

# KENYA ECONOMIC UPDATE

December 2023 | Edition No. 28

Fiscal Consolidation

**GDP  
Growth**

Strengthen Households'  
Resilience to Shocks

**Inclusive  
Growth**

Increase  
Productivity of  
The Private Sector

**Connect the  
Poor and Vulnerable  
to Growth**

Declining Inflation

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**A Balancing Act: Opportunities for  
Making Growth More Inclusive  
During Challenging Times**



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During Challenging Times**

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## ABBREVIATIONS

<b>AfCFTA</b>	Africa Continental Free Trade Agreement	<b>JD</b>	Jobs Diagnostic
<b>ASAL</b>	Arid and Semi-Arid	<b>KCHS</b>	Kenya Continuous Household Survey
<b>BAU</b>	Business as usual	<b>KIHBS</b>	Kenya Integrated Household Budget Survey
<b>BETA</b>	Bottom-up Economic Transformation Agenda	<b>KNBS</b>	Kenya National Bureau of Statistics
<b>BOS</b>	Business of the State	<b>KPEA</b>	Kenya Poverty and Equity Assessment
<b>CBK</b>	Central Bank of Kenya	<b>LACEX</b>	Labor Content of Exports
<b>CBR</b>	Central Bank Rate	<b>LFP</b>	Labor Force Participation
<b>CCDR</b>	Country Climate and Development Report	<b>LMIC</b>	Lower Middle-Income Country
<b>CEM</b>	Country Economic Memorandum	<b>MSME</b>	Micro, Small and Medium Enterprise
<b>CSA</b>	Climate-Smart Agriculture	<b>MTP IV</b>	The Fourth Medium-Term Plan
<b>D-Index</b>	Dissimilarity Index	<b>NDVI</b>	Normalized Difference Vegetation Index
<b>EAC</b>	East African Community	<b>NPL</b>	Non-performing loan
<b>ECF</b>	Extended Credit Facility	<b>OLS</b>	Ordinary Least Squares (regression)
<b>EFF</b>	Extended Fund Facility	<b>PAYE</b>	Pay As You Earn
<b>EMDE</b>	Emerging Market and Developing Economy	<b>PMI</b>	Purchasing Manager Index
<b>ESR</b>	Enhanced Single Registry	<b>Q1, Q2</b>	First Quarter, Second Quarter
<b>FAT</b>	Firm-level Adoption of Technology	<b>RRPS</b>	Rapid Response Phone Survey
<b>FDI</b>	Foreign Direct Investment	<b>SSA</b>	Sub-Saharan Africa
<b>FLID</b>	Famer-led Irrigation Development	<b>STIP</b>	Strategic Trade and Investment Partnership
<b>GDP</b>	Gross Domestic Product	<b>TFP</b>	Total Factor Productivity
<b>GoK</b>	Government of Kenya	<b>TIMPs</b>	Technologies, Innovations, and Management Practices
<b>H1, H2</b>	First Half, Second Half	<b>US\$</b>	United States Dollar
<b>HOI</b>	Human Opportunity Index	<b>VAT</b>	Value-added Tax
<b>ICT</b>	Information and Communication Technologies	<b>WTO</b>	World Trade Organization
<b>IMF</b>	International Monetary Fund	<b>y/y</b>	Year-on-year

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The Kenya Economic Update (KEU) is a World Bank report series produced twice a year that assesses recent economic and social developments and prospects in Kenya, and places these in a longer-term and global context. Through special topics, the KEU also examines selected policy issues and medium-term development challenges in Kenya. It is intended for a wide audience, including policymakers, business leaders, financial market participants, and the community of analysts and professionals engaged in Kenya's changing economy.

The production of the KEU is led by the Macroeconomics, Trade and Investment (MTI) Global Practice team for Kenya. The first part—Recent Economic Developments and Outlook and Risks—was produced by Naomi Mathenge, Tasneem Ghauri, Angelique Umutesi and Stanley Mutinda (all MTI). The second part—Special Topic on Opportunities for Making Growth More Inclusive—was produced by the Poverty and Equity Global Practice team for Kenya comprising Precious Zikhali, Nistha Sinha, Nduati Kariuki, and Alastair Haynes; the Social Protection, Labor, and Jobs Global Practice team comprising Ramya Sundaram and Federica Ricaldi; and from Finance, Competitiveness and Innovation Global Practice team comprising Elwyn Davies. The special topic draws upon three reports: the Kenya Poverty and Equity Assessment, the Jobs Diagnostic for Kenya, and the Kenya Country Economic Memorandum. Logistical assistance during the preparation of this report was ably provided by Anne Khatimba.

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## EXECUTIVE SUMMARY

**Economic growth weakened in advanced economies, contributing to a decline in global growth from 3.1 percent in 2022 to rates around 2.1–2.6 percent in 2023.**

Tight monetary policy weighed substantially on economic activity of advanced economies, with considerable slowdowns predicted for the Euro Area in 2023. The rapid rise in interest rates in the U.S. has led to substantial tightening of financial conditions for the emerging market and developing economies (EMDEs), with the more vulnerable EMDEs facing potential financial disruptions. Lower growth was also recorded for sub-Saharan African countries, decelerating from 3.6 percent in 2022 to an estimated 2.5–3.0 percent in 2023. This has been attributed to, among others, tight domestic macroeconomic policies in response to elevated inflation and fiscal challenges, exacerbated by global uncertainty and tight global financial conditions.

**Kenya has recorded stronger growth, despite continued challenges, with GDP growth accelerating from 4.8 percent in 2022 to an estimated 5.0 percent in 2023.**

A rebound in agriculture, which had faced two consecutive years of output decline, and the continued strength and resilience of the services sector contributed to the improved performance. Manufacturing was negatively impacted by surging production costs as input and borrowing costs rose, as business sentiment deteriorated in the first half of 2023 driven by among others political tensions, a weakening shilling, and a slowing global economy. This resulted in slowed industrial activity that consequently moderated growth in the services sector. However, expansion in tourism continued in the first half of 2023 albeit at a more gradual pace.

**Kenya continues to experience low foreign direct investment inflows amidst a weakening shilling.**

The rapid interest rate hikes in advanced economies led to a substantial increase in borrowing costs for Kenya and prompted capital outflows. Inflows from foreign direct investments (FDI) have been low for Kenya compared to SSA and middle-income economies. In addition, rising external financing needs in the face of tightened global financial conditions contributed to falling reserves. The Kenyan shilling has been steadily weakening against the U.S. dollar. This has partly contributed to declining imports of goods and services, which declined by 11.1 percent in the first half of 2023. Exports too declined during the same

period by 3.3 percent, leading to a narrowing of the trade deficit.

**Improvements in food supply and interest rate hikes are dampening inflationary pressures.**

The deceleration in food prices and Central Bank of Kenya's (CBK's) June 2023 increase in the policy rate by 175 basis points helped to bring the inflation rate down into CBK's target range by July 2023. Nevertheless, the inflation rate remains elevated at 6.8 percent as of November 2023, in the upper part of CBK's target range, due in part to a rise in electricity tariffs and the implementation of a 16 percent VAT on petroleum products. In December 2023, CBK raised the policy rate by an additional 200 basis points to 12.5 percent.

**Kenya's fiscal balance has improved but persistent revenue shortfalls and higher borrowing costs pose challenges.**

The government's fiscal consolidation efforts since 2019 have targeted domestic revenue mobilization and reducing spending through improved public investment management, while reallocating resources to priority areas. Unsustainable spending on consumption subsidies has been contained but accumulated pending bills have persistently remained high and could increase debt vulnerabilities both at national and county levels. Although sustainable, public debt rose amidst a depreciating exchange rate and revenue shortfalls, climbing to 71.4 percent of GDP in FY2022/23 from 68.0 percent in 2021/22. Debt sustainability remains exposed to export and interest rate shocks, currency depreciation, global capital market volatility, and rollover risks. The government's strategy to tap into concessional borrowing has prudently reduced accumulation of expensive debt.

**Fiscal and monetary measures are anticipated to limit domestic demand growth, with real GDP projected to grow at around 4.5 - 5.2 percent in 2024.**

This growth will be driven partly by private sector investment and recovery in private consumption, which will be supported by reduced inflationary pressures. Growth in private investment, supported by ongoing structural reforms and somewhat reduced government borrowing from the domestic market, is projected to raise Kenya's GDP growth in the medium term. The current account is also projected to narrow, but Kenya will continue to face challenges related to weak external financing inflows.



Kenya's economic challenges are unfolding in an environment in which GDP growth has not generated commensurate gains in well-being. Even before COVID-19 the pace of poverty reduction in Kenya had slowed. Between 2005/06 and 2015/16, the poverty rate dropped by an average of 1.1 percentage points per year; this declined to an annual average reduction of 0.6 percentage points per year between 2015/16 and 2019, despite the acceleration of rate of GDP growth. Poverty increased during the global pandemic, and although the poverty rate has since declines to 38.6 in 2021, this remains above the pre-pandemic level as poor and rural households have not participated as much in Kenya's economic recovery.

**Kenya must ensure that the benefits of economic growth are more widely shared and sustained over the long term.** The recent slowdown in poverty reduction, the inequality of educational and other opportunities, weak job creation, and persistently low productivity growth suggest the need for an inclusive growth strategy that leads to more widespread income growth and increases in purchasing power. Greater spending by more people also translates to higher tax revenues and increased fiscal space to respond to shocks. More government spending or price controls are not prescriptions for inclusive growth. Instead, this entails boosting the efficiency and governance of public spending and smart economic policies around trade, investment and competitiveness that empower the private sector to create productive jobs. Inclusive growth policies should have a wide sectoral focus and not only focus on agriculture and industry, but also on services, a sector that contributes significantly to job creation, exports, and growth but which still faces significant constraints.

A successful strategy to reignite inclusive growth and advance the Bottom-Up Economic Transformation Agenda (BETA) priorities of the Government of Kenya would have a three-pronged approach that (a) ensures sustained high rates of economic growth; (b) connect the poor and vulnerable to growth, through connecting them to the labor market and better jobs; and (c) strengthen households' resilience to shocks, particularly extreme weather shocks given their growing incidence. Opportunities for good quality education and lifelong learning are important to access better jobs. While those with better education have better employment outcomes, insights from the Human Opportunity Index (HOI), used to measure how much the circumstances a child is born into influences their opportunities suggest that inequality of opportunity undermines access to services for children from poor households particularly in arid and semi-arid areas of the country.

**The country will therefore need to both continue with a tight macroeconomic stance in the short run while charting a path to inclusive, productivity-led economic growth in the long run.** This Economic Update proposes a concerted three-pronged strategy that: (i) increases productivity of the private sector across services sectors, agriculture and industry to ensure sustained high rates of economic growth, (ii) connects the poor and vulnerable to growth through access to skills, productive jobs, and capital, and (iii) strengthens households' resilience to shocks, particularly extreme weather shocks given their growing incidence and the importance of agriculture as an important sector from an inclusion perspective. A more effective use of fiscal policies across these three pillars to support inclusion is important. These strategic directions could pave the way for inclusive growth.





# The State of Kenya's Economy





# 1. Recent Economic Developments

## 1.1 The global and regional economic activity diminished in 2023

Global economic growth weakened in 2023, partially due to substantial monetary tightening in advanced economies in response to persistent inflation pressures. Inflation rates in major economies have declined since the start of the year as supply chain pressures eased and commodity prices fell, but they remain above countries' target levels. Tight monetary policy weighed substantially on economic activity of advanced economies, with considerable slowdowns predicted for the United States and the Euro Area in 2023. The rapid rise in interest rates in the U.S. also tightened financial conditions for emerging market and developing economies (EMDEs), with the more vulnerable EMDEs facing potential financial disruptions. Global trade in goods slowed in the first half of 2023, mirroring the weakening global industrial production. Global economic growth is projected to decelerate to 2.1–2.6 percent in 2023 from around 3.1 percent a year earlier, and this sluggish trend is expected to persist into 2024.<sup>1</sup>

Economic growth in sub-Saharan Africa (SSA) is expected to bottom out in 2023 and accelerate in 2024. The region's GDP growth slowed from 3.6 percent in 2022 to a rate around 2.5–3.0 percent in 2023.<sup>2</sup> The downward revision in the growth estimate for 2023 is primarily attributed to the economic fallout of a surge in armed conflicts and social unrest across some SSA countries and weaker commodity prices in others. Additionally, economic activity in the region is stifled by tight domestic macroeconomic policies in response to elevated inflation and fiscal challenges, exacerbated by global uncertainty and tight global financial conditions. Higher interest rates are raising costs for SSA governments and limiting their space for priority development spending. Looking forward, economic activity in SSA is forecast pick up to growth rates of around 3.7 percent in 2024 and 4.1 percent in 2025, underpinned by a recovery in global output and trade, lower global inflation, and a gradual easing of global financial conditions.

## 1.2 Kenya's economic performance is estimated to increase marginally

Economic activity strengthened in 2023 despite facing several challenges. Kenya's real GDP is estimated to have increased by 5.0 percent in 2023, an acceleration from 4.8

percent recorded in 2022. The economy expanded by 5.5 and 5.4 percent in Q1 and Q2 of 2023 respectively. The increase is attributed to a strong rebound in agriculture, which had faced two consecutive years of output decline, and the continued strength of the services sector. Nevertheless, the economy continues to face several challenges, most notably the heightened fiscal and external vulnerabilities, manifested through high public debt. Moreover, elevated cost of living, exchange rate pressures, global economic slowdown and tight financial conditions have posed further challenges to sustaining Kenya's growth momentum.

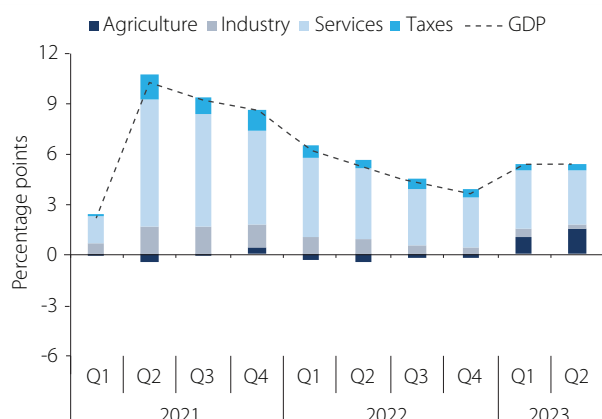
The agriculture sector recovered strongly in 2023 from a persistent and severe drought. Agriculture posted a growth of 6.9 percent y/y in the first half of 2023, following a combined contraction of 2.0 percent during 2021–2022 (Figure 1). Rains during the March to May 2023 rainy season exceeded historical averages, leading to significant improvement in water availability for agriculture. Production of key crops, including tea and coffee, consequently saw significant increases in the second quarter of 2023, and there was a notable improvement in livestock body conditions. Tea production rose by 15.2 percent y/y in Q2-2023, while coffee exports increased by 13.7 percent y/y during the same period. The persistence of favorable weather conditions during the second half of 2023 is anticipated to lead to increased crop yields, an expansion in harvested areas and further improvement in the overall health of livestock, thereby contributing to maintaining a sustained and robust agriculture recovery in 2023.

Industrial activity slowed in the first half of 2023 due to subdued business sentiment and higher production costs. Manufacturing, which constitutes about half of the industrial sector output, experienced a deceleration in H1-2023, with y/y growth of 1.7 percent compared to 3.7 percent observed in the same period of 2022. The slowdown in manufacturing activity reflected a deterioration in business sentiment during much of the first half of 2023, driven by heightened political tensions, a slowing global economy, a weakening shilling, and shortages in foreign currency that also led to reduced imports of industrial supplies. Furthermore, production costs surged as input and borrowing costs rose in the

<sup>1</sup> Global Economic Prospects, June 2023, The World Bank.

<sup>2</sup> Africa's Pulse, October 2023, The World Bank.

**Figure 1: Agriculture rebounded in 2023**  
(Contribution to y/y GDP growth; percentage points)

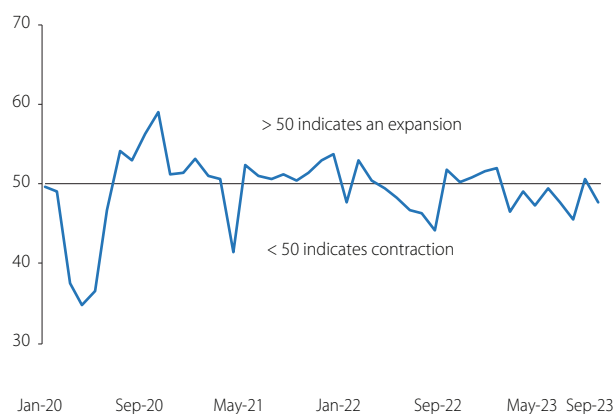


Source: Kenya National Bureau of Statistics.

face of increasing interest rates and elevated inflation, further impacting the manufacturing activity. Growth in construction activity fell to 2.8 percent y/y in H1-2023 from 5.2 percent y/y in the same period of 2022, linked to both a considerable reduction in development spending, which was carried out to contain the fiscal deficit, and elevated construction costs, reflecting increases in borrowing and construction input prices. In the third quarter of 2023, Kenya's Purchasing Manager Index (PMI) remained in the contraction zone during June and September but briefly expanded in July, indicating the ongoing weakness in the manufacturing activity (Figure 2). However, manufacturing activity is expected to receive support during H2-2023 from the anticipated growth in agro-processing sector due to favorable weather conditions leading to improved harvest and increased milk production.

