management and pollution control policies.

In addition, the MTP II proposes to maintain viable wildlife habitats and ecosystems; increase the area under forest cover and sustainably manage natural forest resources for environmental protection and enhanced economic growth; rehabilitation of the five water towers; and to ensure development of Tourism Area Management Plans, environmental guidelines and standards for the sector.

With regard to security and conflict resolution, the MTP II proposes to improve surveillance; to strengthen crime investigation; to improve security data management and usage (through construction of a forensic laboratory and establishment of a national security data centre); and to build and modernize the capacity of the national police service (though it does not mention specifically how security for the tourism sector will be enhanced, for instance, how to counter terrorism threats to tourism).

9.4 Conclusions and Policy Recommendations

The tourism industry has a strong potential to deliver continued economic growth and employment for Kenya, but much more needs to be done to mainstream climate change into its planning activities, particularly with regard to adaptation.

It is important to establish a multi-stakeholder framework to assess Kenya's tourism vulnerability to climate change, with a view to implementing proper adaptation strategies for the sector. Despite the foreseen negative effects of climate change, tourism can be a tool for climate change mitigation through appropriate strategies such as afforestation, eco-tourism, adoption of "green energy"/renewable energy and "green transport" options. In line with this, there is need to:

- Create awareness on the impact of climate change on the sector and vice versa;
- Encourage the use of alternative sources of renewable energy and recycling of waste, etc;
- Emphasize alternative tourism development models that promote socio-economic development and enhance environmental sustainability;
- Develop alternative non-nature-based tourism products;
- Explore alternative markets such as domestic and regional ones, since these are not based on long-haul travel;
- Enhance conservation and protection of natural habitats and ensure ecosystems' functions are maintained;
- Fast-track completion of the National Wildlife Adaptation Strategy;
- Support research to determine the vulnerabilities of wildlife populations and habitats; and application of low carbon options to tourism infrastructure development, including use of renewable energy sources and local products for construction; and
- Launch a programme to brand Kenya as an environmentally-responsible, low-carbon footprint destination. This could include replication of sustainable tourism initiatives, and development of guidelines on resource efficiency and greening the sector to minimize greenhouse gas emissions.

Endnotes

1. http://www.bestwestern.com/about-us/press-media/press-release-details.asp?NewsID=869.

2 Al-Shabaab, meaning "The Youth", "The Youngsters" or "The Boys", is the Somalia-based cell of the militant Islamist group Al-Qaeda, formally recognized in 2012. As of 2012, the group controlled a large part of the southern parts of the country, where it imposed its own strict form of Sharia (law). Al Shabaab describes itself as waging Jihad against "enemies of Islam". Recently, it has engaged in combat against the African Union Mission to Somalia (AMISOM), and also reportedly intimidated, kidnapped and killed aid workers of foreign humanitarian organizations. Al Shabaab has been designated a terrorist organization by several Western governments and security services. Al Shabaab's recruitment has evolved to include nationals from the US (American Muslims), the UK, Somali and non-Somali Kenyans (referred to as Kenyan Mujahideen), Yemen, Sudan, the Swahili Coast, Afghanistan, Saudi Arabia, Pakistan, Bangladesh and diaspora ethnic Somalis. These foreign recruits serve as both mercenaries and propaganda tools for radicalization. Funding for the group comes from both Somalia and abroad. The Kenyan recruits can mingle with the rest of the population without being easily recognized by law enforcement. Source: http://en.wikipedia.org/wiki/Al-Shabaab_%28militant_group%29 .

3. http://www.businessdailyafrica.com/Branson-accuses-Britain-and-US-of-killing-Kenya-tourism/-/539546/1763026/-/gkxmy6/-/index.html (Accessed on 09/11/2013).

4. http://www.ensaa.eu/index.php/climate-change/97-defining-climate-change.html (Accessed on 09/11/2013.

5. Adaptation Technical Report, Kenya National Climate Change Action Plan (NCCAP).

6. National Climate Change Action Plan, 2013-2017.

Chapter 10

Manufacturing

10.1 Introduction

The manufacturing sector plays a central role in employment creation, economic growth, and export sophistication by shifting resources from low-value commodity-dependence to high-value manufactures. The importance of the sector in employment creation and economic growth can be attributed to its relatively higher spillover-effects and enhanced opportunities for capital accumulation (Szirmai, 2011; UNECA, 2013). Thus, the sector provides opportunities for addressing the twin challenges of high unemployment and poverty that Kenya is facing. Value addition in labour intensive sub-sectors such as textile and livestock, with high multiplier effects are vital for addressing high unemployment (NESC/KIPPRA, 2011). Therefore, revival of these high impact sectors is critical in addressing unemployment challenges.

Vision 2030 recognizes the critical role of the manufacturing sector, prioritizing it as a key economic pillar for industrialization.

Despite various policy interventions since independence, the sector's contribution to GDP has continued to stagnate at about 10 per cent, with marginal decline recently. The sector's growth improved from 3.2 per cent in 2012 to 4.8 per cent in 2013, mainly driven by manufacture of cement, food and beverages (KNBS, 2014). The booming construction sector continues to create positive spillover-effects on demand for cement. In terms of contribution to GDP, the sector experienced marginal decline, worsening from 9.5 per cent in 2012 to 8.9 per cent in 2013.

10.2 Contribution of Manufacturing to the Industrial Sector

The industrial sector comprises manufacturing, mining and quarrying, and construction sub-sectors. The manufacturing sub-sector accounts for about 70 per cent of industrial sector value added. Mining and quarrying, and construction sub-sectors account for about 4 per cent and 26 per cent of industrial sector value added, respectively. Figure 10.1 illustrates the structure of industrial sector between 2009 and 2013. A notable trend is marginal decline of manufacturing sub-sector's share in industrial sector value added, from 71.2 per cent in 2009 to 70.4 per cent in 2013. This could be attributed to the booming construction sector whose share increased from 25.6 per cent to 26.1 per cent over the same period, mainly driven by investments in infrastructure and housing. On the contrary, the manufacturing sector has continued to face various challenges, including high costs of production, influx of counterfeits and low value addition, which stifle its growth.

Figure 10.1: Structure of industrial sector in Kenya: 2009-2013 (2001 constant prices)

Data: KNBS (2014)

During the first Medium Term Plan (MTP I) 2008-2012 of Vision 2030, the manufacturing sector's contribution to GDP averaged 9.9 per cent, while those of mining and quarrying, and construction averaged 0.7 per cent and 4.1 per cent, respectively. Table 10.1 shows the trends in contribution of industrial sector sub-sectors' value added and contribution to GDP. The recent marginal decline of manufacturing sector's contribution to GDP is attributable to various challenges, including high costs of production, low value addition, heavy reliance on commodity exports, influx of cheap and counterfeit products, and erratic weather patterns, given that the sector heavy relies on agro-processing with manufacture of food, beverage and tobacco accounting for about one-third of sector value added.

10.3 Review of Recent Performance

10.3.1 Sector growth

Vision 2030 envisages increasing the manufacturing sector contribution to GDP by at least 10 per cent annually. However, during the first MTP, the sector growth averaged only 3.2 per cent, far much below the 10 per cent target (KIPPRA, 2013). The sector growth improved from 3.2 per cent in 2012 to 4.8 per cent in 2013. Figure 10.2 shows the trends in quarterly and annual sector growth rates between 2010 and 2013. Over the period, quarterly performance exhibited mixed growth rates, with the last two years exhibiting sustained improvements towards the last quarters.

10.3.2 Sector value added

Under the second MTP of Vision 2030, sustained contribution of the manufacturing sector to GDP is expected to support the realization of the 10 per cent GDP growth target. However, the sector is characterized by declining share in GDP, low share in merchandize exports, and low value of

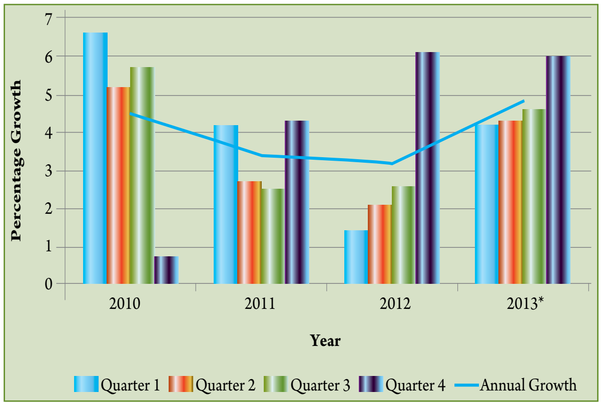
Table 10.1: Sub-sector value added and contribution to GDP (at current market prices)

	Manufacturing		Mining and quarrying		Construction		Industrial sector contribution to GDP
	Value added (Ksh million)	Contribution to GDP (%)	Value added (Ksh million)	Contribution to GDP (%)	Value added (Ksh million)	Contribution to GDP (%)	
2008	228,604	10.8	14,930	0.7	80,407	3.8	15.3
2009	234,556	9.9	12,083	0.5	97,445	4.1	14.5
2010	252,122	9.8	17,650	0.7	109,232	4.2	14.7
2011	292,401	9.6	21,153	0.7	125,132	4.1	14.4
2012	321,723	9.5	23,610	0.7	142,261	4.2	14.4
2013	338,378	8.9	22,480	0.6	166,906	4.4	13.9

Source: KNBS (2014)

exports (Government of Kenya, 2013a). The share of manufacturing in merchandize exports is about 35 per cent, which compares unfavourably with aspirator countries such as Singapore and Malaysia at about 70 per cent (KIPPRA, 2013).

Figure 10.2: Sector annual and quarterly growth rates, 2010-2013

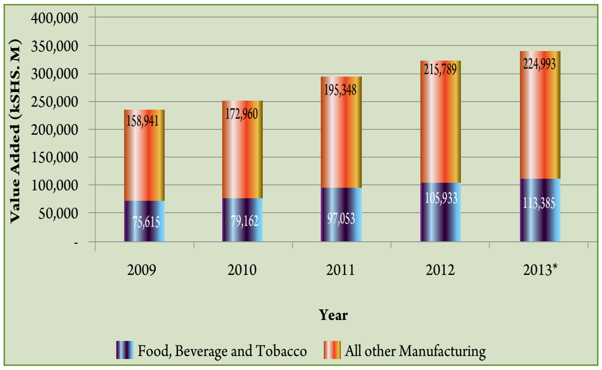


Source: KNBS (2014), * Estimates

The sector value added is on an increasing trend in absolute terms, with the major contribution coming from manufacture of food, beverage, and tobacco. The sector value added increased from Ksh 321.7 billion in 2012 to Ksh 338.4 billion in 2013. Food, beverage and tobacco value added recorded improved growth of 7.0 per cent between 2013 and 2012, while value added for all other sub-sectors grew by 4.3 per cent the same period. Figure 10.3 shows value added trends in the manufacturing sector. It is important to note that while the manufacturing sector value added is improving in absolute terms, the share in GDP is marginally declining due to slow growth compared to other sectors, mainly services.

Table 10.2 shows the structure of the manufacturing sector with regard to sub-sector shares of value added. Food, beverage and tobacco cumulatively account for about one-third of the sector value added. Textile and apparel account for about 6 per cent of sector value added. Manufacture of leather shows low and relatively mixed performance, accounting for 2-3 per cent of sector value added, despite existing incentives for local manufacturing in form of taxes on exports of hides and skins.[1] The 'other' is a broad category and accounts for more than one-third value added and mainly consists of non-metallic minerals such as cement, glass, plastic, and basic metals.

Figure 10.3: Manufacturing sector value added



Source: KNBS (2014), * Estimates

Table 10.2: Percentage share of total manufacturing value added by sub-sectors (%)

	2008	2009	2010	2011	2012
Food	19.9	21.7	22.1	24.1	22.0
Beverage and tobacco	10.1	9.7	10.0	11.0	10.5
Textile and apparel	8.0	5.9	5.6	5.4	5.6
Leather	2.5	2.1	2.5	3.1	2.7
Wood products, furniture, paper products and printing	13.2	13.1	12.8	11.0	13.3
Petroleum and chemical products	11.1	12.0	12.3	10.1	12.6
Other manufacturing–Basic metals, transport equipment, machinery, rubber and plastic, pharmaceuticals, and non-metallic minerals	35.3	35.6	34.6	35.3	33.3

Source: KNBS (2013)

Table 10.3: Percentage share of total manufacturing exports by sub-sectors (%)

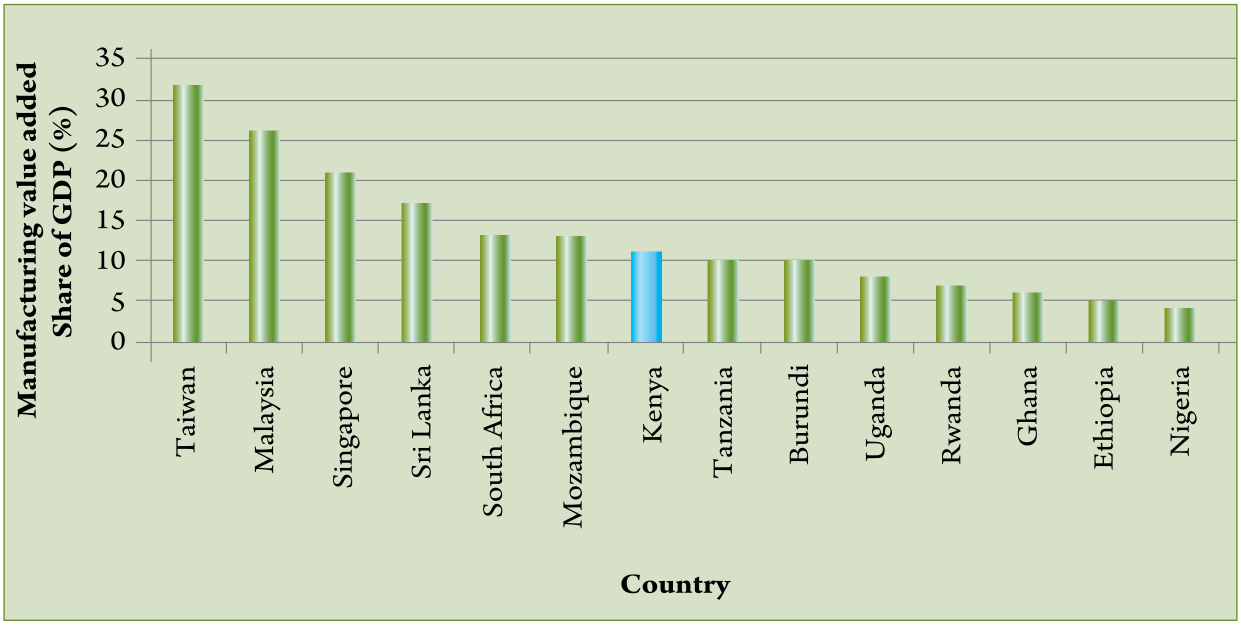
	2008	2009	2010	2011	2012
Chemicals	25.7	27.1	23.5	27.7	23.8
Leather and footwear	4.5	4.2	5.0	6.0	6.7
Textiles and fabrics	2.3	2.6	3.2	2.9	3.4
Wood, paper and paper products	6.8	8.0	5.5	6.0	6.3
Cement	5.6	6.7	5.0	5.0	4.9
Glassware	1.4	1.8	1.3	1.7	1.4
Steel and aluminium ware and metal containers	1.8	1.9	1.6	1.8	2.0
Machinery and transport equipment	7.3	10.2	9.9	9.5	12.0
Others - Tobacco, food, etc	44.7	37.4	45.0	39.5	39.4

Source: KNBS (2013)

10.3.3 Contribution to GDP

The contribution of manufacturing sector to GDP has continued to stagnate at about 9-10 per cent since independence. In 2011, the contribution to GDP declined from 9.6 per cent to 9.5 per cent in 2012 and 8.9 per cent in 2013. The decline can be attributed to a number of factors: high cost of production, including electricity, costs of credit, and imported raw materials (KNBS, 2012); influx of counterfeits; and dominance by micro and small enterprises, which account for 67 per cent of manufacturing enterprises but contribute only 14 per cent of sector GDP. As illustrated in Figure 10.4, compared to aspirator countries such as Taiwan, Malaysia, Singapore, Sri Lanka and South Africa, Kenya's manufacturing sector contribution to GDP is low. The differences are attributable to dominance of high value manufactures such as chemicals and electronics among the aspirator countries, unlike Kenya which is dominated by manufacture of food, beverage, tobacco and non-metallic minerals (KIPPRA, 2013)

Figure 10.4: Comparative manufacturing sector contribution to GDP



Source: World Economic Forum (2013)

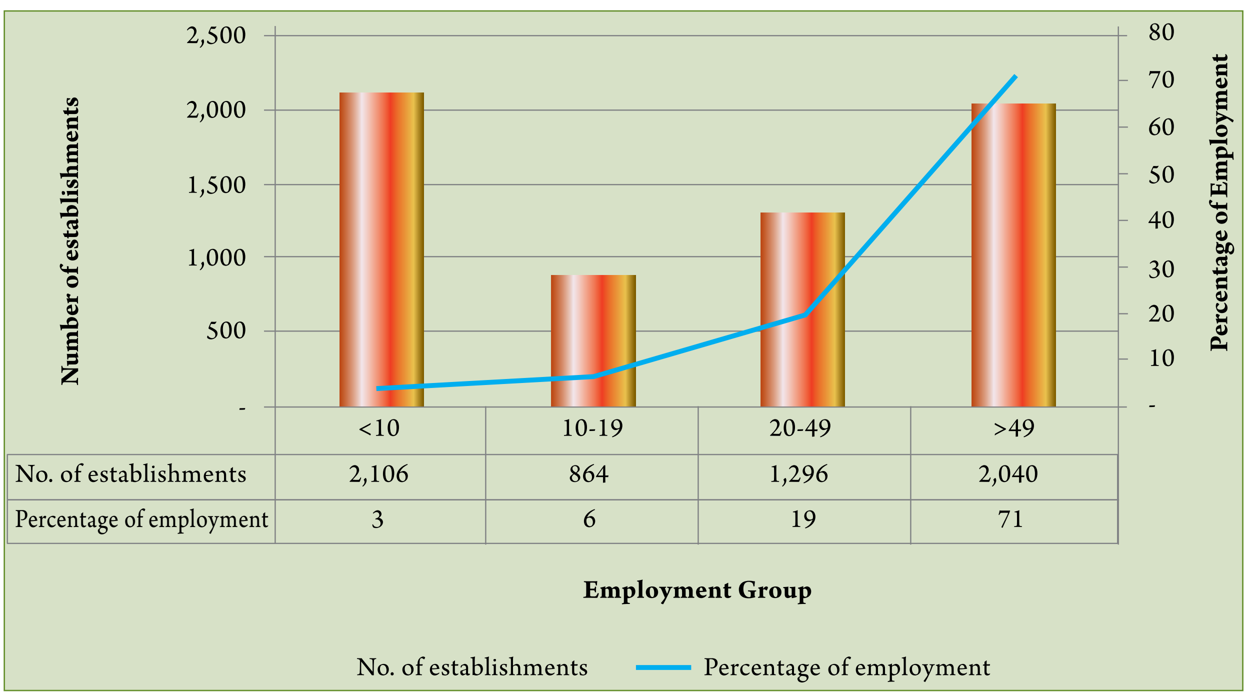
Within the East African Community (EAC), Kenya is almost at par with Tanzania and Uganda. Other countries including Uganda, Rwanda, Ghana, Ethiopia, and Nigeria are lagging behind Kenya in sector contribution to GDP.

10.3.4 Enterprise size distribution and contribution to the economy

A distinguishing characteristic of Sub-Saharan African (SSA) countries' manufacturing sector is the 'missing middle' exemplified by few medium enterprises relative to Micro and Small Enterprises (MSEs),[2] and large enterprises. In Kenya, MSEs are defined as enterprises employing between 1-50 people (Government of Kenya, 2012c) and this is used as operational definition in this chapter. The 'missing middle' is an indication of growth constraints faced by MSEs. Some of these constraints include difficulties in accessing finance, low entrepreneurial skills, and lack of competitiveness in international markets (Bigsten *et al.*, 2010). Figure 10.5 shows size distribution of manufacturing enterprises and contribution to employment. It is evident that large and medium establishments[3] constitute about one-third of total manufacturing establishments, but create 71 per cent of sector employment. Industrialization strategies need to include not only creation of new enterprises, but also to foster growth of existing enterprises to enhance employment opportunities and technological progress (Aguilar and Kimuyu, 2002).

Large and medium establishments account for 86 per cent of sector GDP (Table 10.4) compared to micro and small enterprises which, though accounting for 67 per cent of establishments, contribute only 11 per cent of sector GDP. Relatively higher productivity of medium and large firms can be attributed to intensive use of capital relative to micro and small enterprises, such that variable factors of production such as labour become more productive.

Figure 10.5: Establishments size and employment (2012)



	<10	10-19	20-49	>49
No. of establishments	2,106	864	1,296	2,040
Percentage of employment	3	6	19	71

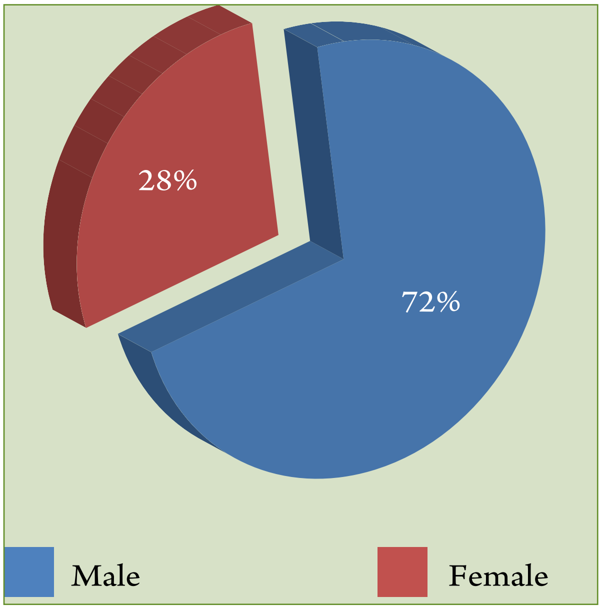
Source: KNBS (2013)

Table 10.4: Manufacturing firm size and contribution to sector value added (2012)

	Total establishments (%)	Contribution to manufacturing value added (%)	Employment (%)
Micro & Small Enterprises	67	11	29
Medium & Large Enterprises	33	89	71

Source: KNBS (2014), Statistical Abstract

Figure 10.6: Gender differentiated wage employment in formal manufacturing sector, 2013



Source: KNBS (2014)

10.3.5 Contribution to formal employment[4]

The contribution of the manufacturing sector to formal employment improved from 271,000 employees in 2012 to 280,300 employees in 2013. However, as discussed in KIPPRA (2013; 2012) the contribution to overall formal employment is on a declining trend. For example, in 2009, the sector contribution to wage employment was 13.3 per cent but it marginally declined to 12.4 per cent in 2013. It is important to note that the manufacturing sector provides a large proportion of indirect employment in other sectors through backward and forward linkages, which is not easy to establish, unlike direct employment (Szirmai, 2011). In terms of employment by gender, it is evident from Figure 11.6 that 72 per cent of the employment is male, with only 28 per cent being female.

11.3.6 Contribution to informal employment[5]

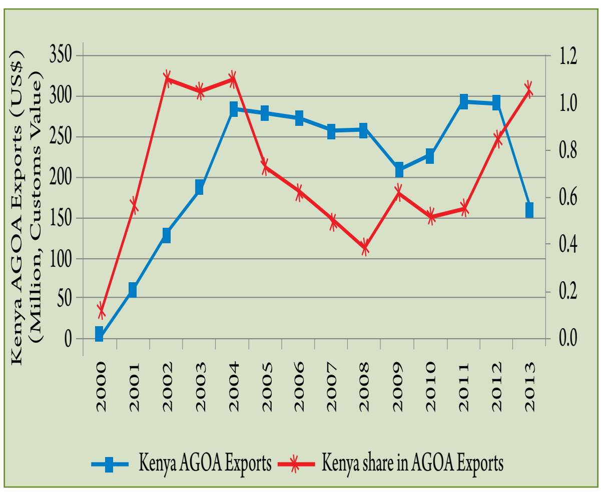
The informal sector in Kenya plays a vital role as a source of employment opportunities, especially for youths and those who fail to secure employment in the formal sector due to either skills deficit or capital required to venture into the formal sector.

About 89 per cent of employment in the manufacturing sector is accounted for by the informal sector. However, similar to wage employment, the contribution to informal employment is also declining. The contribution to informal employment declined from 20.9 per cent in 2007 to 20.0 per cent in 2013. As of 2013, total informal employment in the sector was estimated at 2.2 million employees. The large number of employment in the informal sector could be attributed to both large size of informal establishments, and the labour-intensive nature of the informal sector due to low technology-adoption. Informality is an ethnic phenomenon, with African-owned firms more likely to start informally due to network advantages within the informal system (Bigten *et al.*, 2000).

10.4 Exports under African Growth Opportunity Act (AGOA)

The African Growth Opportunity Act (AGOA) offers incentives for African countries to increase their exports through duty-free arrangements to the US market. AGOA provides an opportunity for growth and revival of the textile and apparel industry in Kenya and other Sub-Saharan African countries. The declining exports under AGOA, starting from 2005, coincides with the expiry of the Multi-Fibre Arrangement (MFA) in 2005, in which the US and Europe restricted garment and textile imports from developing countries. Figure 10.7 shows trends in Kenya's exports under AGOA. The US recession as a result of the 2008-2009 financial crises may have also contributed to poor performance in subsequent years.

Figure 10.7: Kenya AGOA export trends, 2000-2013



Source: AGOA (2013)

10.5 Policy Developments

10.5.1 Vision 2030 goals

The first MTP envisaged strengthening production capacity and local content of domestically manufactured goods; increased generation and utilization of R&D results; increased share of products in the regional market to 15 per cent; and developing niche markets for existing and new products. As a priority, two flagship projects were identified: Development of at least two Special Economic Zones (SEZs) and five small and medium enterprises (SMEs) industrial parks. Though major steps were made in terms of identification and earmarking land for the flagship projects, the projects largely remain uncompleted due to funding constraints and lack of land (Government of Kenya, 2013a). The share of exports to regional markets stagnated at 7 per cent, far much less than the envisaged 15 per cent.

In the Second Medium Term Plan (2013-2017), a number of additional strategies have been identified to support completion of existing projects: (i) Training of engineers, technologists and technicians; (ii) Transformation of Kenya Industrial Research and Development Institute (KIRDI); (iii) Development of Iron and Steel Mill; and (iv) Development of Constituency Industrial Development Centres (CIDCs).

10.5.2 National Industrial Sector Policy Framework 2012-2030

The industrialization policy envisages increasing share of Foreign Direct Investment (FDI) in the industrial sector by at least 10 per cent; improving sector value addition by 20 per cent; establishing the Industrial Development Fund with a capitalization of at least Ksh 10 billion for financing of manufacturing enterprises; increasing the share of industries located outside major urban centres to at least 50 per cent; and increased local content of locally manufactured goods for exports to at least 60 per cent (Government of Kenya, 2012b). Timely implementation of the policy will likely revive the sector's contribution to the economy. Increasing FDI will, however, require multi-sectoral strategies that will lower the costs of doing business by addressing such factors as infrastructure, taxation and licensing.

10.5.3 Special Economic Zones (SEZ) Policy, and Bill

The term Special Economic Zones (SEZ) refers to a geographically demarcated area with more liberal administrative, regulatory, and fiscal regimes to attract industrial development investments. The SEZs policy has been approved by the Cabinet and a draft SEZ Bill has gone through the first reading. The Bill, once enacted, will repeal the Export Processing Zones Act and provide for establishment of SEZs; the promotion and facilitation of investors; and the development and management of an enabling environment for investments.

Recently, the definition of domestic market has transformed to include regional markets. The EAC Customs Union (Export Processing Zones–EPZs) Regulations provide that exports to the Customs territory shall be subject to a ceiling of 20 per cent of the total annual production of the respective EPZ firm. The regulation, therefore, stifles the market for EPZ firms targeting the regional market. It is also a barrier to the Vision 2030 target of increasing the share of product exports to regional markets from 7 per cent to 15 per cent. SEZs will, however, accommodate firms with domestic market orientation without creating policy conflicts.

10.5.4 Budget statement 2013

To cushion local manufacturers from cheap imports, import duties have been increased from 10 per cent to 25 per cent on welding electrodes; millstones and grindstones; and plastic tubes for packing of toothpaste, cosmetics and similar products.

The proposals have been approved by the Council of East African Community Ministers, thus Kenyan importers will import these items at a higher rate than the regional common external tariffs. While such policies are important in initially protecting local industries, they may result to undesirable outcome such as low efficiency and skewed investments in favour of protected sub-sectors (Bigsten *et al.*, 2010).

10.5.5 Buy Kenya build Kenya policy

A policy to promote locally manufactured goods and services is being developed, spearheaded by the Ministry of Industrialization and Enterprise Development. The aim of the policy is to promote both public and private sector expenditure on locally manufactured goods so as to unlock the potential of the manufacturing sector.

However, for the policy to be successful, it is important to address both supply and demand-side constraints. On the supply side, issues of quality and costs are paramount. Further, it is imperative that such initiatives take into account regional developments, especially the implementation of the East African Community common market protocol.

10.6 Challenges

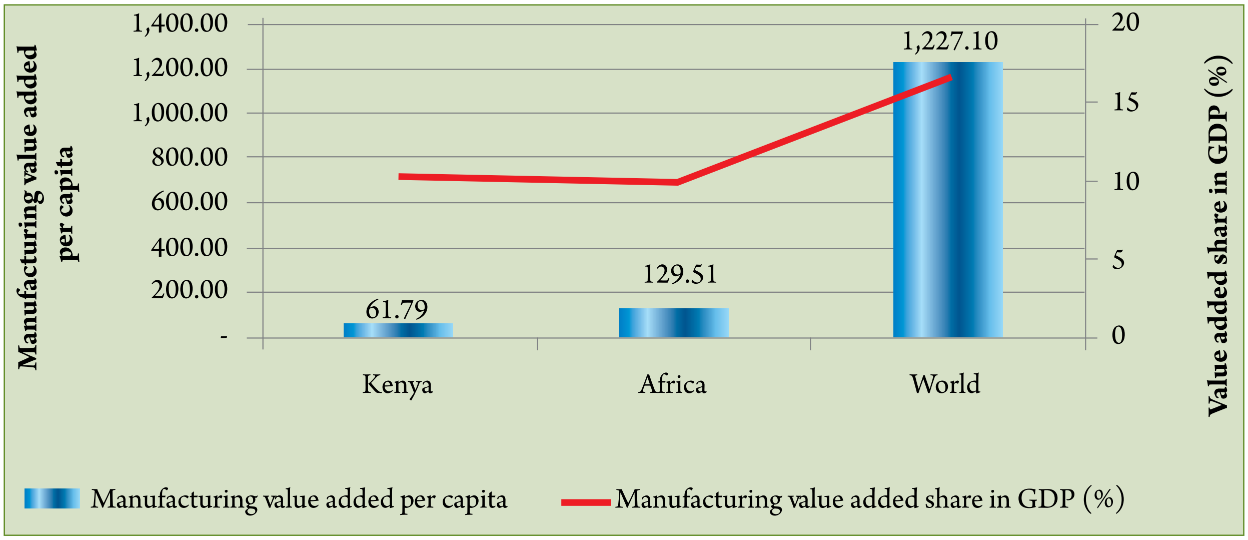
10.6.1 Low value addition

The sector performance is wanting, compared to both African and global averages. As shown in Figure 10.8, manufacturing value added (MVA) per capita for Kenya is about one-half that of Africa, and only 5 per cent that of global average. However, the share of manufacturing value added in GDP for Kenya and Africa is almost at par. The discrepancies observed in the share of MVA in GDP vis-a-vis MVA per capita for Kenya and Africa can be attributed to the size of different economies in the continent.

10.6.2 Influx of counterfeit goods

Counterfeiting is a disincentive for investments and has additional social costs, including loss of government revenue through tax evasion, and consumer health and safety threats. According to the Kenya Association of Manufacturers (2012), 40 per cent of manufacturing firms cite influx of counterfeits as a threat to their market share. The challenge in combating the vice is attributed to weak coordination among designated agencies, including data compilation and sharing;[6] under-funding of the Anti-Counterfeit Agency; and limited

Figure 10.8: Comparative manufacturing value added: Per capita (US$) and share in GDP (%) in 2005 constant prices



Source: UNIDO (2014)

public awareness on counterfeits and reporting procedures. Lack of legal obligation to share data on counterfeits by different agencies stifles evidence-based policy decisions, including assessing impacts of implemented policies. The Anti-Counterfeit Regulations 2010 require designated officers from relevant agencies to submit counterfeit data to the Anti-Counterfeit Agency on monthly basis. However, this is not being implemented because the provision is not anchored in the Anti-Counterfeit Act.

Regionally, the East African Community countries are at different stages of implementing anti-counterfeit laws, and there is lack of harmonized laws to fight the vice.

The Customs and Excise (Excisable Goods Management System) Regulations 2013 provide procedures and guidelines for operation of excisable goods management system (Government of Kenya, 2013c). A key feature of the system is track and trace of excisable goods, whether imported or manufactured in Kenya. The requirement for online activation of excise stamps is a positive step towards countering illicit trade in excisable goods, including counterfeits and use of fake excise stamps.

10.6.3 Influx of cheap imported products

Increasing competition from imported goods (Government of Kenya, 2013a) is a major threat to growth and employment creation by local industries. Large imports of manufactured goods cripple efforts to address the challenge of unemployment. China and India are Kenya's dominant sources of imports, jointly accounting for about a third of total imports in 2013 (KNBS, 2014).

10.6.4 High costs of production

High costs of production can be attributed to congestion at the Port of Mombasa, high and volatile energy prices, volatility in Kenya shilling against the major currencies, and high cost of credit. The high costs of electricity of up to US cents 21 per kwh unfavourably compares with countries such as China with approximately US cents 6 per kwh (Government of Kenya, 2013a).

The interest rate spread is still high, in excess of 10 per cent, with average lending rate of about 18-20 per cent. According to the Kenya National Bureau of Statistics, high costs of energy (>50% of firms), access to intermediate inputs (>50% of firms), high costs of transport (27% of firms), and limited access and high costs of credit (1/3 of firms) are major contributors to costs of production.[7]

In the World Bank Doing Business report, Kenya's performance worsened from position 122 in 2012 to 129 in 2013 (World Bank, 2013). Sub-indicator performance is shown in Table 10.5 below.

