

## Credit Access

# Securing Future Growth

## Policies to Support Kenya's Digital Transformation

Kenya continues to experience steady economic growth, with real GDP expanding on average by about 5.6 percent over the last five years (2014-2018). In 2019, however, economic activity has softened primarily due to lower agricultural output and weak private sector investment. As a result, the World Bank projects Kenya's growth at 5.8 percent for 2019 and settling at around 5.9 percent over the medium term. The weakening of private investment partly reflects crowding out from widening fiscal deficits and relatedly limited access to credit by the private sector (growing by about 6.3 percent in August 2019). Against this backdrop, it is my great pleasure to present the twentieth edition of the World Bank's Kenya Economic Update. The report contains three main messages.

First, the fiscal out-turn data released by the National Treasury (NT) in September 2019 shows a substantial increase in the budget deficit for FY2018/19, calling for stronger measures to return Kenya to a path of fiscal consolidation. The fiscal deficit grew to 7.7 percent of GDP in FY2018/19 from 7.4 percent in the previous year - missing the target in FY2018/19 (of 6.8 percent of GDP) by almost a full percentage point of GDP. This in turn has resulted in the crowding out of the private sector, an unanticipated rise in public debt stock, and the continuation of slow private sector credit growth. This calls for credible adjustment measures by the government to place fiscal accounts back on a prudent trajectory. These should include actions to increase revenue, make revenue projections more realistic, and strengthen expenditure controls and cash management. In addition, measures to adjust the government's borrowing plans are essential to rebalance the public debt portfolio towards lower cost and longer-maturity debt, hence reducing its vulnerability to market instability as well as creating fiscal space.

Second, while the macroeconomic environment remains broadly stable with low inflation and a manageable current account deficit, interest rate caps have constrained the operating environment for the banking sector and reduced the effectiveness of monetary policy. The repeal of interest rate caps (if approved) is a welcome development that should be accompanied by complementary banking sector reforms. The removal of interest rate caps should eliminate what has been a powerful disincentive for banks to lend to SMEs and restore the potency of monetary policy. Reforms that address the root causes of high interest rates could be fast-tracked to accompany this step. These include fiscal consolidation (directed at lower government domestic borrowing), measures that strengthen credit-information sharing and promote transparency in pricing of credit. The success of innovative products such as STAWI should also be supported.

Third, to secure Kenya's digital future, there is need to "digitally enable" every individual, business and prepare the entrepreneurship ecosystem to capitalize on recent churning of innovative startup stage digital ventures. These startups require support to graduate to a higher growth stage - so they can become enterprises that will have a big impact on overall economic growth and jobs creation. In order to keep pace with the rapid digital transformation, strengthen personal data protection, and address growing market concentration, enactment of pending legislations need to be fast-tracked. Furthermore, initiatives aimed at building a digitally-savvy workforce should be strengthened. Finally, ongoing negotiations to establish a regional single digital economy is an essential step to create the economies of scale and network effects that a large digital market offers.

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# **Securing Future Growth**

*Policies to Support Kenya's Digital Transformation*

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## ABBREVIATIONS

<b>AfCFTA</b>	African Continental Free Trade Area	<b>MVNOS</b>	Mobile Virtual Network Operators
<b>BPO</b>	Business Process Outsourcing	<b>NCPB</b>	National Cereals and Produce Board
<b>CA</b>	Communication Authority	<b>NPL</b>	Non-Performing Loans
<b>CBK</b>	Central Bank of Kenya	<b>NSE</b>	Nairobi Security Exchange
<b>CGT</b>	Capital Gain Tax	<b>ONA</b>	One Network Area
<b>CIT</b>	Corporate Income Tax	<b>PDP</b>	Public Private Partnership
<b>CIV</b>	Côte d'Ivoire	<b>PIT</b>	Personal Income Tax
<b>COMESA</b>	Common Market for Eastern and Southern Africa	<b>PMI</b>	Purchasing Managers' Index
<b>DPL</b>	Digital Literacy Program	<b>R&amp;D</b>	Research and Development
<b>DSA</b>	Debt Sustainability Analysis	<b>ROA</b>	Return on Assets
<b>EAC</b>	East African Community	<b>ROE</b>	Return on Equity
<b>EMDE</b>	Emerging Markets and Developing Economies	<b>SEN</b>	Senegal
<b>EU</b>	European Union	<b>SEZ</b>	Special Economic Zones
<b>FDI</b>	Foreign Direct Investment	<b>SGR</b>	Standard Gauge Railway
<b>GDP</b>	Gross Domestic Product	<b>SMEs</b>	Small and Medium Enterprises
<b>GoK</b>	Government of Kenya	<b>SSA</b>	Sub-Saharan Africa
<b>GPS</b>	Global Positioning System	<b>STEM</b>	Science, Technology, Engineering and Mathematics
<b>H1, H2</b>	First, Second Half	<b>TVET</b>	Technical and Vocational Education and Training
<b>HP</b>	Hodrick-Prescott	<b>UK</b>	United Kingdom
<b>ICT</b>	Information Communication Technology	<b>US</b>	United States
<b>KEU</b>	Kenya Economic Update	<b>VAT</b>	Value Added Tax
<b>KNBS</b>	Kenya National Bureau of Statistics	<b>WDI</b>	World Development Indicators
<b>KRA</b>	Kenya Revenue Authority	<b>WEF</b>	World Economic Forum
<b>MFMod</b>	Macroeconomic and Fiscal Model	<b>WITS</b>	World Integrated Solution
<b>MT</b>	Metric Tonnes	<b>WRS</b>	Warehouse Receipt System
<b>MTEF</b>	Medium-Term Expenditure Framework	<b>y-o-y</b>	Year on year
<b>MTP</b>	Medium-Term Plan		



## FOREWORD


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Kenya continues to experience steady economic growth, with real GDP expanding on average by about 5.6 percent over the last five years (2014-2018). In 2019, however, economic activity has softened primarily due to lower agricultural output and weak private sector investment. As a result, the World Bank projects Kenya's growth at 5.8 percent for 2019 and settling at around 5.9 percent over the medium term. The weakening of private investment partly reflects crowding out from widening fiscal deficits and relatedly limited access to credit by the private sector (growing by about 6.3 percent in August 2019). Against this backdrop, it is my great pleasure to present the twentieth edition of the World Bank's Kenya Economic Update. The report contains three main messages.

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Third, to secure Kenya's digital future, there is need to "digitally enable" every individual, business and prepare the entrepreneurship ecosystem to capitalize on recent churning of innovative startup stage digital ventures. These startups require support to graduate to a higher growth stage – so they can become enterprises that will have a big impact on overall economic growth and jobs creation. In order to keep pace with the rapid digital transformation, strengthen personal data protection, and address growing market concentration, enactment of pending legislations need to be fast-tracked. Furthermore, initiatives aimed at building a digitally-savvy workforce should be strengthened. Finally, ongoing negotiations to establish a regional single digital economy is an essential step to create the economies of scale and network effects that a large digital market offers.



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# EXECUTIVE SUMMARY

1. After a strong rebound in 2018, economic activity in Kenya moderated in 2019, primarily due to lower agricultural output and considerably weak private sector investment. The economy expanded by 5.6 percent in first half (H1) of 2019 (a deceleration from 6.5 percent in H1 2018). While challenges in agriculture account for a significant drag to growth, private investment has also accounted for a share of the deceleration. The weakening of private investment partly reflects crowding out from widening fiscal deficits and relatedly limited access to credit by the private sector (growing by about 6.3 percent in August 2019). As a result, the World Bank's GDP growth estimate for 2019 is about 5.8 percent, supported by a sustained pickup of the economy in the second half (H2) of 2019 as reflected in a nascent recovery in private sector credit, positive business sentiment, and improved short rains that are expected to boost harvests.

2. The fiscal out-turn data released by the National Treasury (NT) in September 2019 shows a substantial increase in the budget deficit for FY2018/19, calling for stronger measures to return Kenya to a path of fiscal consolidation. The fiscal deficit grew to 7.7 percent of GDP in FY2018/19 from 7.4 percent in the previous year-missing the target in FY2018/19 (of 6.8 percent of GDP) by almost a full percentage point of GDP. This in turn has resulted in the crowding out of the private sector, driving the growth in public debt stock, and anemic private sector credit growth. This calls for credible adjustment measures by the government to place fiscal accounts back on a prudent trajectory. These include actions to increase revenue and make revenue projections more realistic, strengthening expenditure controls and cash management. In addition, measures to adjust the government's borrowing plans are essential to rebalance the public debt portfolio towards cheaper and longer-maturity debt, hence reducing its vulnerability to market instability as well as creating fiscal space.

3. The macroeconomic environment remains broadly stable with low inflation and a manageable

current account deficit, but interest rate caps have constrained the operating environment for the banking sector and reduced the effectiveness of monetary policy. Headline inflation averaged 5.2 percent in the twelve months to September 2019 due to lower energy prices, which was able to offset temporary pressure from rising food prices in H1. Further, core inflation (which excludes food and energy prices) decreased to 2.4 percent in September 2019 (from 4.7 percent in September 2018). This is reflecting an economy where underlying demand pressures are still benign. The low inflationary pressure has also been supported by a stable local currency. Despite very low core inflation, well anchored inflation expectations, and subdued demand pressures, the flexibility of monetary policy to respond to the slack in the economy has been constrained<sup>1</sup>, and profitability as well as asset quality for the small and medium sized banks have been affected in the context of the interest rate caps regime.

4. The repeal of the interest rate caps (if approved) is a welcome development that should be accompanied by complementary reform measures. On October 16, 2019, the president returned the Finance Bill 2019 to Parliament with a memorandum that calls for the repeal of section 33B of the Banking (Amendment) Act of 2016. The removal of interest rate caps should eliminate what has been a powerful disincentive for banks to lend to SMEs<sup>2</sup> and restore the potency of monetary policy. Reforms that address the root causes of high interest rates could be fast-tracked to accompany this step. These include fiscal consolidation (which should reduce government domestic borrowing), measures that strengthen credit-information sharing and promote transparency in pricing of credit. The success of innovative products such as STAWI should also be supported.<sup>3</sup>

5. External vulnerabilities remain contained with significant narrowing of the current account deficit. In the year to August 2019, the current account deficit narrowed to 4.0 percent of GDP (from 5.4

<sup>1</sup> The Central Bank Rate has been maintained at 9 percent since July 2018, despite core inflation dropping below the mid-point of inflation target of 5 percent (e.g. the case of 2.4 percent in September 2019).

<sup>2</sup> The private sector still accounts for the largest share of total bank's credit and Kenya ranks favorably (4<sup>th</sup> in WB Doing Business Report 2020) in ease of access to credit mainly due to implementing a functional secured transactions system. This was made possible by the Movable property security right act. No. 13 of 2017 that was assented into law in 2017.

<sup>3</sup> STAWI is a mobile loan application that offers unsecured financing to small and medium scale enterprises (SMEs) in Kenya. It is managed by NCBA bank, Cooperative Bank of Kenya, Diamond Trust Bank (DTB), KCB Bank.

percent in August 2018), driven by lower imports (food and Standard Gauge Railway related imports), diaspora remittance inflows and improved receipts from tourism. Nonetheless, Kenya's manufacturing exports to Africa (which accounted for 35.3 percent of its merchandise export in 2018) have contracted for the third consecutive year from Ksh.242.2 billion in 2015) to Ksh.216.2 billion in 2018 (an average of 3.6 percent decline per year) in part due to intensified competition in these markets, indicating a need to boost competitiveness for Kenyan manufacturing. The current account deficit continues to be adequately financed by official borrowing and private investment inflows (portfolio and direct investment), resulting in a year-on-year increase in official foreign reserves by 6.8 percent to US\$ 9.6 billion in August 2019 (or 6.0 months of import cover). This is expected to provide a comfortable buffer against external short-term shocks.

**6. Kenya's growth prospects remain positive over the medium term.** GDP growth is projected at 6.0 percent in 2020 and 5.8 percent in 2021. The growth outlook is predicated on normal weather conditions, authorities' staying the course in planned fiscal consolidation, and limited spillover effects from the anticipated global slowdown. Favorable weather conditions should support growth of agriculture and industry (at an average of 4.6 percent and 5.6 percent, respectively for 2020-21), while the services sector is projected to continue growing at an average of 6.6 percent over the medium term. Aggregate demand is also projected to strengthen due to pent-up investment demand and improved business sentiment. Nonetheless, downside risks to the outlook are significant. On the domestic front, risks include incidences of drought, fiscal slippages and crowding out of private sector investment. On the external side, unanticipated spillover effects from ongoing global slowdown could affect demand for Kenya's traditional exports (horticulture and textiles) and remittance inflows.

**7. The special focus topic reviews the recent developments in Kenya's digital economy, identifies policy challenges and proposes key policy options to support continued growth of the sector.** This is critical in part because the Government of Kenya is committed to expanding its digital economy as a new pathway for economic growth and job creation, and the role of digital

technologies and platforms as an enabler of the Big 4 agenda. Adoption of digital technologies and platforms can play a catalytic role in enhancing productivity, improving public service delivery, and providing new opportunities for Kenyans to access digitally enabled jobs across nearly every economic and social sector. Several messages emerge from the analysis.

**8. First, Kenya could fast-track pending legislation, regulations and policy guidelines to keep pace with rapid digital technology and market transformation.**

A new suite of regulatory and policy tools and more proactive oversight is needed to promote investment, innovation, competition in telecoms, mobile money, e-commerce, and protect consumer interests and safety. Priority actions include enactment and enforcement of pending telecoms regulations such as radio communications and frequency spectrum; interconnection and provision of fixed lines access and facilities; tariffs, consumer protection, licensing and equality of services. Approval of a data protection bill and its enforcement could increase confidence that sensitive personal data and privacy will be maintained when citizens are transacting online. Further, while Kenya has made significant progress in increasing competition in the telecoms sector, more effort is needed to increase market competition and address market concentration in the interlinked telecoms and mobile money markets.

**9. Second, Kenya will need to prepare the entrepreneurship ecosystem to support scale-up of digitally enabled firms that will drive productivity gains, economic growth and jobs creation.** Kenya can capitalize on impressive performance of digital sector startups by providing better support to improve the success rate in reaching high growth stages – hence generating the enterprises that will have a big impact on overall economic growth and jobs creation. This includes mentoring and training to improve managerial skills and productivity as well as policy and financial instruments to improve access to early stage capital and markets. Policy measures are also needed to ease business registration processes, an enabling taxation regime to suit startup businesses and access to capital. Furthering the CBK's efforts to develop a regulatory framework for responsible digital financial innovation and to position Kenya as a fintech leader are likewise critical to develop Kenya's digital economy.

**10. Third, efforts are needed to strengthen and adequately fund initiatives aimed at building a digitally-savvy workforce in partnership with the private sector.** This is key to harnessing emerging opportunities in the digital economy, supporting relevant and productive employment. It is also important to empower new job entrants with the technical skills as well as the 'soft skills' to use technology effectively and promote continual learning of those already employed to increase their productivity in both current jobs and jobs of the future. For example, the government could continue to support and adequately fund basic digital literacy for all citizens, reform formal education system and encourage alternative learning methods to bridge the skills gap.

**11. Fourth, public and private investment is required to close the digital divide between rural and urban, areas as well as the divide along the lines of income, gender, age, and disability status to ensure that all Kenyans are able to reap the gains from adoption of digital technology and are not locked out of an increasingly digitized economy and society.** Over the medium term, initiatives to increase broadband access outside of urban centers need to be undertaken. For example, there will be need for continued public

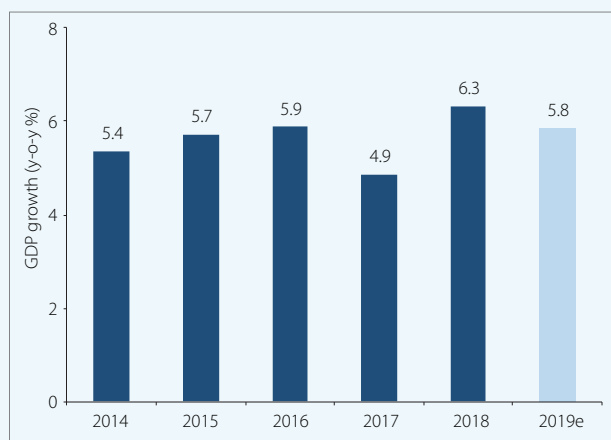
sector investment to facilitate rollout, affordability, and access to broadband in rural areas and among the most geographically, socially, and financially vulnerable populations. Equally important is making it easier to access and afford broadband services and digital devices among the poor.

**12. Fifth and finally, leveraging regional integration of the East African neighbors to create a large single digital market for economies of scale and network effects would be important.** An integrated East African single digital market would be the 9<sup>th</sup> largest in the world by population, with significant benefits for Kenya's digital firms and consumers of larger markets, lower prices and greater access to e-commerce and digital services. To achieve this, it will require efforts to develop three interrelated sub-markets: (a) a single connectivity market, which would remove barriers to regional telecoms infrastructure and services deployment, (b) a single data market, which would enable secure exchange, storage and processing of data across borders, (c) a single online market, which would allow government, firms and citizens to access and deliver both public and private services online, as well as make online purchases of goods and services seamlessly from anywhere in the region.



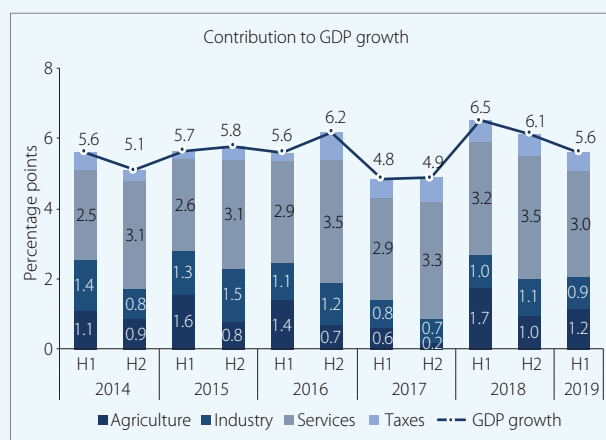
# RECENT ECONOMIC TRENDS AND OUTLOOK

## Kenya's real GDP growth has moderated



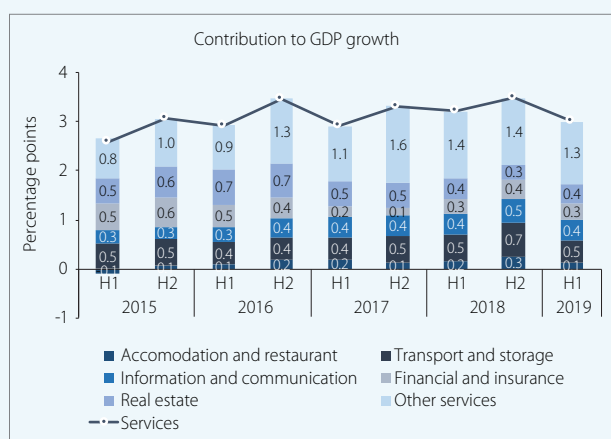
Source: Kenya National Bureau of Statistics and World Bank  
Note: "e" denotes an estimate

## Agricultural output declined in H1 2019



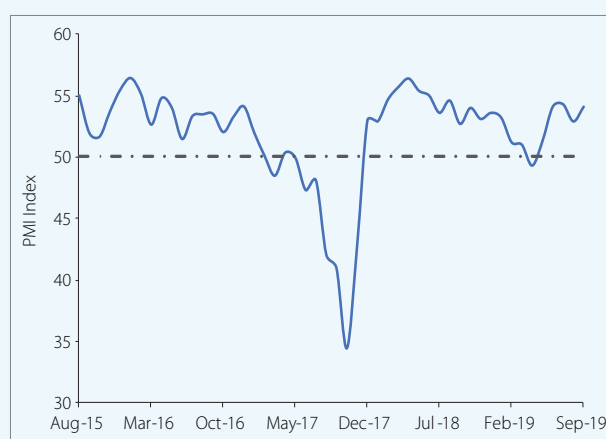
Source: Kenya National Bureau of Statistics and World Bank

## The services sector remain a key driver of growth



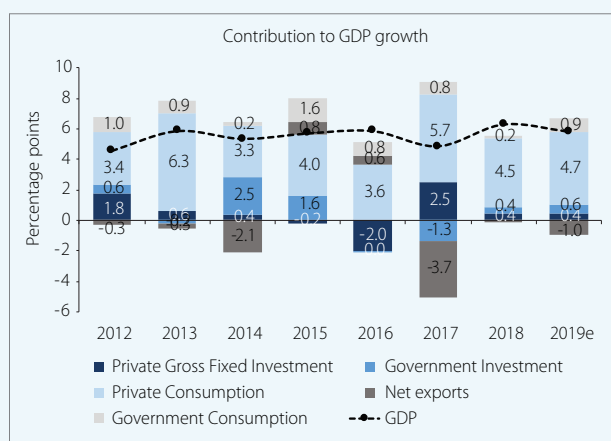
Source: Kenya National Bureau of Statistics and World Bank

## The PMI has remained expansionary



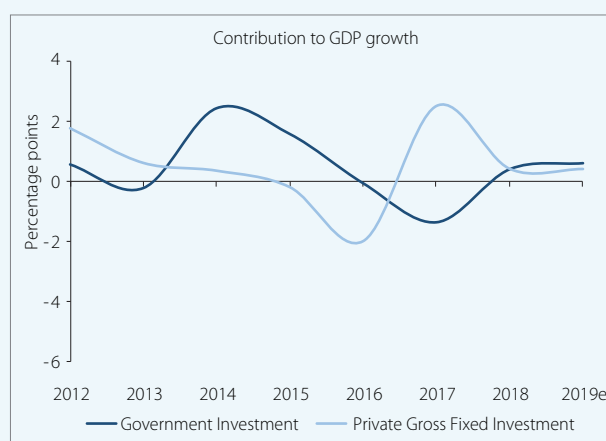
Source: Stanbic Bank Kenya

## Private consumption is supporting growth



Source: Kenya National Bureau of Statistics and World Bank  
Note: "e" denotes an estimate

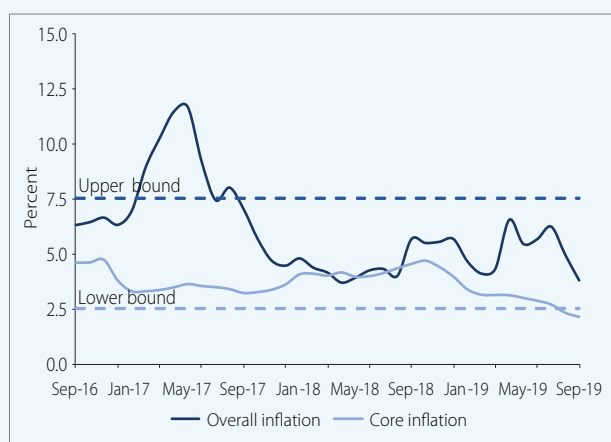
## Private investment contribution to GDP remains weak



Source: Kenya National Bureau of Statistics and World Bank  
Note: "e" denotes an estimate

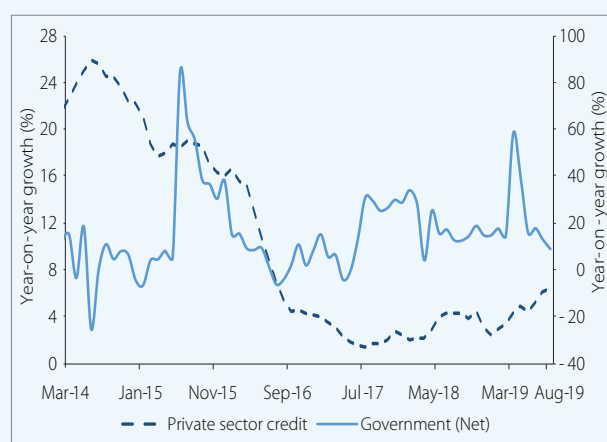
# RECENT ECONOMIC TRENDS AND OUTLOOK

## Inflation is within the target range



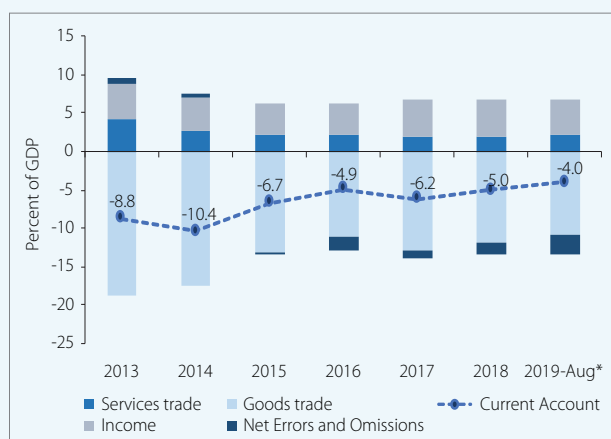
Source: Kenya National Bureau of Statistics and World Bank

## Private sector credit growth is recovering



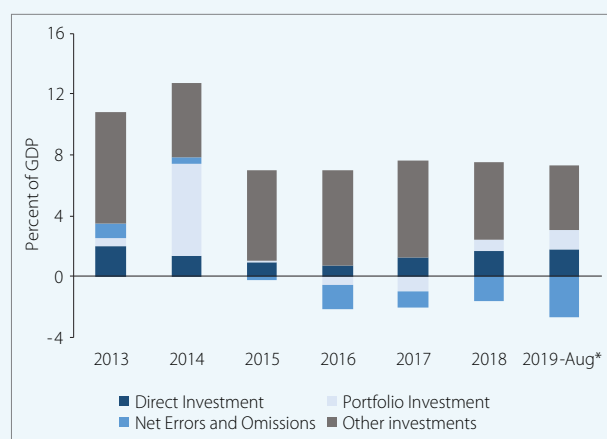
Source: Kenya National Bureau of Statistics and World Bank

## Current account balance has improved



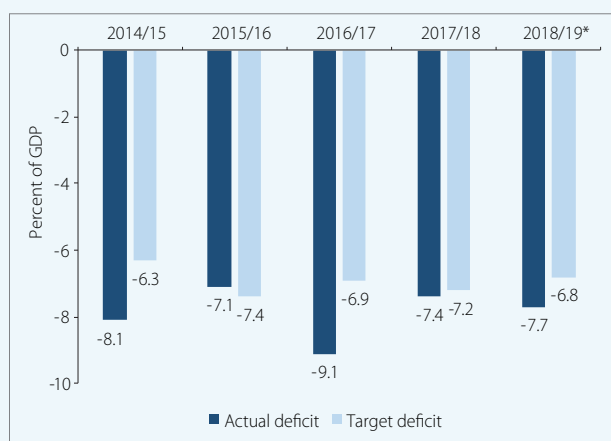
Source: Central Bank of Kenya  
Notes: \* indicates an estimate

## Capital inflows have financed the current account deficit



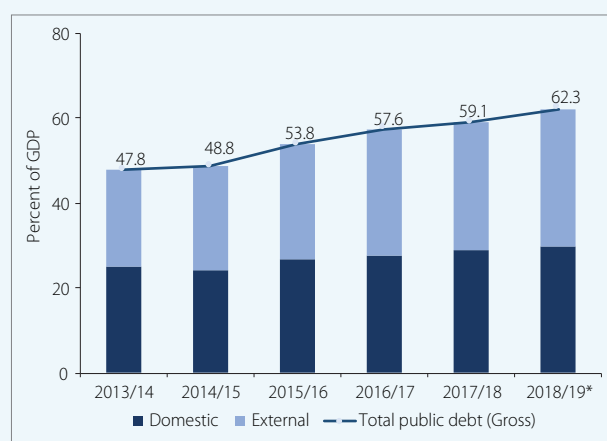
Source: Central Bank of Kenya  
Notes: \* indicates an estimate

## The actual fiscal balance is wider than the target



Source: The National Treasury  
Notes: \* indicates preliminary results, "e" denotes an estimate, "f" denotes forecast

## Kenya's public debt stock has increased



Source: World Bank  
Notes: "e" denotes an estimate, "f" denotes forecast





# Part 1: The State of Kenya's Economy





# 1. Recent Economic Developments

## 1.1. Global economic prospects have dampened

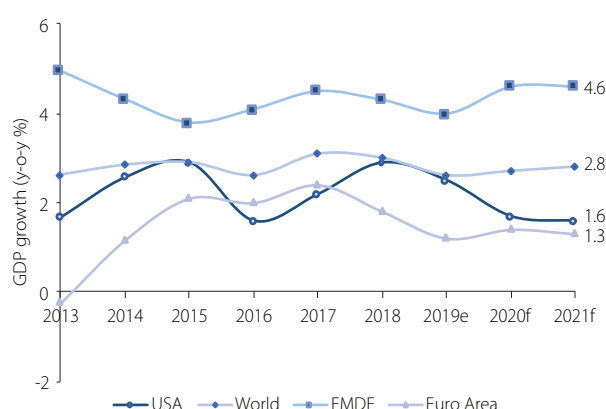
**1.1.1. Global economic growth is projected to ease against a backdrop of a less favorable international trade environment and low investment.** The slowdown is underpinned by escalating trade and technology tensions among major economies (US-China tariff hikes and uncertainty of the UK-EU trade relationship). These events have resulted in weaker than anticipated global trade and manufacturing, and eroded investor confidence for the remainder of 2019. Further, limited fiscal space among emerging and developing economies (EMDEs) is likely to lower public investment in 2019. As a result, the World Bank's revised estimate of global growth for 2019 is about 2.5 percent, a downward adjustment relative to the June forecast of 2.6 percent.<sup>4</sup> Growth in major advanced economies is expected to decelerate from 2.1 percent in 2018 to 1.6 percent in 2019 as economic activity moderates in the US and the Euro area. Similarly, growth within EMDEs is estimated at 3.7 percent in 2019 down from 4.3 percent in 2018 (Figure 1). Over the medium term, however, global GDP is projected to pick up to 2.7 percent in 2020 and 2.8 percent in 2021.

**1.1.2. The sub-Saharan Africa (SSA) region is projected to continue growing albeit, at a much slower pace.** The region's economy is expected to expand from 2.5 percent in 2018 to 2.6 percent in 2019 due to negative spillover from dampened global growth prospects and falling commodity prices. The region's largest economies-

Angola, Nigeria, and South Africa are expected to grow by 0.7 percent, 2.0 percent, and 0.8 percent, respectively in 2019. Growth in the non-resource rich countries remains steady, buoyed by ongoing public sector investments (although limited fiscal space is raising questions on the sustainability of this growth model). Over the medium term, the region's growth is projected to rise to 3.1 percent in 2020 and 3.2 percent in 2021, supported by strengthening domestic demand even as the external environment is expected to be difficult (Figure 2).