**Slower industrial activity moderated growth in the services sector.** While the services growth was broad-based, the primary impetus came from strong credit expansion, which boosted financial services, and a notable recovery in agriculture that spilled over into services subsectors such as wholesale and retail trade, and transport and storage. Simultaneously, the deceleration in industrial activity and a substantial contraction in imports had a dampening impact on financial services and transport and storage subsectors, leading to weaker growth for these subsectors in H1-2023 compared to the same period in 2022. Additionally, the expansion in tourism continued in the first half of 2023, albeit at a more gradual pace as the COVID-19's base impact waned with sector's value added now exceeding its pre-pandemic levels. As a result, the overall growth in services reduced from 8.4 percent y/y in the first half 2022 to a still substantial 6.1 percent y/y in the corresponding period of 2023.

**Figure 2: PMI trend indicates subdued manufacturing activity in 2023**



Source: Stanbic Bank Kenya and S&P Global.

**Real GDP is projected to grow between 4.5–5.2 percent in 2024.** Improved investor confidence and credit to the private sector—helped by reduced domestic borrowing by the government—will strengthen private investment over the medium term. The government projects to reduce the fiscal deficit substantially in 2023 and 2024 and achieve primary fiscal surplus and positive public savings in FY2024/25. New tax administration and policy measures; including among others increased tax on employment income above KSh 6 million, VAT on petroleum products, and withholding tax on digital content, are expected to generate 1.6 percent of GDP in additional revenue and complement continued expenditure rationalization.

**The outlook is subject to elevated uncertainty because of domestic and external risks.** Spending pressures, driven in part by political tensions, such as reintroduction of consumption subsidies, and failure to achieve fiscal consolidation could significantly exacerbate Kenya's debt vulnerabilities and hamper the economic outlook. Drought or floods would resume inflationary pressures and food insecurity, dampening growth. Lower than anticipated growth in Europe could undercut ongoing recovery in tourism and other exports and remittances. Persistent inflation in advanced economies remains and elevated commodity prices driven by international conflicts would further tighten financial condition, weaken external balances, and elevate the cost of reducing CPI inflation. Upside risks are mostly linked to faster than expected normalization in global financing conditions and lower international fuel and food prices, which would strengthen Kenya's external balances and ease domestic price pressures.

### Economic growth is a key driver of poverty reduction.

At the same time, accelerating the pace of poverty reduction as well as strengthening the relationship between economic growth and poverty reduction remains key to inclusion (Box 1). The Kenya Poverty and Equity Assessment (KPEA) argues that this entails connecting the poor to growth to enhance its inclusivity. This means creating better quality jobs for the poor and ensuring they are well positioned to contribute to and benefit from the pattern and distribution of growth. The special focus

topic of this KEU delves into ways of making growth more inclusive, drawing from the Kenya Country Economic Memorandum (CEM) (World Bank 2023d), Jobs Diagnostic (World Bank 2024, forthcoming) as well as the KPEA to answer two overarching policy questions: *what factors affect the inclusiveness of Kenya's economic growth and what policies can make growth more inclusive?* In answering these questions, consideration is given to the challenging economic context the country faces.

#### Box 1: Poverty and inequality trends, 2005/06 – 2021

Poverty was decreasing prior to the COVID-19 pandemic; however, the rate of progress was sluggish compared to the population growth. In 2019, about one-third of Kenyans (33.6 percent) were living under the national poverty line, an improvement from 46.7 percent in 2005 (Figure 3). Most of the poverty reduction occurred between 2005/06 and 2015/16 when poverty dropped by 10.5 percentage points to 36.1 percent, driven by strong economic growth. This translated to an average annual reduction of 1.1 percentage points. However, between 2015/16 and 2019, despite a faster rate of GDP growth compared to the ten years prior, the pace of poverty reduction slowed down to an average annual reduction of 0.6 percentage points. As a result of the declining rate of poverty reduction, the number of poor people remained stable at around 16 million (Figure 4).

The COVID-19 pandemic reversed the modest gains in poverty reduction, with urban areas hardest hit. The poverty rate increased to 42 percent in 2020 and recovered to 38.6 in 2021 which however remains above the pre-pandemic level. COVID-19 containment measures curtailed service activities such as trade, transport, tourism, and education, leading to an increase in poverty. The COVID-19 pandemic was associated with a 15-percentage point increase in poverty in urban areas from 2019 to 2020 and a 6.5 percentage point increase in rural areas to 43.5 percent during the same period. This increase in urban poverty nearly doubled the number of urban poor and nearly closed the rural-urban poverty gap. The economic recovery in 2021 was reflected in the 4.3 percentage point decline in the poverty rate to 38.6 percent in 2021.

Figure 3: Absolute poverty rate, 2005/06 – 2021

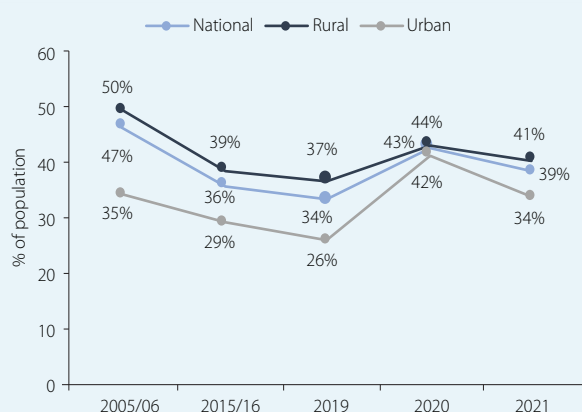
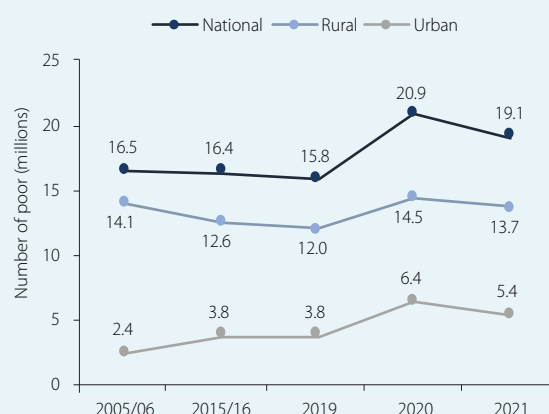
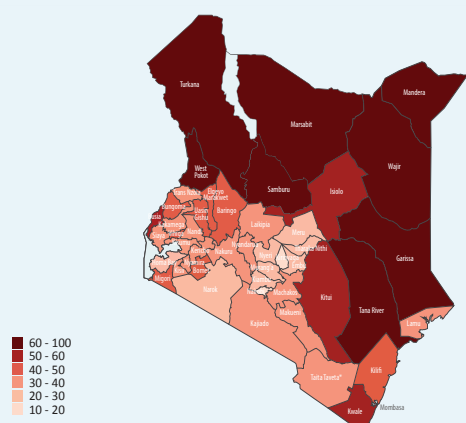
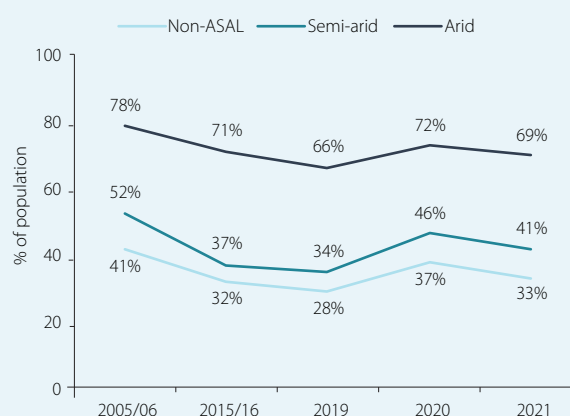


Figure 4: Number of poor, 2005/06 – 2021



Source: Based on Kenya Integrated Household Budget Surveys and Kenya Continuous Household Surveys.

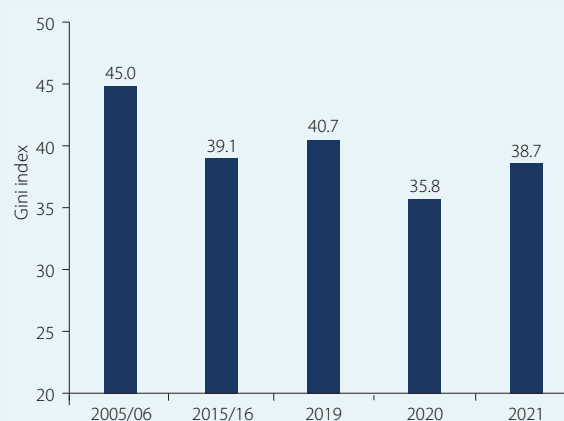
Geography remains a strong marker of poverty, with poverty in arid areas significantly higher than the rest of the country. Arid counties in the North and North-East of Kenya have seen little progress in poverty reduction. This is partly explained by agroclimatic constraints which are characterized by high vulnerability to climate shocks, resulting in variable and generally low agricultural productivity. This is further compounded by lower access to services which limit opportunities for human capital accumulation. Kenya's northernmost county, Turkana, had the highest poverty rate of 78 percent in 2021, followed by Mandera, Tana River and Garissa counties in which over two-thirds of residents are classified as poor. The gap between arid areas and the rest of the country has remained stable from 2005/06 to 2021 (Figure 6). Arid areas only account for around 10 percent of the population yet given the much higher incidence of poverty in these areas, they represent around 18 percent of the country's poor. Larger households, households with a

**Box 1: Poverty and inequality trends, 2005/06 – 2021 (contd.)****Figure 5: Absolute poverty rate by county, 2021****Figure 6: Absolute poverty rate by ASAL type, 2005/06 – 2021**

Source: Based on Kenya Integrated Household Budget Surveys and Kenya Continuous Household Surveys.

head with lower education levels, households in arid areas as well as children are all associated with higher poverty rates. Refugees are a particularly vulnerable group, facing high food insecurity and limited employment opportunities. Their labor force participation is particularly constrained by a lack of official work permits, affecting their ability to be self-reliant.

Inequality in consumption expenditure dropped from the onset of the COVID-19 pandemic due to the large decline in consumption of richer households. However, the economic recovery in 2021 resulted in an increase in inequality toward pre-pandemic levels. Driven by strong growth amongst the bottom 40 percent of rural households, the Gini index, a measure of inequality, declined from 45.0 in 2005/06 to 40.7 in 2015/16 (Figure 7). The Gini index increased slightly in 2019 due to slower growth amongst the poorest households in rural and urban areas. The sharp drop in the welfare of richer urban households was associated with a fall in the Gini index from 40.7 to 35.8 but increased to 38.7 following the economic recovery. In absolute terms, inequality is highest in urban and non-ASAL areas.

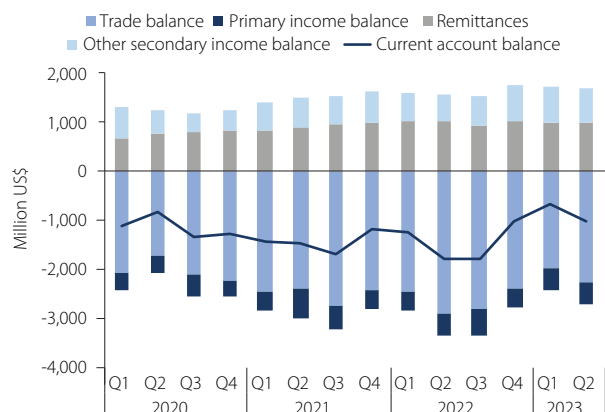
**Figure 7: Gini index, 2005/06 – 2021**

Source: Based on Kenya Integrated Household Budget Surveys and Kenya Continuous Household Surveys.

### 1.3 The current account has been contracting but pressures continue on foreign exchange reserves

The current account deficit narrowed, reflecting lower imports in part due to shilling depreciation. In the first half of 2023, the current account deficit narrowed by 43.6 percent to US\$1.7 billion (Figure 8). This reduction is mainly due to an 11.1 percent contraction in imports of goods and services, reflecting the ongoing weakness of the shilling and foreign currency shortages experienced in the first half of 2023. Meanwhile, exports of goods and services also fell by 3.3 percent y/y during the first half of 2023, due to the impacts of the past two year's drought on agriculture produce and import compression of industrial supplies. As a result, the total trade deficit

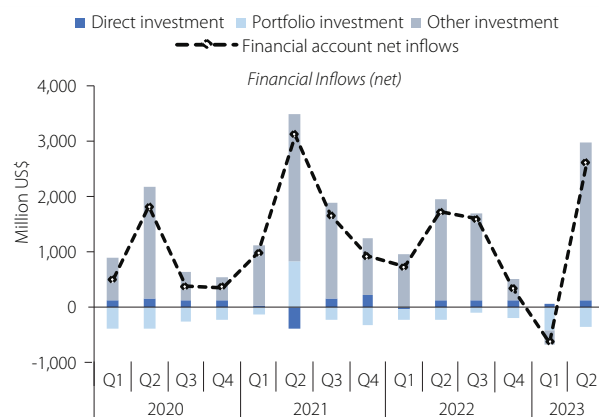
narrowed by 21.4 percent to US\$4.2 billion during the first half of 2023. The vulnerability of Kenya's exports to weather shocks underscores the importance of water resource management and adoption of climate-resilient production systems (World Bank 2023f). Remittances stayed almost flat in H1-2023 at US\$2.0 billion, a contrast to 16.8 percent y/y increase recorded in the same period of 2022 and can be attributed to a slowdown in host countries as well as diversion of remittances towards informal channels as the shilling continued to weaken. However, remittances inflows are expected to recover in the second half of 2023 after CBK's decision to reactivate the interbank foreign exchange market, which aims to eliminate market distortions and has helped stabilize the foreign exchange market.

**Figure 8: The current account deficit narrowed in 2023**

Source: Central Bank of Kenya.

**Tight global monetary conditions in advanced economies have restricted Kenya's options for external financing.** Kenya's ability to access global financial markets was constrained because of the spillovers stemming from substantial monetary tightening by central banks of major economies. The rapid interest rate hikes in advanced economies led to a substantial increase in borrowing costs for Kenya and prompted capital outflows. Other investments helped to compensate for weak inflows from other external financing sources (Figure 9). Most notably, Kenya has attracted lower levels of foreign direct investment (FDI) compared to SSA and middle-income economies. In the first half of 2023, inward FDI contracted by US\$27.0 million, likely reflecting heightened global and domestic uncertainty. Stimulating more FDI into Kenya would not only augment domestic financing for investment, but also promote structural transformation through positive knowledge spillovers into the domestic economy from firms with international knowledge, and integration in global value chains (World Bank 2023c).

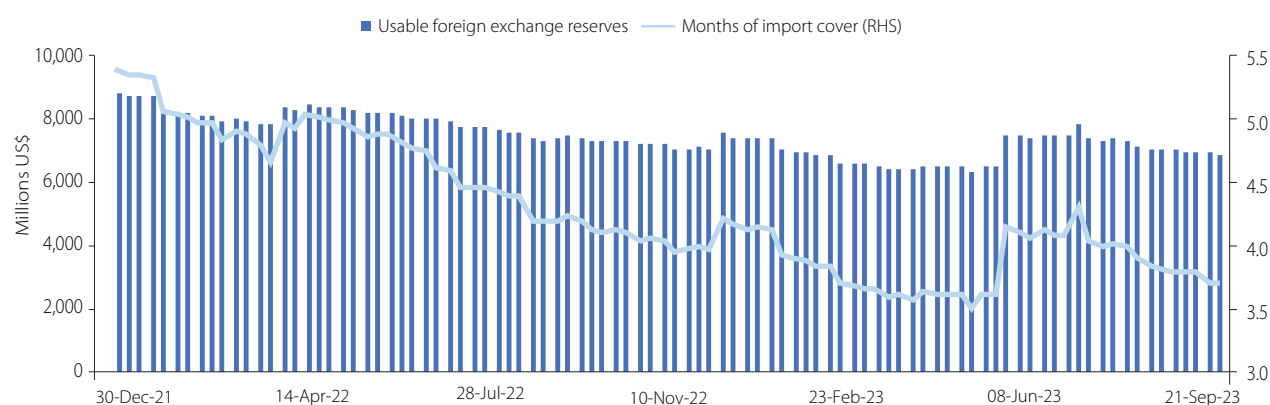
**Rising external financing needs in the face of tightened global financial conditions contributed**

**Figure 9: Other investment was the main sources of financial inflows**

Source: Central Bank of Kenya.