Table 10.5: World Bank 2014 Doing Business Performance Indicators, Kenya

Topics	Doing Business 2014 Rank	Doing Business 2013 Rank	Change in Rank
Starting a Business	134	128	↓6
Dealing with Construction Permits	47	45	↓2
Getting Electricity	166	163	↓3
Registering Property	163	161	↓2
Getting Credit	13	11	↓2
Protecting Investors	98	95	↓3
Paying Taxes	166	171	↑5
Trading Across Borders	156	157	↑1
Enforcing Contracts	151	151	No change
Resolving Insolvency	123	101	↓22

Source: World Bank (2013)

10.6.5 Low investments and investment policy vacuum

Kenya lacks an investment policy to provide the framework for both domestic investments and Foreign Direct Investment (FDI). Initiatives to attract investments are scattered in form of legislations, including the Investment Promotion Act 2004, and the Foreign Investments Protection Act 1964.[8] The National Industrialization Policy Framework 2012, however, prioritizes establishing an investment policy. The rolling out of county governments under the new constitutional dispensation creates incentives for investments across the country. However, lack of a policy to guide investments with regard to target sectors may impede the realization of Vision 2030 aspirations in light of devolved governance structure.

10.7 Policy Options

To address the high cost of production and make the country an industrial hub, continued investments in expansion and modernization of ports, rail, roads and ICT is imperative. Both the national and county governments should play a role in improving infrastructure. The Fourth Schedule of the Constitution assigns the functions of county transport (county roads, ferries, harbours, etc) and trade development to county governments. Therefore, county governments should augment national government efforts by prioritizing investments in infrastructure assigned to them. Further, to counter high and volatile energy prices, continued investments in alternative energy sources, including geothermal, wind, coal, solar and oil is imperative.

Kenya lacks a synchronized investment policy, especially in light of the new constitutional dispensation that has seen county governments making frantic efforts to attract investments. The Ministry of Industrialization and Enterprise Development should prioritize development of an investment policy, providing guidance on, for example, priority sectors so as to realize coordinated efforts in realization of Vision 2030 goals.

The manufacturing sector in Kenya is characterized by a large number of micro and small enterprises (MSEs), with limited contribution to GDP. There is need for deliberate policy efforts to foster the growth of MSEs to medium and large enterprises. These can be achieved through efforts to lower the costs of credit, and incentives to encourage investments in MSEs. Further, operationalization of the Industrial Development Fund envisaged in the National Industrialization Policy 2012-2030 is vital.

To promote demand for local products, there is need to urgently finalize and implement the policy encouraging demand for local products. However, the policy should address both demand and supply constraints, including price, quality and consumer perceptions. However, caution should be taken not to infringe existing agreements with the regional countries.

To curb the challenge of influx of counterfeits, there is need for collaborative efforts both at national and regional level. At national level, there is need for enhanced coordination among different agencies, including the Kenya Revenue Authority, Anti-Counterfeit Agency, Anti-Corruption Commission and the Financial Reporting Centre. A key challenge is weak coordination in terms of data and intelligence sharing, especially with respect to track and trace proceeds of accrued benefits. There is need to amend the Anti-Counterfeit Act to obligate data and intelligence sharing. It is also recommended that more resources should be allocated to the Anti-Counterfeit Agency. Further, at regional level, there is need to advocate for enactment of the EAC Anti-Counterfeit Bill.

Endnotes

1. See Fourth Schedule of the Government of Kenya (2012). The other commodity on which export duty is charged in Kenya is scrap metal.
2. It is important to note that MSEs are not necessarily informal. Informal enterprises include all small scale activities that are semi-organized, unregulated and use low and simple technologies while employing few persons (KNBS, 2013). MSEs comprise firms employing less than 50 employees.
3. Establishments refer to specific locations in which a clearly identified type of economic activity is being undertaken, compared to firms that may be made up of more than one establishment (KNBS, 2012)
4. Wage employment includes casual employees, part-time workers, directors, and partners serving on a regular basic salary contract. Self-employed persons and family workers who do not receive regular wages or salaries are excluded (KNBS, 2012). Employment outside small scale agriculture and pastoralists activities is excluded.
5. Informal employment includes all small-scale activities that are semi-organized, unregulated and use low and simple technologies while employing few persons (KNBS, 2013).
6. While the Anti-Counterfeit Agency is the principal institution mandated with the fight against counterfeits, the Anti-Counterfeit Act provides designated officers from other agencies, including the Kenya Bureau of Standards (KEBS), Department of Weights and Measures, and the Kenya Revenue Authority.
7. The statistics reported in the Economic Survey 2013 was based on Census of Industrial Production 2010, conducted by KNBS in 2010.
8. The Foreign Investments Protection Act was revised in 1990 and 2010.

Chapter 11

Micro and Small Enterprises

11.1 Introduction

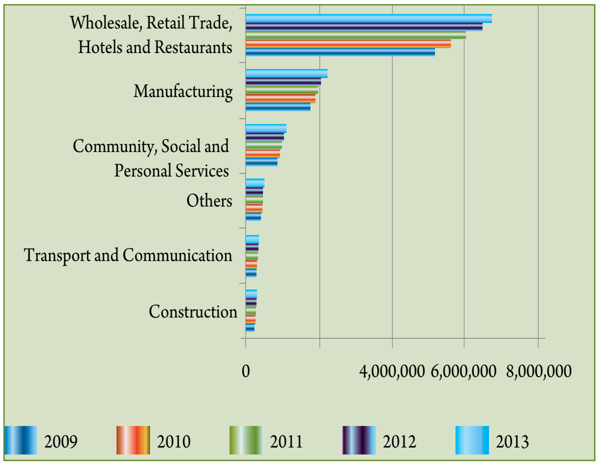
The Micro and Small Enterprise (MSE) sector is an important sector as a source of goods, services and employment. It comprises enterprises that operate formally (modern enterprises) and informally. There are over 41,000 formal MSEs, accounting for 75 per cent of all modern establishments (KNBS, 2013).[1] Modern MSEs also employ almost half (42%) of the workforce. Majority of MSEs, however, operate informally, outside the reported 'modern' enterprises (KNBS, 2013).[2] The 1999 National MSE Baseline Survey, which is the most comprehensive survey carried out to date, established that 88.3 per cent and 60.6 per cent of MSEs operate without business registration or license, respectively. The Kenya National Bureau of Statistics (KNBS) estimates that 11.1 million people are engaged in the informal sector. As much as this data includes domestic workers and workers in the transport industry, majority of those engaged in the informal sector (60%) operate in the wholesale and retail trade, hotels and restaurants. A similar picture is replicated with modern MSEs, where majority operate in the services sector (KNBS, 2013).

11.2 Recent Performance

11.2.1 Employment

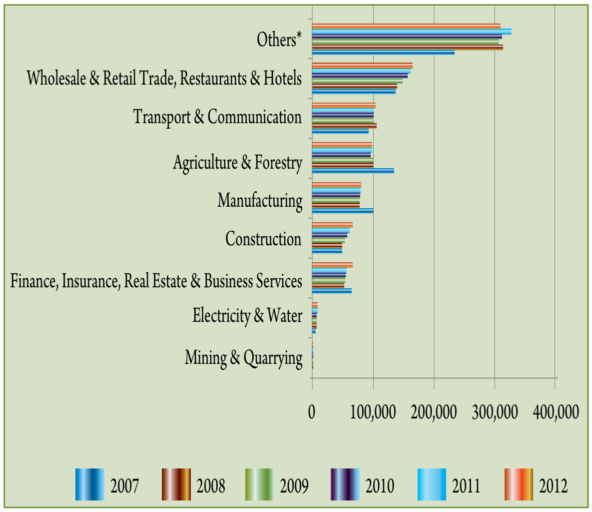
As shown in Figures 11.1 and 11.2, majority of those engaged in the informal sector and those in formal MSEs operate in the service sector, with manufacturing accounting for less than 10 per cent of total employment. The data also reveals that the level of informality is increasing.

Figure 11.1: Employment in the informal sector



Source: KNBS (2014a), Economic Survey

Figure 11.2: Employment in the modern MSE sector



*Others include arts, entertainment and recreational, household, extra-territorial, human health and social work, public administration and defence, professional, scientific and technical activities and education services

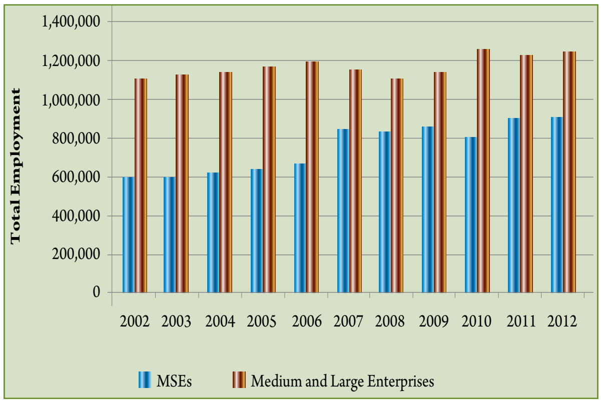
Source: KNBS (2013), Statistical Abstract

The data also shows that the number of enterprises operating in wholesale and retail trade, and restaurants and hotels, has been steadily increasing over the years regardless of the fact that they have been operating formally or informally. Figure 11.2 also shows that agriculture and forestry, finance, insurance, real estate and business services and manufacturing sectors of formal MSEs experienced a decline in employment in 2008 largely attributable to the effects of the post-election violence and to some extent the global financial crisis.

Figures 11.1 and 11.2 also show that informal sector activities have been increasing in all sectors, while modern enterprises in the manufacturing sector experienced stagnated employment growth.

Overall employment in the formal MSE sector has been increasing, especially over the last three years, though marginally as illustrated in Figure 11.3.

Figure 11.3: Employment trends over the last 10 years

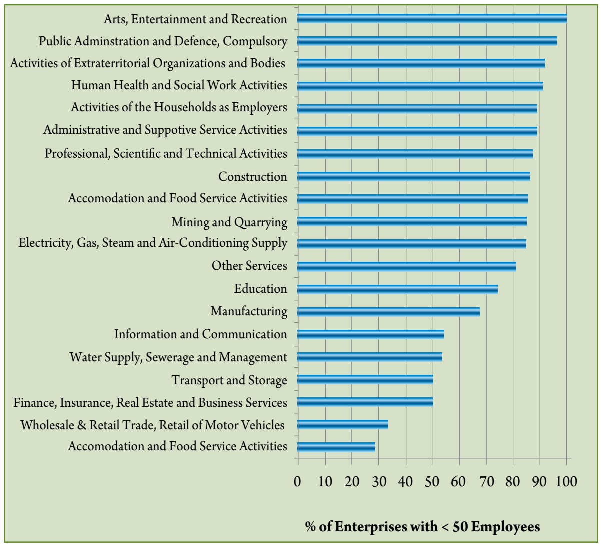


Source: KNBS (Various), Statistical Abstracts

11.2.2 Establishments

Majority of MSEs in Kenya operate in wholesale and retail trade, repair of motor vehicles and motorcycles (29%), followed by the education sector (11%).

Figure 11.4: Establishments by sub-sector



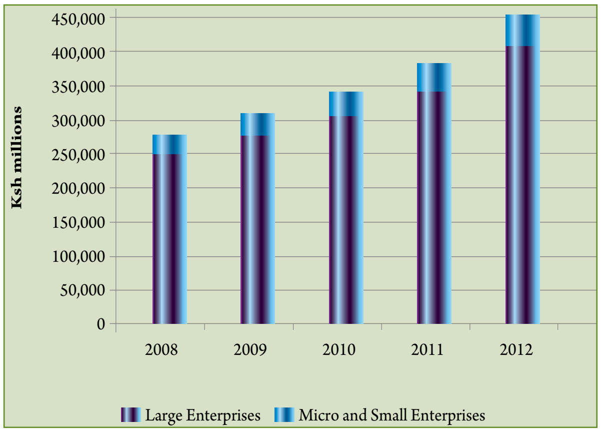
Source: KNBS (2013), Statistical Abstract

Majority of modern establishments, regardless of the sector, are MSEs as illustrated in Figure 11.4.

11.2.3 MSE manufacturing value added

As much as the contribution of manufacturing value added made by MSEs has been increasing over the years, the cumulative contribution made by the sector is low, given that MSEs, which represent 67.6 per cent of manufacturing firms, contributed only 11.2 per cent of manufacturing value added (KNBS, 2013a). Policy attention needs to be given to MSEs operating in manufacturing, given the important role the manufacturing sector plays in promoting economic and industrial development. These low levels of manufacturing value added are an indication of the low level of industrialization amongst MSEs. The policy issue, therefore, is how manufacturing MSEs can generate greater value added and increase returns on investments.

Figure 11.5: Manufacturing value added by MSEs



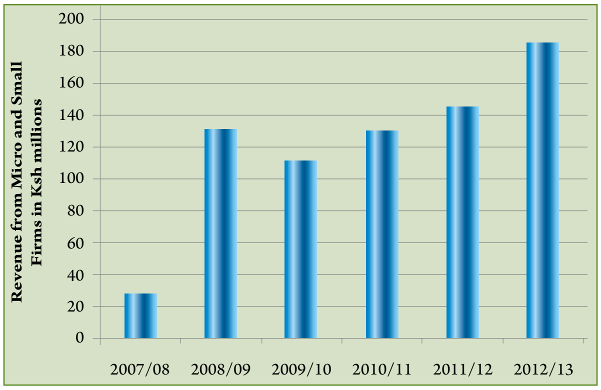
Source: KNBS (2013b), Statistical Abstract

11.2.4 Tax performance

Like all enterprises in Kenya, MSEs are required to pay taxes as provided in the relevant tax regimes, which include Income Tax, Pay as You Earn (PAYE) and Value Added Tax (VAT). In 2006, however, Turnover Tax (ToT) was introduced, amending the Income Tax Act (Cap 470) applying to businesses with annual turnovers of between Ksh 500,000 and Ksh 5 million.[3] There are, however, some exclusions as to the enterprises that can benefit from ToT, such as limited companies and rental income. Registration for ToT is done by application to KRA.

The main benefit of ToT is that it simplifies tax, compared to other tax regimes, record keeping and filing procedures, which are often constraints faced by MSEs.

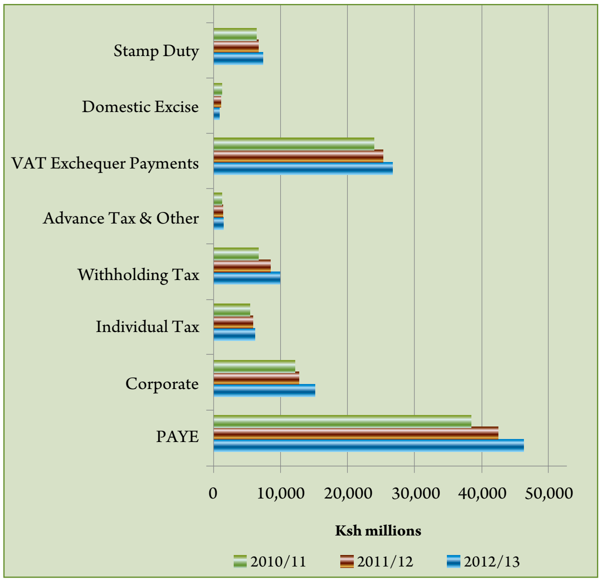
Figure 11.6: Turnover tax



Source: Kenya Revenue Authority (KRA), Domestic Tax Department[4]

Review of the other tax regimes reveals that Pay as You Earn (PAYE), income tax payments and Value Added Tax (VAT) revenue has steadily increased over the last three years (Figure 11.7).

*Figure 11.7: Tax performance for small and medium enterprises**



Source: Kenya Revenue Authority, Domestic Tax Department (DTD), Small and Micro Taxpayers
* Taxpayers whose turnover is between Ksh 5 million and Ksh 750 million

11.2.5 Business registration and licensing

Since the licensing reforms that were undertaken in 2006 by the Working Committee on Regulatory Reforms for Business Activities in Kenya, there have been additional reforms for improving the licensing environment, one of which is the introduction of an e-registry to host licenses electronically. This formed one of the recommendations made by the Committee. E-licensing is aimed at lowering transaction costs associated with obtaining licenses by removing the requirement of having to physically go to the regulatory agency to obtain the license application form and relevant licensing requirements.

As at April 2011, 441 licenses had been published, and 119 licenses underway as illustrated in Table 11.1.

Table 11.1: E-licensing

Description	December 2012	April 2014
Published licenses	441	441
Licenses prepared*	36	48
Licenses created**	79	71

Source: Business Regulatory Reform Unit (BRRU) at the National Treasury
*Licenses prepared refer to the licenses verified by the Attorney General and ready to be published.
**Licenses created refer to the licenses received by the Unit from the relevant regulatory authorities.
The BRRU is further updating the licensing fees and charges for Nairobi following the enactment of the Nairobi City County Finance Act (No. 2 of 2013).

11.3 Recent Developments

11.3.1 Legal statute

The Micro and Small Enterprise (MSE) Act No. 55 of 2012 was passed by Parliament in late 2012. The Act establishes an MSE Authority whose main functions are to coordinate, harmonize and facilitate activities and plans that relate to the MSE sector. The MSE Authority is now operational, with the members of the MSE Authority, including the Acting Chief Executive Officer and the Chairperson, having been appointed in February 2013. In June 2014, the MSE Authority launched their Strategic Plan in a stakeholders' workshop. The Strategic Plan identifies key strategic actions necessary to effectively implement the MSE Act. The 2006 Working Committee on Regulatory Reforms for business activities in Kenya identified 1,325 licenses. The role of the MSE Authority is to develop and promote policy, as well as improving coordination and implementation. Poor coordination of the MSE sector has led to poor policy targeting and therefore weakness in implementation of policy (Omolo and Omiti, 2005). An operational MSE Authority is therefore expected to introduce appropriate mechanisms to improve implementation.

11.3.2 Social security for employees

Every employer is required to register with the National Social Security Fund (NSSF) and make statutory deductions. NSSF payments are made on a monthly basis, with penalties accruing for the period that remains unpaid. The NSSF has, however, introduced mechanisms to improve remittance as well as lower transactions costs. NSSF contributions, for instance, can be made via M-Pesa. In December 2013, the government gazetted the National Social Security Fund Act (2013). This Act introduces graduated deductions depending on earnings compared to the flat rate in the repealed National Social Security Fund Act (Cap 258). The Act also introduced a Pension Fund, which comprises members who were making contributions to the Old Provident Fund, with the exception of those making voluntary contributions who, together with those who are self-employed and those who do not meet the criteria of members of the Pension Fund, will be under the Provident Fund. The Pension Fund is, however, mandatory for those in employment; failure to comply is an offence under the Act. The mandatory contribution is now

6 per cent of monthly earnings by employer and a further contribution of 6 per cent by the employee. This is likely to impact formal MSEs with low levels of business earnings, as the statutory contribution will increase. For instance, total contribution by employees and employers for one earning Ksh 10,000 will be Ksh 1,200 compared to Ksh 400 in the previous regime (of which Ksh 200 was the employer's standard contribution and Ksh 200 the employee's contribution).[5] This marks a 300 per cent increase of this statutory requirement. The commencement date gazetted for implementation of the new NSSF Act was 10th January 2014. This date was, however, deferred several times. Implementation of the Act was further delayed following an Industrial Court injunction barring application of the new rates.[6]

NSSF applies to every employer with one or more employees, while previously it only applied to enterprises with more than five employees.

11.3.3 Public procurement

Under the Public Procurement and Disposal Act (2005) (Cap 412C), Preference and Reservations Regulations of 2013, disadvantaged groups, micro and small enterprises are given preference, and procuring entities are encouraged to utilize this framework for contracts with MSEs and disadvantaged groups, where appropriate. Following the 2013/2014 Budget Statement, the preference and reservation for youth and women was raised from 10 per cent to 30 per cent. These regulations were subsequently amended,[7] providing that at least 30 per cent of all government procurement be granted to micro and small enterprises owned by youth, women and persons with disabilities. The amended regulations also require procuring entities to make prompt payments for all performed contracts. This initiative is also referred to as "Access to Government Procurement Opportunities (AGPO)". The eligible MSEs are required to apply for an AGPO-compliance certificate from the Public Procurement Directorate at the National Treasury, which is also available electronically at no charge. The AGPO-compliance certificate is the assurance to the public entity that the business entity is eligible.

The Preference and Reservations regulations state that national reservations for exclusive preference will be on certain products, which include motor vehicles, plant and equipment assembled in Kenya, and furniture, textile, foodstuffs and other goods made in Kenya, and goods manufactured, mined, extracted or grown in Kenya. Thus, giving preference to local industries that MSEs tend to operate in as public entities are not allowed to import items in these categories. This is expected to have a positive impact to respective MSEs as it enhances their market access through public procurement.

The exclusive preference presented in the 2013/2014 Budget Statement included local firms in priority areas such as construction materials and related supplies, furniture, motor vehicles and foodstuffs.

The Public Procurement and Disposal (County Governments) Regulations (2013), which were gazetted in April 2013 specify procurement provisions for county public entities, while also ensuring compliance to the Preference and Reservations Regulations.

An Expo at the Kenyatta International Convention Centre (KICC) held in October 2013 provided the youth, women and people with disabilities, who formed the target group, with the opportunity to meet with public entities and obtain information on accessing government procurement opportunities.

The government, spearheaded by the Ministry of Industrialization and Enterprise Development, is developing a "buy Kenya, build Kenya" strategy aimed at promoting local products. Again, if well developed, this strategy could play an important role in promoting MSEs.

11.3.4 Licensing (the Case of Nairobi)

A review of licensing in Nairobi established that with the enactment of the Nairobi City County Finance Act (No. 2 of 2013),[8] Nairobi City County was able to revise the previous charges and licensing fees that had been provided under the repealed Local Authority Act (Cap 265) (Section 163A) as the Single Business Permit (Section 148 of the Local Authority Act).

Following the promulgation of the Constitution of Kenya (2010), county governments are to introduce relevant laws, including those that deal with licensing, given that some licensing functions were decentralized to county governments.[9] The Nairobi City County Finance Act, which was enacted in September 2013 through the Nairobi City Gazette Supplement,[10] therefore, introduces revised charges and business fees. This has seen an increase in most charges provided previously under the defunct Nairobi City Council Single Business Permit. For example, small private education institutions saw a 100 per cent increase, while others such as small industrial plans, medium workshops/services/repairs shops and firewood traders were increased by 50 per cent. Some, however, such as small-scale traders with less than 5 employees and kiosks less than 5 square feet did not experience any changes in fees. The increased licensing fees are expected to affect MSEs with respect to costs of doing business, given that licenses are renewed on an annual basis.

The Statutory Instruments Act of 2013 (Cap 23), which was enacted in 2013, introduces a systematic, transparent participatory approach that both the national and county governments should follow prior to enacting laws and regulations. If properly implemented, this will introduce efficiency, accountability and transparency in the regulatory process, including charges.

In June 2014, the Nairobi City County launched the Nairobi County Web Portal aimed at introducing electronic services, including e-payments. If well implemented, this move is expected to reduce transaction costs and introduce efficiency in revenue collection by the county.

11.3.5 Business registration

The government's efforts in digitizing the office of the Registrar of Companies has started bearing fruits as name searches are currently undertaken electronically at the point of service, with the entrepreneur receiving prompt results. Prior to that, an entrepreneur would have to make a written request and return after three days to establish the outcome. The service points have also expanded from the one at the Companies Registry to over 10 through the Huduma Centres located in Nairobi, Mombasa, Kisumu and other regions. This means, therefore, that MSEs can apply for a business name in a single day, thus reducing transaction costs and enhancing efficiency in business name registration.

11.3.6 Entrepreneurship support

The government plans to introduce an entity known as "Biashara Kenya" whose main aim is to facilitate research in business development and entrepreneurship and provide funding (Government of Kenya, 2013).[11] Biashara Kenya is aimed at consolidating all public enterprise funds and financing into one agency. It is also mandated with provision of capacity building and support to MSEs (Government of Kenya, 2013). The second Medium Term Plan (2013-2017) identifies the establishment of Biashara Kenya enterprise as one of the flagship projects.

11.3.7 Turnover Tax (ToT)

The Kenya Revenue Authority (KRA) plans to simplify the registration requirements and processes by considering electronic and mobile-based registrations. KRA also plans to introduce sector-specific handbooks and guides, which will go a long way in improving awareness and, consequently, compliance. One other critical element of the proposed reform is to transfer all businesses that fall under the VAT threshold into the ambit of ToT (KRA, 2012).

11.3.8 Small and medium enterprise (SME) parks

The Vision 2030 identifies the development of SME parks as a flagship project aimed at supporting the manufacturing sector. By the end of the first Medium Term Plan (MTP I), the designs and the land identification for the SME parks had been initiated (Government of Kenya, 2013). The government has recommended the development of one master plan of SME parks in the cities and key towns. The main constraint faced, however, is finance and suitable land, which are contributing to delays in implementation. Access to suitable worksites and infrastructure is also a major constraint facing MSEs.

11.4 Outstanding Challenges

As aforementioned, informality in the sector seems to be increasing. This needs to be addressed. The review of Turnover Tax (ToT) should take into account the challenges that impede the formalization of MSEs to ensure that registration and submission of ToT is simplified and assessable for MSEs.

An initial impact analysis to establish the effectiveness of the Access to Government Procurement Opportunities (AGPO) policy is critical, with the aim of providing policy advice to inform its efficient implementation. Awareness on access of government procurement opportunities is still low amongst MSEs.

The enactment of the Nairobi City County Finance Act No. 2 of 2013 saw an increase in the charges of the Single Business Permit. Licensing often introduces additional transaction costs, especially for MSEs, given that licensing is scattered in a number of different licensing agencies. E-licensing is, however, an important measure that would reduce transaction costs. Policy advice on e-licensing under the devolved government structure is also critical and should be addressed. Currently, county governments are introducing licensing and amending licensing fees, which if not well implemented could contribute to unnecessary regulatory burdens for MSEs. There is also need to decentralize licensing to enhance service delivery and reduce transaction costs, and also ensure efficiency in laws and regulations that affect business licensing in Kenya.

Poor coordination of MSEs activities and worksites is a persistent challenge highlighted in the second Medium Term Plan (2013-2018). Without a national spatial plan that considers MSEs, the poor planning and coordination of MSEs will also be experienced at the county level. Moreover, MSEs in Kenya are largely service-oriented, with low contributions made by the manufacturing sector. Authoritative data on MSEs would be very beneficial for policy makers, but such data is currently lacking as the most comprehensive survey on MSEs carried out in Kenya was in 1999, over 15 years ago.

11.5 Policy Recommendations

11.5.1 MSE procurement policies

Collective approach to public tenders: The government could consider adopting a collective approach where some of the 30 per cent preferential public procurement tenders are channelled through various registered MSE associations as group bids. Such associations should be based on products or services they produce as a way of encouraging specialization. Additionally, such an approach would be useful in encouraging MSE cluster formation and joint actions where firms come together to benefit from a single opportunity. Brazil embraces this approach where contracts are given to associations of small producers (Humphrey and Schmitz, 1995).

Capacity building: MSEs associations should be capacitated by the government so as to impart procurement advice to their members. This can be achieved through public procurement technical advice service through AGPO.[12] Public procurement procedures can be complicated, especially expertise on preparing bid documents and other procurement, tendering and payment processes.

Access to information: MSEs should also be able to access public procurement information. PPOA and AGPO should, therefore, establish mechanisms to facilitate this especially outside Nairobi. Partnering with the Huduma Kenya Secretariat is one approach, as information and registration services could be provided at Huduma Centres around the country.

11.5.2 Taxation

Turnover Tax (ToT) should be reviewed now that it has been in operation for five years, with the aim of further simplifying registration to make it easier for MSEs to benefit. Furthermore, with the enactment of the MSE Act, the thresholds should be similar so as to harmonize the definition and application of the term MSE. Further awareness of ToT and its benefits is critical, and providing sectoral guidelines is a welcome approach given the heterogeneous nature of the MSE sector.

One of the recommendations in the Kenya Revenue Authority (KRA) Fifth Corporate Plan is the review of the VAT regime with the aim of placing all those items that fall below the VAT threshold into the ToT regime. The KRA and relevant government agencies should consequently ensure that this does not disadvantage MSEs that were otherwise benefiting from using the VAT registration certificate, for instance, in accessing government procurement opportunities as provided under the Public Procurement and Disposal (Preference and Reservations) Regulations, 2013. ToT should, therefore, also be recognized.

11.5.3 Licensing

The government needs to ensure that licenses introduced at the county level are not done arbitrarily. The Statutory Instruments Act of 2013 (Cap 23) should, therefore, be fully implemented to ensure that the licensing review is done in a systematic, transparent and participatory manner. Public participation is a critical component of the Constitution of Kenya (2010), which should be enforced in the drafting of laws that address fees, rates and charges to apply to business entities at the county level. The institution proposed in the Statutory Instruments Act of 2013 (Cap 23) to scrutinize the statutory instruments, i.e. Parliament and/or Senate Committee, would require further support, including staff with technical expertise.

Going forward, the E-licensing mechanism should be enhanced in two ways: to also host county-level licenses and permits, and be automated to allow for an investor to complete, submit and pay for relevant licenses and permits electronically.

11.5.4 Small and medium enterprise (SME) parks

The Vision 2030 SME parks should provide infrastructure, support and incentives that would promote Research and Development (R&D) and innovation by MSEs, especially in the manufacturing sector aimed at improving manufacturing value added. R&D is important in enhancing productivity and development of new technologies. Some parks will also offer infrastructural support required by MSEs, including worksites, utilities and markets. One of the institutions that can facilitate this is the Micro and Small Enterprises Development Fund established by the MSE Act, given that one of the functions of the Fund is to finance R&D, innovation and technology transfer. The other institution is the proposed Biashara Kenya entity. Both institutions are, however, not yet operational.

11.5.5 Data on MSEs

Policy makers require current credible data on MSEs to assist in policy and strategy formulation and implementation, thus bringing out the need for an MSE Survey.

Endnotes

1. MSEs here refer to enterprises with less than 50 employees.

2. The Kenya National Bureau of Statistics (KNBS) Statistical Abstract reports on modern enterprises include limited liability companies and other forms of business organizations, including public bodies engaged in business activities and large-scale farms located in urban and rural areas

3. The MSE Act No. 55 of 2012 defines small enterprises as those whose annual turnovers range between Ksh 500,000 and Ksh 5 million.

4. Previous KER publications reported cumulative figures for the entire Medium and Small Taxpayers (MST) Department. However, the emphasis has now been placed on MSE sector players only.

5. There is, however, an upper limit of Ksh 2,160 for employees earning above Ksh 18,000.

6. The implementation may be deferred further, pending determination of the related court cases.

7. The Public Procurement and Disposal (Preference and Reservations) (Amendment) Regulations, 2013 Gazettement of Legal Notice No. 114 of 2013.

8. See the Act published by the Nairobi City County Gazette Supplement No. 7, date of commencement provided under Legal Notice No. 2 of 2013, Gazette Vol. CXV – No.139, dated 27 September 2013.

9. County Government Public Financial Management Transitions Act No. 8 of 2013.

10. Nairobi City County Gazette Supplement No. 7 (Acts No. 2).

11. Biashara Kenya was also presented in the 2013/2014 Budget Statement and in the 2013 Report of the Presidential Taskforce on Parastatal Reforms.

12. SEBRAE in Brazil is a private entity of public interest aimed at providing support to MSEs in Brazil including training and seminars. More information available from http://www.sebrae.com.br/customizado/sebrae/institucional/sebrae-in-english/portfolio_ingles.pdf.

Chapter 12

Infrastructure and Economic Services

12.1 Introduction

Infrastructure and economic services form the bedrock for national growth and development. The Kenya Vision 2030 identifies infrastructure as the foundational enabler on which the economic pillar is anchored. For Kenya, the infrastructure and economic services sector plays a critical role in determining the nation's competitiveness, regionally and globally. The emphasis is on infrastructure development to reduce the cost of doing business, and enhancing efficiency in service delivery to accelerate development. The sector is also important in enabling Kenya to address global challenges that are current and foreseen. A review of the general performance of the sector in the last four years reveals that the contribution of the infrastructure portfolio has been on a decline. In 2009, the sector recorded a 20.8 per cent contribution to GDP compared to 19.1 per cent in 2013 (KNBS, 2014).

12.2 Housing, Building and Construction

12.2.1 Performance

The need for shelter is a basic need, just as food and clothing. The Government of Kenya has set up programmes, policies and incentives to combat the challenge of inadequate housing for its citizens, with the housing policy developed in 2004 aiming to increase production from 35,000 to 450,000 housing units per year in both rural and urban Kenya. To reiterate the commitment towards delivering this, the Housing Bill was completed in 2011. The Bill is more specific on the expectation in developing a housing unit for low-income earners, what floor area it should occupy, the maximum cost to be incurred, and the rooms it should have. However, nine years down the line, production has improved marginally to only 50,000 housing units for urban Kenya, according to a report by World Bank (2011). At the same time, demand for housing in urban Kenya rose from 150,000 to 250,000 units per annum as at 2011. Considering the changes in population, urbanization, cost of capital, and increased cost of fixed assets such as land, it was expected that the supply of housing would have been doubled to approximately 900,000 units per annum by this time, with costs increasing to adjust for inflation.

The housing, building and construction sub-sectors have remained vibrant in recent years in view of the rising demand for housing and a shift to property as a preferred investment asset by many investors. Kenya's nominal GDP as market prices grew from Ksh 3,049 billion in 2011 to Ksh 3,798 billion in 2013. The contribution of building and construction towards this growth is shown in Table 12.1.

Table 12.1: GDP by activity (% contribution to GDP), 2011-2013

Activity	2011	2012	2013
Construction	4.4	4.5	4.5
Real estate	8.1	8.0	7.9
	12.5	12.5	12.4

Source: KNBS (2015), Economic Survey

The contribution to GDP by construction activities increased marginally from 4.4 per cent in 2011 to 4.5 per cent in 2013. The contribution of housing (as depicted by the contribution of real estates) to GDP has been generally on a decline from 8.1 per cent in 2011 to 7.9 per cent in 2013. However, over the same period, building and construction attained remarkable performance, with a growth of 5.8 per cent in 2013, an improvement from the growth of 4.3 per cent and 4.8 per cent registered in 2011 and 2012, respectively. Some of the selected indicators for the performance of the sector are shown in Table 12.2.

Table 12.2: Selected indicators for the building and construction, 2011-2013

	2011	2012	2013
Value of building plans approved (Ksh billion)	156.5	180.6	243.1
Cement consumption ('000 tonnes)	3870.9	3991.2	4266.5
Employment (No. of persons employed in '000)	106.1	116.1	129.7

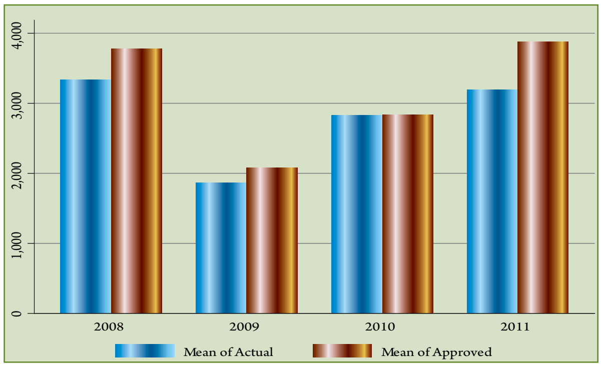
Source: KNBS (2015), Economic Survey

The value of building plans approved increased from Ksh 156.5 billion in 2011 to Ksh 243.1 billion in 2013. Cement consumption increased from 3,870.9 thousand tonnes in 2011 to 4,266.5 thousand tonnes in 2013. In 2013, cement consumption increased by 6.9 per cent in comparison to the 3.1 per cent increase registered in 2012. These trends are as a result of an increase in construction projects. Additionally, increased construction activities have significantly contributed to employment creation, as can be seen from the increase in the number of persons employed in the building and construction sector from 106,100 persons in 2011 to 129,700 in 2013.

