Building resilience and sustainable economic development in kenya

KENYA ECONOMIC REPORT 2022

POPULAR VERSION

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BUILDING RESILIENCE AND SUSTAINABLE ECONOMIC DEVELOPMENT IN KENYA

Contributors:

Adan Shibia
Evelyne Kihiu
Daniel Omanyo
Hellen Chemnyongoi
Martin Wafula
James Gachanja
Humphrey Njogu
Moses Njenga
Anne Gitonga
Boaz Munga
Beverly Musili

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

Bishops Garden Towers, Bishops Road
P.O. Box 56445-00200, Nairobi, Kenya
Tel: +254 20 2719933/4; fax: +254 20 2719951
Cellphone: +254 724 256078, 736 712724
Email: admin@kippra.or.ke
Website: http://www.kippra.org
Twitter: @kipprakenya

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Design and Layout: Nelig Group Ltd

ISBN: 978 9966 817 98 3

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INTRODUCTION

The theme of the Kenya Economic Report (KER) 2022 is "Building Resilience and Sustainable Economic Development in Kenya". Besides the COVID-19 pandemic, the Kenyan economy is prone to other shocks and stressors including droughts, floods, election cycles, pests such as locusts, diseases, global commodity price fluctuations, global economic downturns such as the financial crisis of 2007-2009, and the global supply chain disruptions caused by the ongoing Russia-Ukraine war. Kenya is linked to regional and global economies through trade ties, investments, and other financial resource flows, thus increasing its exposure to external shocks. While increased digitization of economic transactions creates opportunities through enhanced efficiencies, it also presents unique challenges related to cyber security that can be a threat to not only personal interests but national interests as well. The Kenyan economy is therefore prone not only to domestic market shocks and stressors, but also to myriad of shocks emanating from regional and global markets.

At the global level, the Sustainable Development Goal (SDG) target 1.5 calls for 'building the resilience of the poor and those in vulnerable situations by reducing their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks'. Other targets of SDGs that underscore the role of resilience in sustainable development, include: target 2.4: Sustainable food production systems and resilient agricultural practices; target 9.1: Quality, reliable, sustainable and resilient infrastructure; target 11.b: Resilience of cities and other human settlements; and target 13.1: Resilience to climate induced hazards. Further, the SDGs place emphasis on investments in Science, Technology and Innovation (ST&I) to support resilience across various sectors. At the regional level, the African Union Agenda 2063 underscores resilience of economies through mobilization of financial resources, technology and skills development. At the national level, the Medium Term Plan (MTP) III of the Kenya Vision 2030 calls for measures to mainstream resilience through development plans, budgetary measures and institutional framework for disaster risk management. Further, the theme for the Budget Policy Statement 2021/22 on "Building back better: Strategy for resilient and sustainable economic recovery and inclusive growth" is an emphasis on the call for building resilience across various sectors. Resilience at sectoral level is imperative as it enables achieving sustainable development. The Medium-Term Plan IV (2023-2027) being prepared by the government is themed "Accelerating Socio-Economic Transformation to a More Competitive, Inclusive and Resilient Economy". As such, the KER 2022 provides the necessary evidence in articulating Kenya development agenda.

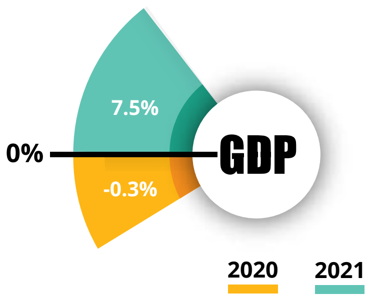
The KER 2022 assess the contexts, policies and institutional frameworks that support sustainable development through building resilience across various sectors of the economy. The report begins with a review of recent macroeconomic performance and discusses the country's medium-term prospects. It also discusses how the country can build a resilient manufacturing sector for sustainable development as well as how resilience can be built through trade. Additionally, the report analyses how enhancing a resilient and sustainable livestock industry in Kenya is central for communities in Arid and Semi-Arid Lands (ASALs). The role of the digital economy for resilience- response, mitigation, adaptation, recovery and inclusion; and Science, Technology and Innovation (ST&I) for building a resilient knowledge-based economy are also discussed in the report. The report further discusses the need to enhance resilience in the creative economy, that is increasingly providing opportunities for the youth besides promoting cultural and social inclusion. Finally, the report discusses the role of national values in enhancing socio-economic resilience and examines how good governance can be strengthened to build resilience.

The scope of KER 2022 thus interphases the pillars of economic resilience (macroeconomic stability, social-economic development, institutions/good governance), the pillars of the Kenya Vision 2030 (economic, social and political), and the targets of the Sustainable Development Goals (SDGs) that seek to build resilience and nurture the required transformations through Science, Technology and Innovation (ST&I) and digital economy. Exploiting the opportunities brought out in the recommendations will go a long way in building a resilient economy.

RECENT TRENDS AND DEVELOPMENTS IN MACROECONOMIC PERFORMANCE

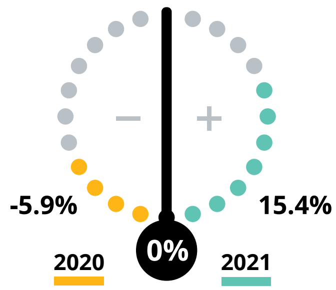
Kenya's economy recorded a solid rebound in 2021 coming from sharp contraction in 2020. This was strongly supported by the well-coordinated policy interventions implemented by the Government. The GDP expanded by 7.5 per cent in 2021 compared to a contraction of 0.3 per cent in 2020. The mass vaccination drive which resulted in reopening of the economy saw strong performance in services and industrial sectors. Services sector grew by 15.4 per cent compared to 5.9 per cent contraction in 2020. This was attributed to improved performance in accommodation and food services (75.8%), education activities (22.4%), other services (13.7%), and financial and insurance activities (12.7%). Industrial activity expanded by 9.2 per cent in 2021 compared to a growth of 3.9 per cent in 2020. The extensive drought conditions experienced in 2021 across the country however saw agricultural activity contract by 0.2 per cent compared to an impressive growth of 4.5 per cent in 2020.