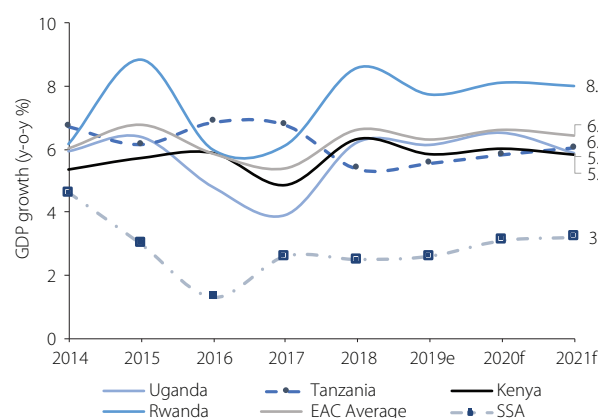
**1.1.3. Average economic growth in the East African Community (EAC) is much higher relative to growth in SSA.** Average real output for the EAC is projected to decrease to 5.9 percent in 2019 from 6.0 percent in 2018 (Figure 2) but it remains significantly higher relative to the rest of SSA. Across member states, however, there is substantial heterogeneity in projected growth.<sup>5</sup> Kenya, Uganda, as well as Rwanda are all expected to moderate relative to growth realized in 2018, while Tanzania and Burundi are expected to grow faster in 2019 relative to 2018. In Kenya and Uganda, growth slowed due to weaker than expected performance in agriculture, while in Rwanda the moderation reflects a correction back to potential growth. In Tanzania, higher growth is predicated on rebounding activity within its manufacturing and mining sector. Over the medium-term, growth for the regional bloc is projected to average about 5.6 percent over 2020-21.

**Figure 1: Global economic growth has weakened**



Source: World Bank  
Notes: "e" denotes an estimate

**Figure 2: Average growth in the EAC has been strong**



Source: World Bank  
Notes: "e" denotes an estimate

<sup>4</sup> World Bank, 2019-Global Economic Prospects, June 2019.

<sup>5</sup> The average excludes the Republic of South Sudan due to lack of data. Average growth rates are calculated using constant 2010 US\$ prices.

## 1.2. After a strong rebound in 2018, Kenya's economic growth has moderated

**1.2.1. The moderation in real GDP growth reflects challenges in agricultural output that suffered delayed precipitation in the first half of the year.** An upside surprise in growth for agriculture and industry lifted growth to 6.3 percent in 2018, but a delay in the receipt of long rains<sup>6</sup> in 2019 has slowed down activities in the same sectors in the first half (H1) of 2019. Official growth data shows a deceleration in real GDP growth to 5.6 percent in H1 2019 from 6.5 percent in H1 2018 (Figure 3). With a nascent recovery in private sector credit and positive investor sentiment (with the Purchasing Managers' Index (PMI) well above the 50-point mark), the Bank's estimated growth for 2019 is about 5.8 percent, representing a 0.1 percent upward revision to the forecast made in the April 2019 Kenya Economic Update (KEU).

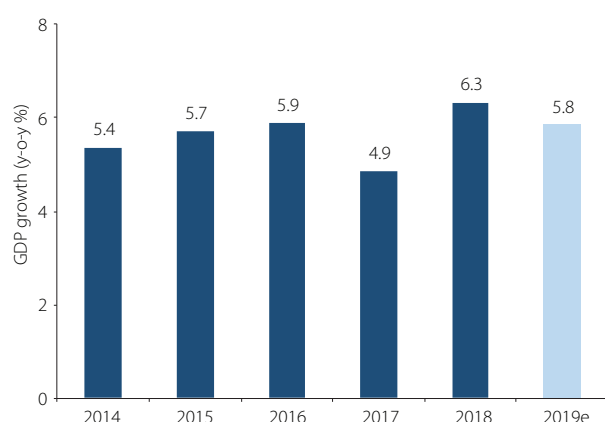
**1.2.2. Agriculture remains a key contributor to growth accounting for at least 26 percent of GDP in the last five years.** Nonetheless, with 83 percent of Kenya being arid and semi-arid lands, dependency on rain-fed agriculture continues to be a source of volatility to the sector's growth performance. For instance, recent delays in the March-May 2019 long rains affected the planting season and raised operating costs, holding back agricultural production in H1 2019.<sup>7</sup> The sector's average growth rate decreased from 7.0 percent in H1 2018 to about 4.7 percent in H1 2019, while its contribution to real GDP growth fell from 1.7 percentage points to 1.2 percentage points over the

same period (Figure 4). With only about two percent of Kenya's arable land farmed under irrigation, compared to an average of about six percent in SSA and 37 percent in Asia<sup>8</sup> the sector remains susceptible to drought shocks and a source of volatility in Kenya's GDP growth. More recent data shows the output for key food crops such as maize, beans, and production of cash crops such as tea, horticulture and sugarcane (Figure 5) are picking up gradually and with receipt of short rains (October-November, 2019), which is expected to boost harvests in the second half (H2) of 2019.

**1.2.3. Reflecting a tighter linkage with the performance in agriculture, growth of the industrial sector has also decelerated.** Real growth in the industrial sector (comprising manufacturing, construction, mining and quarrying, and electricity and water) has eased to an average of 4.8 percent in H1 2019 compared to an average of 5.1 percent in H1 2018. The sectors' contribution to real GDP growth in H1 of 2019 was stable at 0.9 percentage points. Unpacking this into sub-sectors shows the contribution of manufacturing (0.4), mining and quarrying (0.04), electricity and water supply (0.2), and construction (0.3) remaining relatively steady compared to H1 of 2018 (Figure 6).

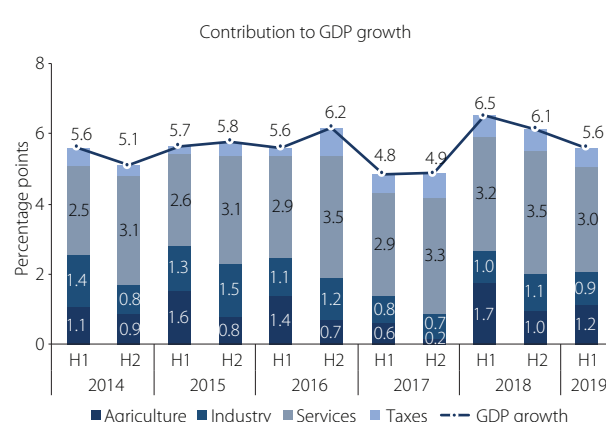
**1.2.4. Growth in the manufacturing sector, a key pillar in the government's Big 4 agenda and in jobs creation, remains positive but below desired levels.** Under the Big 4 agenda, the share of manufacturing to GDP is expected to increase from about 9.6 percent

Figure 3: Kenya's real GDP growth has moderated



Source: Kenya National Bureau of Statistics and World Bank  
Notes: "e" denotes an estimate

Figure 4: Agricultural output slowed down in H1 2019

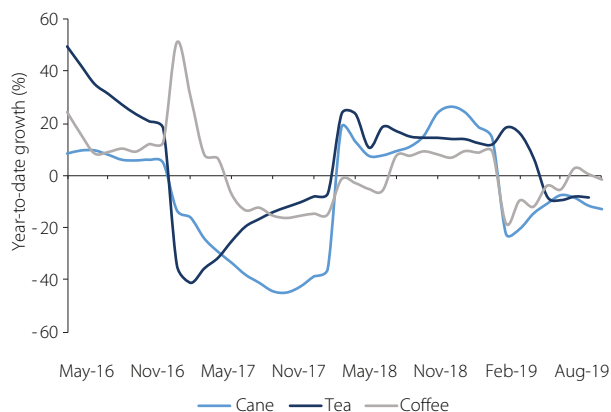


Source: Kenya National Bureau of Statistics and World Bank

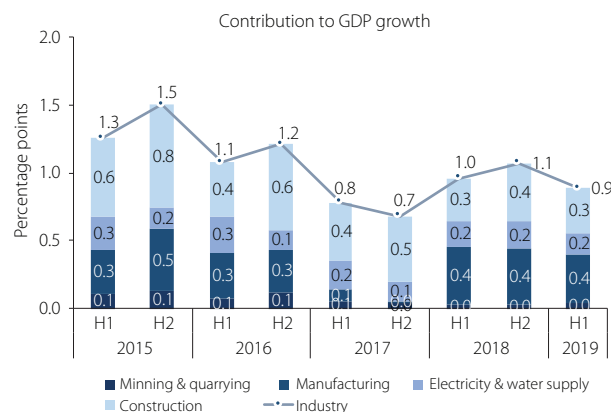
<sup>6</sup> The long rains did materialize but some parts of the country are experiencing food shortage and drought risks remain high.

<sup>7</sup> Most parts of the country experienced below-normal rainfall that was mainly recorded in April and May 2019. The seasonal rainfall onset was also quite late over the entire country with most areas remaining sunny and dry throughout the month of March 2019 (<http://www.meteo.go.ke/pdf/seasonal.pdf>).

<sup>8</sup> World Bank, Kenya Economic Update, 2019 (ed 19: p.31).

**Figure 5: Output for key crops are recovering in H2 2019**

Source: Kenya National Bureau of Statistics and World Bank

**Figure 6: The industrial sector has decelerated in H1 2019**

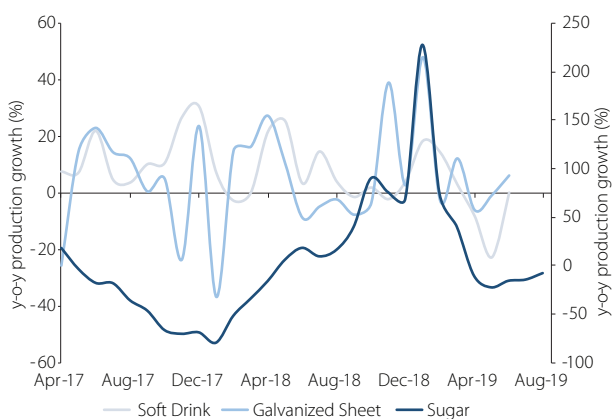
Source: Kenya National Bureau of Statistics and World Bank

in 2018 to 15 percent in 2022. For this to happen, manufacturing ought to grow by at least 21 percent per year (assuming real GDP expands at about 6.2 percent per year between 2018 and 2022). As of H1 of 2019, the sector grew by just 3.7 percent relative to H1 of 2018, which is substantially low relative to the desired growth target. This calls for great focus in policy measures to promote competitiveness in Kenyan manufacturing.

**1.2.5. The government is pursuing reforms to facilitate business friendly environment so as to raise productivity in manufacturing.** The government is in the process of establishing special economic zones, improving transport infrastructure, and providing a rebate on the cost of electricity, among other initiatives. The latest World Bank's doing business report ranks Kenya 56 out of 190 economies with a DB2020 score of 73.2 up from 71.0 in DB2019. Kenya is performing very well in protecting minority investors, getting

credit, and resolving insolvency. The report points areas for continued improvement to include starting a business, registering property, and trade across borders. Nonetheless, given the desired growth target, more is required to crowd in private investment and incentivize faster manufacturing growth. Thus far, in the third quarter of 2019 production of manufactured foods (dairy products, soft drinks, and sugar) (Figure 7) and non-food products (cement and galvanized sheet)<sup>9</sup> have improved. Similarly, the PMI has remained expansionary (above the 50 points mark) indicating improved orders as the manufacturing sector recovers (Figure 8).

**1.2.6. In the electricity and water supply sectors, economic activity has softened while the construction sector continues to perform well.** With the late onset of long rains in 2019, the performance of hydro power generation and water supply sub-sectors moderated in H1 of 2019 to 5.8 from 7.5 percent in H1 of 2018. A large

**Figure 7: Selected output in manufacturing is on a gradual recovery**

Source: Kenya National Bureau of Statistics, CFC Stanbic Bank and World Bank

**Figure 8: The PMI has remained expansionary**

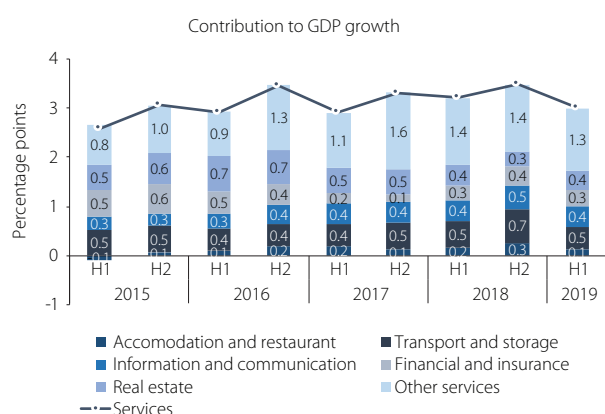
Source: Kenya National Bureau of Statistics, CFC Stanbic Bank and World Bank

<sup>9</sup> KNBS, Quarterly GDP, September 2019.

share of electricity generation from hydropower and geothermal sources continues to support lower energy prices, easing pressure on household incomes and contributing to increased value addition among firms (whose production is energy intensive). The construction sub-sector grew by 6.5 percent in H1 of 2019 compared to 6.0 in H1 2018 thanks to ongoing government spending on infrastructure, especially roads and phase two of the Standard Gauge Railway (SGR).

**1.2.7. The services sector has regularly recorded higher growth and typically dominates in the year-on-year sector contribution to GDP growth.** Over the last five years, the services sector has grown at an average of about 6.0 percent and has accounted for almost two thirds of Kenya's economic growth. In 2018, the sector gained some momentum, possibly reflecting spillover from strengthening agriculture and manufacturing in that year. More recently in H1 2019, the sector has grown by about 6.5 percent compared to 7.0 percent in H1 of 2018 (Figure 9). Top performing sub-sectors in H1 of 2019 within services include: accommodation and restaurants (tourism) at 10.3 percent; information and communication (ICT) at 11 percent; and transport and storage at 6.9 percent. Improved security measures and apt marketing strategies have supported tourism, while marginal growth in freight transport is behind expansion of the transport and storage sector. However, reflecting ongoing challenges in the banking sector, including from the interest rate caps, growth in the financial services sector has decelerated to 5.9 percent in H1 of 2019 compared to an annual growth of about 8.6 percent (2013-2015) before the caps.

**Figure 9: The services sector remains a key driver of growth**

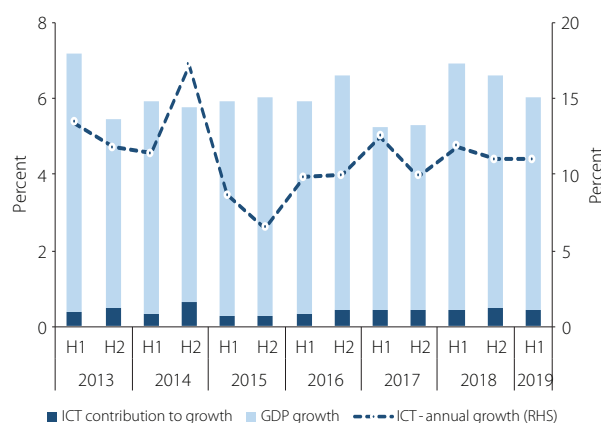


Source: Kenya National Bureau of Statistics and World Bank

**1.2.8. The ICT sub-sector is the fastest growing sector driven by dynamism in mobile telephony, uptake of e-commerce and penetration of internet usage.** The sector has grown by an average of about 10.8 percent per year since 2016 (Figure 10). In H1 of 2019, it expanded by 11.0 percent compared to 11.8 percent in H1 of 2018, driven by increasing use of mobile broadband to access internet and use of mobile money to send and receive money across networks. Kenya's mobile subscriptions are estimated at about 103 handsets per 100 persons, which is amongst the highest in the African continent. This has spurred increased penetration of internet, widespread use of mobile banking, and improved financial inclusion.

**1.2.9. The special focus topic reviews the recent developments in Kenya's digital economy, identifies policy challenges and proposes solutions to support continued growth of the sector.** This is critical not only because the Government of Kenya is committed to expanding its digital economy as a new pathway for economic growth and jobs creation, but also because the sector is an enabler under the Big 4 agenda. Through its close linkages with other sectors, it could play a catalytic role of enhancing productivity (in the Big 4 focus areas such as agriculture and health). This edition's special focus examines the evolution of the sector, discusses challenges, and proposes potential policy solutions to spur a solid digital ecosystem that will safeguard Kenya's place as a leader in digitalized economy, and contribute to growth and jobs.

**Figure 10: The growth of information and communications has been strong over time**



Source: Kenya National Bureau of Statistics and World Bank

### 1.3. On the demand side, private consumption is the primary driver of growth

**1.3.1. The contribution to growth from private consumption remains solid, supported by a burgeoning middle class and large remittance inflows.** In 2018, private consumption expanded by approximately 5.9 percent and accounted for 77.1 percent of GDP (Figure 11). This was boosted by improved incomes from agricultural harvests, lower food inflation, and strong remittance flows. Although household consumption data for H1 2019 is not yet available, given the backdrop of strong remittance, a nascent recovery in credit to households and stable food prices, the growth performance of private consumption is expected to be strong in 2019.

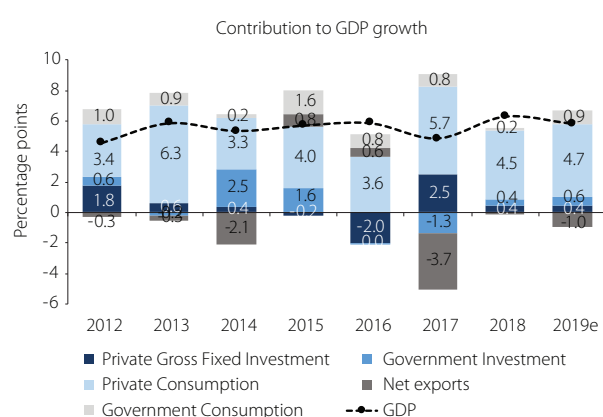
**1.3.2. Private sector investment has been comparatively modest and formal job growth remains relatively weak.** Despite less political uncertainty and improved business confidence, private sector investment's contribution to GDP growth has been dismal. Its two-year average contribution has decreased to about 0.4 percentage points in 2018-19 from 2.5 percentage points in 2017. The slowdown is associated with strong government domestic borrowing to fund its deficit, which competes with private sector for credit. Interest rate caps has also disincentivized lending by commercial banks to small and medium enterprises (SMEs), curtailing SMEs investment and expansion. Delays in public payments-pending bills (estimated at 0.7 percent of GDP in FY2018/19) have reduced firm's liquidity, often delaying their hiring and investment decisions.<sup>10</sup> This constrained business environment

is an obstacle to the higher levels of job creation required by a young and growing population. With the recent narrowing of government yields on securities (Figure 12) and nascent recovery in credit to the private sector, however, we expect a gradual recovery in private investment.

**1.3.3. The strong role of public sector investment in growth is decreasing in part due to completion of key flagship investment projects but also due to narrowing fiscal space.** Government's investment contribution to GDP growth has decreased to about 0.6 percentage points of GDP in 2019 from a high of 2.5 percentage points in 2014 (Figure 13). This in part reflects maturity in investment to key infrastructure projects (Roads and Nairobi-Mombasa SGR) but also narrowing fiscal space. Consequently, the government has issued guidelines to MDAs to prioritize completion of ongoing projects and alignment of any new development projects to the Big 4 agenda.

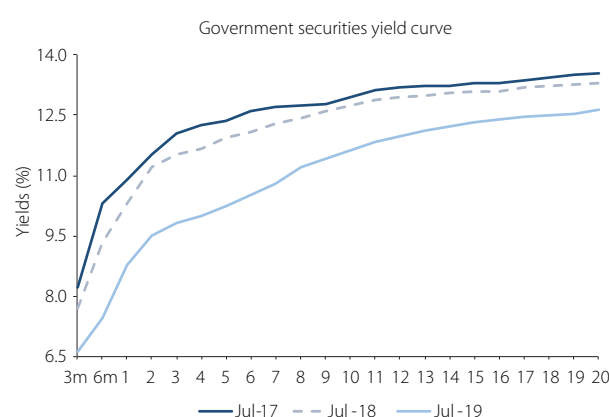
**1.3.4. The contribution of net exports to growth remains negative, although its drag is much weaker than in previous periods.** In static analysis, net exports constitute a drag to growth for non-resource rich economies, although in a dynamic setting, access to imports contributes to productivity gains through technology spillovers and learning by doing.<sup>11</sup> Nonetheless, from short term static analysis, imports have more than offset Kenya's exports (tea, coffee, horticultural, and tourism receipts) constituting a drag to growth (Figure 14). However, over the last two years trends in the value of imports have been falling (as food and SGR imports have

Figure 11: Private consumption is supporting growth



Source: Kenya National Bureau of Statistics and World Bank

Figure 12: Yields on government securities have narrowed

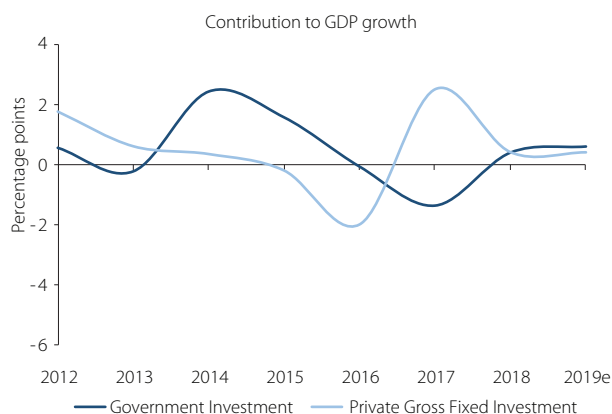


Source: Central Bank of Kenya

<sup>10</sup> World Bank, 2019 (Kenya Economic Update, Ed:19 P:10).

<sup>11</sup> Bustos, 2011; Lileeva & Trefler, 2010.



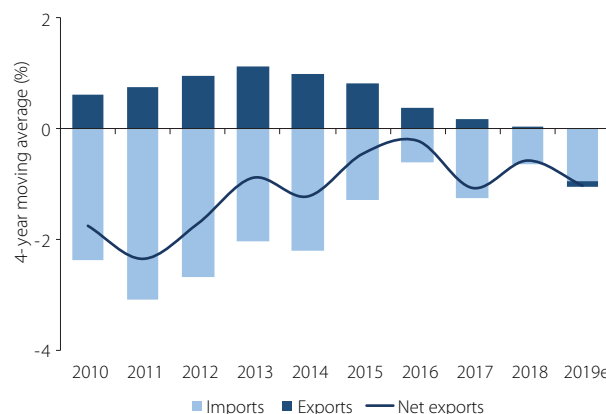
**Figure 13: Private investment contribution to GDP remains weak**

Source: Kenya National Bureau of Statistics and World Bank

decreased), which has reduced the downward impact of net exports on growth. While Kenya's agricultural exports destined for advanced economies have remained stable, manufactured exports to Africa (which accounted for about 35.3 percent of Kenya's merchandise exports in 2018) have contracted for the third consecutive year from Ksh.242.2 billion in 2015 to Ksh.216.2 billion in 2018 (or an average of 3.6 percent decline per year). The contraction is in part due to intensified competition in these markets with data showing shipments to countries such as Democratic Republic of Congo, South Sudan, Ethiopia, and Somalia decreasing. Further, rising policy uncertainty on international trade (the US-China tariff war, and the exit of the UK from the EU) as well as ongoing global slowdown are likely to adversely affect Kenya's exports, tourism receipts and remittances, although such effects tend to materialize with a lag (Box 1).

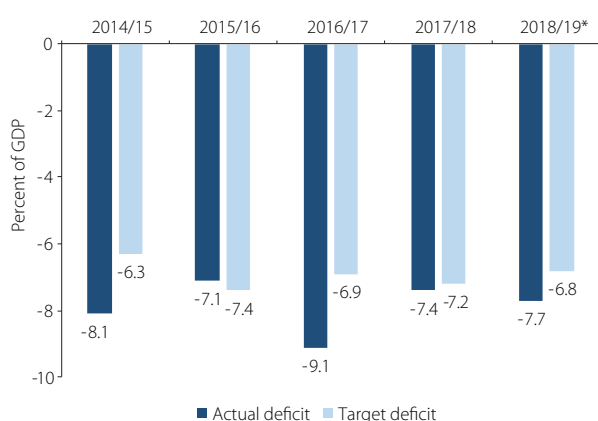
#### 1.4. Fiscal consolidation has faced headwinds

1.4.1. The fiscal out-turn data released by the National Treasury (NT) in September 2019 shows a substantial increase in the budget deficit for FY2018/19, calling

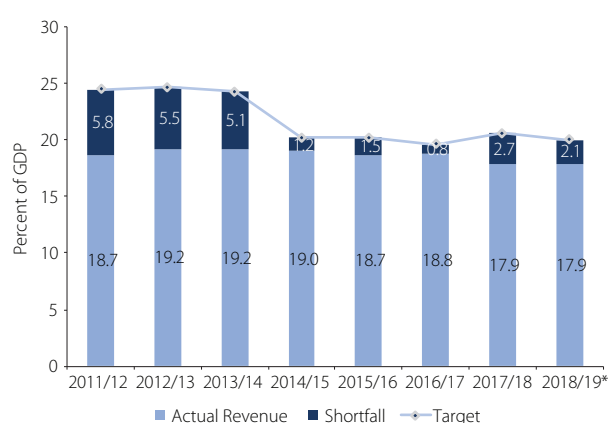
**Figure 14: The drag in growth from negative net exports is lower relative to historical trends**

Source: Kenya National Bureau of Statistics and World Bank

for stronger measures to return Kenya to a path of fiscal consolidation (Table 1). Despite a significant reduction in the fiscal deficit from 9.1 percent of GDP in FY2016/17 to about 7.4 percent in FY2017/18, continued downward adjustment was not achieved as the central government deficit expanded to 7.7 percent in FY2018/19 (compared to a target deficit of 6.8 percent of GDP). This represents 0.9 percentage points (as a share of GDP) above the target primarily due to revenue shortfalls (Figure 15) but also due to expenditure pressures amidst revenue underperformance. This calls for credible adjustment measures by the government to place fiscal accounts back on a prudent trajectory. These include actions to increase revenue and make revenue projections more realistic, strengthening expenditure controls and cash management. Total revenue collection fell 7.3 percent short of the target (i.e. Ksh.1,671.1 billion against a revised target of Ksh.1,794.3 billion). As share of GDP, total revenue stabilized at 17.9 percent in FY2018/19 compared to 19.2 percent of GDP in FY2013/14 (Figure 16).

**Figure 15: The actual fiscal balance is wider than the target**

Source: National Treasury

**Figure 16: Revenue shortfalls have resulted in fiscal slippages**

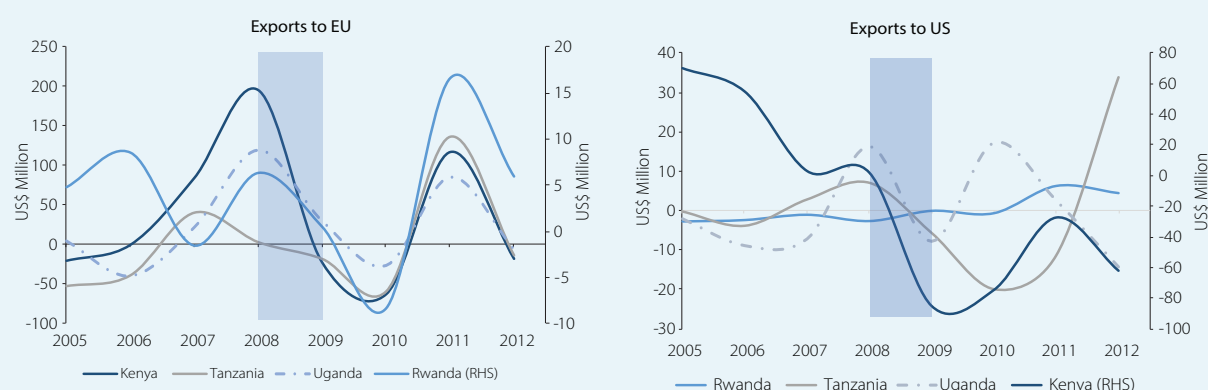
Source: National Treasury

### Box 1: Impact of previous global financial crisis on Kenya's exports, tourism and remittances

Kenya is highly integrated into the global economy and a downturn in the global economy could worsen its net exports and the current account balance. To illustrate the likely impact on Kenya's exports (to the EU and the US), as well as tourism and remittance receipts, in the event the global downturn materializes in 2019/20, we use the Hodrick-Prescott (HP) filter to obtain potential exports. Deviations between actual and potential exports pre and post 2008 global financial crisis provided an indicator of the impact of that crisis on exports, tourism and remittances. Percentage effect is calculated relative to the pre-crisis exports.

The European Union (EU) and the United States (US) are leading destinations for Kenya's exports (especially horticulture and textiles products). The 2008-2009 global financial crises impacted Kenya (with a lag), primarily through decreases in the value of exports, tourism receipts, and shortfall in remittance inflows. Exports to the EU and the US dropped on average by 5 percent and 8.8 percent, respectively (Figure B.1). Compared to other EAC countries, Kenya and Rwanda had a decline in exports to the EU. Similarly, Kenya and Tanzania's exports to the US decreased.

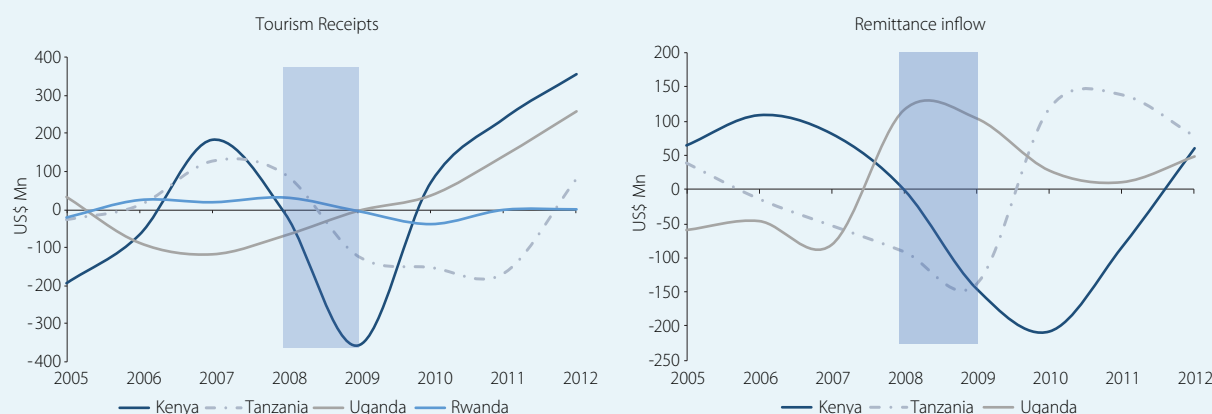
**Figure B.1: Impact of the 2008-2009 crisis on Kenya's exports to the EU and the US**



Source: World Bank, WITS database; Notes: we used the Hodrick-Prescott (HP) filter to obtain potential exports. Deviations between actual and potential exports pre and post crisis provided an indicator of the impact of the 2008-2009 global financial crisis. Percentage impact is calculated relative to the pre-crisis exports.

