The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Policy Brief

Thinking Policy Together

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COST OF LIVING AND THE ROLE OF MARKETS

1. Overview

*This Policy Brief is based on the Kenya Economic Report (KER) 2023, themed **'Cost of Living and the Role of Markets'**. As the economy started recovery from the adverse effects of COVID-19 pandemic, it was hit by a prolonged severe drought and global supply chain disruptions, which saw inflation rapidly increase from 5.1 per cent in February 2022 to 9.6 per cent in October 2022, and marginally declined to 7.3 per cent in July 2023. Various policy measures were employed to contain the high cost of living, including subsidies on essential commodities, increase in minimum wage and tightening of monetary policy. This notwithstanding, markets are more efficient in resource allocation, coordination and distribution. The KER 2023 considers three broad markets comprising of the factor, product and financial markets. The factor markets are the markets for inputs used in production processes including markets for labour, land and capital. The product markets are markets for goods and services, while the financial markets aid in financial intermediation, such as savings and credit. The analyses in the Report also covered enablers of well-functioning markets, including macroeconomic stability, rules that define the conduct of the market participants, and supporting functions such as infrastructure, skills, technology and access to quality information. Well-functioning markets encourage exchange and increased production at lower costs.*

The Report covers a review of recent macroeconomic performance, discusses the medium-term prospects and provides detailed analyses on drivers of inflation in Kenya. It also provides analyses on sectoral and thematic areas, including food inflation, minimum wage, credit markets, food manufacturing, trade, electric mobility, and enabling role of the government in making markets work. Thus, the Report provides recommendations that span product, factor and financial markets while considering the enabling role of the government towards promoting effective interactions of demand and supply to help manage cost of living.

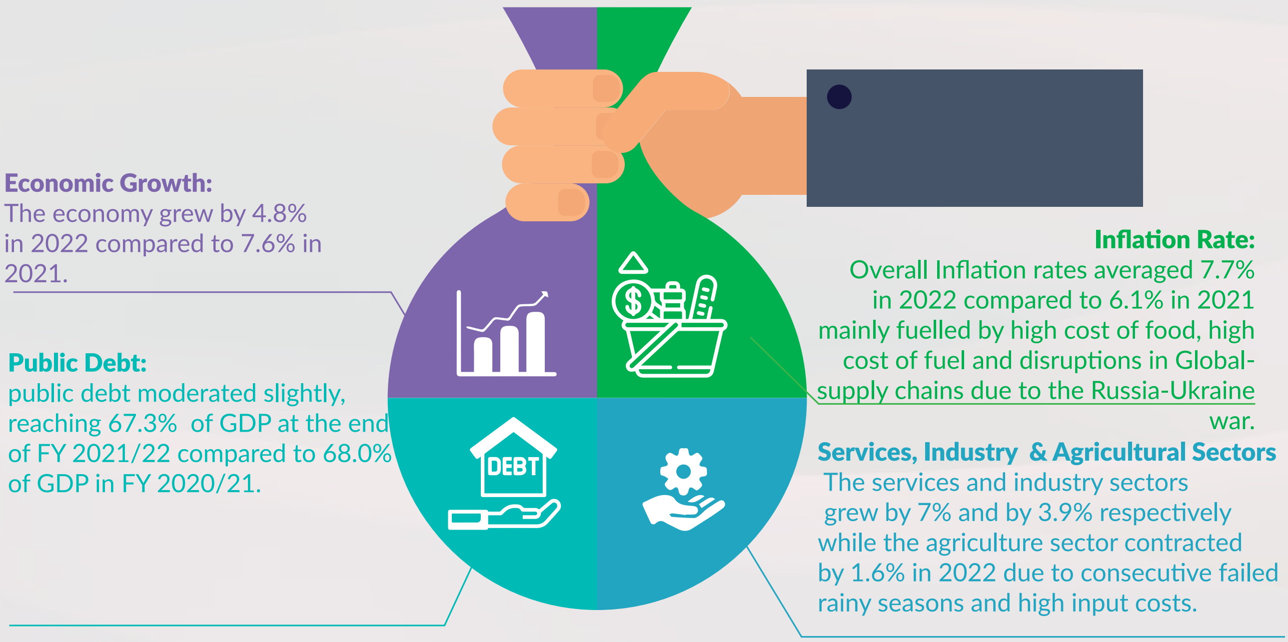
2. Macroeconomic Performance and Medium-Term Prospects

The economy has shown resilience in recent years, despite being hit by multiple shocks. It rebounded strongly in 2021, recording a 7.6 per cent growth rate compared to a contraction of 0.3 per cent in 2020. Signs of recovery continued in 2022 albeit at a slower momentum with a growth rate of 4.8 per cent realized. This was reinforced by strong performance in services and industrial sectors, which grew by 7.0 per cent and 3.9 per cent, respectively, while the contraction of 1.6 per cent in agriculture slowed the growth rate. The contraction in agriculture sector was mainly driven by four consecutive depressed rainy seasons and rising cost of inputs.