The GDP



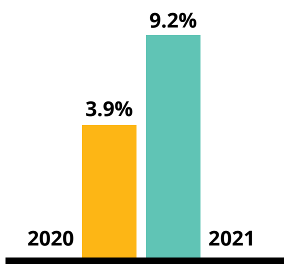
The GDP expanded by 7.5 per cent in 2021 compared to a contraction of 0.3 per cent in 2020.

Services sector growth



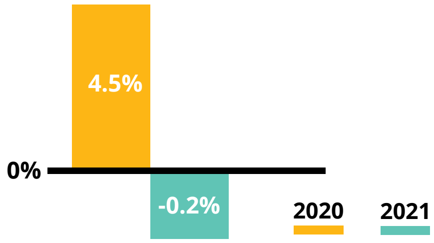
The growth in 2021 was attributed to improved performance in accommodation and food services (75.8%), education activities (22.4%), other services (13.7%), and financial and insurance activities (12.7%).

Industrial activites



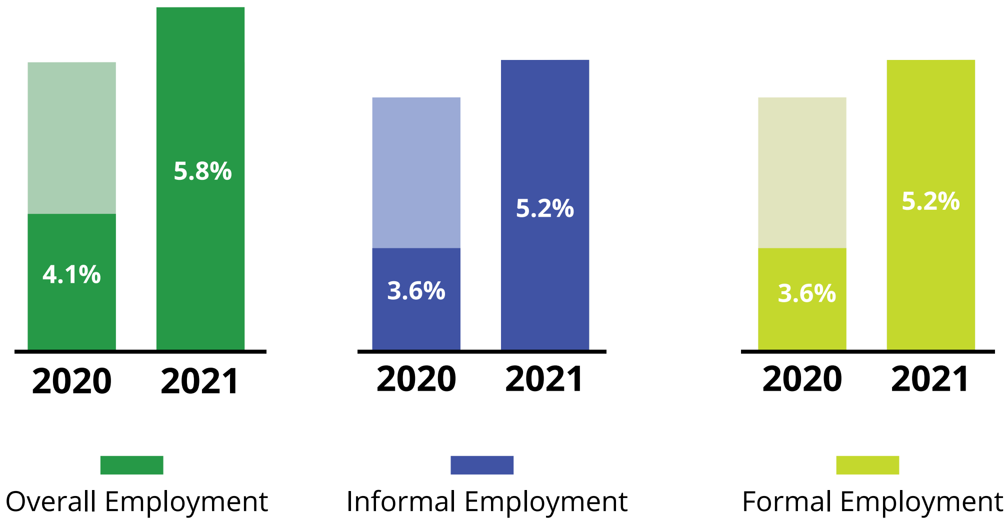
Industrial activity expanded by 9.2 per cent in 2021 compared to a growth of 3.9 per cent in 2020.

Agricultural activity

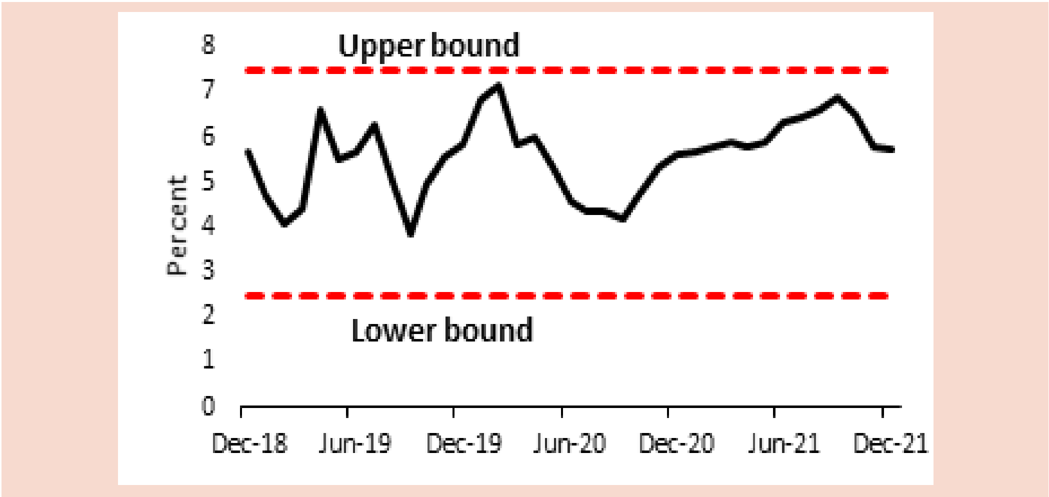


The extensive drought conditions experienced in 2021 across the country however saw agricultural activity contract by 0.2 per cent compared to an impressive growth of 4.5 per cent in 2020.

Total employment grew by 5.8 per cent in 2021 with 18.3 million in employment. In comparison, employment contracted by 4.1 per cent in 2020, where about 736 thousand jobs were lost because of the outbreak of COVID-19 pandemic. The improved employment levels in 2021 was because of government youth employment programmes, recruitment in government ministries, counties, departments and agencies and the reopening of various sectors of the economy with removal of COVID-19 restrictions that boosted private sector activities, allowing for job creation. Meanwhile, informal sector jobs that account for an average of 82.5 per cent of total employment in the country expanded by 5.2 per cent while formal employment grew by 5.9 per cent in 2021 compared to contraction of 3.6 per cent and 6.2 per cent respectively, in 2020.



Overall inflation picked up in 2021 but remained within the government's target range. Food inflation averaged 8.6 per cent in 2021 compared to 9.2 per cent in 2020. In August, September and October 2021, food inflation took double digits, recording 10.7 per cent in August, and 10.6 per cent in both September and October 2021; owing to the high oil and commodity prices at the global stage. In the period, the Monetary Policy Committee maintained the Central Bank Rate at 7.0 per cent to support the recovery process. While credit to the private sector declined marginally amid economic recovery, there was strong credit flows to transport and communication sectors, consumer durables, business services and manufacturing.



The current account deficit widened from 4.8 per cent of GDP in 2020 to 5.5 per cent of GDP in 2021. This was on account of deterioration of merchandise trade deficit and continued weaknesses in services-related trade. However, receipts in secondary account especially diaspora remittances remained resilient, helping to stabilize the current account deficit.