In an attempt to meet the increasing demand for housing, the government has increased allocation for housing from Ksh 2,840.9 million in 2010/11 to Ksh 5,565.4 million in 2013/14. This enabled the National Housing Corporation (NHC) to complete 255 residential units at a total cost of Ksh 1,282.7 million in 2011 and 488 residential units in Nairobi at a cost of Ksh 1,979.02 million in 2012. In 2013, NHC completed an additional 215 residential units in Nairobi at a cost of Ksh 995.4 million. The increase in financial allocation to the housing sub-sector in the last three years has also led to the introduction of the Civil Servants Housing Mortgage Scheme and provision for housing development through the Civil Servants Housing Scheme and Development

Fund. Figure 12.1 shows the budget allocation versus the actual expenditure on the housing sub-sector from the 2008/09 financial year. It is evident that despite inadequate allocation to the sub-sector, it did not fully utilize its budgetary allocation for the years presented. However, the absorption rate has been on an upward trend, almost reaching 100 per cent in 2011/12.

Figure 12.1: Budget allocation, approval and actual expenditure on housing, 2008/09-2011/12 (Ksh million)



Source: KNBS (2013), Economic Survey

In Table 12.3, we observe an increase in production of housing units for residential purposes from the public sector. Between 2011 and 2012, there was a threefold upward shift in the number of residential housing units completed by the public sector, with the average cost of a new building completed moving from Ksh 4.45 million in the year 2011 to Ksh 2.26 million in the year 2012. Additionally, the private sector has grown steadily, increasing production in residential buildings from 4,912 units in 2011 to 5,016 units in 2012. At the same time, the private sector pricing per unit increased from Ksh 7.6 million in 2011 to Ksh 7.8 million in 2012. The difference is significantly high and could be attributed to the heterogeneous nature of housing as a good.

Additionally, the Central Bank of Kenya (CBK) Supervision Annual Report 2012 indicated that the value of mortgage loan assets outstanding increased from Ksh 90.4 billion in December 2011 to Ksh 122.2 billion in December 2012. The number of mortgage loans in the market stood at 19,177 in December 2012 up from 16,029 in December 2011, with the average mortgage loan size increasing from Ksh 5.6 million in December 2011 to Ksh 6.4 million in December 2012. The increase in the average mortgage loan size is partly attributed to increased property prices. With the stability of the exchange rate and the lending rate in the 2012/2013 financial year, the mortgage loan book is expected to increase and the number of mortgage holders to also go up significantly.

This is a clear indication that the government can venture into public housing and house the majority of Kenyans who are low-income earners. It could also enter into public-private partnerships (PPPs) to cut down the cost of housing production. All this should be geared towards the government's constitutional obligation of housing provision. The public sector is also gaining interest in non-residential buildings, producing 20 units in 2012 from 0 (zero) in 2011.

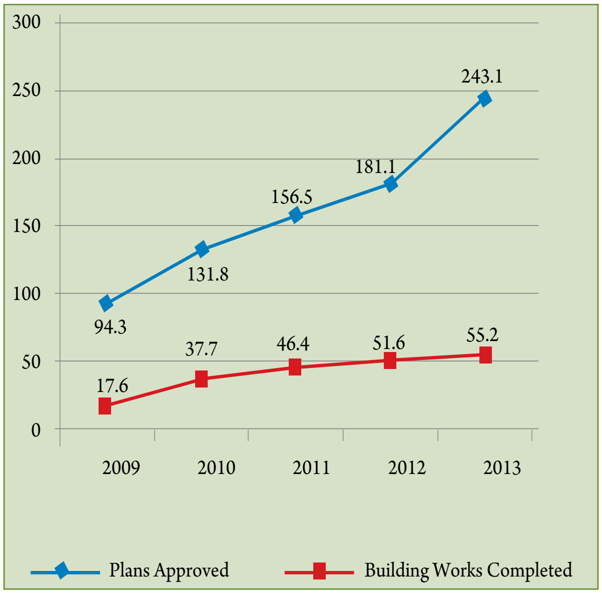
Table 12.3: Number of housing units and value of buildings completed by the private and public sectors

Residential		2011		2012	
		Units	Value (Ksh million)	Units	Value (Ksh million)
	Public	587	2,614.20	2051	4,629.50
	Private	4912	37,426.30	5016	39,458.60
Non-residential					
	Public	0	-	20	70.00
	Private	525	6,506.00	639	6,650.70

Source: KNBS (2014), Economic Survey

The rate of approval for new buildings has also been on an upward trend from 2008, though the completion rates for new buildings experienced a downward trend in the same period. The rate of completion is still very low, having improved to 28 per cent in the year 2010 and 2011 but declining slightly to 26 per cent in 2012 (Figure 12.2). Improved completion rates might emanate from the advancements in the real estate market in terms of secondary mortgage market, and growing investor interests. The expectation is to see greater economic benefits in all sectors of the economy, if the completion rates increase to over 50 per cent. The contribution to GDP from this sub-sector will increase significantly if the values of approved plans are in tandem with the completions.

Figure 12.2: Private plans approved and reported new private building work completed, 2009-2013



Source: KNBS (2014), Economic Survey

12.2.2 Review of Vision 2030 flagship projects (MTP I)

The five flagship projects in the housing sector under MTP I recorded mixed results for the targeted period (2008-2012) as highlighted below:

- The target to prepare and implement strategic development plans in six metropolitan areas was partially achieved with the preparation of the Nairobi Metropolitan Strategy.
- Success was registered in the target to install physical and social infrastructure in slums in 20 urban areas to formalize slums. 900 housing units in the Kibera-Langata decanting site were completed and 1,800 households relocated. The sustainable neighbourhood programme, which aimed at constructing 450 housing units, was 67 per cent complete. At the same time, 991 housing units for civil servants were completed. Additionally, 25 housing cooperatives in slums and informal settlements were formed. Physical infrastructure development in form of access roads, water and sewer lines also commenced during the period.
- The target of producing 200,000 housing units per annum by 2012 recorded a shortfall. The National Housing Corporation (NHC) developed over 800 urban housing units, while over Ksh 820 million was advanced as rural loans to facilitate improvement of rural housing. The national housing survey was also conducted to inform planning and investments in the housing sector.
- The target to establish housing technology centres in each constituency to increase access to decent housing and location-specific building materials was realized partially. A total of 31 Appropriate Building Technology centres were established while the NHC put up a factory in Athi River to produce expanded polystyrene panels as alternative affordable building materials for the sector.
- The target to enact a Housing Bill to legislate for a one-stop housing development approval recorded progress with the formulation of the Bill pending enactment.

Global challenges–housing

According to UN Habitat, 30 per cent of the world urban population lives in slums. While over 50 per cent of the world population resides in urban areas today, estimates indicate that by the year 2020 over one billion people will reside in urban areas (UN, 2012). Contrary to the perception that urban areas provide most employment opportunities, high quality of life, social and physical infrastructure, reports indicate that 827.6 million people in the world live in squalor within urban slums. At the same time, the rising cost of living is not in tandem with the minimum wage, thus many workers/households struggle to afford decent housing (UN, 2013). In North Africa, most governments have moved to reduce the number of slum dwellers by dealing with informality and introducing social housing schemes. Additionally, the 2013 UN report indicates that in eastern Africa, urbanization rate is very high and it is expected that by the close of the current decade the urban population will have increased by 50 per cent. This points to the fact that the future demand for affordable housing will rise. Some of the specific global challenges in the sector include:

Acute shortage of affordable housing

The increasing cost of housing production globally has led to shortage of housing units to low income earners. Few governments have taken the role of public housing programmes, while private sector developers have concentrated on the middle to high income segments of society. Most countries, especially in Africa, play an enabling role and leave housing delivery to the private sector. With this scenario, the low income segment of society has continued to face acute shortage and limited access to affordable decent housing. This has resulted in growth of informal settlements in most urban areas with accompanied challenges.

In addition, affordability of housing has been a challenge. With high unemployment levels and low wages, households find it difficult to access decent and affordable housing units. Employment in the informal sector has locked out many households from accessing formal sources of housing finance required to acquire a house, or predictable income flows to afford decent rental houses. According to Bravve *et al.* (2013), in the USA, over half of renters use more than 30 per cent of their income on housing. In Kenya, the shortage in supply of affordable housing has been on the rise, with low income earners experiencing a 98 per cent deficit as compared to upper income groups who enjoy 60 per cent surplus (Government of Kenya, 2007).

Informal urban settlement and lack of tenure

Lack of property rights and security of tenure has seen an increase in informal settlements in many cities of the world (Struyk and Giddings, 2009). Fear of eviction has caused many occupants and owners not to continually improve their housing units. Therefore, informal settlements continue to face the challenge of inadequate infrastructure and basic services. A housing unit is expected to provide not only physical security in terms of the structure but also psychological security and social security. However, the increase in urbanization has forced many households to live in deplorable conditions that lack in sanitation, sewerage, construction fabric and privacy occasioned by overcrowding. Inadequate access to clean water, education and health facilities are some of the challenges faced in most human settlements. This scenario is replicated across human settlements in Kenya.

12.2.3 Summary of emerging issues and opportunities

Real Estate Investment Trust

The introduction of Real Estate Investments Trusts (REITs) in Kenya provides a good opportunity to address the gaps in provision of finance for housing. One of the main challenges in financing the housing market has been lack of access to long term funds to lend out as mortgages. With the introduction of REITs in 2013, the sector is expected to benefit from access to a diversified pool of funds. Within the period of analysis, Home Afrika Limited listed over 4 billion shares to the growth market segment of Nairobi Securities Exchange (NSE) through Developer (D)-REITs. The company focused on supplying the low income segment of the housing market. It is then expected that supply of low cost housing, which has been unattractive to both private and public sector suppliers, will be enhanced. In 2013, Shelter Afrique, a pan-African institution interested in social housing, listed bonds worth Ksh 5 billion in the NSE. There was a record 43 per cent over-subscription, indicating the readiness of investors to participate in the real estate market both at individual and organization/company level.

Beyond the REITs facility, the advent of savings and cooperatives (SACCOs), investment groups/clubs and table banking have provided additional sources of finance to real estate development. Another key development in the market includes the various partnerships and initiatives to provide low cost housing. An example is the partnership between MasterCard Foundation, Habitat International and three commercial banks, which will be selected based on the innovative housing microfinance products they develop. Together with other socially inclined developers such as Jamii Bora, the supply of housing is bound to improve significantly especially if the government provides the enabling environment conducive for real estate growth.

Housing demand and supply gap

The gap in demand and supply of housing not only remains huge, but is increasing with increased natural population and transition of the population to adulthood. According to the 2009 Housing and Population Census, 3.7 million youth are in the age group 20-24. This translates to increased demand for housing, increased demand for employment, and increased natural population since this is the

Table 12.4: Selected housing market indicators

Indicator	Year				
	2008	2009	2010	2011	2012
Number of new buildings–residential	2,489	3,673	5,105	5,499	7,067
Number of new buildings–non-residential	128	127	421	525	659
Floor area	613	726	972	986	
Housing investment/cost of new building–residential (Ksh million)	5,133.9	14,373.8	32,064.50	39,860.50	44088.1
Housing investment/cost of new building–non-residential (Ksh million)	1,607.3	3,215.7	5,682.90	6,506.40	6,720.7
Housing credit portfolio (Ksh million)				90,400.00	122,200.0
Value of approved plans (Ksh million)	69,321.7	94,192.1	131,830.2	156,456.1	180,605.9
Lending interest rates (%)	14	14.8	14.4	15	19.7
Total population	38,773,277	39,824,734	40,909,194	42,027,891	43,178,141
Total units demand	450,000	450,000	450,000	450,000	450,000

Source: KNBS (Various), Statistical Abstracts and Economic Surveys; CBK Mortgage Report productive age. Therefore, there is need to empower citizens to enhance effective demand and encourage investors to venture into housing production to meet the existing and growing demand. There are various tax incentives to be taken advantage of in provision of low-cost housing, and capital expenditure thereon.

County governments and redistribution of human settlements

Another opportunity presents itself in the 47 counties whose operationalization continues to attract the working population taking up employment opportunities at the county level, in turn raising demand for housing. The public servants in the counties will need housing units in the county headquarters. Besides, the cost of land and labour may be cheaper as compared to Nairobi, Kisumu and Mombasa. The six proposed metropolitan regions in Kenya, and the many development projects such as LAPSSET, improved road network and construction of railway lines also provide opportunities for the growth of the housing market in new frontiers.

Both public and private sector developments are also geared to increase output with the implementation of the county governments. Devolution is bound to reduce migration to Nairobi and Mombasa, and lead to increased workers in all counties, thus increased demand for housing units triggering increase in supply.

12.2.4 Policy recommendations

- Based on the trends observed in the approval of building permits and completion rates, there should be mechanisms or timelines for ensuring that approved building permits are in tandem with the value of completions.

- To fill the gap in demand and supply, more so to the low-income segment, there is need for enhanced partnerships. This could be public-private, private-private or public-public partnerships between the various levels of government.

- Incentives in the Legal Notice No. 115 of 2008 present a promising opportunity for supply of low-cost housing. Through policy advocacy, developers need to take advantage of the incentives and embrace volumes in their sales as opposed to values. At the same time, the government should make good its policy statements through the respective bodies.

- Given that the real estate sub-sector is capital intensive, there is need for alternative funding aside from the mainstream banking sector. Exploration of pension statutory funds as a source of funding, as stated in the Housing Policy 2004, should be implemented to allow more households into the housing ownership net.

12.3 Transport

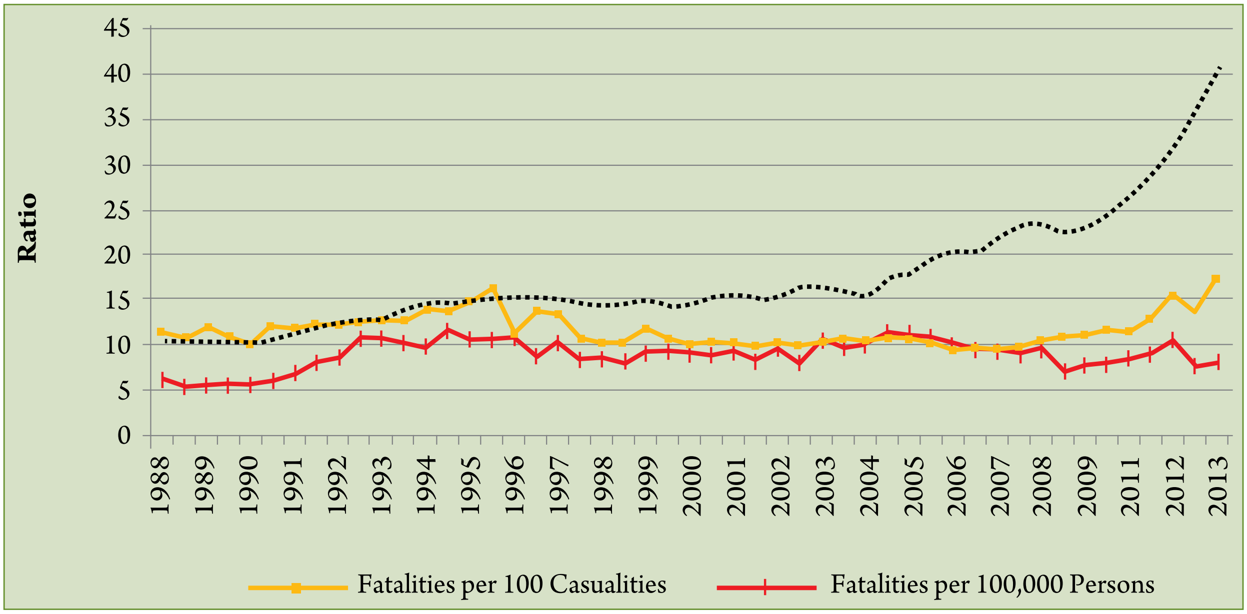
12.3.1 Performance

Road

Revenue collected by the Kenya Roads Board Fund (KRBF) for maintenance of public roads was estimated at Ksh 24.4 billion in 2012/2013, marking an increase of 1.6 per cent from 2011/2012. The primary source of revenue for the KRBF was the Road Maintenance Levy Fund (RMLF), which at Ksh 24 billion accounted for 98 per cent of total revenue. The revenue collected under the KRBF falls short of the Ksh 230 billion target set out under the Road Sector Investment Programme (2010-2014) for backlog maintenance and the Ksh 40 billion target for annual maintenance costs.

In terms of physical infrastructure, the classified road network in Kenya covered 62,043km in 2011/2012. The statistics indicate an increase in the proportion of paved roads as compared to

Figure 12.3: Public health implications of road crashes in Kenya



Source: Author's compilation from KNBS (2013)

unpaved roads, highlighting an overall improvement in road quality according to type. Road density is an important indicator in determining accessibility and/or connectivity within a transport system. It has implications on the ease with which goods, services and activities can be reached, as well as access to markets and inputs for production. In 2012/2013, the road density in Kenya was estimated to be 28km of road per 100 square km of land area.

Kenya has witnessed growth in the total vehicle population, recording a rise from 1.09 million vehicles in 2008 to approximately 1.8 million in 2012, which translates to an increase of close to 77 per cent in four years. It is implied that the annual average daily traffic has also witnessed an increase in line with the growth in vehicle population. This could be assumed to manifest in increased traffic congestion witnessed in major urban areas and highways.

In terms of fuel economy, the overall fuel efficiency, measured in terms of litres of fuel consumed per 100km was 7.6 in 2008 (Climate XL, 2011). This is against the global target of 4.0 set out by the Global Fuel Economy Initiative (GFEI) to be attained by the year 2050. In terms of air pollution, the intensity of emissions from the fleets of newly-registered vehicles was 185gCO_2/km in the same period against the global target to reduce this by 50 per cent by the year 2050. Inefficiency in the automotive sub-sector poses challenges to the country in terms of increasing the import bill, as well as adversely affecting the environment and public health through exposure to harmful emissions.

Analysis of road crash statistics (Figure 12.3) highlights the public health implications of the road safety situation. It shows that fatalities per 100 causalities continue to increase, which implies weaknesses in post-crash care and response systems. This fact is enhanced by the decrease in the road crash survival rate, which could also mean greater severity of road crashes. It is estimated that half of trauma admissions to Kenya's hospitals are the result of road traffic crashes, and this continues to strain health sector resources.

The road safety and security situation in Kenya faces challenges when benchmarked against other countries that have a far much greater number of vehicles and road users. For example, Table

12.5 shows Kenya's comparatively high number of deaths from road traffic crashes (22 fatalities per 10,000 vehicles) against its relatively low level of motorization in 2010 (24 vehicles per 1,000 persons). This implies that human error and behavioural factors in road use are the driving forces of the poor road safety record in the country.

Table 12.5: Selected global road safety performance

Country	Motorization level*, 2010	Fatalities per 10,000 vehicles, 2010
Kenya	24	22
United Kingdom	519	1
Sweden	520	1
Singapore	149	2
Malaysia	361	3
South Africa (1994)	165	14

* Vehicles per 1,000 persons
Source: World Bank (http://data.worldbank.org/indicator/IS.VEH.NVEH.P3) and WHO (2013), Global Status Report on Road Safety.

Besides the human cost of road traffic injuries, there are substantial economic costs. The WHO Global Status Report on Road Safety (2013) cites that road traffic injuries are estimated to cost low- and middle-income countries between 1 per cent and 2 per cent of their Gross National Product (GNP), estimated at over US$ 100 billion a year. Estimates cited for road traffic collisions in South Africa are US$ 2 billion; Uganda US$ 101 million per year; and Kenya, US$ 50 million exclusive of the actual loss of life.

Rail

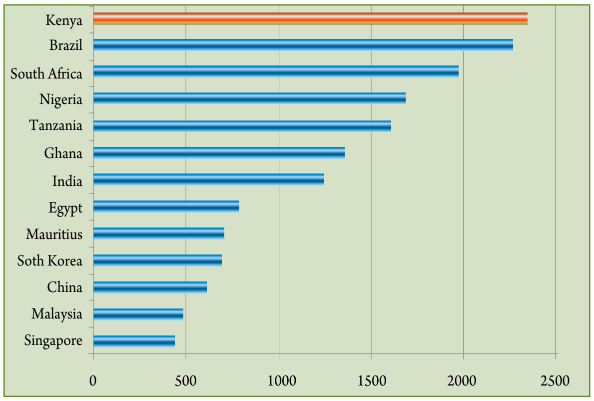
The year 2013 witnessed the launch of the Standard Gauge Railway (SGR) project to connect the port of Mombasa to the national and regional hinterland. The project is expected to improve the efficiency and competitiveness of Kenya as a regional transport hub of choice. With this project, it is expected that the cost of goods transmitted on account of transport cost will be reduced, as well as achieving a reduction in the cost of doing business in the economy. It will ultimately increase the national railway network coverage from the current approximately 1,900km. The design features and services also promise to transform the role of rail in the transport and logistics sub-sector. Other developments in the rail sub-sector saw the commissioning of the Syokimau, Makadara and Imara-Daima commuter train services in the capital city (Nairobi). It is anticipated that the train services will improve public transport services in the city and help to ameliorate the traffic congestion problem. The interim strategy seeks to achieve a modal shift from private car use to commuter train. The uptake and impact of the new train services on commuters of different modes is yet to be fully quantified, given its nascent development.

Maritime transport and ports

A review of the financial performance reveals that the average container import-handling charges per Twenty-foot Equivalent Unit (TEU) stood at US$ 2,350 (World Bank, 2013). When benchmarked against selected comparator and aspirator countries, the charges were the highest as shown in Figure 12.4. Countries with highly ranked ports such as Singapore and China recorded low charges of approximately US$ 400.

Efficiency indicators at the port of Mombasa witnessed improved performance in 2013, which can be largely associated with the expanded infrastructure and the presidential directive to streamline port activities and services of the various operators and stakeholders. The commissioning of Berth 19 at the port of Mombasa, and the completion of dredging, marked high points in the development of the port's infrastructure.

Figure 12.4: Comparison of container handling charges per TEU (US$)

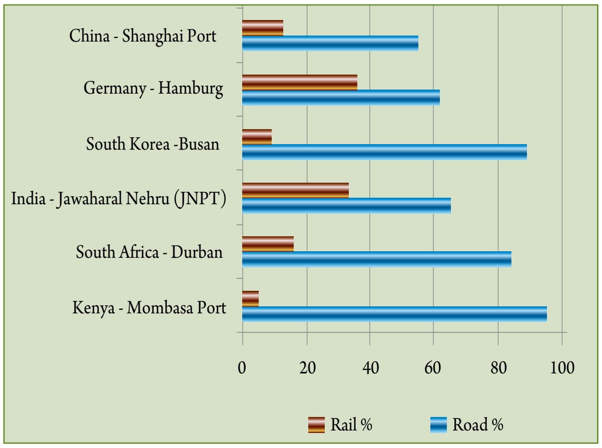


Source : World Bank, http://data.worldbank.org/indicator/IC.IMP.COST.CD

These developments saw the port increase its capacity by an additional 250,000 TEUs per annum and improve its capability in handling high-occupancy vessels. According to the Kenya Ports Authority (KPA), the average import container dwell time at the port improved from 8.8 days in 2012 to 5.8 days in 2013. The Gross Port Productivity, measured in moves per day, improved from 382 to 387 in 2013. The overall turnaround time at the port was 3.4 days, marking an improvement of 1.2 days from the 2012 figures. The improvements in port efficiency reduced transit time from Mombasa to Malaba from 13 days to 5. The IT-based customs single window digital platform for clearing goods between authorities in Kenya and Uganda also served to reduce the burden of transporting goods.

The port off-take by road and rail continued to show a larger proportion (95%) of cargo handled by road, leading to challenges in road traffic congestion, higher unit costs of transporting goods, and road safety. It is anticipated that the development of the standard gauge rail will see increased modal share of rail freight in port off-take. In the bulk goods market–a traditional strength of rail transport–freight trains often provide the most efficient and economic option for reliable deliveries. Figure 12.5 illustrates port off-take ratios for selected comparator countries to serve as a benchmark for Kenya. Hamburg Port in Germany and the Jawaharal Nehru Port in India show rail off-take shares of above 30 per cent, which could serve as a preliminary target for Kenya.

Figure 12.5: Comparison of port off-take rates–road versus rail



Source: Author's compilation

Air

The performance in the aviation industry has improved over the years, witnessing increased activity at the major airports. The total number of air craft movements was 307,269 in 2012 (Kenya Civil Aviation Authority, 2012). This was attributed to the recovery of the travel and tours sub-sector, and increased air travel by the country's middle class. The period also witnessed the commissioning of the Kisumu International Airport, which is set to spur development in the Western Kenya region. There were significant infrastructure developments and upgrades in airports across the country during the period of analysis, key among them being the refurbishment of the JKIA to achieve Category One status. These developments could see Kenya's ranking in the global air connectivity index improve from position 141 out of 211 countries recorded in 2007 (Francois and Shepherd, 2011). Jomo Kenyatta International Airport (JKIA) is presently the country's largest aviation facility and the busiest airport in Eastern Africa, and the 6th busiest airport in Africa. The fire incident at JKIA, and emerging terrorist threats marked the low points in the industry, highlighting the need for improved disaster preparedness and emergency response systems; it also shows the need for redundancy in vital infrastructure installations nationally.

12.3.2 Review of Vision 2030 flagship projects (MTP I)

A review of selected Vision 2030 flagship projects under the First Medium Term Plan reveals considerable achievements. In the roads sub-sector, the notable achievements include the completion of the Nairobi-Thika Super Highway, the Eastern Bypass, the Northern Bypass, and the Athi River-Namanga-Arusha Road. Significant progress was also made for other road projects as highlighted below:

- **Lamu Port Southern Sudan Ethiopia Transport (LAPSSET):** The LAPSSET Corridor Development Authority was established to manage the implementation of the project. The Isiolo-Merille Road is complete, while the Merille-Marsabit-Turbi-Moyale section is ongoing, which is the same case with the Mokowe-Garsen section. Funds for the Eldoret-Juba Road have also been secured.

- **Likoni Road to James Gichuru Road's (A104) expansion with the Uhuru Highway overpass:** Detailed designs have been undertaken and construction was set to commence in July 2014.

- **Dualling of Ngong Road:** The project is at design stage.

- **Western Nairobi ring roads:** Complete.

- **Dongo Kundu bypass:** Designs are complete and funding has been secured.

- **Greater Eastern Bypass Road:** Design is ongoing.

In the air transport sub-sector, the main achievements include significant progress in the Jomo Kenyatta International Airport (JKIA) modernization project. Terminal Unit 4 is in the final stages of the installation of essential facilities. Designs for the Green Field Terminal, Taxiway and airport lighting project are also complete and a contractor secured. At Kisumu International Airport, reconstruction and extension of the runway and construction of a new passenger terminal were completed, and construction of the cargo terminal is on-going. Projects on rehabilitation of airstrips across the country are also in advanced stages of execution.

Flagship projects targeting seaports recorded good progress; the dredging of the Mombasa Port to deepen and widen the harbour channel was completed. This has improved the efficiency at the port and its capacity to handle large vessels. Construction of a second container terminal was commissioned, while construction of Berth 19 was completed and commissioned. Designs for Berths 20 and 21 are complete. Under the LAPSSET project, designs of the first three berths and associated facilities are complete, and tendering is being undertaken. The construction of the Lamu Port is set to start and the Kenya Ports Authority (KPA) headquarters is at an advanced stage of completion. The construction of police lines and staff houses was set to be completed in June 2014. The benefits to be realized from these projects include: enhanced competitiveness in global maritime trade; promotion of international trade; and improved linkages of the East and Central African region to the international markets.

Within the rail sub-sector, major achievements were realized in the Nairobi Commuter Rail Services with the launch of the Syokimau-Makadara and Imara-Daima stations. Feasibility studies for the Nairobi Metropolitan Mass Rapid Transit System were completed, and preparation of terms of reference for detailed designs is ongoing. Feasibility studies and preliminary designs for Kisumu and Mombasa rail services are in progress. The Standard Gauge Railway project (Mombasa-Nairobi) section was commissioned and construction is underway.

Global Challenges –Transport

One of the global challenges in the transport sector is its contribution to man-made climate change. According to the Global Fuel Economy Initiative (GFEI), it is predicted that the global car will triple by 2050, with approximately 80 per cent of that growth occurring in the developing world. It is anticipated that this scenario will exacerbate the issues of climate change, energy security and sustainable mobility, going forth. Climate change within the transport sector is associated with vehicle-based emission of green house gases (GHGs) arising from fuel type and vehicle technology and standards. While energy security implications are associated with total fuel consumption in the transport sector based on vehicle fuel efficiency, at the macro level, countries that largely depend on fuel imports face the biggest threats arising from fuel shocks and unfavourable import bills. From a sustainable mobility perspective, it is noted that the increase in the car fleet would occasion social costs associated with increasing emission-based respiratory and cardio-pulmonary illnesses, leading to premature deaths and public health challenges. It has been proposed that the sustainability and environmental concerns within the transport sector should form part of the post-2015 agenda (Scott and Seth, 2012). The GFEI observes that transforming the global car fleet to achieve a better fuel economy could save over 6 billion barrels of oil per year by 2050 and reduce by half the CO_2 emissions and other pollutants from cars.

The challenge in Kenya is manifest in the growth of the national car fleet and the emanating challenges in the fuel import bill, vehicle emissions, urban traffic congestion and road crashes. The total import bill for petroleum products has increased from Ksh 113 billion in 2006 to Ksh 326 billion in 2012, marking a 187 per cent increase. Consumption of petroleum fuels has also increased by 44 per cent from 1.5 million tonnes in 2006 to 2.2 million tonnes in 2012 based on net domestic sales at retail pump outlets and road transport. The number of motor vehicles has also shown an increasing trend from 1.09 million in 2008 to 1.8 million in 2012. With a national fuel efficiency performance of 7.6 litres per 100km in 2008, it is estimated that the monetized cost of the countries fuel economy currently stands at approximately Ksh 500 billion using petroleum pump prices and estimated annual fleet kilometre. Ambient air pollution studies in Nairobi have revealed that many residents are exposed to high concentrations of fine particle air pollution above the limit set by the World Health Organization, translating to serious adverse implications for public health (Kinney et al., 2012 and Ngo et al., 2012). Improving the country's overall fuel efficiency and reducing vehicle emissions in line with the GFEI 50 by 50 targets, therefore, forms a key national challenge for Kenya.

Policy interventions to address the country's fuel economy objectives can be drawn from existing global best practices and in-house examples. The interventions range from vehicle technology standards, fuel standards, tax and subsidy options, travel demand management, modal split, public sensitization and driver behaviour.

12.3.3 Summary of emerging issues: Challenges and opportunities by sector

Road transport

- Finance and investment: Access to funds for road construction, maintenance and refurbishment is a challenge in the sub-sector. Given the prevailing socio-economic conditions, increased wage bill, and costs of implementing constitutional obligations on devolution, the sub-sector faces significant competition for the required budgetary allocation, with the industry indicating a shortfall. Financing arrangements pegged on loans have had a negative impact on foreign debt indicators. Opportunities have emerged in relation to the legal framework of public-private partnerships (PPPs), and approvals from the Cabinet.

- Land acquisition and compensation for road construction: The sector faces challenges associated with acquisition of land. The prevailing land prices have escalated project costs, while the process of acquisition and compensation is lengthy, leading to project delays. Opportunities exist in the form of the National Land Commission and emerging spatial planning in counties.

- Traffic congestion: Traffic congestion is a major challenge in urban areas and along major road corridors. The rising vehicle population, limited road capacity, and weaknesses in the public transport sector have led to congestion. The economic, social and environmental costs of traffic congestion provide the required urgency for policy intervention. Opportunities are emerging for modal shifts from road to rail commuter services, high-occupancy public service vehicles, and enhanced regulation of transport service operators.

- Road safety and security: Road safety and security pose a serious challenge. Fatalities, injuries and property destruction on account of road crashes call for enhanced intervention. Security issues have emerged in relation to hijacking of public services vehicles and terror attacks.

- Fuel economy: The current fuel efficiency in the vehicle fleet falls below the required 4 litres per 100 kilometres. The high rate of fuel consumption is a burden to the economy in terms of its effects on increasing the import bill. Further, vehicle emissions of green house gases and harmful particulate matter pose public health and environmental challenges.

Air transport

- Safety and security: With emerging threats of terror attacks, security at airports has become a major issue. Disaster preparedness, management and response systems have also proved to be a challenge.

- Global economic conditions: The unfavourable state of the global economy in the recent past has occasioned a reduction in air travel. This has had a negative impact on the aviation industry.

Maritime transport

- Share of rail in port cargo off-take: The share of cargo transported via rail systems has been less than optimal. Most of the goods are transported by road, occasioning higher costs and delays. Opportunities are emerging with the commissioning of the construction of the Standard Gauge Railway line.

12.3.4 Policy Recommendations - Transport

Fuel economy

In order to address the challenges in fuel efficiency and vehicle emissions, the Ministry of Transport should fast-track the implementation of mass rapid transit systems that rely on clean energy sources in key urban areas. Improvement of public transport with the guidance of the National Transport and Safety Authority (NTSA) should also be enhanced to encourage modal shift from private car use. NTSA and its associated agencies should develop national standards for vehicle emission reduction, and partner with the Ministry of Energy in improving fuel standards that match the global benchmarks.

The Ministry of Transport and its associated agencies should adopt and enforce vehicle technology standards that improve national fleet fuel efficiency and reduce emission levels. The Motor Vehicle Inspection Unit should be supported by enhancing its capacity to inspect local and imported new and used vehicles operating in the country. The agency should be adequately equipped with modern technology and sufficient staff across the country to enforce vehicle standards. Licensing of accredited garages to support the agencies' functions should be deployed country wide and the scope increased to all categories of vehicles.

Innovative tax and rebate strategies should be implemented to encourage acquisition and use of fuel efficient–low emission vehicles. This will require critical review of the tax and incentive frameworks currently in place. Close coordination and negotiation between the National Treasury, Kenya Revenue Authority, Ministry of Transport and Infrastructure, Ministry of Energy and Petroleum, and the National Environmental Management Authority should arrive at feasible tax and incentive options that support the fuel economy initiative while meeting exchequer objectives.

A shift to improved fuel standards should be adopted gradually, spearheaded by the Ministry of Energy and Petroleum in close dialogue with stakeholders in the East African Community. The gradual and regional approach will enable a phased implementation allowing for adoption of new technology and requisite capacity building in the respective economies, while discouraging dumping of obsolete technology.