Similarly, Kenya's remittance inflows and tourism receipts contracted by 15.2 percent and 14.3 percent, respectively (Figure B.2).

**Figure B.2: Impact of the 2008-2009 crisis on Kenya's tourism and remittance receipts**



Source: World Bank, WITS database; Notes: the HP filter is used to obtain potential tourism and remittance receipts. Deviations between actual and potential in pre and post crisis window provided an indicator of the impact of the 2008-2009 global financial crisis. Percentage impact is calculated relative to pre-crisis level.

From this analysis, we can see that the greatest transmission of the global economic downturn is mainly through decline in tourism receipts and remittance inflows, which could potentially lead to widening of the current account deficit. The effect, however, tends to filter through with a lag of one year.

**Table 1: Summary of Kenya's Fiscal Operations, FY2013/14-FY2018/19 (in percent of GDP)**

Actual (percent of GDP)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19*
<b>Revenue and Grants</b>	<b>19.7</b>	<b>19.5</b>	<b>19.1</b>	<b>19.2</b>	<b>18.2</b>	<b>18.1</b>
Total Revenue	19.2	19.0	18.7	18.8	17.9	17.9
Tax revenue	18.1	17.7	17.2	17.1	16.0	16.1
Income tax	8.9	8.7	8.4	8.2	7.5	7.4
VAT	4.6	4.5	4.3	4.4	4.2	4.4
Import Duty	1.3	1.3	1.2	1.2	1.1	1.2
Excise Duty	2.0	2.0	2.1	2.2	2.0	2.1
Other Revenues	1.3	1.3	1.2	1.1	1.2	1.0
Railway Levy	0.0	0.0	0.0	0.0	0.0	0.0
Appropriation in Aid	1.1	1.3	1.5	1.7	1.8	1.9
Grants	0.5	0.5	0.4	0.4	0.3	0.2
<b>Expenditure and Net Lending</b>	<b>25.6</b>	<b>28.1</b>	<b>26.9</b>	<b>28.1</b>	<b>25.2</b>	<b>25.8</b>
Recurrent	14.8	15.4	15.4	15.7	15.8	16.1
Wages and salaries	5.5	5.1	4.6	4.4	4.6	4.5
Interest Payments	2.7	2.9	3.2	3.5	3.8	4.0
Other recurrent	6.6	7.3	7.7	7.7	7.5	7.5
Development and net lending	6.3	8.8	7.3	8.4	5.5	5.9
County allocation	3.8	3.9	4.1	4.0	3.8	3.9
<b>Fiscal Deficit (incl. grants, cash basis)</b>	<b>-6.1</b>	<b>-8.1</b>	<b>-7.1</b>	<b>-9.1</b>	<b>-7.4</b>	<b>-7.7</b>
<b>Financing</b>	<b>6.1</b>	<b>8.1</b>	<b>7.1</b>	<b>9.1</b>	<b>7.4</b>	<b>7.7</b>
Foreign Financing	4.0	3.7	4.0	5.0	4.2	4.4
Domestic Financing	2.1	4.3	3.0	4.0	3.2	3.3
<b>Total Public Debt (gross)</b>	<b>47.8</b>	<b>48.8</b>	<b>53.8</b>	<b>57.5</b>	<b>59.1</b>	<b>62.3</b>
External Debt	22.4	24.4	26.8	30.0	30.0	32.4
Domestic Debt	25.3	24.4	27.1	27.6	29.1	29.9
Memo: GDP (Fiscal year current market prices, Ksh bn)	5,074	5,832	6,710	7,658	8,525	9,317

Source: National Treasury

Note: \* denotes preliminary results

### *Collection from income tax has declined drastically, accounting for most of the revenue shortfalls*

**1.4.2. Reversing the downward trend in tax revenue mobilization is critical for creating fiscal space and providing flexibility for countercyclical policy.** In recent years there has been a structural decline in tax revenues (excl. other revenue) as a share of GDP to 15.0 percent of GDP in FY2018/19 from 16.8 percent in FY2013/14 (Figure 17). This has arisen due to several factors. First, the structure of the economy has changed in favor of non-tax revenue rich sectors such as agriculture — which has expanded as a share of GDP from 27.5 percent in 2014 to 34.2 percent in 2018 — and public sector investments. For instance, while agriculture accounts for about

34.2 percent of nominal GDP in 2018, its contribution to revenue is just about 2.6 percent. This contrasts with manufacturing that accounted for 7.7 percent of nominal GDP but about 18.2 percent of tax revenue. Second, discretionary changes to the income tax code (corporate and personal) have eroded the tax base through generous depreciation allowances, investment deductions and tax holidays, particularly for export processing zones and special economic zones. Third and final, a large informal sector<sup>12</sup> and preference of firms to stay under the radar of the revenue collecting agency.<sup>13</sup> Moreover, the digitalization of the economy could have shifted economic activity to agents whose incentive to comply with taxation is traditionally low (Box 2).

<sup>12</sup> The number of persons employed in the informal economy has increased from 82.5 percent in 2014 to 83.5 percent in 2018 (KNBS 2019-Economic Survey).

<sup>13</sup> Alm, James, and Jorge Martinez-Vazquez (2010).

**Box 2: Business lines in the digital economy and taxation issues: Experiences from other countries<sup>14</sup>**

The digital economy is very broad with a range of business lines. In this section we highlight two key business lines and experiences in different countries for taxing the underlying business transactions in these areas. The two are: Sale and resale of (access to) digital content or digital solutions (software, operating systems, web design and cloud computing), and multi-sided platforms, including ride-sharing and online travel/hospitality firms such as Airbnb.

**Sale and resale of (access to) digital content or digital solutions**

The product is delivered in purely digital form and payment is made in the form of periodic subscription, engaged through a web-interface. The subscriber is only granted access to or use of, but not ownership of the digital content for the duration of subscription. What is the main policy concern in taxation here? Importing digital content generates a liability for VAT. The onus is on the subscriber to declare the purchase and pay the relevant tax. If the transaction is B2B, then a business can declare the purchase and pay VAT in the regular course of business and claim input VAT against VAT collected from its own customers. Compliance gets difficult if most subscribers are individual final consumers. Here, VAT payable cannot be offset against another tax liability and should be remitted. Below is a summary of experiences in other jurisdictions.

European Union: Levies VAT on nonresident suppliers of telecommunications, broadcasting, and electronic services, regardless of scale. Businesses without a permanent establishment in the EU can choose any member state with which to be identified and are assigned a VAT number. The suppliers must then apply the VAT accounting and remittance rules of the country of the subscriber to their digital content.

Latin American countries: Require foreign digital suppliers to register with tax administrators and collect and remit VAT directly. A split payments arrangement is also used when processing payments for digital services and remitting that portion of the transaction directly. The UK is also proposing to introduce the split payments mechanisms. Generally, this means that credit, M-PESA and debit card providers could act as withholding agents. Chile has introduced a freestanding (independent of its 19 percent VAT rate) 10 percent charge on digital content firms such as Netflix and Spotify.

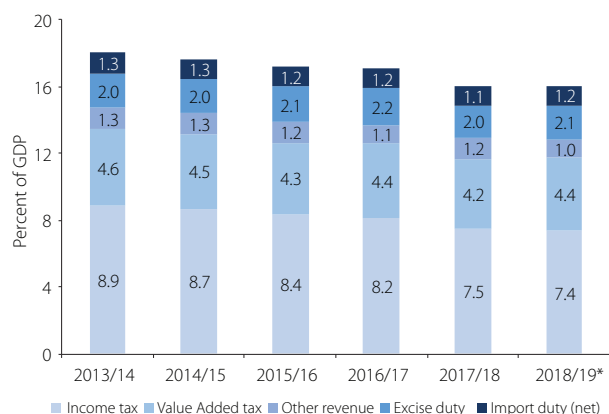
**Multi-sided platforms: Ride-sharing and Airbnb**

A digital supplier provides an online platform which acts as an intermediary between service providers (drivers) and customers (passengers) for the case of Uber and Bolt in Kenya. In accommodation, Airbnb allows matching between hosts and guests. In return, the platform provider charges a fee or commission to the service provider, with the remainder constituting revenue to the service provider. There is a clear income tax liability on the part of the service provider. The initial transaction between service provider and the customer may also generate indirect tax liabilities (VAT and excise taxes), as well as levies (catering levies and/or service charges). What is the main tax policy concern here? Involvement of service providers in sectors where tax compliance is traditionally low!

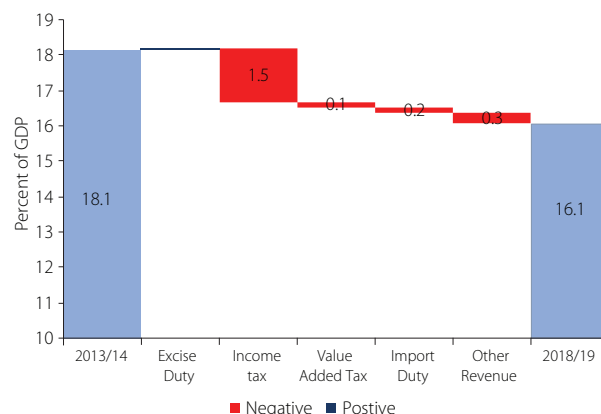
France: Digital platforms are required to provide the service provider with a breakdown of their tax liability and reporting requirements with respect to each transaction, as well as an annual statement of gross income. Further, digital platforms are also required to report this information directly to tax administrators.

Uruguay: Ride sharing platforms are obliged to withhold a proportion of each driver's monthly transactions and remit the same to the tax office the following month. These earlier installments can be deducted by the drivers from their eventual liabilities to the tax office. Further at the sub-national level, ride-sharing platforms are required to register with City Hall, report the names of all drivers and withhold and remit a levy of US\$0.06 for every kilometer driven.

<sup>14</sup> Clavey et al (2019)-International Tax reforms, Digitalization and Developing Economies.

**Figure 17: Revenues have declined consistently over the last five years**

Source: National Treasury

**Figure 18: Significant underperformance in income tax**

Source: National Treasury

**1.4.3. The decline in income tax accounts for most of the revenue shortfall.** In FY2018/19, revenue from income tax<sup>15</sup> was below target by approximately 16.3 percent, representing a decline to 7.4 percent in FY2018/19 from 8.9 percent in FY2013/14 (Figure 18). This reflects lower revenue yields from both corporate income tax (CIT), withholding tax and personal income tax (PIT). The contribution from corporations and withholding taxes depends on profitability of firms — with the telecommunication and the financial sectors accounting for most (at least 60 percent) of the CIT. However, the business environment for the financial sector has not been favorable in the context of interest rate caps (especially among small banks), which has affected profitability.<sup>16</sup> Further, CIT is characterized by multiple rates and numerous tax incentives, which erodes the tax base and collected revenues.

**1.4.4. In 2018, approximately 9,482 Kenyans were among the world's high net-worth individuals<sup>17</sup> but personal income tax (PIT) is far from being a stable revenue contributor.** Relatively narrow income brackets and deductions that benefit primarily upper-income households<sup>18</sup> have continued to undermine progressivity of the PIT structure. Revenue collection through PIT has declined from 4.9 percent of GDP in FY2013/14 to 4.1 percent in FY2018/19. Further, the capital gains tax (CGT) at 5.0 percent is substantially lower than the standard PIT

and CIT rate and could be providing perverse incentives for taxpayers to convert fully taxable income into lightly taxed CGT. Nonetheless, the extent of this practice deserves further research beyond available data and time for this KEU.

**1.4.5. The performance of value added taxes (VAT) and excise duty remains broadly stable, although collections remain below historical trend.** VAT has stabilized at around 4.4 percent of GDP over the last five years (2014–2018), which is lower relative to the high of 4.6 percent over 2010–2012 period. The removal of VAT exemptions on petroleum products in the Finance Act, 2018 yielded at least Ksh.14.4 billion (or 0.16 percent of GDP) in additional revenue, but a review of the entire exemption regime and zero-rating could raise this to about 3.5 percent of GDP in additional revenue.<sup>19</sup> Moreover, tax policy for the digital economy is still evolving, and authorities could review the extent to which VAT from the various business lines could be collected (Box 2). Excise revenue marginally increased from about 2.0 percent in FY2013/14 to 2.1 percent of GDP in FY18/19. Recent tax measures to boost collection from excise revenue (Excise on airtime, data, telephone services, and financial services transactions) are likely to contribute to improved revenue collection but could also lead to unintended disincentives to the growth of the digital economy.<sup>20</sup>

<sup>15</sup> Comprises PIT, CIT, withholding tax, turnover tax, lotteries tax, presumptive tax, capital gains tax, and rental income obtained from the fourth quarter of Quarterly Economic Budget Review, July 2019.

<sup>16</sup> Value added for the financial services sector and level of employment decreased after the interest rate caps law.

<sup>17</sup> Those with a net worth of over US\$1 million excluding their primary residence: <https://www.knightfrank.co.ke/news/kenya-adds-300-dollar-millionaires-in-2018-013003.aspx>.

<sup>18</sup> The PIT deductions include: Mortgage interest, contributions to pension and provident funds, home ownership savings plans among others, which are typically accessed by higher income households.

<sup>19</sup> Revenue forgone due to VAT exemptions and zero rating is estimated at about 3.5 percent of GDP, while revenue forgone from CIT exemptions, accelerated depreciation allowances and preferential rates are estimated at about 1.9 percent of GDP (World Bank, 2017).

<sup>20</sup> Close monitoring is needed to ensure that these taxes do not reverse gains in mobile money services, e-commerce and financial inclusion.

**Strengthening efficiency and effectiveness of development expenditures, while reducing rigidity of recurrent spending, is critical for creation of fiscal space**

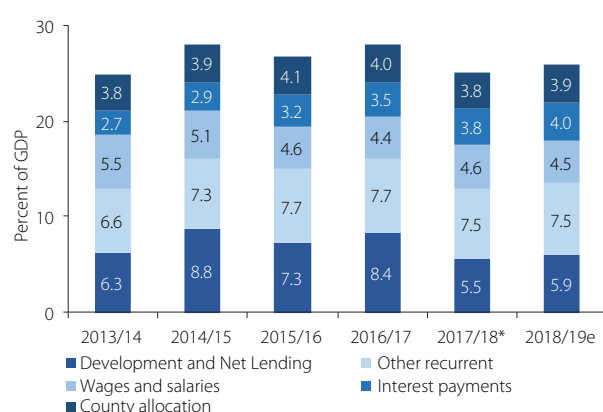
**1.4.6. Expenditure control measures are also needed to support fiscal consolidation.** The National Treasury has embarked on expenditure rationalization measures that include cutting travel expenses and reducing wastages as well as ensuring that pending bills are cleared. Having a clear quantification on fiscal savings expected from these cuts and the mechanisms that will ensure they are achieved will go a long way in restoring credibility. As a share of GDP, overall government expenditure rose by about 0.6 percentage points to 25.8 percent in FY2018/19 (from 25.2 percent of GDP in FY2017/18). This is a substantial increase given that revenue has been stuck at 17.9 percent of GDP over the last two fiscal years. The marginal increase in spending reflects the government's decision to defer any new development projects and to ensure completion of existing projects. This has provided room to align development projects to the Big 4 agenda without accelerating overall development spending. In addition, there is generally low absorption of budget due to delays in project design, procurement, and implementation.

**1.4.7. Rigidity in recurrent spending makes it difficult to adjust overall spending.** Expenditure on wages and salaries, interest payments, and county transfers accounted for 70.8 percent of ordinary revenue in FY2018/19. While an ongoing process to contain the wage bill (including restricting new hiring to critical services)<sup>21</sup> has slowed expansion of the same from 5.5 percent of GDP in FY2013/14 to 4.5 percent of GDP in

FY2018/19 (Figure 19), increased expenses on interest payments offset the gains from wage bill containment. Interest payments grew by one percentage point in the last five years to 4.0 percent of GDP in FY2018/19, while county transfers stood at 3.9 percent of GDP (Figure 20). It is important that authorities limit the extent and scope of earmarked expenses (transfers, salaries and wages), because such expenses are difficult to unwind once established.

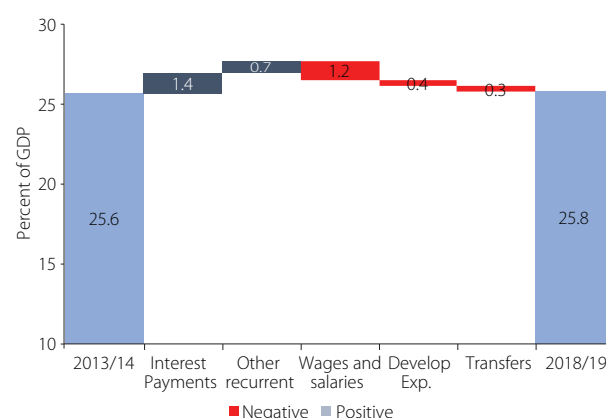
**1.4.8. Measures to enhance efficiency of capital expenditures remain critical for optimal returns from public investment.**<sup>22</sup> Development spending has increased to 5.9 percent of GDP in FY2018/19 (from 5.5 percent in FY2017/18). Nonetheless, there remain challenges, which if addressed could improve the efficiency and effectiveness of public expenditures in general. KEU19 found, for example, that the accumulation of pending bills undermined public investments' contribution to economic growth<sup>23</sup> by affecting profitability of firms that trade with the public sector and curtailing private sector activity (pending bills are estimated at 0.7 percent of GDP in FY2018/19). The slow execution of the development budget signals weaknesses in project appraisal, planning and sequencing of implementation. Project implementation cycles and budgeting appear unsynchronized – in part due to uncertainty regarding multi-year budgets for projects. This practice tends to encourage over-estimation of budget needed for a given implementation period per project, which has undermined progress made in mainstreaming programs based and the MTEF budgeting process.

**Figure 19: The burden of fiscal adjustment falls mainly on development expenditures**



Source: National Treasury

**Figure 20: Interest payments have exerted upward fiscal pressures**



Source: National Treasury

<sup>21</sup> World Bank. 2017 (Kenya Economic Update Ed:16) and National Treasury. 2019. Budget Statement (June 2019).

<sup>22</sup> Fosu et al. (2016). Optimal public investment, growth, and consumption: evidence from African countries. *Macroeconomic Dynamics*, Vol.20(8), pp.1957-1986

<sup>23</sup> World Bank. 2019 (Kenya Economic Update Edition 19).



## Modernization and improved debt management and transparency

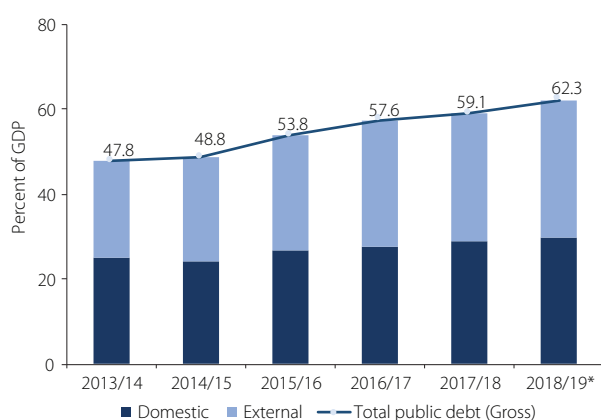
**1.4.9. Consistent with the expanded fiscal deficit, public debt and debt service have increased.** The fiscal slippage in FY2018/19 resulted in a 3.2 percentage points increase in public debt to 62.3 percent of GDP from 59.1 percent in 2017/18 (Figure 21).<sup>24</sup> The increase was purely on account of a wider fiscal deficit and interest payments (Figure 22). The contribution of primary balance deficit to growth in debt stock was about 3.7 percentage points of GDP, while interest payments and other residual factors added about 3.4, and 3.0 percentage points, respectively to that growth. On the other hand, expansion in real GDP contributed to a decline in growth of debt stock by some 3.3 percentage points and exchange rate valuations reduced the same by some 3.6 percentage points. Kenya's debt remains below the low-middle income countries Debt Sustainability Analysis (DSA) debt thresholds of 70 percent of GDP in present value terms.

**1.4.10. The accumulation of Kenya's public debt includes both external and domestic components, as the government borrowed to finance development projects but also to refinance repayments.** As of June 2019, the total debt stock rose to Ksh.5.8 trillion (from Ksh.5.0 trillion in June 2018) split between external and domestic debt at a ratio of 52 to 48. At Ksh.3.0 trillion (32.4 percent of GDP), Kenya's external debt remains below 50 percent of GDP in net present value (NPV)<sup>25</sup> terms, which is the threshold applicable to a country, whose policies and institutions are classified as strong

under the World Bank's Country Policy and Institutional Assessment (CPIA) index. However, reflecting higher domestic interest rates, debt servicing charges on the domestic debt stock are three times higher than from the external debt stock. Kenya continues to access international markets to refinance its external debt. For instance, it issued a third Eurobond (US\$ 2.1 billion) to refinance a bullet repayment of US\$750 million from the first Eurobond, with the balance going to budgetary support.

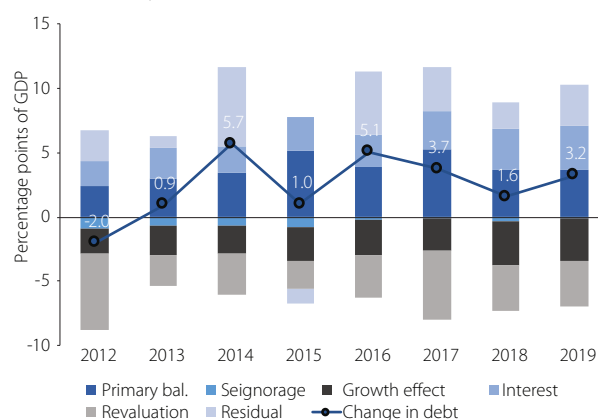
**1.4.11. Debt service obligations will continue to impose significant fiscal strain on the exchequer.** Kenya could face fiscal pressure in meeting its near term debt and repayments obligations. For example, domestic interest payment to tax revenue has increased to about 18.2 percent in FY2018/19 from 16.3 percent in FY2016/17. Further, with 43 percent of domestic debt expected to mature within one year, the government could face challenges in rolling over such bonds in an environment of no interest rate caps, low subscription rates and over-exposure of commercial banks to these assets. This could significantly push up the cost of refinancing domestic debt. A strategy of rebalancing the mix of expensive and shorter maturity commercial debt is critical to reduce fiscal pressures associated with debt service obligations. In this context, proactive debt management strategies, including calling on creditors to remain in "the game" for longer as a lender (through reprofiling) could be explored. Reprofiling is a type of debt re-organization strategy focused on extending the maturity of short-

**Figure 21: Kenya's public debt stock is increasing**



Source: National Treasury

**Figure 22: Debt increase is driven by a wider primary balance and interest payments**



Source: National Treasury

Note: Data is in fiscal years (i.e. 2019 = FY2018/19)

<sup>24</sup> Kenya's policies and institutions are classified as "strong" under the World Bank's Country Policy and Institutional Assessment (CPIA) Index (average score in 2014–16: 3.75). The relevant indicative thresholds for this category are: 50 percent for the NPV of debt-to-GDP ratio, 200 percent for the NPV of debt-to-exports ratio, 300 percent for the NPV of debt-to-revenue ratio, 25 percent for the debt service-to-exports ratio, and 22 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt.

<sup>25</sup> NPV is a method used to account for the time value of money. Debt stock at time  $t$  is the discounted sum of expected primary current account balanced and changes in non-debt capital flows plus discounted value of future debt stock at time  $(t+n)$ .

dated liabilities, potentially easing fiscal pressure on the exchequer. In addition, liquidity of public debt could be enhanced by issuing longer maturity bonds, to capitalize on high propensity to invest in government bonds as indicated by increase in subscription rate and declining yields on government securities.

**1.4.12. Improvement and clarification of fiscal rules within the Public Financial Management Act (PFMA) of 2012 remains important to provide fiscal targets that will guide fiscal policy.** The ongoing discussion to shift the debt ceiling from 50 percent of GDP in present value terms to a nominal fixed value (at Ksh.9 trillion over the next three fiscal years) reflects the need for clarity and application of the current fiscal rules in the PFMA 2012. The law needs to be reviewed to provide a description of procedures and correction mechanism required to be followed in case the debt ceiling is breached. This is critical as it will strengthen the fiscal framework over the medium term. Beyond agreement on monitorable indicators (either as a ratio of GDP or as a fixed nominal value), it is also critical to strengthen the Public Debt Management Office (PDMO), including adequate staffing and analytical tools to help assess the risks of its debt portfolio and adopt a proactive intervention to address the same.

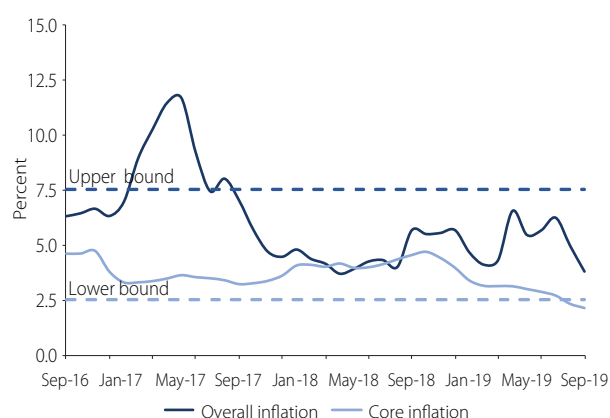
## 1.5. The macroeconomic environment remains stable with low inflation and a manageable current account deficit

**1.5.1. Inflation has remained within the government of Kenya's target band of  $5 \pm 2.5$  percent, supported**

**by low energy and food prices and a stable local currency.** Headline inflation averaged about 5.2 percent in the twelve months to September 2019 due to lower energy and food prices (Figure 23). Kenya's inflation, like most of its EAC counterparts (Figure 24), is easing due to dampened food and energy prices. Additionally, core inflation (which excludes energy and food prices) decreased to 2.4 percent in September 2019 (from 4.7 percent in September 2018), reflecting an economy where underlying demand pressures are still benign. The lower inflationary pressure is also supported by a stable local currency.

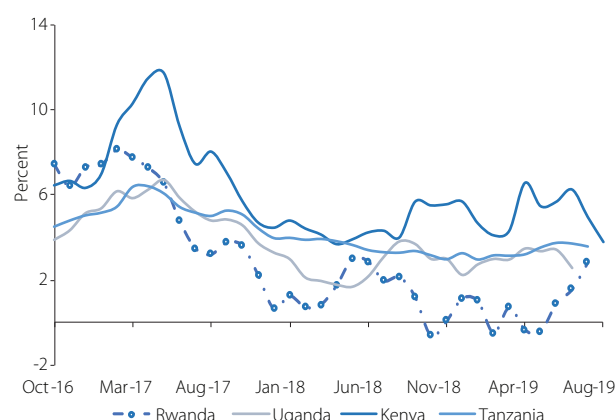
**1.5.2. Private sector credit growth has picked up in recent months but remains well below levels needed to support growth.** Research shows that credit and economic growth are positively correlated, and that the direction of causality is from credit to economic growth.<sup>26</sup> Kenya's private sector credit growth collapsed from its peak of about 25 percent in mid-2014 to a low of 1.4 percent in July 2017 with credit contracting in all key sectors of the economy. More recently, private sector credit growth has risen to 6.3 percent in August 2019, signifying a slow but steady pick-up (Figure 25) but remains well below its historical average (of about 19 percent) and certainly below projected expansion in nominal GDP (about 12 percent in 2019). Retention of interest rate caps has undermined growth of credit to the private sector and private sector investment, especially among SMEs. As noted previously, the law also constrains the use of monetary policy for liquidity management and support to aggregate demand.<sup>27</sup>

**Figure 23: Inflation remains within the target range**



Sources: Kenya National Bureau of Statistics

**Figure 24: Inflation is also lower across the EAC economies**

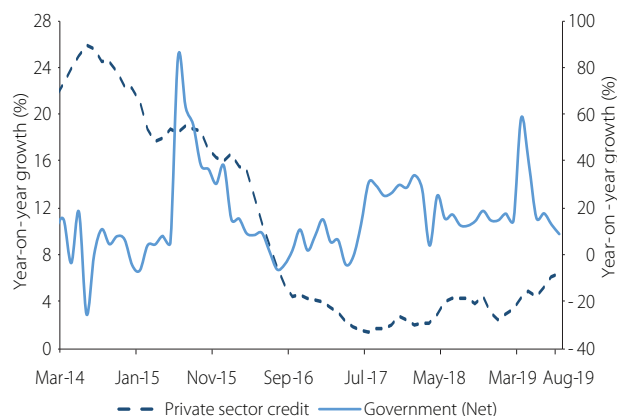


Sources: Kenya National Bureau of Statistics, National Institute of Statistics Rwanda, Uganda Bureau of Statistics and Tanzania National Bureau of Statistics

<sup>26</sup> Garcia-Escribano and Han (2015).

<sup>27</sup> IMF Country Report No. 18/296 of 2018. The impact of the cap on GDP growth is estimated at about 0.25-0.5 percentage points on an annual basis.

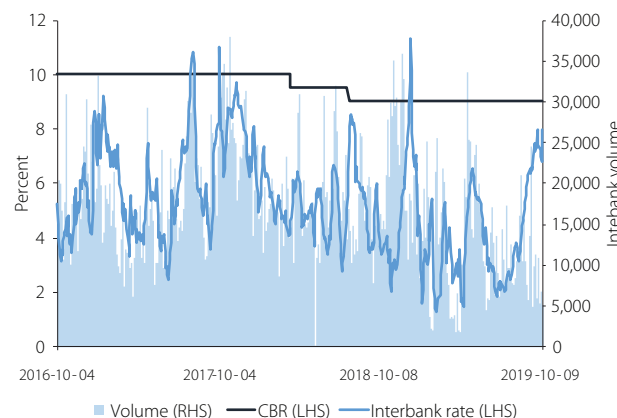


**Figure 25: Although still weak, private sector credit growth has risen recently**

Source: Central Bank of Kenya

**1.5.3. Reflecting challenges to price risk, commercial banks have shifted their lending portfolio in favor of government and large corporations.** Interest caps have distorted allocation of credit from sectors (such as SMEs) that need it the most.<sup>28</sup> Why this unintended outcome? The law fixed interest rates at a low level (interest rates were historically in the range of 16 -18 percent in Kenya), causing rationing of credit since lenders lack flexibility to vary pricing in line with credit risk assessment. There is a growing shift in lending from the private sector to the government, with credit to government increasing from an average of 5.9 percent in H1 of 2017 to 27.2 percent in H1 2019. Over the same horizon, average growth in credit to the private sector rose marginally from 3.0 percent in H1 2017 to 4.2 percent in H1 2019. Furthermore, liquidity segmentation in the banking system and intermittent volatility in the interbank market have further constrained the supply of credit to the private sector. For example, the difference in quoted interbank rates on the same day has ranged between 0.8 and 6.0 percent in 2019, with small banks facing much higher borrowing rates (Figure 26).