Employment in the post-COVID period continued to show recovery. In 2022, a total of 816,600 new jobs were created compared to 925,900 new jobs created in 2021. Of the new jobs created in 2022, the informal sector accounted for 73.9 per cent. Majority (73.2%) of the informal sector employment is in the services sector, while 22.9 per cent are engaged in the industrial sector. Further, wage employment shows that the majority are in the education sector (20.9%) followed by manufacturing (11.7%), agriculture, forestry, and fishing (11.7%) and public administration and defence (11.1%). Moreover, 82.9 per cent of workers in wage employment are regular employees while 17.1 per cent are engaged on casual basis. On the gender dimensions, women aggregate share of total wage employment was estimated at 38.3 per cent, with the largest share being involved in household activities[1] (66.4%), human health and social services activities (56.0%), agriculture, fishing, and forestry (47.5%), financial and insurance activities (45.6%) and education (45.4%).

Inflation rate exceeded the government target band (5% plus/minus 2.5%) for the first time in five years. It averaged 7.7 per cent in 2022 compared to 6.1 per cent in 2021. The inflationary pressures were mainly driven by rising global commodity

1 Household activities include caretakers, babysitters, maids, cooks, waitresses, launderesses, gardeners, secretaries; for which the services are consumed by households.



prices, high food prices, pass-through from international fuel prices and global supply chain disruptions. During the year, monetary policy was tightened to anchor inflationary expectations while supporting economic recovery through adequate liquidity provision. The Central Bank Rate (CBR) was raised by 1.75 percentage points from 7.00 per cent at the end of December 2021 to 8.75 at the end of December 2022. At the end of June 2023, the CBR had been gradually increased to 10.5 per cent.

The fiscal deficit narrowed at the end of 2021/2022 to 6.5 per cent of Gross Domestic Product (GDP) due to increased revenue collections after the removal of COVID-19 fiscal stimulus and rebound in economic activities. Moreover, the government's heightened efforts towards efficient public spending moderated public expenditure. Total revenue improved from 16.0 per cent of GDP in 2020/21 to 17.3 per cent of GDP in 2021/22. Meanwhile, total expenditure reduced from 24.5 per cent of GDP in 2020/21 to 23.7 per cent of GDP in 2021/22. Projections for 2022/23 indicate that expenditure and revenue would be 23.4 per cent of GDP and 17.4 per cent of GDP, respectively. As a result, fiscal deficit is expected to narrow down to 6.0 per cent at the end of 2022/23. Notwithstanding the narrowed fiscal deficit, as of March 2023, public debt was Ksh 9.4 trillion (64.7% of GDP) equivalent to 94 per cent of the debt ceiling, which was set at Ksh 10 trillion. Domestic debt stood at Ksh 4.5 trillion (48% of the total debt). The increase in debt is largely on account of increased external disbursements, exchange rate depreciation and increased uptake of domestic debt during the period.

External balance was impacted by global trade disruptions and strengthening of the US dollar in the international markets. Current account deficit narrowed from 5.5 per cent of GDP in 2021 to 5.1 per cent of GDP in 2022, supported by improved merchandise trade balance. Exports grew by 16.9 per cent in 2022 compared to 16.1 per cent in 2021 while imports expanded by 13.0 per cent compared to 30.2 per cent growth in 2021. Services account, largely dominated by remittances, strengthened the current account position by recording a surplus of Ksh 136.4 billion. On the contrary, capital inflows declined from Ksh 21.5 billion in 2021 to Ksh 16.5 billion in 2022.

Against this backdrop, GDP growth is expected to rebound in the near- to medium- term. The economy is projected to grow by 5.7 per cent in 2023, and on average 6.1 per cent annually in the medium-term, supported by broad-based growth. This will be driven by growth in investments and exports as anchored in the Bottom-up Economic Transformation Agenda. This notwithstanding, the medium-term growth outlook is not without risks. The key downside risks to the outlook are weather shocks and uncertainty from the global geopolitical developments. On the upside, the country is leveraging on macroeconomic and political stability, and implementation of priority projects and programmes under the Bottom-Up Economic Transformation Agenda to spur economic growth. Should the downside risks materialize, economic growth may slow down to 5.5 per cent in 2024 and average 5.8 per cent in the medium-term.