Sustainable mobility options should be explored particularly in urban areas. The demand for travel should be managed by shifting trips towards high capacity modes that use cleaner energy, together with increasing the attractiveness of public transport, walking and cycling. Through proper land use planning, the rate of trip generation and consequently the total annual kilometres travelled can be reduced. This will require joint efforts between the national government line ministries and the county governments.

The public should be sensitized on the importance of the GFEI targets. A national fuel economy initiative should be launched and sustained to promote local awareness. Given the anticipated growth in the economy and improved financial status/purchasing power of citizens, it is expected that there will be an increase in the number of vehicles. The adverse impacts of the anticipated increase in the national car fleet should be mitigated by sensitizing the public on the appropriate vehicle technology and model to purchase. This should be extended to sensitization on the importance of vehicle maintenance. Further, the public should be sensitized on efficient driving behaviour associated with acceleration and braking, because this has an impact on fuel efficiency/consumption. The Ministry of Transport, the Ministry of Environment, Water and Natural Resources and the Ministry of Energy and Petroleum and respective agencies should spearhead the national fuel economy sensitization campaigns.

12.4 Energy

Energy is a vital and indispensable commodity that has become increasingly important to the modern society. Globally, there is great uncertainty over the prospects for adequate energy supply in view of the economic slowdown, despite increased demand in both developed and developing nations.

In Kenya, increased demand for energy attributed to rapid economic and population expansion has led to considerable regulatory and institutional reforms within the energy sub-sector to enhance efficiency and competitiveness amongst players. However, the quality of energy supply has been below standard as evidenced by low access rates and high cost of energy. The challenges facing the energy sub-sector in Kenya are mainly low access to energy, inadequate generation capacity arising from insufficient investments in power generation, and the high cost of energy tariffs to consumers. It is also important to note that the discovery of oil in Turkana is expected

Table 12.6: Key energy indicators

Capacity (MW) as at 30th June 2013			Energy Purchased in GWh					
Source	Installed	Effective	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Hydro	819.9	774.1	3,488.0	2,849.0	2,170.0	3,427.0	3,450	4,298.0
Thermal	256.2	209.7	408.0	587.0	481.0	514.0	839	560.0
Geothermal	157.5	138.9	922.0	903.0	939.0	1,081.0	1,106	1,096.0
Wind	5.1	5.1	0.2	0.3	16.3	17.7	14.6	13.9
KenGen Total	1,238.7	1,127.8	4,818.0	4,339	3,606	5,040	5,410	5,968
Off-Grid Total (GoK)	17	12	14	16	19	21	23	27
Independent Power Producers	391	387	970	1189	1933	1945	1820	1788
Emergency Power Producers	120	120	556	914	1096	267	381	261
Total Imports			26	30	38	31	37	42
System Total	1,756	1,652	6,385	6,489	6,692	7,303	7,670	8,087
Total Electricity Sales			5,322	5,432	5,624	6,123	6,341	6,581
System Losses (GWh)[2]			1,062	1,057	1,068	1,180	1,329	1,507
Peak Demand (MW)[3]			1,044	1,072	1,107	1,194	1,236	1,354
Total customers			1,060,383	1,267,198	1,463,639	1,753,348	2,038,625	2,330,962

Source: Kenya Power Company and KenGen Annual Reports (2012/13)

to improve the country's position from being a crude oil importer to an exporter in the coming years.

12.4.1 Performance

Electricity

Kenya's aspirations to adopt and expand renewable energy generation, particularly geothermal, solar and wind power, is well-documented in the Vision 2030 national blueprint. These developments are likely to help secure energy supply, ease the overall cost of power delivered to customers, and reduce over-reliance on unreliable hydropower and costly oil imports. Table 12.6 shows the electricity power system operations over the last six years.

The current effective power generation is 1,652MW (Megawatts) while the current unrestrained demand for electricity is 1,700MW. According to the Ministry of Energy, there is a shortfall of close to 536MW, assuming a reserve margin of 30 per cent. Unsuppressed demand is projected to rise above 3,000MW by 2016 and 19,000MW by 2030 as a result of increased population, expansion of economic activities in the counties, improved electrification rate, anticipated increase in mining, and other commercial activities in view of meeting Vision 2030 goals. Table 12.6 further shows that there is over 50 per cent reliance on hydro-generation, but there are attempts to invest more on renewable sources, especially geothermal and wind energy from 2009/2010.

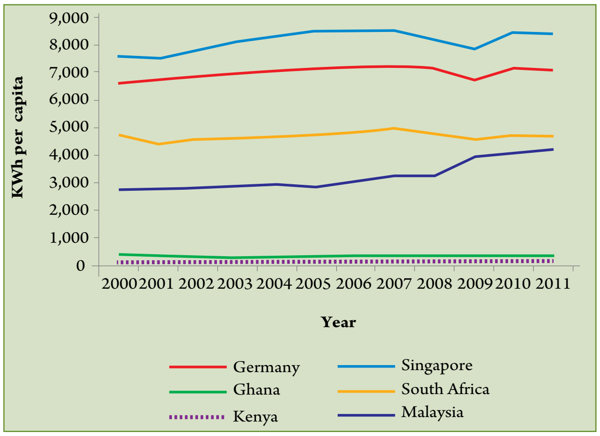
According to Schwab (2013), the quality of electricity supply in Kenya ranks number 102 out of the 144 countries (World Economic Forum, 2012-2013). It is estimated that, with increasing purchasing power of consumers and the transition to cleaner forms of energy from biomass, the current supply is inadequate to support future demand.

A comparative analysis of selected electricity sub-sector performance indicators reveals mixed results for Kenya. The key indicators used include: electricity consumption per capita, non-renewable energy use, and electricity loss rate by country. The countries selected include: Germany, Ghana, Singapore, Malaysia and South Africa as discussed below.

Electricity consumption per capita

According to the International Energy Agency (2012), access to electricity involves consumption of specified amounts of electricity in a country based on the location of the consumer. Rural consumers are assumed to have a threshold of 250kWh per year, while urban households are assumed to have a threshold of 500kWh per year. Figure 12.6 indicates Kenya's per capita electricity consumption in comparison to other countries, namely: Germany, Ghana, Singapore, South Africa and Malaysia. The average per capita consumption is estimated at 126kWh per year.

Figure 12.6: Per capita electricity consumption



Source: International Energy Agency–IEA (2012)

From Figure 12.6, it is evident that Kenya's performance is considerably below the comparator and aspirator countries. This undesirable situation, which has persisted over the last decade, can be attributed to low generation capacity and low levels of connection, and it indicates the limited number of energy-intensive activities that have characterized the Kenyan economy. It is worth noting that the establishment of value addition industries, as well as increasing the level of electricity access and reducing transmission losses across the country will help improve the current situation.

Similarly, it is important to take cognizance of the fact that there are numerous efforts that have been initiated to address some challenges within the

Table 12.7: Targets set by the government for electricity generation

Cumulative Capacity (MW)								
Time in months (from November 2013)	0	6	12	18	24	30	36	40
Hydro	770	794	794	794	794	794	794	794
Thermal	622	709	782	782	782	432	432	432
Geothermal	241	331	507	697	747	952	1,102	1,887
Coal	5	5	5	25	85	385	635	635
Wind	0	0	0	0	0	960	960	1,920
LNG	0	0	0	0	700	1,050	1,050	1,050
Co-generation	26	26	26	44	44	44	44	44

Cumulative Capacity (MW)								
Time in months (from November 2013)	0	6	12	18	24	30	36	40
Retirements		90						
Cumulative Total	1,664	1,955	2,114	2,342	3,152	4,617	5,017	6,762
Generation Tariff (US$ Cents/kWh)	11.30	10.14	9.93	8.74	8.07	7.38	7.58	7.41
Industrial/Commercial Tariff (US$ cents/kWh)	14.14	12.77	12.49	11.03	10.08	9.03	9.32	9.00
Domestic Tariff Progression (US$ cents/kWh)	19.78	18.30	17.73	15.85	13.46	11.14	11.19	10.43

Source: Government of Kenya (2013), MTP II

electricity sub-sector, such as continued investment in alternative energy sources such as geothermal, wind, solar, nuclear, coal and natural gas. Other efforts to improve efficiency, reduce transmission losses and increase revenue collection in electricity supply include increased investment in both low voltage and high voltage distribution and regional interconnection. However, these efforts need to be backed by an appropriate regulatory framework and supportive infrastructure.

Share of renewable energy use for power generation

The relative importance of renewable energy has gained traction owing to the environmental costs associated with fossil fuels. The renewable sources of energy include solar, wind, bio-energy, geothermal and industrial by-products. Currently, the Geothermal Development Corporation (GDC) seeks to drill over 100 wells to harness the steam trapped underneath the earth's surface. The Kenyan government estimates to generate 1,646MW of electricity from geothermal power under the public-private partnership framework. Figure 12.7 shows the percentage of renewable energy use in total power generation in various countries. It can be seen that the push to utilize geothermal and wind sources of energy has made the country a top renewable energy user, as over 20 per cent of total electricity generation comes from renewable sources.

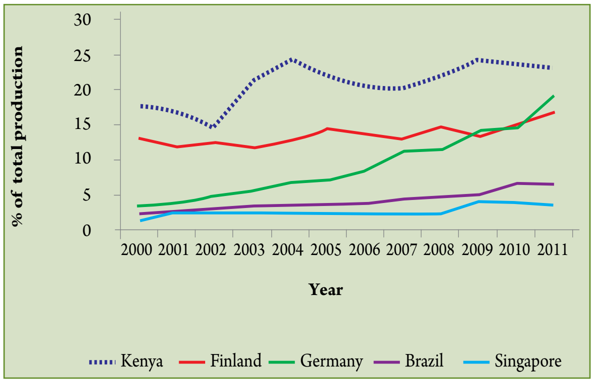
Table 12.8: Projects under the MTP in the petroleum sub-sector

Project Name	Cost Estimates	Status	Time Frame
Replacement of the Mombasa-Nairobi pipeline	Cost estimates under review	Engineering designs being developed	2013-2016
Installation of mainline pumps along the Mombasa-Nairobi pipeline	Ksh 1.6 billion	Supply of pumps had been expected by September 2013	Completion April 2014
Construction of additional tanks at Nairobi	To be determined	Conceptual stage	2013-2016

Project Name	Cost Estimates	Status	Time Frame
Kenya-Uganda refined petroleum products pipeline	To be determined	Selection of private investor	2014-2016
Construction of additional loading arms at Eldoret	To be determined	Designs done and procurement of contractor on-going	2013-2015
Construction of a parallel pipeline from Sinendet to Kisumu	To be determined	Conceptual stage	2013-2015
LPG storage and bottling facilities in Nairobi	US$ 29.7 million	Feasibility study completed in June 2013	2012-2016

Source: Ministry of Energy (2013)

Figure 12.7: Renewable energy use in electricity production (excluding hydro)

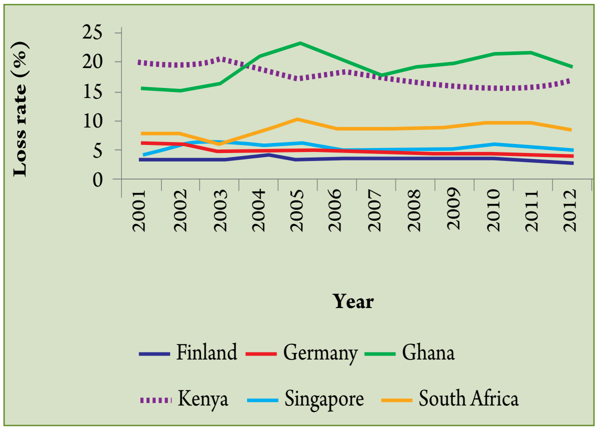


Source: International Energy Agency–IEA (2012)

Electricity loss rate by country

Electricity distribution systems are complex and require massive investments all the way from generation to distribution to avoid significant losses.

Figure 12.8: Electricity loss rate by country



Source: International Energy Agency–IEA (2012)

From Figure 12.8, it can be seen that the loss rate in percentage terms has averaged above 15 per cent in Kenya, which is high compared to other countries. The system losses have been attributed to vandalism of electricity transformers and cables, leading to system overloads due to demand-supply imbalances. These factors have been cited as major causes of power outages, thus inefficient supply of electricity to the final consumers.

Petroleum

Adequate supply of refined petroleum products is essential for economic growth. Consequently, demand for petroleum products also tends to rise with increased economic activities. In 2012, the estimated domestic demand for refined petroleum products was 4.048 billion litres, while the demand in neighbouring countries served by the pipeline was 2.5 billion litres, out of which 1.9 billion litres of transit petroleum products were imported through the port of Mombasa.

The Ministry of Energy projects that by the year 2030, domestic demand for refined petroleum products, Automotive Gas Oil (AGO), Premium Motor Spirit (PMS), Illuminating Kerosene (IK) and JET A-1 will rise to about 9.9 billion litres annually, while the demand in neighbouring countries served by the pipeline is expected to rise to 4.1 billion litres.

12.4.2 Review of Vision 2030 flagship projects (MTP I)

In the medium term, the Ministry of Energy has embarked on an ambitious target that is set to increase electricity generation by an additional 5,000 MW by the year 2017. This is envisaged to support the significant economic activities arising out of a transformed economy. Table 12.7 captures the targets set out by the government.

There are also positive developments occurring within the renewable energy sub-sector. The planned wind energy projects will provide 800MW of wind capacity, with the Lake Turkana Wind Power Project, the largest of all, at 300MW. However, this flagship project has witnessed numerous delays, and is still yet to enter into construction despite breakthroughs made within the year with regard to financing. KenGen is focusing on further expanding the geothermal industry through exploitation of the natural geothermal reserves at the Olkaria site to increase capacity to nearly 600MW by 2016, 1500MW by 2019 and 5GW by 2030. The geothermal sub-sector has received support from the government with an allocation of Ksh 12.5 billion, according to the Kenya Budget Statement 2013/2014. Additional funding has been received from international financial institutions.

According to the National Energy Policy (2012), the first nuclear plant of 1GW should be commissioned in 2022, followed by additional units of 1GW each in 2026, 2029 and 2031. There will be need for significant investment in technical skills, safety and security for the successful implementation of this project.

Emerging developments, especially the discovery of commercial quantities of oil in Turkana, have made it paramount that plans for supporting infrastructure such as new pipelines and pipeline interconnections be considered to link the oilfields, the refineries and the markets. Table 12.8 shows some of the major projects under the MTP in the petroleum sub-sector.

12.4.3 Summary of emerging issues and opportunities

Investments in renewable energy production and consumption

A number of renewable energy projects are being implemented by various players within the energy sub-sector across the country. These include geothermal potential of 10,000MW, of which less than 300MW has been developed at Olkaria. It is envisioned that a total of 887MW of geothermal capacity will be developed by the year 2017.

Other renewable energy sources that are being harnessed include solar energy, wind energy, small hydros and bio-energy production. A programme for installing wind and solar hybrids at off-grid power stations has been started. Preliminary wind resource assessment shows that wind regimes in a number of sites in Kenya can support commercial electricity generation, as they enjoy wind speeds ranging from 8-14 meters per second. The preliminary information has been used to develop a wind map for the whole country.

Regional power interconnection

The first regional interconnection between Kenya and Uganda was completed in 1955 with the commissioning of the Kenya-Uganda 132kV line from Owen Falls in Jinja, Uganda, to Lessos in Kenya. However, there are additional power interconnection projects that are proposed to be implemented in the near future. This includes 220kV Lessos to Bujagali power connection, a 500kV Kenya-Ethiopia interconnection and the 400kV Kenya-Tanzania power interconnection. Once completed, these interconnectors are expected to boost inter-regional power trade in electricity. Funding for these projects is largely from the Kenyan government, the African Development Bank (AfDB) and the respective neighbouring country's governments.

Oil and gas exploration

Oil has been discovered in three (3) out of thirty-nine (39) wells: that is, Ngamia 1, Twiga South 1 and Etuko 1, while natural gas has been discovered in Mbawa 1 Well, which is off-shore. There are still ongoing efforts to drill more wells and enhance the country's power generation capacity. According to the Ministry of Energy, the appraisal, development and onset of production will not be less than 10 years due to the type of infrastructure that must be put in place before production. Preliminary tests conducted in the crude oil discovery areas in Turkana County show production rates of 5,000 barrels of crude oil per day. It is, however, anticipated that successful completion of appraisal and drilling of more oil wells will likely lead to a significant increase in the production rates.

Coal exploration

Following several explorations, the Government of Kenya has mobilized concerted effort to initiate development of coal resources through participation of private investors in concession agreements. There are two bids and concession agreements to start the development for Mui Basin in Mwingi Sub-county. Feasibility studies carried out in the area have confirmed over 400 million tonnes of recoverable coal.

Global Challenges – Energy

According to the International Energy Agency (IEA), securing sustainable energy supply, tackling energy's contribution to climate change, and increasing access to basic energy services are some of the key challenges facing the energy sector today. Importantly, with most economies around the globe still having to endure the effects of global economic recession that characterized the period 2007-2010, it is evident that global economic growth has not fully recovered despite increasing demand for energy products.

At the same time, recent developments have seen the quest for renewable energy source and the discovery of new fossil fuel in different parts of the globe, thus bringing on board new players in the production and use of renewable and non-renewable energy sources. In summary, high oil prices, large differences in energy prices, and rising energy import bills in many countries place emphasis on the relationship between energy and economic development.

Increasing access to modern energy services

Despite the importance of access to modern energy services, it is estimated that 1.4 billion people continue to be without electricity or clean cooking facilities globally, out of which 587 million are in Africa. This situation is expected to remain largely unchanged by 2030 (when universal electricity access is anticipated) unless more concerted efforts are taken. It is important to note that access to modern forms of energy is essential to economic and social development, without which achieving the Millennium Development Goals is likely to be difficult.

Modern energy services such as electricity enhance the quality of life in numerous ways as it provides extra hours to work and study while at the same time opening up new possibilities to communication, entertainment and productivity, both in urban and rural areas. According to the International Energy Agency–IEA (2012) improved cooking, lighting and heating facilities have the potential to significantly reduce the daily exposure of households to noxious cooking fumes. It is also estimated that there are 3.5 million premature deaths each year as a result of household air pollution from using solid fuels.

Tackling climate change effects

Climate change is high on the international agenda with governments, industry and individuals all having a role to play in helping to tackle it. It is worth noting that in order to meet the rising demand for energy in all its forms, the greatest challenge for both industrialized and emerging economies has been tackling the global climate change, which includes reducing CO_2 emissions and other greenhouse gases.

Advances in human activities such as generating electricity, deforestation, agriculture, industrial processes, road and air travel have traditionally been associated with increased levels of greenhouse gases in the atmosphere. Emissions of greenhouse gases such as carbon dioxide (CO_2) strengthen the greenhouse effect, thus accelerating global climate change.

In essence, tackling climate change poses an enormous global challenge as energy demand is predicted to increase markedly. At the same time, reducing emissions of CO_2 and other greenhouse gases will require huge changes to the way in which energy is produced and used in the future. For instance, there are increased efforts to embrace wind, solar, and geothermal sources of generating electricity, which have less CO_2 emissions and environmental impacts compared to hydro, nuclear and fossil fuel sources.

International efforts to curb greenhouse gases

At the international stage, the United Nations Framework Convention on Climate Change (UNFCCC) has been playing a leading role in the drive towards stabilizing greenhouse gas emissions.

The framework is an international environmental treaty negotiated in Rio de Janeiro in June 1992. To implement the treaty, there have been a series of negotiations that have sought to assess the progress towards achieving the objectives of the UNFCCC. However, the treaty has been blamed for not achieving its objectives, thus leading to continuous search for alternative efforts by various governments and companies. For instance, there are efforts within the transport sector to reduce carbon emission by developing hybrid and electric vehicles, and researching non-fossil aviation fuels.

12.4.4 Key challenges for Kenya

The most complex challenge that Kenya faces is financing the efforts to increase access to modern energy services while at the same time managing climate change effects. As renewable energy sources become more competitive and costly to fund, there have been suggestions for subsidies to consumers and increased government budget allocation for the producers. This is likely to impose excessive burden to already constrained national budgets. Already, emphasis is being placed on increasing the percentage of geothermal power contribution to the overall energy mix.

In terms of energy access, it is estimated that the Kenyan urban electrification rate stands at 51 per cent and 5 per cent in the rural areas. Despite Kenya's poverty rate declining to between 34 and 42 per cent in 2013 from 47 per cent in 2009, the number is still high in absolute terms. This implies that a large proportion of the population lives on an income of less than US$ 2 per day, hence low electrification rates with continued use of biomass for cooking.

12.4.5 Policy recommendations - Energy

In order to address the low rates of access to electricity and other modern energy services, there is need to develop targeted strategies that take into account the different requirements for different areas, users and human settlements. To reduce the connectivity costs and deployment of infrastructure, integrated planning of compact human settlements should be promoted in urban and rural areas. This would reduce the impact of distance as a cost component.

For rural areas, off-grid access to renewable energy sources should be enhanced. Continued research and innovation on locally appropriate technologies should be pursued and extended to include easy financial access models. Global and local funding resources can be leveraged to build sustainable solutions.

To address the climate change challenge and anticipated emissions from oil, gas and coal projects, mitigation and adaptation interventions will need to be established. Research on improved technologies for cleaner production will need to be undertaken to mitigate climate change. Savings from reduced production costs should be applied in offsetting carbon emissions through multi-sector transmission chains.

12.5 Water and Sanitation

Provision of water and sanitation (W&S) is a major socio-economic and environmental challenge. 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 health care. The plan considers improving and expanding water infrastructure through collaborative efforts among the national government, county governments and other sector partners. It also recognizes water sharing conflicts as one of the emerging issues and challenges. In order to improve access to W&S, various flagship projects and policy reforms have been mapped. The ruling Jubilee Coalition in their manifesto equally recognize that access to W&S is low in Kenya, and promises to steer the country towards safe and clean water for all by 2020 at controlled tariffs and ensuring subsidized access by population in informal settlements.

12.5.1 Performance

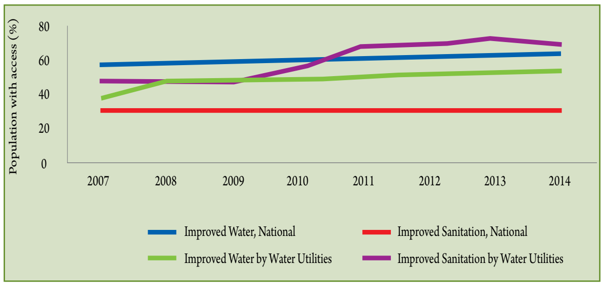
Access to water and sanitation services

The national access to water and sanitation in Kenya by 2013 is estimated at 63 per cent and 30 per cent, respectively. The performance of the sub-sector in other years is shown in Figure 12.9. This performance is way below the MDG for 2015, 88 per cent and 75 per cent for water and sanitation, respectively, which therefore raises doubts as to whether Kenya will meet these targets within the timelines.

The water service utilities (WSUs) are expected to be key agents in enhancing access to W&S both in rural and urban areas. This is because they should motivate regional planning, resource pooling and also encourage bottom-up mode of planning. As at 2013, there were 102 water service utilities (WSU), 66 urban and 36 rural, which produced about 380 million m^3 of water and served a population of about 10 million (out of the 21 million people who reside within their service area). The urban WSU are mainly government-owned utilities. The water storage capacity is 124 million m^3, which is 30 times less of the required threshold of 3.4 billion m^3 nationally, according to the annual water sector report prepared by the Ministry of Environment, Water and Natural Resources (MEWNR, 2014). Kenya targeted to attain rural water coverage of 59 per cent and 75 per cent by 2012 and 2015, respectively, and 72 per cent and 80 per cent urban water coverage by 2012 and 2015, respectively. The WSUs fell short of the targets of 2012. The sewerage coverage target for 2030 is 40 per cent of urban population. The current trend is not promising towards meeting this target, and thus requires a stimulus. Active and efficient participation of WSUs will advance the progress towards meeting W&S targets and overall developmental goals.

Though water coverage by WSU is about 53 per cent (Figure 12.9), this only considers the population within the service area of the WSU. The population accessing improved water from WSUs in Kenya is 10 million people (25% of the total population as at 2013) with 700,487 more people getting connected to improved water source in urban and 748,014 in rural areas. Non-revenue water is a major constraint, averaging close to 50 per cent and translating to a loss of about Ksh 12 billion per year. In 2012/13 an additional 119,905 people were connected to sewer line. The level of sanitation has been improving over time from 48 per cent in 2007 to 72 per cent in 2013, with an additional 729,609 people being introduced to improved sanitation in 2013. Operational and maintenance cost coverage was 112 per cent in 2013, and an average of 115 per cent in the MTP I. As at 2013, the WSUs had employed about 8,435 people up from 668 in 2009. The turnover has grown over time to Ksh 13 billion in 2013. Metering ratio and revenue collection efficiency remained above 80 per cent. Average water quality was about 87 per cent, an average of residual chlorine and bacteriological test. Data submission status has improved over time to 99 per cent in 2013, enabling market analysis and planning. However, the accuracy and reliability of the data in some variables remains suspect.

Figure 12.9: Access to improved water and sanitation services

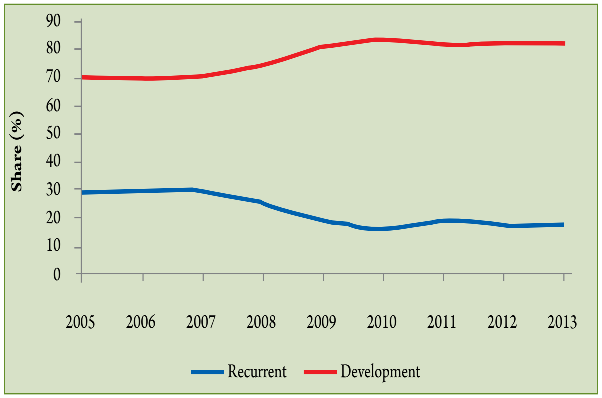


Source of Data: World Bank Databank (for National) and WASREB (for Water Utilities)

Contributions towards water and sanitation infrastructure

The ratio of recurrent to development expenditure in the sector improved to 1:5 from 1:3 between 2007/2008 and 2012/2013 as shown in Figure 12.10, but there has not been relatively reciprocate results in service delivery. This may be attributed to inefficiency in allocation and exploitation of resources. The ratio of personnel expenditure to operational and maintenance expenditure by WSU was 2:3 by 2013, which limits the ability to invest in infrastructure, compared to overall sector recurrent to development resource shares in the sector. Therefore, there is still more demand for increased infrastructure allocation and productivity if the set sector targets for 2015 and 2030 are to be achieved. During the MTP I period, 2008-2013, the actual budget receipts for W&S more than doubled from about Ksh 12 billion to over Ksh 29 billion. In 2012-2013, the actual recurrent budget receipts amounted to Ksh 5.3 billion, while the actual development budget receipts were about Ksh 24.5 billion. Whereas recurrent expenditure remained relatively constant during the MTP I period of Vision 2030, development expenditure showed sustained increases, impacting on overall trend of total budget of the sector. Actual receipts were shared 50:50 between the government and development partners. However, these actual receipts were about Ksh 10 billion less of the actual budget, and this deficit was largely attributed to donors. Besides this deficit, the donors' motivation to increase funding to Kenya in the sector increased significantly from Ksh 6.4 billion in 2009/2010 to Ksh 14 billion in 2012/2013. This donor support was in form of loans and grants, whose ratio has relatively remained at 3:1, respectively.

Figure 12.10: Proportions of development and Recurrent budgets in the water sector in Kenya, 2005-2013

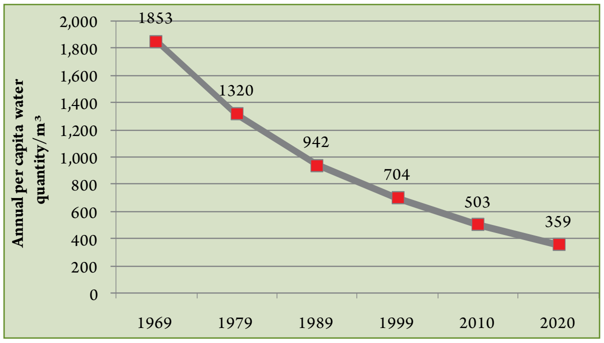


Source of Data: MEWNR (2014), Water sector annual report 2013

Water availability

Kenya's per capita water availability has declined consistently over years as shown in Figure 12.11 to below the 1000 m^3 threshold. The decline is driven by population growth from about 11 million in 1969 to approximately 40 million people in 2010, and poor management of water resources. However, the National Water Master Plan (NWMP) 2030 suggests that water per capita has increased to 1990 m^3/year, up from 647 m^3/year as determined in the NWMP of 1992. Most of the water is, however, not available for use due to limited water harvesting and water quality concerns (MEWNR, 2014).

Figure 12.11: Per capita water availability



Source: Water Master Plan, 1992 & 2012

Benchmarking performance in water and sanitation

Kenya is one of the countries that had not attained the Millennium Development Goals (MDGs) targets and was not on track to do so by 2012. Estimates from the United Nations agencies data, WHO and UNICEF (2014), in Table 12.9 show that Kenya's national access to improved water by household stood at 62 per cent, while access to improved sanitation was about 30 per cent as at 2012. Kenya ranked fourth within the EAC members, behind Uganda, Rwanda and Burundi and only ahead of

Table 12.9: Benchmarking Kenya performance on water and sanitation as at 2012

Country	Region/Category	Water			Sanitation		
		Urban	Rural	National	Urban	Rural	National
		Improved	Improved	Improved	Improved	Improved	Improved
		Total Improved (%)	Total Improved (%)	Total Improved (%)	Total Improved (%)	Total Improved (%)	Total Improved (%)
Kenya	Host	82.3	55.1	61.7	31.3	29.1	29.6
Tanzania	EAC member	77.9	44.0	53.2	24.9	7.5	12.2
Uganda	EAC member	94.8	71.0	74.8	32.8	34.1	33.9
Rwanda	EAC member	80.7	68.3	70.7	61.0	64.4	63.8
Burundi	EAC member	91.5	73.2	75.3	42.7	48.1	47.5
Brazil	BRICS	99.7	85.3	97.5	87.0	49.2	81.3
Russia	BRICS	98.7	92.2	97.0	74.4	59.3	70.5
India	BRICS	96.7	90.7	92.6	60.2	24.7	36.0
China	BRICS	98.4	84.9	91.9	74.1	55.8	65.3
South Africa	BRICS	99.2	88.3	95.1	81.7	62.4	74.4
Republic of Korea	Asian Tiger	99.7	87.9	97.8	100.0	100.0	100.0
Singapore	Asian Tiger	100.0		100.0	100.0		100.0
United Kingdom	Europe	100.0	100.0	100.0	100.0	100.0	100.0
USA	North America	99.4	98.0	99.2	100.0	100.0	100.0
Egypt	Africa	100.0	98.8	99.3	97.8	94.4	95.9

Tunisia	Africa	100.0	90.5	96.8	97.4	76.6	90.4
Algeria	Africa	85.5	79.5	83.9	97.6	88.4	95.2
South Africa	Africa	99.2	88.3	95.1	81.7	62.4	74.4
Morocco	Africa	98.5	63.6	83.6	84.5	63.1	75.4
Cameroon	Africa	94.1	51.9	74.1	61.7	26.8	45.2
Ghana	Africa	92.5	81.3	87.2	19.9	8.4	14.4
Nigeria	Africa	78.8	49.1	64.0	30.8	24.7	27.8
Angola	Africa	67.6	34.3	54.3	86.8	20.1	60.1
Indonesia	South America	93.0	76.4	84.9	71.4	45.5	58.8
Qatar	Asia	100.0	100.0	100.0	100.0	100.0	100.0
United Arab Emirates	Asia	99.6	100.0	99.6	98.0	95.2	97.5
Africa	Average	87.1	56.7	68.8	53.2	30.1	39.3
Developed	Average	99.6	98.0	99.3	96.7	92.1	95.7
Asia	Average	96.7	86.8	91.2	74.7	45.9	58.6
Latin America and Caribbean	Average	97.2	82.5	94.2	86.8	63.1	81.9
Global	Average	96.4	81.6	89.4	79.6	47.2	64.2

Source of Data; WHO-UNICEF, Joint Monitoring Programme

Tanzania in both W&S coverage. The average access to improved water and sanitation in the EAC region was 67 per cent and 37 per cent, respectively, against Africa's average of 69 per cent of water coverage and 39 per cent of sanitation coverage. Kenya was placed position 38 out of 54 countries in Africa on access to water, and its average score was below the regional (EAC) and the continent averages of 67 and 69 per cent, respectively. On sanitation, Kenya performed similarly below the regional and continent averages and was placed position 29 out of 54 in the continent. As shown in Table 12.9, the top performing African countries on access to water and which are comparable to Kenya by population size are Egypt, South Africa, Ghana, Algeria, Morocco, Congo and Nigeria, while in sanitation we have Egypt, Algeria, Morocco, South Africa, Tunisia, Angola and Cameroon, all of which are above the continent average.

In addition, it may also interest Kenya to learn some successful policies and strategies from the BRICS (Brazil, Russia, India, China and South Africa) and Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan) since these two blocs offer leadership in growth and development, and at the same time they perform well in W&S. The BRICS countries are ahead of Kenya with average W&S coverage of 95 per cent and 65 per cent, respectively. Among the Asian tigers, Singapore and Korea have over 95 per cent access to both W&S. It should also be of interest to Kenya to learn lessons from Indonesia, Qatar and United Arab Emirates due to their good performance on W&S coverage.

12.5.2 Medium term prospects for the water and sanitation sector

Targets of water and sanitation indicators

Going forward, the sector may consider meeting the targets estimated in Table 12.10. These targets are informed by the MTP II expectation, Vision 2030 targets, and the performance of the sector over the

Table 12.10: Medium term indicators on water and sanitation

Indicator	Baseline	Targets					
	2012	2013	2014	2015	2016	2017	2018
Water Coverage	61.7	63.3	65.0	70	75.0	81.0	88.0
Sanitation Coverage	29.6	29.8	34.8	42.8	50.0	61.0	75.0
Sewerage Coverage	21.0	22.0	23.0	25.0	27.0	28.0	30.0

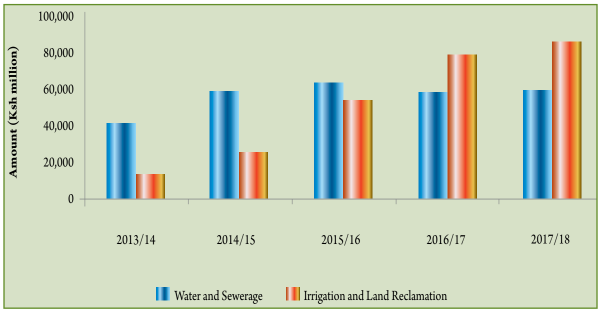
Source of Data: Vision 2030, MTP II, Water sector reports

last period, as well as the MDGs. The water and sanitation targets in 2015 are short of the MDGs target.