Government revenues rebounded strongly in the first half of fiscal year 2021/22, with virtually all tax heads recording above target collections. Total revenue inclusive of grants exceeded the target by Ksh 28.6 billion while improved growth was posted in Pay as You Earn (PAYE), Value Added Tax (VAT), imports, excise duty, appropriations-in-aid, and corporate income taxes. This having a moderating effect on the fiscal deficit. While debt level increased to 66.2 per cent of GDP, it remained within the debt sustainability thresholds for lower middle-income economy.

To maintain macroeconomic stability:

1. Implement a growth-oriented fiscal policy with targeted fiscal support to the services and industry sectors for accelerated and sustainable economic recovery. Allocate adequate budget to sustain growth in the agriculture sector which historically remains the linchpin of growth and employment in Kenya.

2. Expand irrigated agriculture to ensure there is adequate food supply throughout the year. This will serve to mute inflationary pressures that arise due to limited food supply in the market. Intensify productivity of existing irrigation schemes to reduce over-reliance on rain-fed agriculture.

3. Given that recorded improvement in revenue above target emanated from the existing tax base, stepping up revenue collection through tax base widening is critical for revenue enhancement. Moreover, spending efficiency at both national and county levels and strict adherence to medium-term fiscal consolidation plan will play a fundamental role in de-escalating fiscal deficit risks and public debt distress risks.

4. Furtherance of monetary accommodation remains vital to ensure that inflation expectations are well anchored, adequate liquidity is maintained in the market and to support the recovery.

5. Scaling up credit supply to the private sector by fast-tracking a system-wide implementation of risk-based pricing will enhance conversion of the adequate liquidity into credit to support the ongoing economic recovery.

6. Lower costs of remittances and diversify export destinations to secure external stability.

MEDIUM TERM ECONOMIC PROSPECTS FOR KENYA

Kenya economic recovery continue, even as the dynamics of the pandemic and Ukraine-Russia conflict remain uncertain. The easing of containment measures and accelerated uptake of COVID-19 vaccination are key to sustained economic recovery. Economic activity in Kenya, like in many other countries, rebounded in 2021 after a sharp contraction in 2020. Looking ahead, the country faces downside risks, including uncertainty of the pandemic dynamics, weather related shocks, and a surge in commodity prices worsened by the war between Russia and Ukraine. This is expected to slow economic growth in 2022 to 5.8 per cent as compared to a robust growth of 7.5 per cent realized in 2021. Counties experienced a robust economic growth averaging 5.6 per cent in 2014-2017, but this declined to an average of 3.0 per cent in 2018-2020. This is attributed to effects of COVID-19 pandemic in 2020. In the medium term, Counties economic performance is envisaged to remain robust attributed to the lifting of the containment measures. The implementation of the County COVID-19 Social-Economic Re-engineering and Recovery Strategy 2020/21-2022/23 provides an enormous opportunity for the County Government economies to remain on the recovery path.

To build resilience and sustain the robust economic performance in the near term:

1. Continue supporting the health sector to consolidate gains made in the fight against the pandemic and strengthen further the health system in meeting the health objectives.

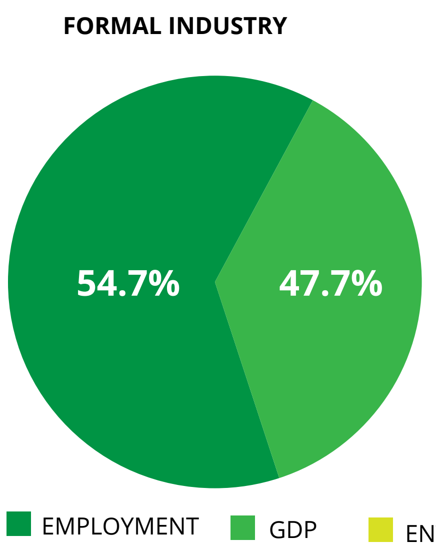
2. Maintain the mass COVID-19 vaccination drive as it remains a key driver to economic recovery. A successful vaccination drive requires a coordinated awareness creation by the National and County Governments. Vaccinating a larger portion of the population reduces health risks and loss of life. This allowing budgetary allocation to projects that support economic recovery.

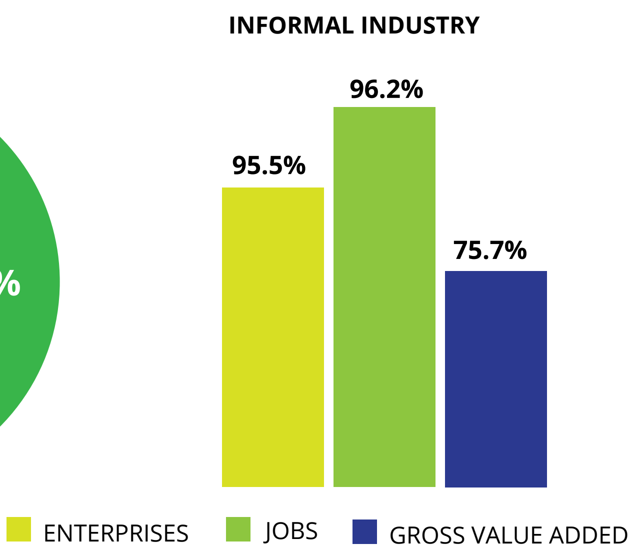
3. Promote peace for political stability during electioneering period to ensure sustained economic recovery in 2022 and beyond.

4. Increase investments in irrigation and enhance productivity of existing irrigation schemes to secure agriculture production throughout the year, by reducing over-reliance on rain-fed agriculture.

BUILDING A RESILIENT MANUFACTURING SECTOR FOR SUSTAINABLE DEVELOPMENT

Manufacturing supports economic development through its backward and forward linkages with other sectors. It accounts for 47.7 per cent and 54.7 per cent of the formal industrial GDP and employment, respectively. In the informal industrial activities, manufacturing accounts for 95.5 per cent of enterprises, 96.2 per cent of jobs and 75.4 per cent of gross value added. The sector contracted by 0.1 per cent in 2020, but rebounded, recording a growth rate of 6.9 per cent in 2021. The sector performance during COVID-19 reveals that save for manufacture of food products that is a low technology activity, other activities that were either resilient or showed positive transformation are the manufacture of chemical products, pharmaceuticals, optical and electronic equipment, which largely fall within medium and high technology manufacturing. These experiences mirror that of other developing and emerging economies.





