

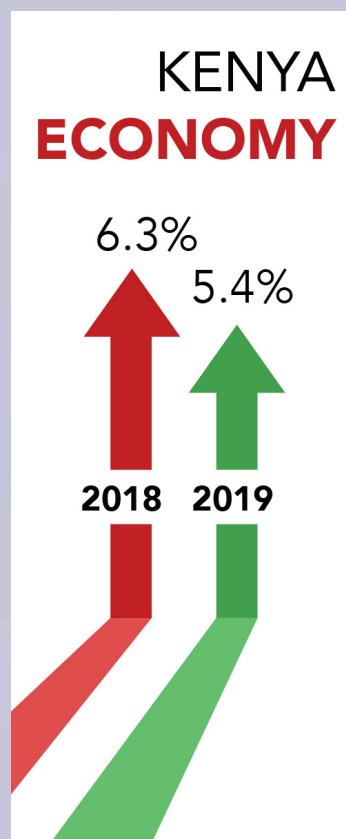
## Creating an Enabling Environment for Inclusive Growth in Kenya

This brief is based on the Kenya Economic Report (KER) 2020. The theme of the KER 2020 is “Creating an Enabling Environment for Inclusive Growth in Kenya”. The theme was motivated by the Government’s quest for shared prosperity, as envisioned in the Kenya’s long-term development blueprint - the Kenya Vision 2030, the “Big Four” agenda and the Constitution of Kenya. The brief outlines policy options on the foundation for broad-based economic growth and development in Kenya. The analysis makes use of the Kenya Integrated Household Budget Surveys (KIHBS) for 2005/06 and 2015/16, Financial Sector Deepening Survey, and the World Bank Enterprise Survey (2018). These are supplemented by other nationally representative datasets including the 2009 and 2019 Population Census. Other data sources included the annual Economic Surveys, Gross County Product and Statistical Abstracts.

### Macroeconomic Performance and Prospects

Kenya has made significant progress in poverty reduction in the last two decades, with poverty rate dropping from 52.3% in 1997/98 to 46.8% in 2005/06 and eventually to 36.1% in 2015/16. The rate of decline is, however, not commensurate with the growth in Gross Domestic Product (GDP), and income and consumption inequalities persist. Poverty levels are higher in rural areas, among the elderly and the youth. Employment growth has lagged GDP growth and while agriculture is the main employer, the sector faces low and declining productivity, which has implications on the welfare of those employed in the sector. Food constitutes the highest expenditure among the poor and, therefore, food-related inflationary pressures tend to push some of the poor to below the poverty line. While pro-poor expenditures have increased, the rising debt servicing costs threaten their sustainability.

Economic growth in Kenya has remained resilient, but the country still faces significant downside risks, including growing fiscal pressures coupled with narrowing fiscal space, outbreak of coronavirus pandemic, desert locust invasion, and weather uncertainty. Kenya also has opportunities to exploit,





including the coming to effect of the African Continental Free Trade Area (AfCFTA), the declining world oil prices and securing the UN Security Council non-permanent seat. Should the downside risks materialize, this would reduce growth in 2020 to about 1.7 % and the medium-term economic growth to less than 4.0%, on average.

To promote inclusive growth in Kenya, it is necessary to maintain macroeconomic stability for sustained economic growth to propel the pace of poverty reduction. It is important to ensure enough food supply to stabilize food inflation. Stable food inflation reduces vulnerability of the poor into falling into deeper poverty levels. A sustained period of structural transformation and economic diversification is critical in sustaining growth and creating productive jobs for the population. More investments should be channelled to health and education to achieve better educational and health outcomes. It is important to increase agricultural productivity through targeted fertilizer subsidy programmes, mechanization of agriculture, and proper water management to enhance irrigation.

Promoting fiscal consolidation in the medium-term is critical to keep a check on debt sustainability. Further, is to take advantage of the AfCFTA to grow and diversify Kenyan exports.