12.5.3 Budget allocations

Kenya will require about Ksh 540 billion to finance its planned activities in the MTP II towards increasing availability of water and sanitation as well as developing irrigation schemes for food security over the period of 2013-2017. As indicated in Figure 12.12, it will require about Ksh 56 billion, Ksh 84 billion, Ksh 116 billion, Ksh 136 billion and Ksh 145 billion in the successful 5 years starting with 2013/2014. In the MTP II, the goal of the water sector plan is to increase water availability and food security in the country. It is conceived that this will require policy, legal and institutional reforms; upgrading of the water supply and sewerage systems, and reclaiming land for irrigation. This is expected to improve the policy, legal and institutional framework; construct multipurpose dams and medium sized dams; increase access to safe water; improve water harvesting and storage dams for irrigation schemes; develop canals and irrigation schemes; establish green houses; expand land reclamation programmes; and ensure environmental protection and sustenance of landscaping.

Figure 12.12: Indicative budget for MTP II on water, sewerage, irrigation and land reclamation



Source of Data: (MTP II)

12.5.4 Emerging issues in water and sanitation

Water is a human right

The Constitution of Kenya identifies access to water as a fundamental economic and social human right, where article 43, section (d) states that "... every person has the right to clean and safe water in adequate quantities". There is need to create awareness not limited to this as an entitlement but also how to exercise it. The low coverage of water and sanitation requires capacity building in all stakeholders. The question that remains unanswered is "if low coverage to water is a violation of a right, who should be held accountable?"

Expectations of the Water Bill (2014) and Water Policy

The policy framework under the Water Bill 2014 and water policy seeks to realign the policy environment with the aspirations of the Constitution and emerging issues in the sub-sector. This will see the repeal of the Water Act (2002) with a ripple effect on the other regulatory instruments such as SPA, CES, WSR and Water Service Trust Fund (WSTF). The key changes that the Water Bill 2014 seeks to bring to the sector are to do with entrenching the philosophy of devolution, decentralization and good governance, and management of water resources. This is expected to improve W&S service delivery. The bill seeks to deepen the role of county governments in managing the WSU, and seeks to establish water harvesting institutions to enhance water harvesting and storage in Kenya. The licensing process will also change because the WSU will be the holders of license, the county government will be the licensing authority, while WASREB will be the accrediting authority. The decentralization process which the Water Act (2002) created coincidentally prepared the ground for the devolution envisioned by the Constitution. These were, among other reforms, the transfer of considerable powers and functions to the then local authorities, now reformed and restructured to county governments, especially in water service provision through full or co-ownership (with private investors) of the registered water service providers. This environment is expected to deepen with the transfer of functions of water service delivery to the county governments. At the same time, the Ministry has put in place structures for empowering county governments on water-related issues. For instance, capacity building network has been created with county directors leading the initiative and holding consultations with the Council of Governors. Generally, the policy framework tends to respond to provisions in the Vision 2030 targets, the Millennium Development Goals (MDGs), human rights to W&S criteria, and the principles of Integrated Water Resources Management (IWRM).

Multiplicity of legislations

The attention of the water stakeholders is drawn to various legislations that influence their operations. The main documents of influence are the Constitution of Kenya, the Water Act (2002), Land Act, Urban Areas and Cities Act, County Government Act, Public Finance Management Act, and Public-Private Partnership Act. There is need to prepare a document that summarizes the specific expectations of the water and sanitation stakeholders from these documents.

Devolution and public participation

Water and sanitation is a devolved function, according to the fourth schedule of the Kenya Constitution. The Constitution apportions the responsibility of water service to the county governments but overall management of water and oversight authority to the national government. Therefore, the constitution envisages a collaborative and complementary relationship among the national government, county government and the development partners in provision of water. National and county government services in W&S therefore complement and substitute public goods. The Water Bill 2014 seeks to usher in a regulatory framework that conforms to the Constitution of Kenya. It seeks to empower the county governments with the responsibility to establish or/and oversee the WSU as well as play an active role in the management of water resources.

The governance and management of water utilities are expected to be influenced by transfer of this responsibility to the county governments. A high level of accountability and transparency is also expected, especially with the active participation of the Members of the County Assembly. The Ministry of Environment, Water and Natural Resources–MEWNR (2014) identifies misconceptions on the transfer of functions to county governments, inadequate inventory and valuation of assets and liabilities for WSU in some counties, ambiguous provisions on transfer and management of credits granted to WSU, with the transfer of water services to county governments as key challenges in the sector.

Governance and operational issues

Utilities have continued to operate at high non-revenue water and low coverage on operational and maintenance costs. There is also weak monitoring and evaluation, poor budgeting and planning practice, limited mechanism to integrate key non-state actors, and poor communication framework especially on opportunities and needs among agencies. In project implementation, the key challenges are inconsistent and untimely reporting on funded projects, expenditures and delayed disbursement as well as low translation of huge projects to increased service of equal measure. With respect to service delivery, the key challenges according to MEWNR (2014) are data submission especially emanating from poor utilization of data collection and management systems by Water Service Boards (WSBs), minimal presence of WSU in informal settlements in urban areas, non-revenue water, population growth in service area of WSU, insufficient investments in W&S, inadequate technical and financial capacity in some WSUs and regions, which culminate in low coverage or access to W&S. Operation and maintenance coverage is low, and this threatens the financial viability of WSUs. Consequently, it is recommended that county investment plans should be well coordinated, and stakeholders participation and mobilization improved.

Capacity challenges especially in technical areas as well as low staff productivity are also areas that need improvement. Insufficient infrastructure investment has also hindered service delivery, besides the high ratio of expenditure on investment compared to recurrent expenditure. This may be due to high costs of capital and technical skills requirement in infrastructure development. High non-revenue water denies public utilities revenue that can be used in the expansion of infrastructure or meeting overhead expenditure and improve cost recovery.

Stakeholders interrelations and confidence

Private sector engagement in the sector has not been robust, besides the provisions in the regulatory framework that encourage public-private partnerships. Community resistance and communal land tenure system especially in irrigation-related projects have been witnessed. Water resource-based conflicts and insecurity among communities as well as across counties is a threat to peace and security.

Conservation of water towers

Deforestation and encroachment of human population into catchment areas has also continued to affect the water catchment potentials, besides the increasing resettlement of the people living in the catchment areas.

12.5.5 Recommendations

- Fast-tracking the Water Bill (2014) and water policy will address the weaknesses of the current policy environment by informing necessary changes in boosting sector conduct and performance. It will streamline internalization and actualization of the spirit of devolution by marking clear responsibilities, composition and relationships of various institutions in the water and sanitation sector.

- Increase share of water and sanitation for Kenya in all budgets at national and global level, and reduce ratio of recurrent expenditure to development expenditure as well as ratio of personnel expenditure to operational and maintenance expenditure. This will increase investment in infrastructure.

- Encourage public-private partnership in water and sanitation in infrastructure investment to increase coverage and service delivery. This will require development of county government public-private partnership legislations, policies and strategies. Capacity building on this will be required.

- Capacity building in governance and management of institutions, programmes and projects for both rural and urban areas: This will address low performance of the sector, data management issues, stakeholder relationships, conflict of interest, and infrastructure needs towards improving service delivery and resource efficiency in harvesting, usage and protection. Stakeholders need to enhance their network, partnerships and collaborations to raise resources for these tasks.

- Preparation of a summary document interpreting various articles in various legislations that address the needs of stakeholders: This will enhance understanding of the various legislations and reduce the time taken to find and retrieve information and reduce violations of the law on account of ignorance of the law.

- Improvement in water resource management: Awareness campaigns on the benefits of conserving water towers need up-scaling.

- Awareness campaign on exercise of the rights and privileges envisioned by the Constitution to various stakeholders: This will raise awareness of the public on water and sanitation being a socio-economic right, as well as their role in public participation in various processes and products of the Constitution. It will also reduce community resistance to projects and enhance private sector participation in developing water and sanitation infrastructure, thus improving access to water and sanitation.

Chapter 13

Trade and Foreign Policy

13.1 Introduction

Trade is one of the key drivers of achieving Vision 2030 targets. Trade is defined as the exchange of goods or services for money or other goods and services. It plays a significant role in growth and development through linkages with all other sectors of the economy by creating markets through which goods and services reach the consumer. Its role in employment, alleviating poverty, and achieving the desired economic growth is among the most promising paths of industrial development (KIPPRA, 2010). Moreover, trade plays a crucial role towards attainment of national development objectives of eradication of extreme poverty, improvement of people's welfare, and improvement of market access.

13.2 Domestic Trade

The Kenya government aims to create a conducive environment for private enterprise within the country to thrive. Beyond that, it intends to integrate domestic businesses to international trade. Domestic trade in Kenya as per the draft National Trade Policy refers to distribution and wholesale trade; retail trade; and informal trade. The new laws enacted in 2013, namely the VAT Act 2013 and the Finance Bill 2013 will have impact on domestic trade in the short and long term. It is anticipated that in the long term, an increase in revenue will provide a basis to finance some of the budget items that form the pillar of Kenya's Vision 2030. Both the VAT Act and the Finance Act 2013 aimed to increase revenue streams for the government by taxing consumer goods (World Bank, 2013). The likely outcome of these new laws in the short term is a slowdown in the movement of goods and services as a result of increased commodity prices. The long term effects of the new laws, however, remains to be seen and it is hoped that they will impact positively on domestic trade.

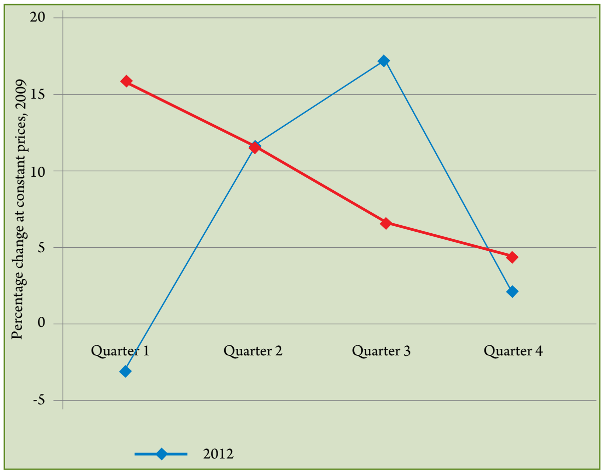
13.3 Wholesale and Retail Trade

The sector grew in the first 3 quarters of 2012 but declined sharply in the last quarter. This was before the shift from a centralized to a devolved system of government. Under the centralized system, the deadline for registration of businesses fell around the second quarter of the financial year, hence the increase in the number of businesses in the sector. In the year 2013, the country moved from a centralized to a devolved system of government and this was accompanied by a change in the registration deadline for businesses from beginning of the financial year to the beginning of the calendar year. This explains why there seems to be a decline in the growth of wholesale and retail businesses as the year progressed.

13.4 Performance

Growth in the sector declined in the year 2013 as compared to 2012. The sector grew by 8.4 per cent in the first quarter, declining by 1.6 per cent to grow at 6.8 per cent at the end of the fourth quarter (Figure 13.1).

Figure 13.1: Growth in the wholesale and retail sector in Kenya

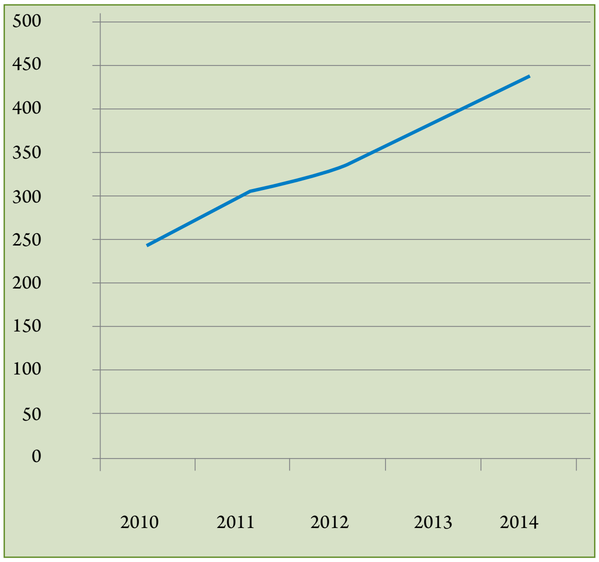


Source: Constructed from KNBS (2014), Economic Survey

As shown in Figure 13.2, there is a steady growth in the wholesale and retail sector between 2010 and 2014. The sector was worth approximately Ksh 243 billion in 2010 and was valued at Ksh 437 billion by the year 2014

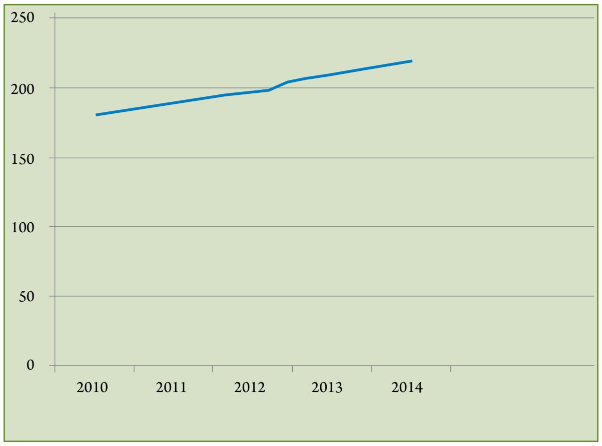
Figure 13.3 shows that the sector has been able to increase wage employment generation between 2010 and 2014. Employment in the sector increased gradually from 180,600 in 2010 to 218,900 in 2014.

Figure 13.2: Value of the wholesale and retail sector (Ksh billion)



Source: Constructed from KNBS (2014), Economic Survey

Figure 13.3: Wage employment generation in the wholesale and retail sector



Source: Constructed from KNBS (2014), Economic Survey

13.5 Access to Finance

According to the draft National Trade Policy of 2010, access to credit is a key factor for development of wholesale and retail distribution (Government of Kenya, 2010). Most wholesalers and retailers are bogged down by lack of easy access to credit, though there are a number of funds at the disposal of entrepreneurs in the wholesale and retail sector for purposes of starting up and expanding their businesses.

Uwezo Fund

The Uwezo Fund is a women and youth fund set up by the Kenya government, and aims at giving women and youth greater access to credit, given that they have been previously disadvantaged due to lack of collateral. Furthermore, it will give the youth access to grants and interest free loans alongside mentorship opportunities, which will allow them to take advantage of the 30 per cent government procurement preference for youth, women and persons with disabilities through its capacity building programme.

The fund originated from the Jubilee government's pledge to earmark Ksh 6 billion that was meant for the presidential run-off to youth and women groups. The fund intends to: increase access to finance through grants and credit to promote youth and women enterprise at constituency level, thereby augmenting economic growth as envisaged in the Kenya Vision 2030; provide self-employment opportunities for women and children; and design an alternative structure for funding community-driven development.

The fund became operational following approval of the regulations governing the Uwezo Fund management and operations by Parliament.

Joint Loans Board Credit Scheme

The Joint Loans Board (JLB) credit scheme is one of the oldest credit schemes in Kenya, established by the colonial government in 1954. The scheme is currently being administered by the Ministry of East Africa Affairs, Commerce and Tourism through the County Trade Development Officers, who are spread out in the country. It provides loans to small scale industrialists and retailers to help them attain business experience and credit worthiness from banks and other financial institutions. The scheme generates gainful employment, increases incomes and develops enterprises in the rural areas. The ministry aims at increasing access to finance to the traders by revitalizing the Joint Loans Board Scheme. It intends to achieve this by automating the scheme's operations for effective monitoring, and conducting more public awareness campaigns to create awareness about the scheme.

Small and Micro Enterprises Act

The Small and Micro Enterprises (SMEs) Act was passed by Parliament in the year 2012 to help SMEs succeed by setting up rules and institutions that support their growth and development. With regard to financing of SMEs, there will be an SME fund charged with the responsibility of financing and promoting the development of SMEs, providing affordable and accessible credit to SMEs, and finally financing research, development innovation and transfer of technology (Government of Kenya, 2012).

Infrastructure for business

In an effort to improve the supply chain efficiency, the Government intends to construct wholesale hubs around the country alongside pilot tier 1 retail markets to serve as a model for the private sector. A wholesale hub is planned for construction in Maragua with a one 'Tier 1' retail market planned for construction in Athi River (Government of Kenya, 2013).

13.6 Kenya and World Trade

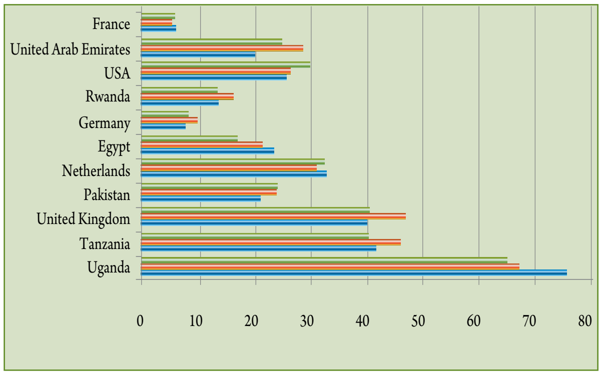
Exports by African countries in the world have remained highly vulnerable to movements of world prices because of their primary nature. In 2013, Africa registered -3.4 per cent growth in exports due to a fall in primary commodity prices for products such as coffee, tea, cocoa and reduced petroleum product exports by Libya, Nigeria and Algeria (WTO, 2014).[1]

Africa's penetration of the world markets has been limited by low productive capacity due to supply and infrastructural deficits, reliance on primary commodity exports, and limited participation of the private sector in the exporting sector. Kenya as a member of the WTO actively participates in world trade negotiations.

13.6.1 Performance of Kenya trade

The leading export destinations for Kenya are Uganda, Tanzania, United Kingdom, Pakistan, Netherlands, Egypt, Germany, Rwanda, USA, United Arab Emirates, and France (Figure 13.4). There has been a steady decline in exports to Uganda over the period under review. There has also been a relatively small growth of exports to the United Arab Emirates and the USA.

Figure 13.4: Leading export destinations, 2011-2013 (Ksh billion)

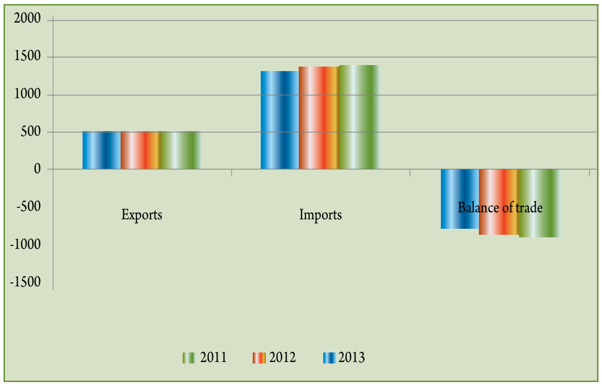


Source: Constructed from KNBS (2014), Economic Survey

Over the period 2011 to 2013, exports growth has been largely flat, and import growth has been outpacing growth of exports (Figure 13.5). Both exports and imports have maintained almost the same trend for the period under review, but the problem of negative trade balance continues to persist. Unless new export commodities are discovered or created, this problem will persist, and might become unsustainable over time. Kenya exports mainly low technology products and imports high technology products such as those related to the ICT, pharmaceuticals, among others.

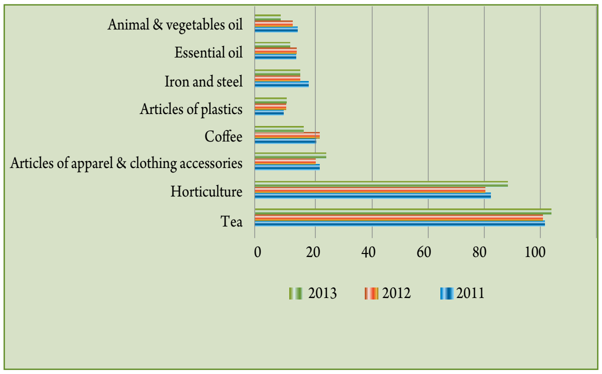
The three main export commodities are tea, horticulture and clothing, and which have seen a steady rise in 2013 relative to 2012 (Figure 13.6). Reliance on agricultural commodity exports is highly risky, since these products are usually highly vulnerable to weather conditions and price movements in the international markets.

Figure 13.5: Kenyan exports and imports (Ksh billions), January 2012-November 2013



Source: Constructed from KNBS (2014), Economic Survey

Figure 13.6: Kenyan leading export commodities, January 2011-December 2013 (Ksh billion)



Source: Constructed from KNBS (2014), Economic Survey

Table 13.1 gives details of the leading imports by Kenya by broad economic category. The main imports in 2013 were non-food industrial supplies (31.87%), fuel and lubricants (23.09%) and machinery and other capital equipment (17.75%). This highlights the structural weaknesses of the Kenyan economy, where Kenyan exports are mainly low value and low technology goods but imports high value products. This means that Kenya will continue to run a trade deficit unless this structural weakness is finally addressed.

Table 13.1: Leading imports by broad economic category (% share), 2011-2013

Category	2011	2012	2013
Food and beverages	8.15	7.94	7.19
Industrial supplies (non-food)	31.21	29.63	31.87
Fuel and lubricants	26.90	24.50	23.09
Machinery and other capital equipment	16.15	18.43	17.75
Transport equipment	9.98	11.85	11.38
Consumer goods not elsewhere specified	7.16	6.98	6.81
Goods not elsewhere specified	0.46	0.68	1.91

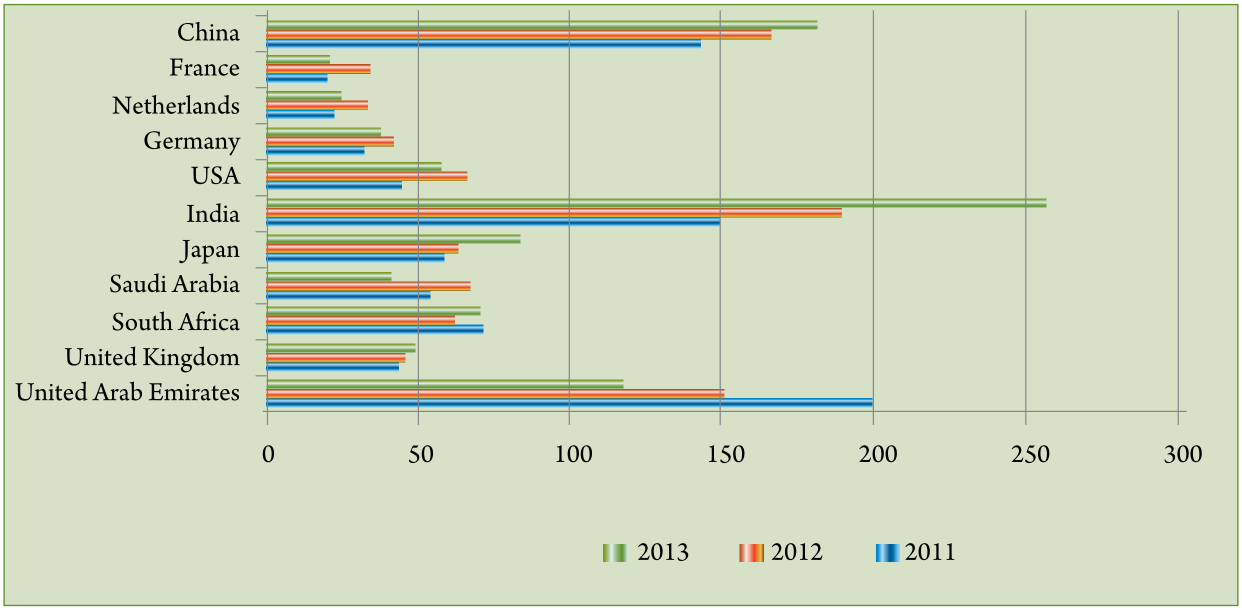
Source: Constructed from KNBS (2014), Economic Survey

According to Figure 13.7, the leading sources of Kenyan imports are India, China and United Arab Emirates. The ten main imports by Kenya from India include mineral fuels, oils, distillation products; nuclear reactors, boilers, machinery; pharmaceutical products; electrical, electronic equipment; iron and steel; vehicles other than railway, tramway; plastics and articles thereof; salt, sulphur, earth, stone, plaster, lime and cement; paper and paperboard, articles of pulp, paper and board; and articles of iron or steel. Imports from China include machinery, electronics, vehicles, textile and a range of household goods, while imports by Kenya from the United Arab Emirates include petroleum products, electronic appliances, household items, vehicles and spare parts.

13.6.2 Trade openness

Trade openness is a measure of a country's integration into the world economy, and the higher the value, the more the economy is integrated in normal trade (UNCTAD, 2012). Figure 13.8 indicates that, overall, the degree of openness to international trade and competition has been rising over the years. The high and rising values of trade openness imply that the Kenyan economy is increasingly becoming liberalized. There is a consensus among economists that trade liberalization is the first-best trade policy because it increases competition of domestic producers and, therefore, enhances efficiency. Exposure of domestic producers to competition creates incentives for firms to become more efficient and competitive. Trade liberalization also reduces the cost of imported inputs and, in the end, this

Figure 13.7: Leading sources of imports for Kenyan goods (Ksh billion), 2011-2013



Source: Constructed from KNBS (2014), Economic Survey leads to welfare improvement. Trade liberalization is one of the results of the structural adjustment programmes (SAPs) that were introduced into the management of the Kenyan economy in the 1980s to boost economic growth.

Trade openness improves productivity and innovations and consequently causes economic growth through various channels:[2]

(a) Access to larger markets and hence the possibility of reaping the benefits of economies of scale and specialization. Trade openness offers export opportunities and makes available inputs at high quality and lower prices.

(b) It enhances competition, thereby improving domestic firms' competitiveness.

(c) Removes distortion bias in domestic industries that protection would have created.

(d) Dissemination of knowledge and innovation embodied in goods, services and investments.

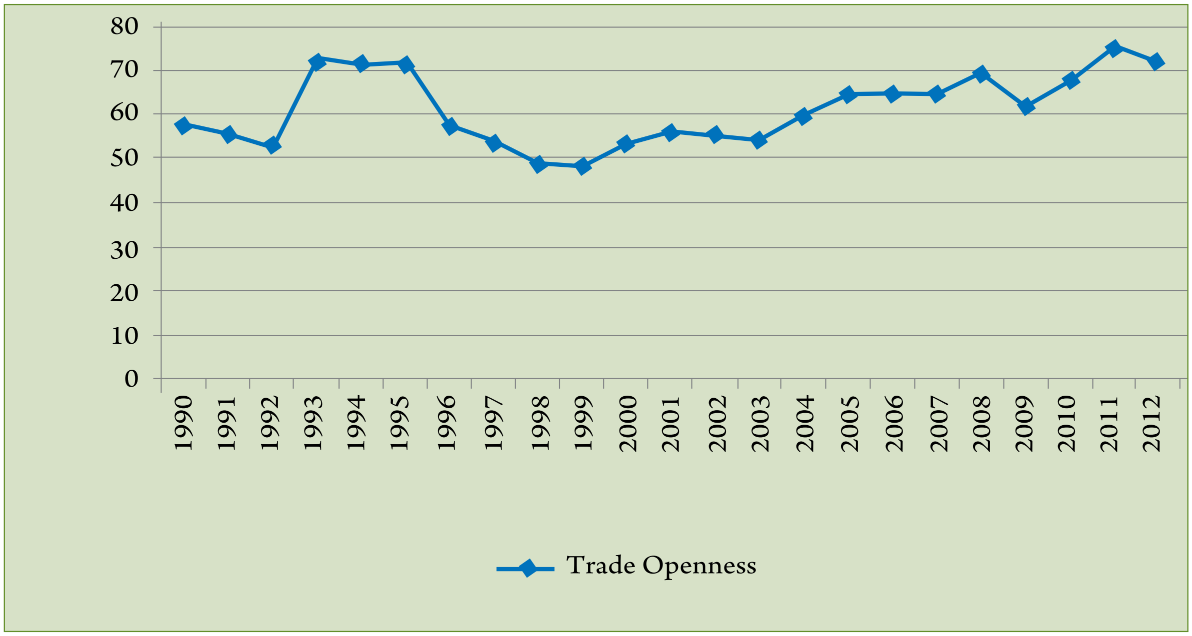
However, trade openness is only beneficial if the country is pursuing an export-led growth strategy.

13.7 African Growth and Opportunity Act (AGOA)

The AGOA initiative is a unilateral preferential trade arrangement by the United States to eligible African countries to gain duty-free-quota-free (DFQF) market access. The AGOA Act was passed by the United States Congress in the year 2000 to stimulate export-led economic growth in Sub-Saharan Africa (SSA) and strengthen trade and investments ties with the region (Williams, 2013). Through the AGOA initiative, 6,400 products can gain DFQF market access to the United States. The AGOA extended the generalized system of preferences (GSP) products coverage of 4,600 by 1,800 products to bring the total to 6,400.

One of the main weaknesses of the AGOA initiative is that it is unilateral and is under the discretion of the United States government. It can therefore be terminated without reference to the beneficiary

Figure 13.8: Trade openness of the Kenyan economy, 1980-2010



Source: Computed Using WDI Dataset (2014) country. This is compounded by the fact that the initiative will come to an end in September 2015 and it is not known whether it will be extended. The unpredictable nature of AGOA makes it difficult for investors to make long-term decisions about investments. This is despite the fact that one of its main goals is to stimulate economic growth in Sub-Saharan Africa. Despite the fact that 6,400 products can gain market access under AGOA, Kenya exports garments and apparels almost exclusively. This can be taken to mean that Kenya lacks the capacity to take advantage of the market access offer.

Owing to the fact that the current AGOA initiative will come to an end by end of September 2015, three scenarios can be hypothesized: First, AGOA could be extended in the current form, in which case the US will have to seek to be granted a waiver by the World Trade Organization (WTO). This might become complicated if Sub-Saharan Africa finally signs Economic Partnership Agreements (EPAs) with the European Union. Second, AGOA may be extended but to include other developing countries. And third, AGOA may not be extended.

Most of the exports by Kenya under the AGOA initiative are through the Exports Processing Zones (EPZs) (Table 13.2). By the end of 2012, there were 22 EPZ firms with an investment base of Ksh 10.73 billion and employing about 28,298 Kenyans. Exports were valued at US$ 240 million.

Kenya is a major beneficiary of the AGOA initiative and takes second position after Lesotho in terms of garment exports to the United States (Table 13.3). Other major beneficiaries are Mauritius, Swaziland, Uganda and Tanzania.

Table 13.2: EPZ employment, investment and exports of garments to the US under AGOA, 2008-2012

Indicator	2008	2009	2010	2011	2012	% Growth (2011/2012)
Number of enterprises	18	19	16	18	22	22.2
Employment (No.)	25,766	24,359	24,114	25,169	28,298	12.4
Investments (Ksh billion)	7.58	5.50	6.96	7.41	10.73	44.9
Exports (Ksh billion)	15.81	12.70	16.20	20.95	20.22	-3.5
Quantity of exports (million pieces)	67.90	58.10	70.30	65.60	81.30	23.9
Imports (Ksh million)	9.25	6.44	10.12	13.97	14.70	5.2
Exports (US$ billion)	0.23	0.16	0.20	0.24	0.24	1.6

Source: EPZA (2013)

Table 13.3: Exports of garments from selected African countries to the US under AGOA (US$ '000), 2008-2012

Country	2008	2009	2010	2011	2012	Growth % (2011/2012)
Lesotho	338,940	277,124	280,392	314,335	300,618	-4.0
Kenya	255,655	207,859	225,491	292,595	292,828	0.1
Mauritius	101,742	103,063	128,927	169,191	175,227	4.0
Swaziland	125,566	101,043	111,073	77,192	62,707	-19.0
Uganda	1,055	742	3,315	2,541	1,838	-28.0
Tanzania	2,047	1,861	2,118	5,751	11,846	106.0

Source: EPZA (2013)

13.7 Regional Integration and Trade Performance

Regional Economic Communities (RECs) are the most viable vehicles for enhancing economic growth and development for the World's poor countries. In recognizing that the cooperation and integration among African countries in economic, social and cultural fields were indispensable to the accelerated transformation and sustained development of the African continent, African leaders in 1991 signed the Abuja Treaty in Abuja, Nigeria. The Abuja Treaty proposed the establishment of a continental free trade area (CFTA) by 2017, and integration of Africa's regional economic communities (RECs) into a single customs union with a common currency, Central Bank, and Parliament by 2028. Like the European Union, the resulting African economic community would enjoy economic cooperation, increased intra-African trade, improved self-sufficiency, lower poverty levels and a more peaceful inter-dependent existence.

One notable characteristic of regional integration in Africa is the participation of African countries in several of regional trade agreements (RTAs). Many African countries today hold multiple memberships. Of the 53 countries, 27 are members of two regional groupings, 18 belong to three, and one country is a member of four. Only seven countries have maintained membership in one bloc. Multiple arrangements tend to confuse integration goals and lead to unproductive competition between countries and institutions (ECA, 2008). Kenya is an active member of two regional trade agreements, the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). To address the problem of multiple memberships, Kenya and other countries in EAC, COMESA and Southern African Development Community (SADC) have proposed the merging of the three RECs to form a tripartite arrangement.

The leading Kenyan exports to the COMESA and EAC markets include tea, mostly to Egypt and Sudan, oils and perfumes mainly to Uganda and Tanzania, and cement mostly to Sudan, Uganda and Tanzania. Other exports in terms of volumes include natural sodium carbonate, iron and steel bars, articles of plastics and tobacco manufactures, vegetable oils and fats. In terms of imports, Kenya largely imports agricultural products from the region in the form of unmanufactured tobacco from Zimbabwe, sorghum from Sudan, maize from Malawi, animal feeds mostly from Uganda, and paper and paperboards mainly from Tanzania.

13.7.1 East African Community

The Treaty for the Establishment of the East African Community (EAC) was signed on 30th November 1999 and entered into force on 7th July 2000 following its ratification by the three original partner states, Kenya, Uganda and Tanzania. The Republic of Burundi and the Republic of Rwanda acceded to this EAC Treaty on 18th June 2007 and became full members of the Community with effect from 1st July 2007. The overall objective of the EAC Common Market is to widen and deepen cooperation among the partner states in the economic and social fields for the benefit of the partner states and their citizens. The five EAC partner states cover an area of 1.82 million square kilometres and a population of 135.4 million people (2011) who share history, language, culture and infrastructure. These advantages provide the partner states with a unique framework for regional cooperation and integration. The combined Gross Domestic Product (GDP) of the five countries was US$ 84.7 billion and an average GDP per capita of US$ 732 in 2011. The dominant sector in all the partner states include agriculture, wholesale and retail trade, transport and manufacturing.