To enhance macroeconomic stability and to support strong growth and reduce the cost of living:

1. Accelerate investments in agriculture sector for strong growth and stable food prices. This includes subsidizing inputs to make them affordable, upscaling irrigated agriculture and adopting climate smart practices. This will revamp the sector's resilience to weather-related shocks and provide fresh impetus for agriculture sector growth. Further, make adequate budget provisions for the services and manufacturing sector to sustain

growth and enhance employment creation.

2. Timely and adequate monetary policy response during inflationary period is necessary to maintain price stability. In addition, this will help to moderate the second-round effects of food prices and oil prices on core inflation, and possible wage-price spiral effects.

3. Maintain the fiscal consolidation path to build fiscal buffers and bring public debt towards a more sustainable level. This can be achieved through enhanced revenue mobilization by expanding the tax base, ensuring that every eligible Kenyan pays their fair share of tax, rationalizing public expenditure and cutting back vulnerabilities in state-owned enterprises, and preferring external public debt on concessional terms.

4. Accelerate growth and diversify exports to improve external balance. This includes up-scaling production of major export commodities (horticulture, tea, and coffee) and seeking new markets for exports. This helps to narrow the merchandise trade deficit and ease pressure on the current account. Additionally, foster a favourable business environment to encourage growth in remittances to strengthen the secondary income account. Overall, strengthening external position will help boost foreign exchange reserves and reduce pressure on the shilling.

5. Fast-track the implementation of priority projects and programmes under the Bottom-Up Economic Transformation Agenda to ensure sustained economic growth and improved welfare.

3. Inflation Dynamics in Kenya

Inflation averaged 7.7 per cent in 2022, peaking at 9.6 per cent in October 2022, before marginally easing to 7.3 per cent in July 2023. Noteworthy, inflation rate has previously crossed the 7.5 per cent upper band limit; for instance, averaging 14.0 per cent in 2011 and 8.0 per cent in 2017. Inflation episodes are generally driven by supply-side shocks, including drought and external shocks that adversely affect exchange rate movements, and international oil and commodity prices. Considering that 32.9 per cent of the consumer basket is mainly food, inflationary pressures in Kenya tend to be a food phenomenon. For example, food inflation averaged 13.1 per cent in 2022 compared to 8.6 per cent in 2021 while core inflation averaged 3.0 per cent in 2022 compared to 2.4 per cent in 2021.

The inflation dynamics reveal presence of potential second round effects of inflation and possible wage-price spiral effects. This implies that whenever oil and food prices increase, core inflation – which measures increases in non-fuel and non-food prices – also increases. Additionally, labour markets exhibit increased agitation for wage increases, which points to possibility of wage-price spiral effects. Upon a shock, inflationary pressures in Kenya could last for about six quarters before reverting to the government target band.

To bring down inflationary pressures in Kenya the following are recommended:

1. Enhance availability of affordable food to lower the cost of living. This can be achieved by recalibrating the national policy towards scaling up investments in domestic food production and enhancing agricultural productivity. This calls for increased budgetary allocations to finance agricultural investments, and provision of subsidies to boost food production levels.

INFLATION DYNAMICS

- Inflation is a food phenomenon, with prolonged dry weather interfering with food supply which in turn put pressure on prices with implications on affordability.
- Inflation episodes occur in periods when the country experiences irregular rainfall and prolonged drought conditions.
- Overall inflation rates averaged 7.7% in 2022 with food inflation averaging 13.1%.
- Overall inflation is driven by exchange rate depreciation which increases the cost of imported goods and services; global food and commodity supply chain disruptions and drought that disrupts domestic food supply.

TO MANAGE INFLATIONARY PRESSURES:

- Scale up investments to increase domestic food production and enhance agricultural productivity.
- Timely and adequate monetary policy response to inflationary pressures to maintain price stability.

2. Monetary policy response to inflation pressures needs to be timely and adequate to ensure price stability is maintained and second round effects are minimized. Furthermore, removal of price-related incentives such as subsidies needs to be done in a phase-out fashion to manage implications on the consumers.

3. Remain vigilant to global developments for timely policy action in addressing vulnerabilities that may arise from the international markets.

4. Food Inflation and Cost of Living

The government has over time implemented various measures to shield consumers from high food prices, including consumption subsidies on the demand side, and on the supply side, strategic grain reserves, fertilizer subsidies, investments in irrigation, agricultural extension services and tax exemptions on food importation and some agricultural commodities. That said, the country experiences surges in food prices during drought periods. This is further exacerbated by high cost of food production due to high energy prices and high international fertilizer prices that result to high cost of imported fertilizer. Furthermore, global food inflation and depreciation of exchange rate makes food imports more expensive. In addition, poor market infrastructure constrains distribution and access to markets, which results in situations where market glut coexists with food shortages across the counties.