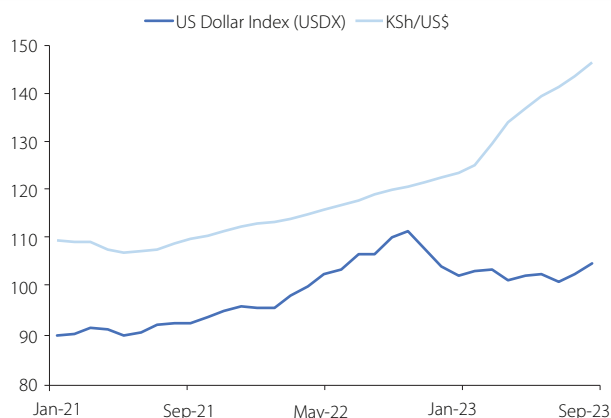
**to falling reserves.** Kenya's foreign exchange reserves have experienced a decline since late 2021, albeit with brief periods of recovery due to inflows from official borrowings. In H2-2023, the usable foreign exchange reserves continued its downward trend following a peak of US\$7,885 million as on July 20 (equivalent to 4.3 months of import cover) (Figure 10). By October 12, 2023, international reserves had decreased to US\$6,872 million, representing 3.7 months of import cover and broadly in line with CBK's statutory requirement to maintain reserves at a minimum of 4 months of import cover.

**The Kenyan shilling has seen a steep depreciation, primarily due to tight global financial conditions and the narrow gap between Kenyan and advanced economies policy rates.** The shilling has been steadily weakening against the U.S. dollar since 2021, consistent with the overall strengthening of the U.S. dollar against major currencies. In 2023, despite the U.S. dollar experiencing a partial reversal in its appreciation, the depreciation of the shilling has accelerated, underpinned by Kenya's limited access to external financing coupled with its large debt servicing obligations and tight global

**Figure 10: Reserves continue the downward trend**

Source: Central Bank of Kenya.



**Figure 11: Shilling experienced a large depreciation against US\$**

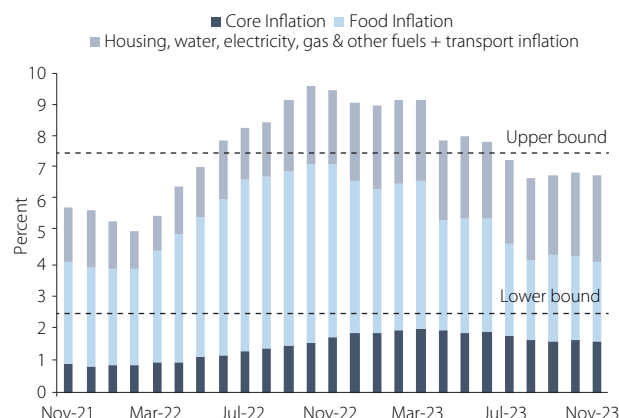
Source: Central Bank of Kenya.

financial conditions (Figure 11). Over the year leading up to October 9, 2023, the Kenyan shilling has declined by a cumulative 18.7 percent against the U.S. dollar.

### 1.4 Inflationary pressures have begun to moderate

Headline inflation has decreased and entered the upper part the Central Bank of Kenya's (CBK) target range of  $5 \pm 2.5$  percent, facilitated by a deceleration in food prices. Inflation has trended downwards in 2023, dropping from 9.1 percent y/y in December 2022 to 6.8 percent in November 2023, driven by easing of food prices (Figure 12). Food inflation subsided to 7.6 percent y/y in November 2023 compared to 15.4 percent in the same period of 2022, resulting in a reduction of the food sector's contribution to overall inflation from 57.3 percent to 36.9 percent. The deceleration in food inflation is attributed to lower prices of key food items such as maize, helped by both a decline in global food prices and improved domestic food supplies following the end of a persistent drought in the Horn of Africa region as well as government measures to lower the cost of agriculture inputs, including through fertilizer subsidy. Nevertheless, inflationary pressures persist, mainly from shilling depreciation, higher energy costs due to rise in electricity tariffs and the international oil prices as well as the implementation of a 16 percent VAT on petroleum products. Core inflation, which excludes volatile food and energy prices, was slowing in May 2023, however, it still remains above the average for 2022.

The CBK has been taking measures to contain inflationary pressures. It increased the Central Bank Rate (CBR) by 175 basis points during the first half of 2023, helping to bring the inflation down into CBK's target range in July 2023. However, inflation has lingered close to the upper limit, indicating the persistence of underlying

**Figure 12: Inflationary pressures have moderated**

Source: Kenya National Bureau of Statistics.

inflationary pressures partly due to the depreciating shilling, and the Monetary Policy Committee raised the CBR by a further 200 basis points in December to 12.5 percent. These rate hikes aim to stabilize the exchange rate and anchor inflationary expectations. In a significant move to strengthen the monetary policy framework, the CBK also introduced an interest rate corridor spanning  $\pm 250$  basis points around the CBR. The interest rate corridor is expected to reduce market volatility and uncertainty while improving the transmission of CBR changes to other interest rates, inflation, and economic activity (Box 2). Additionally, the CBK reduced the interest rate on its discount window facility by 200 basis points, supporting greater liquidity access and encouraging banks to lend more to businesses and households.

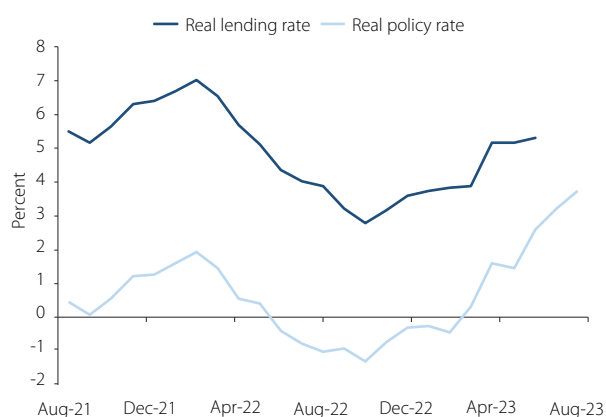
**Private sector credit continues to grow .** Banks' lending to the private sector has remained strong in 2023, with an average growth rate of 12.0 percent recorded over January–August 2023 compared to 11.4 percent over the corresponding period in 2022. This increased availability of private sector credit reflects reduced growth of government borrowing to 14.7 percent during the first eight months of 2023, down from 23.5 percent during the corresponding period in 2022. Significant contributors to private sector credit growth included transport and communication (24.9 percent), manufacturing (19.6 percent), trade (9.4 percent), and consumer durables (12.7 percent). Notably, both the number of loan applications and approvals remained robust, indicating the resilience of economic activities. However, growth in private sector credit has recently reduced from its high of 13.2 percent recorded in April 2023 to 11.5 percent in July–August 2023, as macroeconomic conditions further tightened. (Figure 13).

**The banking sector continues to demonstrate stability and resilience.** As of June 2023, the banking sector's capital adequacy ratio stood at 18.6 percent, and its liquidity ratio was at 49.7 percent, both exceeding the statutory thresholds. Banks continue to experience high non-performing loans (NPLs), however, with the ratio of gross NPLs to gross loans registered at 12.5 percent in June 2023, and have been rising. (Figure 14). There were notable reductions in NPLs within transport and communication, agriculture, manufacturing, and personal and household segments while manufacturing, mining, and quarrying, real estate, and building and construction sectors recorded increases in NPLs. Smaller banks face considerable challenges, with their average NPLs exceeding 15 percent, significantly surpassing the statutory guideline of 5 percent or less. The overall banking sector remained profitable, achieving an average return on equity of 33 percent as of June 2023.

### 1.5 Fiscal consolidation continues but faces challenges

**The government remains committed to fiscal consolidation.** It reduced the primary deficit to 0.8 percent of GDP in FY2022/23 from 1.6 percent of GDP in FY2021/22, while the overall deficit decreased from 6.2 percent of GDP in FY2021/22 to 5.6 percent of GDP in FY2022/23, which is the lowest since FY2014/15. During FY2022/23, the government reduced expenditure through supplementary budgets in February and June 2023. These cumulatively reduced the development spending allocation by KSh 136.1 billion (1.0 percent of GDP) compared to the initial budget of KSh 715.4 billion (5.0 percent of GDP), with KSh 102.6 billion (0.7 percent of GDP) reallocated to recurrent expenditure, mainly directed towards energy, public administration, and education.

**Figure 13: Real interest rates are rising**



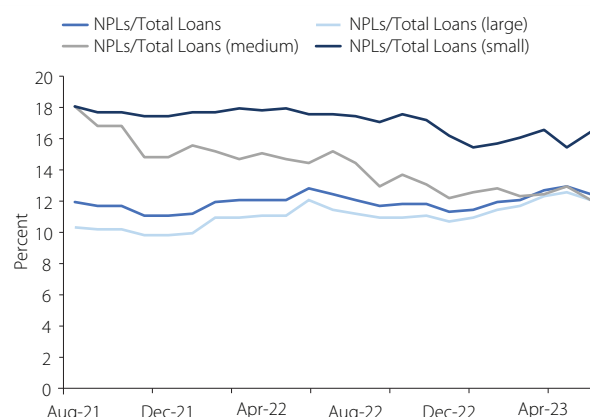
Source: Central Bank of Kenya.

Notes: Large banks are Tier 1 banks and most significant, with the highest capitalization and market share. Medium banks are Tier 2 banks are smaller in size and market presence, while small banks are Tier 3 banks which are small and least influential in the country's banking sector.

**Preliminary data for the first quarter of FY2023/24 show under-execution and a lower deficit.** Total expenditure reached 4.9 percent of GDP in the first quarter of FY2023/24 against a target of 5.3 percent of GDP and below 5.2 percent of GDP in the previous year. The resulting low fiscal deficit of 0.4 percent of GDP represent a third of the target and previous year level (1.2 percent of GDP) during the same period. Nevertheless, the government approved its first supplementary budget for FY2023/24 in October 2023, with a net increase of total allocation to ministerial expenditure by KSh 41.8 billion (0.3 percent of GDP) in favor of recurrent expenditure and increased interest payments thereby increasing the overall balance. Subsidies declined to KSh 60.5 billion (0.4 percent of GDP) in FY2022/23 from KSh 80.7 billion (0.6 percent of GDP) following government measure to phase out fuel and maize subsidies. However, to improve food security, additional funds were allocated for the purchase of maize grain, payment of debts to sugarcane farmers, post-harvest loss management and implementation of fertilizer subsidy in the supplementary budget. In the first quarter of FY2023/24, the government reported no expenses on subsidies. The fiscal deficit is estimated to decline to 5.4 percent of GDP in FY2023/24.

**Persistent revenue shortfalls have undermined fiscal consolidation efforts.** Total government revenue in FY2022/23, as a share of GDP, fell short of both the target and the previous year's level. Revenue maintained a moderate growth in the first half of FY2022/23. However, nominal growth across revenue streams decelerated to single digits in the second half of FY2022/23, as political demonstrations constrained business activities, resulting in major revenue sources like VAT, income tax, and excise duty performing below their targets and falling short of the previous year's performance when measured as a share

**Figure 14: Smaller banks are facing higher NPLs risks**

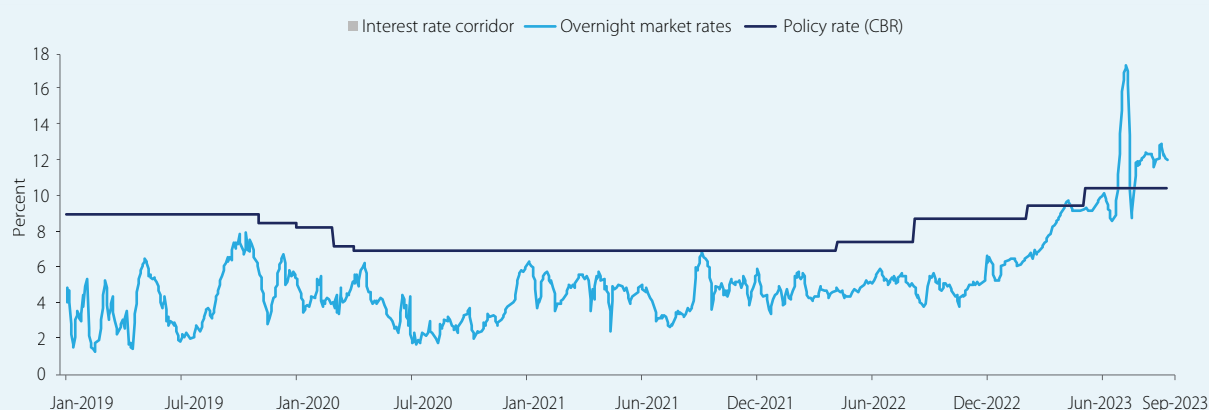


Source: Central Bank of Kenya.

## Box 2: Interest rate corridor: a paradigm shift in CBK's monetary policy

The Central Bank of Kenya (CBK) undertook substantial measures to modernize its monetary policy framework and enhance the effectiveness of monetary policy transmission. The changes were in line with the reforms outlined in the White Paper on Modernization of the Monetary Policy Framework and Operations. One of the key changes implemented was the establishment of an interbank interest rate corridor centered around the Central Bank Rate (CBR) in August 2023. The main objective of introducing the corridor was to minimize volatility in the money market by ensuring the movement of short-term interest rates within a reasonable range (Figure 15). The corridor was set at CBR  $\pm$  2.5 percent. This provides the ability to make timely responses to external finance or risk sentiment shocks through active management of daily open market operations. Under this framework, the CBK retains flexibility in conducting open market operations, allowing it to determine liquidity injections or withdrawals. Concurrently, commercial banks gain the autonomy to bid for or offer liquidity, specifying their preferred bid or offer price.

**Figure 15: Overnight repo rates have been volatile**



Source: Central Bank of Kenya.

In addition to these changes, the terms and conditions for accessing the Discount (Overnight) Window were adjusted. The interest rate applicable to this facility was reduced from 600 basis points above the CBR to 400 basis points above the CBR. Borrowings through this window will continue to be collateralized by Government of Kenya securities, subject to a haircut of 10 percent for treasury bills and 20 percent for treasury bonds.

These reforms are aimed at bolstering the transmission of monetary policy and promoting stability in prices and the financial system. They are expected to mitigate volatility and uncertainty in the interbank market, while also ensuring that changes in the CBR have a more direct and predictable impact on other interest rates, inflation rates, and overall economic activity. Furthermore, these changes aim to alleviate liquidity challenges faced by smaller lenders, who have been affected by rising interest rates in the interbank market.

Source: CBK, *Modernization of the Monetary Policy Framework and Operations*, July 2021.  
<https://www.centralbank.go.ke/2021/07/27/modernisation-of-the-monetary-policy-framework-and-operations/>

of GDP (Table 1). Missing revenue targets have continued in the first quarter of FY2023/24 despite implementation of several new tax measures in the Finance Act 2023 to expand the tax base and reduce tax expenditures (Box 3). Revenue collection (including grants) of 3.9 percent of GDP was slightly lower than the target of 4.1 percent of GDP, driven by a broad-based target miss across major sources including income tax, VAT, import and excise duty.

**Public debt rose amidst depreciating exchange rate and revenue shortfalls.** As a share of GDP, public debt rose to 71.4 percent in FY2022/23 from 68.0 percent in

2021/22. On average in the last five years, Kenya's public debt has mainly been driven by increase in the primary deficit and rising real interest rates (Figure 16). Kenya's risk of debt distress has been rated high since May 2020<sup>3</sup>, due to exposure to export and interest rate shocks, currency depreciation, global capital markets volatility and rollover risks. Nevertheless, the government's strategy to tap into concessional borrowing has reduced accumulation of expensive debt. On the domestic side, long term maturity bonds account for the largest share of domestic debt, compared to treasury bills, while average years to maturity for domestic debt has increased to 8.4 in FY2022/23

<sup>3</sup> International Monetary Fund (IMF). 2020. *Kenya Country Report No. 20/15*.