The EAC has made tremendous progress towards integration and remains one of the fastest integrating regional groupings in Africa. The EAC Custom Union commenced on 1st January 2005 while the EAC Common Market Protocol was ratified by the partner states in 2010, thereby paving way for free movement of capital and persons. The East

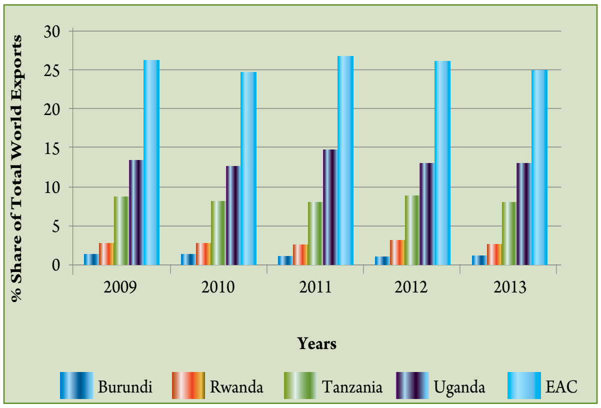
African Monetary Union (EAMU) Protocol was signed on 30th November 2013, setting the stage for implementation of the monetary union's road map, which will be in phases until the convergence of all macroeconomic fundamentals to warrant a single currency by the year 2023.

The EAC intra-trade has grown significantly from US$ 2.2 billion in 2005 to US$ 4.96 billion in 2011. The region is increasingly getting engaged in global trade, with the value of its total trade with the rest of the world having more than doubled from US$ 17.5 billion in 2005 to US$ 45.8 billion in 2011. Nonetheless, intra-EAC trade accounts for only 11 per cent of the region's trade performance, compared to 45 per cent in the Americas, 60 per cent in the European Union, and 45 per cent in Asia (SIDA, 2012).

The EAC countries have continued to be major export destinations for Kenya. For example, Kenya's exports to the EAC in 2013 accounted for 54 per cent of the country's total exports to Africa and 24.9 per cent of total exports to the world. In 2013, Uganda continued to be Kenya's leading export destination, absorbing 13.0 per cent of the country's total world exports; Tanzania was second (8.1%) and Rwanda tenth (2.7%). It is, however, important to note the declining share of Kenya's exports to Tanzania and Rwanda in 2013. The share of Ugandan exports remained constant while for Burundi, it increased slightly (Figure 13.9).

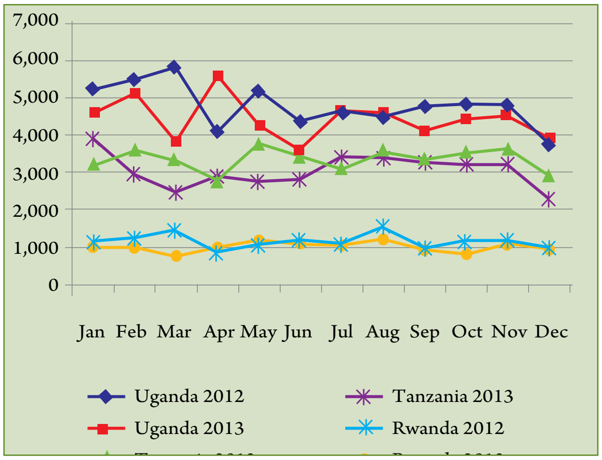
For the year 2013, the total Kenyan exports to EAC countries dropped significantly (Figure 13.10). For example, exports to Uganda, Tanzania and Rwanda decreased by 3.1 per cent, 12.0 per cent and 16.4, respectively.

Figure 13.9: Percentage EAC shares of total world exports, 2009-2013



Source: KNBS (2014)

Figure 13.10: Kenyan exports to EAC in (Ksh million)



Source: KNBS (2014)

The value of total Kenyan exports to EAC decreased from Ksh 135 billion (US$ 1.59 billion) in 2012 to Ksh 125 billion (US$ 1.47 billion) in 2013, a decline of 7.4 per cent. Of these exports, Uganda took 52.3 per cent, followed by Tanzania 32.4 per cent, Rwanda 10.8 per cent and Burundi 4.5 per cent (KNBS, 2014).

During the same period, Kenya's imports from the region declined from Ksh 30.9 billion (US$ 363 million) in 2012 to Ksh 27.8 billion (US$ 326 billion) in 2013 (KNBS, 2014).

Overall, Kenya's volume of trade in the region has grown tremendously from Ksh 102.7 billion (US$ 1.2 billion) in 2009 to Ksh 152 billion (US$ 1.8 billion) in 2013 (KNBS, 2014). Despite this increase, Kenya's trade with the EAC partner states constitutes a small percentage (8% in 2013) of her total trade with the rest of the world. This means that 92 per cent of Kenya's trade is outside the EAC region, and hence the need for the country to change its export base and take full advantage of the opportunities offered by the integration process to trade more in EAC (Figure 13.11).

Figure 13.11: Kenya's EAC trade

Source: KNBS (2014)

Kenya continues to dominate regional trade, accounting for about 40 per cent of total volume of EAC trade with Uganda and Tanzania accounting for 33 per cent and 14 per cent, respectively (EAC Secretariat, 2011). However Kenya's exports compared with those of other EAC member states have been growing at a slower rate over the past five years, although the volumes remain higher. It was expected that with the implementation of the EAC Customs Union in 2005, Kenya would dominate regional trade by diversifying its exports to the EAC market given its comparative advantage especially in the manufacturing sector. However, this has not been the case. This can be attributed to the countries lengthy licensing and customs procedures, red tape, corruption and sluggish commercial dispute settlements process which reduce her competitiveness in the region (EAC Secretariat 2012). It is, however, important to note that although Kenya's manufacturing sector is leading in the region, its growth has stagnated at around 10 per cent since independence and hence a reason for slow export growth.

EAC monetary union challenges and opportunities

The EAC partner states signed the East African Monetary Union (EAMU) Protocol on 30th November 2013 in Kampala. The signing of the EAMU protocol sets a stage for the implementation of the monetary union's roadmap, which will be in phases until the convergence of all macroeconomic fundamentals to warrant a single currency by the year 2023. The EAC Treaty adopted in 1997 calls for cooperation amongst partner states in monetary and financial matters and maintaining of convertibility of their currencies, as the basis for the establishment of the EAMU. The process of preparing to enter into a monetary union started in 2011 when a High Level Task Force of senior government officials from five partner states was constituted. The task force has been discussing legal and regulatory framework and transitional arrangements towards operation of the EAMU. Apart from the task force, other committees were constituted, among them monetary affairs, fiscal affairs, statistics and capital markets, insurance and pensions, to harmonize monetary and exchange rate policies, fiscal policies, statistics and financial sector policies. These committees have made great progress towards achieving their mandate.

The successful formation of a monetary union is expected to benefit the member states in several ways. Key among them is the lowering of costs and risks of doing business across countries. A single currency means a single set of prices and, therefore, increased transparency and convertibility among the users of the currency. The reduction of transactions costs directly and indirectly permits a redeployment of resources to more profitable uses, while associated ease in cross-border payment facilities provide additional savings. The monetary integration also offers potential political benefits, for example, increasing of the countries collective political status in the international arena. However, these benefits of lower transactions costs are only sustainable when the countries involved are willing to at least partly give up sovereignty, particularly in the area of fiscal policy.

For the success of the monetary union, several requirements should be met, including elimination of all non-tariff barriers to intra-regional trade, full implementation of the customs union, and free movement of capital among partner states. An actual single market without any restrictions forms the cornerstone of a monetary union because, for the partners to realize the full benefits of a monetary union, there ought to be a substantial amount of trade between the partners. Secondly, in the presence of idiosyncratic economic shocks - economic shocks that affect the economy of one member state and not of the other, countries within a monetary union cannot resort to the use of their own monetary and exchange rate policy, and this leaves them vulnerable to the effects of such shocks.

In the path towards EAMU, the EAC partner states adopted macroeconomic convergence criteria classified into primary and secondary criteria. The primary criteria comprised of benchmarks on fiscal deficits, inflation and external reserves, while the secondary criteria comprised of areas of policy and real convergence. An assessment of macroeconomic convergence in the EAC indicates that though some progress has been made, the region is yet to attain the set targets. For example, inflation is yet to attain the set target of not more than 5 per cent per year, while fiscal deficits excluding grants are still above the set target of 5 per cent, among other targets.

As the EAC countries move towards a monetary union, several challenges still remain. First, the EAC is yet to fully implement both custom and common market protocols, which are critical for the success of EAMU. Some member countries are not quick in implementing some of the agreed macroeconomic plans due to lack of political commitment. Secondly, the EAC countries face significant macroeconomic shocks such as terms of trade shocks from international commodity prices and agricultural productivity from weather. These often affect EAC countries differently, hence the need for a strong fiscal centralization and adjustment mechanism to deal with such shocks. Thirdly, EAC countries are developing economies with different economic needs and poverty differences, and hence the possibility of each country borrowing heavily today to address development needs. This is likely to lead to huge fiscal deficits and slowing down of macroeconomic convergence. Fourthly, EAC capital markets are under-developed, making it difficult for them to efficiently price government securities. With thin capital markets, it becomes difficult for the counties to rely on international capital in the event of fiscal crisis once in a monetary union. Finally, being in multiple regional economic groupings will continue to pose a challenge of competing macroeconomic convergence programmes, leading to wasteful duplication of efforts.

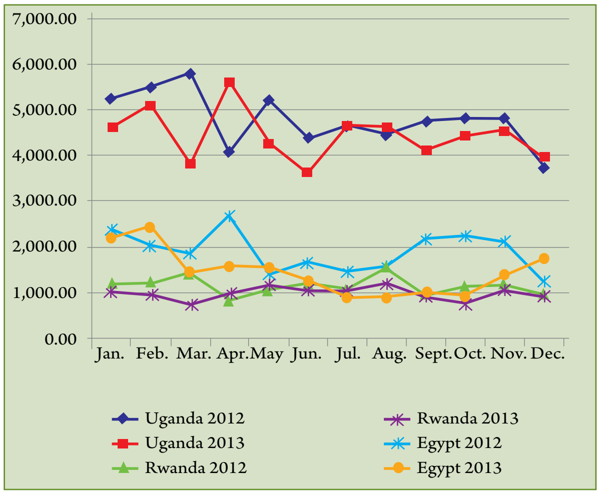
The way forward in addressing these challenges include: (a) having a progressive approach towards the achievement of macroeconomic convergence; (b) ensuring congruence among the policies and macroeconomic performance of participating countries; (c) strengthening the national and supranational institutions charged with the task of monitoring the progress of creation of a monetary union–these institutions would enhance sustainability of monetary integration amidst heterogeneity of policy preferences, among members; and (d) the need for dialogue among stakeholders, including decision makers, monetary authorities and citizens so as to design an integrated path for monetary integration that will lead to the setting up of a common currency.

13.7.2 Common Market for Eastern and Southern Africa

The treaty establishing the COMESA was signed on 5th November 1993 in Kampala, Uganda. COMESA comprises 20 member countries, including Burundi, Comoros, DRC Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Seychelles, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Uganda, Zambia and Zimbabwe, and South Sudan. COMESA has a population of over 406 million and a per capita income of US$ 1,811. The COMESA Free Trade Area (FTA) was launched in 2000, while the Customs Union was launched in June 2009 in Zimbabwe. The COMESA members span a large portion of the African continent, covering an area of 12,873,957km^2, meaning that some countries have difficulties in accessing others' markets due to physical and geographical reasons.

Since the launch of COMESA FTA in 2000, Kenya's trade in the region has increased from Ksh 57 billion (US$ 670 million) to Ksh 221 billion (US$ 2.6 billion) by 2013. Through Kenya's steadfast implementation of COMESA programmes, COMESA has since become Kenya's leading export destination, accounting for approximately 71 per cent of total exports to Africa and 32.6 per cent of total exports to the world (2013). Kenya's exports to COMESA, however, decreased slightly from Ksh 175.7 billion (US$ 2.06 billion) in 2012 to Ksh 163.6 billion (US$ 1.93 billion) in 2013. The main exports to the region include tea and manufactured products.

Figure 13.12: Kenyan exports to some selected COMESA countries, 2012 and 2013 (Ksh million)

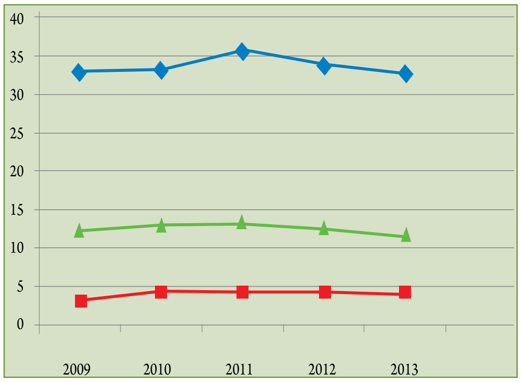


Source: KNBS (2014)

Uganda is the leading destination for Kenyan exports in the COMESA region, taking 38.4 per cent followed by Egypt (12.2%), Democratic Republic of Congo (10.5%) and South Sudan (10.2%) in 2012. Other main destinations for Kenyan products in the region include Zambia, Malawi, Ethiopia and Swaziland. Exports to Egypt and Uganda, however, declined in 2012 and 2013 (Figure 13.12). The COMESA region is a major source of agricultural imports for Kenya. Kenyan imports from COMESA mostly come from Egypt, Uganda, Swaziland, Zambia and DR Congo.

Despite the importance of the region to Kenya, the total COMESA trade as a percentage share of total Kenya trade is low, at an average of 12 per cent (Figure 13.13).

Figure 13.13: Share of COMESA trade to total world trade



Source: Constructed from KNBS (2014), Economic Survey

The Proposed Tripartite Free Trade Area

It was in the spirit of deepening trade and integration among African countries and addressing the problem of multiple memberships for countries in the region that the COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) was proposed on 22nd October 2008. The three RECs comprising 26 countries with a population of 527 million people and GDP of approximately US$ 624 billion means that the T-FTA makes up 57 per cent of the population of the African Union (AU), and just over 58 per cent in terms of contribution to GDP.

The member states of the three RECs have agreed on the establishment of the TFTA by December 2014. Meanwhile, progressive steps and negotiations are underway towards this ultimate goal. The formation of the TFTA is in line with the objective of establishing one African trading block, the African Economic Community. This is meant to promote intra-African trade, currently at 10 per cent, which is lower compared to intra-trade in other continents.

It is also evident from the three RECs that promoting trade among members is fundamental for economic growth. Opening up the Eastern and Southern Africa will most likely come with huge benefits to member countries, one of which is a larger market for exports. It is expected that the T-FTA will eliminate barriers on Rules of Origin (RoO) and allow free movement of goods and services. However, there will be elimination of inefficient producers to pave way for more efficient ones, although in the long run trade performance will increase and diversification of trade will be realized.

Establishing strong economic and political institutions is important in making the T-FTA succeed. It is anticipated that with the conclusion of this agreement, political barriers will be minimized while strong economic institutions will be established to enhance trade, foster integration and build strong social ties for mutual benefits of member countries.

It is also expected that with the formation of the TFTA, countries will mobilize resources to develop transport infrastructure. Investment in this sector will be accompanied with reduced trade cost within the region, thus facilitating mobility of people and goods. Since Kenyan exports to the EAC and COMESA are composed of manufactures, this implies that this sector stands to benefit, although this will necessitate efforts to strengthen the sector to better compete with other players in the market.

Challenges

Despite the numerous benefits expected from the T-FTA, such challenges as complexity of operations, differences in trade regimes, and varying country interests may be inevitable. However, with ongoing negotiations, this issue needs to be addressed.

13.8 Kenya's Foreign Policy

13.8.1 Kenya's regional role and influence

As an anchor state in the Eastern African region, Kenya is expected to play a central role in regional integration processes, sustainable development and promotion of regional peace, security and stability. Due to its geo-strategic location and economic power, Kenya is the gateway of East and Central Africa. Nairobi is the commercial hub in the region, hosting several multinational corporations. Nairobi is also seen as the regional diplomatic capital as it hosts the United Nations Office (UN headquarters in Africa), United Nations Environment Programme (UNEP) and United Nations Human Settlement Programme (UN-HABITAT) headquarters, over twenty (20) other UN offices, numerous diplomatic missions and international organizations, and headquarters of several international NGOs (Government of Kenya, 2011). The upgrading of UNEP to United Nations Environment Assembly (UNEA) will increase the membership of the UN agency from the current 53 to 193 UN member states, observer states and other stakeholders. Kenya is, therefore, the business, diplomatic and logistics hub of the entire East and Central African region. An anchor state often plays a prominent role in setting the regional agenda due to its economic pre-eminence, political and diplomatic clout. Kenya's recognition that its prosperity and economic development is tied to the stability, security and peace of neighbouring states is crucial in shaping and guiding the country's two foreign policy pillars, namely economic diplomacy and peace diplomacy.

13.8.2 Economic diplomacy

The key objectives of Kenya's economic diplomacy include increasing capital flow to the country by exploring alternative non-traditional sources of development assistance and foreign direct investment (FDI); supporting the country's investment in the region and beyond; promoting the country as a favourite destination of FDI, tourism and conferencing; expanding access to traditional markets and exploring new export destinations in Africa, Europe, Asia, Latin America and Middle East; and strengthening economic regional blocs such as EAC and COMESA (Government of Kenya, 2009).

In order to achieve the objectives of economic diplomacy, the Government has made considerable efforts in fast-tracking the EAC regional integration; deepening economic relations with northern neighbours including Ethiopia and South Sudan; modernization of the Northern Corridor; construction of the Lamu Port South-Sudan-Ethiopia-Transport (LAPSSET) Corridor; deepening of bilateral relations with other anchor states such as Nigeria, Russia, China and Turkey; and expansion of the Port of Mombasa and other strategic infrastructure in the country. Through infrastructure summits in 2013, trilateral cooperation between Kenya, Uganda and Rwanda led to the establishment of the single tourist visa, single customs territory and use of national identity cards as travel documents among the three EAC states. The participating states in the infrastructure summits also agreed to fast-track various infrastructure projects in the region, including railway, crude oil and petroleum products pipeline, power generation and transmission, and oil refinery development. The signing of the EAC Common Market Protocol by the EAC partner states in November 2013 was also a milestone in realizing the EAC integration. The Special Status Agreement (SSA) signed between Kenya and Ethiopia in 2012 and the deepening of economic relations with South Sudan and Somalia are imperative in expanding the export market and Kenya's investment in the region.

Kenya also concluded bilateral trade agreements with China, Nigeria, Angola, Thailand, Turkey and Russia to boost bilateral trade and investment. The government also signed various Memoranda of Understanding (MoUs) with a number of countries on other issues. Examples include the MoU on tourism cooperation with Sri Lanka, Qatar and Saudi Arabia; an MoU on economic and technical cooperation with Sri Lanka; bilateral air services with Qatar; and agreement on cooperation in agriculture, livestock, fisheries and forests with Argentina. Moreover, the Ministry of Foreign Affairs and International Trade has linked Kenya's business community with their counterparts in China, Ethiopia and Japan, among others (Ministry of Foreign Affairs and International Trade, 2014).

Kenya's diplomatic and consular missions have increased in the last one year. A full embassy has been established in Algiers, Algeria, and a consular mission has been opened in Kismayu, Somalia. Two honorary consulates were opened in Ukraine and Yemen. Kenya plans to open new diplomatic missions in Angola, Ghana, Morocco, Senegal, Cuba, Ivory Coast and Malawi. At the same time, there are plans to establish consulates in Tanzania (Arusha), South Africa (Cape Town), Nigeria (Lagos), Democratic Republic of Congo (Goma) and Somaliland (Hargeisa).

13.8.3 Peace diplomacy

Peace diplomacy entails diplomatic interventions (mediation/negotiation), United Nations mandated or regional peacekeeping operations and peace-building/post-conflict reconstruction. The objectives of Kenya's peace diplomacy include: the promotion of conflict resolution through peaceful means; working with other African states to strengthen conflict prevention capacity of EAC, IGAD, COMESA and the African Union–AU; supporting peace processes by the AU and UN by contributing troops and providing leadership in peace support operations in Africa; supporting peace processes through training of diplomats from the region through the Foreign Service Institute (FSI); supporting regional initiatives aimed at promoting sustainable peace and development in Somalia; and effective implementation of Sudan/South Sudan's CPA (Government of Kenya, 2009).

Some of the global challenges that Kenya addresses through peace diplomacy include armed conflicts, global terrorism, refugee influx and proliferation of small arms and light weapons. Armed conflicts and global terrorism are major threats to international peace and security. Armed conflicts are major drivers of proliferation of illegal firearms and refugee influx across the region. Due to civil wars and general instability in some regional states, Kenya was the fourth largest refugee hosting state by December 2012. There were a total of 14.5 million refugees worldwide by the end of 2012, of which 564,900 were living in Kenya. By March 2014, UNHCR statistics indicate that Kenya was hosting 555,980 refugees as shown in Table 13.4.

Through peace diplomacy, Kenya supports amicable means of resolving conflicts in the region. Kenya engages in preventive diplomacy through mediation, peacekeeping and strengthening the capacity for conflict prevention, resolution and management. Nairobi is committed to the full implementation of Sudan/South Sudan's Comprehensive Peace Agreement (CPA). The Government of Kenya has also engaged in capacity building of security personnel and diplomats for Somalia and South Sudan.

Table 13.4: Trend of refugees in Kenya by major countries of origin

	2010	2011	2012	2013	2014
Ethiopia	35,309	35,120	32,687	31,209	30,114
DR Congo	9,133	11,416	12,768	14,510	15,223
Somalia	353,208	519,411	513,421	477,424	428,428
South Sudan	---	----	34,607	46,176	63,211
Total	430,871	601,761	608,113	587,223	555,980

Source: UNHCR statistics

UN peace support operations

Currently, Kenya has 876 personnel (Table 13.5) in six UN peacekeeping missions, namely the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA), United Nations Organization Stabilization Mission in the Democratic Republic of Congo (MONUSCO), African Union/United Nations Hybrid Operation in Darfur (UNAMID), United Nations Interim Force in Lebanon (UNFIL), United Nations Mission in Liberia (UNMIL) and United Nations Mission in the Republic of South Sudan (UNMISS). There are 98,350 peacekeepers working in fifteen (15) UN peacekeeping missions around the world (UN Department of Peacekeeping, 2014). While Kenya has been renowned as a major contributor to the UN peace support operations since late 1970s, the numbers of peacekeepers deployed have reduced in recent times.

African peacekeeping mission

One of the major peace support operations in Africa today is the African Mission in Somalia (AMISOM) comprising 22,095 security forces mainly from Uganda, Burundi, Ethiopia, Kenya, Djibouti, Sierra Leone, Ghana and Nigeria (Table 13.6). There are additional 81staff who work at the Force Headquarters. Kenya Defence Forces (KDF) initially entered the Republic of Somalia under the *Operation Linda Nchi* to contain the threats of the Al-Shabaab insurgents, who were blamed for incursions into Kenya's territory from Southern Somalia, kidnapping tourists and humanitarian

Table 13.5: Contribution of UN peacekeepers by selected countries

	Police Personnel	Experts on Missions	Contingent troops	TOTAL	Percentage (%)
Brazil	15	24	1,716	1,755	1.78
Burundi	150	9	2	161	0.16
China	171	37	1,188	2,188	2.22
Ethiopia	29	106	6,480	6,615	6.72
India	998	52	6,798	7,848	7.98
Kenya	59	23	794	876	0.89
Nigeria	669	53	4,128	4,850	4.93
Rwanda	544	15	4,243	4,802	4.88
Tanzania	186	20	2,215	2,428	2.47
Uganda	52	5	3	60	0.06

Source: UN Department of Peacekeeping Operation (February 2014) agency workers, thus compromising the country's territorial integrity and national security and adversely affecting the tourism industry. The KDF formally joined the African Mission in Somalia–AMISOM in July 2012.

Table 13.6: Contribution of peacekeepers to AMISOM

	Contingent troops	Police personnel	Total	Percentage
(%)				
Burundi	5,432	0	5,432	24.58
Djibouti	1,000	0	1,000	4.52
Ethiopia	4,395	0	4,395	19.89
Ghana	0	56	56	0.25
Kenya	3,664	27	3,691	16.70
Nigeria	0	200	200	0.91
Sierra	850	47	897	4.05
Uganda	6,223	201	6,424	29.07
TOTAL	21,564	531	22,095	100.00

Source: Amisom website, March 2014

The mandate of AMISOM is to stabilize Somalia in order to create a conducive environment for humanitarian activities; provide protection to the government of Somalia; assist in the implementation of the National Security Stabilization Programme (NSSP); monitor the security situation in areas of operation; and support dialogue and reconciliation in Somalia, working with all stakeholders. The KDF contributed to the liberation of several towns in Southern Somalia, including the strategic town of Kismayu. The KDF are also engaged in various activities aimed at restoring peace, security and order in the Republic of Somalia.

Kenya's mediation process

Kenya continues with its mediation role in the region. As a guarantor of Sudan/South Sudan's CPA, Kenya oversees the implementation of the peace pact between the two neighbours. Outstanding issues between Khartoum and Juba include: their common borders, determining the status of Abyei region and other contested territories and citizenship, among others. Since armed conflict broke out between South Sudan government troops loyal to President Salva Kiir and renegade troops allied to former Vice President Riek Machar in December 2013, Kenya has been at the forefront in the Addis Ababa peace process meant to find a lasting solution to South Sudan crisis. Some of the progress made include the signing of agreement on Cessation of Hostilities and Status of Detainees in January 2014. Other milestones realized in peace diplomacy include the hosting of a special summit on the International Conference on the Great Lakes Region (ICGLR) in July 2013 to address Eastern DRC conflict and other regional conflicts, the signing of the Nairobi Declaration between the government of the DRC and the M23 rebels in December 2013, and the signing of the Peace, Security and Cooperation Framework for the Democratic Republic of Congo and the Great Lakes region in January 2014.

13.9 Global Challenges and Kenya's Development

The Euro zone is a massive market for economies across the world, and therefore its current crisis has potential of affecting world economies. Europe is considerably linked to Kenya's trade, tourism and remittances. Kenya's exports to Europe in 2013 were estimated at Ksh 123.3 billion (KNBS, 2014). Europe contributes significantly to tourism in the country. In 2013, about 1,344,200 tourists visited Kenya, out of which about 786,100 (57.85%) tourists were from Europe. Moreover, remittance inflow from Europe accounted for US$ 30.49 million in December 2013, contributing to 27.86 per cent of the total remittances to Kenya.

The weak global economy and slow recovery, especially in the Euro zone, is likely to reduce demand for Kenyan imports. The type of commodities that a country exports determines the extent of vulnerability to exogenous economic shocks such as weak global demand. Kenya, like other developing countries, is mainly dependent upon primary commodity exports to earn export revenues. These primary commodity exports are prone to price movements in the international markets, causing instability of the foreign exchange and can lead to economic growth volatility. For instance, according to the WTO (2014), in the year 2013, global price of primary commodities fell on average by 2 per cent.[3] Apart from price volatility, primary commodities have low income elasticity of demand. Kenya has to work towards the reduction of the share of primary commodity exports in the export basket to cushion against price volatility in the international markets.

While the Euro-zone crisis might not have affected Kenya's exports, persistence of the crisis could have long-term impact on the country's economy. It is therefore important that Kenya diversifies its export destination, tourist source market and remittance sources.

On the regional front, South Sudan has become a significant export destination for Kenya in the recent past. In 2013, Kenya's exports to South Sudan are estimated at Ksh 16.68 billion. Since the signing of a Comprehensive Peace Agreement (CPA) in January 2005, Kenyan investors have made considerable inroads into South Sudan. Kenyans have invested in different sectors, including banking, insurance, aviation, construction, hospitality, information and communication technologies (ICT), transport, and wholesale and retail trade. Today, Kenya is one of the largest foreign investors in South Sudan. The escalation of the South Sudan crisis towards the end of 2013 has adversely affected Kenya's business and investment interests. Through regional integration and deeper bilateral ties with the emerging economies in Africa, Asia, Eastern Europe and Latin America, Kenya is likely to diversify to alternative export markets.

Maintenance of regional and international peace and security has been undermined by global challenges such as armed conflicts, terrorism and refugee influx, among others. Due to enduring conflicts in some states in the Horn of Africa and the Great Lakes region, regional states have been adversely affected. Kenya has been using various peace diplomacy initiatives to resolve conflicts in Somalia, South Sudan, Sudan, Democratic Republic of Congo and Central African Republic. Armed conflicts in Somalia and South Sudan pose severe implications on Kenya's economy, security and territorial integrity as they are immediate neighbours. Due to the regional and global challenges such as armed conflicts, global terrorism, and refugee influx, Kenya has taken some measures to contain the challenges. Peace diplomacy is one of the tools that the government uses to contribute to stabilization of Somalia, South Sudan and other regional states. Kenya's role in mediation efforts to bring peace in South Sudan is in the interest of the country, as far as guaranteeing security, resolving refugee influx, and protecting the country's economic interests within South Sudan borders are concerned.

The main peace diplomacy activities carried out in the last one year include involvement of Kenyan troops in AMISOM; training security personnel for neighbouring states; mediation of Addis Ababa peace talks between the government of South Sudan and the rebels; signing of the Nairobi Declaration between the government of the DRC and the M23 rebels; and the signing of the Peace, Security and Cooperation Framework for the Democratic Republic of Congo and the Great Lakes region. The stabilization of Somalia remains a key priority in Kenya's peace diplomacy because achievement of relative peace, order and security will contribute to repatriation of Somali refugees. A secure and stable Somalia will also benefit Kenya as it will reduce the risks posed by terrorists and pirates to the overall national security and tourism in particular.

Endnotes

1. See: http://www.wto.org/english/news_e/pres14_e/pr721_e.htm, accessed on 14th April, 2014.

2. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43312/11-721-economic-openness-and-prosperity.pdf, accessed on 9th April 2014.

3. See: http://www.wto.org/english/news_e/pres14_e/pr721_e.htm, accessed on 14th April 2014.

Chapter 14

Financial Services

14.1 Introduction

Kenya's financial services sector consists 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. To achieve the Kenya Vision 2030, the sector is required to drive the needed levels of savings to finance Kenya's investment needs. In 2013, the sector's growth improved to 7.2 per cent compared to 6.5 per cent in 2012. However, the contribution to GDP declined from 5.2 per cent in 2012 to 4.8 per cent in 2013 (KNBS, 2014).

14.2 Structure of Financial Services Sector

In 2013, the financial sector comprised 43 commercial banks, 1 mortgage finance company, 7 representative offices of foreign banks, 9 deposit-taking microfinance institutions (DTMs), 112 foreign exchange bureaus, and 2 credit reference bureaus (CBK, 2014b). In the same period, there were 24 insurance companies undertaking general insurance business, 12 insurance companies undertaking long term insurance business, 12 companies undertaking composite insurance business and 3 reinsurance companies. Other insurance intermediaries and insurance service providers were 187 licensed insurance brokers, 29 medical insurance providers (MIPs), and 4,631 insurance agents. Other insurance players included 134 investigators, 105 motor assessors, 22 loss adjusters, 2 claims settling agents, 8 risk managers, and 27 insurance surveyors (IRA, 2014). The pension industry had 1,216 retirement benefits schemes, 16 registered fund managers, 31 administrators, and 11 custodians (RBA, 2013). Nairobi Securities Exchange (NSE) was the only stock market in Kenya. However, in 2013, 135 Savings and Credit Cooperative Societies (SACCOs) had been licensed as deposit-takers (SACCO Societies Regulatory Authority, 2014).

14.3 Policy Environment

The sector continued to witness several policy changes in 2013. The government introduced 10 per cent excise duty on transaction fees for all money transfer services provided by cellular phone providers, banks, money transfer agencies, and other financial service providers (Government of Kenya, 2013a). The new tax has increased the cost of financial services, with consumers bearing the tax burden. In the final implementation of cheque truncation system, the cheque clearing cycle was reduced to 1 clearing day (T+1). Banks have now moved to the one day cheque clearing cycle, thereby shortening the time it takes to process cheques. This initiative will further facilitate economic activities, since customers will access their funds at a much shorter time. This is also an effort towards making Kenya a financial hub in the region. Additionally, the implementation of the East Africa Payments System makes bank transactions across East Africa to be done in real time. The payment system is expected to improve cross-border payments among banks and also enable the transfer of large sums of money. 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 Central Bank of Kenya introduced guidelines allowing commercial banks to conduct incidental business, i.e. selling insurance, shares and bonds. Banks are, however, required to make a clear distinction between their products and third party ones and also to inform customers of the actual source of the products they are distributing. These guidelines will minimize the risks posed when banks take up the incidental business.

Nonetheless, competition in the banking sector was boosted after the amendment of the Microfinance Act. The amendments allow the deposit-taking microfinances (DTMs) to carry out more business roles including running current accounts, issuing of third party cheques, conducting foreign exchange businesses, and sub-contracting agency services. It is expected that with the added business roles, DTMs will now give commercial banks stiff competition that will benefit consumers. The amendments also empower CBK to swiftly act on a troubled micro-finance institution, therefore averting the aggravation of a financial crisis. Such actions by the CBK include lending emergency loans to these institutions (Government of Kenya, 2013b). Lastly, in an effort to reduce debt burdens by nabbing serial defaulters, CBK licensed the Kenya Credit Providers Association, which brings together all lending institutions in the country, including the Agriculture Finance Cooperation (AFC) and Higher Education Loans Board (HELB). The association will facilitate the sharing of credit information on a regular basis among these institutions, thus eradicating information asymmetry.

In the capital markets, the law on Real Estate Investment Trusts (REITs) allowing mobilization of capital for housing development was enacted (Government of Kenya, 2013c). This will make it easier for developers to raise money faster and efficiently, thereby accelerating the number of new houses in the economy. Further, to provide the necessary regulatory framework for licensing of futures exchanges in Kenya, the Capital Markets Act was amended and the Futures Exchanges Licensing Requirements Regulations 2013 gazetted. The futures exchange will adopt a strong self regulatory organization (SRO) model, providing primary supervision over the operations of the futures market, with the Capital Markets Authority exercising a regulatory oversight role.

To curb challenges such as duplication of shares, loss and mutilation of certificates, signature mismatches and laborious transfer process, all paper share certificates at the NSE were converted into electronic format. Termed as the immobilization process, a shareholder was required to surrender the paper certificate and an electronic record created reflecting an investor's holding of securities in a particular company. Additionally, the Growth Enterprise Market Segment (GEMS) at the NSE was officially launched. GEMS provide the Small and Medium Enterprises (SMEs) with an opportunity to access long-term and relatively cheap capital from the bourse.

As part of the ongoing efforts to standardize capital market regulations across East Africa, the East African capital market regulators agreed to set uniform capital adequacy rules applicable to stock brokers, investment banks, fund managers and all other intermediaries licensed to operate across the region. These efforts will make it easier for businesses to tap into the regional capital markets. Further, free movement of capital within the region was enhanced when the East African Securities Regulatory Authorities launched a four year strategic plan that will, among other things, focus on harmonization of the securities laws in the region. The strategic plan is expected to provide a clear road map to position the region as an investment hub to drive economic growth and development.

Policy changes were also witnessed in the insurance and the pension sectors. In order to introduce a structured schedule of payment of compensation and remove confusions whenever there is an accident, insurance companies will be required to pay a total of Ksh 3 million to families of victims who die as a result of an accident. This includes those people who are hit by a car or die inside a car involved in an accident. This follows the amendments of the Insurance (Motor Vehicle Third Party Risks) Act Cap 405 (Government of Kenya, 2013). Lastly, to increase social security in the country, the National Social Security Fund (NSSF) Act 2013 was enacted. The pension contribution will now be 12 per cent of the pensionable wages made up of two equal portions of 6 per cent from the employee and 6 per cent from the employer progressively. The implementation of the new Act is expected to boost the national savings (Government of Kenya, 2013g).