To stabilize food prices and potentially lower the cost of living:

1. Enhance agricultural productivity by promoting crop diversification and improved crop variety. This includes promoting local indigenous food crops that are less affected by extreme weather conditions. There is need to also enhance research activity to ensure that resilient crops are developed depending on the regional climatic conditions and soil types.

2. Promote irrigation systems such as drip irrigation, utilization of underground water in the ASALs, and water harvesting by facilitating financing of rainwater harvesting

FOOD INFLATION AND COST OF LIVING

Food inflation rose from 8.9% in January 2022 peaking to 15.8% in October 2022 before easing to 8.6% in July 2023.

Kenyans spend 54.3% of their income on food. An increase in food prices reduces the purchasing power and therefore limits the quantity and quality of food purchased and consumed by households.

Weather conditions influence food prices. Low rainfall seasons result in low food production which translate to high food prices.

The government has increased investments to improve local food supply by supporting farmers to increase production and importation.

TO STABILISE FOOD PRICES & LOWER COST OF LIVING

Enhance investment and create awareness of smart agricultural practices to help in building resilience against climate change risks.

Fast track the establishment of local fertilizer plant to reduce the country's overreliance on high global fertilizer prices.

Strengthen kitchen garden technologies, including urban farming, farms in schools and other learning institutions.

Promote post-harvest management of fresh produce to minimize post-harvest losses.

technologies. In addition, promote kitchen garden technologies, including in urban areas and learning institutions.

3. Fast-track the establishment of local fertilizer production plants in the country. This will help to reduce exposure to high global fertilizer prices, hence reduce the cost of food production. In addition, it is important to support farmers to diversify the types of fertilizer to include the use of organic fertilizer, which is cheaper.

4. Promote post-harvest management of fresh produce to minimize post-harvest losses. This can be achieved through agri-food processing and adequate storage facilities to help mitigate the effects of seasonal supply disturbances, thereby stabilizing prices at all seasons.

5. Improve on market infrastructure through rehabilitation of rural roads and feeder roads. Further, promote adoption of ICT to improve market information flows through use of modern information technologies such as mobile phones, Internet, and social media to help farmers access information about market prices, weather patterns, and other critical market information. In addition, support establishment of sustainable market information systems for dissemination of market information to farmers and other stakeholders.

6. Enhance targeted social safety net programmes to protect the poor and vulnerable groups such as orphans, elderly and people with disabilities from food inflation shocks. Early warning systems on weather shocks can be used to ensure that social safety nets are in place before a crisis occurs.

5. Minimum Wage and Cost of Living

Minimum wages serve to protect workers from receiving extremely low wages, allowing them to meet their essential basic requirements. Kenya has implemented minimum wage regulations aligned with the International Labour Organization (ILO) conventions and Sustainable Development Goal 8, specifically Target 8.5, which aims to promote inclusive economic growth and decent work. The minimum wage is established through the Labour Institutions Act, 2007; the Employment Act, Cap 229, and the minimum Wages Order. Whereas minimum wage is legislated, its implementation in Kenya has faced limitations in compliance and enforcement, which has resulted in workers not receiving the intended benefits of minimum wage. This issue arises from several factors, including the limited capacity of enforcement agencies in terms of staffing and resources, the prevalence of informal employment, and the low awareness among workers and employers. Moreover, the minimum wage structure varies across sectors, locations, and skill levels. The increase in the statutory minimum wage has not matched the rising cost of living. While the minimum wage rose by 12 per cent in 2022, the overall cost of essential goods and services increased by an average of 22 per cent, thereby reducing the purchasing power of low-income workers. Furthermore, the minimum wage rate only covers approximately half of the expenses required for a decent standard of living. The majority of workers still earn below minimum wage, accounting for 77 per cent of total workers, out of which 29 and 71 per cent are in the formal and informal sectors, respectively.

To address the cost of living through minimum wage policy:

1. Align the minimum wage to prevailing living wages based on trends in the cost of living and economic conditions. This is in line with the Bottom-Up Economic Transformation Agenda that aims to enhance the productivity of workers in the informal sector, thereby enabling the industries to pay workers a living wage.

2. Strengthen enforcement of minimum wage policy in the informal sector to ensure that all workers are paid at least the minimum living wage. This can be done through building capacities of enforcement agencies to oversee compliance of the minimum wage policy. Employers and employees need to be made aware of the rights provided within the minimum wage laws. This could be done through campaigns conducted in various channels such as print and social media.