### Box 3: Highlights of Finance Act 2023

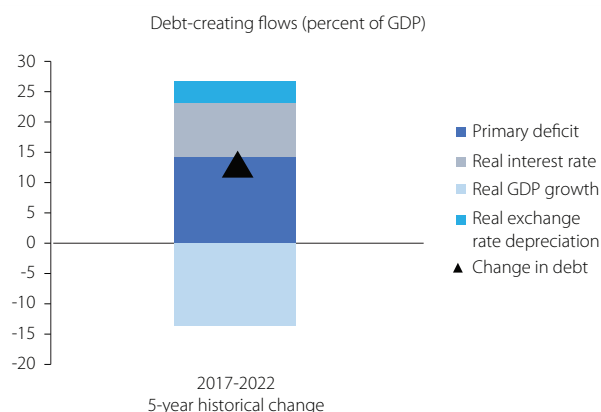
**The Finance Act 2023 was signed on June 26, 2023.** The Act introduced tax measures to expand the tax base and streamline administrative procedures. Most of the measures have been implemented in the first quarter of FY2023/24, with others that will come into effect in January 2024. With the implementation of these measures, tax revenue as a share of GDP is expected to increase by 1.9 percentage points, from 13.2 percent in FY2022/23 to 15.1 percent in FY2023/24.

Tax measures	Effective date
<b>Income tax</b> <i>Turnover tax:</i> lowered the upper threshold for turnover tax to KSh 25 million from the previous KSh 50 million and rate increased to 3 percent from the previous 1 percent. <i>Cryptocurrencies:</i> Introduce tax on the income derived from the transfer or exchange of digital assets (such as crypto currency transactions) at a rate of 3 percent. <i>For Pay as You Earn:</i> there are the new individual tax rates of 32.5percent and 35 percent on employment income above KSh 6 million. <i>Digital Content Monetization:</i> digital content monetization will be subject to withholding tax at the rate of 5 percent for residents and 20 percent for non-residents without a permanent establishment in Kenya. <i>Taxation of Repatriated Income for Non-residents:</i> Introduces the taxation of repatriated income for non-residents with a permanent establishment in Kenya at a rate of 15% and reduce their corporate income tax rate to 30 percent from 37.5 percent.	1 <sup>st</sup> July, 2023  1 <sup>st</sup> September 2023  1 <sup>st</sup> July 2023  1 <sup>st</sup> July 2023  1 <sup>st</sup> January, 2024
<b>VAT</b> VAT on petroleum products will be at the standard rate of 16 percent.	1 <sup>st</sup> July 2023
<b>Excise duty</b> Introduced payment of excise duty within 24 hours from the closure of transactions of the day in respect to betting and gaming, offered through a platform or other medium. Increase excise duty rate on different goods and services including betting, gaming, prize competition and on lottery; advertisement on television, print media, billboards, and radio stations on alcoholic beverages; imported fish, powdered juice, sugar, cement, furniture, cellular phones among others.	1 <sup>st</sup> July 2023  1 <sup>st</sup> July 2023
<b>Housing levy of 1.5 percent of gross salary</b>	1 <sup>st</sup> July 2023
<b>Tax procedures</b> Introduce amnesty on interest and penalties for principal tax due before the 31 <sup>st</sup> of December 2022. Refund of overpaid tax to be within 6 months from the date of ascertainment. The period for settlement of dispute out of Court or Tribunal increased from 90 days to 120 days.	

Source: Kenya Revenue Authority.

<https://www.kra.go.ke/popular-links/key-highlights-of-the-finance-act-2023>;

<https://www.kra.go.ke/news-center/public-notice/1974-collection-of-affordable-housing-levy-by-kenya-revenue-authority>

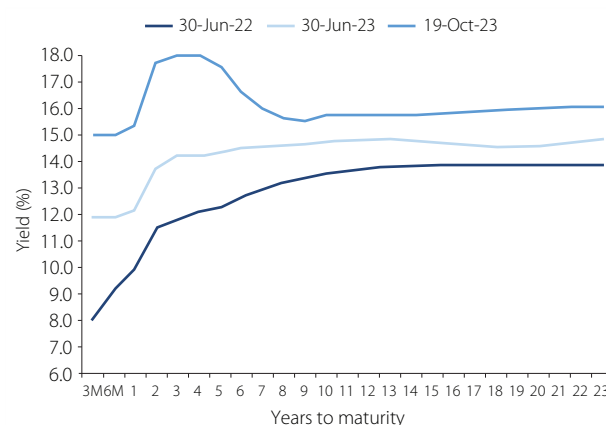
**Figure 16: Primary deficits and rising real interest rates have driven debt accumulation**

Source: World Bank and IMF.

compared to 5.1 years in FY2018/29. However, a tightening monetary stance since the second half of 2022, domestic government borrowing, and limited external financing options have made domestic financing of the fiscal deficit expensive (Figure 17).

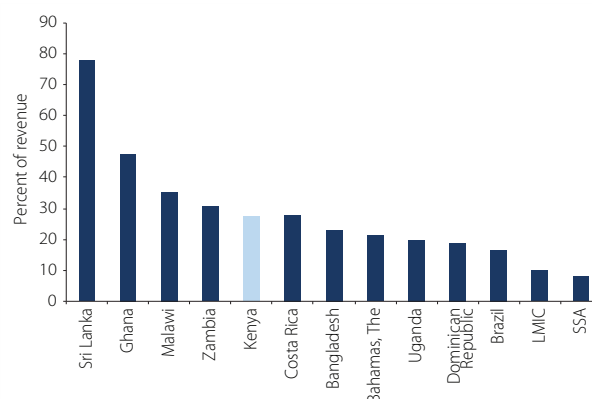
**Accumulated pending bills also remain a source of fiscal pressure.** Pending bills (i.e., arrears) have persistently remained high and could increase debt vulnerabilities both at national and county levels.<sup>4</sup> The amount of pending bills at the national level rose to KSh 567.5 billion, equivalent to 4.0 percent of GDP, in FY2022/23, and to KSh 630.6 billion (3.9 percent of GDP) in the first quarter of FY2023/24. At the county level, pending bills reached KSh 164.8 billion, representing 1.2 percent of GDP, in FY2022/23; mainly due to delayed disbursement of equitable share and conditional grants.

**Rising debt costs constrain government's ability to address development challenges.** Shilling depreciation has pushed up the local cost of repaying foreign debt. In addition, interest payments more than doubled in the last decade, increasing from 2.4 percent of GDP in 2013/14 to 4.8 percent of GDP in 2022/23, and surpassing

**Figure 17: Domestic yields have risen above historical averages**

Source: The Central Bank of Kenya.

government spending on development expenditures and on wages and salaries in FY2022/23. Domestic interest payments account for the largest share (3.7 percent of GDP in FY2022/23), while foreign interest have been low and stable (1.1 percent of GDP in FY2022/23). Interest payments, as a share of revenue, exceeded the averages for both SSA and lower middle-income countries (Figure 18) and accounted for over a third of tax revenue (36.4 percent in FY2022/23), underscoring the need to improve the quality of fiscal consolidation.

**Figure 18: Interest payment rose above SSA average**

Source: World Bank calculations and World Development Indicators.  
Note: Lower middle-income countries (LMIC) and Sub-Saharan Africa (SSA) data is for 2019.

<sup>4</sup> World Bank. 2023. Kenya Economic Update Edition 27 released in June 2023 and IMF report July 2023.

**Table 1: Kenya's fiscal operations** (as a share of GDP)

	2020/21 Actual	2021/22 Preliminary	2022/23 Preliminary	2023/24 Projection
Total revenue and grants	16.0	17.6	16.7	18.9
Tax revenue	12.6	13.9	13.2	15.1
Income tax	6.1	6.9	6.6	7.4
Value added tax	3.6	4.1	3.9	4.4
Import duty	1.0	0.9	0.9	1.1
Excise duty	1.9	2.0	1.9	2.2
Other revenues	3.1	3.4	3.3	3.6
Grants	0.3	0.2	0.2	0.3
Expenditure and net lending	24.2	23.8	22.6	24.3
Recurrent expenditure	15.8	16.8	16.2	16.7
Wages and salaries	4.3	4.1	3.8	3.6
Interest payments	4.4	4.6	4.8	5.7
Pensions	1.0	1.0	0.8	1.0
Operations and maintenance	5.7	6.8	6.8	6.4
Development expenditure	4.9	4.3	3.5	4.9
Transfer to Counties	3.5	2.8	2.9	2.7
Deficit including grants (cash basis)	-8.2	-6.2	-5.6	-5.4
Discrepancy	0.2	-0.3	-0.2	0.0
Primary balance	-3.8	-1.6	-0.8	0.3
Financing	8.4	5.9	5.4	5.4
Domestic financing	5.5	4.8	3.2	2.6
Foreign financing	2.8	1.1	2.2	2.8
Gross public debt	67.7	68.0	71.4	68.5
External	35.2	33.9	37.5	36.0
Domestic	32.5	34.1	33.9	32.5

Source: The National Treasury.



# SPECIAL FOCUS





## 2. Opportunities for Making Growth More Inclusive

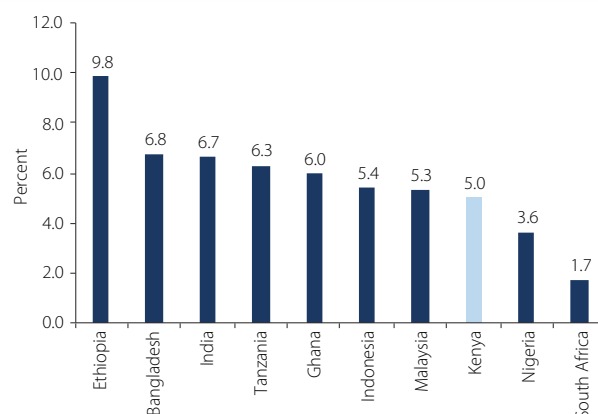
Kenya must balance the short-term challenges of macroeconomic stability with the need to focus policy on achieving longer-term growth that includes all in society. The widespread growth in earnings associated with inclusive growth benefits the overall economy in addition to improving the wellbeing of people. Greater disposable income translates to greater domestic demand for private sector output and in turn to more jobs; opportunities for structural transformation; and higher government revenues. There is evidence that many Kenyans have sought to cope with the recent high inflation by seeking additional income earning opportunities, highlighting the importance of economic inclusion. To formulate strategies to promote inclusive growth, it is important to identify the key groups that have not benefitted from the economy's growth engine and tailor policies that suit their needs. There is also a critical need to revitalize productivity growth in the economy as higher productivity is essential for the creation of more and better jobs. The government's bottom-up economic agenda has started to address inclusion; staying the course with greater efficiency and governance of public spending coupled with smart economic policies that bolster market functioning will be important. Accordingly, this special focus draws from the Kenya Country Economic Memorandum (CEM), Kenya Jobs Diagnostic as well as the Kenya Poverty and Equity Assessment (KPEA) to answer two overarching policy questions: *what factors affect the inclusiveness of Kenya's economic growth and what policies can make growth more inclusive?*

### Kenya's economic growth could be more inclusive

Although growth in Kenya has been relatively stable, it lags some other fast-growing lower-middle-income countries such as Bangladesh and India (Figure 19). Between 2010 and 2019, Kenya achieved an average annual GDP growth rate of 5 percent. Despite significant public investments in infrastructure to improve Kenya's domestic and international connectivity, trade and foreign investment have underperformed as drivers of growth.

**A low—or even negative—contribution of productivity has limited growth.** Although labor productivity has been increasing in both agriculture and services, *total factor productivity* (TFP)—the efficiency with which both capital and labor are used to produce output—has made

Figure 19: Real GDP growth, annual average, 2010–2019



Source: World Bank World Development Indicators (WDI).

a negative contribution to growth. Further, neither labor productivity nor TFP growth are converging to levels in more advanced countries. TFP is an important determinant of sustained long-term growth for any country. Growing productivity of the private sector is essential to generate more, better, and more sustainable jobs in the economy. The private sector plays an important role to enhance the quality of growth by mobilizing more private financing and improving aggregate investment efficiency (through domestic as well as more foreign private investment). It also positions the economy to benefit from global market opportunities and innovation, and sustainably increase the supply of jobs and earnings opportunities.

**Kenya's economic growth is not translating sufficiently into improved well-being.** There was an average annual reduction of poverty by 1.1 percentage points between 2005 and 2015, with the poverty headcount falling from 46.7 percent to 36.1 percent (Figure 3). This coincided with a period of robust GDP per capita growth of 2.1 percent, along with a strong growth in private consumption. The pace of poverty reduction slowed to an average annual reduction of 0.6 percentage points between 2015 and 2019, resulting in a poverty rate of 33.6 percent in 2019. However, this slowdown in poverty reduction coincided with an increase in the annualized rate of GDP per capita growth to 2.3 percent during 2015–2019. The COVID-19 pandemic reversed the modest gains in poverty reduction: the poverty rate increased to 42 percent in 2020 and partially recovered to 38.6 in 2021, remaining above the pre-pandemic level.



Moreover, over time, poverty has become less responsive to changes in economic growth.<sup>5</sup> Between 2005 and 2015, a 1 percent increase in per capita GDP resulted in a 1 percent reduction in the poverty rate (Table 2). However, the responsiveness of poverty reduction to income growth has fallen to only 0.73 percent since the country reached middle income status in 2015. This is consistent with a decline in the transmission of economic growth into increased household consumption.

**A focus on household consumption or income growth among the poorest 40 percent of the population reveals gaps in the inclusivity of growth.** The “prosperity gap”—a measure of shared prosperity (see Box 4 for details)—shows that in 2019, incomes would have to increase, on average, nearly 9-fold to reach the prosperity standard of US\$25 per day in Kenya (Figure 20). While the gap is lower than the average for SSA, it is higher than the average for Kenya’s lower middle-income peers.

**The weakening relationship between growth and poverty reduction raises concerns about how inclusive growth is.** It also raises questions about how well connected the poorest 40 percent of the population

are to economic growth. This special focus argues that inclusive growth in Kenya is hampered by a combination of factors: (i) the pace, composition, and distribution of growth: the services sector is increasingly becoming the engine of growth, however the returns for skilled workers is likely to be higher than that for unskilled and low skilled workers; (ii) limited inclusivity in labor markets characterized by limited creation of productive jobs, especially for the poor, (iv) inequality of both opportunity and outcomes; (iii) growing incidence of shocks, especially extreme weather shocks, amid limited resilience among the poor.

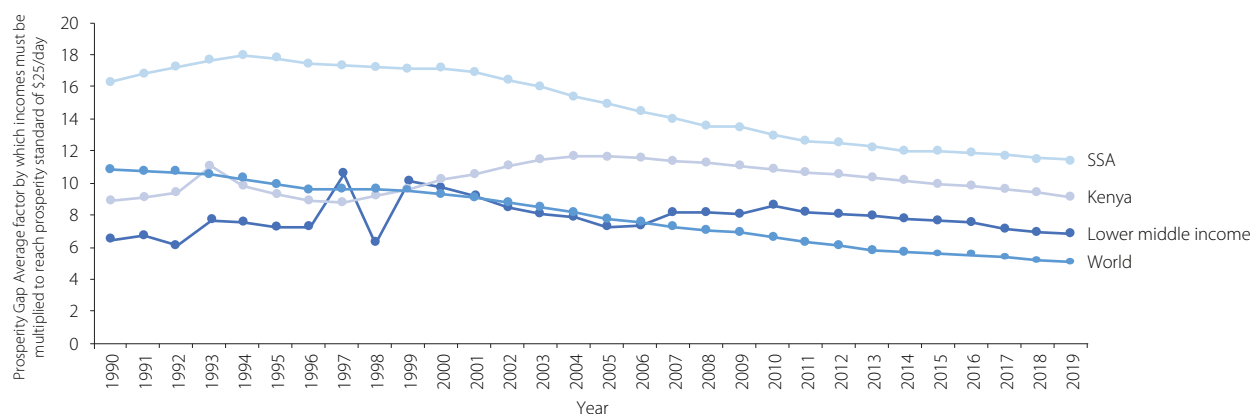
**A successful strategy to reignite inclusive growth and advance the BETA priorities of the Government of Kenya (GoK) would have a three-pronged approach that** (a) ensures sustained high rates of economic growth; (b) connect the poor and vulnerable to growth, through connecting them to the labor market and better jobs; and (c) strengthen households’ resilience to shocks, particularly extreme weather shocks given their growing incidence. Across these three pillars, it is important to use fiscal policy more effectively to support inclusion. Cushioning the poor against the negative impacts of policies intended to stimulate growth is important, especially in the short term.

**Table 2: Growth elasticity of poverty reduction, 2005/06–2019**

	2005/06	2015/16	2019	2005/06–2015/16	2015/16–2019
Absolute poverty rate (%)	46.6	36.1	33.6		
Percentage change in poverty (a)		-22.5	-6.9		
GDP per capita (2017 PPP)	3,327	4,075	4,459		
Percentage change in GDP per capita (b)		22.4	9.4		
Growth elasticity of poverty (= a/b)				-1.00	-0.73

Source: World Bank Kenya Poverty and Equity Assessment (2023).

**Figure 20: Prosperity gap, 2019**



Source: World Bank Poverty and Inequality Platform.