**1.5.4. The repeal of interest rate caps law (if approved) is a welcome development that should be accompanied by complementary reform measures.** On October 16, 2019, the president returned the Finance Bill to Parliament with a memorandum that calls for the repeal of section 33B of the Banking (amendment) Act of 2016. The removal of interest rate caps should eliminate what has been a powerful disincentive for banks to lend to SMEs<sup>29</sup> and in addition should restore the potency of

**Figure 26: Interbank rates and volumes remain volatile**

Source: Central Bank of Kenya

monetary policy. Reforms that address the root causes of high interest rates could be fast-tracked to accompany this step. These include, for example sustained fiscal consolidation (which should reduce government domestic borrowing), measures that strengthen credit-information sharing and promote transparency in pricing of credit. The success of innovative products such as STAWI should also be supported.<sup>30</sup>

**1.5.5. The financial services sector remains adequately capitalized, profitable and broadly stable, but risks are inherently high among smaller banks.** As of June 2019, total capital to risk weighted assets, which is the ratio of a bank's capital to its risk - was about 18.2 percent relative to a statutory requirement of about 15 percent. Both measures of profitability (return on assets-ROA and return on equity-ROE) were at 2.8 percent and 23.8 percent, respectively. This is comfortably above the regulatory thresholds of 2 and 20 percent, respectively. Nonetheless, high levels of non-performing loans (NPLs), at 12.7 percent in June 2019, continue to constrain lending (Figure 27). NPLs span across trade, personal & households, manufacturing, and real estate. The asset quality for the small and medium banks is especially poor with average NPLs higher than 15 percent and well above statutory guidelines of 5 percent or less. Thus, risks are inherently high for the medium and smaller banks whose business model is facing significant challenges in the context of interest rate caps. Net exposure to foreign exchange risks is high (at 15.2 percent) relative to statutory requirements of 5 percent (Table 2).

<sup>28</sup> Mackinnon and Shaw 1973.

<sup>29</sup> The private sector still accounts for the largest share of total bank's credit and Kenya ranks favorably (4th in WB Doing Business Report 2020) in ease of access to credit mainly due to implementing a functional secured transactions system. The new law regulates functional equivalents to loans secured with movable property, such as financial leases and fiduciary transfer of title. This is made possible by the Movable property security right act. No. 13 of 2017 that was assented into law in 2017.

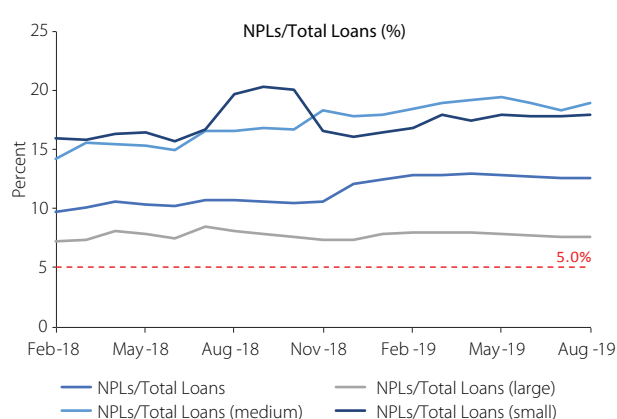
<sup>30</sup> STAWI is a mobile loan application that offers unsecured financing to small and medium scale enterprises (SMEs) in Kenya. It is managed by NCBA bank, Cooperative Bank of Kenya, Diamond Trust Bank (DTB), KCB Bank.

**Table 2: Financial soundness indicators (FSI) show a stable banking system**

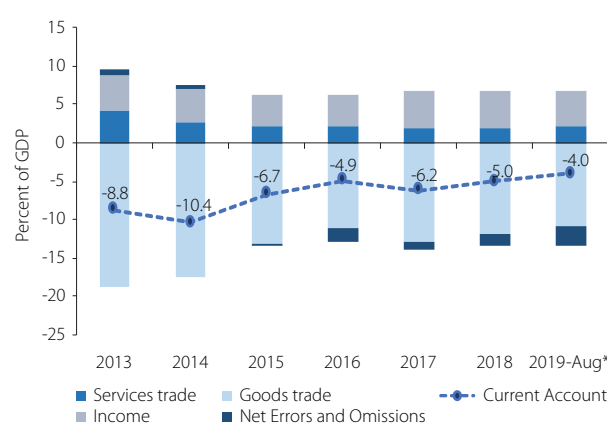
	Weight	Statutory requirement	Direction to be stable	Value(%) as at Jun-19
<b>Capital Adequacy</b>				
Total capital/RWA (CAR)	20	15	≥	18.2
<b>Asset Quality</b>				
NPLs (gross)/Total loans	5	5	≤	12.7
NPLs-provisional)/capital	10	25	≤	18.9
<b>Profitability</b>				
ROA (after-tax)	15	2	≥	2.8
ROE (after-tax)	15	20	≥	23.8
<b>Liquidity</b>				
Liquid assets/total assets	10	30	≥	39.6
Liquid assets/short-term liabilities	10	50	≥	50.6
<b>Sensitivity to Market Risk</b>				
Net FX exposure/capital (abs)	5	5	≤	15.2

Source: Central Bank of Kenya

Note: Assets Quality category excludes FX loans/Total loans

**Figure 27: Non-performing loans (NPLs) are higher for the medium and small banks**

Source: Central Bank of Kenya

**Figure 28: Current account balance improves**

Source: Central Bank of Kenya

## 1.6. Lower imports bill and strong remittance inflows have contributed to a narrower current account deficit

**1.6.1. The current account deficit has narrowed to a manageable level and is adequately funded.** In the year to August 2019, the current account deficit narrowed to 4.0 percent of GDP (from 5.4 percent in August 2018) (Figure 28), driven by lower imports (food and SGR related imports), stronger diaspora remittance inflows and strong receipts from tourism. The cumulative value for remittances is approximately US\$ 2.8 billion (or 3.0 percent of GDP) (Figure 29). In August 2019, Kenya exported its first crude oil (200,000 barrel at US\$ 12 million-or 0.2 percent of total merchandise exports in 2018<sup>31</sup>) under the Early Oil Pilot Scheme, although

commercial production is not expected until 2023. This reflects a recent diversification of Kenya's exports along product space. Nonetheless, Kenya's manufacturing exports to the EAC and other regional markets have contracted by 4.8 percent in H1 2019. The weakness in the trade balance was mitigated by a strong surplus in the secondary income account due to a steady rise in remittance inflows (Figure 29).

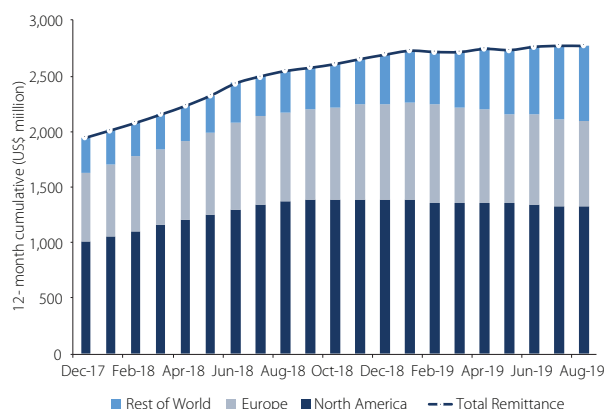
## 1.6.2. The current account deficit was financed by official borrowing and private investment inflows.

Capital flows to Kenya have been strong, with the surplus in the financial account expanding to 7.3 percent of GDP in August 2019, compared to 6.6 percent of GDP in August 2018 (Figure 30). Capital flows comprised of 1.9

<sup>31</sup> Total merchandise exports in 2018, was about US\$6,105 million (KNBS, 2019 Economic Survey).

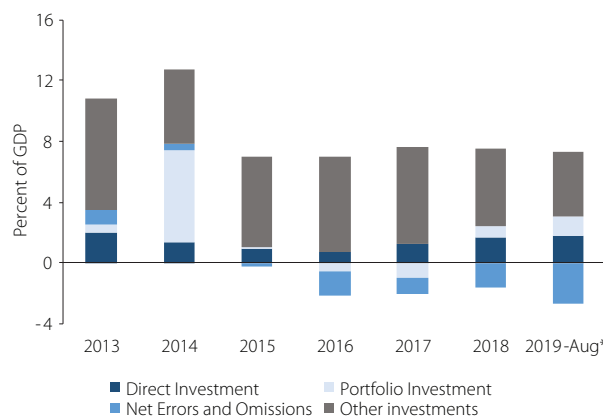
percent of GDP in net foreign direct investment (FDI), 1.2 percent of GDP in portfolio investment, and 4.2 percent of GDP in net other investment (official borrowing and corporate borrowing from abroad). Programmed official borrowing included issuance of Eurobond III in May 2019 of US\$2.1 billion and an IDA budget support of US\$ 750

**Figure 29: Remittance inflows at an all-time high in H2 2019**



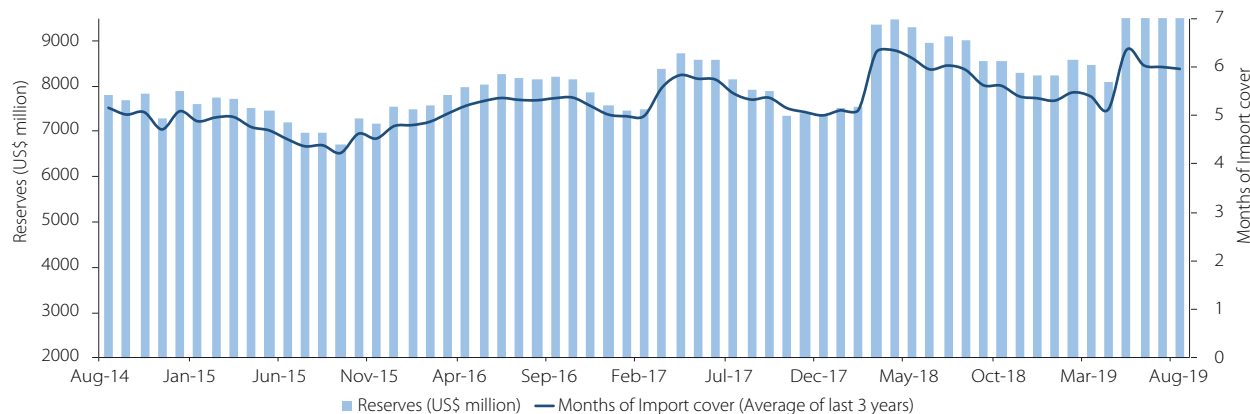
Source: Central Bank of Kenya

**Figure 30: Capital inflows have financed the current account deficit**



Source: Central Bank of Kenya

**Figure 31: Gross official reserves represent a comfortable buffer**



Source: Central Bank of Kenya

## 2. Outlook, Risks, and Policy Options

### 2.1. Kenya's growth prospects remain positive over the medium term

**2.1.1. Despite a less favorable external trade environment, growth prospects in Kenya remain positive over the medium term.** In 2019, GDP growth is estimated at 5.8 percent before rising to 6.0 and 5.8 percent, respectively for 2020 and 2021 (Table 3). The growth outlook is predicated on normal weather conditions, authorities' staying the course in planned fiscal consolidation, and limited spillover effects from

the anticipated global slowdown. Favorable weather conditions should support growth of agriculture and industry (at an average of 4.5 and 5.6 percent, respectively for 2020-21). The macroeconomic environment is expected to remain stable, with low inflation and a manageable current account deficit. However, partially mitigating growth prospects is the drag from fiscal consolidation and sub-optimal private sector credit growth and relatedly weak private investment.

**Table 3: Medium term growth outlook (percent, unless otherwise stated)**

	2016	2017	2018	2019 e	2020 f	2021 f
<b>Real GDP growth, at constant market prices</b>	5.9	4.9	6.3	5.8	6.0	5.8
Private Consumption	4.8	7.6	5.9	6.1	6.6	6.6
Government Consumption	5.6	5.1	1.0	6.6	5.6	5.2
Gross Fixed Capital Investment	-9.2	6.4	4.6	5.7	5.1	4.1
Exports, Goods and Services	-2.2	-6.8	4.0	4.5	4.6	4.4
Imports, Goods and Services	-3.4	8.7	2.6	5.9	6.0	5.8
<b>Real GDP growth, at constant factor prices</b>	5.9	4.6	6.3	5.8	6.0	5.8
Agriculture	4.7	1.9	6.4	4.3	4.5	4.6
Industry	5.9	3.8	5.3	5.5	5.6	5.6
Services	6.4	6.0	6.7	6.6	6.8	6.4
<b>Inflation (Consumer Price Index)</b>	6.3	8.0	4.7	5.7	5.9	6.1
<b>Current Account Balance (percent of GDP)</b>	-4.9	-6.2	-5.0	-5.3	-5.4	-5.7
<b>Net Foreign Direct Investment (percent of GDP)</b>	0.3	0.5	0.5	0.6	0.7	0.5
<b>Fiscal Balance (percent of GDP)/<sup>1</sup></b>	-7.1	-9.1	-7.4	-7.7	-6.2	-5.3
<b>Debt (percent of GDP)</b>	53.8	57.6	59.1	62.3	61.3	61.0
<b>Primary Balance (percent of GDP)</b>	-3.9	-5.6	-3.6	-3.7	-1.9	-1.2

Source: World Bank and National Treasury

Notes: e = estimate, f = forecast.

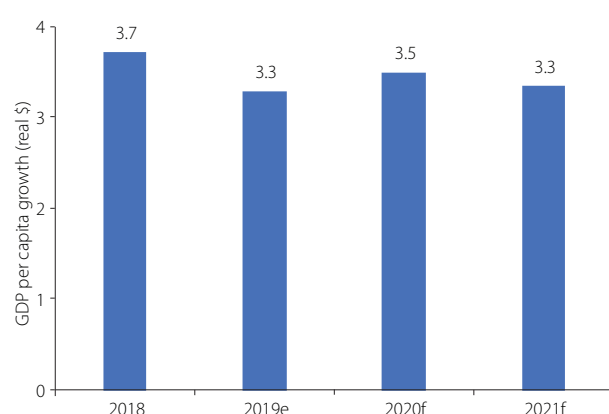
Note: (1) Data in fiscal years, i.e. 2016=2015/16, 2017=2016/17 etc.

**2.1.2. Growth performance in the services sector is projected to remain stable.** The services sector is projected to grow at an average rate of 6.6 percent over the medium term. With double-digit growth in the last five years (2014 -2018), the ICT sector is expected to continue expanding and catalyze growth in financial services, health, housing, transportation and agribusiness sectors. Strong growth of the ICT sector over the medium term is driven by growing access to 4G mobile technology and mobile money services, e-commerce, and internet penetration. In the special focus section, detailed analysis of growth opportunities for the sector is undertaken, including a policy proposal for leveraging the digital economy as a pathway for economic growth and jobs creation. With the projected growth trajectory,

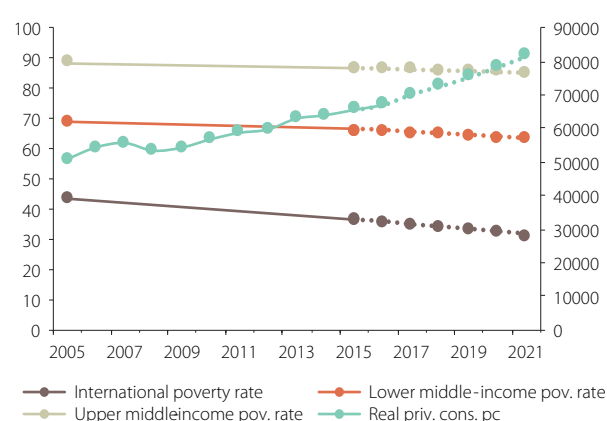
GDP per capita is expected to expand to 3.4 percent over the medium term (Figure 32). This should also result in a projected reduction of extreme poverty (\$1.9/per day) from about 34.4 percent in 2018 to 31.8 percent in 2021 (Figure 33), contingent on continued support for pro-poor and inclusive growth policies over the medium term.

## 2.2. Private consumption and investment are expected to support growth

**2.2.1. Private consumption is expected to remain supportive of growth.** The baseline assumes that favorable agricultural harvests, low inflation, and a steady pick-up in credit to the private sector lends support to strong private consumption. In addition, since growth in the global economy remains positive (amidst

**Figure 32: GDP per capita growth**

Source: World Bank

**Figure 33: Trends in extreme poverty (percent)**

Source: World Bank

rising risks for global recession), remittances inflows to Kenya are projected to be stable, thereby lending further support to household consumption. Private consumption is expected to complement moderate government consumption (salaries and wages, goods and services, transfers), translating to overall growth in final consumption. Nonetheless, on the downside, the pass-through effect of recent tax measures - VAT (of 8 percent) on petroleum products and excise taxes (mobile, data, financial services, kerosene, tobacco and alcohol) - on domestic prices could dampen real household income, moderating the lift to private consumption over the medium term.

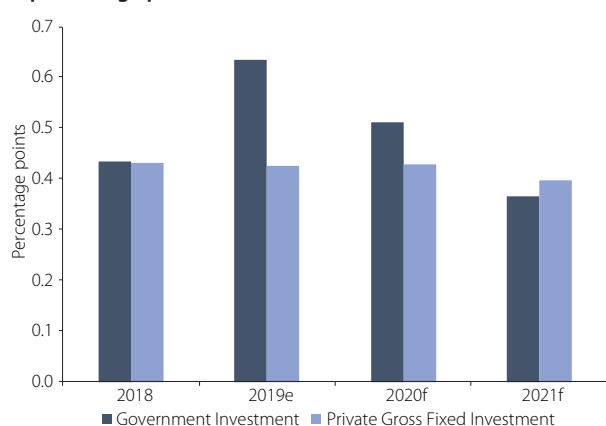
**2.2.2. A nascent recovery in private investment is underway and could potentially strengthen over the medium term.** With positive business sentiment and private credit growth, the baseline outlook assumes a gradual pick-up in private investment in 2019 and over the medium term (Figure 34). The baseline also assumes the government will pursue its planned fiscal consolidation, which should reduce government domestic borrowing, lower yields on government securities, thereby incentivizing commercial banks to lend to the private sector. Public sector investment will continue to be guided by the need to complete ongoing projects and alignment of new projects to the Big 4 agenda. The completion of major infrastructure projects (e.g. SGR), ongoing reforms to improve the business regulatory environment, and government efforts to attract private sector participation in the Big 4 - for example Public

Private Partnership (PPPs) in roads infrastructure - should help boost private sector investment.<sup>32</sup>

**2.2.3. The authorities have committed to reducing the fiscal deficit over the medium term - which is critical for fiscal sustainability and promoting private sector led growth.** The overall fiscal deficit is projected to decrease from 7.7 percent of GDP in FY2018/19 to 6.2 percent of GDP in FY2019/20, and to 5.3 percent of GDP in FY2020/21 (Figure 35).<sup>33</sup> This also implies a reduction in primary balance (the debt-creating component of fiscal deficit) from 3.7 percent of GDP in FY2018/19 to 1.2 percent in FY2020/21. Fiscal consolidation is underpinned by improving efficiency of spending, reducing wastages through measures to strengthen public financial management systems and renewed anti-corruption measures. Domestic revenue mobilization is also expected to respond positively to recent marginal adjustments to tax policy (implementation of an 8 percent VAT on petroleum products, the new income tax bill, and additional excise tax measures). If implemented with success, these initiatives should ease debt refinancing risks and return the public debt trend to a downward path from 62.3 percent of GDP in 2019 to 61.0 percent in 2021 (Table 3).

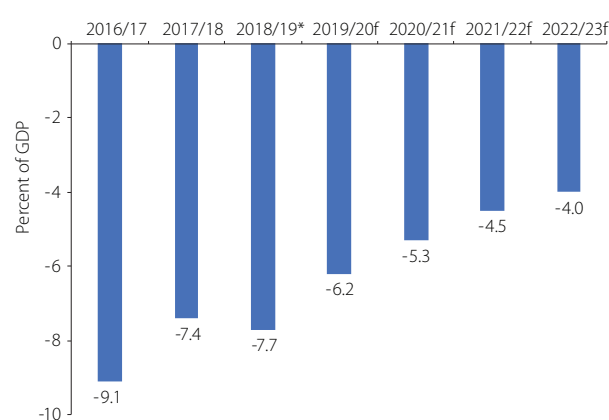
**2.2.4. The external sector position is expected to remain favorable and supportive of macroeconomic stability.** Exports are projected to improve marginally over the medium term, growing on average by about 4.5 percent - assuming steady demand from Kenya's trading

**Figure 34: The share of private and public investment, 2019-21 (in percentage points of GDP)**



Source: Central Bank of Kenya and World Bank

**Figure 35: Fiscal consolidation is expected to be sustained over the medium term**



Source: The National Treasury

Notes: \* = preliminary, f = forecast

<sup>32</sup> With a medium-term growth forecast of about 5.9 percent in 2020/21 and an average incremental capital output ratio of about 3.7, this requires an investment to GDP ratio of about 21.8 percent for Kenya.

<sup>33</sup> These projections are contained in the latest Budget Review and Outlook Paper (BROP) in October 2019. The forecasts fall short of the 3 percent of GDP budget deficit targeted by the East African Monetary Union's convergence criteria set for 2021.

partners for its tea, coffee, and horticultural exports. Exports to Uganda (manufacturers) and Pakistan (tea) are expected to increase in line with projected expansion of these economies.<sup>34</sup> Receipts from tourism are expected to continue uninterrupted in 2019 (due to forward planned tours) but to marginally decrease with weaker growth prospects in advanced economies. Imports are projected to expand in line with Kenya's projected real GDP growth, barring any unanticipated shocks in food or oil import prices. Although the current account deficit is projected to widen from 5.3 percent in 2019 to about 5.7 percent of GDP in 2021, it is adequately funded by continued access to international financial markets (both official and non-official debt) and portfolio inflows.

### 2.3. Downside risks dominate the balance of risks

**2.3.1. Downside risks include a recurrence of drought, which could further weaken agricultural output, and fiscal slippages that could derail containment of rising public debt stock and further alienate private sector led growth.** The projections assume that Kenya will receive normal rains for 2019 and over the medium term, which should auger well for expansion in agricultural activity and output. However, if severe drought conditions recur, that poses a downside risk to agricultural output and GDP growth. Nevertheless, the risk of this occurring is assessed low based on recent forecast for normal weather conditions by the Kenya Meteorological Department.

**2.3.2. Fiscal slippages from the projected consolidation pathway could derail containment of public debt and further crowd out private sector led growth.** The baseline assumes that the government will adhere to its planned medium-term fiscal consolidation targets. However, fiscal slippages present a significant downside risk to the outlook because continued government borrowing is likely to outcompete the private sector in access to credit, adversely impacting private sector investment. It could also lead to costly servicing of government debt (imposing fiscal pressures) and reducing flexibility for countercyclical policy.

**2.3.3. On the external front, unanticipated spillover effects from ongoing trade and technology conflicts is a key risk.** This is also intensified by likely effects of weaker than expected global growth on demand for Kenya's

exports and remittance inflows. The baseline assumes a steady demand for Kenya's main exports (tea, coffee, and horticulture) as well as orderly adjustment in capital inflows to finance the current account balance. However, in recent months the probability for global recession has increased and the risk of capital outflows from EMDEs in search of safer havens is more apparent. With continued jitteriness on global growth prospects, emerging and frontier markets including Kenya remain vulnerable to changing sentiments. These vulnerabilities could intensify given large external financing requirements for Kenya. Nonetheless, given a comfortable buffer in the stock of foreign exchange reserves (that could cushion the economy against short term shocks) and a commitment to fiscal consolidation, this risk is also assessed low.

**2.3.4. On the upside, several factors not considered in the baseline could surprise, adding to projected growth.** These include fast-tracked structural reforms in support of the Big 4 agenda (including building momentum for speedy implementation), stronger than anticipated recovery in credit to private sector and private investment. The proposal to repeal interest rate caps, if approved, could increase access to credit and raise growth. Previous research indicates that lifting of interest rate caps could result in additional real GDP growth of between 0.25 and 0.75 percent.<sup>35</sup> Furthermore, coordinated global policy response to prevent the global economy from sliding into recession could also maintain a favorable external environment. Were any of these to materialize, they could positively add to growth beyond projections contained in this October 2019 update.

### 2.4. A balanced policy mix to sustain economic growth

**2.4.1. Confronted with a less favorable external environment, Kenya needs to enhance its macroeconomic policy buffers.** Fiscal policy could focus on enhanced domestic revenue mobilization, improving efficiency of public expenditures, and improving debt management. Creating fiscal space should provide the government some leg-room in responding to shocks in the future through countercyclical measures and reversing accumulation of public debt stock. Within the monetary policy space, although there are some green shoots of recovery in private sector credit, demand pressures remain subdued (as evidenced by very low

<sup>34</sup> Top five export destinations for Kenya in 2018: Uganda, Pakistan, USA, United Kingdom, and the Netherlands.

<sup>35</sup> See IMF (Article IV of October 2018), Central Bank of Kenya, and KEU16.





core inflation). With inflation expectations remaining well anchored, there is room for continued accommodative monetary policy to respond to the slack in the economy. The presidential memorandum to Parliament on repeal of the interest rate caps law is expected to allow monetary policy to intervene for liquidity management and aiding the economy out of subdued demand pressures.

**2.4.2. To sustain fiscal consolidation, authorities require a step change in domestic revenue mobilization.** In the short-run, the elasticities and tax bases used to project tax revenues need to be reviewed and updated to better reflect the changed economic structure. Such updates would introduce much-needed realism in revenue projections which are needed to better anchor spending decisions over the medium term. Further, a review of the numerous exemptions and zero rating of domestic sales is required to safeguard erosion of the VAT tax base and ensure that remaining ones are consistent with intended objectives of promoting private sector activity and creating jobs. Similarly, lower income tax receipts are a key contributor to the decline in tax revenue. There is need to fast-track the enactment of a new income tax law as announced in FY2019/20 budget. This is expected to streamline and rationalize generous deductions, accelerated depreciation, and other preferential rates to stem revenue loss through exemptions. Regarding PIT, a review of recent rate adjustments and special relief measures may be warranted to gauge their impact on revenue and to contain further revenue loss.

**2.4.3. There is need to review how and where the digital economy should be taxed given the growing shift in the digital transformation.** The digital economy is extremely broad and there is no consensus on definition and measurement of the various business lines underlying the sector. It is also challenging to categorize the sector into various segments or economic actors for purpose of taxation. Authorities could invest more time and more resources to understand the underlying economic transactions, its implications for tax policy and compliance, and supporting growth of the digital economy. The digital economy also provides opportunity for innovative technologies to help the Kenya Revenue Authority (KRA) enforce cross-border compliance and collection of revenue.

**2.4.4. Expenditure rationalization measures are also needed to support a return to fiscal consolidation path.** While the new management at the National Treasury has embarked on expenditure rationalization measures (cutting travel expenses and reducing wastages), as well as ensuring that pending bills are cleared, having a clear quantification on fiscal savings expected from these cuts will go a long way in improving the credibility of the fiscal consolidation pathway. Expenditure allocations assigned to the Big 4 would need to be contained within a fiscally sustainable resource envelope and should seek to reduce inefficiencies in spending in order to maximize impact. In the short-run, the government could adhere to the policy of prioritizing completion of ongoing investment/development projects and clearance of pending bills and arrears owed to suppliers.

**2.4.5. Strengthening the institutional framework for cash management is critical to increase the level of budget execution in line with policy priorities.** Some of the constraints explaining lower absorption include limited capacity in the implementing units, lack of synchronized planning and budget execution, and slower release of funds by the exchequer. Addressing weak implementation capacity and putting in place mechanisms for faster disbursement of funds, while improving planning and budgeting, remains key in raising absorption. A better linkage between cash management and budget execution could help relieve fiscal pressures, enhance transparency for in-year budget operations, and defend approved budget from discretionary variation. The government is making progress in this direction. It has established an institutional framework for cash management.<sup>36</sup> A circular on preparation of cash plans and adherence to this has been issued to MDAs. This is expected to address the challenge of pending bills, delayed exchequer releases and improved budget execution.

**2.4.6. Modernization and improving transparency in debt management can strengthen fiscal sustainability.** Concerns over debt accumulation have been amplified by recent fiscal slippages, which have led to an accelerating debt to GDP ratio. Authorities could also adopt measures to improve debt transparency such as electronic trading

<sup>36</sup> Comprising of directorates of the Public Debt Management Office, Accounting Services and Quality Assurance, and Budget, Fiscal and Economic Affairs.

<sup>37</sup> This could involve exchange of a two-year fixed rate bond for a new five-year bond, a three-year extension of maturity (Makoff, G. 2015).

of government securities and reporting on state owned enterprises' debt. Authorities could also modernize and reinforce measures to improve debt transparency including in the trading of government securities, as well as reporting on State Owned Enterprises' debt. A strategy of rebalancing the mix of expensive and shorter maturity commercial debt is critical to reduce fiscal pressures associated with debt service obligations. Finally, with 43 percent of domestic debt expected to mature within one year, policies to call on creditors to remain in the game for longer as a lender (through reprofiling) could be explored. Reprofiling is a particular type of debt reorganization focused on extending the maturity of short-dated liabilities<sup>37</sup> and potentially ease fiscal pressures in the context of narrow fiscal space.

#### **2.4.7. Restore the potency of monetary policy in responding to shocks emanating from changes to the business cycle, and support growth by helping lift the economy out of subdued demand pressures.**

While recent data release indicates some green shoots of recovery in private sector credit, demand pressures remain subdued. With very low core inflation, well anchored inflation expectations, there is ample room for accommodative monetary policy to respond to the slack in the economy if needed. The presidential memorandum to Parliament on repeal of the interest rate caps law (if approved) is expected to allow monetary policy to intervene for liquidity management and aid the economy out of subdued demand pressures. In addition, micro reforms seeking to ease barriers to access credit among SMEs and solution to the broader range of factors that led to the imposition of the interest rate caps, including through addressing consumer financial protection concerns, measures that strengthen credit-information sharing and promoting transparency in pricing of credit. The success of innovative products such as STAWI should also be supported.