MINIMUM WAGE

Kenya has a minimum wage policy in place and has legislated its implementation through the Labour Institutions Act of 2007; aligning with the International Labour Organization (ILO) conventions. The policy only applies to salaried workers in the formal sector, leaving many workers in the informal sector without coverage, yet they account for about 83 per cent of total employees. Kenya increased minimum wage amount by 12 per cent in 2022. However, the cost of the minimum basket increased by an average of 22%.

TO ENSURE THAT THE MINIMUM WAGE EFFECTIVELY ADDRESSES THE COST OF LIVING AND IMPROVES THE WELL-BEING OF INDIVIDUALS WITH LOW INCOME

1. Align the minimum wage with the prevailing minimum living wage based on the cost-of-living trends and current economic conditions. This will ensure that workers are able to afford a decent standard of living.

2. Strengthen compliance and enforcement measures by raising awareness to enhance the implementation of minimum wage in the informal sector.

3. Strengthen enforcement of the minimum wage so that every eligible worker is paid as stipulated in the law.

4. Provide a comprehensive social protection system such as provision of reliable and affordable public transport, housing and universal health care to cushion the minimum wage earners against the high cost of living.

3. Provide a comprehensive social protection system (other than minimum wage) targeted for the poor and vulnerable to improve and sustain their livelihoods and welfare. This can be done through provision of reliable and affordable public transport for workers, housing, universal health care and universal education to cushion the minimum wage earners against the high cost of living. The social protection system will compensate the household budget in meeting their basic needs.

6. Role of the Credit Market in Managing the Cost of Living

The credit market offers various products that can be relied on by households to smooth expenditures when faced with income shocks. The 2021 FinAccess household survey reveals that households experienced major income shocks, including high cost of living, health-related incidents, job losses, and deaths and that they do not have adequate buffers against these shocks. However, adequate coping strategies seem unfeasible for most households, with the use of products from formal credit markets and insurance less common. Households, particularly in rural areas, rely on sale of productive assets, especially livestock, when faced with shocks such as high cost of living. This strategy may be detrimental to their general productivity and expose them to risks of poverty. Other shocks managed by sale of assets are mainly sicknesses and climate-related events such as droughts. Health insurance cover is an effective protection against health-related events and other income shocks, but its use as a coping strategy is relatively low compared to other strategies. Households use insurance mainly to manage health-related shocks. Further, the use of insurance reveals great disparities across gender, with males more likely to use insurance cover.

To reduce households' vulnerability to various shocks:

1. Expand formal insurance products to help households cope with various

1. Most households have inadequate buffers against income shocks with the main coping strategy to cost of living shocks being cutting back on expenses or adjusting consumption patterns.
2. Households also borrow from formal and informal channels to cope with various shocks such as high cost of living and health challenges.
3. Access to formal credit is generally limited and heavily linked to employment and wealth.
4. The use of formal insurance schemes is generally limited. Only one per cent of households used insurance to cope with various shocks.

TO STRENGTHEN HOUSEHOLDS' RESILIENCE TO SHOCKS SUCH AS HIGH COST OF LIVING THROUGH THE CREDIT MARKET:

- Deepen the formal credit market to foster access to different financial products that can be used by households to overcome various shocks such as high cost of living.
- Expand health insurance coverage to enable households access essential healthcare and through expansion of the existing health insurance coverage and fast-tracking transition to universal health coverage.
- Scale up investment in well targeted social protection programmes to enable vulnerable households smoothen consumption in periods of high cost of living.
- Expand the credit guarantee scheme to increase the number of participating banks to de-risk lending to households to promote access to business loans. This is critical in building long-term resilience for businesses.

health incidents and climate-induced shocks. This requires expansion of existing health insurance schemes to address catastrophic health expenditure and fast-track transition to the Universal Health Coverage (UHC). Additionally, livestock and crop insurance schemes are critical for the agriculture sector, which is prone to weather-related shocks. This will build the resilience of rural households who are heavily reliant on agriculture.

2. Strengthen the formal credit market to offer innovative products that can be used by households to overcome various shocks such as high cost of living and reduce over-reliance on informal credit. Commercial banks and other financial institutions could redesign their loans to address challenges encountered by households when faced with high cost of living. This can minimize distress sale of livestock used mainly by rural households as a coping mechanism.

3. Scale up social protection programmes to enable vulnerable households smooth their consumption given that reliance on social networks becomes unsustainable. For example, social protection can enable food insecure households increase their spending on nutritional foods in the event of shocks.

4. Expand credit guarantee scheme to enhance lending to households' businesses and the under-lent sectors such as agriculture as a channel for building households' long-term resilience. In addition, use of the Warehouse Receipt System can be enhanced to improve access to credit by those in the agriculture sector.