## Box 4: Prosperity Gap

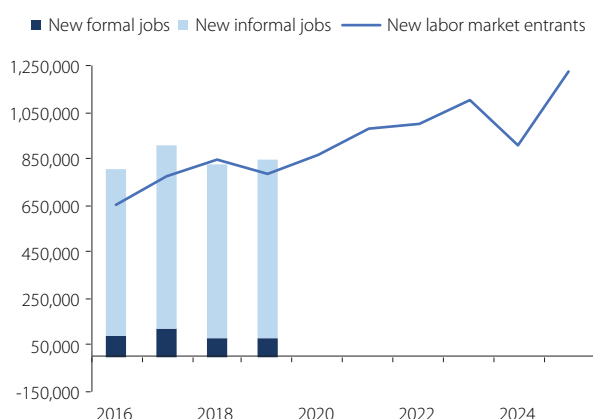
As part of the World Bank's goal to promote shared prosperity, a new measure—the prosperity gap proposed by Kraay et al. (2023)—is used to estimate the average shortfall in income or consumption expenditure from a threshold of \$25 per day (adjusted for differences in purchasing power). The prosperity gap is based on the ratio  $z/y_i$ , where  $z=25$  per day is the prosperity standard, and  $y_i$  is the income of individual  $i$ . For a person whose income is \$2.50 per day, this ratio is 10, meaning that their income would have to increase by a factor of 10 to reach the prosperity standard. By construction, the prosperity gap gives the greatest weight to the poorest people and improvements in their welfare: the prosperity gap falls fastest when growth is concentrated among the poorest. The \$25 per day standard is chosen as it is roughly the average daily household per capita income at the point where countries reach high-income status (\$23 per day).

## 2.1 Labor supply has increased with limited expansion in productive jobs especially for the poor

**Amongst the poor, fewer household members work, and most are engaged in low productivity activities**

Labor supply has expanded, but economic growth has failed to produce sufficient better-quality employment, leading to discouragement. Very few jobs created since 2016 have resulted in formal employment (Figure 21).<sup>6</sup> Due to falling fertility rates and increasing life expectancy, dependency rates have decreased and more people of working age in Kenya choose to be active in the labor force. As a result, the overall labor force participation (LFP) rate increased from 63 percent in 2006 to 69 percent in 2019, in line with countries with similar income levels.<sup>7</sup> Unfortunately, the demand for labor is not growing at the same pace, and the majority of available jobs are of low-productivity. As a result, many poorer individuals, those with lower levels of education, or those living in parts of the country where good quality jobs are hard to come by remain discouraged and participate less in the labor force (Figure 22).

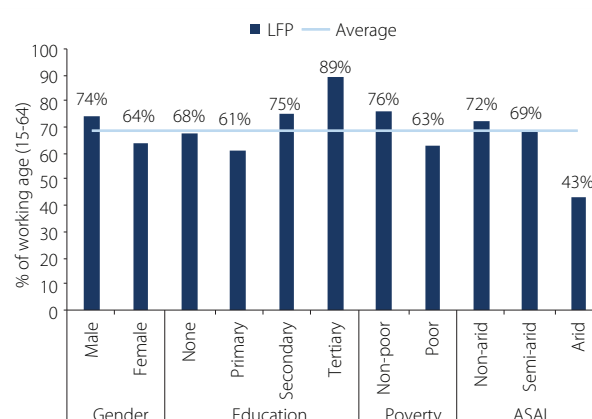
**Figure 21: New jobs and expected labor market entrants, 2016–25**



Notes: 2020–2022: estimates; 2023–2025: projections.  
Source: World Bank Kenya Jobs Diagnostic, 2023.

There has been widening of the difference in the labor force participation between poor and non-poor individuals over the past fifteen years, particularly in rural areas. Poorer youth and women participate much less in the labor market compared to other groups. For youth in Arid and Semi-Arid (ASAL) counties, lack of suitable jobs in the area is a common reason for not participating. For women, care responsibilities constitute a large barrier. Nationally, over 20 percent of adolescent girls start childbearing before reaching adulthood. Teen pregnancy rates are particularly high among girls coming from the poorest households (26 percent of teenagers having begun childbearing in the poorest quintile, against 10 percent in the wealthiest).<sup>8</sup> Child marriage continues to be a reality, with 23 percent of women between the ages of 20–24 reporting that they were married before the age of 18. About 38 percent of girls report dropping out of secondary school due to pregnancy, while nearly 2 in 5 mention early marriage as a reason.

**Figure 22: Specific groups have greater inactivity levels**



Source: World Bank Kenya Jobs Diagnostic, 2023, based on KCHS 2019 survey.

<sup>6</sup> An individual is in formal wage employment if she has a written contract, the employer pays social security contributions on their behalf to the National Social Security Fund (NSSF), and the employee is entitled to paid leave. An individual is in formal self-employment if they are working in the modern sectors and are registered as self-employed.

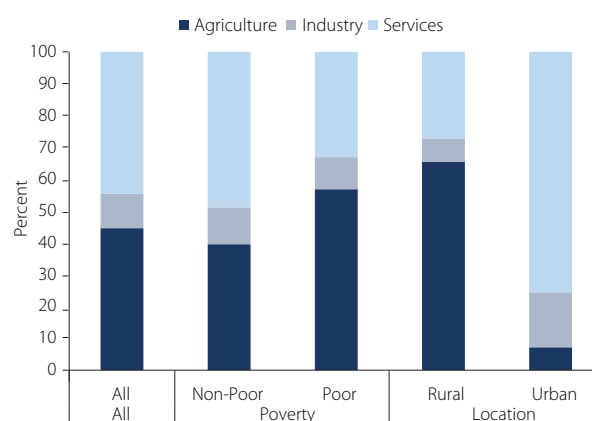
<sup>7</sup> The LFP rate measures the share of people in the working age population who are active in the labor force, i.e., they are either employed, or actively searching for a job.

<sup>8</sup> DHS (2022).

Poor individuals and those living in rural areas continue to rely on agriculture and low-productivity services sub-sectors for employment. Non-poor individuals and those in urban areas have a much larger share working in services when compared to poor individuals (Figure 23). The sectors with the largest growth in terms of employment for the poor are the trade and social services sectors, which have much lower levels of productivity compared to other sectors. Employment among the poor also grew in manufacturing, education and health, and transport sectors—these sectors show greater promise for productivity growth and better linkages to higher productivity sectors. There is occupational segregation with women being over-represented in household help services, accommodation and food services, and human health and social work, while men are over-represented in transportation, mining and quarrying, and construction.<sup>9</sup>

The share working in higher-quality employment is greater among the better educated, urban dwellers and the non-poor. Employment can be classified as formal wage, formal self, informal upper-tier wage employment, informal upper-tier self-employment, and informal lower-tier employment. The quality of employment has improved between 2015/16 and 2019, with fewer individuals in lower-tier informal employment (Figure 24). Despite this improvement, over two-thirds of Kenyans still work in lower-tier informal employment. Those with more education are more often able to access the better-quality jobs, with over half of individuals with tertiary education in formal wage employment. However, the

Figure 23: Employment by sector, 2019



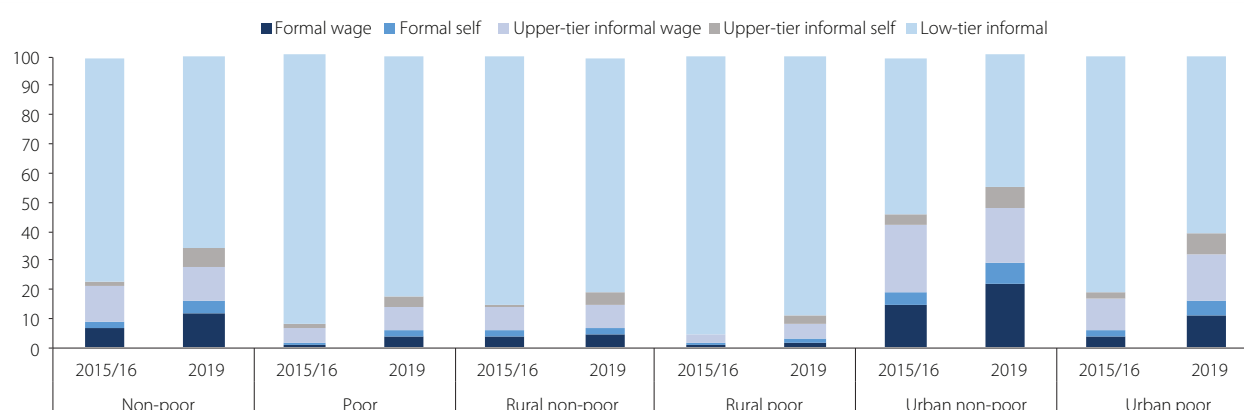
Source: Based on KIHBS and KCHS surveys.

poor, especially in rural areas, are heavily reliant on lower quality employment, with little change between 2015/16 and 2019.

**There are large wage premiums to education; and earnings are lowest for lower-tier wage employment.**

In line with international evidence, earnings increase with education—the earnings premium is 37 percent for those with completed secondary education compared to those without any education; and 167 percent for those with completed tertiary education (Figure 25, panel a). The median wage for lower-tier informal wage employment is lower than for all other types of employment (Figure 25, panel b); surprisingly it is lower than earnings for lower-tier informal self-employment. There are clear gradations in terms of earnings with median earnings. Although still working informally, those in upper-tier wage or self-employment earn more than twice that of their lower-tier

Figure 24: Jobs ladder jobs type by poverty status

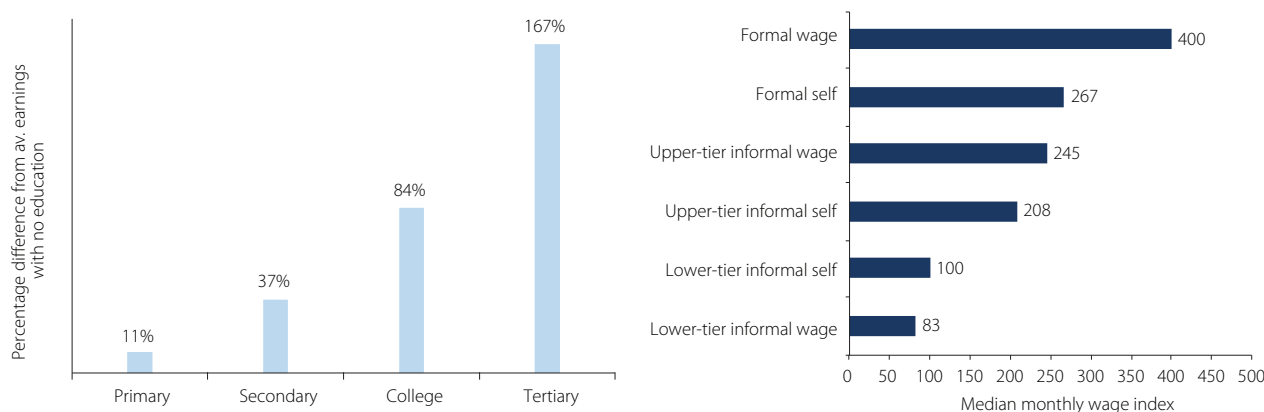


Source: Based on KIHBS and KCHS surveys.

<sup>9</sup> National Gender and Equality Commission (2016). *Status of Equality and Inclusion in Kenya*. National Gender and Equality Commission: Nairobi.

<sup>10</sup> Fields, G.S. et al. (2023) *The Job Ladder: Transforming informal work and livelihoods in developing countries*. Oxford University Press. The jobs ladder is defined as the following: formal wage – formality is defined as an individual who has a written contract, is entitled to paid leave, and the employer makes social security contributions (NSSF); formal self – this is defined as individuals who work in the modern sector, and are registered as self-employed; individuals in upper-tier informal wage employment are either managers, professionals, technicians and associate professionals, or clerical support workers (according to ISCO codes) or have a written contract or paid leave or their employer contributes to NSSF; upper-tier informal self-employment is defined as individuals who are self-employed and the occupation is either a manager, professionals, technicians and associate professionals, or clerical support workers or they are an employer. The remaining employed individuals are classified as lower-tier informal.

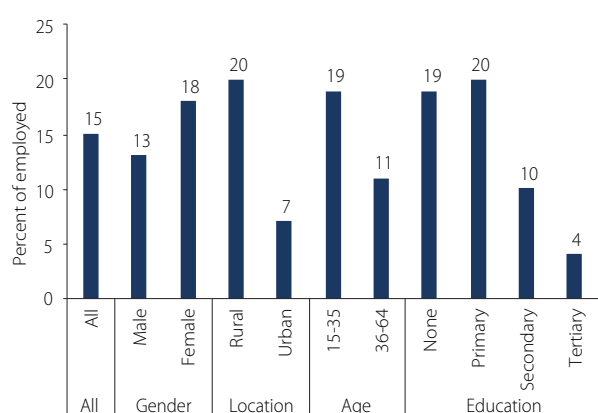
Figure 25: Earnings



Source: World Bank staff Calculations based on the KIHBS 2015/16.

Notes: Median monthly wage across job types are indexed to the Lower-Tier Informal Self-Employment wage which is set at 100.

Figure 26: Underemployment, 2019

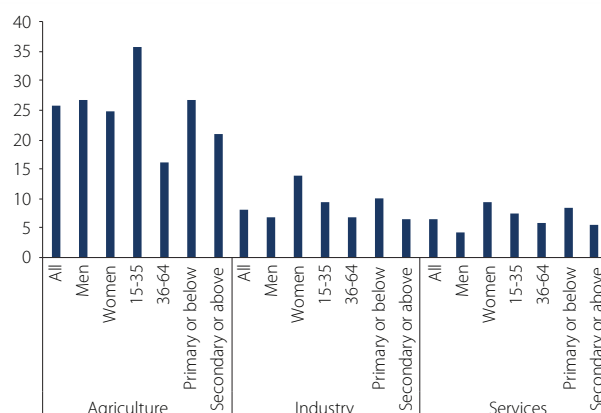


Source: World Bank staff calculations based on KCHS 2019

counterpart. Formal wage employment pays the best, as expected, with median wage at four times that of lower-tier self-employment.

**Underemployment is more of a problem than unemployment, which is low at 5 percent of the labor force in 2019.** Underemployment indicates an insufficient use of a worker's productive capacity.<sup>11</sup> In 2019, overall underemployment stood at 15 percent of the employed (Figure 26). Underemployment is highest in the agricultural sector (at 26 percent, Figure 27). As a result, groups with a higher percentage of employment in agriculture are also those with higher underemployment rates. Individuals with less education have the highest levels of underemployment, and individuals with tertiary education the lowest levels. Underemployment is significantly higher among females (18 percent) compared to males (13 percent); and among those in rural areas (20 percent) compared to those in urban areas (7 percent).

Figure 27: Underemployment by sector, 2019



Source: World Bank staff calculations based on KCHS 2019

## 2.2 Inequality of both opportunity and outcomes dampens the translation of economy-wide growth to income growth of the poor

Opportunities for good quality education and lifelong learning are important to access better jobs, but children from poor households do not have these opportunities.<sup>12</sup>

As the previous section highlights, those with better education have much better employment outcomes. Unfortunately, insights from the Human Opportunity Index (HOI), used to measure how much the circumstances a child is born into influence their opportunities (see Box 6 for details on methodology), suggest inequality of opportunity undermines access to services for children from poor households particularly in arid and semi-arid areas of the country. There is relatively low inequality in access to primary school attendance, with Kenya achieving near universal coverage in this respect. Secondary school attendance, however, is much more dependent on the

<sup>11</sup> Time-related underemployment is defined as individuals who work less than 28 hours per week but are available to work additional hours if given the opportunity. See KNBS, "Economic Survey 2018." Hours worked is missing for subsistence farmers in the KCHS 2019 data due to the questionnaire design. Hours worked are therefore imputed using the KIHBS 2015/16 data.