#### **2.4.8. On the external front, policy could be geared towards building buffers against short-term external shocks in the event a global economic downturn**

**materializes.** This could be done for example by ensuring a competitive exchange rate (to cushion the economy from price shocks) and reducing overdependence on international markets for external financing. Sustaining fiscal consolidation could potentially de-risk fiscal operations and contain rising public debt stock, including the need for recourse to international markets for debt refinancing. Furthermore, with likely slowdown in demand from some of Kenya's trading partners (US, UK, and the EU), pressure to diversify destination markets for exports is ever urgent. Kenya could continue to champion regional integration initiatives (including creation of a single digital economy in the EAC) and implementation of the AfCFTA. The recent debut in the international oil export markets is another positive addition to its product space and lessons from this pilot scheme could be used to fast track commercial production. Finally, close monitoring and making requisite arrangements to help the private sector adjust to new trade relationships between the UK and the EU seems warranted.<sup>38</sup>

#### **2.4.9. Further structural reforms are needed to lift productivity durably.**

A greater appetite for structural reforms could help crowd in the private sector, lift growth and create jobs over the long term. Structural reforms could include easing barriers for SMEs growth (e.g. access to credit<sup>39</sup> and adoption of modern technology), improving quality of education, skills development and training at all levels of education, educating and empowering women (to check high fertility rates), supporting R&D, digitalization, and technology adoption. The latest World Bank's doing business report ranks Kenya 56 out of 190 economies with a DB2020 score of 73.2 up from 71.0 in DB2019. Kenya is performing very well in protecting minority investors, getting credit, and resolving insolvency. The report points areas for continued improvement to include starting a business, registering property, and trade across borders. Within the Big 4 development agenda Table 4 contains key policy reforms whose implementation could tilt the scale in favor of the private sector's contribution to achievement of objectives under the Big 4.

<sup>38</sup> Kenya has a stake in the ongoing discussions on eventual trade relationship between the UK and the EU. The final deal or no deal will affect Kenya's trade not only through tariffs but also by raising the cost of doing business.

<sup>39</sup> The private sector still accounts for the largest share of total bank's credit and Kenya ranks favorably (4<sup>th</sup> in WB Doing Business Report 2020) in ease of access to credit mainly due to implementing a functional secured transactions system. This is made possible by the Movable property security right act, No. 13 of 2017 that was assented into law in 2017.

**Table 4: Progress in the structural reform agenda to advance the Big 4**

Progress on Policy and Institutional Reforms that can crowd in the private sector	Completed	Incomplete	
		Progress	Limited Progress
<b>Affordable Housing</b>			
Enact the Physical Planning Bill-Allow changes to restrictive zoning laws that prevent construction of multi-story buildings		X	
Enact the Built Environment Bill-a basis for building regulations		X	
Issue the National Building Regulations ("the building code")		X	
<b>Agriculture</b>			
Establish the Warehouse Receipt Council to operationalize the Warehouse Receipt Act		X	
Align the strategic grain reserve function of National Cereals and Produce Board (NCPB) to Warehouse receipt System (WRS)			X
Through CMA, submit to Parliament a regulatory framework for the Commodities Exchange and enable licensing.		X	
Issue regulations for implementation of the Irrigation Act			X
Roll out the e-voucher subsidy program to at least 15 counties and cover over 70,000 farmers		X	
Issue regulations implementing the Fisheries Management and Development Act		X	
Submit to Parliament the livestock bill		X	
<b>Universal Health Care</b>			
Approve Health Financing Policy		X	
Implement action plan to reduce NHIF administrative costs			X
<b>Increase the Share of Manufacturing</b>			
Approve the Kenya Investment Policy	X		
Legal framework for Micro Small Enterprises Authority		X	
Submit to Parliament regulations implementing the Special Economic Zones (SEZ) Act 2015		X	
Finalize and enact the National Waste Management Bill 2017 and the National Water Policy		X	

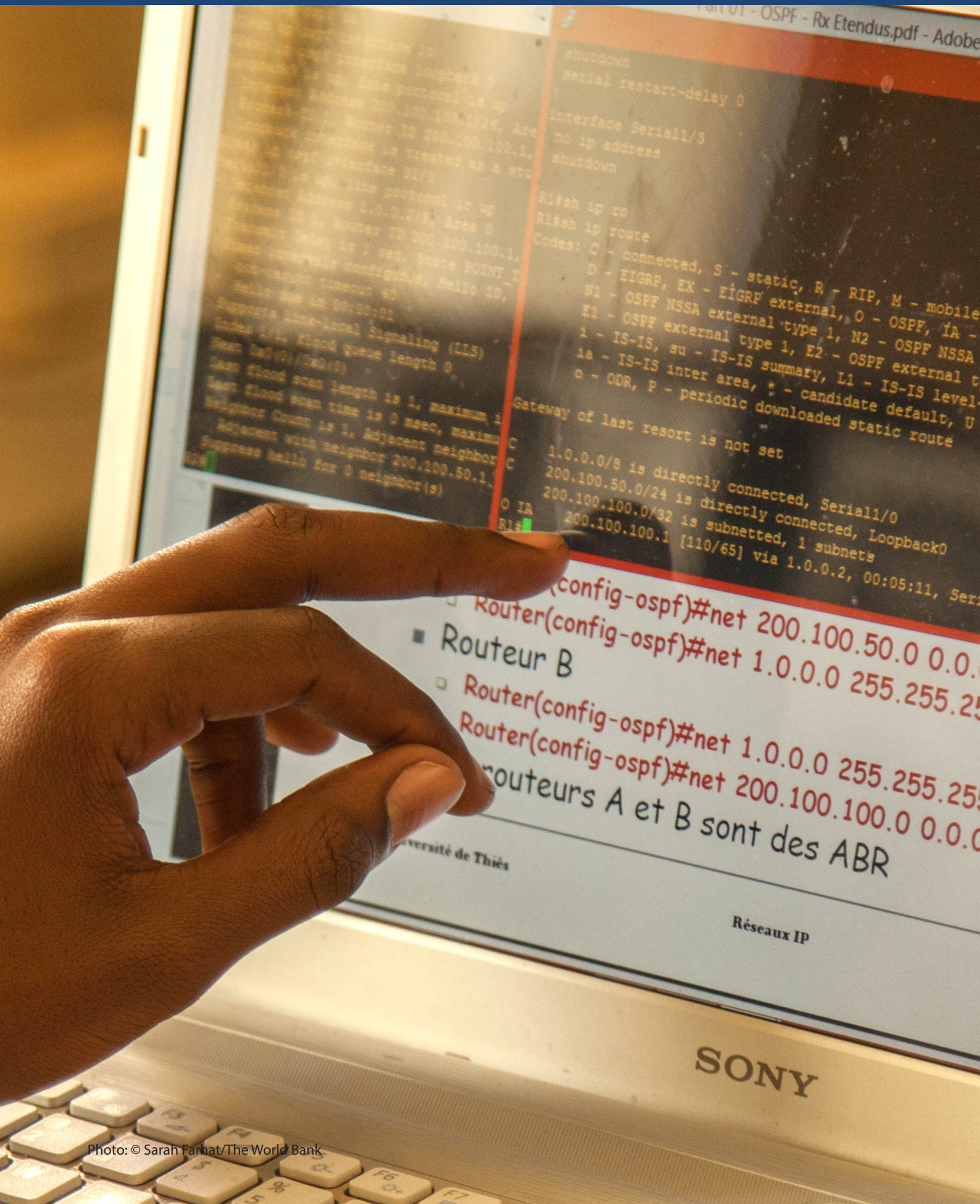
Source: Various documents from the Government of Kenya (GoK) including the Third Medium Term Plan (MTP III)





# Part 2: Special Focus

Accelerating Kenya's Digital Economy





## 3. Accelerating Kenya's Digital Economy

### 3.1. Digital transformation as a driver of Kenya's growth

**3.1.1 The digital economy is propelling Kenya's economic growth, driven by mobile telephony, rising internet usage and uptake of e-commerce and digital services.** Unburdened by legacy infrastructure and empowered early on through forward-looking regulation and policy, Kenyans have rapidly embraced mobile communications technologies and have become a world leader in adoption of digital payments. An entrepreneurial and innovative spirit and supportive business environment have spawned a wide range of digitally enabled startups and investments by leading multinational tech companies, burnishing the country's reputation as the "Silicon Savannah" and driving service-led growth.

**3.1.2 The Government of Kenya is eager to position the country as a hub for information and communication, e-commerce and digital services.** With 10.8 percent average annual growth since 2016, the information and communications technology (ICT) sector has been an important source of economic dynamism and job creation in its own right. More importantly, development of the ICT sector has had significant spillover benefits across nearly every sector of the economy, creating opportunities to adopt more efficient, digital-centric business models and practices. Digital technologies and communications are likewise a key enabler of the 'Big 4' Agenda, playing a catalytic role in enhancing productivity and service delivery by both the public and private sectors in agriculture, health care, and manufacturing. Recent World Bank research<sup>40</sup> suggests that digital transformation in Sub-Saharan African countries can increase growth by nearly two percentage points per year and reduce poverty by one percentage point per year. This effect can be doubled if paired with stronger investments in human capital. Recognizing this potential, Kenya has ramped up investment in ICT infrastructure and digital skills development programs, with the aim of transforming Kenya into a knowledge-based economy and society.

**3.1.3 Although Kenya's digital revolution is already a significant success story, to stay ahead much more remains to be done.** As an early mover and leader of the digital revolution across the African continent, it would be all too easy for Kenya to rest on its laurels. But as the pace of technology innovation and growth of the global digital economy continue to accelerate, Kenya's citizens, businesses and the government will need to run even faster just to keep pace. Building and maintaining a lead will require even greater determination and a team effort.

**3.1.4 This special focus highlights the key findings and recommendations of the Kenya Digital Economy Assessment, carried out by a multi-disciplinary team of World Bank experts and based on primary research and consultations with stakeholders across government, private sector and civil society.** The assessment analyzed five key foundations for success in the digital economy: (i) Digital Infrastructure; (ii) Digital Skills; (iii) Digital Platforms and Services; (iv) Digital Financial Services; and (v) Digital Entrepreneurship. Building strong digital foundations will be critical to Kenya's long-term success in harnessing the potential of the digital economy as a driver of its economic growth, job creation and service delivery while ensuring that no one is left behind.

### 3.2. A Snapshot of Kenya's Digital Transformation

**3.2.1 Mobile penetration continues to rise – providing access to digital communications, and increasingly to the internet.** As of March 2019, the number of active mobile subscriptions in the country was 47.0 million, while mobile penetration was at 90 percent (Figure 36: The near universal adoption of mobile phones reflects multiple SIM ownership by individual consumers). An estimated 46 percent of citizens had access to broadband connectivity at the end of 2018,<sup>41</sup> with mobile broadband being the predominant means of internet access. Mobile broadband is both relatively affordable and readily available in many parts of the country, but the uses are somewhat constrained due to bandwidth limitations. Meanwhile, use of fixed broadband (which is typically provided to businesses and

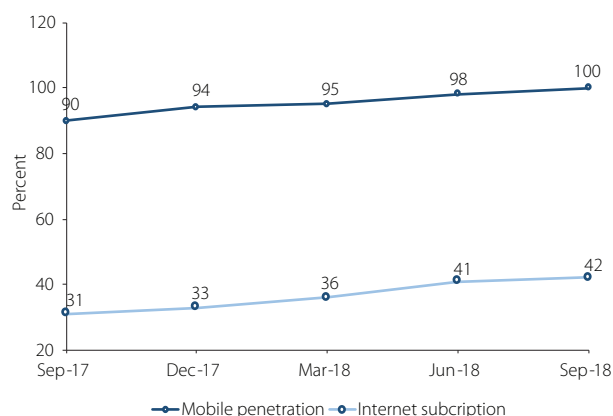
<sup>40</sup> "Africa's Pulse, No. 19: Analysis of Issues Shaping Africa's Economic Future" (April 2019), World Bank, Washington, DC. Doi: 10.1596/978-1-4648-1421-1. License: Creative Commons Attribution CC BY 3.0 IGO.

<sup>41</sup> Kenya Communications Authority.



homes) provides greater bandwidth and higher returns to productivity, but uptake is still very limited due to relatively high pricing and limited deployment outside of dense urban centers.

**Figure 36: Mobile penetration and internet subscriptions**



Source: CA, statistics, 2018

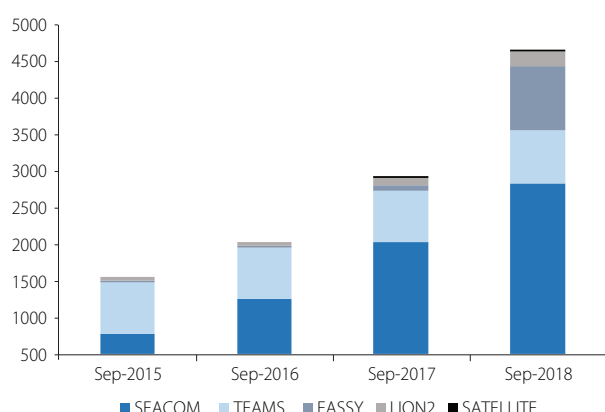
### 3.2.2 Kenya has a robust and competitive international connectivity infrastructure (“First Mile”).

Kenya is connected to the global internet infrastructure by four submarine cables, with total bandwidth capacity growing nearly 200 percent between 2015 and 2018 alone (Figure 37 and Figure 38). As a result of competition between these cables and increased network capacity, wholesale international transit pricing has fallen from about US\$7,500 Mb/s per month in 2007 when connectivity was provided primarily via satellite<sup>42</sup> to as low as US\$10 in 2018.<sup>43</sup> This has allowed mobile operators

and internet service providers to offer broadband services to retail customers at significantly higher speeds and lower prices. The arrival of high-speed internet has also been linked to a significant increase in the employment rate and firm productivity in Kenya.<sup>44</sup>

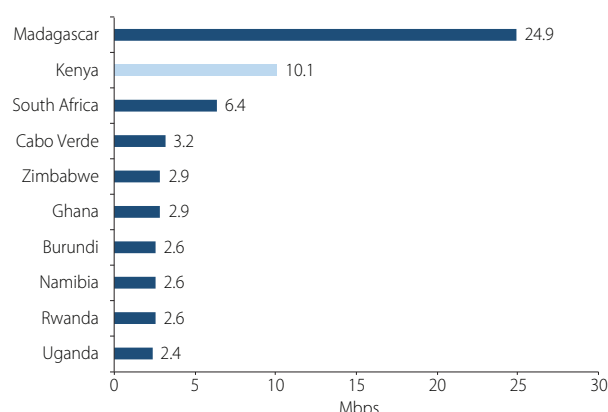
**3.2.3 Investments in “middle” and “last mile” networks have helped more Kenyans to get online, but broadband infrastructure and market bottlenecks persist which reduce coverage, speed, reliability and affordability of services.** Approximately 85 percent of the population is now covered by a 3G or higher signal.<sup>45</sup> Both government and private sector have rolled out fiber backbone networks connecting submarine landing stations, population centers and neighboring countries (the “middle mile”). Network routes are often duplicative, with multiple links serving the main population centers, providing competition and protection against service disruption if a line is cut. In contrast, rural areas are typically served by a single fiber provider (predominantly government owned), leading to less competitive pricing and lower service reliability. Often, small towns are not served with a fiber connection at all, resulting in slower end user speeds due to reliance on microwave backhaul. Last mile connections to the end user are predominantly provided by the major Mobile Network Operators as well as some internet service providers, ranging from high speed direct fiber connections to the home and businesses in urban areas to lower cost, lower performance wireless solutions in rural areas.

**Figure 37: Internet bandwidth has increased**



Source: Communications Authority-Statistics

**Figure 38: Kenya has the second fastest internet speed in Africa**



Source: Cable.co.ke

<sup>42</sup> [https://www.infodev.org/infodev-files/resource/InfodevDocuments\\_1108.pdf](https://www.infodev.org/infodev-files/resource/InfodevDocuments_1108.pdf)

<sup>43</sup> Based on consultations with market stakeholders – not officially verified.

<sup>44</sup> [http://ibread.org/bread/system/files/bread\\_wpapers/519.pdf](http://ibread.org/bread/system/files/bread_wpapers/519.pdf)

<sup>45</sup> ITU June 2019 (2018 data).

While coverage and uptake continue to grow, market concentration and an increasing tax burden seem to be holding back the full potential of reaching more of the unconnected and achieving the goal of reaching universal broadband access by 2030.

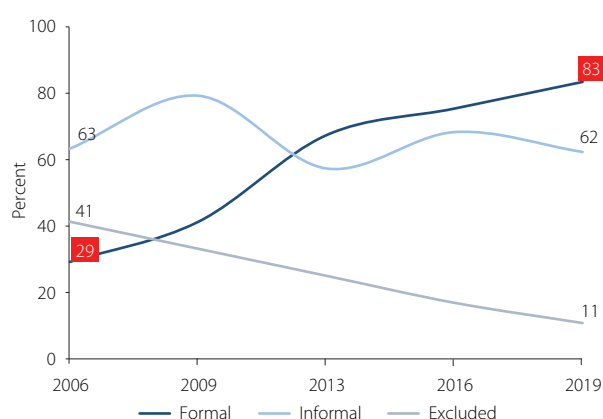
### 3.2.4 Rapid innovation and adoption of Digital Financial Services (DFS) has propelled Kenya's digital economy and has contributed to financial inclusion.

The widespread uptake of mobile money services has increased financial inclusion for the unbanked and promoted digital transactions across government, private sector and consumers. Mobile money has quickly evolved from a simple means of sending and receiving cash, to full transactional services. This has empowered citizens to pay, save, borrow, and invest through digital means. Consequently, the number of Kenyan adults with a financial account (including bank or mobile money etc.) has increased from 29 percent in 2006 to

83 percent in 2019<sup>46</sup> (Figure 39) while the number of those excluded from the system has reduced from 42 percent in 2006 to 11 percent in 2019. The gender gap in financial inclusion has also narrowed to just about 6 percent in 2019 (Figure 40).

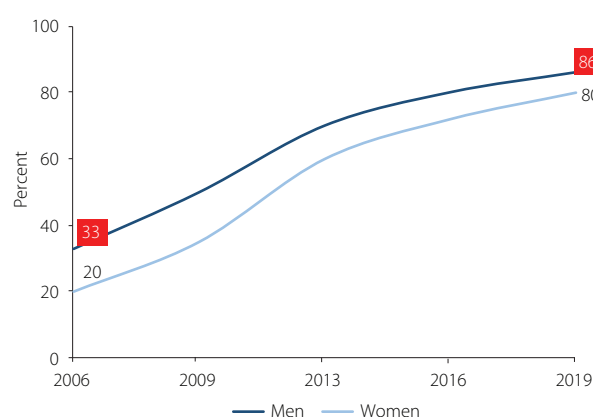
3.2.5 Access to financial services has enabled Kenyans to alter their production and employment choices, thereby helping them transition out of poverty<sup>47</sup>. By providing a convenient platform for sending and receiving money and short-term credit, mobile money has become a key mechanism for poverty reduction in Kenya. The value of mobile money transfers has increased by 9.5 percent from Ksh.3,638 billion in 2017 to Ksh. 3,984 billion or 44.7 percent of annual GDP in 2018. Furthermore, mobile money wallets are used as transactional accounts rather than simply providing a means of receiving cash (Box 3).

**Figure 39: Usage of formal and informal financial solutions (percent adults 2006-2019)**



Source: FinAccess, 2019

**Figure 40: Gaps in inclusion by gender (percent adults 2006-2019)**



Source: FinAccess, 2019

### Box 3: The transformational impact of mobile money on poverty reduction and women's empowerment

The impact of digital financial services on the economic prospects and opportunities available to Kenyans has been remarkable. A 2016 study on the long-term impact on Kenyan households found that increased access to M-PESA agents significantly reduced both extreme poverty (income lower than US\$1.25 per day) and general poverty (US\$2). A study published in the journal *Science*<sup>48</sup> estimated that the product has "lifted 194,000 households, or 2 percent of Kenyan households, out of poverty".

The effect was greatest in female-headed households, where consumption grew by 18.5 percent over the course of the study period. Using DFS helped 185,000 women in the study to switch from relying on subsistence farming into starting small businesses as their main occupation and reduced their reliance on multiple part-time jobs. The research concluded that: 'For many women, greater financial inclusion through DFS can help them to manage the financial resources they already have in a better way to help them escape poverty'.

<sup>46</sup> See FinAccess Survey, 2019.

<sup>47</sup> Burgess and Pande, 2005.

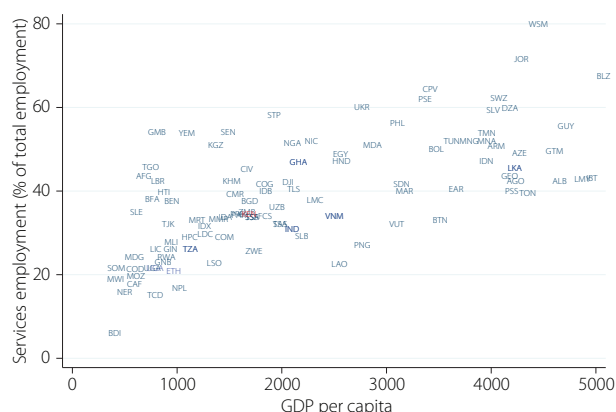
<sup>48</sup> Suri, Tavneet, and William Jack (2016).

**3.2.6 Development of the digital economy** has contributed to recent growth in jobs and holds scope for future job growth in Kenya as more businesses and individuals adopt digital technologies, build digital skills and transact over digital platforms but more needs to be done to harness this potential. The services sector routinely accounts for about a half of growth in Kenya's GDP and of total GDP. Nonetheless its share of total employment is only about 35 percent, which is lower compared to economies with the same level of GDP per capita, such as Senegal (SEN), and Côte d'Ivoire (CIV) (Figure 41). Looking ahead, digitally enabled services are expected be the fastest growing segment of the global services economy. Increased investment could help harness this potential in Kenya, boosting digital services driven growth and job creation. One potentially worrying sign is that import of ICT goods has recently decreased, which could reflect reduced demand for these products or weakening investment (Figure 42), though this will require further research as the volume is

also falling among aspirational and regional peers with<sup>49</sup> quickly digitizing economies and may also reflect falling prices for ICT goods such as smartphones and tablets.

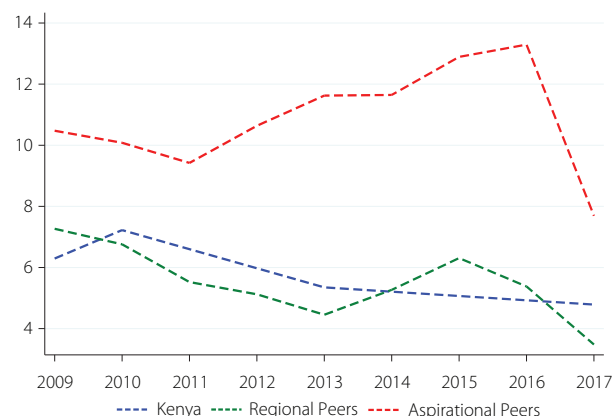
**3.2.7 Kenya's Digital Startup scene is one of the most vibrant on the continent.** The story of tech entrepreneurship in Kenya is often linked to the development of MPESA, a mobile money service launched in 2007. Over 38 startup incubators and accelerators are currently in operation, clustered around Nairobi and several secondary cities (Figure 43). It is estimated that for every 32 start-ups, there is at least one incubator or accelerator. Innovative companies such as Twiga Foods and Sendy have demonstrated the potential of digitally anchored business models to fuel rapid growth, job creation and have a transformative impact across a range of sectors. These early success stories, building on the favorable underlaying conditions, have helped grab the attention of potential investors and continue to inspire a new generation of innovators and entrepreneurs. For

**Figure 41: Service employment as a share of total employment in Kenya relative to peers**



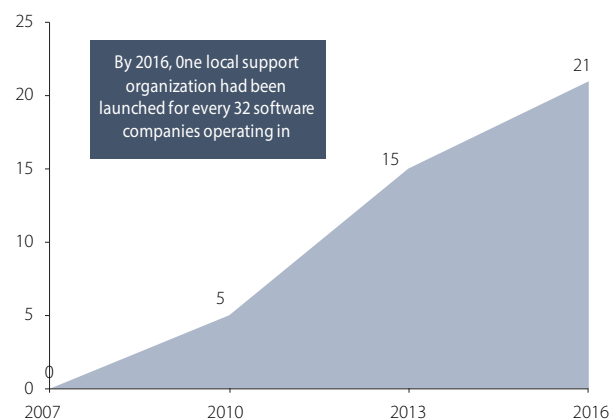
Source: World Bank, WDI

**Figure 42: ICT goods imports as percentage of total goods imports to Kenya is decreasing**



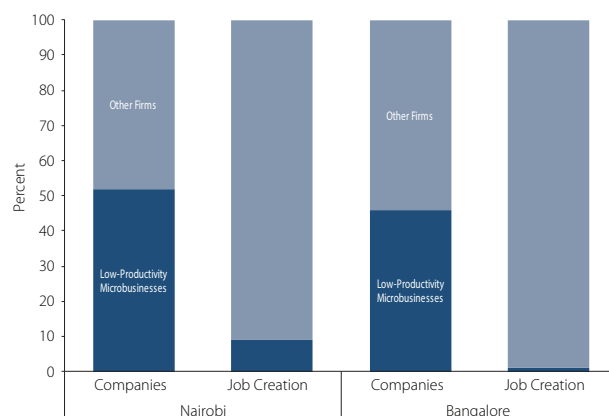
Source: World Bank, WDI

**Figure 43: The number of incubators and accelerators is increasing in support of tech-startups in Nairobi**



Source: Endeavor insights

**Figure 44: A large proportion of start-ups are low-productivity microbusinesses in Nairobi relative to Bangalore India**



Source: Endeavor insights

<sup>49</sup> Aspirational peers: Vietnam, Thailand, India, and South Africa; Regional peers: Tanzania, Uganda, Rwanda, Ethiopia, and Ghana.

example, as of 2016, approximately 661 entrepreneurial software companies had been established in Nairobi. However, not all are able to scale quickly - about 350 of these companies are low-productivity microbusinesses with less than three employees (Figure 44).

**3.2.8 Multinational tech firms see Kenya as the logical entry point for the East African market, attracted by the digital talent, infrastructure and strategic location.** Over the years, Kenya has been home to multiple African regional corporate hubs, including IBM's first African Research Lab, Google's second Sub-Saharan Africa office, after South Africa, and General Electric's Africa headquarters. These private sector interventions have contributed to a positive spill-over effect driving further innovation in the entrepreneurship ecosystem.

**3.2.9 Despite its dynamism, Kenya's digital entrepreneurship ecosystem still faces key constraints in achieving a wider impact.** While some tech hubs are emerging in second tier cities, most are still concentrated in Nairobi. While Kenya has the highest number of women entrepreneurs in East Africa (49 percent), they face significant barriers, reflected in the low percentage of firms where women actually own a majority stake (9 percent). Digital innovation is still at the margins of more traditional industries, such as manufacturing, which lag behind in their technology adoption and innovation absorption. Bottlenecks in the business enabling environment and gaps in enabling inputs, such as the inaccessibility of appropriate growth-oriented financing or the limited supply and pipeline of digitally skilled talent, present further hurdles to the expansion of digital entrepreneurship. Entrepreneurs and businesses are also constrained by a lack of timely and relevant data made available to them. As a result of these barriers, too few startups turn into major employers.

**3.2.10 E-commerce has high growth potential in Kenya, but it has yet to fully take off.** Growing access to mobile devices, broadband and adoption of mobile money provides a strong foundation for e-commerce. In 2017, there were estimated to be some 21 million online shoppers across Africa, with Kenya ranking third on the continent, behind Nigeria and South Africa, with between 2.6 and 3.3 million online shoppers. Despite being among the e-commerce and digital services leaders on the

continent, Kenya still has huge untapped potential for expansion. Few SMEs are utilizing e-commerce platforms to reach new customers and markets. A majority of the leading e-commerce platforms in Kenya are foreign-owned and uptake and trust in digital services and e-commerce remains low overall, pointing to both constraints and opportunities to improve the ecosystem and to capture more value creation domestically and within the region.

**3.2.11 Digital technology is enabling agricultural productivity and boosting farmer's income in Kenya.** Applying digital technologies in the agriculture sector can help increase Kenyan farmers' productivity, efficiency and competitiveness, facilitate access to markets, improve nutritional outcomes and enhance resilience to climate change. A number of digital innovations are disrupting the status quo in Kenyan agriculture by providing significant benefits to smallholder farmers and agribusinesses (Box 4). While digital agricultural technologies have demonstrated early signs of creating an impact, adoption still lags, with the reach of the leading platforms and technologies ranging from 1,000 farmers to over 600,000, suggesting a reasonable uptake but also significant scope to expand.

**3.2.12 Kenya has made concerted efforts to embed digital skills in the national education system, but access to key enablers still hamper the quality of basic and intermediate level digital skills training.** Policies and programs promoting the use of ICT for teaching and learning are formally in place, including a competency-based framework that features digital skills. Flagship initiatives such as the Digital Literacy Program (DLP) have sought to boost the integration of ICT in education, with initial roll-out targeting early-age education. Nevertheless, gaps in access to adequate teacher training, digital content, as well as digital devices and connectivity beyond primary-level adversely affect training delivery and skills attainment. An impressive 93.4 percent of public primary schools have now been covered by the DLP (providing connectivity, devices and electricity etc.) and yet only 36 percent of schools are using the equipment as intended. Secondary schools fare far worse in terms of access to connectivity and devices, and the curriculum currently fails to offer digital skills as a stand-alone compulsory course.

## Box 4: Examples of promising Kenyan agritech startups

## Promoting agricultural productivity



**Digital Green** uses a video approach to amplify extension providers' effectiveness to improve farmers' livelihoods. They partner with existing extension officers to provide videos with highly localized content, human mediators to reinforce key messages and use near real-time data and feedback from farmers to inform adjustments on the content of the videos.



**Farmers Pride** leverages technology and franchising to break down barriers that have limited success of farmers. They provide a one stop village level online mobile app/web platform popularly known as DIGISHOP that ensures access to all the necessary inputs, services and information farmers need.