14.4 Banking

14.4.1 Assets, deposits and profitability

The banking sector registered improved growth in assets in 2013, driven by growth in loans and advances, government securities and placements. These three class of assets accounted for 56.7 per cent, 21.5 per cent and 6.5 per cent of total assets, respectively. Deposits from customers accounted for 72.5 per cent of total funding liabilities, and are therefore the main source of funding for the banking sector. In 2013, aggressive mobilization of deposits by banks, remittances and receipts from exports raised the deposit base by 13.34 per cent from Ksh 1.71 trillion in 2012 to Ksh 1.94 trillion. The sector also witnessed a 16.6 per cent growth in pre-tax profits from Ksh 107.9 billion in 2012 to Ksh 125.8 billion in 2013 (Central Bank of Kenya, 2014b).

14.4.2 Access to banking services

There has been notable progress in access to formal financial services. In 2013, 32.7 per cent of the adult population had access to financial services from formal prudentially regulated financial institutions, including banks (Financial Sector Deepening-FSD and Central Bank of Kenya-CBK, 2013a). Though this is an improvement from 22.1 per cent in 2009, a significant proportion of Kenyans still lacks access to formal financial services and products. However, expansion of the banks' branches, the use of agency banking model, and mobile phone money transfer service continued to enhance financial access. Bank branches in the country increased by 5.5 per cent, from 1,272 branches in 2012 to 1,342 branches in 2013. Kenyan bank branches within the region increased by 6 branches from 282 branches in 2012 to 288 branches in 2013. In 2013, CBK licensed three banks, bringing the total number of banks using the agency banking model to 13 by 2013 from 10 in 2012. As a result, the number of agents contracted by banks increased by 7,144 to 23,477 agents. The agency banking model facilitated over Ksh 81 million transactions worth Ksh 432 billion in the period between 2012 and 2013 (Central Bank of Kenya, 2014b).

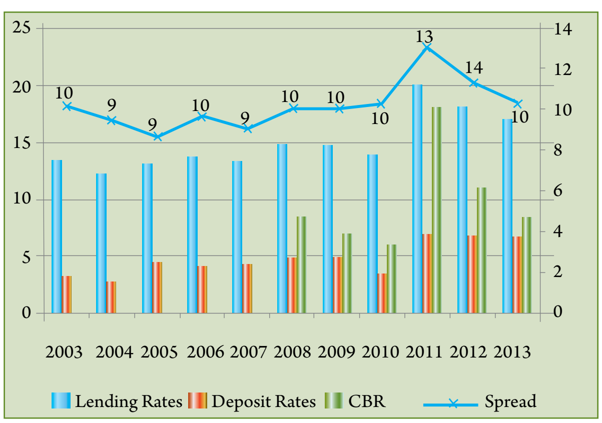
The use of mobile phone money transfer service also improved when the number of transactions increased by 26.6 per cent from 507.9 million transactions in June 2012 to 643.01 million transactions valued at Ksh 1,69 billion in June 2013. The mobile phone money transfer service customer base grew by 19.9 per cent from 19.8 million customers to 23.75 million customers. Likewise, the number of agents increased to 103,165, which is a growth of 68.3 per cent. M-Pesa agents accounted for 70.3 per cent of total agents, with Airtel and Yu having 9.5 per cent and 8.4 per cent, respectively (Central Bank of Kenya, 2013a).

Other commercial banks' business expansion strategies also enhanced financial access. While the number of ATMs increased by 4.5 per cent from 2,381 in 2012 to 2,487 ATMs in 2013, banks continued to develop new products by partnering with mobile phone service providers. These efforts by banks to leverage on technology will indeed widen financial inclusion.

14.4.3 Cost of credit

The average lending rates decreased from 18.15 per cent in 2012 to 16.99 per cent in 2013. In the same period, the average deposit rates also reduced to 6.55 per cent from 6.80 per cent in 2012. The Central Bank Rate (CBR) also reduced from 11.00 per cent in 2012 to 8.50 per cent in 2013 (CBK, 2014c). Despite the reduction in interest rates, the interest rate spread continued to be stable at 10 per cent against the Vision 2013 target of 6 per cent (Figure 14.1).

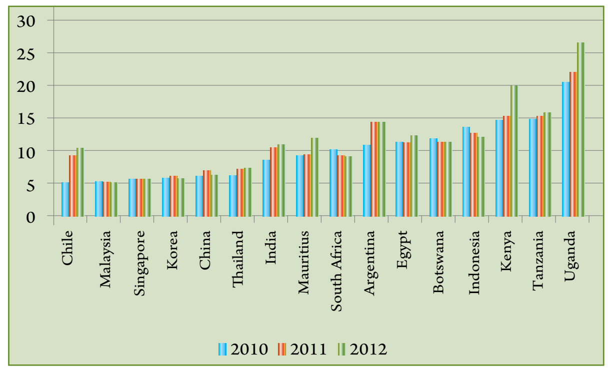
Figure 14.1: Interest rates in Kenya (%)



Source: Central Bank of Kenya (2014c)

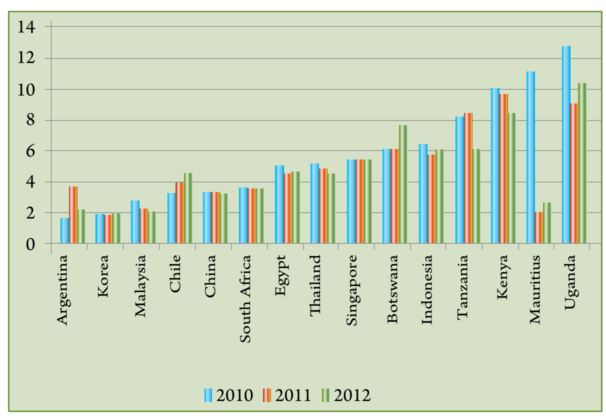
Indeed, the interest rate spread has averaged 10 per cent over the last ten years. This is an indication that commercial banks have endeavoured to maintain a stable interest rate spread, keeping their incomes high. The interest income on loans and advances is a major source of income for banks, contributing slightly over 50 per cent of the total income. In order to stimulate savings and investments in the economy, lending rates should reduce while deposit rates must increase. This will lower the interest rate spreads, signalling increasing efficiency in the financial market. Compared to other countries, the lending rates and interest rate spread in Kenya are still high (Figures 14.2 and 14.3).

Figure 14.2 Lending rates (%) for selected countries



Source: World Bank (2013)

Figure 14.3: Interest rate spread (%) for selected countries

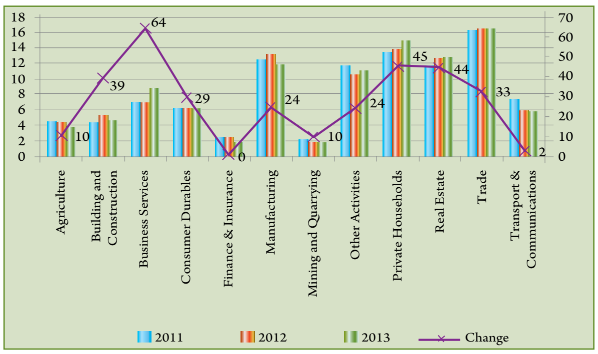


Source: World Bank (2013)

14.4.4 Credit to the private sector

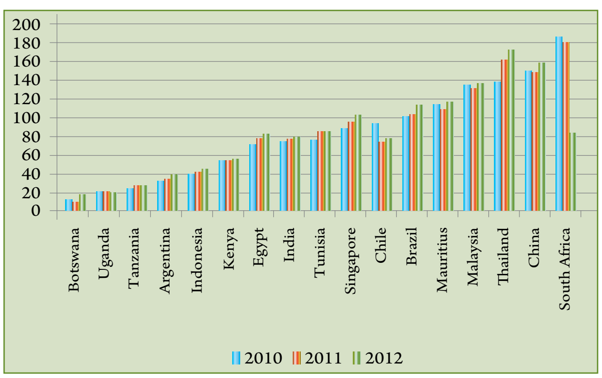
Private sector credit grew by 23.4 per cent from Ksh 1.28 trillion in 2012 to Ksh 1.58 trillion in 2013. Figure 14.4 shows that growth in credit in 2013 is attributed to increased lending to households, real estate, and business services (Central Bank of Kenya, 2014d). In the last three years (2011-2013), business services, households, real estate, building and construction, and trade have the highest credit growth. When compared to middle income countries, Kenya's private sector credit average, however, continues to be below 50 per cent of GDP (Figure 14.4).

Figure 14.4: Private sector credit distribution (%)



Source: Central Bank of Kenya (2014d)

Figure 14.5: Domestic credit to the private sector (% of GDP) for selected countries

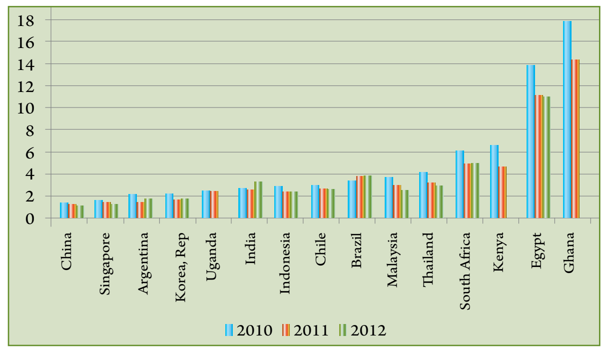


Source: World Bank (2013)

14.4.5 Non-performing loans

In 2013, the stock of gross non-performing loans (NPLs) grew by 32.3 per cent from Ksh 61.9 billion in 2012 to Ksh 81.9 billion. This is attributed to the general elections, which slowed down economic activities. The ratio of gross NPLs to gross loans also increased from 4.7 per cent in 2012 to 5.0 per cent in 2013. The coverage ratio (a percentage of specific provisions to total NPLs), however, declined from 57.6 per cent to 44.7 per cent in 2013 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 1.7 per cent in 2012 to 2.2 per cent in 2013 (CBK, 2014b). The ratio of NPLs to gross loans in Kenya, though declining, remains high when compared to other countries (Figure 14.6).

Figure 14.6: Non-performing loans (%) for selected countries



Source: World Bank (2013)

The Credit Information Sharing (CIS) mechanism, which is targeted to reduce NPLs, recorded significant growth in usage. As at 2013, about 3.6 million reports had been requested by banks and other clients compared to 2.3 million reports requested in 2012 (CBK, 2014b). Consequently, borrowers with good track record are expected to bargain for competitive credit terms and get credit using their credit record.

14.5 Capital Market

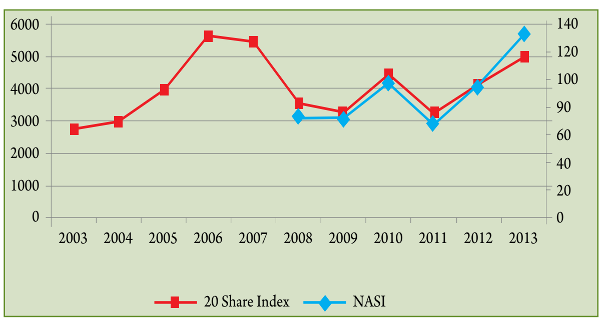
Like in the previous year, the stock market performance improved in 2013. However, one company (Access Kenya) was de-listed from the NSE following a successful take over by a South African firm. However, Home Afrika Ltd became the first and only firm to be listed in the Growth Enterprise Market Segment (GEMS). This segment was created in 2012 to offer SMEs an opportunity to access long-term and relatively cheap capital, and raise their profiles through participation in the NSE.

However, considering that there are many SMEs in the country, it was expected that many more firms would be listed. In 2013, the number of listed companies remained steady at 61 companies.

14.5.1 Stock indices

In 2013, the NSE 20 share index closed at 4926.97 points from 4133.02 points in 2012, thereby increasing by 19.2 per cent (Figure 14.7). Similarly, the Nairobi All Share Index (NASI) also recorded an increase of 41.79 points to close at 136.65 points from 94.86 points in 2012. Both the FTSE NSE Kenya 15 Index and FTSE NSE Kenya 25 Index also increased by 39 per cent and 37 per cent, respectively (CMA, 2013).

Figure 14.7: Nairobi securities exchange 20 share index and Nairobi All Share Index

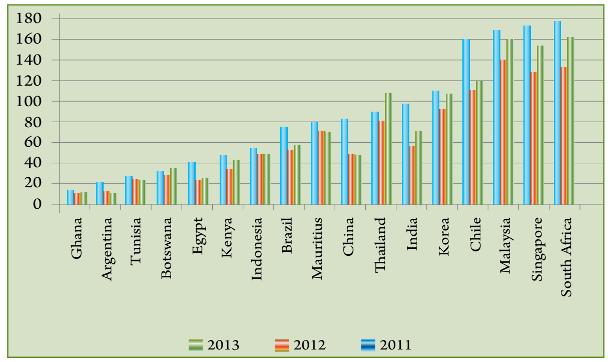


Source: KNBS (2013)

14.5.2 Stock market capitalization

In 2013, market capitalization as a measure of stock market development increased by 51 per cent to Ksh 1.92 trillion from Ksh 1.27 trillion in 2012 (CMA, 2013). Market capitalization in Kenya nevertheless remains low when compared to other countries (Figure 14.8).

Figure 14.8: Stock market capitalization (% of GDP) of selected countries



Source: World Bank (2013)

14.5.2.1 Bonds market

In the bonds market, the government continued to issue new bonds. In 2013, 13 new Treasury bonds, including a 12 year infrastructure bond, were issued. In the corporate sector, Shelter Afrique's bond targeting to raise Ksh 8 billion was approved in the year. The bond's first tranche of Ksh 3.5 billion was over-subscribed after receiving Ksh 5 billion subscriptions from institutional investors, banks and insurance companies. The mortgage firm, however, absorbed all the funds as the offer had a green-shoe (allowance to absorb the extra funds) option of up to Ksh 1.5 billion. Similarly, I&M bank received bids amounting to Ksh 3.7 billion from the first tranche of its Ksh 10 billion bonds whose tenors range between 5 and 10 years. Total bonds market turnover decreased by 25 per cent from Ksh 565.7 billion in 2012 to Ksh 452.5 billion in 2013. Treasury bonds continued to dominate the bonds market, accounting for 99.7 per cent of total bonds turnover (CMA, 2013).

14.6 Other Financial Institutions

In 2013, the CBK issued U&I Microfinance institution with a license to collect deposits from the public. This brings the total number of microfinance institutions approved as deposit-taking institutions in the country to nine. At the same time, the performance of these institutions continued to improve. In 2013, assets of DTMs grew by 27.8 per cent to Ksh 41.4 billion from Ksh 32.4 billion in 2012. While net advances grew by 38.2 per cent to Ksh 27.5 billion, the deposit base grew by 60.4 per cent to Ksh 24.7 billion (CBK, 2014). The number of DTMs deposit accounts also increased by 18.8 per cent from Ksh 1.6 million in June 2012 to Ksh 1.9 million accounts in June 2013 (CBK, 2013).

In the cooperative sector, Crescent Takaful Sacco Society Limited (CTS) became the first Sharia-compliant SACCO to be licensed in the country. This follows the government efforts to develop Sharia compliant model by-laws intended to facilitate the tapping of the savings potential among the Muslim community through SACCOs. Additionally, the SACCO Societies Regulatory Authority (SASRA) managed to license 135 deposit-taking SACCOs compared to 130 in 2012 (SASRA, 2014). However, as efforts towards improving governance in the SACCO sub-sector continue, 80 deposit-taking SACCOs are yet to be licensed.

Despite the improved performance of the insurance industry, one company (Concord Insurance Company) was placed under statutory management for not meeting its statutory obligations, including payment of levies as prescribed in the Insurance Act. This development taints the sector's image, whose penetration still remains at about 3 per cent, with about two thirds of insurance business biased towards the general business. The insurance industry's gross written insurance premiums amounted to Ksh 135.4 billion by the end of 2013. This represented an increase of 21 per cent from Ksh 111.9 billion recorded in 2012. The industry's profit after tax increased by 54.4 per cent to Ksh 20.2 billion from Ksh 13.1 billion in 2012. Claims incurred under general insurance business amounted to Ksh 34.2 billion in 2013. This was an increase of 16 per cent from Ksh 29.5 billion recorded in 2012. While assets for the industry grew by 17.7 per cent to Ksh 366.3 billion in 2013, investments for the industry grew by 23.4 per cent to Ksh 296.3 billion (IRA, 2014).

In the pension industry, total assets increased by 27 per cent to Ksh 696.7 billion in 2013. Fund managers and insurance issuers held 81 per cent of these assets, while NSSF had 19 per cent of the assets. Investment in government securities and quoted equities continued to dominate the industry's assets, with 34 per cent and 25 per cent, respectively. Individual retirement benefit schemes registered a growth of 28 per cent in membership from 88,509 members in 2012 to 113,316 members in 2013. The Mbao Pension Scheme targeting the informal sector continued to be a source of growth for the individual retirement schemes, accounting for 44 per cent of total membership. The Scheme, however, holds only 0.37 per cent of total assets of the individual schemes (Retirement Benefits Authority, 2014).

14.6 Emerging Policy Issues and Recommendations

14.7.1 Reduce interest rate spread

Despite the significant developments witnessed in the financial sector, lending rates, which represent the cost of credit, continue to be high while deposit rates remain low, implying a high interest rate spread. As Kenya envisions being a middle income country, there is need to stimulate savings and investments in the economy. Therefore, lending rates should reduce while deposit rates must increase. This will eventually lead to low interest rate spreads, a pointer to increased efficiency in the financial market.

The CBK needs to continue exercising the persuasive power of talk rather than legislation in attaining reasonable interest rate spreads. This would involve putting pressure on the banks for 'moral responsibility' so that they operate in a manner that is consistent with furthering the development and growth of the economy. Moreover, banks should be provided with tax incentives to adopt technology in offering financial services, and thus enhance operational efficiencies. This will make them adopt the technology faster and cheaply, therefore, improving on the overall efficiency of the sector. In turn, the cost of financial services would reduce with improved efficiency.

14.7.2 Facilitate listing of SMEs

One of the major bottlenecks facing SMEs in Kenya is lack of capital. The initiative in 2012 to introduce the GEMS at the NSE was intended to provide SMEs with an opportunity to access long-term and relatively cheap capital from the bourse. However, considering that there are many SMEs in the country, only one firm (Home Afrika) was listed in the GEMS as at 2013. This means that SMEs still cannot list at the bourse despite the existence of the GEMS. The high cost of procedures and logistics associated with listing is making the exercise expensive, hence keeping off the SMEs. An inexpensive listing process needs to be devised to ease the listing of SMEs. Creating the GEMs alone without easing the listing process will not benefit the intended targets.

Chapter 15

Information and Communication Technology

15.1 Introduction

Information and Communication Technology (ICT) is evolving into a key enabler for the Kenyan economy, and has been identified as a critical tool in attaining the goals and aspirations of Vision 2030. It plays an important role in addressing social, economic and environmental challenges and, therefore, impacting society at micro and macro levels. Kenya is among the African countries with large economies and recording a growth rate of over 4 per cent. It is estimated that the ICT sector contributes about 13 per cent of national GDP. However, it is extremely difficult to establish the actual contribution of the ICT sector since it has considerable indirect effects on the economy. For example, ICT-related tools increase the efficiency in service delivery in various sectors.

The role played by ICT in supporting economic development is vital. In addition to supporting productivity and innovation across sectors, ICTs are also critical enablers of development for service delivery. Such technologies are a tool that extends beyond basic infrastructure elements and build an additional layer on top of the physical infrastructure that provides end-to-end transactional services aimed at supporting economic development by simplifying, hosting and integrating activities at multi-sectoral levels.

ICT has received prominence in the eyes of the public and decision makers because of its role in service delivery. In order to develop the sector further, Kenya has initiated several activities nationally. For instance, the government has created the Ministry of Information, Communications and Technology with a clear goal of spearheading all ICT-related matters. In addition, the government has made effort to streamline the sector by creating the Information and Communication Technology Authority, which is a state corporation under the Ministry of Information, Communications and Technology. The authority comprises of three former bodies: Kenya Information and Communication Technology (ICT) Board, Directorate of e-Government, and Government Information Technology Services (GITS).

15.2 Recent Initiatives and Policy Developments

Kenya has initiated several programmes and developed policies to ensure ICTs are appropriately adopted in different sectors. Some of the technical, legal and financial efforts initiated include: formulation of e-government strategy and national broadband strategy to make Internet access available and affordable to all Kenyans.

The government has a plan to better the education sector by introducing laptop computers to class one pupils in order to enhance integration of ICT into teaching and learning. Teachers will teach better and pupils will be able to access and use learning materials in a much better way. An institutional framework has been created to address ICT integration in education. Two specialized units have been created: the ICT for Education (ICT4E) to spearhead the pedagogical use of ICT, and the National ICT Innovation and Integration Centre to carry out the testing of technical solutions submitted for consideration by firms in order to establish their appropriateness and use in curriculum delivery. In addition, development of digital content for the laptop programme has begun. However, the programme has not been executed as planned due to several legal issues on its implementation.

The Communications Authority of Kenya is leading the country to switch-over to digital broadcasting systems in conformity with the resolutions of the Second Session of the Regional Radio Communications Conference 2006 (RRC-06). It is mandatory for all countries to migrate to digital broadcasting technologies by 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. However, the programme has not been executed as planned due to several legal issues raised by stakeholders.

The government has introduced several Huduma centres across the country with an aim of transforming public service delivery by providing citizens access to various public services and information from one-stop-shop citizen service centres and through integrated technology platforms. More citizen focused services are currently being prepared in readiness to be deployed at Huduma centres countrywide.

In order to address the rising cases of information and cyber-related crimes, effort is being made to scale down these cases. Notable progress includes the following: The Kenya Information and Communications Act Cap 411A (KICA) and the Kenya Information and Communications (Electronic Certification and Domain Name Administration) Regulations enacted in 2010 provide for a legal and regulatory framework for electronic certification services to empower the 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. It 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. The ICT Authority has also revised the National Cyber Security Strategy, and there are initial efforts to develop a Cyber Forensic Lab. The Authority targets to consolidate all the cyber-related management activities under one roof.

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 BPO park, science park, convention centre, mega mall, hotels, international schools, world class hospitals, championships golf course, financial district, and high speed mass transportation and integrated infrastructure. The ICT park will enable job creation as well as being an avenue for providing the necessary environment to attract investment. It is part of a wider scheme to position Kenya as the region's technology hub, using development to entice more companies to set up base in the country.

The government has rolled out an initiative that will diffuse ICT know-how to the rural and marginalized areas in order to address regional disparities. This is an ambitious programme that entails creation of digital villages. Entrepreneurs are awarded loans to run digital villages, which are e-centres that provide a suite of services to the public via computers connected to the Internet, digital cameras, printers, fax machines and other communication infrastructure. These services include but are not limited to e-mail, Internet access, agency banking, e-banking (for example money transfer services such as Posta Pay), e-government (for example police abstract forms, tax returns, and driving license applications), e-business (for example franchised postal and courier services), e-learning, e-health, and e-markets.

Other ICT-related initiatives and projects include: Expansion of connectivity across the major towns, local content programme (such as Tandaa Digital Content Grants and Open Data Portal), zero-rated taxes on imported ICT hardware, introduction of ICT curriculum at secondary school level, and migration of Internet Protocol addresses from IPV4 to IPV6.

15.3 Sector Performance

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 indicators used to measure the performance of the ICT sector paint a positive picture. For example, the number of Internet users has gone up to 13 million, indicating that Internet services are accessed by many Kenyans. Similarly, the number of mobile service subscribers has gone up to about 31 million. The number of mobile money services users has gone up to 26 million and, likewise, the amount of money transacted in 2013 went up to Ksh 913 billions. Detailed analysis is discussed here below:

15.3.1 Mobile cellular subscriptions

Kenya has recorded significant growth over the last few years in terms of mobile cellular subscriptions. This can be attributed to cheaper mobile devices, cheaper calling rates, among other reasons. The number of Kenyans using new forms of cellular services has increased rapidly in recent years, with mobile telephony providing the biggest gauge of penetration of new technologies. Ownership of mobile phones has risen. Countries such as Ghana and Korea Republic seem to be doing better comparatively. The mobile cellular subscription includes both post-paid and prepaid subscriptions.

Table 15.1: Mobile cellular subscriptions (per 100 people)

Country/Year	2010	2011	2012	2013
Kenya	61	67	71	71
Ghana	72	85	101	108
Rwanda	33	40	50	57
Korea Republic	105	108	109	111

Source: World Bank (2010-2014)

15.3.2 Fixed and mobile rates

As noted earlier, many Kenyans are able to use voice services because of availability and affordability of voice services. As illustrated in Table 15.2, calling rates have been dropping every year for mobile to mobile local calls as well as mobile to fixed local call.

Table 15.2: Fixed and mobile rates

	2010	2011	2012	2013
Cheapest recharge card value	5	5	5	5
Average price of a one minute mobile to mobile local call	3.29	3.29	3.57	3.86
Average price of a one minute mobile to fixed local call	10.26	2.93	3.17	3.25
Average price per sms	1.50	1.50	1.50	1.50

Source: World Bank (2010-2014)

15.3.3 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 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 Business Process Outsourcing, software development and application development. This will provide significant opportunities for economic growth in line with the country's Vision 2030, which aims at making the nation a new industrializing, middle-income country providing quality life for citizens.

Table 15.3: Internet users (per 100 people)

Country/Year	2010	2011	2012	2013
Kenya	14.0	28.0	32.1	39.0
Ghana	7.8	14.1	12.3	12.3
Rwanda	8.0	7.0	8.0	8.7
South Africa	24.0	34.0	41.0	48.9
Korea Republic	83.7	83.8	84.1	84.8

Source: World Bank (2010-2014)

15.3.4 Mobile money services

The telecommunication industry has experienced growth in terms of its capacity as explained earlier. Mobile money services have recorded a very positive growth in terms of the number of agents who facilitate transfer of money, from 32,949 in 2010 to 93,689 in 2013. Likewise, the number of mobile money transfer services subscribers has 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 914 billion in 2013. This growth is explained by entry of several players in mobile money services, such as Mobikash Africa and Mobile Pay limited joining players such as Safaricom, Airtel, Essar and Telkom.

Table 15.4: Mobile money services

	2010	2011	2012	2013
Mobile money transfer agents	32,949	42,313	49,079	93,689
Mobile money transfer services subscribers ('000)	10,615	17,396	19,319	26,016
Total transfers (in Ksh billion)	90	487	672	914

Source: World Bank (2010-2014)

15.3.5 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 as illustrated in Table 15.5 continue to rise. There were 339 government entities with domain names in 2013 compared to only 157 in 2011. This can be attributed to the efforts made by the ICT Authority to offer e-services. Several institutions of higher learning have continued to register domains in order to attract more students and particularly because of e-learning.

Table 15.5: Domains registered

Sub-domain	User	2011	2012	2013
.ac.ke	Institutions of Higher Education	341	603	737
.co.ke	Companies	12,798	22,607	27,643
.go.ke	Government entities	157	278	339
	Total domains	14,160	25,013	30,585

Source: World Bank (2010-2014)

15.3.6 Media frequencies

Kenya is transforming into an information society where information is created, stored and shared to support the economic, political and social activities. The number of TV frequencies has risen from 91 in 2011 to 121 in 2013. More TV frequencies will be recorded in the next few years as the country migrates from analogue to digital TV networks. Table 15.6 illustrates the increase in radio frequencies from 346 in 2011 to 529 in 2013. Likewise, there is potential for increasing radio frequencies in the next few years because of better communication infrastructure.

Table 15.6: Media frequencies

	2011	2012	2013
TV frequencies	91	10	121
Radio frequencies	346	387	529

Source: World Economic Forum - Global Information Technology Report (2013)

15.3.7 Kenya: Network readiness

Kenya has been rated 92 out of 142 countries in terms of network readiness, which is relatively better than most of the African countries. This can be attributed to several initiatives undertaken by both public and private sectors.

Table 15.7: Network Readiness Index

Country	Score	Position (out of 142 countries) -2013	Position (out of 142 countries) -2012
Korea Republic	5.46	11	12
Brazil	3.97	60	65
South Africa	3.87	70	72
Rwanda	3.68	88	82
Kenya	3.54	92	93
Ghana	3.51	95	97

Source: World Economic Forum - Global Information Technology Report (2013)

15.3.8 Secure Internet servers

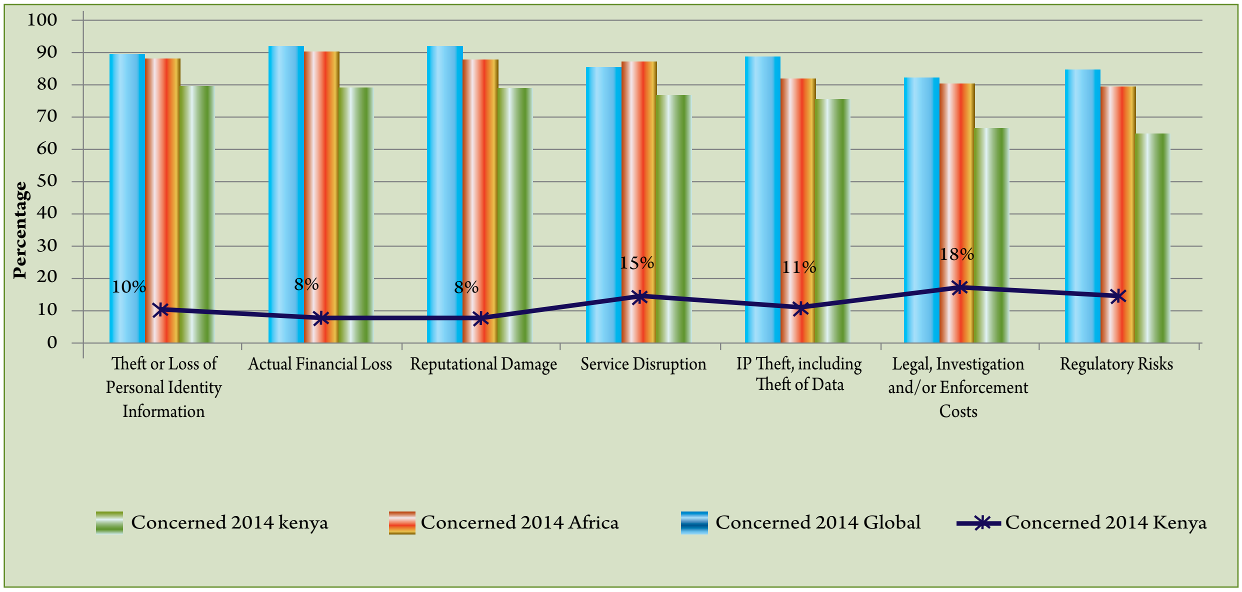
Kenya, like many other African countries, has continued to perform poorly in terms of securing the computing services. The rate of securing the computing services has not matched the significant growth seen in the sector. A possible explanation to this huge discrepancy is as a result of low priority the security domain has received over the years. This is a serious concern that can easily reverse all the gains in the ICT sector.

Table 15.8: Secure Internet servers (per 1 million people)

Country/Year	2010	2011	2012	2013
Kenya	3	3	4	5
Ghana	2	2	3	3
Rwanda	1	1	2	3
South Africa	61	72	82	86
Korea Republic	1,128	2,496	2,752	1,995

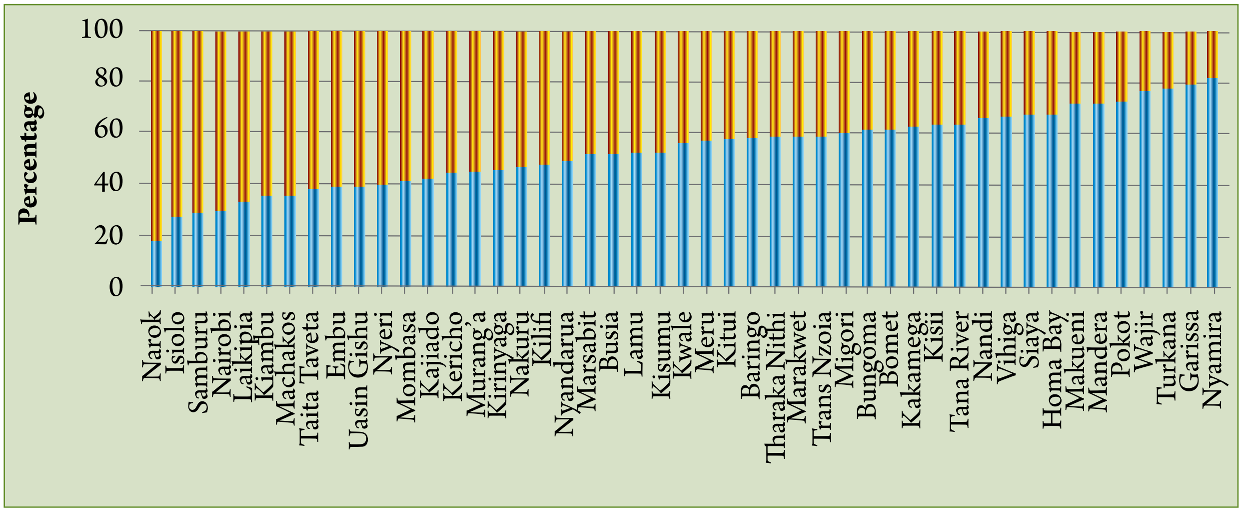
Source: World Bank (2010-2014)

Figure 15.1: Cyber crime report



Source: PWC (2014)

Figure 15.2: How perception of risk of cyber crime has changed



Source: PWC (2014)

The concern of computer security is further illustrated by a study prepared by Price Water House Coopers (PWC). The report indicates that cyber security is a major concern in ICT industry both in Kenya as well as in Africa.

In terms of how computer users perceive cyber crime, more Kenyans are increasingly becoming aware of the crime.

15.4 Summary of Emerging Issues

Despite performing well by having a high number of technology users, Kenya has to make extra effort to address the emerging ICT issues. The safe use of computers has been a serious concern in Kenya because of several reasons. The cost of having up to date, secure and stable software such as anti-viruses is way too high for an average Kenyan, and therefore many computers use outdated software, pirated copies or free anti-viruses that expose them to cyber criminals. The cost of effective security solutions such as Intrusion Detection Systems and Firewalls is too way expensive for an average Kenyan.

Worse still, majority of Internet users lack the basic knowledge of security when using the Internet. A majority of government ministries have not employed adequate security protocols to safeguard Internet communication and network resources, as witnessed by hacking incidents of government websites a few years ago. The security platforms used in many financial institutions do not support the complex passwords of up to 6 digits. The current security platforms only support 4 digits (such as in M-Pesa and ATMs). Some reports indicate that Kenyan banks lose about Ksh 2 billion to cyber criminals. It is important to note that not all fraud cases that are detected are published, and therefore go unreported because banks fear bad reputation that could lead to loss of customers.