The sector faces both positive and negative shocks, which affect its growth and contribution to the economy. The negative shocks include droughts, election-cycles, global recessions, and surge in oil prices. The positive shocks arise from rainfall abundance which boosts agricultural production, a key source of its raw materials. Medium and large enterprises are relatively vulnerable to shocks emanating from external markets, while Micro and Small Enterprises (MSEs) are more vulnerable to shocks originating from domestic markets. MSEs source their inputs mainly from the domestic market, and their product markets are also predominantly domestic, targeting mainly other MSEs or individual consumers. In contrast, medium and large enterprises are relatively dependent on imported inputs and participate more in export markets, hence the exposure to external shocks. The MSEs operating within the informal sector have amplified vulnerabilities owing to weak capital, limited access to affordable finance, poor infrastructure and worksites, and low technology and skills. There are also weak supply chain linkages between MSEs and medium and large enterprises, which would otherwise support technology transfer and help moderate vulnerabilities for MSEs.

Further, manufacturing in Kenya is generally concentrated in low technology activities such as food, beverages, textile, furniture and leather. Besides being vulnerable to shocks, these low technology activities are characterized by low innovation and Research and Development (R&D) investments. The growth of medium and high technology manufacturing is constrained by a weak domestic value chain especially among MSEs and medium and large enterprises and limited skills base for technology upgrading – especially those related to Science, Technology, Engineering and Mathematics (STEM) courses. Manufacturing also demonstrates weakening competitiveness, constraining access to local and export markets. Other challenges facing manufacturing include limited budgetary allocations for Kenya Vision 2030 flagship programmes.

The classification of the East African Community (EAC) market as part of the domestic market further implies that firms operating in Export Processing Zones (EPZs) limit their exports to this regional market to only 20 per cent of their annual sales as required by the EAC's Customs Union Protocol.

Notwithstanding various challenges, COVID-19 has revealed latent opportunities for exploitation, particularly within the manufacture of pharmaceuticals, medical ventilators, chemicals (hand sanitisers) and textiles and apparel in the manufacture of Personal Protective Equipment (PPEs). Measures towards sustainable markets for these innovations are critical for attracting private sector investments.

To build a resilient manufacturing sector for sustainable development:

1. Incentivize manufacturing diversification into medium and high technology activities through fiscal incentives especially on financing of R&D investments. The private sector can contribute to financing of R&D, leveraging on the second schedule of the Income Tax Act Cap. 470 that provides for tax deductibility of expenditures on scientific research and contributions to universities and research institutes that undertake scientific research related to the line business.

2. Facilitate access to markets through enhanced market competitiveness and diversification outside the EAC market. Besides eroded competitiveness, exports to the EAC market are constrained by the Customs Union Protocol that categorizes this regional market as part of the domestic market, thereby limiting exports by EPZ firms to 20 per cent of their annual sales.

3. Promote measures to support accelerated innovation under shocks and stressors. This can be achieved through market incentives such as public procurement preferences and export markets promotion, and fiscal incentives to compensate investors for risks assumed investing in innovation within frontier high technology manufacturing.

4. Mainstream within manufacturing policy documents measures for building resilience to shocks and stressors such as risk reduction and mitigation plans, and mechanisms for early identification of hazards. Given that MSEs are disproportionately affected by shocks and stressors, it is imperative to fast-track implementation of the Sessional Paper No. 5 of 2020 on MSEs Policy, which provides for measures such as skills upgrading, supportive infrastructure, financing, technology and innovation essential for building resilience.

5. Support adoption of industry 4.0 through enabling infrastructure and skills development, particularly those related to Science, Technology, Engineering and Mathematics (STEM) courses. Measures to promote financing of transition to industry 4.0 such as Internet of Things (IoT), artificial intelligence (AI), advanced robotics, and big data analytics are also imperative. A gradual shift to industry 4.0 through these supportive measures would help a gradual shift for overcoming incompatibility between the old and new technology.

BUILDING A RESILIENT ECONOMY THROUGH TRADE

The importance of trade as catalyst for building economic resilience is premised on its ability to create jobs, increase economic opportunities and improve welfare of households. While COVID-19 pandemic disrupted the global supply chains, trade continued to play a crucial role of reducing the effects of the pandemic and putting economies to the recovery path. Domestic trade remains crucial to accelerating employment creation and economic growth; however, it is highly sensitive to internal and external shocks. Kenya's exports remained resilient despite performing below potential. The resilience in exports was due to tea, coffee and horticulture performance in the international trade markets. The imports continued to be dampened due to supply side effects, but this was not enough to strengthen the trade balance. Additionally, the service sector remains unexploited with concentration in a few products and markets. In 2020, Kenya exported 2.8 per cent of the total Africa's import of services across different products, thus, showing a huge market to be tapped.

Free trade agreements are central to accelerating trade revenue and welfare improvements. Since independence in 1963, Kenya has entered into over 53 agreements and 60 percent of these agreements have been in favour of Kenya. Furthermore, the current implementation of Africa Continental Free Trade Area (AfCFTA) presents an opportunity for Kenya to enhance trade revenue, employment creation and improve welfare. Previously, the African market has been underutilized with only 28 percent of the African countries receiving exports from Kenya in the period 2016 - 2021. To take advantage of the AfCFTA and other existing trade agreements, there is need for Kenya to enhance market and product access and reduce concentration to a few markets and products that are susceptible to negative external shocks.

For Kenya to achieve the potential of trade sector, there is need to mitigate existing obstacles that hold back the sector. First is to finalize the implementation of the MTP's I – III proposed trade flagship projects that are still lagging, including the construction of one tier markets that are yet to be completed. Second, the underutilized of existing Generalized System of Trade (GSP) arrangements under the trade agreements such as the Economic Partnership with the United Kingdom holds back the potential of trade sector as Kenya has only utilized 2 percent between 2018 and 2021. Third, the concentration of goods and services to a few varieties and export markets limits the sectors performance. Fourth, trade performance remains sensitive to negative shocks such as increase in crude oil prices, droughts, and COVID-19 pandemic.