### Growth and Inclusivity in the Counties

Counties experienced a robust growth, with real Gross County Product (GCP) and real GCP per capita growth averaging 5.6% and 2.8%, respectively, between 2014 and 2017. However, huge disparities exist across counties, with poverty rates at 16.7% for Nairobi County and as high as 79.4% for Turkana County. In addition, counties in arid and semi-arid areas contribute less to GDP, have low GCP per capita, and high poverty rates. Most counties are heavily reliant on agriculture, with only seven (7) counties having significant manufacturing activities. Whereas the Government has made significant efforts to address poverty and inequality through equitable transfers, own source revenue (OSR) collections remain low.



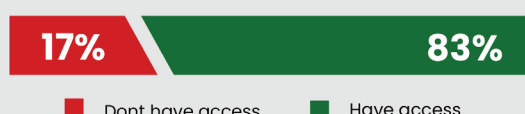
Accelerating growth and inclusivity at county level requires increased development spending to accelerate the pace of poverty reduction and improve inclusivity in counties. The Commission on Revenue Allocation could impose penalties on counties that do not comply with the Public Finance Management (PFM) Act 2012 requirement on development spending. Counties need to enhance investments in supporting the key sectors that are sources of growth, including agriculture, manufacturing and wholesale and retail trade. There is need to establish tanneries, leather and meat processing factories to empower the pastoralist communities that live in the arid and semi-arid lands to expand the production and value of their livestock, increase incomes and lower poverty. Agricultural-related cooperative societies should be established, or revived, to mobilize and aggregate financial and social capital at the county level to promote a more inclusive growth in the counties. Industrialization in the rural areas should be supported to absorb rural labour. Guidelines and standards on OSR collection and usage to counties should be provided and adhered to, to enhance county revenue base to boost development and inclusive growth at county level. More

spending on social protection by counties is important to protect the hardcore poor and this should be accompanied by mapping appropriately the target groups.

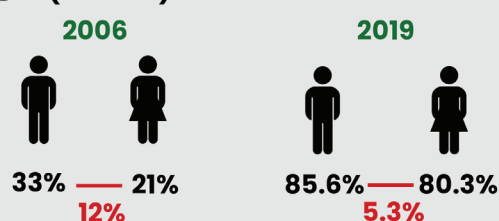
### Enhancing Financial Inclusion for Inclusive Growth

Financial inclusion has been identified as a key plank in the Kenya Vision 2030, the country's long-term blueprint. Access to financial products and services, including savings, payment for services, and loans, has the potential to contribute to inclusive growth. Overall, national access to financial inclusion is at 82.9%, an improvement from 26.7% over the past decade. This means that about 17.0% of the population is still excluded from access to formal financial services and, therefore, cannot participate effectively in the economic activity cycle. Disaggregation of data by counties shows that counties with most access to finances, either credit, savings or insurance, are mainly counties with big urban areas. A further disaggregation of data by gender shows a gender disparity between males (85.6%) and females (80.3%). For the youth, a significant proportion of them (23.5% male)

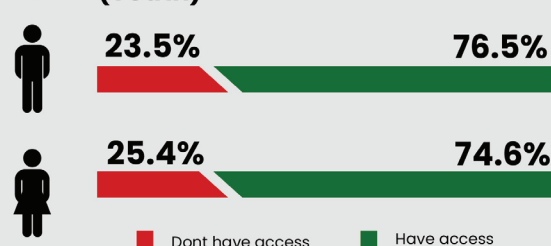
#### 1 Access to formal financial services (Overall Population)



#### 2 Access to formal financial services (Gender)



#### 3 Access to formal financial services (Youth)



and (25.4% female) did not have formal financial access especially in insurance and credit aspects.

Deepening financial inclusion among the population for inclusive growth requires continued expansion of agent-based banking and other cost-effective delivery channels to reach the financially excluded. Also, there is need to promote financial literacy to allow individuals to know their financial circumstances; and streamline the operations of the Uwezo Fund, Youth Enterprise Development Fund and the Women Enterprise Fund to ensure the challenges facing these funds are adequately addressed. The National Treasury and Ministry of Information and Communication Technology (ICT) could strengthen financial infrastructure, which serves as the underlying foundation to support financial inclusion. Use of information technology-based solutions such as mobile phones for efficiency in service provision, and penetration by formal financial institutions is important in addressing the challenge of high transaction costs and outreach.