**DigiCow** provides extension services to farmers using an innovative mobile phone solution. They provide training through a mobile app in which farmers can also chat and share ideas. Voice-based training coupled with SMSs is provided to farmers without access to smartphones.



**Precision Agriculture for Development** provides low-cost mobile agronomic advice to farmers that is accessible, relevant, and customized to boost yields.

## Creating market linkages along the value chain



**M-shamba** is a Nairobi based Start-up that has been working with farmers across East Africa to effectively deploy farming technologies among smallholder farmers using basic mobile phones. The innovation focuses on the use of simple phones commonly known as feature phones to deliver vital information to the smallholder farmers even in remote areas.



**TruTrade** is a social enterprise that digitizes value chain transactions making rural agricultural markets work better for farmers, aggregators and buyers. TruTrade's service provides farmers with reliable routes to market and fair prices as well as agribusinesses and wholesalers with traceable produce to meet their quality specifications.



**Tulaa** is a marketplace for smallholder farmers in Africa. Using mobile technology and artificial intelligence, Tulaa provides quality inputs like fertilizer on credit, tailored advice, and access to reputable buyers to smallholder farmers.

## Farmer financial inclusion



**ACRE** is a service provider that links farmers to insurance products so that they can confidently invest in their farms. ACRE automates weather risk modeling, payments and communication through SMS and USSD platforms, claims calculations, and disbursement through mobile money.



**Arifu** is a social enterprise making it possible for the least served people to access the knowledge they need on financial services from the organizations they trust on any mobile phone. Arifu provides both an education technology platform and a content digitization service.



**Agri-wallet** is a platform that enables financial inclusion of all value chain actors around smallholder farmers.

## Data analytics and intelligence



**Astral Aerial** is a drone operator. Offers up to date, problem-specific data to farmers using drones (a drone covers 1000 acres per flight, with sensors to detect crop health at an affordable price).



**Oakar's** solution package offers farmers and other stakeholders access the latest knowledge, training, practices, data and mechanization best suited for them. Oakar's Analytics platform incorporates dynamic datasets that can provide market information and facilitate easy links between producers and markets.



**UjuziKilimo** provides a simple and fast way for smallholder farmers to monitor soil fertility. UjuziKilimo's proprietary Sensor technology SoilPal is a GPS and internet enabled device with sensors that is used in farms to monitor the levels of macro nutrients, weather, soil pH and moisture content which directs water, lime and fertilizer nutrient application rates based on local requirements.

Source: World Bank, 2019 (Kenya Digital Diagnostic Report)

**3.2.13 While a handful of Kenyan Technical and Vocational Education and Training (TVET) institutions and Universities offer advanced level IT-related courses, low enrollment in Science, Technology, Engineering and Mathematics (STEM) fields, low completion rates of related courses and weak quality and relevance of related training limit the pipeline of digital talent with advanced or high-end digital skills.** Many universities often teach outdated coding languages and focus on theory rather than application – reflecting broader issues of quality in the Kenyan higher education sector. This has resulted in large gaps in professional and advanced digital skills training, subsequently yielding a limited supply of ‘work-force-ready’ graduates who are equipped with the skills required by employers. Several informal education programs (e.g. coding bootcamps and industry-led Artificial Intelligence (AI) learning programs, etc.) run by the private sector, have successfully helped address this skills mismatch and have thus been more successful at placing graduates. However, these initiatives are restricted to major cities and struggle to scale given the restrictive accreditation requirements and processes in place, which do not align well with these more dynamic operating models.

### **3.3. Securing Kenya’s Digital Future: Critical Reforms and Investments**

**3.3.1 Kenya’s digital transformation has been nothing short of remarkable; Yet, much more remains to be done to build a digital economy that is dynamic, inclusive and safe and embraces opportunities arising from larger regional markets.** Several binding constraints will need to be addressed in the short term alongside forward-looking investments and reforms to build the foundations needed for every Kenyan to thrive in the economy and society of the future. Several key messages arise from the analysis of the current state and long-term potential of Kenya’s digital economy.

#### ***Key Message 1: Regulation and policy needs to keep pace with rapid market evolution***

**3.3.2 Kenya’s telecoms regulatory environment has struggled to keep pace with evolving market dynamics and emerging technologies.** Kenya was an early mover toward liberalizing the telecoms market – unlocking a wave of private investment and innovation in mobile technologies. However, as the market has matured and grown in complexity, a new suite of regulatory and

policy tools and a more proactive oversight stance is needed to promote further investment and innovation, ensure competition and protect consumer interests and safety. Complacency risks eroding the early comparative advantage that has driven much of Kenya’s digital economy success story to date.

**3.3.3 To take an illustrative example, many critical telecoms regulations have been pending promulgation for over three years.** These include: radio communications and frequency spectrum; compliance monitoring, inspection and enforcement; fair competition and equality of treatment; interconnection and provision of fixed links; access and facilities; tariffs; consumer protection; and licensing and equality of service.

**3.3.4 A more agile, empowered and independent Communications Authority and streamlined procedures for adoption and enforcement of new regulations would help ensure that Kenya is building the enabling environment to propel deployment and adoption of the next generation of digital technologies and to mitigate potential downside risks to consumers.** In parallel with longer term efforts toward institutional reform and capacity building, there is a need to act with urgency to promulgate and enforce the suite of pending regulations which have already been developed.

#### ***Key Message 2: Move from startup to growth***

**3.3.5 Kenya will need to prepare the entrepreneurship ecosystem today to capitalize on gains in the world of tomorrow.** The impressive performance in churning out innovative new startup stage digital ventures needs to be matched with a higher success rate of graduation to growth stage – generating the enterprises that will have a big impact on overall economic growth and job creation. The Government of Kenya has taken significant steps to address some weaknesses in the digital entrepreneurship landscape through programs to provide greater market linkages, increase innovation capacity and promote digital talent development, including the Kenya Industry and Entrepreneurship Project, the Presidential Digital Talent Program, Ajira and other initiatives, but more can be done. As entrepreneurship ecosystems are fast changing, it would be important for Kenya to incorporate flexible support and policy frameworks to stay ahead of the curve. A formalized and routine engagement process with tech



ecosystem players can provide real time feedback to be reflected in policymaking. Key government datasets can be made available for commercial re-use. The overall competitive landscape can be boosted by strengthening the Competition Authority and supporting increased adoption of digital technologies by “traditional” industries. Digital entrepreneurship support networks and services currently concentrated in Nairobi can be expanded outward to secondary cities through PPP models to provide wider access.

### 3.3.6 Addressing accessibility of capital for early stage enterprises and opening alternate funding channels can address the funding gap in the market.

While there appears to be an adequate supply of venture capital available within Kenya and especially globally, accessibility is a considerable constraint, due to information asymmetry between investors and investees. International Venture Capitalists often misunderstand the Kenyan and wider African market and Kenyan entrepreneurs don’t understand how to develop business plans and pitch in a way that attracts global venture funds. As a result, great ideas go unfunded. Government agencies and other non-governmental bodies can play active role in addressing this market failure through interventions such as de-risking such ventures or investing in information and awareness campaigns for investors and investees.

**3.3.7 There is a need to review existing taxation and procurement policies, which do not cater to start-ups whose business models differ from traditional companies.** Business registration processes could be further streamlined and digitized to reduce the current cost of registration in terms of time spent on follow up and relationship management with relevant authorities. Taxation policies need to be reviewed to consider the unique needs of the start-up ecosystem in the digital sector. There is scope to stimulate public sector demand for innovative ICT solutions, especially those coming from local Kenyan innovators and their technology SMEs to enable them to get a foothold in the market from which to demonstrate their experience to other customers and expand. While the Access to Government Procurement Opportunities (AGPO) initiative<sup>50</sup> could

offer more opportunities to digital startups, it still primarily caters to larger firms due to the general size of the contracts. Further, delays in government payments, present cashflow challenges to SMEs.

### *Key Message 3: Human capital is fundamental to growth of the digital economy and empowerment of the next generation*

**3.3.8 Building a digitally-savvy workforce is key to harnessing emerging opportunities in high growth sectors, supporting relevant and productive employment, and job growth.** Technology is quickly transforming industry, including manufacturing, and changing the way business is done. The unemployment rate in Kenya is estimated to be roughly 11.4 percent (based on figures from 2018), with rates much higher for youth. In this rapidly changing technology landscape, which threatens to make many existing jobs obsolete and eliminate traditional pathways to mass employment such as manufacturing, it will be critical to both empower new job market entrants with the skills demanded by the market and to enable continuous learning of those already employed to grow and become more productive in their current positions and to be ready for the jobs of the future. It is estimated that up to 52 percent of work in Kenya may be susceptible to automation moving forward.<sup>51</sup> As it stands, a mere 18.4 percent of all employment in Kenya occurs in occupations with high ICT intensity.<sup>52</sup> However, as more and more jobs are expected to become increasingly ICT-intensive, broadening the digital skills base will be key to protecting jobs and facilitating access to new ones. Moving forward the requirement for basic digital skills is likely to become ubiquitous.

**3.3.9 There is substantial potential for job creation, stemming from greater technology adoption across all sectors and skills categories.** In fact, the adoption of technology has proved to have a more positive impact on job creation for unskilled and lower-educated workers in low income countries than in most higher income countries.<sup>53</sup> Equipping Kenya’s future and existing workforce with digital skills will thus open doors to new forms of employment – notably, in the emerging services and ‘gig economy’, where Kenya has already sought to

<sup>50</sup> AGPO mandates 30 percent procurement from groups such as youth, women, and persons with disabilities. Access to Government Procurement Opportunities, online at <https://agpo.go.ke/>, accessed at 06/03/2019

<sup>51</sup> WEF (2017), *The Future of Jobs and Skills in Africa. Preparing the Region for the Fourth Industrial Revolution*

<sup>52</sup> World Bank (2016), *World Development Report 2016: Digital Dividends*. Washington DC: World Bank.

<sup>53</sup> World Bank (2019), *The Future of Work in Africa: Harnessing the Potential of Digital Technologies for All*, Washington DC: World Bank.

position itself as a hub for global digital business process outsourcing (BPO) through government promotion schemes like Ajira. However, at present, a mere 7,000 Kenyans currently work in BPO job compared to over one million in Philippines.<sup>54</sup> An estimated 286,000 workers are employed by Kenya's burgeoning digital services platforms, in areas such as transport, logistics and e-commerce.<sup>55</sup>

**3.3.10 While Kenya ranks as a top-performer in terms of digital skills in Africa, widespread gaps in basic digital skills still limit wider usage and application of digital tools and services, and gaps in more advanced digital skills limit business development.** A weak supply of digital talent emerges as a key constraint for the development of new, innovative and home-grown digital services and business-models. According to the World Bank 2018 STEP survey as well as a similar study undertaken by the World Economic Forum (WEF), employers in Kenya struggle to recruit 'work-ready' graduates and new hires with the requisite technical skills, practical experience and 'soft' skills needed in the information/service economy. The basic education system is not equipping school leavers with basic digital skills competencies, nor are tertiary education or supplementary programs (such as coding boot camps) producing the requisite number of graduates with advanced digital skills.

**3.3.11 Developing human capital will be instrumental in enhancing growth of the digital economy and efforts to improve digital skills should be supported by both government and the private sector.** There is need for government to ensure basic digital literacy for all citizens through reforms and investments in the formal education system. Government should equip all schools and teachers with the requisite tools to embed applied basic and intermediate digital skills training in the curriculum, improving and broadening the coverage of existing initiatives such as the DLP in basic education. Advance level digital skills training will also need to improve, to keep pace with technology development and be more attuned to the needs of industry, as part of wider efforts to improve the quality of higher education in Kenya. Alternative learning methods such as private sector led training and certification schemes can also be used to bridge the skills gap, and as a complement to formal education. There is considerable scope for

"crowding in" the private sector in more areas pertaining to digital skills development and at all digital skills levels, including in areas such as content creation, curriculum design and through performance-based contracting and formal industry-academia partnership, yet the current accreditation regime and public private partnership regulation pertaining to education is not proving conducive to doing so.

***Key Message 4: Improving digital public services offerings and trust in online transactions can drive digital adoption***

**3.3.12 Offering more efficient digital public services can drive digital adoption - creating a compelling incentive for more Kenyans to invest time and money to build their digital skills, acquire digital devices and internet services.** Kenya has made significant strides in providing citizens with more and more government services online through the e-Citizen portal, including business registration, civil registration (birth, death, marriage), driving licenses, land searches and clearances, passport and visa applications among many others. Yet, uptake is still relatively low. To improve the value proposition to the point where more individuals are willing to step out of their comfort zone and carry out their transactions online, it is imperative that services are designed with a user-centric, digital-first mindset. This includes reforming the underlying business processes prior to digitization and eliminating or automating low value processing steps to improve efficiency. Services must likewise be fully digital from start to finish. A service which is 90 percent digitized or automated, but still requires an in-person visit at some stage, is significantly less valuable to the user than one which lets you skip the trip to a service center altogether. Finally, better integration of services and registries across all arms of government can significantly improve the user experience, facilitated by a unique digital ID for every resident, avoiding the need for duplicate data entry and potential for errors or fraud.

**3.3.13 Encouraging more Kenyans to go online will likewise require increasing confidence that their digital communications, transactions and personal data are safe and secure.** Enforcement of the Kenya Information and Communications (Cyber Security) Regulations is weak, while the Data Protection Bill of 2018, which

<sup>54</sup> A.T. Kearney (2016).

<sup>55</sup> [http://researchictafrica.net/wp/wp-content/uploads/2018/12/DInfo\\_V11.pdf](http://researchictafrica.net/wp/wp-content/uploads/2018/12/DInfo_V11.pdf)



establishes data rights, regulates the processing of personal data, creates data-related offences and sets up a Data Protection Commissioner, is still pending approval. Digital 'values' and awareness among the public on how to act and protect themselves online is important in the digital economy. All players in the digital economy ecosystem need work together to create a robust trust environment that instills confidence among users of digital platforms and services and that promotes safe and responsible usage. Government is encouraged to act as a convener, supporting the development of shared principles and approaches to consumer protection and cybersecurity together with the private sector, education providers, civil society among other players.

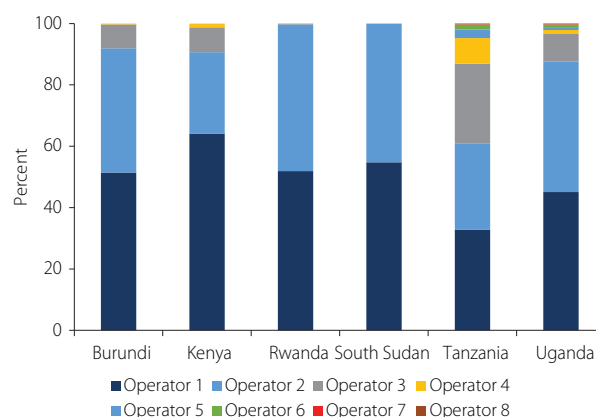
### **Key Message 5: Address growing market concentration**

**3.3.14 Increasing market concentration across multiple market segments including mobile communications, mobile money and digital infrastructure ownership may create a challenge to long term dynamism of the digital economy and a drag on investment, innovation and consumer welfare.** An increase in market concentration will normally result in higher prices and lower consumer welfare, as it reflects the degree of competition or lack thereof in the market. As an example of such concentration, the leading mobile service provider in Kenya retains a market share of 63.6 percent in mobile communications (Figure 45) and 82.4 percent in mobile money and is expanding into e-commerce and other digital platforms. Due to network effects, market dominance in one segment reinforces the others as it is difficult for users to operate and exchange between different platforms. This can lead to higher prices, reduced innovation and investment relative to more competitive markets in three of the key foundations of the digital economy: digital infrastructure, digital platforms and digital financial services.

**3.3.15 Proactive efforts are needed to increase market competition.** Kenya has made strides in increasing competition through regulatory interventions such as reductions in mobile termination rates, launch of mobile number portability and licensing of mobile virtual network operators (MVNOs). However more effort is required to increase market competition in order to maintain the pace of investment, innovation and consumer cost-reduction. For example, the Communications Authority could enact some of the key recommendations of the

Kenya Telecommunications Competition Study carried out in 2018 such as infrastructure sharing in select rural areas, imposition of retail price controls for operators assessed to be market dominant, prohibition of on-net discounts and prohibition on surcharges or other barriers which discourage cross-platform mobile money transfers.

**Figure 45: Market share of mobile market connections among retail operators (Q1 2019, percent)**



Source: Global System for Mobile Communications Intelligence  
 Note: Total unique SIM cards (or phone numbers, where SIM cards are not used), including Licensed cellular IoT, that have been registered on the mobile network at the end of the period. Licensed cellular IoT enables mobile data transmission between two or more machines and excludes computing devices in consumer electronics such as e-readers, smartphones, dongles and tablets.

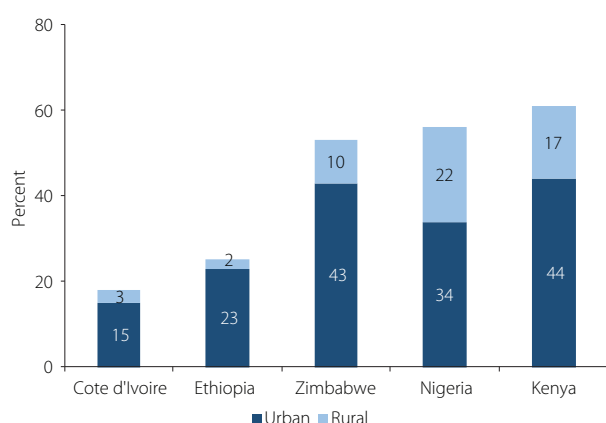
### **Key Message 6: There is need to close the digital divide**

**3.3.16 Every individual, business and government institution in Kenya needs access to affordable and high-quality broadband connectivity and the skills to use it in order to participate in the digital economy, access public services and information, and have a voice in an increasingly online society.** Despite impressive growth in investment and uptake of digital technologies, too many Kenyans remain at risk of being left behind. The significant social and economic benefits that accrue to digitally engaged individuals, could further deepen inequality if the digital divide persists. A digital divide is also bad for business because the prospects for e-commerce and digital entrepreneurs depend on growth of a digitally active customer base to create the scale needed for success.

**3.3.17 Kenya's rural population, its poorest citizens, women and other marginalized groups need to be better served and included in the digital economy.** Three quarters of the population live in rural areas, but broadband access is limited outside of urban centers, which affects both access and use of digital services. According to a 2014 Gallup survey, 44 percent of Kenya's urban population reported using internet on a weekly

basis, but this rate drops to only 17 percent for the rural population (Figure 46). Even where network coverage is available, affordability of broadband and digital devices (smartphones, computers, tablets) continues to lock out the poor. On average, 1GB of data costs 4 percent of GNI per capita, more than double the 2 percent target established by the Alliance for Affordable Internet (A4AI). Kenya also ranks slightly behind neighboring Uganda, Rwanda and Tanzania in the 2019 A4AI Internet Affordability rankings, despite having higher GDP per capita.<sup>56</sup> Evidence from GSMA suggests that women in Kenya are 39 percent less likely than men to have access to mobile internet are 23 percent less likely to own a smartphone and are also less likely to participate in the digital workforce.<sup>57</sup> Access to opportunities to build digital skills, support services and networks are clustered in Nairobi, with a limited presence in secondary cities. The move toward a cashless society and digitized public services likewise create risks for those without a digital wallet or broadband access. Tackling this urban-rural digital divide, as well as the divides along income levels, gender, age and disability is required to ensure that all Kenyans benefit from investments in digital infrastructure and services.

**Figure 46: Weekly internet use urban versus rural (percent)**



Source: CA 2018, Gallup, Africa Online, 2015

**3.3.18 Investment and innovation by the private sector alone, while critical, will not be sufficient to close the digital divide.** The private sector has been and must continue to do the bulk of the heavy lifting to build and upgrade Kenya's network infrastructure, offer innovative new services and create lower cost delivery models. However, there is a role for the public

sector to facilitate rollout, affordability and access in rural areas and among the most geographically, socially and financially vulnerable populations. In the context of limited fiscal space, however, such investment needs to be undertaken using a phased approach and within a sustainable resource envelope. Priority could be placed on investments to extend the reach of the national optic fiber infrastructure to more rural areas and to connect key public service locations such as schools, health centers and public Wi-Fi hotspots. This would enable private sector internet service providers to leverage the backbone infrastructure, lowering the cost to rollout last mile network to reach rural areas and serve poorer communities which may not offer sufficient commercial returns in the absence of public intervention. In addition to public infrastructure investments, the government could be deploying a range of policy tools and complementary investments in digital literacy, digital services and electrification to ease the path of connecting the unconnected.

***Key Message 7: Review taxation of the digital economy with an eye toward enabling wider access while prioritizing revenue opportunities from downstream economic activities enabled by access to the internet and digital financial services***

**3.3.19** While the government's immediate priority is to enhance tax revenue mobilization in support of ongoing fiscal consolidation, there is need to review how and where the digital economy should be taxed, balanced against the long-term benefits of financial inclusion and internet access. In the digital economy era, internet access and a means to pay electronically are now an essential enabler of downstream economic growth, job creation and access to services and markets similar to roads and electricity. Recent tax measures to boost collection from excise revenue levied on the telecoms sector (including excise on mobile airtime, data and financial services transactions) are likely to contribute to improved revenue collection in the short term but could also lead to unintended outcomes of slowing or reversing gains in internet access and financial inclusion and the downstream benefits they bring in terms of economic growth, job creation, access to services and poverty alleviation.

<sup>56</sup> Alliance for Affordable Internet, 2019, *The Affordability Report*

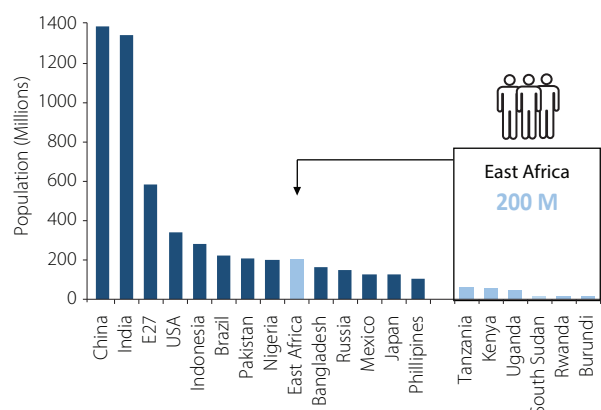
<sup>57</sup> GSMA, 2019, *the Mobile Gender Gap Report*.

**3.3.20** Over the medium term, tax and regulatory fee structures should be reviewed with an eye toward creating a more balanced regime that incentivizes consumer access and affordability as well as private sector rollout of digital infrastructure and services in rural areas and among low income communities. Rather than concentrating revenue collection at the access level of the digital economy, authorities could examine opportunities for improved revenue collection downstream from the resulting economic activity. This could include studying the framework for digital economy taxation under development by the OECD<sup>58</sup> which proposes a means of taxation for firms that sell goods and services online which may not have a physical presence in Kenya and would cover digitized transactions and economic activity which is often hard to quantify and geolocate, rendering traditional tax assessment and collection practices difficult.

#### **Key Message 8: Think Regional and Global**

**3.3.21** The long-term prospects for Kenya's digital economy require a view outside its borders. Success in the digital economy requires economies of scale and network effects. Digitally enabled companies and innovators need large, seamless markets to rapidly scale. Digital platforms become exponentially more valuable the more users and data they generate, often locking in a first-mover advantage. Likewise, investments in core digital infrastructure such as broadband networks and data centers need sufficient scale and demand to make the business case for investment. The benefits of a large domestic market give countries such as the US, China and Nigeria a natural advantage in the digital economy. By leading digital integration efforts among its East African neighbors, Kenya can help level the playing field and expand digitally enabled trade in goods and services. The One Network Area (ONA) initiative, which removed roaming surcharges and capped prices for mobile calls across participating East African countries in 2015, paints a picture of what is possible. The ONA resulted in a nearly 1000 percent increase in calls between Rwanda and Kenya in just a few months. Expanding the ONA concept to more countries and to more services such as mobile money could have an equally transformative impact, eliminating one of the biggest barriers to cross-border e-commerce.

**Figure 47: East Africa is the 9<sup>th</sup> largest global market by population**



Source: A Single Digital Market for East Africa, World Bank, 2018

**3.3.22** An integrated East African Digital Market would be the 9<sup>th</sup> largest in the world – with significant benefits to Kenya's digital firms and to consumers. A more deeply integrated and competitive regional market would provide a 'friendly' space for Kenya's digital firms to scale and mature before launching into the continental and global markets. It would attract significant new investment in digital infrastructure, expand domestic and cross-border digitally enabled services and goods trade, stimulate development of locally relevant digital content, and inject greater competition across the region. The World Bank estimates that implementing a 'Single Digital market' (SDM) in East Africa<sup>59</sup> would create an additional US\$1 to US\$2.6 billion boost in GDP and between 1.6 to 4.5 million new jobs across the region. Expanding the SDM to the wider Horn of Africa region, particularly Ethiopia given the recent moves toward digital market liberalization and large population would further multiply these benefits. Digital market integration would also help to close the digital divide, with the biggest benefits accruing to those at the bottom of the pyramid that are able to participate in the digital economy for the first time due to falling costs of telecoms services and availability of more locally relevant content and services in the larger market.

**3.3.23** Creating a Single Digital Market will require efforts to develop three interrelated sub-markets:

- **A single connectivity market**, which would remove barriers to regional telecoms infrastructure and services deployment to encourage investment, improve performance, eliminate pricing and quality differentials between coastal and landlocked countries, as well as expand access to connectivity to all.

<sup>58</sup> <https://www.oecd.org/tax/beps/public-consultation-document-secretariat-proposal-unified-approach-pillar-one.pdf>

<sup>59</sup> East Africa is defined as the six member states of the East African Community – Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda.



- **A single data market**, which would enable secure exchange, storage and processing of data across borders to support regional deployment and access to data-driven services and innovation.
- **A single online market**, which would allow government, firms and citizens to access and deliver both public and private services online, as well as make online purchases of goods and services seamlessly from anywhere in the region.

### 3.4. Conclusion

**3.4.1 As a leader in digital transformation on the continent, Kenya has a lot to celebrate and be proud of.** The country is punching well above its weight in terms of early digital adoption and innovation, as well as in thinking beyond national borders to promote bigger digital markets. But to prepare its citizens and businesses for the economy, society and jobs of the future, much remains to be done.

**3.4.2 By taking bold, decisive action, the Government, in partnership with the private sector, can help build a digital future for the country;** A future in which seamless and efficient public services are available at the touch of a button, where individuals are equipped with the technology and soft skills to find meaningful employment in a knowledge- and services-driven economy, and where Kenyan businesses and entrepreneurs are pushing the frontiers of innovation, creating new jobs, and accelerating the country's economic growth. Perhaps most importantly, this future

must include everyone – ensuring that all Kenyans are empowered with the opportunities and capabilities to meaningfully participate and benefit from the digital economy.

**3.4.3 Achieving this future will require vision, leadership and mobilization of public and private resources that match this level of ambition and an urgent modernization of the policies, regulations and institutions underpinning the digital economy.** Some of the reforms and investments required will take significant political will to overcome vested interests and traditional ways of working and thinking. It will require nimble, responsive institutions able to quickly adapt in the face of accelerating technological change. It will also require a view beyond Kenya's borders – removing the barriers to digital trade and the transmission of ideas, talent and data across the region and across the globe to provide new markets for Kenya's digitally enabled firms and access to global information and cutting-edge services for all Kenyans, while appropriately mitigating risks in terms of data protection and cybersecurity. The launch of the Government's new Digital Economy Blueprint, recent adoption of the National Broadband Strategy, increasing emphasis on ICT infrastructure and skills investments in the national budget, and championship of the digital agenda by top leadership are positive steps in the right direction. Looking ahead it will be critical to build on this momentum and maintain focus on implementation of this high-level vision. The World Bank Group stands ready as a committed partner to support Kenya on this digital transformation journey.