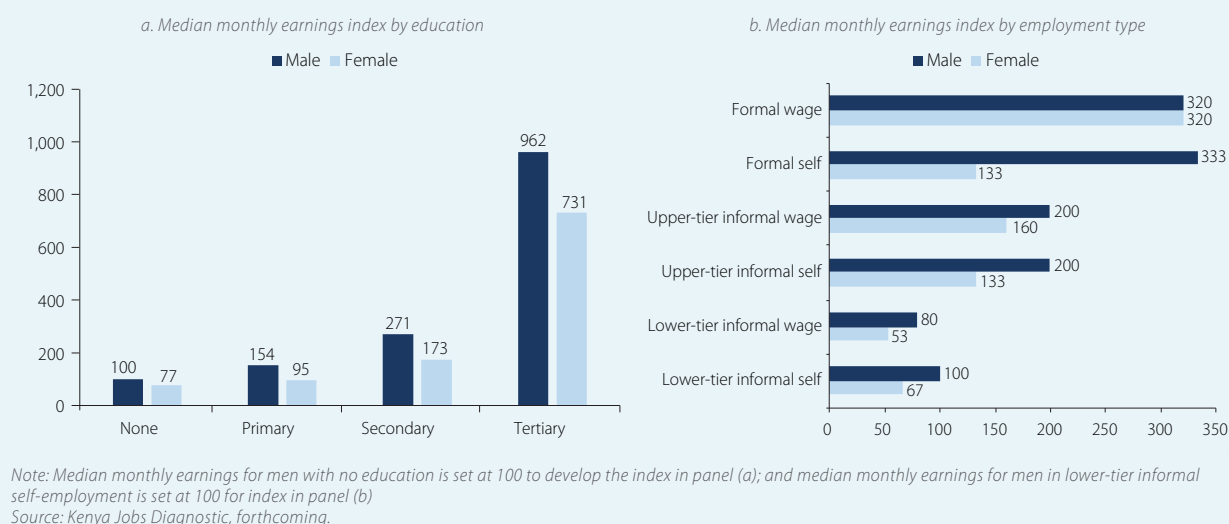
<sup>12</sup> Note that work experience is equally as important as education for human capital accumulation and lifelong learning on the job is an important contributor to improved productivity and economic growth. Jedwab, R. et al (2023), Human Capital Accumulation at Work: Estimates for the World and Implications for Development. 2023. American Economic Journal: Macroeconomics, 15 (3): 191–223.

### Box 5: Gender differences

**Women have worse labor market outcomes across the board.** A smaller share of women participates in the labor market compared to men, school to work transition is significantly harder for women compared to men, and a larger share of women are underemployed compared to men. Even outside the agriculture sector, women working in industry and in services sectors face higher levels of underemployment compared to men—so movement of labor out of agriculture to services and industry, by itself, may not bring down female underemployment. Women work in lower quality jobs—with 76 percent of women in lower-tier informal employment compared to 66 percent of men. Higher fertility rates, high incidence of poverty and inequalities, restrictive social gender norms and low empowerment among girls and women, especially in arid counties, pose additional barriers that women need to overcome in terms of participating in employment and in better quality employment.

**Women earn less than men across all education levels and across almost every employment type.** Women earn less than men across all levels of education—Figure 28, panel a. In formal wage employment, median earnings for women equal that for men (Figure 28, panel b). For all other types of employment women earn less than men—for instance, women earn as low as 40 percent of what men earn in formal self-employment. Some of the difference is due to the sub-sectors in which women are concentrated in such as trade, where 65 percent of employed women work (compared to 49 percent of men). The gender wage gap that emerges when one controls for education level, sector of employment, and quality of employment, is 18 percent. Female entrepreneurs face additional barriers to access credit. Between 2013 and 2016, microfinance institutions in Kenya denied loans to women-owned businesses at a 20 percent higher frequency than male-owned businesses, while savings and credit cooperative societies denied women-owned businesses at an 11 percent higher frequency.<sup>13</sup>

**Figure 28: Earnings by gender**



circumstances of the child. Transition from primary to secondary school, especially among rural, arid, and poor households, is a significant challenge.

**Living in the ASAL region is a large contributor to lower primary education opportunities.** Almost all children in Kenya attend primary school, as indicated by a coverage rate of 78 percent (Figure 29), and the HOI for this indicator is high. Being from arid areas does present a challenge: the Shapley decomposition of the inequality of opportunity gives large weight (42 percent) to arid areas as a source of the inequality for children who do not attend primary school.

**Poverty and the education level of the household head have the highest contribution to inequality of secondary education opportunities.** The difference in net secondary enrollment rates is large and significant. Only 29 percent of children between age 14 and 17 in the poorest 20 percent of households are enrolled in secondary education compared to 59 percent of children from the richest 20 percent of households. A large part of this inequality (33 percent) is explained by the education level of the household head. This suggests an intergenerational link between the parent's education outcomes with those of their children.

<sup>13</sup> Women entrepreneurs and access to finance: program profiles from around the world (English). Washington, D.C.: World Bank Group.

## Box 6: Human Opportunity Index

A child's background often acts as a determinant to their access to an *opportunity* i.e., a good or service that should be universally available within society. These background factors may include gender of the household head, the education level of the household head, a family's wealth status, ethnicity, or geographical location. These factors are referred to as *circumstances*. The idea is that circumstances should never determine whether a child has access to an opportunity. The Human Opportunity Index (HOI) unpacks existing inequalities and measures how circumstances influence a child's access to different opportunities.

The HOI methodology uses the dissimilarity index (*D-Index*) which ranges between 0 and 1, where 0 indicates no inequality, and 1 indicates that the entire access to an opportunity is limited to a specific circumstance group e.g., males, children with non-educated parents and those living in urban areas. The methodology further decomposes the contribution of each circumstance through a *Shapley decomposition* which estimates the marginal contribution of each circumstance to inequality.

The formula of the human opportunity index is:

$$HOI = (1 - D) \times C$$

where *D* is the inequality index and *C* is the coverage rate.

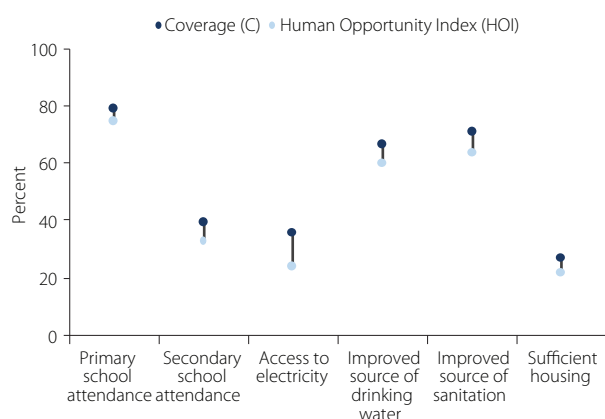
**Table 3: Definition and reference groups for various opportunities**

Opportunity	Definition	Reference group
Primary school attendance	Child is currently enrolled in primary school	6 – 13 years
Secondary school attendance	Child is currently enrolled in secondary school	14 – 17 years
Access to electricity	Child lives in a household with access to electricity	6 - 18 years
Improved source of drinking water	Child lives in a household with access to improved source of drinking water	6 - 18 years
Improved source of sanitation	Child lives in a household with access to improved source of sanitation	6 - 18 years
Sufficient housing	Child lives in a household where the number of members per sleeping room is no more than 2	6 - 18 years

Source: World Bank Kenya Poverty and Equity Assessment (2023).

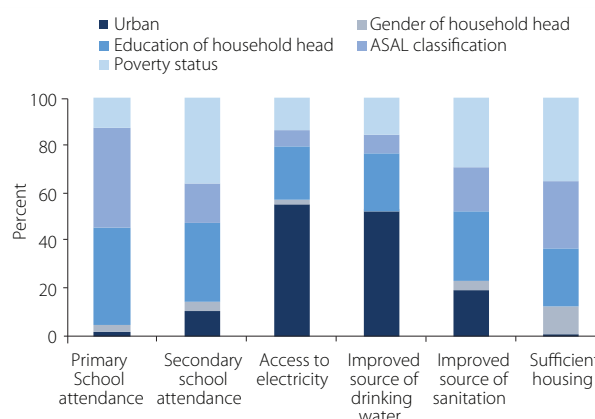
The list of circumstances used in the analysis include residence (urban vs rural), gender of household head, education of household head, ASAL classification, and poverty status.

**Figure 29: Coverage and Human Opportunity Index for various opportunities**



Source: Based on KCHS surveys.

**Figure 30: Shapley decomposition of each circumstance**



Source: Based on KCHS surveys.



**Location (rural vs urban), education of the household head, and poverty are the main drivers of inequality of opportunities of basic services.** Most opportunities related to access to services are nearing universal coverage except for access to electricity and sufficient housing. Area of residence (rural vs urban) is a strong determinant of inequality in access to electricity (55 percent) and improved source of drinking water (53 percent) (Figure 30). These results are consistent with findings in analysis of non-monetary indicators that found rural households to be less likely to have access to electricity and improved source of drinking water. The availability of these services rather than the cost presents the major constraint. Education of the household head is a major contributor to inequality in access to improved source of sanitation (28 percent) and sufficient housing (26 percent).

**Despite having lower opportunities, there is evidence of intergenerational mobility.** Children are achieving higher levels of education compared to their parents. Around 60 percent of children whose parents have no education have at least some secondary education, while only 10 percent have no education (KPEA, 2023). This trend holds in arid areas. Rural-urban gaps remain for tertiary education. Around two-thirds of children in urban areas whose parents have tertiary education have the same level of education, whereas only one quarter of the same cohort in rural areas have tertiary education.

**The COVID-19 pandemic exacerbated inequality of opportunities, particularly eroding human capital in children from poorer households.** Temporarily shutting down all schools in response to COVID led to a decline in early childhood enrollments.<sup>14</sup> Attendance rates were higher for young children whose parents have university education. The pandemic also affected early childhood development through reduced prenatal care, increased food insecurity and behavioral changes. The gains Kenya made in ensuring live births were delivered by a skilled provider would have been higher were it not for the pandemic.<sup>15</sup> As a coping mechanism in response to the COVID-19 shock, households reduced portion sizes or skipped meals altogether.<sup>16</sup> The COVID-19 pandemic caused significant learning losses amongst school-age children.

**Inequality of outcomes weakens the transmission of growth to poverty reduction.** COVID-19 was associated with a drop in inequality because it led to a large decline in consumption of richer households (Figure 7).<sup>17</sup> However, the economic recovery in 2021 resulted in an increase in inequality toward pre-pandemic levels. The Gini index, a measure of inequality, was 38.7 in 2021. Decomposition analysis shows that, historically, growth played a greater part in poverty reduction through improvements in rural welfare. The poverty reduction from 2005/06 to 2015/16 was driven more by improvements in average consumption rather than a more equitable consumption distribution. At the same time, trends since 2015 show that certain areas (such as the arid counties) and certain groups within these areas, continue to lag behind. Ensuring that these groups can also participate in growth remains a challenge for the future.

## 2.3 The services sector can contribute to inclusive growth

**The prevalence of services sector in the Kenyan economy raises the question about how it can contribute to creating more inclusive growth.** The first part of this Economic Update already highlighted the important contribution of the services sector to growth in recent quarters. This fits into a longer-term pattern of higher value-added growth of the services sector compared to other sectors. The compound annual growth rate of real output in the services sector was 4.9 percent between 2009 and 2021, higher than the 4.7 percent in manufacturing and the 2.9 percent of agriculture (Figure 31). Further, the growth in services comes off an already large base; as a result, the services sector contributes the largest share of value added today in Kenya. The strong growth in the services sector has also coincided with the movement of labor out of the agricultural sector and into services. Between 2005/06 and 2019, the share of employment in agriculture declined from 58 to 45 percent, while the share in services increased from 34 to 45 percent (Figure 34).

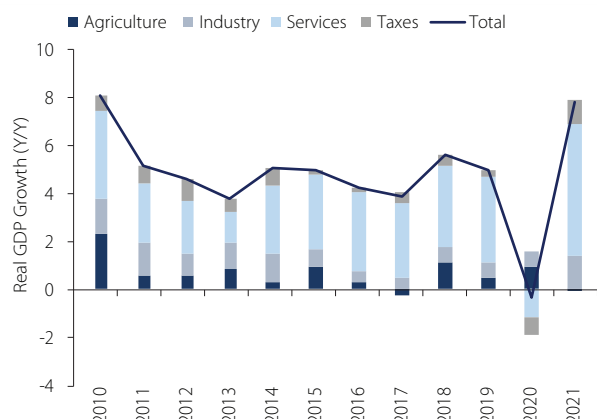
**From the perspective of inclusion, the question of how the services sector can create better opportunities for the poor and low-skilled workers is crucial.** The services sector is not a monolith, but a heterogenous group capturing a wide range of activities that differ in their skill

<sup>14</sup> Emma Cameron et al., "The Consequences of the COVID-19 Pandemic for Children in Kenya," Policy Research Working Paper, n.d.

<sup>15</sup> Schady et al., "Collapse and Recovery: How the COVID-19 Pandemic Eroded Human Capital and What to Do about It."

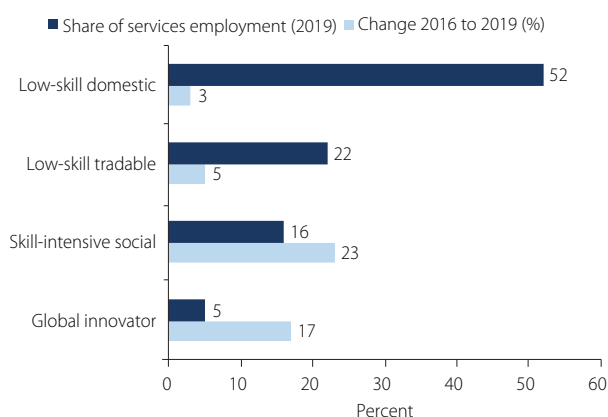
<sup>16</sup> Cameron et al., "The Consequences of the COVID-19 Pandemic for Children in Kenya."

<sup>17</sup> Using measures of inequality that are more sensitive to changes at the tails of the distribution shows a similar pattern of a drop inequality because of the COVID-19 pandemic.

**Figure 31: Growth with sectoral composition, 2010–2021**

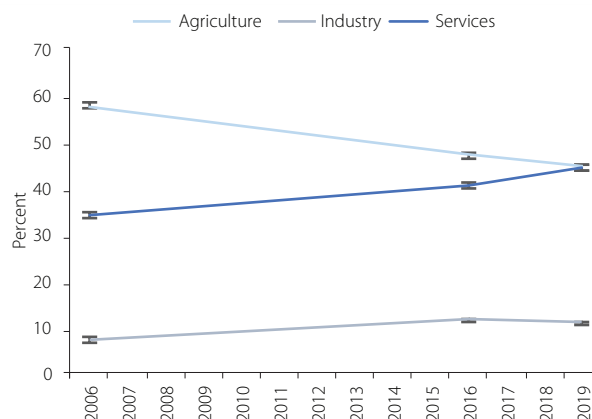
Source: Kenya Economic Survey 2023 and Report of the Revised and Rebased National Accounts.

intensity, their ability to be traded and the degree they are linked with other parts of the economy. A large part of job creation in services sectors has been in lower-skilled services sectors, such as retail and personal services, while most of the growth in value added has been in more knowledge-intensive “global innovator” services, such as information and communication technologies (ICT), technical services, professional services and financial services.<sup>18</sup> Services also provide an important enabling role in growth and job creation in other sectors, by providing inputs: they provide the logistics to trade goods, including getting agricultural goods to market, they facilitate technologies used in the production process, and they provide the financing for much-needed investments.

**Figure 33: Most of service sector employment is outside of knowledge-intensive “global innovator” services**

Note: Low-skilled domestic includes retail, administrative services, and personal services; low-skilled tradable includes transportation, hospitality and wholesale, skill-intensive social includes health and education, global innovator includes ICT, financial and professional/technical services. See Kenya Country Economic Memorandum (2023) for the full definitions.

Source: Kenya Jobs Diagnostic (2023), based on KIHBS 2015/16 and KCHS 2019.

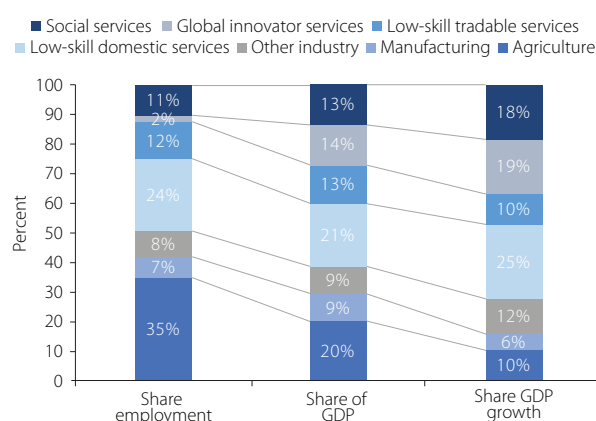
**Figure 32: Employment shares, 2006–2019**

Source: Kenya Jobs Diagnostic, based on KIHBS 2005/06 and 2015/16, and KCHS 2019.

The different segments of the services sector each have a role to play to increase growth and contribute to inclusion. For knowledge-intensive services sectors that contribute to a disproportionate share of growth, the main challenge is to increase employment opportunities for Kenyans with fewer skills. For services sectors that enable other sectors, supporting growth in those sectors is important to increase exports and new job opportunities. And finally, for more low-skilled services sectors where a large share of Kenyan workers is currently employed, the main challenge is to increase labor productivity to increase earning opportunities.

**Figure 34: Global innovator services represent 19 percent of GDP growth, but only 2% of employment...**

Share of employment, GDP and GDP growth, 2015–2021



Note: Share of employment and GDP refer to 2019, the latest year with comprehensive employment data by subsector. GDP growth relates to the period 2015–2021.