### **Inclusivity and Trade**

Domestic and international trade play an important role in economic transformation by linking products and markets, enhancing efficiency in production, increasing access to diverse products through distribution processes, and creating opportunities for employment. Increased participation of women, youth and persons with disabilities in trade would be a boost to inclusive growth and sustainability, with reduced poverty and income inequality. Specifically, unlocking markets for these vulnerable groups would enhance their access to employment and entrepreneurship and break down the legal and cultural barriers that restrict them from achieving their full economic potential.

To encourage the participation of the vulnerable groups in trade, the following interventions are needed: Provision of tailored capacity building and training

programmes, including on quality standards and links to input distribution networks to enhance access by youth, women and Persons With Disabilities (PWDs) to regional markets for export; Empowering women through awareness creation, civic education and access to information on their rights as this is critical to alleviating gender inequality; Reversing the trend of low participation of youth and women by enhancing access to credit to leverage on more opportunities for growth; Eliminating barriers preventing youth, women and PWDs from owning a business and participating in trade by leveraging technology by encouraging the use of mobile phones to report abuse at border crossings; Promoting transparency of rules and increase awareness of all actors at the border, to reduce misunderstandings and complaints; and Building the capacities of counties to steer the agriculture, manufacturing and trade sectors to benefit the youth, women and PWDs and strengthen the existing county regional blocs for inter-county trade.

### **Contribution of Agriculture to Food and Nutrition Security and Inclusive Growth**

Smallholder farmers constitute a huge proportion of the population in the agricultural sector, and are therefore important stakeholders in realizing the broader goals of food and nutrition security and inclusive growth. The agriculture sector can contribute to inclusive growth because it is the main economic activity for most households living in rural areas.

To strengthen the contribution of agriculture sector to inclusive growth, the following measures are critical: Promoting the adoption of better farming technologies to increase agricultural productivity and improve livelihoods; Enhancing data management for agriculture to provide information for the different actors along the value chain to make informed decisions; Promoting nucleated land settlements for the effective management of land resources;





Concerted efforts to reduce food losses and promote value addition to increase the shelf life of most agricultural products; and Transforming the agriculture sector from subsistence into commercial enterprises that can support livelihoods, reduce food poverty and contribute to economic growth.

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

Energy is a key infrastructural input for economic growth and an integral component for inclusive growth. Access to affordable, reliable, sustainable and modern energy sources serves as a benchmark in measuring inclusivity in relation to human development, welfare and productive gains. Access to clean energy sources is also recognized as key in realization of the national development agenda such as the Kenya Vision 2030 and the “Big Four” agenda. The sector has registered significant progress by increasing the share of electricity generated from renewable energy sources and electricity connectivity for all end-users. However, a substantial increase in transmission and distribution losses over the years, low

electricity demand for domestic and small consumers, and wide disparities in access to clean energy sources have hampered the inclusivity. Further, women and children are disproportionately affected by lack of access to clean energy sources.

To scale-up access to affordable, reliable, sustainable and modern energy sources requires more focus on enhancing electricity generation capacity from wind, solar, geothermal and hydro (as they remain underexploited) and bring down the cost of electricity. More investments in grid modernization through inclusive smart metering programmes for all end-users and grid monitoring solutions to reduce transmission and distributive losses are needed. Moreover, there is need to promote inclusive approaches such as pay as you go model and provide subsidies for the upfront cost of Liquefied Petroleum Gas (LPG), bioethanol and biogas as clean cooking solutions. There is need to engender energy projects, programmes and policies to ensure both women and men participate and benefit from access to clean energy sources. Introduction of a holistic dimension of planning for energy projects is needed to ensure that energy access plans and strategies integrate the

critical aspects on productive utilization and creating awareness on the use and benefits of clean energy sources

### **Social Mobility and Inclusive Growth: The Role of Social Protection**

In Kenya, evidence shows that access to health, formal education, and job opportunities by an individual is linked to the education and income level of his/her parent. The education level of a female head is particularly crucial for improved social outcomes. Children and young persons from the highest income households enjoy greater access to education, health and labour markets. Moreover, the growing social assistance interventions by the Government, including cash transfers, education bursaries and free medical services, do not seem to reach (as they should) a larger proportion of the targeted lowest income groups.