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# STATISTICAL TABLES

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**Table 1: Macroeconomic environment**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e
GDP growth Rates (percent)	8.4	6.1	4.6	5.9	5.4	5.7	5.9	4.9	6.3	5.8
Agriculture	10.1	2.4	3.1	5.4	4.3	5.3	4.7	1.9	6.4	4.3
Industry	8.7	7.2	4.2	5.3	6.1	7.3	5.9	3.8	5.3	5.5
Manufacturing	4.5	7.2	-0.6	5.6	2.5	3.6	3.1	0.5	4.2	
Services	7.3	6.1	4.7	5.4	6.0	6.4	6.4	6.0	6.7	6.6
Fiscal Framework (percent of GDP) <sup>1</sup>										
Total revenue	19.1	18.7	19.2	19.2	19.0	18.7	18.8	17.9	17.9	20.2
Total expenditure	23.8	23.7	25.1	25.6	28.1	26.9	28.1	25.2	25.8	26.1
Grants	0.6	0.4	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.4
Budget deficit (including grants)	-3.5	-4.5	-5.7	-6.1	-8.1	-7.3	-7.1	-9.1	-7.4	-7.7
Total debt (gross)	43.1	40.6	42.1	47.8	48.8	55.5	53.8	57.6	59.1	62.3
External Account (percent of GDP)										
Exports (fob)	13.1	13.9	12.3	10.6	10.3	9.7	8.4	7.3	7.0	6.4
Imports (cif)	28.7	33.8	30.8	29.2	28.3	23.3	19.5	20.2	18.8	17.2
Current account balance	-5.9	-9.1	-8.3	-8.8	-9.8	-6.7	-4.9	-6.2	-5.0	-5.3
Financial account	-8.1	-8.2	-11.0	-9.4	-12.4	-6.4	-6.4	-6.7	-7.5	-7.3
Capital account	0.6	0.6	0.5	0.3	0.5	0.4	0.3	0.2	0.3	0.2
Overall balance	-0.4	2.1	-2.4	-0.7	-2.4	0.4	-0.2	0.2	-1.2	-0.8
Prices										
Inflation	4.0	14.0	9.4	5.7	6.9	6.6	6.3	8.0	4.7	5.7
Exchange rate (average Ksh/\$)	79.2	88.8	84.5	86.1	87.9	98.2	101.5	103.4	101.3	

Source: Kenya National Bureau of Statistics, National Treasury, Central Bank of Kenya and World Bank  
End of FY in June (e.g 2017 = 2017/2018)

**Table 2: GDP growth rates for Kenya and EAC (2012-2019)**

	2014	2015	2016	2017	2018	2019e
Kenya	5.4	5.7	5.9	4.9	6.3	5.8
Uganda	5.9	6.4	4.8	3.9	6.2	6.1
Tanzania	6.7	6.2	6.9	6.8	5.4	5.6
Rwanda	6.2	8.9	6.0	6.1	8.6	7.8
EAC	5.9	5.9	5.9	5.3	6.0	5.9

Source: World Bank  
Note: "e" denotes an estimate

**Table 3: Kenya annual GDP**

Years	GDP, current prices	GDP, 2009 constant prices	GDP/capita, current prices	GDP growth
	Ksh Millions	Ksh Millions	US\$	Percent
2012	4,261,370	3,444,339	1,137	4.6
2013	4,745,090	3,646,821	1,210	5.9
2014	5,402,647	3,842,186	1,316	5.4
2015	6,284,185	4,061,901	1,337	5.7
2016	7,022,963	4,300,699	1,411	5.9
2017	8,144,373	4,509,822	1,568	4.9
2018	8,904,984	4,794,833	1,711	6.3

Source: Kenya National Bureau of Statistics and World Development Indicators



**Table 4: Broad sector growth (y-o-y, Percent)**

Year	Quarterly	Agriculture	Industry	Services	GDP
2013	Q1	5.3	9.4	5.4	6.1
	Q2	6.8	6.9	8.0	7.5
	Q3	5.8	6.2	6.7	6.4
	Q4	3.6	-0.6	4.8	3.5
2014	Q1	4.2	5.8	5.5	5.2
	Q2	4.4	9.9	5.5	6.0
	Q3	7.1	3.5	4.2	4.6
	Q4	1.8	5.3	6.9	5.6
2015	Q1	7.8	6.4	4.6	5.7
	Q2	4.4	7.0	5.6	5.6
	Q3	4.0	9.1	5.8	6.1
	Q4	4.5	6.6	5.5	5.5
2016	Q1	3.6	4.7	5.8	5.3
	Q2	7.6	6.6	5.4	6.2
	Q3	2.1	6.2	5.8	5.7
	Q4	5.2	6.2	8.1	6.3
2017	Q1	4.1	4.4	6.1	4.7
	Q2	0.7	3.9	6.3	4.7
	Q3	2.7	2.6	5.6	4.7
	Q4	-0.7	4.4	7.3	5.4
2018	Q1	7.5	4.9	6.7	6.5
	Q2	6.5	5.4	6.8	6.4
	Q3	6.9	5.7	6.4	6.3
	Q4	3.9	5.5	6.6	6.0
2019	Q1	5.2	4.2	6.3	5.6
	Q2	4.1	5.3	6.3	5.6

Source: World Bank, based on data from Kenya National Bureau of Statistics

Note: Agriculture = Agriculture, forestry and fishing

Industry = Mining and quarrying + Manufacturing + Electricity and water supply + Construction

Services = Wholesale and retail trade + Accommodation and restaurant + Transport and storage + Information and communication + Financial and insurance + Public administration + Professional administration and support services + Real estate + Education + Health + Other services + FISIM + Taxes on products



Table 5: Contribution by Broad sub-sectors (percentage points)

	Quarterly	Agriculture contribution to GDP	Industry by sub sector contribution				Industries	Service by sub sector contribution						Services
			Mining and quarrying	Manufacturing	Electricity and water supply	Construction		Accommodation and restaurant	Transport and storage	Real estate	Information and communication	Financial and insurance	Other	
2013	Q1	1.4	0.2	1.0	0.1	0.4	1.7	-0.5	-0.6	0.3	0.4	0.6	1.5	1.8
	Q2	1.7	-0.2	0.8	0.2	0.4	1.3	0.0	0.1	0.3	0.3	0.6	1.7	3.0
	Q3	1.1	0.0	0.6	0.2	0.4	1.2	0.2	0.2	0.4	0.4	0.4	1.3	2.8
	Q4	0.7	-0.1	0.1	0.1	-0.1	-0.1	0.0	0.7	0.4	0.5	0.3	0.7	2.5
2014	Q1	1.1	0.1	0.5	0.1	0.3	1.1	-0.3	0.2	0.4	0.4	0.4	1.4	2.5
	Q2	1.1	0.2	0.8	0.1	0.7	1.8	-0.3	0.4	0.4	0.3	0.4	1.4	2.6
	Q3	1.4	0.0	0.1	0.2	0.4	0.7	-0.4	0.6	0.5	0.6	0.5	0.7	2.5
	Q4	0.3	0.2	-0.3	0.2	0.9	1.0	0.0	0.3	0.5	0.7	0.6	1.6	3.7
2015	Q1	2.0	0.1	0.3	0.2	0.6	1.2	-0.1	0.5	0.5	0.3	0.6	0.6	2.3
	Q2	1.1	0.1	0.3	0.3	0.6	1.3	0.0	0.6	0.5	0.2	0.5	1.0	2.9
	Q3	0.8	0.2	0.5	0.2	0.8	1.7	0.0	0.7	0.6	0.2	0.7	1.1	3.4
	Q4	0.8	0.1	0.4	0.1	0.7	1.3	0.1	0.4	0.7	0.3	0.4	0.8	2.7
2016	Q1	1.0	0.1	0.2	0.2	0.4	0.9	0.1	0.5	0.7	0.4	0.5	0.8	3.0
	Q2	1.8	0.1	0.5	0.3	0.4	1.3	0.1	0.4	0.7	0.3	0.4	1.0	2.9
	Q3	0.4	0.1	0.4	0.2	0.5	1.2	0.1	0.3	0.7	0.3	0.4	1.3	3.1
	Q4	1.0	0.2	0.2	0.1	0.7	1.2	0.2	0.6	0.7	0.5	0.4	1.4	3.8
2017	Q1	1.1	0.1	0.2	0.2	0.4	0.8	0.3	0.4	0.5	0.5	0.2	1.0	2.9
	Q2	0.2	0.0	0.0	0.2	0.5	0.7	0.1	0.4	0.5	0.4	0.2	1.3	2.9
	Q3	0.5	0.0	0.0	0.2	0.3	0.5	0.1	0.4	0.5	0.4	0.2	1.3	2.9
	Q4	-0.1	0.0	0.0	0.1	0.7	0.8	0.1	0.7	0.5	0.5	0.1	1.8	3.7
2018	Q1	2.0	0.0	0.4	0.2	0.3	0.9	0.2	0.5	0.4	0.5	0.3	1.2	3.1
	Q2	1.5	0.0	0.5	0.2	0.3	1.0	0.1	0.6	0.4	0.4	0.3	1.6	3.3
	Q3	1.3	0.0	0.5	0.2	0.4	1.1	0.2	0.7	0.3	0.4	0.3	1.4	3.3
	Q4	0.7	0.0	0.3	0.2	0.5	1.0	0.3	0.7	0.2	0.6	0.4	1.3	3.7
2019	Q1	1.4	0.0	0.3	0.2	0.3	0.8	0.1	0.4	0.3	0.4	0.3	1.2	2.9
	Q2	1.0	0.1	0.4	0.2	0.4	1.0	0.1	0.5	0.4	0.4	0.4	1.3	3.1

Source: World Bank, based on data from Kenya National Bureau of Statistics

Note: Other = Wholesale and retail trade + Public administration + Professional, administration and support services + Education + Health + Other services + FISIM

Table 6: Quarterly growth rates (percent)

Year	Quarter	Agriculture			Industry			Services			GDP		
		Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average
2013	Q1	49.8	5.3	5.3	-0.5	9.4	9.4	-1.8	5.4	5.4	8.3	6.1	6.1
	Q2	-8.9	6.8	6.0	-2.8	6.9	8.1	2.0	8.0	6.7	-1.8	7.5	6.8
	Q3	-22.7	5.8	6.0	3.7	6.2	7.5	5.7	6.7	6.7	-1.7	6.4	6.7
	Q4	-1.8	3.6	5.4	-0.8	-0.6	5.3	-0.9	4.8	6.2	-1.1	3.5	5.9
2014	Q1	50.7	4.2	4.2	5.9	5.8	5.8	-1.2	5.5	5.5	10.1	5.2	5.2
	Q2	-8.7	4.4	4.3	0.9	9.9	7.8	1.9	5.5	5.5	-1.0	6.0	5.6
	Q3	-20.8	7.1	5.1	-2.4	3.5	6.4	4.5	4.2	5.0	-2.9	4.6	5.3
	Q4	-6.7	1.8	4.4	0.9	5.3	6.1	1.6	6.9	5.5	-0.2	5.6	5.4
2015	Q1	59.6	7.8	7.8	7.0	6.4	6.4	-3.4	4.6	4.6	10.3	5.7	5.7
	Q2	-11.5	4.4	6.2	1.4	7.0	6.7	2.9	5.6	5.1	-1.2	5.6	5.7
	Q3	-21.1	4.0	5.6	-0.4	9.1	7.5	4.7	5.8	5.3	-2.5	6.1	5.8
	Q4	-6.2	4.5	5.3	-1.4	6.6	7.3	1.2	5.5	5.4	-0.7	5.5	5.7
2016	Q1	58.3	3.6	3.6	5.2	4.7	4.7	-3.0	5.8	5.8	9.8	5.0	5.0
	Q2	-8.1	7.6	5.5	3.3	6.6	5.7	2.6	5.4	5.6	-0.1	6.2	5.6
	Q3	-25.1	2.1	4.5	-0.8	6.2	5.9	5.0	5.8	5.7	-3.4	5.2	5.5
	Q4	-3.3	5.2	4.7	-1.4	6.2	5.9	3.4	8.1	6.3	1.2	7.2	5.9
2017	Q1	56.5	4.1	4.1	3.4	4.4	4.4	-4.8	6.1	6.1	7.8	5.2	5.2
	Q2	-11.1	0.7	2.5	2.8	3.9	4.1	2.8	6.3	6.2	-0.9	4.5	4.8
	Q3	-23.6	2.7	2.5	-2.0	2.6	3.6	4.4	5.6	6.0	-3.4	4.5	4.7
	Q4	-6.6	-0.7	1.9	0.2	4.4	3.8	5.0	7.3	6.3	2.0	5.3	4.9
2018	Q1	69.5	7.5	7.5	3.9	4.9	4.9	-5.3	6.7	6.7	9.1	6.6	6.6
	Q2	-11.9	6.5	7.0	3.3	5.4	5.1	2.9	6.8	6.7	-1.0	6.4	6.5
	Q3	-23.3	6.9	7.0	-1.7	5.7	5.3	4.0	6.4	6.6	-3.5	6.4	6.5
	Q4	-9.2	3.9	6.4	0.0	5.5	5.3	5.2	6.6	6.6	1.5	5.9	6.3
2019	Q1	71.6	5.2	5.2	2.6	4.2	4.2	-5.6	6.3	6.3	8.8	5.6	5.6
	Q2	-12.9	4.1	4.7	4.4	5.3	4.8	2.9	6.3	6.3	-1.0	5.6	5.6

Source: World Bank and Kenya National Bureau of Statistics

**Table 7: Growth Outlook**

Annual growth (percent)	2017	2018	2019e	2020f	2021f
BASELINE					
GDP					
Revised projections	4.9	6.3	5.8	6.0	5.8
Revised projections (KEU 19)	4.9	5.8	5.7	5.9	6.0
Revised projections (KEU 18)	4.9	5.7	5.8	6.0	
Private consumption	7.6	5.9	6.1	6.6	6.6
Government consumption	5.1	1.0	6.6	5.6	5.2
Gross fixed capital investment	6.4	4.6	5.7	5.1	4.1
Exports, goods and services	-6.8	4.0	4.5	4.6	4.4
Imports, good and services	8.7	2.6	5.9	6.0	5.8
Agriculture	1.9	6.4	4.3	4.5	4.6
Industry	3.8	5.3	5.5	5.6	5.6
Services	6.0	6.7	6.6	6.8	6.4
Inflation (Consumer Price Index)	8.0	4.7	5.7	5.9	6.1
Current Account Balance, % of GDP	-6.2	-5.0	-5.3	-5.4	-5.7
Fiscal balance, % of GDP	-9.1	-7.4	-7.7	-6.2	-5.3
Debt (% of GDP)	57.6	59.1	62.3	61.3	61.0
Primary Balance (% of GDP)	-5.6	-3.6	-3.7	-1.9	-1.2

Sources: World Bank and the National Treasury

Notes: "e" denotes and estimate, "f" denotes forecast

\* Fiscal Balance is sourced from National Treasury and presented as Fiscal Years

**Table 8: National Fiscal position**

Actual (percent of GDP)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19*
<b>Revenue and Grants</b>	19.7	19.1	19.7	19.7	19.5	19.1	19.2	18.2	18.1
Total Revenue	19.1	18.7	19.2	19.2	19.0	18.7	18.8	17.9	17.9
Tax revenue	18.0	17.1	17.2	18.1	17.7	17.2	17.1	16.0	16.1
Income tax	7.9	7.8	8.3	8.9	8.7	8.4	8.2	7.5	7.4
VAT	5.0	4.4	4.1	4.6	4.5	4.3	4.4	4.2	4.4
Import Duty	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.1	1.2
Excise Duty	2.3	2.0	1.9	2.0	2.0	2.1	2.2	2.0	2.1
Other Revenues	1.5	1.6	1.7	1.3	1.3	1.2	1.1	1.2	1.0
Railway Levy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriation in Aid	1.1	1.7	2.0	1.1	1.3	1.5	1.7	1.8	1.9
Grants	0.6	0.4	0.5	0.5	0.5	0.4	0.4	0.3	0.2
<b>Expenditure and Net Lending</b>	23.8	23.7	25.1	25.6	28.1	26.9	28.1	25.2	25.8
Recurrent	16.9	16.3	18.1	14.8	15.4	15.4	15.7	15.8	16.1
Wages and salaries	5.7	5.5	6.1	5.5	5.1	4.6	4.4	4.6	4.5
Interest Payments	2.3	2.1	2.7	2.7	2.9	3.2	3.5	3.8	4.0
Other recurrent	8.9	8.8	9.3	6.6	7.3	7.7	7.7	7.5	7.5
Development and net lending	6.8	7.4	6.8	6.3	8.8	7.3	8.4	5.5	5.9
County allocation			0.2	3.8	3.9	4.1	4.0	3.8	3.9
Contingencies	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0
Parliamentary Service				0.4	0.4	0.3	0.0	0.0	0.0
Judicial Service				0.3	0.2	0.2	0.0	0.0	0.0
Fiscal balance									
Deficit including grants (cash basis)									
Financing	-3.5	-4.5	-5.7	-6.1	-8.1	-7.1	-9.1	-7.4	-7.7
Foreign Financing	3.5	4.5	5.7	6.1	8.1	7.1	9.1	7.4	7.7
Domestic Financing	0.8	2.8	3.8	4.0	3.7	4.0	5.0	4.2	4.4
	2.7	1.6	1.9	2.1	4.3	3.0	4.0	3.2	3.3
Total Public Debt (gross)									
External Debt	43.1	40.6	42.1	47.8	48.8	53.8	57.5	59.1	62.3
Domestic Debt	21.0	19.6	18.7	22.4	24.4	26.8	30.0	30.0	32.4
	22.2	21.5	23.3	25.3	24.4	27.1	27.6	29.1	29.9
Memo:									
GDP (Fiscal year current market prices, Ksh bn)	3,448	3,994	4,503	5,074	5,832	6,710	7,658	8,525	9,317

Source: 2019 Budget Review and Outlook Paper (BROP) and Quarterly Budgetary Economic Review (Second Quarter, Financial Year 2019/2020), National Treasury

Note: \*indicate Preliminary results

Table 9: Kenya's Public and Publicly Guaranteed Debt, June 2014 to June 2018

KShs. Millions	Jun-14	Sep-14	Dec-14	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-19	Sep-18	Dec-18	Mar-19	Jun-19*
<b>TOTAL PUBLIC DEBT (Net)</b>	<b>2,217,315</b>	<b>2,103,447</b>	<b>2,275,952</b>	<b>3,448,699</b>	<b>3,675,734</b>	<b>3,972,526</b>	<b>4,048,978</b>	<b>4,217,515</b>	<b>4,304,497</b>	<b>4,488,204</b>	<b>4,639,062</b>	<b>4,834,759</b>	<b>5,021,658</b>	<b>5,301,645</b>
Lending	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
Government Deposits	(199,815)	(239,554)	(298,879)	(373,016)	(364,909)	(428,774)	(432,113)	(350,924)	(573,884)	(545,075)	(501,404)	(432,049)	(398,223)	(501,728)
Total Public Debt (Gross)	2,422,831	2,348,702	2,580,532	3,827,417	4,046,344	4,407,001	4,486,793	4,574,140	4,884,082.0	5,038,981.0	5,146,167.0	5,272,509.0	5,425,582.0	5,809,074.0
<b>External Debt</b>	<b>1,138,504</b>	<b>1,087,828</b>	<b>1,272,583</b>	<b>1,896,443</b>	<b>2,101,391</b>	<b>2,294,736</b>	<b>2,310,198</b>	<b>2,353,795</b>	<b>2,512,431</b>	<b>2,560,199</b>	<b>2,605,333</b>	<b>2,723,734</b>	<b>2,721,598</b>	<b>3,023,138</b>
Bilateral	289,914	278,547	389,083	641,763	689,119	724,823	742,064	782,588	800,912	816,119	812,545	894,046	916,572	996,059
Multilateral	597,340	608,022	612,353	781,256	806,922	841,899	842,814	841,847	836,766	820,966	877,730	874,680	846,587	914,394
Commercial Banks	234,799	185,163	255,188	458,122	594,140	712,100	708,231	712,274	858,062	906,389	898,349	938,151	941,763	1,095,753
Suppliers Credit	16,451	16,096	15,959	15,302	11,210	15,914	17,089	17,086	16,691	16,725	16,709	16,857	16,676	16,932
<b>Domestic Debt</b>	<b>1,284,327</b>	<b>1,260,874</b>	<b>1,307,949</b>	<b>1,930,973</b>	<b>1,944,953</b>	<b>2,112,265</b>	<b>2,176,595</b>	<b>2,220,345</b>	<b>2,371,651</b>	<b>2,478,782</b>	<b>2,540,834</b>	<b>2,548,775</b>	<b>2,703,984</b>	<b>2,785,936</b>
Central Bank	65,700	63,580	58,286	85,528	85,316	55,061	79,201	96,797	93,583	110,782	90,209	118,196	90,264	109,607
Commercial Banks	617,221	601,426	649,940	947,030	975,803	1,141,889	1,148,296	1,124,950	1,226,866	1,266,404	1,315,464	1,289,564	1,402,668	1,414,431
Non Banks & Nonresidents	601,406	595,868	599,723	898,415	883,834	915,316	949,098	998,598	1,051,202	1,101,596	1,135,161	1,141,015	1,211,052	1,261,899
<b>(%) of Total public debt (gross)</b>														
External Debt	47.0	46.3	49.3	49.5	51.9	52.1	51.5	51.5	51.4	50.8	50.6	51.7	50.2	52.0
Domestic Debt	53.0	53.7	50.7	50.5	48.1	47.9	48.5	48.5	48.6	49.2	49.4	48.3	49.8	48.0
<b>% of External debt</b>														
Bilateral	25.5	25.6	30.6	33.8	32.8	31.6	32.1	33.2	31.9	31.9	31.2	32.8	33.7	32.9
Multilateral	52.5	55.9	48.1	41.2	38.4	36.7	36.5	35.8	33.3	32.1	33.7	32.1	31.1	30.2
Commercial Banks	20.6	17.0	20.1	24.2	28.3	31.0	30.7	30.3	34.2	35.4	34.5	34.4	34.6	36.2
Suppliers Credit	1.4	1.5	1.3	0.8	0.5	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
<b>% of Domestic debt</b>														
Central Bank	5.1	5.0	4.5	4.4	4.4	2.6	3.6	4.4	3.9	4.5	3.6	4.6	3.3	3.9
Commercial Banks	48.1	47.7	49.7	49.0	50.2	54.1	52.8	50.7	51.7	51.1	51.8	50.6	51.9	50.8
Non Banks & Nonresidents	46.8	47.3	45.9	46.5	45.4	43.3	43.6	45.0	44.3	44.4	44.7	44.8	44.8	45.3

Source: National Treasury (Quarterly Economic Budgetary Review, February 2019)

Note: \*Provisional

**Table 10: 12-months cumulative balance of payments**  
BPM6 Concept (US\$ million)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019-Aug
A. Current Account, n.i.e.	(1,701)	(2,423)	(3,921)	(4,391)	(5,427)	(6,442)	(4,303)	(3,387)	(4,868)	(4,349)	(3,703)
Merchandise A/C	(4,948)	(6,234)	(8,354)	(9,314)	(10,220)	(10,775)	(8,388)	(7,666)	(10,201)	(10,238)	(9,959)
Goods: exports f.o.b.	4,530	5,230	5,835	6,213	5,870	6,155	5,970	5,745	5,792	6,106	5,887
Goods: imports f.o.b.	9,479	11,464	14,189	15,527	16,089	16,929	14,358	13,411	15,994	16,344	15,846
Oil	2,192	2,673	4,082	4,081	3,838	4,026	2,500	2,087	2,728	3,386	
Services	1,091	1,710	1,893	2,429	2,318	1,676	1,317	1,432	1,556	1,613	1,911
Services: credit	2,914	3,789	4,131	4,990	5,130	5,023	4,636	4,164	4,648	5,477	5,669
Services: debit	1,822	2,079	2,239	2,561	2,813	3,347	3,319	2,732	3,092	3,865	3,758
Income	2,156	2,101	2,540	2,494	2,475	2,657	2,769	2,847	3,778	4,277	4,346
B. Capital Account, n.i.e.	261	240	235	235	158	275	262	206	184	262	219,658,336
C. Financial Account, n.i.e.	(3,782)	(3,252)	(3,425)	(5,565)	(5,204)	(7,398)	(3,914)	(4,429)	(5,287)	(6,551)	-6702.912983
Direct investment: net	(1,452)	(1,117)	(1,364)	(1,142)	(920)	(746)	(382)	(523)	(1,019)	(1,460)	(1,702)
Portfolio investment: net	(81)	(156)	1	(218)	(273)	(3,716)	156	350	789	(627)	(1,106)
Financial derivatives: net	-	-	-	-	-	-	-	5	(0)	2	-
Other investment: net	(2,249)	(1,979)	(2,062)	(4,205)	(4,011)	(2,936)	(3,688)	(4,255)	(5,057)	(4,464)	(3,896)
D. Net Errors and Omissions	(1,227)	(894)	(635)	(186)	434	221	(128)	(1,112)	(767)	(1,418)	(2,461)
E. Overall Balance	(1,115)	(174)	896	(1,223)	(369)	(1,453)	255	(131)	163	(1,044)	(751)
F. Reserves and Related Items	1,115	174	(896)	1,223	369	1,453	(255)	131	(163)	1,044	751
Reserve assets	1,322	154	246	1,455	859	1,333	(361)	40	(241)	885	
Credit and loans from the IMF	199	(34)	284	193	177	(119)	(107)	(91)	(77)	(160)	
Exceptional financing	8	13	858	38	312	-	-	-	-	-	
Gross Reserves (USD Million)	5,064	5,123	6,045	7,160	8,483	9,738	9,794	9,588	9,646	11,516	13,170
Official	3,847	4,002	4,248	5,702	6,560	7,895	7,534	7,573	7,332	8,231	9,596
Commercial Banks	1,217	1,121	1,797	1,458	1,923	1,843	2,259	2,015	2,314	3,286	3,574
Imports cover (36 months import)	3.9	3.9	3.7	4.3	4.5	5.1	4.8	5.0	5.0	5.4	6.0
Memo:											
Annual GDP at Current prices (USD Million)	37,022	39,337	42,993	49,554	54,978	59,735	61,497	68,763	78,998	87,055	

Source: Central Bank of Kenya



**Table 11: Inflation**

Year	Month	Overall Inflation	Food Inflation	Energy Inflation	Core Inflation
2016	January	7.8	12.7	2.9	5.4
	February	7.1	10.8	1.7	5.4
	March	6.5	9.4	2.1	5.4
	April	5.3	6.8	2.0	5.2
	May	5.0	6.6	1.8	4.7
	June	5.8	8.9	1.4	4.5
	July	6.4	10.8	0.9	4.4
	August	6.3	10.9	0.1	4.6
	September	6.3	10.9	0.2	4.6
	October	6.5	11.0	0.1	4.6
	November	6.7	11.1	0.6	4.7
	December	6.3	11.2	0.1	3.8
2017	January	7.0	12.5	0.7	3.3
	February	9.2	16.7	3.0	3.3
	March	10.3	18.8	3.3	3.3
	April	11.5	21.0	3.7	3.5
	May	11.7	21.5	3.5	3.6
	June	9.2	15.8	3.4	3.5
	July	7.5	12.2	2.9	3.5
	August	8.0	13.6	3.1	3.4
	September	7.1	11.5	3.3	3.2
	October	5.7	8.5	3.0	3.2
	November	4.7	5.8	4.8	3.4
	December	4.5	4.7	5.4	3.6
2018	January	4.8	4.7	6.1	4.0
	February	4.5	3.8	6.2	4.2
	March	4.2	2.2	8.2	4.1
	April	3.7	0.3	10.2	4.1
	May	4.0	0.3	11.4	3.9
	June	4.3	0.9	11.9	4.0
	July	4.4	0.5	12.4	4.1
	August	4.0	1.2	14.2	4.3
	September	5.7	0.5	17.4	4.5
	October	5.5	0.5	16.5	4.7
	November	5.6	1.7	14.3	4.4
	December	5.7	2.5	13.8	4.0
2019	January	4.7	1.6	12.1	3.4
	February	4.1	1.1	11.4	3.1
	March	4.35	2.8	8.8	3.1
	April	6.58	8.2	7.5	3.1
	May	5.49	6.3	6.7	3.0
	June	5.7	7.0	6.3	2.9
	July	6.27	8.5	6.2	2.7
	August	5	7.1	4.0	2.3
	September	3.83	6.3	1.3	2.1

Source: World Bank, based on data from Kenya National Bureau of Statistics

Table 12: Credit to Private Sector Growth (%)

Year	Month	Total Private sector annual growth rates	Agriculture	Manufacturing	Trade	Building and construction	Transport and communication	Finance and insurance	Real estate	Mining and quarrying	Private households	Consumer durables	Business services	Other activities
2016	January	16.6	17.3	15.9	28.4	25.3	30.2	12.2	9.1	-9.3	14.6	12.8	13.8	4.1
	February	15.5	21.0	18.7	25.4	20.5	27.7	11.1	10.2	1.7	12.0	7.3	16.2	-3.8
	March	15.2	18.6	20.6	21.8	23.2	22.6	10.8	15.0	12.5	10.1	10.0	13.4	-8.6
	April	13.2	15.5	15.2	21.8	23.1	20.5	13.4	13.4	5.3	10.2	7.5	7.8	-15.5
	May	10.7	20.2	12.2	18.1	16.1	16.9	8.1	10.1	3.2	7.8	9.5	8.5	-18.7
	June	8.9	13.7	13.3	12.3	13.2	14.1	9.1	11.9	-1.6	5.7	2.5	5.1	-11.8
	July	7.0	6.1	12.5	13.8	9.2	12.4	13.5	8.8	-4.5	3.1	4.3	-4.4	-12.9
	August	5.3	1.8	-0.3	16.4	8.3	16.8	-2.5	9.4	-32.8	7.2	9.2	-11.1	-17.1
	September	4.4	-0.5	-2.0	15.2	1.3	13.6	2.7	8.9	-33.7	10.5	5.6	-10.2	-24.3
	October	4.6	0.4	-4.3	12.8	-4.9	14.7	1.2	9.3	-36.4	10.1	10.1	-2.0	-20.1
	November	4.2	3.5	-4.1	15.7	-5.3	16.1	0.1	8.8	-21.3	10.6	10.6	-11.7	-30.6
	December	4.1	0.9	-2.4	15.9	-2.8	14.9	16.7	11.0	-19.1	19.7	11.3	-34.8	-27.0
2017	January	3.9	-2.6	-6.8	13.4	-0.8	10.2	-0.6	10.3	-17.5	14.7	11.1	-13.0	-31.3
	February	3.5	1.4	-8.6	10.1	8.3	8.0	-4.6	9.7	-25.5	15.6	11.1	-13.7	-29.2
	March	3.0	-7.7	-7.8	11.6	0.6	9.6	-9.2	12.4	-34.0	13.3	10.1	-15.5	-23.5
	April	2.2	-8.8	-6.8	8.0	-2.3	7.6	-11.9	13.2	-34.2	10.4	11.9	-15.1	-19.8
	May	1.9	-12.6	-5.2	8.8	2.5	5.6	-2.8	11.8	-39.5	9.8	11.3	-21.8	-20.0
	June	1.5	-12.3	-7.1	10.7	-0.7	3.2	-4.4	10.1	-37.8	10.9	7.5	-15.8	-25.0
	July	1.4	-11.6	-6.6	9.0	0.5	0.6	-8.5	11.8	-41.0	12.1	3.3	-10.8	-28.1
	August	1.6	-7.6	3.3	4.3	-1.5	-2.3	5.4	9.7	-7.6	6.2	-1.6	-6.5	-27.4
	September	1.7	-2.0	6.1	6.9	1.8	-4.9	-1.4	8.9	-0.8	1.9	-0.5	-6.4	-28.6
	October	2.0	-1.1	10.2	11.5	4.0	-8.2	-1.3	10.0	9.2	2.9	0.1	-19.2	-35.0
	November	2.7	-7.7	10.6	10.0	3.1	-8.0	1.5	9.3	-3.2	2.7	-0.4	-7.6	-23.1
	December	2.4	-7.9	13.0	9.0	4.8	-7.2	-4.3	8.6	-5.5	-1.5	-1.6	-6.4	-7.5
2018	January	1.9	-7.6	12.0	5.1	5.4	-10.9	-1.3	8.2	-6.7	-1.4	1.4	0.0	-10.6
	February	2.2	-12.9	13.1	6.8	4.8	-13.9	4.9	8.4	-6.7	-2.7	2.3	-0.3	-2.2
	March	2.1	-6.2	11.2	5.4	12.6	-18.4	11.6	4.5	-2.7	-0.7	4.7	-0.5	-6.3
	April	2.9	-4.4	10.1	5.0	14.3	-17.8	10.1	3.6	-4.4	2.6	5.0	2.8	-2.2
	May	3.9	-3.3	12.1	6.8	9.2	-14.9	2.6	3.7	-3.5	3.8	5.5	11.0	-7.5
	June	4.3	-4.7	12.2	8.5	13.3	-12.7	3.8	3.8	-9.1	2.9	7.8	6.7	-7.9
	July	4.3	-6.5	11.5	6.5	13.5	-10.7	8.5	4.3	0.2	2.9	9.1	3.3	-5.8
	August	4.3	-4.3	13.2	6.9	14.7	-11.0	3.5	0.9	-9.1	2.7	11.5	6.5	-4.6
	September	3.8	-6.0	11.9	3.2	11.1	-9.1	6.6	1.7	-15.5	5.1	7.8	4.3	2.7
	October	4.4	-5.6	14.8	4.0	7.1	-7.7	9.1	1.2	-11.6	5.1	7.6	12.1	-12.4
	November	3.0	-0.1	10.6	3.2	8.9	-10.7	5.3	-1.1	-10.6	5.4	8.9	9.5	-23.4
	December	2.4	-2.0	6.5	2.9	1.8	-9.4	17.5	-0.5	-10.7	6.8	11.0	8.0	-34.8
	January	3.0	-0.2	6.5	6.6	1.4	-6.5	15.4	-2.6	-14.5	5.6	15.4	0.0	-27.2
2019	February	3.4	-2.6	7.7	6.4	2.6	-0.7	13.1	-2.9	-13.4	6.6	16.1	0.3	-33.1
	March	4.3	0.2	7.2	8.7	-7.0	5.7	10.2	-0.1	-11.4	8.0	13.9	-0.4	-31.7
	April	4.9	2.5	7.9	8.4	-6.5	6.4	13.3	-0.7	-12.5	7.9	16.4	1.1	-29.6
	May	4.4	2.7	6.5	7.6	-4.1	6.2	6.7	-0.5	-7.9	7.8	18.0	-1.2	-32.0
	June	5.2	3.9	11.4	5.5	-6.3	5.8	4.7	1.0	-4.3	7.6	21.3	-3.2	-22.6
	July	6.1	7.6	10.3	8.0	-5.4	6.4	5.3	0.5	-13.5	7.1	23.6	1.6	-17.2
	August	6.3	6.6	7.5	8.4	-6.0	5.8	8.2	2.4	-10.8	8.6	23.0	-0.1	-14.4