Source: Kenya Country Economic Memorandum (2023) based on the Economic Survey (KNBS) and ILOSTAT employment estimates.

<sup>18</sup> The services sector can be divided into four groups based on their ability to enable scale, innovation, and spillovers. These four sub-sectors include the global innovator services (ICT, finance, and professional activities), the skill-intensive social services (education and health); the low-skilled tradable services (transportation and storage; accommodation and food services; and wholesale trade); and the low-skilled domestic services (retail trade; personal services; and so on). Low-skilled services currently dominate employment in Kenya. Low-skilled domestic services accounted for over half of all service sector employment, and the low-skilled tradable sub-sectors for one-quarter, in 2019.



## Knowledge-intensive services can provide earning opportunities across the skills spectrum

Knowledge-intensive tradable services (“global innovator services”) are playing a large role in fostering growth and creating exports. These global innovator services—such as ICT services, financial services, and professional and technical services, represent 14 percent of value added and 19 percent of value-added growth, but only 5 percent of employment in services, and 2 percent of total employment (Figure 34). Growth in global innovator services has been outperforming that of other services, especially in recent years. Global innovator services play an increasingly important role in creating exports. The share of total global innovator service exports in total services exports rose from about 5 percent to above 20 percent by 2019.

**Knowledge-intensive services are providing important jobs to less skilled workers, although still requiring basic levels of skills.** Knowledge-intensive services—despite their name—need skills across the spectrum, including more basic skills that are within reach of more people. While some activities might require highly specialized and advanced skills for crucial tasks (e.g., programming), there are many tasks that are less skill intensive that require a more basic level of skills (e.g., the ability to use email or word processing software). For example, in professional and technical services as well as in financial services, for every worker with a tertiary degree there is another worker without a tertiary degree (e.g., only secondary, or less than secondary). The World Bank’s Labor Content of Exports (LACEX) database, developed by Cali et al. (2016), suggests that for every KSh 10 earned by a high-skilled worker involved in the exports of ICT services, another KSh 15 goes to a less-skilled worker employed in the sector.

**Despite being a main source for growth, significant restrictions to competition, trade and investment remain.** Analysis of product market regulations suggest that restrictions in key services sectors are higher than in other peer countries, limiting competition. In the recent decade, regulations in certain sectors—for example occupational licensing for professional services—have introduced new restrictions to competition. The Kenyan state is a direct market player in several key services sectors. Data from the World Bank Businesses of the State database show that the government owns stakes of at least 10 percent, either directly or indirectly, in 132 business entities

across all sectors. About two-thirds of these businesses (89 out of 132) are in services sectors, including in sectors where the economic rationale for direct government intervention is weak, creating risks of distorting markets and crowding out the private sector. The World Bank-WTO Services Trade Restrictiveness Index highlight considerable restrictions to trade and investment in services sectors, often exceeding those seen in the rest of the East African Community (EAC). These restrictions are most pronounced in some of the knowledge-intensive services, including business services and financial services.

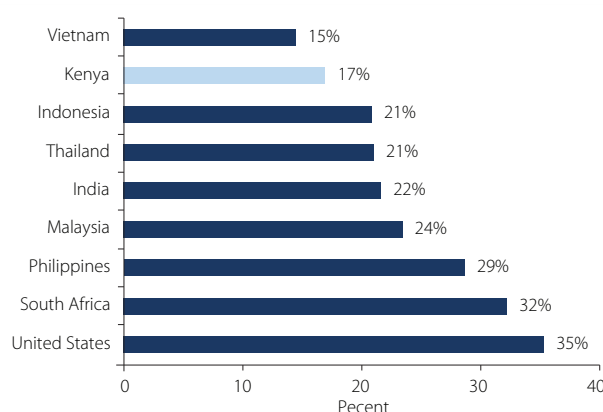
## Through linkages, services sectors create job opportunity in other sectors

**Services play an important role in boosting the growth and productivity of other sectors, creating new job opportunities, including for those with fewer skills.** Services are crucial for other sectors, both as an upstream enabler (providing inputs) and a downstream complement as bundled with products from other sectors. However, the extent of linkages in Kenya is low compared with peers, and linkages between services and manufacturing are particularly lacking (Figure 35). This means that services contribute less to the growth of other sectors than they could. In Kenya, roughly one-sixth of manufacturing’s domestic inputs are services, which is low compared with most peers. By comparison, in some higher-income countries, roughly one-third of inputs into manufacturing are provided by services.

**This matters from the perspective of inclusion: the linkages between services and other industries are responsible for many jobs, including for low-skilled**

**Figure 35: The share of domestic services inputs into Kenyan manufacturing is very low**

Percent of domestic services inputs into manufacturing, 2016



Source: Kenya Country Economic Memorandum (2023) based on OECD Input-Output Tables (2020) and Kenyan Supply-Use Tables (KNBS; 2016) for 2016.

**workers.** Sectors with strong linkages to other sectors of the economy—such as transportation and logistics (6.0 percent) and business services (2.3 percent)—are an important source of employment in the services sector and many of them rely on lower-skilled workers. These sectors also play an important role in supporting exports in other sectors (forward linkages). Many unskilled jobs are supported through these forward service linkages. For instance, the labor value added of exports of unskilled workers in services sectors that contribute to the exports of other sectors (forward linkages) is twice that of skilled workers (Figure 36).

**Strengthening linkages can also create new and better job opportunities in manufacturing and agricultural sectors by raising their productivity.** Global innovator services, such as digital services, play an important role in the adoption of more sophisticated technologies. A well-known, homegrown example of how the development of innovative, accessible services can support the economy and open new opportunities and potential growth is Kenya's early adoption of mobile money, beginning with the launch of M-PESA in 2007. Low-skilled tradable services, such as transportation services, contribute to more efficient sourcing and delivery of inputs and outputs, including through exports. Evidence from India (Arnold, Javorcik and Mattoo 2016) and Colombia (Alfaro and Eslava 2020) highlights that the productivity of manufacturing firms is related with the degree to which they depend on services inputs in their production process. Evidence from Czechia and India suggests that liberalizing services

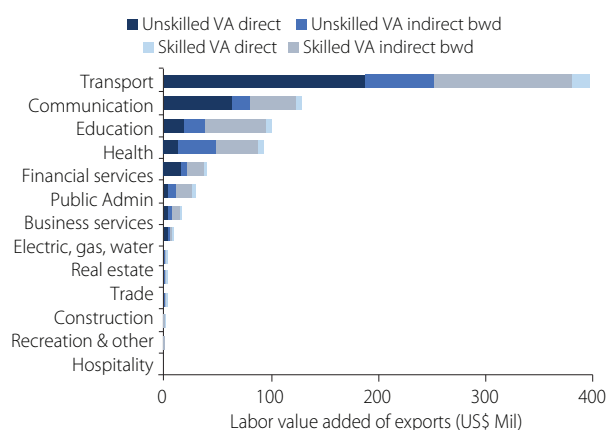
improved performance and exports of manufacturing sectors (Arnold et al. 2011, 2016; Bas 2014). Growing services can therefore be very much in support of the development of manufacturing, a sector that remains an important source for jobs globally, including for workers with lower skill levels.

### **Appropriate technologies can improve the productivity of services sectors across the income distribution without displacing people from jobs**

**There is also scope to increase the productivity of those in lower-skilled services sectors.** As highlighted earlier, many Kenyans earn their livelihoods through low-paid informal work in services. Much of the work in these subsectors takes place through self-employment or through informal wage employment. Appropriate digital solutions, which complement workers skill-endowments, can help boost the productivity of businesses that rely on workers with lower skills. Kenya has already been a technological leader in certain areas, especially around mobile money. Most Kenyan businesses accept mobile money such as M-Pesa instead of cash for transactions. The COVID-19 pandemic has further accelerated the use of mobile money and other digital financial services, both by households and by firms. During the pandemic more firms also invested in digital solutions, including in sectors where this was previously less commonplace, such as retail, food services and transportation. It would be important to understand whether these digital solutions are labor augmenting (resulting in increased productivity and/or more jobs) or whether they lead to labor displacement in the longer-term.

**Figure 36: Trade and business services have the most indirect labor income thanks to their contributions to exports of other sectors (forward linkages)**

*Labor income of exports, by subsector and skill based on forward linkages*

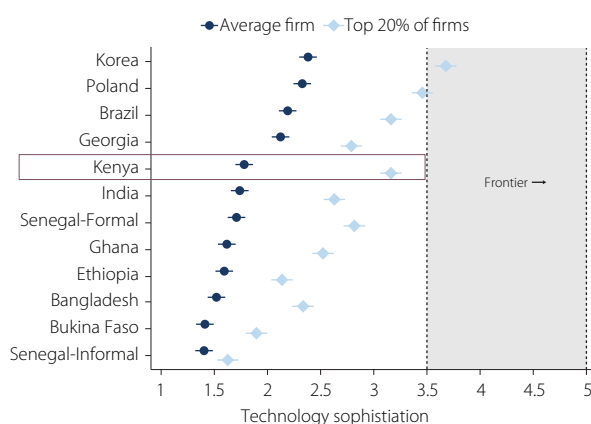


*Note: Indirect forward linkages mean contributions of this subsector to exports of other subsectors*

*Source: Kenya Country Economic Memorandum (2023) based on Labor Content of Exports Database (LACEX), developed by Cali et al. (2016). Data from 2014*

**There is a gap in the adoption of sophisticated technologies between the average firm and frontier firms in Kenya.** Cross-country evidence on the degree of adoption of more sophisticated digital technologies suggests that the average firm in Kenya is far from the global frontier (Figure 37). This is especially true for smaller firms with fewer employees (Figure 38). For example, in the retail subsector, medium and large firms are more likely to have access to more sophisticated technologies, particularly when it comes to pricing and merchandising strategies. Advancing the GoK's BETA will require narrowing of such gaps and supporting firms with adopting labor-augmenting technology to transform economic sectors.

**Figure 37: Technological sophistication of production processes in Kenyan firms is far from the global frontier for the average firm**  
Technology adoption by firms in the services sector



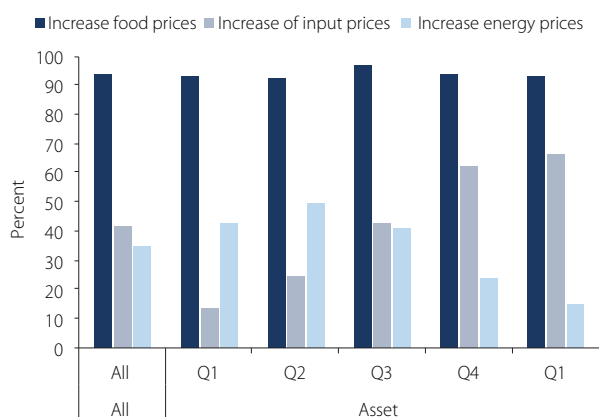
Source: Kenya FAT Survey.

## 2.4 Poor households have low resilience and are more vulnerable to shocks

Most Kenyan households reported being affected by a shock in 2022 or 2023. Almost all households reported increased food prices in 2022 or the first half of 2023. While the share reporting increased food prices is relatively constant across the wealth distribution, the share reporting increased energy prices is more common among wealthier households, while increased input prices was more common among poorer households (Figure 39). Just under half of agricultural households experienced a negative economic impact from drought in 2022 or the first half of 2023, with larger rates among households in arid areas and poorer households (Figure 40). In addition, households are often exposed to multiple shocks, with one-third reporting exposure to multiple shocks in 2021.<sup>19</sup>

**Climate shocks have a strong spatial dimension.** Climate shocks are more likely to affect poor regions in the north

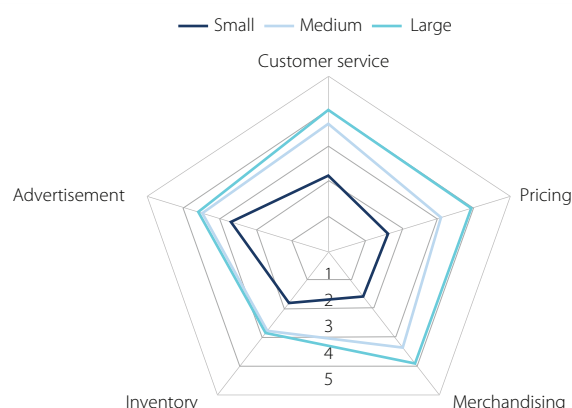
**Figure 39: Share of households experiencing shocks in the last 12 months**



Source: Authors' calculation based on RRPS Wave 9 data.

<sup>19</sup> Authors calculations based on the FinAccess 2021 data.

**Figure 38: Firm size is an important determinant in the adoption of technologies**  
Technology adoption (extensive margin) in the retail sub-sector, by firm size.

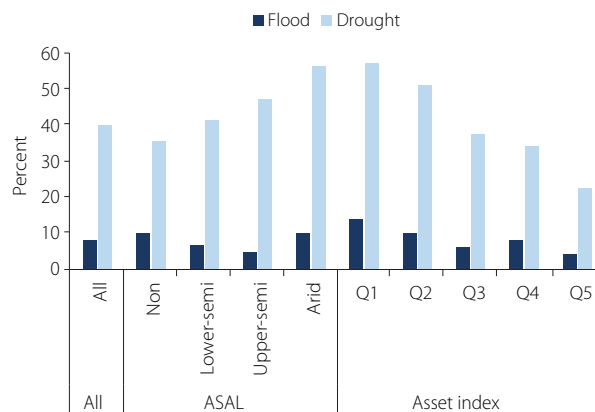


Note: firm size is based on number of employees (small is 5-19, medium 20-99 and large is 100+ employees)

Source: Kenya FAT Survey.

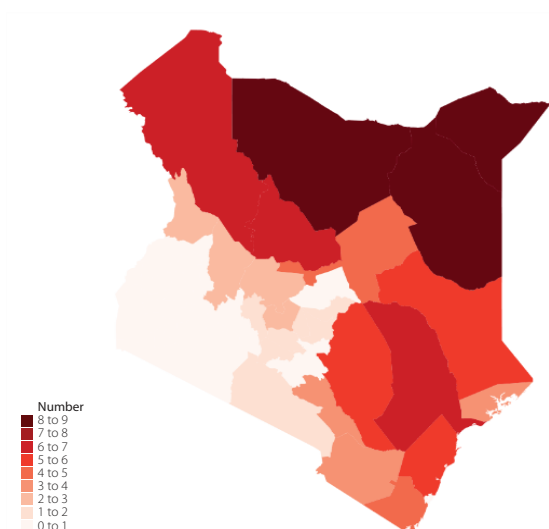
and northeast—specifically, ASAL areas (Figure 41 and Figure 42). This widens inequalities and mediates the relationship between growth and poverty reduction. More recently, the fourth consecutive drought in north and northeast counties led to mass livestock death and water scarcity and put millions of people at risk of severe food insecurity. Data from the recent wave of the Kenya Rapid Response Phone Survey (RRPS) shows that 56 percent of households in arid counties reported experiencing a negative impact on their agricultural activities due to droughts in 2022 or 2023 compared to 35 percent of households in non-arid counties. Negative impacts are also more often reported by poorer households. Despite improvements in climatic conditions, food insecurity worsened between June 2022 and May 2023. Climate shocks are compounded by natural resource challenges, with about 85 percent of Kenya's land area classified as a fragile arid and semi-arid ecosystem which is largely pastoral.

**Figure 40: Share of agricultural households reporting a negative impact in 2022 or 2023 from...**



Source: Authors' calculation based on RRPS Wave 9 data.

Figure 41: Distribution of droughts, 2000–2022



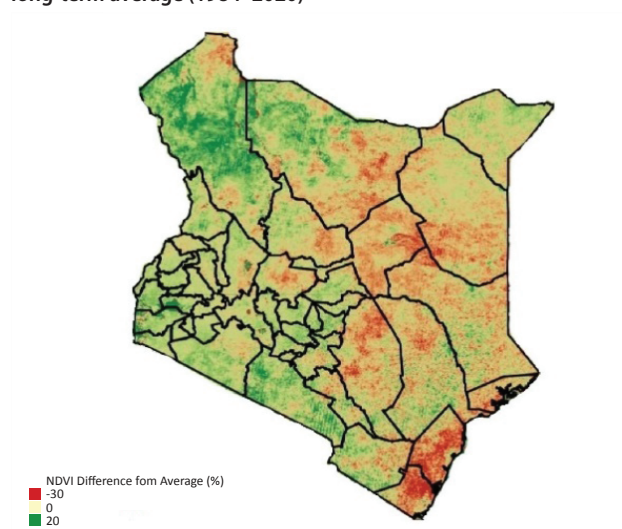
Source: Emergency Events Data (EM-DAT).