Strengthening the role of social protection in achieving inclusive growth requires these interventions: Developing an integrated social assistance service information system that links all social assistance programmes across Counties, Ministries, Departments and Agencies in one easily accessible online portal to address the problems associated with social protection interventions including mapping appropriately the targeted groups; Reducing the costs related to access of education especially for the poor households by enhancing the use of cash transfers that provide grants to poor families that meet set criteria and introducing vouchers for uniforms and other ancillary school inputs targeting the extremely poor households; Reforming the bursary schemes to make them more equitable and pro-poor by aligning bursary schemes based on needs across geographical regions and designing the public bursary schemes to emphasize focus on the extremely poor students irrespective of school characteristics; and Enhance the implementation of the universal health coverage to avoid spending that may hinder social mobility of the poor.

### **Governance in Inclusive Growth**

Good governance, inclusivity in government processes, and a robust institutional framework are prerequisites to promoting equitable resource allocation and distribution across regions; representation and inclusivity in the public service; and inclusivity in government decision-making processes, through public participation. Inclusive governance contemplates equitable resource allocation and distribution across regions, ethnic representation in the public service, and inclusivity in Government processes.

Strengthening governance in inclusive growth requires these measures: Ensuring timely disbursement of funds for effective implementation of budget and delivery of public services; Enhancing Own Source Revenue collections by growing the private sector activity at county level and reducing on revenue leakages; Entrenching prudent fiscal management to ensure public funds are utilized for the benefit of the public; Imposing stricter sanctions and penalties to non-compliance in achieving diversity and representation in public service at both national and county level; Defining clear criteria and parameters to guide in appropriately identifying individual ethnicity; Establishing clear guidelines on public participation process through enactment of the Public Participation Bill; Strengthening the affirmative action for gender equality in senior positions in public service and elective positions; Enacting the Kenyan Sign Language Bill, 2019 to institutionalize the use of Kenyan Sign Language, and review the Persons with Disabilities Act, 2003 to align it to the rights envisaged in the Constitution, 2010; and Incentivise employers and businesses that have provided PWDs with opportunities in employment, training and to use their professional skills.