Source: Central Bank of Kenya

**Table 13: Mobile payments**

Year	Month	Number of Agents	Number of customers (Millions)	Number of transactions (Millions)	Value of transactions (Billions)
2016	January	146,710	29.1	95.5	243.4
	February	148,982	29.5	101.0	257.2
	March	150,987	30.7	107.9	273.6
	April	153,762	31.4	105.5	269.8
	May	156,349	31.3	107.8	277.9
	June	162,465	31.4	106.3	271.0
	July	167,072	32.3	110.5	281.9
	August	173,774	32.8	114.2	296.9
	September	173,731	33.4	112.6	283.9
	October	181,456	34.0	122.5	292.1
	November	162,441	34.3	120.9	291.2
	December	165,908	35.0	126.3	316.8
2017	January	152,547	33.3	122.0	299.5
	February	154,908	33.3	117.5	279.4
	March	157,855	33.9	133.3	320.2
	April	160,076	34.3	128.9	297.4
	May	164,674	34.2	132.5	315.4
	June	165,109	34.2	125.9	299.8
	July	169,480	34.6	128.1	308.9
	August	167,353	35.3	120.6	286.3
	September	167,775	35.5	128.5	300.9
	October	170,389	36.0	134.2	299.0
	November	176,986	36.4	131.7	299.0
	December	182,472	37.4	139.9	332.6
2018	January	188,029	37.8	136.7	323.0
	February	192,117	38.4	132.3	300.9
	March	196,002	39.3	147.5	337.1
	April	201,795	40.3	142.1	313.0
	May	202,387	41.7	141.0	329.0
	June	197,286	42.6	137.4	317.7
	July	200,227	42.6	143.1	332.4
	August	202,627	43.6	149.5	348.9
	September	203,359	44.3	146.0	327.7
	October	211,961	45.4	155.2	343.2
	November	206,312	46.2	153.2	343.9
	December	205,745	47.7	155.8	367.8
2019	January	201,336	40.3	154.2	368.0
	February	212,252	50.0	144.5	328.2
	March	226,957	50.4	161.4	368.4
	April	230,220	52.0	155.8	360.2
	May	224,825	52.2	153.3	364.3
	June	222,484	46.8	149.7	346.8
	July	222,087	53.9	153.0	366.4
	August	222,479	54.8	151.8	368.5

Source: Central Bank of Kenya

**Table 14: Exchange rate**

Year	Month	USD	UK Pound	Euro
2016	January	102.3	147.5	111.1
	February	101.9	145.9	113.0
	March	101.5	144.2	112.6
	April	101.2	144.8	114.8
	May	100.7	146.3	114.0
	June	101.1	144.3	113.7
	July	101.3	133.4	112.1
	August	101.4	132.9	113.7
	September	101.3	133.2	113.5
	October	101.3	125.4	111.9
	November	101.7	126.3	110.0
	December	102.1	127.7	107.7
2017	January	103.7	128.0	110.2
	February	103.6	129.5	130.4
	March	102.9	126.9	109.9
	April	103.3	130.4	110.7
	May	103.3	133.5	114.8
	June	103.5	132.5	116.2
	July	103.9	134.9	119.4
	August	103.6	134.2	122.2
	September	103.1	137.1	122.9
	October	103.4	136.4	121.6
	November	103.6	136.8	121.4
	December	103.1	138.2	122.0
2018	January	102.9	141.9	125.4
	February	101.4	141.7	125.3
	March	101.2	141.2	124.7
	April	100.6	141.9	123.7
	May	100.7	135.7	119.0
	June	101.0	134.2	118.0
	July	100.7	132.6	117.5
	August	100.6	129.7	116.2
	September	100.8	131.7	117.7
	October	101.1	131.6	116.2
	November	102.4	132.1	116.4
	December	102.3	129.7	116.4
2019	January	101.6	130.8	116.0
	February	100.2	130.3	113.8
	March	100.4	132.3	113.5
	April	101.1	131.8	113.6
	May	101.2	130.1	113.2
	June	101.7	128.8	114.7
	July	103.2	128.8	115.8
	August	103.3	125.6	115.0
	September	103.8	128.2	114.4

Source: Central Bank of Kenya



**Table 15: Exchange rate** (Index January 2016 = 100)

Year	Month	NEER	REER	USD
2016	January	100.0	100.0	100.0
	February	100.1	100.4	99.6
	March	100.0	100.4	99.2
	April	100.6	100.6	98.9
	May	99.8	99.6	98.5
	June	100.0	99.1	98.9
	July	99.5	98.3	99.0
	August	100.1	99.2	99.1
	September	100.1	98.8	99.0
	October	99.1	97.9	99.0
	November	98.7	96.9	99.4
	December	98.1	95.6	99.8
2017	January	99.8	95.9	101.4
	February	100.1	94.9	101.3
	March	99.5	93.0	100.5
	April	100.3	92.3	101.0
	May	100.8	91.9	100.9
	June	101.6	93.9	101.2
	July	102.4	95.9	101.5
	August	103.1	96.5	101.2
	September	103.1	98.4	100.8
	October	102.7	98.0	101.1
	November	102.8	98.7	101.2
	December	102.8	97.9	100.8
2018	January	104.1	97.3	100.6
	February	103.4	95.9	99.1
	March	103.1	94.1	98.9
	April	97.5	89.1	98.3
	May	96.5	87.6	98.4
	June	96.2	88.4	98.7
	July	99.3	91.5	98.4
	August	98.4	90.9	98.3
	September	98.4	91.0	98.6
	October	98.1	91.0	98.8
	November	94.9	89.4	100.0
	December	95.1	88.9	100.0
2019	January	94.8	87.4	101.6
	February	98.0	89.2	100.2
	March	98.2	88.4	100.4
	April	98.8	86.2	101.1
	May	98.9	86.4	101.2
	June	98.9	87.3	101.7
	July	100.3	89.7	103.2
	August			103.3
	September			103.8

Source: Central Bank of Kenya and World Bank

**Table 16: Nairobi Securities Exchange**

(NSE 20 Share Index, Jan 1966=100, End - month)

Year	Month	NSE 20 Share Index
2016	January	3,773
	February	3,862
	March	3,982
	April	4,009
	May	3,828
	June	3,641
	July	3,489
	August	3,179
	September	3,243
	October	3,229
	November	3,247
	December	3,186
2017	January	2,794
	February	2,995
	March	3,113
	April	3,158
	May	3,441
	June	3,607
	July	3,798
	August	4,027
	September	3,751
	October	3,730
	November	3,805
	December	3,712
2018	January	3,737
	February	3,751
	March	3,845
	April	3,705
	May	3,353
	June	3,286
	July	3,297
	August	3,203
	September	2,876
	October	2,810
	November	2,797
	December	2,834
2019	January	2,958
	February	2,894.2
	March	2,846.35
	April	2,796.84
	May	2,676.92
	June	2,633.32
	July	2,627.81
	August	2,467.88
	September	2,431.97

Source: Central Bank of Kenya





**Table 17: Central Bank Rate and Treasury Bills**

Year	Month	Central Bank Rate	91-Treasury Bill	182-Treasury Bill	364-Treasury Bill
2016	January	11.5	11.2	13.0	14.1
	February	11.5	10.6	12.8	13.7
	March	11.5	8.7	12.6	12.3
	April	11.5	8.9	11.7	11.8
	May	10.5	8.2	10.7	11.6
	June	10.5	7.3	10.2	10.8
	July	10.5	7.4	9.9	10.9
	August	10.0	8.5	10.8	11.7
	September	10.0	8.1	10.8	11.0
	October	10.0	7.8	10.3	10.4
	November	10.0	8.2	10.3	10.8
	December	10.0	8.4	10.5	10.6
2017	January	10.0	8.6	10.5	11.0
	February	10.0	8.6	10.5	10.9
	March	10.0	8.6	10.5	10.9
	April	10.0	8.8	10.5	10.9
	May	10.0	8.7	10.4	10.9
	June	10.0	8.4	10.3	10.9
	July	10.0	8.2	10.3	10.9
	August	10.0	8.2	10.4	10.9
	September	10.0	8.1	10.4	10.9
	October	10.0	8.1	10.3	11.0
	November	10.0	8.0	10.5	11.0
	December	10.0	8.0	10.5	11.1
2018	January	10.0	8.0	10.6	11.2
	February	10.0	8.0	10.4	11.2
	March	9.5	8.0	10.4	11.1
	April	9.5	8.0	10.3	11.1
	May	9.5	8.0	10.3	11.1
	June	9.5	7.8	9.9	10.8
	July	9.0	7.7	9.3	10.3
	August	9.0	7.6	9.0	10.0
	September	9.0	7.6	8.8	9.8
	October	9.0	7.6	8.5	9.6
	November	9.0	7.4	8.3	9.5
	December	9.0	7.3	8.4	9.7
2019	January	9.0	7.2	8.9	10.0
	February	9.0	7.0	8.6	9.6
	March	9.0	7.1	8.3	9.4
	April	9.0	7.4	8.1	9.4
	May	9.0	7.2	7.9	9.3
	June	9.0	6.9	7.6	9.2
	July	9.0	6.6	7.4	8.8
	August	9.0	6.4	7.1	9.2
	September	9.0	6.4	7.1	9.6

Source: Central Bank of Kenya

Table 18: Interest rates

Year	Month	Short-term			Long-term			
		Interbank	91-Treasury Bill	Central Bank Rate	Average deposit rate	Savings	Overall weighted lending rate	Interest Rate Spread
2016	January	6.4	11.2	11.5	7.6	1.6	18.0	10.4
	February	4.5	10.6	11.5	7.5	1.4	17.9	10.4
	March	4.0	8.7	11.5	7.2	1.4	17.9	10.7
	April	3.9	8.9	11.5	6.9	1.5	18.0	11.1
	May	3.6	8.2	10.5	6.4	1.6	18.2	11.8
	June	4.9	7.3	10.5	6.8	1.6	18.2	11.4
	July	5.5	7.4	10.5	6.6	1.7	18.1	11.5
	August	5.0	8.5	10.0	6.4	1.7	17.7	11.2
	September	4.9	8.1	10.0	6.9	3.8	13.9	7.0
	October	4.1	7.8	10.0	7.8	6.1	13.7	5.9
	November	5.1	8.2	10.0	7.6	6.5	13.7	6.0
	December	5.9	8.4	10.0	7.3	6.4	13.7	6.4
2017	January	7.7	8.6	10.0	7.2	6.1	13.7	6.5
	February	6.4	8.6	10.0	7.7	6.8	13.7	6.0
	March	4.5	8.6	10.0	7.1	5.9	13.6	6.5
	April	5.3	8.8	10.0	7.0	5.7	13.6	6.6
	May	4.9	8.7	10.0	7.1	5.9	13.7	6.6
	June	4.0	8.4	10.0	7.2	5.6	13.7	6.5
	July	6.8	8.2	10.0	7.4	6.4	13.7	6.3
	August	8.1	8.2	10.0	7.7	5.9	13.7	6.0
	September	5.5	8.1	10.0	7.7	6.4	13.7	6.0
	October	7.8	8.1	10.0	8.0	6.9	13.7	5.7
	November	8.9	8.0	10.0	8.1	6.9	13.7	5.6
	December	7.3	8.0	10.0	8.2	6.9	13.6	5.4
2018	January	6.2	8.0	10.0	8.3	7.0	13.7	5.4
	February	5.1	8.0	10.0	8.3	7.0	13.7	5.4
	March	4.9	8.0	9.5	8.2	6.8	13.5	5.3
	April	5.4	8.0	9.5	8.2	6.7	13.2	5.1
	May	4.9	8.0	9.5	8.1	6.6	13.2	5.2
	June	5.0	7.8	9.5	8.0	6.6	13.2	5.2
	July	4.8	7.7	9.0	8.0	6.5	13.1	5.1
	August	6.6	7.6	9.0	7.8	6.5	12.8	5.0
	September	4.5	7.6	9.0	7.8	6.3	12.7	4.9
	October	3.5	7.6	9.0	7.6	5.7	12.6	5.0
	November	4.1	7.4	9.0	7.4	5.4	12.6	5.1
	December	8.0	7.3	9.0	7.4	5.1	12.5	5.1
2019	January	3.3	7.2	9.0	7.3	5.1	12.5	5.2
	February	2.5	7.0	9.0	7.3	5.2	12.5	5.2
	March	3.7	7.1	9.0	7.2	5.1	12.5	5.3
	April	4.2	7.4	9.0	7.2	4.7	12.5	5.3
	May	5.6	7.2	9.0	7.2	4.7	12.5	5.3
	June	3.0	6.9	9.0	7.2	4.8	12.5	5.3
	July	2.3	6.6	9.0	7.0	4.8	12.4	5.4
	August	3.7	6.4	9.0	6.9	4.5	12.5	5.6
	September		6.4	9.0				

Source: Central Bank of Kenya

**Table 19: Money aggregate** (Growth rate y-o-y)

Year	Growth rates (yoy)	Money supply, M1	Money supply, M2	Money supply, M3	Reserve money
2016	January	10.9	10.8	11.1	9.1
	February	9.9	10.0	9.3	9.2
	March	10.9	10.7	11.2	16.1
	April	10.6	9.9	9.5	9.0
	May	12.8	9.8	8.6	7.6
	June	13.4	9.2	8.1	4.9
	July	9.4	7.8	6.9	4.3
	August	9.5	6.9	6.8	6.8
	September	26.1	8.8	8.0	4.3
	October	24.3	6.8	6.8	-7.4
	November	25.3	6.2	6.2	0.5
	December	28.1	4.8	3.7	4.8
2017	January	21.9	5.3	5.2	5.1
	February	23.7	4.5	5.4	2.9
	March	22.1	5.7	6.4	3.2
	April	23.6	6.3	7.1	9.0
	May	21.8	6.2	6.7	5.2
	June	22.5	5.4	6.0	2.9
	July	24.6	7.5	8.3	5.0
	August	22.5	7.5	7.7	7.7
	September	11.6	7.5	7.7	8.1
	October	9.5	7.0	7.9	3.8
	November	7.8	7.4	7.8	6.2
	December	6.7	7.5	8.9	6.7
2018	January	7.2	8.9	8.8	8.3
	February	7.6	9.0	7.9	6.3
	March	3.5	6.2	5.9	0.8
	April	3.2	6.0	5.5	2.7
	May	3.1	6.5	7.5	5.5
	June	2.5	8.1	10.4	7.4
	July	3.9	8.4	10.1	2.1
	August	3.0	7.2	9.1	6.6
	September	0.6	6.2	8.5	6.0
	October	3.8	7.6	9.1	7.4
	November	2.4	6.5	8.4	9.0
	December	6.6	8.0	10.1	12.1
2019	January	7.4	8.4	10.5	5.4
	February	5.6	7.3	10.3	4.7
	March	11.7	10.8	12.5	9.1
	April	6.8	8.7	10.7	8.3
	May	6.7	8.3	8.7	12.1
	June	10.5	9.8	9.2	2.5
	July	5.3	6.9	7.0	-1.2
	August	6.0	6.1	6.5	-6.5

Source: Central Bank of Kenya and World Bank

**Table 20: Coffee production and exports**

Year	Month	Production MT	Price Ksh/Kg	Exports MT	Exports value Ksh Million
2016	January	3,432	462	2,449	1,184
	February	5,220	486	3,277	1,636
	March	6,835	437	4,169	2,206
	April	4,513	340	4,804	2,540
	May	4,735	263	4,814	2,170
	June	1,747	268	4,983	2,369
	July	569	324	3,987	1,798
	August	3,723	431	3,719	1,637
	September	3,284	437	3,173	1,399
	October	1,573	410	3,116	1,489
	November	2,374	468	3,929	1,691
	December	1,666	514	2,886	1,252
2017	January	5,190	590	3,214	1,553
	February	6,081	606	3,868	2,094
	March	5,460	507	5,447	3,231
	April	4,563	299	4,201	2,698
	May	1,639	276	5,424	3,117
	June	-	-	4,443	2,501
	July	762	420	3,598	1,971
	August	2,319	443	2,649	1,311
	September	2,465	457	3,134	1,516
	October	1,619	409	2,335	1,121
	November	2,310	419	3,196	1,566
	December	1,320	453	1,955	775
2018	January	5,112	527	2,509	1,286
	February	5,832	577	2,834	1,612
	March	4,913	478	3,936	2,237
	April	4,194	305	4,550	2,822
	May	4,620	217	5,573	3,209
	June	-	-	4,649	2,664
	July	1,221	357	4,683	2,457
	August	2,235	337	2,973	1,547
	September	2,299	289	2,520	1,141
	October	2,493	321	3,521	1,467
	November	2,334	368	4,619	1,730
	December	1,577	404	2,312	921
2019	January	4,167	453	3,469	1,499
	February	5,724	449	4,567	1,903
	March	4,057	298	4,351	2,256
	April	5,307	203	4,552	2,501
	May	4,084	200	5,490	2,700
	June	2,021	192	4,549	1,964
	July	672	197	5,115	1,713
	August	1,647	217		

Source: Kenya National Bureau of Statistics

**Table 21: Tea production and exports**

Year	Month	Production MT	Price Ksh/Kg	Exports MT	Exports value Ksh Million
2016	January	50,308	279	36,575	11,013
	February	43,969	253	43,292	12,200
	March	45,330	234	37,571	9,887
	April	37,571	214	39,313	9,517
	May	36,573	223	44,901	10,658
	June	35,603	243	52,175	12,613
	July	29,285	246	42,751	10,679
	August	29,462	234	39,673	9,993
	September	36,785	236	33,528	8,454
	October	41,342	243	29,656	7,548
	November	39,903	273	41,138	11,123
	December	45,103	273	39,396	10,811
2017	January	32,991	316	46,434	14,072
	February	22,605	317	33,898	10,880
	March	34,498	300	33,662	10,693
	April	31,458	297	32,091	9,991
	May	38,822	304	39,329	12,354
	June	40,538	325	42,370	13,485
	July	31,565	310	41,437	13,442
	August	32,693	300	29,628	9,269
	September	38,386	305	43,469	13,570
	October	43,420	316	41,173	13,147
	November	45,374	309	39,128	12,713
	December	47,507	285	44,413	13,634
2018	January	40,834	304	48,447	14,964
	February	27,939	302	47,357	14,657
	March	30,987	284	34,488	10,471
	April	44,580	268	33,565	9,830
	May	43,356	263	42,533	11,703
	June	43,299	257	45,182	12,463
	July	35,278	251	45,242	12,226
	August	37,433	241	38,023	9,919
	September	42,531	243	40,268	10,479
	October	49,284	244	43,894	11,327
	November	45,649	242	44,108	11,015
	December	51,830	236	38,681	9,781
2019	January	48,386	234	48,623	11,831
	February	31,445	216	41,027	9,638
	March	26,462	214	42,457	9,910
	April	26,131	228	36,884	8,631
	May	37,759	242	36,994	9,293
	June	42,425	219	29,355	7,154
	July	31,458	205	33,657	7,788

Source: Kenya National Bureau of Statistics

**Table 22: Horticulture Exports**

Year	Month	Exports MT	Exports value Ksh. Million
2016	January	20,160	10,927
	February	22,337	10,151
	March	24,314	11,140
	April	25,931	8,611
	May	21,260	7,004
	June	20,157	10,293
	July	17,981	5,577
	August	19,650	7,293
	September	20,924	6,659
	October	23,327	8,312
	November	22,772	7,641
	December	22,294	7,906
2017	January	27,045	11,559
	February	27,461	10,942
	March	27,892	9,094
	April	25,658	8,977
	May	30,549	10,292
	June	26,271	9,395
	July	22,179	8,660
	August	23,357	9,237
	September	23,818	8,962
	October	24,337	9,059
	November	21,676	8,275
	December	23,905	10,871
2018	January	27,131	14,899
	February	29,603	16,457
	March	32,994	12,617
	April	29,654	12,875
	May	27,657	14,557
	June	21,513	9,639
	July	21,237	7,734
	August	27,054	15,121
	September	28,992	11,857
	October	28,396	12,041
	November	26,259	15,001
	December	22,198	11,913
2019	January	28,390	12,951
	February	33,180	14,020
	March	33,751	12,446
	April	30,935	13,674
	May	29,311	12,318
	June	24,399	11,086
	July	24,839	9,481
	August	24,320	11,150

Source: Kenya National Bureau of Statistics



**Table 23: Leading Economic Indicators year to date growth rates** (Exports MT, Percent)

Year	Month	Horticulture	Coffee	Tea
2016	January	11.0	-13.9	-10.7
	February	9.6	0.0	-2.7
	March	11.3	-1.2	-0.3
	April	13.9	5.2	7.4
	May	13.3	6.3	16.5
	June	14.2	8.5	21.5
	July	12.8	7.5	23.8
	August	13.7	5.6	25.8
	September	9.4	4.3	22.9
	October	8.9	0.5	17.1
	November	9.6	3.3	16.6
	December	9.7	3.9	14.1
2017	January	34.1	31.2	27.0
	February	28.3	23.7	0.6
	March	23.3	26.6	-2.9
	April	16.5	13.8	-6.8
	May	21.6	13.5	-8.1
	June	22.9	8.6	-10.3
	July	22.9	6.0	-9.2
	August	22.5	2.0	-11.1
	September	21.5	1.7	-7.4
	October	19.7	-0.5	-4.0
	November	17.3	-2.1	-4.1
	December	16.5	-4.1	-2.7
2018	January	0.3	-21.9	4.3
	February	4.1	-24.5	19.3
	March	8.9	-25.9	14.3
	April	10.5	-17.3	12.2
	May	6.1	-12.4	11.3
	June	2.2	-9.6	10.4
	July	1.5	-4.8	10.2
	August	3.1	-3.5	12.0
	September	5.0	-4.9	9.6
	October	6.1	-1.5	9.3
	November	7.2	2.1	9.6
	December	6.1	2.8	7.4
2019	January	4.6	38.3	0.4
	February	8.5	50.4	-6.4
	March	6.2	33.5	1.4
	April	5.8	22.5	3.1
	May	5.8	15.6	-0.2
	June	6.8	12.2	-6.5
	July	7.9	11.7	-9.4
	August		1.2	

Source: World Bank, based on data from Kenya National Bureau of Statistics

**Table 24: Local Electricity Generation by Source**

Year	Month	Hydro KWh Million	Geo-thermal KWh Million	Thermal KWh Million	Wind KWh Million	Total KWh Million
2016	January	322	392	93		808
	February	297	392	95		784
	March	335	383	112		830
	April	303	394	102		800
	May	334	403	92		830
	June	348	342	113		803
	July	337	393	110		842
	August	364	345	138		850
	September	349	335	137		824
	October	357	364	135		862
	November	315	369	158		848
	December	299	371	158		836
2017	January	252	380	197	7.0	837
	February	214	354	182	7.5	758
	March	234	388	230	6.3	858
	April	212	381	223	6.6	822
	May	229	394	224	3.5	849
	June	180	376	274	3.1	834
	July	193	402	271	1.5	867
	August	251	415	159	3.3	829
	September	239	403	213	3.6	859
	October	217	416	224	4.3	861
	November	305	411	153	7.1	877
	December	250	436	184	7.3	879
2018	January	223	430	242	3	900
	February	193	387	249	7	837
	March	248	448	202	4	903
	April	317	428	139	3	887
	May	386	447	83	2	918
	June	401	430	82	1	914
	July	420	438	87	2	947
	August	417	427	117	3	964
	September	392	440	85	7	925
	October	365	432	87	77	962
	November	340	398	80	133	957
	December	283	423	92	133	939
2019	January	279	417	114	148	966
	February	254	374	99	146	880
	March	283	445	99	144	979
	April	192	398	181	142	921
	May	243	427	110	164	952
	June	272	413	146	92	932
	July	269	440	133	125	975
	August	251	425	132	151	968

Source: Kenya National Bureau of Statistics

**Table 25: Soft drinks, sugar, galvanized sheets and cement production**

Year	Month	Soft drinks litres (thousands)	Sugar MT	Galvanized sheets MT	Cement MT
2016	January	50,502	41,348	21,330	533,490
	February	45,237	41,440	20,102	531,813
	March	58,038	48,865	20,120	541,438
	April	44,429	42,148	23,109	568,253
	May	43,189	36,874	21,980	585,929
	June	39,191	36,202	20,180	547,238
	July	42,393	32,158	18,320	575,193
	August	39,331	38,508	24,190	591,612
	September	48,884	40,291	21,045	528,494
	October	46,131	43,203	18,328	573,034
	November	41,877	40,141	19,143	584,780
	December	52,185	49,966	19,431	545,956
2017	January	50,409	53,071	26,230	565,440
	February	43,353	49,094	22,994	491,307
	March	50,623	42,238	22,574	570,522
	April	46,399	26,230	23,225	535,061
	May	40,742	15,246	23,081	482,762
	June	45,875	16,113	15,424	513,313
	July	41,980	17,882	22,640	553,631
	August	41,217	10,892	15,296	451,651
	September	40,221	21,649	24,188	498,167
	October	45,275	32,296	21,312	498,374
	November	45,073	43,175	24,357	483,956
	December	66,378	49,240	21,438	518,410
2018	January	52,062	62,819	23,919	494,709
	February	49,685	53,833	21,890	490,020
	March	52,580	49,148	22,048	476,730
	April	45,690	36,682	21,434	474,740
	May	41,482	28,933	22,271	452,034
	June	44,827	28,320	21,434	454,322
	July	43,725	30,105	23,252	465,575
	August	48,795	35,646	22,630	473,861
	September	45,956	37,652	23,509	460,546
	October	46,546	45,324	23,906	470,524
	November	50,201	38,768	22,877	460,967
	December	54,021	38,268	21,266	461,922
2019	January	52,062	53,060	25,390	485,178
	February	50,806	46,139	25,480	470,146
	March	51,419	45,418	24,451	507,037
	April	54,515	34,521	23,198	503,722
	May	51,210	35,257	22,480	486,903
	June	48,736	28,544	24,663	481,985
	July		25,097		499,945
	August		32,705		

Source: Kenya National Bureau of Statistics

**Table 26: Tourism arrivals**

Year	Month	JKIA	MIA	TOTAL
2016	January	65,431	9,407	74,838
	February	62,856	9,983	72,839
	March	49,996	8,551	58,547
	April	51,311	3,869	55,180
	May	59,294	3,578	62,872
	June	64,451	4,182	68,633
	July	81,729	7,832	89,561
	August	87,141	9,817	96,958
	September	67,249	8,381	75,630
	October	63,229	9,015	72,244
	November	61,224	7,990	69,214
	December	67,602	10,267	77,869
2017	January	67,876	11,482	79,358
	February	62,659	7,809	70,468
	March	65,095	8,406	73,501
	April	63,842	4,128	67,970
	May	65,711	2,678	68,389
	June	75,049	5,072	80,121
	July	97,955	7,284	105,239
	August	79,053	10,729	89,782
	September	78,329	9,111	87,440
	October	56,034	7,557	63,591
	November	61,617	10,956	72,573
	December	90,745	15,117	105,862
2018	January	105,262	14,533	119,795
	February	98,532	12,792	111,324
	March	100,441	11,024	111,465
	April	94,236	5,205	99,441
	May	93,730	4,735	98,465
	June	114,097	5,157	119,254
	July	141,763	9,025	150,788
	August	145,231	9,589	154,820
	September	114,539	9,916	124,455
	October	115,597	9,343	124,940
	November	103,229	8,391	111,620
	December	115,856	18,403	134,259
2019	January	112,460	15,658	128,118
	February	107,060	12,864	119,924
	March	94,632	20,388	115,020
	April	102,981	4,744	107,725
	May	98,081	3,572	101,653
	June	121,484	6,615	128,099
	July	149,994	8,520	158,514
	August	148,816	10,988	159,804

Source: Kenya National Bureau of Statistics  
Note: JKIA (Jomo Kenyatta International Airport, MIA (Moi International Airport)

**Table 27: New Vehicle registration**

Year	Month	All body types (numbers)
2016	January	14,652
	February	12,771
	March	10,280
	April	13,699
	May	11,855
	June	22,428
	July	23,442
	August	18,288
	September	18,527
	October	13,018
	November	27,286
	December	27,431
2017	January	23,889
	February	20,748
	March	27,720
	April	23,074
	May	24,720
	June	24,509
	July	29,346
	August	22,422
	September	21,137
	October	18,889
	November	22,954
	December	23,264
2018	January	23,676
	February	24,123
	March	23,290
	April	21,920
	May	23,729
	June	21,011
	July	24,232
	August	28,649
	September	23,134
	October	28,466
	November	27,713
	December	26,991

Source: Kenya National Bureau of Statistics