To enhance trade performance and achieve economic resilience it is imperative to:

1. Review the National Trade Policy (NTP) of 2016 to enhance market and product diversification. The review of NTP need to consider the trade dynamics arising from the AfCFTA and other trade agreements that have been signed by Kenya. This review will help Kenya mitigate negative global shocks affecting exports and imports.

2. Map out all the products exported to and imported from African countries to increase trade performance. The current export to only 28 per cent of African countries signals existence of a huge market that has potential to enhance trade revenue. The mapping out of these products will help improve export promotion strategies in Africa for Kenya. Collaboration between the Ministry of Industrialization, Trade and Enterprise Development and other agencies such as Export Promotion Council, Kenya Association of Manufacturers and the private sector will help develop export promotion strategies and increase trade revenue.

3. Maintain stability in the East Africa Community as this is critical to sustain Kenya's trade revenue. Kenya needs to continuously collaborate with member countries to maintain regional stability. Further, to take advantage of the EAC peace and stability, Kenya needs to improve the quality of exports to the region to enhance product competitiveness. This will scale up support of the manufacturing, service, and agricultural sectors.

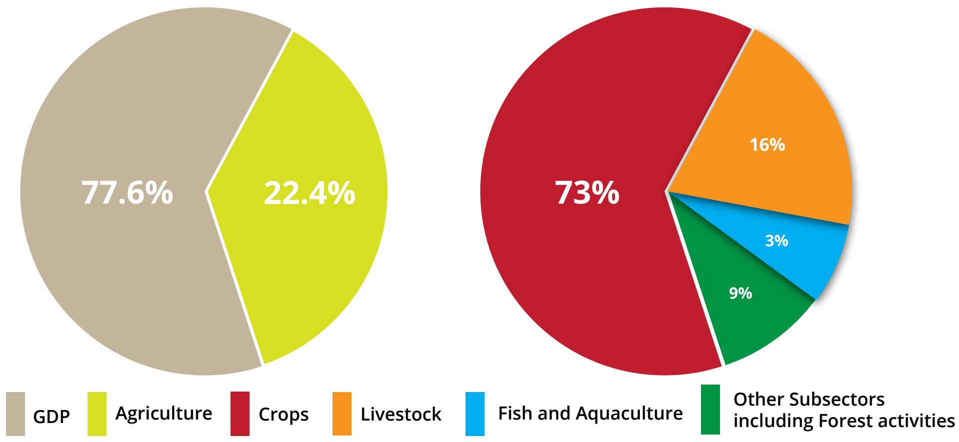
4. Deepen information on products that utilize Customer to Government (C2G) and Customer to Business (C2B) mobile money services to support e-commerce. This can be achieved through mapping of government services and ministries that use online services and providing this information to all mobile money outlets and government offices. This will help boost efficiency and scale up domestic trade.

5. Pursue free trade agreements with focus on products that offer Kenya high returns for exports and imports. This can be achieved by identifying existing trade agreements and mapping current products to ensure increased utilization of the liberalized tariff lines. There is also a need for consideration of uncertainties during negotiations of future trade agreements as this will ensure resilience of exports and imports during periods of negative shocks.

6. It is also important for the government of Kenya in collaboration with the private sector to set up a development fund that advances financial support to traders in agriculture and services sectors at affordable interest rate. The financial support provided to these two sectors will improve the quality and competitiveness of goods and services.

ENHANCING A RESILIENT AND SUSTAINABLE LIVESTOCK INDUSTRY IN KENYA

The livestock industry in Kenya plays a significant role in steering growth of the agricultural sector. In 2021, the share of agriculture to GDP was 22.4 per cent, of which 73 per cent was from crops, 16 per cent from livestock, 3 per cent from fish and aquaculture and 9 per cent from other sub-sectors including forestry activities. The livestock sub-sector accounts for a significant share of the marketed agricultural production, 31 per cent in 2021, having increased to Ksh 161.62 billion in 2021 from Ksh 125.40 billion in 2016. In addition, the industry is an essential livelihood source to about 11.3 million households in the country, particularly in Arid and Semi-Arid Lands (ASALs) and plays a critical role in food security, environmental sustainability, and public health.



The potential of livestock production systems in ASALs is however curtailed by acute shocks and stressors affecting millions of livelihoods. Livestock production and the related value chains have experienced recurrent shocks and stressors in recent years in the form of extreme weather hazards, desert locust invasions and livestock diseases, conflicts/insecurity, and market/economic shocks. The shocks and stressors are complex as they rarely occur as independent events. In particular, drought episodes are identified as a threat multiplier, either acting as a driver to other disturbances or magnifying their effects. The shocks and stressors, which have increased in frequency and intensity over the years, threaten food security, welfare of communities and economic stability of ASALs with consequent ripple effects across the country. The shocks and stressors are further likely to increase with climate variability and change as highlighted by the Intergovernmental Panel on Climate Change (IPCC). As such, building a resilient livestock industry is a pressing priority in the country.

While there has been significant response action to mitigate the effects of shocks and stressors in ASALs ecosystems, there are gaps in the preventive, anticipative, absorptive, adaptive, and transformative capacities of ASAL communities to deal with changing circumstances. This calls for approaches to improve the economic, social and ecological resilience of ASAL communities to deal with changing circumstances, as opposed to only focusing on the costly emergency response and relief strategies. There is a need to sustainably enhance: economic returns (economic resilience); social inclusiveness, cohesion, and protection (social resilience); and sustainable management of the fragile ecosystems (ecological resilience) for a more robust and resilient pastoral system to shocks and stressors. Key lessons from Botswana's livestock value chain highlight opportunities in: capacity building of farmers and extension workers; agribusiness promotions and strategies for strengthening of food safety ; enhanced partnerships; knowledge-driven development using quality data; input subsidization during disasters and increased fodder production in higher rainfall areas; strengthening livestock producers' associations/cooperatives; access to veterinary services that are effective in terms of traceability and compliance with market requirements; and access to adequate finance through Public-Private Partnerships(PPPs) Programs.