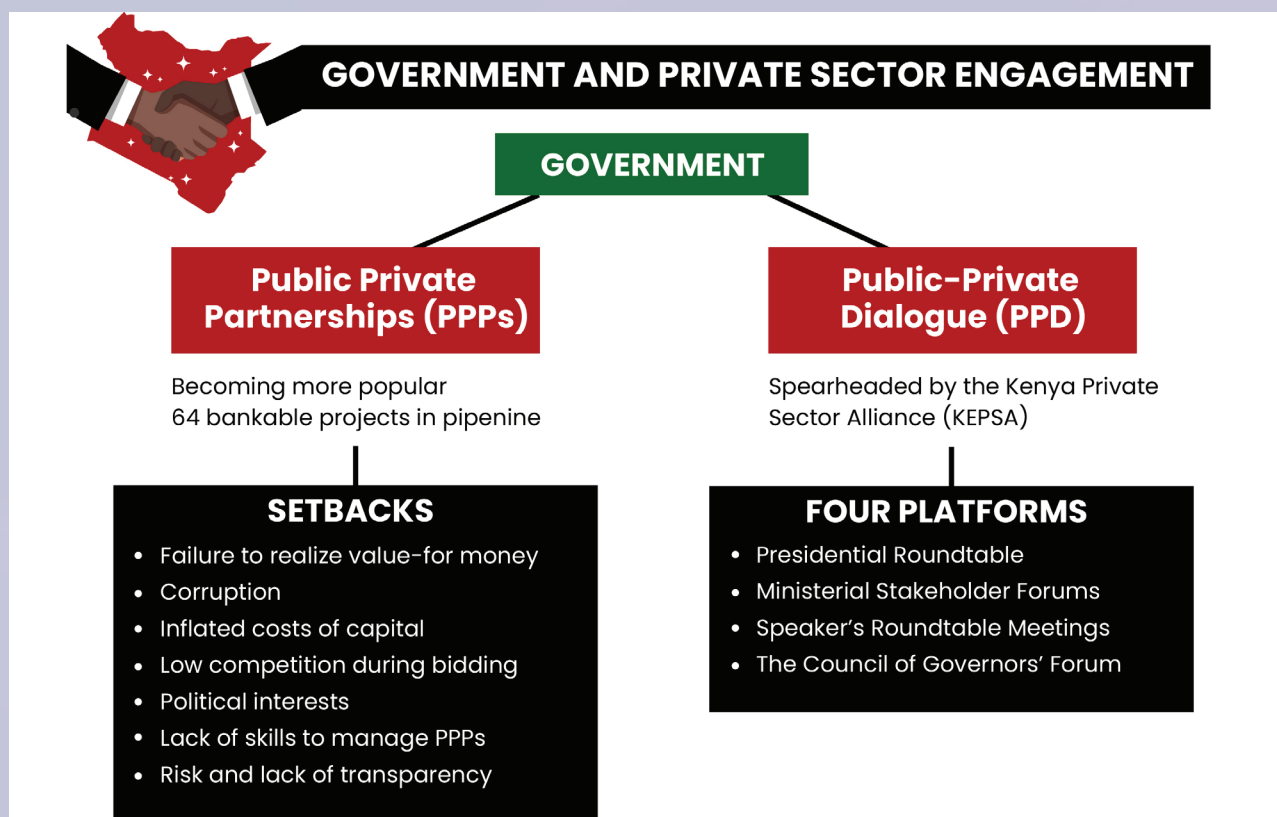


## Partnerships for Inclusive Growth

In line with the principle of “leave no one behind”, Kenya has embraced partnerships at the local, regional and global levels as one of the keys to unlocking sustainable development. Locally, partnerships have been instrumental in facilitating consultation and cooperation across the different levels and arms of Government within a devolved governance structure. The governance collaborates with private sector through Public-Private Partnerships (PPPs) and Public-Private Dialogues (PPDs) while cooperation at the regional and international levels is mainly through bilateral and multilateral alliances. Due to lapses in self-governance within the NGO sector, engagements between the Government and the NGO sector remain unstructured.

The following interventions are necessary to make partnerships more effective in promoting inclusive growth: Finalizing and operationalizing the alternative dispute resolution mechanisms to mitigate conflicts between the National and County Governments; Drafting a Bill to give the Council of Governors and sectoral

committees a strong legal foundation; Inter-Governmental Relations Technical Committee, Council of Governors and the Summit to address issues related to borrowing powers by counties, harmonizing cross-county taxation and licencing, aligning economic planning at the national and county levels, and formulating benefit sharing frameworks; Building the capacity for the negotiation teams to ensure the interests of the country are adequately represented in memberships; Where possible, exploit south-south cooperation; Reforming existing legislation and policy for PPPs with a view to integrating principles of public participation especially by engaging communities in feasibility studies, project design, implementation and monitoring and evaluation; Building capacity of umbrella, sectoral and primary associations for effective and sustainable engagement; KEPSA as an umbrella body to work with other associations in replicating the national structure (which has been very successful) at the county level; Expediting the gazettment and operationalization of the PBO Act (2013) and have a structured dialogue platform for the NGO Co-ordination Board and the NGO Council



to engage; and Enhancing the regulatory capacity of NGO Co-ordination Board with a diversified to strengt



### About KIPPRA Policy Briefs

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

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