Other emerging issues include the use of digital currency such as the Bitcoin, yet proper policies have not been put in place. Other relevant issues include managing Kenyan workers in a complex telecommuting environment; cyber bullying; privacy of data; hacktivism; hidden Internet used by criminals for illegal activities; managing innovations such as patents; e-waste; big data; and cyber terrorism.

15.5 ICT Global Challenges

ICT is evolving into a key enabling infrastructure in industries and human kind across the globe. ICT can play an important role in addressing the social, economic and environmental challenges and, therefore, impacting society at the micro and macro levels. However, the ICT sector is growing and has several issues that need to be addressed in terms of protection and growth.

Cyber Security: In this age of technology and communication convergence, people should be involved in technologies and innovations that revolve around computers, cellular phones and the World Wide Web. However, protection of systems, networks and data in cyber space has become a critical issue for everyone. The rapid technological developments have provided vast areas of new opportunity and potential sources of efficiency for organizations of all sizes. These new technologies have brought unprecedented threats. One of the most problematic elements of cyber security is the quickly and constantly evolving nature of security risks. The traditional approach has been focusing most resources on the most crucial system components and protection against the biggest known threats, which necessitated leaving some less important system components undefended and some less dangerous risks not protected against. Such an approach is insufficient in the current environment.

The government has made some efforts, such as the the approval by parliament of an Act to support cyber security, the launch of cyber security strategy, setting up committees to respond to cyber security-related cases, and finally the migration to chip-based ATM card technology. These efforts and measures need to be scaled up.

Digital Divide: This is economic and technological inequality between groups, broadly construed, in terms of access to, use of, or knowledge of ICT. It could also refer to the gap between those who can benefit from digital technology and those who cannot. Broadly speaking, the difference is not necessarily determined by access to the Internet, but by access to ICT and to media that the different segments of society can use. With regard to the Internet, access is only one aspect; other factors such as quality of connection and related services should be considered. Today, the most discussed issue is the availability of the access at an affordable cost and quality. The problem is often discussed in an international context, indicating that certain countries are far more equipped than other developing countries to exploit the benefits from the rapidly expanding Internet. In Kenya, the gap is growing between those who are digital natives and those who are digitally underprivileged, particularly when compared in rural and urban set ups. The gap has widened and it is deepening as technology advances in the country. Without adequate access to and capacity to utilize ICT, emerging economies such as Kenya and marginalized populations in rural areas in Kenya risk falling further and further behind the rest of the world in terms of education, health, agriculture, research, marketing and doing business. Most importantly, a majority of Kenyans are not able to avail themselves of the transformative benefits that technology can bring.

Nairobi has the highest proportion of computer ownership per household as well as access and use of computers. Provinces such as Western have low proportions and, therefore, people cannot adequately benefit from digital technology. Such regions lack the critical infrastructure facilities to support the use of the technology. Despite performing well by having the highest number of technology users, Kenya has to make extra effort to bridge the digital gap.

Closing the digital divide means more than just giving the poor the same technologies already received by the rich. It involves restructuring the telecommunications sectors so that the benefits of broadband can flow to the masses, not just the elite urban sectors of emerging markets. Digital divide can be assessed in terms of the following indicators: number of people who own and have access to computers, number of Internet users, number of computer literate people, average connection speed, average peak connection, number of mobile service providers, number of public IP addresses, mobile traffic and usage patterns, contribution of ICT sector to national GDP, conversion of IP V4 to IPV6, Networked Readiness Index (NRI), ICT and gender.

PART III

MEDIUM TERM PROSPECTS

Chapter 16

Medium Term Prospects

16.1 Introduction

With the new government in place after peaceful elections, and the launching of the Medium Term Plan II (MTP II), the Kenyan economy is expected to continue in a positive growth trajectory. It is expected to grow by 6.1 per cent in 2014 after recording a growth rate of 4.7 per cent in 2013 and 4.6 per cent in 2012. The positive growth prospects are also based on oil and other mineral discoveries and the huge infrastructural investments expected in the economy in the short and medium term. The short and medium term growth will also be largely determined by the continuation of implementation of the Constitution, an active and efficient devolved government system, regional and global economy performance, macroeconomic stability, regional stability and security, and successful implementation of key reforms. The public expenditure programmes and policy interventions are well outlined in the Medium Term Plan 2013-2017.

16.2 Recent Macroeconomic Performance

The economic growth for the year 2013 started off quite well, with the first three quarters registering impressive performance in economic growth with levels of 5.7 per cent, 4.7 per cent and 4.6 per cent, respectively, while the last quarter registered a low growth rate of 3.9 per cent. This gives the annual growth rate for 2013 to be 4.7 per cent, which is slightly lower than the projection of 5.1 per cent. The hotels and restaurants sector recovered from the negative growth recorded in the first two quarters and registered a positive growth of 5.6 and 1.9 per cent in the third and fourth quarters, respectively. The third quarter was unique as all the sectors posted positive growth rates, thus giving hope for the positive growth trajectory and continued recovery in the medium term.

The monthly inflation level for 2013 eased slightly to an average of 8.9 per cent as compared to 9.6 per cent in 2012. Regarding the monthly performance, inflation level worsened from 3.67 per cent in January to a high of 8.29 per cent in September and then started decreasing in October, November and December with the rates of 7.76 per cent, 7.36 per cent and 7.15 per cent, respectively. The inflation level is expected to ease further due to heavy rains experienced in the last quarter of the year. This average performance on inflation is an improvement as compared to 14.0 per cent in 2011. The poor performance in inflation in 2011 was attributed to drought, lower than expected rainfall, high oil prices, depreciation of the shilling and the persistent euro zone crisis.

16.3 Macroeconomic Projections for 2014-2016

Medium term growth prospects are positive, predicated on the following key assumptions: (a) structural reforms and public investment in infrastructure will continue as planned, thus improving the business environment and the potential GDP of the economy; (b) the political climate, including smooth 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.

The projections in Table 16.1 show that Kenya is likely to hit 7.0 per cent economic growth by 2016. This performance was last achieved in 2007 courtesy of the Economic Recovery Strategy. Private investments and exports are expected to continue rising so as to achieve high economic growth rates for Kenya.

Slow uptake of the public-private partnership (PPP) initiative in implementing of MTP strategies may lead to a slower rate of economic expansion than envisaged in the Vision 2030. In addition, weak implementation of the budget can adversely affect growth in the medium term. The economic projections in Table 16.2 reflect the downside risks.

16.3.1 Alternative Scenario

The assumption in the above scenario may not always bring the expected results. Therefore, an alternative scenario is presented in the Table 16.2 with a position showing more conservative growth rates for the economy due to unforeseen circumstances. In case the implementation of the constitution is not handled well in terms of devolved government and other cases of external shocks, the country can experience surges in inflation and the weakening of the exchange rate. This will have effects on growth rate, exports and imports and also interest rates.

16.4 Scenario for Vision 2030

The objective of Vision 2030 under the economic pillar specified a target of economic growth rate of 10 per cent by the year 2012. This was not achieved due to a number of factors, some of them being the crises that were never envisaged in domestic and external fronts. However, the growth rate in the Vision 2030 can be achieved though at a later date. The scenario in Table 16.3 gives projections for economic growth rates that show a profile for up to 10 per cent in the year 2017. The key assumptions in this scenario are stable macroeconomic conditions, prudent fiscal and monetary policies, improvement in productivity and competitiveness, steady contribution by county governments to overall development, well performing investment

Table 16.1: Economic projections (%) for 2014-2016

Variable	2011	2012	2013	2014	2015	2016
GDP growth	4.4	4.6	4.7	5.1	6.1	7.1
Inflation overall	14.0	9.6	5.6	5.7	5.3	5.3
Short-term interest rate	8.7	13.6	8.8	8.9	8.9	8.8
Private consumption	2.8	6.6	5.0	7.5	7.3	6.9
Private investment	4.0	8.8	5.1	5.7	6.4	7.9
Government consumption	10.6	9.3	10.1	9.7	9.1	8.0
Government investment	9.0	9.0	5.4	6.0	6.6	8.8
Exports of goods and services	6.7	4.7	6.3	6.6	9.6	9.6
Imports of goods and services	15.6	12.5	7.5	8.2	9.1	8.5
Public expenditure as % of GDP	33.0	31.8	34.0	32.7	31.7	30.9

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

Table 16.2: Alternative scenario—Selected economic indicators

Variable	2010	2011	2012	2013	2014	2015	2016
GDP growth	5.8	4.4	4.6	4.7	5.0	5.8	6.1
Inflation overall	4.0	14.0	9.6	8.0	7.3	8.6	9.0
Private consumption growth	7.2	2.8	7.0	5.0	6.0	6.0	6.0
Private investments growth	5.0	12.0	7.0	5.0	8.0	8.0	8.0
Government consumption growth	9.2	10.6	8.0	5.0	6.0	7.0	7.0
Government investment growth	5.0	9.0	9.0	6.0	7.0	8.0	8.0
Exports of goods and services	17.7	6.7	5.0	4.0	6.0	7.0	6.0
Imports of goods and services	6.1	15.6	11.0	11.0	11.0	12.0	12.0
Public expenditure as % of GDP	33.4	33.0	31.8	31.5	31.4	31.0	31.5

Source: KIPPRA estimates based on the KIPPRA-Treasury Macro Model

and exports, and a good governance system with zero tolerance to corruption. Foreign Direct Investment (FDI) is also expected to increase with the discovery of oil, gas and other minerals and coal in Kitui. Other major investments include the Lamu Port and Southern Sudan-Ethiopia (LAPSSET) corridor; modernization of Mombasa port; construction of the Mombasa–Malaba standard gauge railway; the expansion of JKIA; Ethiopia power interconnectivity; completion of Olkaria IV; and carbon credits.

Table 16.3: Real GDP and sector 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: Medium Term Plan II (2013-2017)

Table 16.4: 2015 status of population, growth rate, fertility and under-5 mortality

	2015	2015 - 2020	2015	2015
	Population (000)	Population growth rate (%)	Fertility rate (%)	Under-5 mortality (%)
Constant mortality (Medium)	46,286	2.21	4.08	92.6
Constant fertility scenario	47,306	2.89	4.80	67.6
High variant	47,158	2.73	4.48	67.8
Instant replacement	43,358	1.28	2.29	67.6
Low variant	46,339	2.21	3.68	67.6
Medium variant	46,749	2.47	4.08	92.6
Zero migration		2.50	4.08	67.8

Source: UNData at http://data.un.org/

16.5 Population Projections

Given that Kenya's population was estimated at 44 million in 2013 (Table 16.5) and all urban population is 13.5 million (Table 16.6), then urbanization is at about 30 per cent and growing. In 2009, Kenya already had over 20 urban centres with over 100,000 persons (Table 16.6). Other towns that had a population of over 90,000 people in 2009, including Mumias, Kimilili, Awasi and Kakamega, among others, will also have reached the 100,000 mark by 2015.

As the country becomes more urbanized, county governments will have to make appropriate preparations by putting in place urban planning and management structures. This is a key process of nurturing growth and modernization, and a push towards a middle-income economy.

Table 16.5: Various population indicators, 2013-2100

	2013	2025	2050	2100
Population ('000)	44,354	59,386	97,173	160,423
Fertility (%)	4.41	3.79	2.82	1.96
Life expectancy (Years)	61.6	64.4	71.5	79.4
Infant mortality (%)	51.6	42.1	23.7	12.1
Under-5 mortality (%)	77.0	60.0	30.2	15.7

Source: UNDESA (2013)

16.6 Education Sector Prospects

Expansion of any education system is a factor of population growth and dynamics. 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 2014 and 3.2 million by 2017, assuming a population growth rate of 2.6 per cent across all school-age population groups. Primary school-age population (6-13 years) was 8.5 million in 2009 and is projected to rise to 10.2 million in 2014 and to 11.3 million

Table 16.6: Estimated urban population in Kenya

Urban Centre		Population 2009	2013	2014	2015	2016
0	All Urban	11,545,571	13,506,685	14,046,952	14,608,831	15,193,184
1	Nairobi	3,133,518	3,665,773	3,812,404	3,964,900	4,123,496
2	Mombasa	938,131	1,097,481	1,141,380	1,187,035	1,234,516
3	Kisumu	388,311	454,269	472,440	491,337	510,991
4	Nakuru	307,990	360,305	374,717	389,706	405,294
5	Eldoret	289,380	338,534	352,075	366,158	380,804
6	Ruiru	238,858	279,430	290,607	302,232	314,321
7	Malindi	118,265	138,353	143,887	149,643	155,629
8	Naivasha	169,142	197,872	205,787	214,019	222,579
9	Kitui	109,568	128,179	133,306	138,638	144,184
10	Machakos	150,041	175,527	182,548	189,850	197,444
11	Thika	136917	160,174	166,580	173,244	180,173
12	Mavoko	137,211	160,517	166,938	173,616	180,560

Urban Centre		Population				
		2009	2013	2014	2015	2016
13	Nyeri	119,353	139,626	145,211	151,020	157,060
14	Vihiga	118696	138,858	144,412	150,188	156,196
15	Kitale	106,187	124,224	129,193	134,360	139,735
16	Kericho	101,808	119,101	123,865	128,820	133,972
17	Kikuyu	233,231	272,847	283,761	295,112	306,916
18	Kangundo/Tala	218,557	255,681	265,908	276,544	287,606
19	Karuri	107,716	126,012	131,053	136,295	141,747
20	Garissa	116,317	136,074	141,517	147,178	153,065
21	Ngong	107,188	125,395	130,411	135,627	141,052

Source: KNBS (2012) and Authors' computation using a 4 per cent urban growth rate

by 2017. At secondary school level, the school-age population (14-17 years) is projected to increase from 3.0 million in 2009 to 3.5 million in 2014 and to 3.8 million by 2017. The population aged 18-25 years was projected to increase from 6.1 million in 2009 to 6.5 million in 2012 and 6.7 million by 2017.

Table 16.7 shows enrolment projections at three levels of schooling for the period 2014-2017. At ECDE level, total enrolment will increase from 2.2 million in 2014 to 2.6 million in 2017. At primary school level, the corresponding figures are 10.6 million and 11.7 million for 2014 and 2017, respectively. At secondary school, enrolments were projected at 2.3 million students in 2014 and 2.4 million in 2017, assuming a GER target of about 65 per cent. Table 16.7 also shows that corresponding enrolment in ECDE, primary and secondary public institutions will be 74.5 per cent, 92.8 per cent and 93.4 per cent for the respective sub-sectors.

Overall, the demand for education is expected to increase due to the proposed education reforms in Sessional Paper No. 14 of 2012, NESSP 2013-2018 and school-age population increase. Projections from the Education Financial Simulation Model (2013) indicate that enrolment at the ECDE level is projected to increase between 2014 and 2017. Total primary school enrolment is expected to grow at a stable rate during the same period, following the stabilization of the impact of Free Primary Education (FPE), which began in 2003. Total secondary school enrolment is also expected to rise. This is as a result

Table 16.7: Education enrolment projections 2013 to 2017 (million)

	2014			2015			2016			2017		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
School age population												
4-5 years	1.5	1.5	3	1.5	1.5	3	1.6	1.5	3.1	1.6	1.6	3.2
6-13 years	5.1	5.1	10.2	5.4	5.3	10.7	5.5	5.5	11	5.7	5.6	11.3
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
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
Total Enrolment	7.8	7.3	15	8.3	7.6	15.9	8.5	7.8	16.3	8.7	8.0	16.7

	2014			2015			2016			2017		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
School age population												
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
Primary	5.5	5.1	10.6	5.7	5.3	11.1	5.9	5.5	11.4	6	5.6	11.7
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
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
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
Primary	5.1	4.7	9.8	5.3	5	10.3	5.5	5.1	10.6	5.6	5.2	10.8
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
% public												
ECDE	71.4	71.2	71.3	77	71.2	74.5	77	71.2	74.5	77	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
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
Targeted GER (%)												
ECDE	74.4	73.6	74	90.4	72	81.4	90.4	72	81.4	90.4	72	81.4
Primary	106.9	100.6	103.8	106.5	100.5	103.5	106.5	100.5	103.5	106.5	100.5	103.5
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

Source: Education Simulation Model (2013)

of a number of factors, including the impact of FPE and hence the growth in numbers completing class 8; the policy of increasing the transition rate to over 75 per cent by 2012; secondary education expansion interventions, including implementation of the Free Day Secondary Education policy, and internal efficiency gains in primary and secondary schools; among other expected education sector reforms.

The expected demand for schooling has major financial implications for both the national and county governments.

16.7 Medium Term Poverty Projections

Poverty eradication remains elusive in the African continent, Kenya included. The prevalence of conflicts and social unrest tend to erode previous gains from economic growth. The level of interpersonal trust is less in more unequal societies. Yet, trust is an important factor in fostering trade and economic growth. Less equal societies also tend to do worse on aspects of health education and well being. It is argued that the pursuit of equality is not just a moral imperative, or just vital for the poor and for the social cohesion and well being of society, but also necessary for a stable economy (Ncube *et al.*, 2013).

Growth in poverty is assumed to depend on changes in average incomes and changes in inequality. The projections used here are based on borrowed coefficients from a study of selected African countries, among them Kenya with its most current household survey, KIHBS 2005/06.

Figure 16.1: Poverty headcount

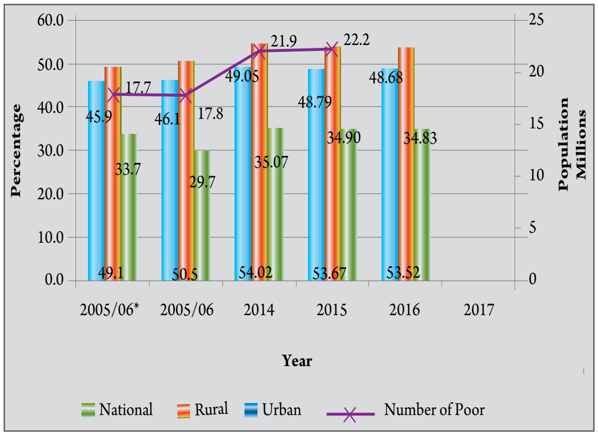
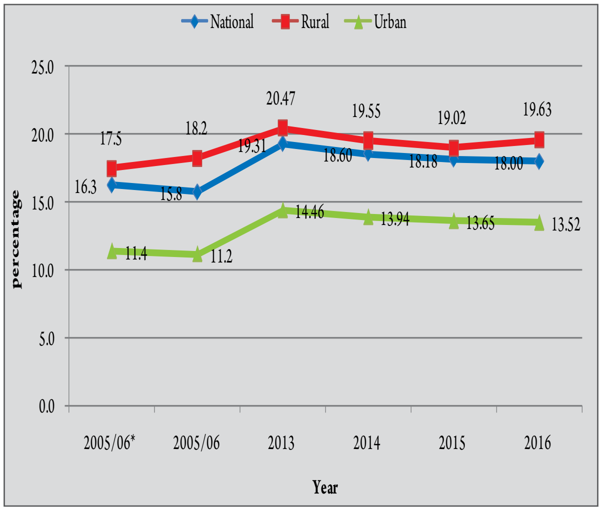


Figure 16.2: Poverty gap

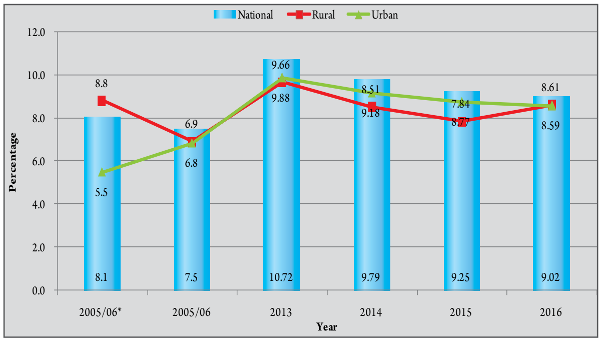


The results show that poverty will remain at 49.05 per cent in 2014 as previously recorded in 2013. It will, however, decline slightly to 48.79 per cent in 2015 and later 48.68 per cent in 2016. As in previous years, poverty is expected to remain a rural phenomenon, because these areas account for 75 per cent of the population. Based on the projections, nearly 53.7 per cent of the rural population will live below the poverty line by 2015. The incidence of poverty will decline slightly in the following year (2016) to 53.5 per cent. While the poverty rate will record a decline, the number of people living below the poverty line will increase due to the rising population. Figure 16.2 shows the average poverty gap. Despite the predicted rising number of poor people, the average shortfall of the poor from the poverty line is estimated to decline, though at a very low rate.

According to Figure 16.2, the average shortfall of a poor person living in urban areas is 13.94 per cent in 2014, and it is expected to decline to 13.52 per cent in 2016. The poverty gap, or poverty depth, helps us understand how poor the poor are. It is measured as the average poverty gap in the population as a proportion of the poverty line. On average, the expenditure shortfall of the poor from the poverty line is much higher in rural areas compared to urban areas. It is about 18.60 per cent in 2014, and it is estimated to average 18.00 per cent by 2016. The per capita cost of eliminating poverty is much higher in rural areas relative to urban areas. Given that 75 per cent of the population lives in rural areas, the government would require much more resources to eradicate poverty in the rural areas than urban areas. The minimum cost of eliminating poverty is achieved when every poverty gap is filled up to the poverty line.

While the poverty gap provides information not provided by the head count, it suffers some drawbacks that are well addressed by the Poverty Severity Index. Unlike the poverty headcount and poverty gap, poverty severity is sensitive to the distribution of income among the poor. It takes into account the inequality among the poor. Figure 16.3 shows that poverty severity was high in urban areas than rural areas.

Figure 16.3: Poverty severity



High inequality among the poor is an indication that the high cost of living affects the poor differently. Some of the poor suffer higher consequences than their counterparts. The high cost of living is one index that negatively affects the welfare of the people. Without growth in the incomes of the poor, the index erodes away their purchasing power. Some of the causes of the rising cost of living are: high production costs as a result of high cost of energy (electricity, fuel), poor road infrastructure, and high cost of labour. These factors play a significant role in reducing the competitiveness of the economy. Over and above this, high food insecurity in some parts of the country exacerbates food poverty and, therefore, absolute poverty. Other factors such as lack of well-equipped health facilities contribute significantly to poor health of human capital, which is an important input in any production process.

According to the MTP II and Kenya Vision 2030, the government has identified various flagship projects necessary to reduce the cost of production, increase Kenya's competitiveness, and hence bring down the cost of living. Some of the projects include major investments in the transport sector (roads, airport expansion, and railway) and increased production of energy fuel. Some projects such as irrigation plans will help increase food supply, especially in the food-deficit areas. It is important that the benefits of all these investments trickle down to the poorest of the poor if poverty is to reduce by 2030.

16.8 Tourism Sector Prospects

16.8.1 Forecasted tourist arrivals

Arising out of the recent adverse effects arising from acts of terrorism in Nairobi and Mombasa, governments of some of the key source markets instituted travel advisories for their citizens visiting Kenya, making tourism prospects in the medium term remain relatively unpredictable. Three different scenarios are possible, depending on how the security situation evolves in 2014, the effectiveness of government mitigation measures, and the reactions of the source markets.

The first scenario (Table 16.8) shows that the growth rates for key markets were largely negative in 2013 when compared to 2012. Markets that continued on an upward trend in spite of the happenings in 2013 include India, Uganda, Australia and New Zealand. This worst case scenario assumes that the security situation continues as it was or worsens in 2014 as Al Shabaab-related attacks escalate. In such a case, tourist arrivals could fall to 1.48 million in 2014, and continue on a downward spiral to 1.45 million by 2016. However, this is an unlikely situation as the government is already putting in place measures to curb these isolated incidences, including by tightening immigration procedures, screening of illegal immigrants, border surveillance and patrols in urban areas.

The second scenario (Table 16.9) is the conservative scenario, which assumes that the sector will revert back to the growth rate of 2012 but moderates this by taking into account the poor performance in 2013. It, therefore, takes a mean of the growth rates for 2010-2012 and 2013 periods and uses it to project growth in the next three years. This will lead to tourist arrivals growing to 1.599 million in 2014 (barely a 5.9% growth over the 2013 arrivals) and recover to the 2012 figure of about 1.79 million tourists by year 2016. This case looks more realistic given the complexities of dealing with terrorist-related activities.

Table 16.8: Medium term tourist arrival forecasts 2014-2016 (worst case scenario)

Country	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Mean Actuals (2010-2013)	Mean Growth (2010 - 2013) (%)	Projected 2014	Projected 2015	Projected 2016
United Kingdom	264,815	293,510	312,912	149,699	255,234	-11.57	132,377	117,060	103,515
Germany	165,898	187,180	208,250	64,887	156,554	-14.92	55,207	46,970	39,963
USA	140,927	157,888	158,378	115,636	143,207	-4.88	109,992	104,624	99,518
Italy	120,672	135,265	143,366	79,993	119,824	-8.71	73,028	66,669	60,864
France	55,728	63,227	70,485	24,730	53,543	-13.33	21,434	18,578	16,102
Switzerland	47,262	54,535	57,813	14,242	43,463	-17.99	11,680	9,579	7,856
Tanzania	49,941	55,011	57,286	28,561	47,700	-11.95	25,147	22,142	19,495
Uganda	46,511	52,272	55,990	47,398	50,543	1.38	48,054	48,720	49,394
India	44,154	49,534	50,651	60,450	51,197	11.26	67,258	74,832	83,260
Australia & New Zealand	25,721	32,506	40,058	23,497	30,446	2.76	24,145	24,810	25,494
Canada	30,972	35,364	31,611	25,174	30,780	-5.60	23,765	22,434	21,178
Japan	21,541	28,934	29,949	11,571	22,999	-7.85	10,663	9,827	9,056
Sub-total	1,014,140	1,145,225	1,216,749	645,838	1,005,488	-9.25	586,098	531,884	482,685
All other Countries	594,960	677,675	564,019	864,162	675,204	16.78	1,009,186	1,178,549	1,376,333
Total	1,609,100	1,822,900	1,780,768	1,510,000	1,680,692	-1.41	1,488,712	1,467,724	1,447,031

Source: Authors' construct from Economic Survey data (2009-2014)

Table 16.9: Medium term tourist arrival forecasts 2014-2016 (conservative case scenario)

Country	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Mean Actuals (2010-2013)	Mean Growth (2010-2013) (%)	Pre-2012 Growth Rate (%)	Projected Growth Rate (%)	Projected 2014	Projected 2015	Projected 2016
United Kingdom	264,815	293,510	312,912	149,699	255,234	-11.57	10.84	-0.37	149,149	148,600	148,054
Germany	165,898	187,180	208,250	64,887	156,554	-14.92	12.83	-1.05	64,209	63,538	62,873
USA	140,927	157,888	158,378	115,636	143,207	-4.88	12.04	3.58	119,773	124,057	128,495
Italy	120,672	135,265	143,366	79,993	119,824	-8.71	12.09	1.69	81,347	82,724	84,125
France	55,728	63,227	70,485	24,730	53,543	-13.33	13.46	0.07	24,746	24,762	24,778
Switzerland	47,262	54,535	57,813	14,242	43,463	-17.99	15.39	-1.30	14,057	13,874	13,694
Tanzania	49,941	55,011	57,286	28,561	47,700	-11.95	10.15	-0.90	28,304	28,049	27,797
Uganda	46,511	52,272	55,990	47,398	50,543	1.38	12.39	6.89	50,662	54,150	57,878
India	44,154	49,534	50,651	60,450	51,197	11.26	12.18	11.72	67,537	75,454	84,300
Australia & New Zealand	25,721	32,506	40,058	23,497	30,446	2.76	26.38	14.57	26,920	30,842	35,335
Canada	30,972	35,364	31,611	25,174	30,780	-5.60	14.18	4.29	26,254	27,381	28,556
Japan	21,541	28,934	29,949	11,571	22,999	-7.85	34.32	13.24	13,103	14,837	16,801
Sub-total	1,014,140	1,145,225	1,216,749	645,838	1,005,488	-9.25	12.93	1.84	657,708	669,796	682,106
All other Countries	594,960	677,675	564,019	864,162	675,204	16.78	13.90	15.34	996,745	1,149,669	1,326,055
Total	1,609,100	1,822,900	1,780,768	1,510,000	1,680,692	-1.41	13.29	5.94	1,599,672	1,694,670	1,795,309

Source: Authors' construct from Economic Survey data (2009-2014)

Table 16.10: Medium term tourist arrival forecasts, 2014-2016 (best case scenario)

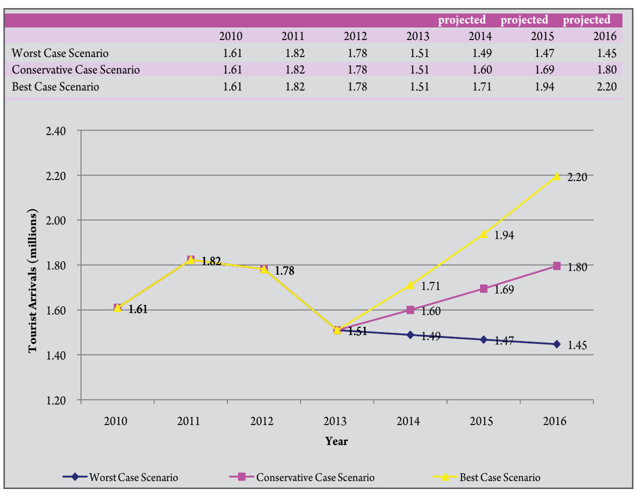
Country	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Mean Actuals (2010-2013)	Mean Growth (%)	Projected Growth (Pre-2012 rate)	Projected 2014	Projected 2015	Projected 2016
United Kingdom	264,815	293,510	312,912	149,699	255,234	-11.57	10.84	165,920	183,899	203,826
Germany	165,898	187,180	208,250	64,887	156,554	-14.92	12.83	73,211	82,603	93,199
USA	140,927	157,888	158,378	115,636	143,207	-4.88	12.04	129,553	145,145	162,614
Italy	120,672	135,265	143,366	79,993	119,824	-8.71	12.09	89,667	100,510	112,665
France	55,728	63,227	70,485	24,730	53,543	-13.33	13.46	28,058	31,833	36,117
Switzerland	47,262	54,535	57,813	14,242	43,463	-17.99	15.39	16,434	18,963	21,881
Tanzania	49,941	55,011	57,286	28,561	47,700	-11.95	10.15	31,461	34,654	38,172
Uganda	46,511	52,272	55,990	47,398	50,543	1.38	12.39	53,269	59,867	67,282
India	44,154	49,534	50,651	60,450	51,197	11.26	12.18	67,816	76,079	85,349
Australia & New Zealand	25,721	32,506	40,058	23,497	30,446	2.76	26.38	29,695	37,529	47,429
Canada	30,972	35,364	31,611	25,174	30,780	-5.60	14.18	28,744	32,820	37,474
Japan	21,541	28,934	29,949	11,571	22,999	-7.85	34.32	15,542	20,876	28,041
Sub-total	1,014,140	1,145,225	1,216,749	645,838	1,005,488	-9.25	12.93	729,317	823,587	930,041
All other countries	594,960	677,675	564,019	864,162	675,204	16.78	13.90	984,303	1,121,147	1,277,016
Total	1,609,100	1,822,900	1,780,768	1,510,000	1,680,692	-1.41	13.29	1,710,633	1,937,923	2,195,414

Source: Authors' construct from Economic Survey data (2009-2014)

The third scenario (Table 16.10) is the best case scenario, which assumes that tourist growth immediately reverts back to the pre-2012 growth rates and maintains an upward tempo over the next three years. In this case, tourist arrivals will grow to 1.71 million in 2014 and 2.19 million by 2016. Such a case assumes that either tourists ignore the travel advisories, or the government contains the insecurity situation (and other potential shocks to the economy) and it is able, through concerted marketing efforts, to convince key source markets to remove the travel advisories and reassure tourists of their security. However, even this best case scenario casts doubts about the attainment of the projected 3 million tourists in 2017 as projected in the MTP II (2013-2017).

The three aforementioned scenarios are illustrated in Figure 16.4, which clearly shows that Kenya's tourism has since 2011 entered into a new era where global challenges (especially the global financial crisis and the changing face of conflict/terrorism) call for new measures to ensure tourist numbers revert back to the growth trajectory as envisioned in Vision 2030.

Figure 16.4: Tourism growth projections, 2014-2016



Source: Authors' construct from Economic Survey data (2009-2014)

16.8.2 International hotel development forecasts for 2014 (selected African destinations)

Planned hotel developments by international hotel chains are an important indicator of the general tourism growth prospects in a destination. The expected new hotel developments have dropped from 11 to 5 with about 704 rooms instead of 1,163 projected (W Hospitality Group, 2013). Countries such as South Africa and Tanzania expect 9 and 10 new hotel developments in 2014, respectively. This is in spite of the well-developed hotel chains in a country such as South Africa. Thus, apart from affecting tourist arrivals, the security threats are likely to curtail the optimism that existed among hotel chain investments in 2012.

Table 16.11: International hotel developments forecast for 2014

Country	No. of Hotels	No. of Rooms
Nigeria	40	6,614
Morocco	29	4,828
Algeria	15	3,172
Egypt	15	4,703
Tanzania	10	945
South Africa	9	1,293
Ethiopia	6	990
Kenya	5	704
Rwanda	4	819
Uganda	3	736
Mauritius	1	126

Source: W Hospitality Group (2013)

16.9 ICT Sector Prospects

The ICT sector still has room for growth in terms of increasing the number of people using computing devices. The compelling reasons for ICT growth in the coming years are based on the following:

- The cost of mobile devices has significantly reduced and, therefore, many Kenyans will be able to afford mobile devices.

- The cost of mobile services, such as calling rates, has significantly reduced and, therefore, many Kenyans can get cheaper mobile phone services.

- The cost of surfing the Internet has significantly reduced and, therefore, many Kenyans can get cheaper Internet services. The bandwidth will also become more available to many Kenyans at lower costs. According to the CAK, it is estimated that the minimum broadband speeds will be 300Mbps and 50Mbps for urban and rural areas, respectively, in the period of 2018-2022. CAK also estimates broadband penetration targets to be 35 per cent, 100 per cent and 100 per cent for households, schools and health facilities, respectively, by 2017.

- The Kenyan government continues to spearhead ICT initiatives that encourage the consumption of ICT services—Huduma Centres, Digital TV migration, etc.

- Expansion of fibre connectivity to major towns in the country.

- More Kenyans will continue to invest in mobile devices as compared to desktop computers.

- The introduction of mobile money transfer (M-Pesa) will continue to be the preferred mode of transferring money. The introduction of digital currencies such as Bitcoin is slowly emerging to be the mode preferred to send money from abroad as compared to Western Union and MoneyGram.

- Kenya will have many services offered on digital platforms, considering the launch of major ICT strategies as well as upcoming innovation centres such as Ihub and Ilab.

- The number of Internet Service Providers (ISPs) is set to increase due to the Internet expansion programmes being rolled out in different towns in the country.

- The number of digital TV and radio stations is set to increase following the decision of the government to migrate to Digital TV technologies.

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Index

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