To enhance resilience and sustainability of livestock industry:

1. Enhance rural development of ASALs, where the process serves to integrate both economic and social activities by including development of well-equipped local processing centers; mobile service delivery programs, water and market infrastructure; livestock trekking/ migratory corridors; and grazing reserves.

2. Explore climate smart measures in livestock production systems such as the silvopastoral system

Silvopasture entails the practice of integrating trees, forage, and the grazing of livestock in a mutually beneficial way.

which entails intensification of livestock production based on sustainable natural processes. Climate smart approaches present an opportunity to responding to climate change and sustainable utilization of ASALs.

3. Explore partnerships for investments and adequate funding for successful implementation of livestock industry strategies. This includes enhancing private sector involvement in the development of the livestock industry in Kenya.

4. Enhance efficient and effective data management systems to support planning, decision making, monitoring and evaluation processes for resource control. The livestock industry in the country needs to be supported by quality data throughout the livestock value chain. Further, the relevant data needs to be centralized and linked to disaster management systems.

5. Enhance economic and social resilience of ASAL livelihoods by integrating pastoralists in livestock value chains and commercial undertakings as well as building their capacities to improve the quality of livestock and livestock products and implementing fully the various strategies and programmes currently being developed.

6. Actors in livestock production systems are encouraged to diversify their livelihoods in sustainable programmes as well as participate in the diverse livestock products value chains. Diversifying livelihoods is one of the key strategies in promoting resilience in ASAL areas.

7. Expand/diversify market opportunities from business-as-usual approaches to improve market flexibility, predictability and help reduce production losses in times of shocks as experienced with the COVID-19 pandemic. This can be achieved through linking livestock farmers to local, regional, and international livestock value chains.

8. Engage in cultural heritage activities to minimize social polarization that can escalate intercommunal conflicts between pastoral communities or between pastoral and non-pastoral communities.

9. Enhance access to support services to include adequate extension services and significant affordable livestock credit and insurance through partnerships. This can be achieved effectively and efficiently by strengthening the livestock producer organizations in ASALs for more organized service delivery.

BUILDING RESILIENCE THROUGH THE DIGITAL ECONOMY

The spread of the Internet and the emergence of digital technologies in an interconnected youthful world has led to the emergence of the digital economy. All sectors of the economy now operate using digitally enabled communications and networks leveraging Internet, mobile and other technologies. The digital economy is not only important to economic growth and development but is also an important factor in building a resilient economy. The digital economy enhances socio-economic resilience during shocks and emergency situations. It enhances the ability of a society to overcome crucial challenges and return to normalcy, thereby providing a path for future development.

The performance of the digital economy, measured through Information and Communication Technology (ICT), shows that the sector contribution to GDP in 2021 declined to 2.4 per cent compared to 2.6 per cent in 2020. This is despite the sector witnessing a growth rate of 8.8 per cent in 2021. Kenya has made significant progress in the five pillars of the digital economy. It has made good progress in adoption and development of broadband infrastructure and mobile penetration but digital divide remains a major challenge to access and use of Internet.

Digital business has seen a rapid expansion in e-commerce but there is low e-commerce penetration especially at the household level. Digital government has grown overtime with the development of e-government public service delivery solutions but interoperability of government information systems remains a challenge. Digital skills at the basic level have been developed overtime but Kenya does not have a critical mass of people with intermediate and advanced digital skills among the work force. While innovation driven entrepreneurship has recorded good progress, there is need to support the growth and sustainability of innovation driven entrepreneurs and enterprises by enhancing access to advanced digital skills and responsiveness and agility to the dynamic global technology environment.

To build resilience through the digital economy:

1. Address interoperability of government information systems by reviewing and developing a framework for legal, technical, organizational and semantic layers of interoperability.

2. Enhance e-commerce penetration at household level. Digital business to focus on increasing the Business to Customer (B2C) segment by building the e-commerce capability on the customer (household side) and enhance reach and last mile connectivity in the e-commerce value chain.

3. Address digital divide by implementing programmes and projects that increase connectivity in underserved areas and make broadband services and devices affordable. This requires partnerships with the private sector and exploration of technologies to serve remote areas and renewable energy solutions

4. Enhance growth and entrenchment of digital skills across the country, by reviewing and enhancing existing programmes in the education sector for effectiveness at all levels.

5. Foster growth and development of innovation driven entrepreneurship, by building advanced digital skills of entrepreneurs and provide a dynamic policy and regulatory environment responsive to the rapidly changing global technologies to ensure global competitiveness.

LEVERAGING ON SCIENCE, TECHNOLOGY, AND INNOVATION (ST&I) FOR BUILDING A RESILIENT KNOWLEDGE BASED ECONOMY

Science, Technology and Innovation (ST&I) capabilities are critical in building economic resilience. As such, ST&I has been recognized globally, regionally, and locally as a key driver of sustainable development. For instance, the 2030 Agenda for Sustainable Development call on all countries to advance the welfare of their citizens in a sustainable manner to ensure the long-term viability of all development and growth through effective use of ST&I. Further, the Africa Union Agenda 2063 recognizes ST&I as a driver for achieving Africa's sustained growth, competitiveness, and economic transformation. Similarly, the EAC Vision 2050 recognizes ST&I as one of the enablers for social-economic transformation and development in East Africa. In Kenya, ST&I is recognized in medium term plans I, II and III as a critical enabler in achieving Vision 2030 goals.

ST&I supports building resilient knowledge-based economies through anticipation and smart preparedness for future shocks/stressors; enhanced agility and responsiveness to shocks/stressors to lessen adverse impacts. Four pillars are postulated for building a knowledge-based economy (World Bank, 2007). The first is skills encompassing all levels of learning. Second is infrastructure that supports provision of ST&I activities such as digital, space, energy, medical research and biotechnology. Third is innovation systems that facilitate innovations including research and innovation centres and universities. Fourth is the institutional structure that facilitates efficient mobilization and allocation of resources, stimulates entrepreneurship, and induces the creation, dissemination, and efficient use of knowledge.