7. Leveraging on Food Manufacturing Towards Lowering the Cost of Living

Manufactured food products account for 25 per cent of consumer expenditure, with substantial implications for the cost of living through the price transmission channels. Manufacturing enables processing of primary products to smoothen food supply, thus cushioning against seasonality related supply volatility. There are, however, costs involved in food manufacturing, which if not managed affect consumer prices. Food manufacturing faces constraints related to supply of raw materials, technology, innovation and production capacity. The constraints in supply of raw materials are mainly occasioned by droughts that disrupt agriculture production. Food manufacturing that depends on imported inputs faces high costs of production, through exposure to price changes in the international markets. The cost of production feeds into the consumer prices, suggesting price transmissions from manufacturing to consumer prices. Low technology adoption, policy uncertainty, low access to affordable credit and skills hinders capacity utilization, especially among the Micro and Small Enterprises (MSEs) that account for 86 per cent of the food manufacturers.

To address the cost of living through manufacturing:

1. Address the constraints related to the supply of raw materials for food processing. Key considerations include strengthening the value chain that leverages on the cooperative model for economies of scale in supply of raw materials. It is also imperative to support raw material supply through infrastructure such as aggregation centres and storage facilities. The aggregation centres will help overcome low economies of scale in sourcing raw materials from individual farmers. Storage infrastructure, including cold storage facilities are key considering perishability of raw materials for food processing, such as fruits, vegetables and tubers.

LEVERAGING ON FOOD MANUFACTURING TOWARDS LOWERING COST OF LIVING

- Manufactured food products account for 24.8% of the consumer expenditures basket in Kenya, presenting substantial implications for cost of living through price channels.
- Food and beverages account for 10.9 % of manufactured imports.
- Food manufacturing in Kenya is prone to supply disruptions, especially those emanating from droughts that adversely affect agricultural production.
- 55 % of the manufacturing GDP is in food and beverage processing, which is dependent on agriculture for raw material supplies.
- The cost of intermediate input, especially raw materials, is a key driver of cost of food manufacturing, with potential influences on consumer food prices.

TO LOWER COST OF LIVING THROUGH MANUFACTURING:

1. Reduce the constraints related to the supply of raw materials for food processing by strengthening the value chain.
2. Support food manufacturing MSEs by strengthening technology upgrading and capacity utilisation.
3. Strengthen and expand the institutional support for MSEs on a model based on one-stop shop, like the Kariobangi MSEs Centre of Excellence.

2. Support food manufacturing MSEs in technology upgrading and capacity utilization. This includes through access to finance and skills development, market access opportunities, enhanced access to inputs and improved policy predictability. This could be considered within the broader business environment interventions of infrastructure support, such as access to worksites.

3. Strengthen and expand the institutional support for MSEs on a model based on one-stop shop, such as the Kariobangi MSEs Centre of Excellence. It is imperative to fast-track completion of other planned centres of excellence in the medium term. Fast-tracking infrastructure support, standards and capacity building anchored on business development centre in every ward is also key as articulated in the government priorities.

8. Trade And Cost of Living

Trade is the channel that links consumers with markets locally and globally. It also influences setting of prices, with the effects being passed on to final products purchased by consumers. The channels through which cost effects are transmitted to commodity prices and consequently to consumer prices include logistics and tax adjustments. Distribution (freight and insurance) and warehousing costs filter into trading costs and are ultimately reflected in commodity prices, which have direct linkage with the cost of living. Tax adjustments on commodities also filter into final commodity prices faced by consumers and this consequently affects the cost of living.

To improve the allocative and pricing function of trade:

1. Finalize development of the central registry by the Warehousing Receipt System Council (WRSC) to promote real time monitoring of food stocks

TRADE AND COST OF LIVING

The allocative and pricing function of trade is prone to distributional bottlenecks and adjustments in tax policy.

Distributional bottlenecks are reflected in freight, insurance, and warehousing costs. Tax adjustments are reflected in taxes like VAT, customs, and excise duties. The ensuing cost effects filter into commodity prices then into consumer prices.

Information asymmetry between government and players in the consumer goods value chain creates artificial shortages which translate to distortions in the pricing function of trade.

The evidence also reveals that marginal reductions in VAT on animal fats and vegetable oils could avail more disposable income to poorer households and smoothens consumption.

TO IMPROVE THE ALLOCATIVE & PRICING FUNCTION OF TRADE:

1. Finalize development of central registry by the Warehousing Receipt System Council (WRSC) to enhance transparency in warehousing receipt system to improve efficiency in food distribution.
2. Incentivize local MSEs to tap into opportunities in the local logistics industry and enhance distribution of consumer commodities from regions with surplus to regions with shortages
3. Diversify import sources for essential consumer goods especially unmilled wheat to cushion consumers against rise in cost-of-living emanating from the global supply chain disruptions.
4. Reduce VAT on animal fats and vegetable oils to cushion poorer households from rural areas against erosion in cost of living.

and inform government decisions on food acquisition and distribution.