The government is implementing education system reforms to develop skills including introduction of Competency Based Curriculum (CBC), which is focused on development of skills and their application in real life situation, increase in capacity to offer STEM courses at the universities and revamping of the Technical and Vocational Education and Training (TVET) institutions. However, there exists a significant gap of researchers in STEM fields. There is significant progress in developing digital, space, energy, medical research, biotechnology, and nanotechnology infrastructures for ST&I, but Kenya is yet to harness the enormous benefits from space, biotechnology and nanotechnology economies. Significant strides in innovative products were witnessed during Covid-19 pandemic, but innovators and innovation centres in the country are constrained by limited funding coupled with inadequate framework to support the identification, nurturing, and scaling up of innovations. While the National Research Fund has been established, research funding remains below the targeted 2 per cent of GDP as provided in the ST&I Act, 2013. In addition, the absence of techno parks and silo mentality, both in the academia and the industry, limits strong academia-industry linkages. Further, absence of the envisioned national ST&I policy hampers coordinated approach in ST&I.

To strengthen the role of ST&I in building sustainable and resilient knowledge-based economy:

1. Promote Public Private Partnerships to invest in infrastructure and in skills development. There is need to complement government investments in infrastructure particularly in space, medical research, biotechnology, and nanotechnology while skills development for anticipation and smart preparedness mainly relating on environmental shocks/stressors need to be prioritized. This calls for bringing the private sector on board to participate from the onset to the execution of the targeted projects. This can be done through the public private partnership Act of 2013 which provides for the participation of private sector in terms of financing, construction, development, operations, and maintenance as well as protection of such ST&I projects. To attract the private sector participation in such projects, there is need for creating awareness and sensitization. This partnership will support quick realization of the envisioned projects such as Kenya's Modena vaccine facility and Konza Technopolis and therefore enhancing the efforts for building economic resilience.

2. Develop and implement collaborative innovation framework for identifying, nurturing and scaling up of various categories of innovations by involving all the key stakeholders including innovators, government institutions, industries and development partners. The developed framework needs to create an enabling ecosystem to support identification, nurturing and scaling up of innovations for smart response and preparedness for shocks/stressors events through establishing accelerator programmes across counties.

3. Fast track development of a policy framework for adoption of emerging technologies and standards. The emerging technologies including Artificial Intelligence, Blockchain, Fifth Generation technology (5G), Internet of Things (IoT), Fourth Industrial Revolution (4IR) and Industry 4.0 technologies are critical in building economic resilience, hence the need to entrench them into the policy framework. Also, adopting the best practices and domesticating standards will guide the application of the emerging technologies and therefore enhance economic resilience.

4. Fast track full development and implementation of National ST&I policy. The efforts to put in place a national ST&I policy started in 2014 and to date the finalization of the policy is yet to be realized. The policy will guide the development of ST&I sector in Kenya. The envisioned policy will be critical for development of the ST&I sector including the coordination of the ST&I activities and programmes necessary for building economic resilience in the country.

ENTRENCHING A RESILIENT CREATIVE ECONOMY

Kenya's creative industries are established in traditional and cultural expressions, visual arts, performing arts, published and printed media, new media especially video gaming, audio visual, design and creative services. These industries have over the years, except for 2020, experienced growth in terms of employment and earnings. Among all the creative industries however, published and print media, did not experience decline in earnings. This resilience is attributable to continued demand from the education sector.

The potential of the creative economy is motivated by the high level of interconnectivity with other sectors, thus presenting great potential for multiplier effects; and further potential of engaging creative youth, thus leveraging on the country's youth dividend. The interconnectivity with other sectors however also establishes vulnerability of creative economy which can contribute to or result in knock-on impacts.

Creative economy can contribute to more inclusive economies through enhancing awareness on social and economic issues, enabling social cohesion and integrating marginalized communities through economic activities. Creative economy though faces significant challenges including high vulnerability to risks, which lower demand for creative products, ineffective supportive and/or comprehensive policy framework and inadequate statistics to support effective planning for the sector; capacity shortfalls; and inappropriate financial products.

To promote resilient creative economy:

1. Enhance creative skills and capacity. The first level being at the school through mainstreaming creativity in school based and county extra-curriculum activities as well as inter-school festivals and awards and strengthening institutes for higher learning to provide relevant capacity building programmes to address the capacity gaps within Kenya's creative ecosystem. This calls for enhanced policy and resource support and establishment of special programmes and schools for nurturing talent. Capacity building can further be enhanced by investing in specialized schools and relevant higher education programmes.

2. Develop sustainable creative industry infrastructure. This will allow the expression of creativity, enhance interactions and networks, strengthen innovation capacities, and leverage digital technology. In informing implementation of the 2020 National ICT Policy, the National Integrated Infrastructure Plan recommended the policy to ensure creative infrastructure is designed to maximize on interconnected, innovative and interactive creative hubs, spaces, halls, or cities.

3. Facilitate identification and promotion of appropriate innovative financial products for the creative economy players to meet the specific needs within the entire creative ecosystem. The continued government interventions to promote financial inclusion, through credit guarantee scheme and Intellectual Property (IP) backed financing facilitated by the Movable Security Rights Act, 2017, need to therefore be aimed at creative economy products. Financing can further be enhanced through review of existing funds to cater for the specialized needs of creative industries.

4. Promote the development and preservation of museums, cultural sites, cultural centres, theatres, and recreation facilities and facilitate and institutionalize cultural festivals at the national and county levels. This will serve to empower and enhance social cohesion and inclusion. This calls for the identification and mapping of cultural and heritage assets and initiatives and hastening of relevant policy and regulatory reforms such as the National Addressing System Policy and the Heritage and Museums Bill, 2021.

5. Strengthen creative industry associations through government support. This is to facilitate them to: undertake and enhance industry interactions and linkages; support market access through collaborations to benefit from economies of scale; facilitate skills and knowledge transfer; and lobby the government. Cultural cooperatives and societies can further play an important role in building the capacity of members, particularly the vulnerable, especially the youth and women, in developing and marketing cultural products that are commercially viable. The capacity development of industry associations, cooperatives and societies can be achieved through sensitizations and training while facilitating empowerment through expansion of initiatives such as the Ushanga initiative and Ajira Digital.

6. Strengthen IP rights and local content policy framework, and fast-track an e-commerce policy for the protection and promotion of domestic and international trade of creative goods.