2. Incentivize MSEs to tap into opportunities in the local logistics industry and enhance distribution of consumer commodities across the country. This is possible with the expanding access to the Financial Inclusion Fund (Hustler Fund) among local MSEs in the logistics sector. Access to the Warehouse Receipt System by the MSEs could also enable them to use the warehouse receipts as collateral for accessing credit.

3. Diversify import sources for essential consumer goods especially unmilled wheat to cushion consumers against rise in the cost of living emanating from distributional bottlenecks linked to the global supply chain disruptions.

4. Reduce VAT on animal fats and vegetable oils to cushion poorer households from rural areas against erosion in cost of living. It raises the disposable incomes available to the households and smoothens consumption.

9. Accelerating Adoption of Electric Mobility for Affordable and Sustainable Transport in Kenya

Households spend about 10 per cent of their expenditures on transport, with a substantial exposure to international oil prices that are passed on to the local pump prices. Adoption of electric mobility is a strategic shift to reduce reliance on fossil fuels. Electric mobility offers an innovative way to provide affordable and sustainable transport for efficient and timely movement of people, goods and services. The analysis of performance of electric mobility sector based on the value chain approach indicates huge potential towards reducing the cost of living as compared to fossil fuel vehicles. It is noted that the current mobility model is dominated by imported second-hand fossil fuel vehicles, making it a key contributor of greenhouse carbon emissions and hence unsustainable for future transport. It is also observed that the electric mobility sector is in its early stages in Kenya, with a potential to grow. In the recent past, Kenya has experienced increased number of innovations, startups and investors largely targeting the 2 and 3-wheelers. Notably, Kenya

ACCELERATING ADOPTION OF ELECTRIC MOBILITY FOR AFFORDABLE AND SUSTAINABLE TRANSPORT IN KENYA

Electric mobility is instrumental in achieving affordable and sustainable transport in Kenya.

Adoption of electric mobility also known as vehicle electrification is an innovative way to reduce the burden of fossil fuels on the cost of living.

Transport sector is one of the main contributors of greenhouse carbon emissions in the country due to the predominant use of fossil fuel vehicles.

Electric mobility presents an opportunity to generate additional funds required to support maintenance, rehabilitation and development of roads that largely depend on the fuel levy collections.

TO LEVERAGE ON ELECTRIC MOBILITY TOWARDS AFFORDABLE AND SUSTAINABLE TRANSPORT:

- Partner with private sector players to build adequate charging infrastructure and battery-swapping stations across the major routes in the country.
- Introduce subsidized charging fee, offer reduced insurance and license plates fees and free parking in public areas to support efforts towards accelerating the adoption of electric mobility.
- Fast-track the approval of the draft National Electric Mobility Policy Framework to enhance sector-wide coordination in supporting its growth.
- Explore public private partnership in assembling, distribution and selling of electric vehicles to build a home-grown supply chain for new electric vehicles.
- Tap into the Financial Inclusion Fund ('Hustler Fund') and the Climate Change Fund to support innovations and startups in the electric mobility sector.
- Amend the Road Maintenance Levy Fund Act, to generate additional revenue from the electric mobility
- Expand and modernize power grid to enhance distribution and billing for smart charging.

is a home to over 2 million motorcycles and majority of the riders are showing interest to convert their motorcycles to be electric because of the ability to save on fuel and maintenance while doubling their income. The development of electric mobility sector is constrained by inadequate charging infrastructure across the country, limited availability of technical skills to carryout retrofitting, low awareness on the benefits of electric mobility, and absence of a comprehensive electric mobility policy framework to enhance sector-wide coordination.

To leverage on electric mobility towards affordable and sustainable transport:

1. Partner with private sector players to build adequate charging infrastructure and battery-swapping stations across the major routes in the country. Further, issuing of guidelines to establish charging facilities in public parking and new residential buildings will support efforts to build essential infrastructure.

2. Prioritization of the development of retrofitting (conversion/modification of fossil fuel engines to electric engines) skills for second-hand fossil fuel vehicles with emphasis on 2 and 3-wheelers will ultimately cut down the shifting costs. Further, there is a need to develop technical standards to guide successful retrofitting of fossil fuel vehicles.

3. Stimulate demand and adoption of electric mobility by setting targets for possessing electric vehicles by public agencies and subsidizing charging fee, insurance and license plates fees and offering free parking in public areas.