7. Enhance capacity in culture and creative industry data collection and reporting to inform policy. This calls for the development of sector statistics plan to strengthen Kenya's cultural and creative industry statistical capacity including design for surveys.

THE ROLE OF NATIONAL VALUES IN ENHANCING SOCIO-ECONOMIC RESILIENCE

National values, that is, the generally acceptable qualities, standards, or ideals shared by members of the same nation or country, are important for sustainable development. In Kenya, values are espoused in the Constitution, and a specific set of values referred to as National Values and Principles of Governance (NV&PG) are identified in Article 10. In addition, Article 232 identifies additional set of values referred to as Values and Principles of Public Service.

At independence, strategies were put in pace to promote values into the national psyche. These include: the Harambee movement; the working nation (**Uhuru na Kazi**); and later in the 1980s the Nyayo philosophy of peace, love and unity to rally Kenyans towards peaceful and harmonious coexistence. The promulgation of the Constitution in 2010 has seen establishment of elaborate national policy and legislative frameworks on National Values including the Sessional Paper No. 8 of 2013 on National Values and Principles of Governance, and the Sessional Paper No. 9 of 2013 on National Cohesion and Integration. Further, the Kenya Vision 2030 has included National Values as a key foundation for economic prosperity. National values have been mainstreamed in institutional framework such as the public sector performance contracting framework and the national education curricula.

The challenges in inculcating national values have manifested in shocks and stressors including the attempted coup in 1982, the clamour for multi-partyism in the 1990s and the post-election violence in 2007/08. Further, the rating of indicators and indices of national values and principles of governance have remained in the low range. Some of the explanations for the modest results in inculcating national values include inadequate monitoring and evaluation, inadequate coordination across Ministries, Counties, Departments and Agencies (MCDAs), inadequate role modelling, weak transformational leadership, non-compliance with policy, legal and institutional provisions, and poor socio-economic development.

Even so, Kenya is on the right path as the country is more open and transparent about the problems and their causes. Kenya has a well-defined and progressive institutional framework regarding national values that encompasses the constitution, legislations, and the national development blueprint and its medium-term planning frameworks.

The country can further boost the inculcation of national values through:

1. Enhancing the role of the annual Presidential Report on measures taken and progress achieved in the realization of national values and principles of governance as a key monitoring tool for promoting and inculcating national values. This can be done by: incorporating use of specific indicators that track the progression of specific national values and principles of governance; setting up a clear feedback mechanism clearly outlining areas of improvement for each ministry, county, department and agency; and, enhance continuous improvements through periodic institutional analysis of actors in national values and principles of governance using pre-determined frameworks.

2. Cultivating the role of transformational leadership in inculcating national values through among others: ensuring zero tolerance towards promotion of negative values, adhering strictly to the provisions of Chapter 6 of the constitution on Leadership and Integrity and applying the sanction and reward system more rigorously and promoting training on transformative leadership.

3. Promoting and sustaining economic growth with distribution to reduce poverty and inequalities, as growth with equity is one of the overarching means of achieving some of the national values. It is also a necessary condition for sustaining positive national values.

4. Enhancing the use of education programmes to promote patriotism, ethnic cohesion and shape positive cultural practices and values. This can be achieved by enhancing the use of the quota system of education to ensure maximum co-mingling.

GOOD GOVERNANCE IN BUILDING RESILIENCE

The Vision 2030 aspires to promote good governance and a corruption free transparent environment for economic development in both public and private organisations in Kenya. In building good governance for resilience and sustainable development, control of corruption is one of the main areas of focus as corruption is regarded as one of the most serious obstacles to development.

Over time, various efforts have been made to address corruption in Kenya including enactment of various laws and establishment of various oversight and regulatory institutions. That said, various reports by the Ethics and Anti-Corruption Commission (EACC), Asset Recovery Agency (ARA), World Bank and Transparency International have consistently reported low rankings in control of corruption.

Challenges hindering a robust fight against corruption in Kenya include limited implementation of laws. While pursuing corruption cases, delayed and lengthy judicial processes and the complex nature of corruption cases undermine effective prosecution of individuals. Given the complex nature of corruption cases, which may involve money laundering, additional processes such as multi-jurisdiction investigation, mutual legal assistance and assistance from anti-money laundering and proceeds of crime institutions such as the Financial Reporting Centre (FRC) may further complicate the investigation and prosecution processes. It is evident that some duplication and overlaps in mandates and functions of oversight institutions exists. This may lengthen investigation process, spread resources thinly and may allow accused persons to take advantage of the jurisdictional conflicts to deliberately delay the process by raising procedural technicalities.

The Multi-Agency Taskforce (MAT) established a multi-institutional partnership consisting of key anti- corruption institutions (EACC, Office of the Director on Public Prosecution (ODPP), the Attorney General, ARA and FRC. This has improved speedy exchange of information and ease of tracking suspects of corruption. That said, further action in the following areas could improve governance in the country.

1. Given the successes and effectiveness of asset recovery mechanisms, it is important that EACC bolsters its asset recovery strategies related to corruption through collaboration with complementary anti-corruption and oversight institutions.

2. Re-engineer to focus EACC resources to cases of serious fraud and economic crimes as opposed to cases which require administrative actions that can be reported to other public oversight and regulatory agencies that have a key mandate to handle such cases.

3. Review functions of oversight or disciplinary institutions or commissions with a view to address potential duplication and managing incidents of overlapping jurisdiction.

4. Promote use of corruption prevention mechanisms such as systems reviews which are carried out by EACC. EACC can build awareness on the benefits of institutionalizing corruption prevention.

5. Engage the private sector in supporting anti-corruption initiatives and promoting their entrenchment within their organisations. Sanctions such as those envisioned in the Bribery Act, 2016 need to be reinforced.

6. Deepen the use of social accountability tools spearheaded and supported by citizens and local communities to provide a strong monitoring and reporting system for public officers.

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The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Bishops Garden Towers, Bishops Road
P.O. Box 56445 00200, Nairobi, Kenya
Tel: +254 20 2719933/4
Fax: +254 20 2719951
Cell: +254 724 256078, 736 712724
Email: admin@kippra.or.ke
Website: www.kippra.org