4. Tap into the Financial Inclusion Fund ('Hustler Fund') and the Climate Change Fund and amend the Road Maintenance Levy Fund Act, 1993 to generate additional revenue to support innovations and startups in the electric mobility sector.

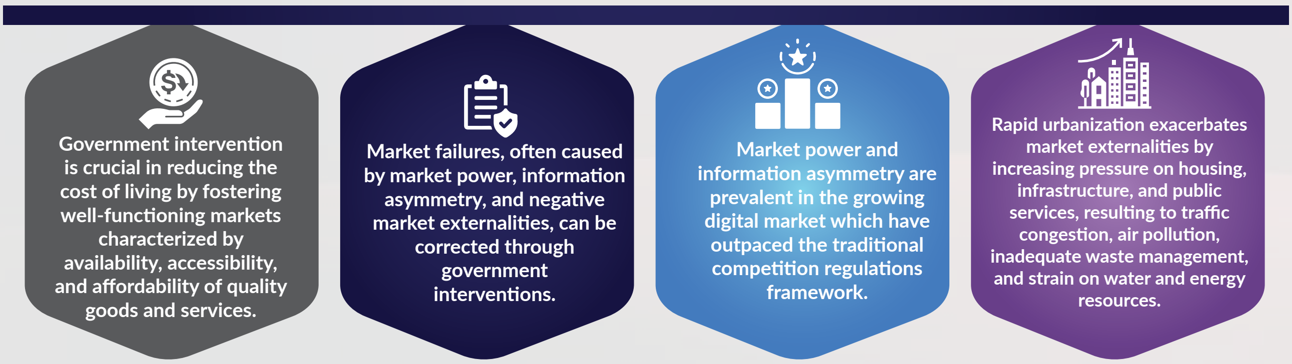
5. Expand and modernize the power grid to enhance distribution and billing for smart charging and fast-tracking the development and approval of the National Electric Mobility Policy Framework to enhance sector-wide coordination in electric mobility.

10. Government Interventions Towards Making Markets Work

Government interventions are crucial in reducing the cost of living by fostering well-functioning markets characterized by availability, accessibility, and affordability of quality goods and services. The government has established robust policy, legislative and regulatory framework to address inefficiencies and inequities within the market system that may cause market failure. However, there are gaps that hinder their effectiveness. For instance, rapidly growing technology-based markets are outpacing the existing regulations. Technical language and digital divide have exacerbated information asymmetry, disproportionately affecting rural populations as they face inadequate access to Internet infrastructure and the necessary skills to navigate the online markets. Moreover, rapid urbanization has exacerbated market externalities by increasing pressure on housing, infrastructure, and public services, resulting to traffic congestion, air pollution, inadequate waste management, and strain on water and energy resources.

To enhance effective government interventions:

1. Develop adaptable and comprehensive competition and sector-specific regulations that



TO ENHANCE EFFECTIVE GOVERNMENT INTERVENTIONS:

1. Develop adaptable and comprehensive competition and sector-specific regulations that keep pace with evolving market dynamics which accommodates emerging technologies and industries.
2. Update the competition framework to accommodate the unique barriers of MSEs which would ease their regulatory surveillance and enforcement mechanisms.
3. Implement multilingual product labelling and standardization incorporating minority languages to cater for all consumers including the minority.
4. Establish and enforce standardization guidelines for consumer goods to make it easy for customers to compare and understand products.
5. Bridge the digital divide through establishing internet infrastructure and internet education in rural areas.
6. Enhance implementation of sustainable urban planning that prioritize efficient land use, improved public transportation, and eco-friendly infrastructure.
7. Establish and enforce comprehensive e-waste management policies that promote recycling, safe disposal, and the use of environmentally friendly materials in the production of electronic devices.
8. Strengthen healthcare systems to manage the burden of infectious diseases and address the growing abuse of medicated drugs.

keep pace with evolving market dynamics, which accommodate emerging technologies and industries. The regulations need to accommodate the unique barriers of MSEs, which would ease their regulatory surveillance and enforcement mechanisms within this sector.

2. Establish and enforce standardization guidelines for consumer goods, making it easy for customers to compare and understand products. Moreover, ensuring consistency in product labeling and specifications enable customers to make more informed decisions. This could be coupled with implementing multilingual product labeling and standardization to incorporate minority languages to cater for all consumers including the minority.

3. Enhance implementation of sustainable urban planning that prioritize efficient land use, improved public transportation, and eco-friendly infrastructure. This includes establishment and enforcement of comprehensive e-waste management policies that promote recycling, safe disposal, and the use of environmentally friendly materials in the production of electronic devices.

NOTES

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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