**The poor have a higher exposure to agricultural shocks.**

Households are affected by multiple, often overlapping climate shocks. Among the poor, especially among agricultural households, droughts or floods are the most common. The latest RRRS data shows that agricultural households, especially those engaged in livestock keeping, are more often affected by drought in the arid and semi-arid counties.<sup>20</sup> Heat stress can reduce the output from livestock, while climate change can also reduce the availability and quality of fodder and water.<sup>21</sup> Livestock death/theft is very common in these areas, some of which may have been caused by climatic shocks.<sup>22</sup> Households with a less educated head more often report a negative impact of the drought on their agricultural activities.<sup>23</sup>

**Climate shocks are associated with an increase in monetary and non-monetary poverty.** Regression analysis suggests that a negative Normalized Difference Vegetation Index (NDVI) shock, which shows that vegetation is below the long-term average, was associated with a decrease in per adult equivalent consumption for households in 2021.<sup>24</sup> Further, an NDVI shock increases poverty across all counties, and also increases hardcore poverty in arid counties.<sup>25</sup> The NDVI shock is associated with a reduction in dietary diversity in all areas except those already having limited dietary diversity. Food insecurity increases among

Figure 42: Percentage differences between 2021 NDVI and the long-term average (1984–2020)

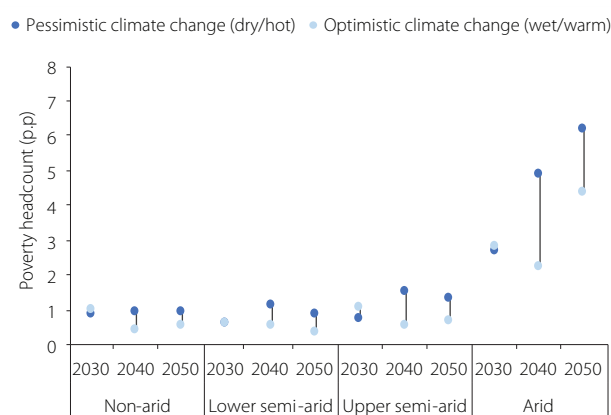


Source: Emergency Events Data (EM-DAT).

all households, poor and non-poor, in response to an NDVI shock in arid counties. These non-monetary impacts have harmful impacts beyond the short term through reduced accumulation of human capital.

**Climate change is forecasted to have the largest negative impact on poverty in the poorest parts of the country (Figure 43).** Results from macro-to-micro simulation models suggest that without any adaptation and using the business-as-usual (BAU) growth forecast, poverty is expected to be a percentage point larger by 2050 relative to a scenario where there is no climate

**Figure 43: Poverty (at the \$2.15 per person per day (2017 US\$)) increase by ASAL type, from no-climate-change scenario BAU, No adaptation with spatial heterogeneity**



Source: Kenya Climate Change Development Report (CCDR), World Bank (2023).

<sup>20</sup> Ngigi et al. 2020.

<sup>21</sup> Thornton et al. 2009; Weindl et al. 2015; Rojas-Downing et al. 2017; KIPRRR 2022.

<sup>22</sup> World Bank, 2018. Kenya Poverty and Gender Assessment.

<sup>23</sup> Based on the most recent wave of the Kenya RRRS that took place in May 2023.

<sup>24</sup> The impact of climatic shocks can be estimated using OLS. Weather shocks are exogenous variables, which implies the absence of endogeneity. Short-run deviations from long-run rainfall and temperature are plausibly exogenous. Therefore, OLS regressions can be used to estimate the impact of weather shocks (i.e., negative and positive rainfall shocks, temperature shocks and vegetation shocks) on household monetary and non-monetary welfare for 2021.

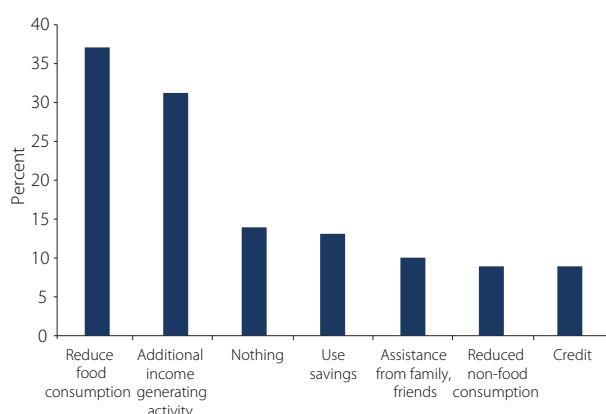
<sup>25</sup> Hardcore poverty is defined as the proportion of the population whose total consumption expenditure is less than the food poverty line.

change impact. The increase in poverty relative to the no climate change scenario is largest among arid counties, at around 5 percentage points. These counties are already amongst the poorest in Kenya. Land restoration is found to be effective at mitigating the increase in poverty due to climate change.<sup>26</sup>

**Very few agricultural households undertook adaptation in response to climatic shocks.** A large share of households either engaged in harmful coping mechanisms or simply did nothing in response to price increases. Irrigation use is extremely low among crop-growing households (less than 10 percent) and very few agricultural households who reported a negative impact of drought or flood on their agricultural activities undertook any adaptation strategies (around 10 percent).<sup>27</sup>

**Households did make some adjustments in response to the recent price increases.** In response to food price increases, over one-third of households reduced food consumption, some 14 percent did nothing and 9 percent reduced non-food consumption (Figure 44). A large share of households did nothing in response to energy price increases, while 11 percent reduced non-food consumption (Figure 45). Households also often reported seeking additional income generating activities in response to both price increases, however, it is unclear if households find additional work or whether the work they find provides them with sufficient additional earnings to offset the price increase.

**Figure 44: Response to food price increases**



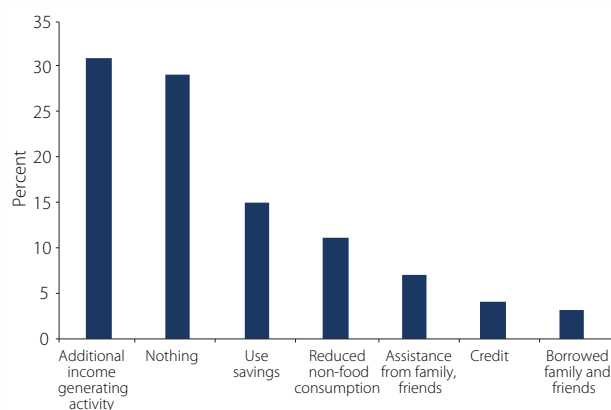
Source: Authors calculations based on the RRPS Wave 9; conducted in May 2023.

## 2.5 A strategy to enhance inclusiveness of growth

**A concerted strategy to enhance inclusiveness of growth is important for Kenya.** Recent periods of strong economic growth have not resulted in equally strong poverty reduction. Enhancing inclusiveness of growth entails providing both individuals and firms with equality of opportunity to participate and benefit from growth (Ianchovichina and Lundstrom, 2009).<sup>28</sup> Making growth more inclusive will advance the GoK's BETA priorities. This Update proposes a three-pronged strategy that: (a) increases productivity of the private sector to support sustained high rates of economic growth, (b) connects the poor and vulnerable to growth, and (c) strengthens households' resilience to shocks, particularly extreme weather shocks given their growing incidence. Across these three pillars, using fiscal policy more effectively to support inclusion is important.

**Kenya has an opportunity to build on past success to accelerate inclusion.** Today Kenya is the leading economy in East Africa, thanks to several market-oriented reforms combined with regional and global conditions which helped accelerate growth and propel the economy to middle-income country status (Kimenyi, Mwega, and Ndung'u 2016). The country is home to M-Pesa, a huge mobile money and financial inclusion success. With an overall Human Capital Index (HCI)<sup>29</sup> score of 0.55 in 2020, Kenyan children born today are 55 percent as productive as they could have been with a complete

**Figure 45: Response to energy price increases**



Source: Authors calculations based on the RRPS Wave 9; conducted in May 2023.

<sup>26</sup> World Bank. 2023. Kenya Climate Change Development Report (CCDR).

<sup>27</sup> Based on the ninth wave of the Kenya RRPS that took place in May 2023.

<sup>28</sup> To identify the policy areas that could make growth more inclusive, the Hausmann, Rodrik, and Velasco framework provides useful insights because its premise is that growth is the main driver of poverty reduction.

<sup>29</sup> The Human Capital Index (HCI) summarizes the amount of human capital that a child born today can anticipate acquiring by age 18, accounting for the risks of poor health and poor education that prevail in the country she or he lives. The index assesses countries across five components (health, education, survival, quality of learning, and adult survival).



education and full health. This is the highest HCI score in mainland SSA (average 0.40). The achievements in human capital development reflect GoK's efforts in reducing malnourishment, increasing access to education and healthcare, and expanding social protection programs. Kenya is currently experiencing a demographic transition, given the reduction in fertility rates and the increase in life expectancy. Harnessing the dividend that a large youth population with high levels of human capital can give rise to requires addressing both the demand and supply side of labor markets—making sure the growing working-age population can find jobs of sufficient quality. Access to basic services has improved, and for some services, the rural-urban gap as well as the gap between the poor and rich has narrowed. Building on past achievements will require a concerted effort to ensure the positive progress of the country has been equally shared across its population: significant disparities remain based on location (with ASAL areas, in particular, lagging behind) and income.

### 2.5.1 Increase private sector productivity to sustain high rates of economic growth

**The first objective is making sure that sustainable growth is achieved and that this growth benefits all in society.** To be able to do this, growth needs to be underpinned by increased investment and productivity. The contribution of productivity—the efficiency with which inputs like capital and labor are used to produce output—to growth has been flat, or even negative, over the past two decades. Increasing the productivity of the private sector is essential to generate more, better and more sustainable jobs in the economy. From an inclusion perspective, it is important that productivity increases across all groups of firms—most Kenyans are either self-employed or work in micro-enterprises. Despite significant public investments in infrastructure to improve Kenya's domestic and international connectivity, trade and foreign investment have underperformed as drivers of growth. Policies that boost productivity by increasing investment, trade and productivity can be expected to lead to higher and more sustainable growth.

**Strong fiscal and monetary policies and regulatory certainty are important prerequisites for private sector-led growth.** Sound fiscal policy contributes to continued macroeconomic stability, supports public investment in improving infrastructure and provides the space for long-term steady investment in improving human capital. Monetary policy that balances inflationary pressures

while also ensuring that the nascent rebound in credit to the private sector continues is key. Senior management of businesses in Kenya spend significantly more time in dealing with regulations than in other peer countries—highlighting the complexity and inefficiency of the business environment in Kenya. Differing regulations across counties, especially around licensing, further increase the regulatory burden. Reducing this burden is an important element of improving the business environment.

**Removing barriers to competition, including reassessing the footprint of the State, is important to increase productivity.** Restrictions to competition remain present in key sectors, especially in network sectors and services sectors. Reducing these restrictions to create a more level playing field can induce much-needed productivity growth. Increasing competition will also require a reassessment of the footprint of the State in the private sector. The World Bank's Business of the State (BOS) analysis suggests that close to two-thirds of firms with (partial) state ownership operate in sectors with a weak rationale for direct government intervention. Implementing the privatization program—following the recent passing of the Privatization Bill—should be a key priority for the Government of Kenya. This entails selecting companies where there is limited rationale for State ownership and setting the preconditions for the appropriate governance of the process for privatization. Selecting the most appropriate way to bring in private investment and establishing incentives for good performance of privatized companies through strong sectoral regulation are also important priorities.

**Attracting more private sector investment—including FDI—requires an improved investment climate.** As highlighted in the first part of this update, inward FDI contracted by US\$27.0 million in the first half of 2023 and FDI levels have been low compared to other countries in SSA. More could be done to facilitate inflows of FDI. There are continued restrictions to FDI in key sectors such as business services and financial services. FDI is further restricted by the complex entry and licensing procedures and different procedures that are in place across counties. Reducing the regulatory burden as well as simplifying the administrative procedures—including by digitizing and strengthening the one-stop-shop for foreign investors—can help contributing to increased FDI. The services sector has been especially prominent in the attraction of FDI. Between 2018 and 2022, services sectors have outperformed industrial sectors in attracting greenfield FDI.

From an inclusion perspective, it is important to establish linkages between FDI firms and the domestic economy to ensure the benefits of FDI are shared widely.

**Regional integration initiatives and bilateral trade agreements provide new opportunities for exports, especially in services sectors.** The Africa Continental Free Trade Agreement (AfCFTA) as well as bilateral trade agreements—including the Strategic Trade and Investment Partnership (STIP) with the U.S. and the Economic Partnership Agreement with the European Union—can be expected to increase growth and job creation. Implementing AfCFTA can have large impacts on goods and services trade: World Bank estimates suggest that under a deep integration scenario, exports might increase by 40 percent, wages by 22.9 and real gross domestic product by 4.9 percent by 2035 (Echandi, Maliszewska, and Steenberg 2022). One specific area that deserves attention is updating the regulatory framework for digital trade, given the importance of digital sectors. This also includes reducing substantial regulatory barriers to cross-border data flows.

**Many of these reforms can be expected to benefit growth in services sectors but will also benefit other sectors.** The manufacturing sector—despite its limited growth—continues to be an important source of jobs for those with fewer skills: close to two-thirds (62 percent) of workers in this sector did not complete secondary education. The presence of restrictions in a fast-growing sector like the services sector mean that there is a high return to pursuing reforms targeting this sector. Widening the policy perspective to include services sectors can therefore be beneficial. Nevertheless, many of these policy priorities are not unique to services, but are also relevant to agriculture, manufacturing, and other industrial sectors. The further development of the services sector should not be seen as an alternative to industrialization but rather can be an enabler of economy-wide growth, including in manufacturing and agriculture.

### 2.5.2 Connect the poor and vulnerable to growth through access to skills, productive jobs, and capital

#### Skills

It is important to further strengthen human capital investments among the young. This will ensure those entering the labor force have better skills and workers can progress from low-productivity activities to sustainable

sources of higher income. Investment in early childhood development, increasing primary healthcare coverage, and increasing the quality of education can provide fundamental skills to be productive and adaptive to changing skill demands among future entrants in the labor force. Despite large gains in years of schooling, with primary school coverage becoming almost universal, Kenya is still faced with equity and quality challenges in primary, secondary and tertiary education. Targeting children whose parents have lower educational endowments/who are lower down the socio-economic spectrum and children who live in arid counties is particularly important to break the intergenerational transmission of poverty. Reforming students financing in basic education is important to achieve this. Currently, allocation of students' capitation is based only on school enrollment. Changing the funding formula to incentivize enrollment among disadvantaged populations and equalizing funding according to needs will result in increased funding for small schools (such as those in ASALs with low enrollment). If accompanied by better management and community involvement this can also lead to quality improvements. Equipping Kenya's fast-growing labor force with the increasingly advanced skills needed to meet the needs of a transforming middle-income economy will also require continued investments in higher education.

**Strengthening human capital investments among those already in the workforce.** The building of foundational skills and soft skills is crucial for inclusion so that more Kenyans can take advantage of opportunities in the services sector. As mentioned earlier, knowledge-intensive "global innovator" services are important contributors to growth. While some tasks within global innovator



services, for example, computer programming or providing professional services, require highly specialized and advanced skills for crucial tasks, there are many tasks that are less skill intensive. For many services, including among global innovator services, mid-level skills are often sufficient, combined with soft skills. To be able to adopt technologies or to be employed in administrative and support services, literacy as well as the ability to use basic digital technologies—including mobile apps, office software, and email—is important. Soft skills are crucial across all sectors—for instance, showing up on time, using time not spent with customers productively, and so on. They are particularly important for customer-facing tasks, including skills needed to communicate as well as the ability to work in teams. A large majority of people in the current workforce are often not equipped even with basic job-relevant skills. Employers identify the inability to handle computers for work-related tasks as one of the most significant skills gaps among white collar workers.<sup>30</sup> Firms in the informal sector also identify several skills gaps including the inability to find people with financial, marketing, and customer care skills.<sup>31</sup> Acquiring these skills still requires training and experience, but they might be within reach of more people. Lifelong learning remains important in the inclusion of many people in productive jobs.

#### **Supporting on-the-job training and intermediation.**

School-to-work transitions are difficult, particularly for individuals from poorer backgrounds. Supporting such individuals with internship opportunities in private-sector firms improves employment outcomes. Further, there is limited access to intermediation services in Kenya. Outside of private intermediation services which cater mainly to university graduates and professionals, there is little by way of services that help match less educated and more vulnerable youth with appropriate jobs.<sup>32</sup> The National Youth Opportunities Towards Advancement (NYOTA) project supports various interventions in this space. The government implements many job-related programs. Jobs programs are scattered across several ministries and their overlapping objectives present opportunities to improve efficiency and impact through streamlining and better coordination. With the exception of NYOTA, Kenya's job

programs largely address challenges in the formal sector and are predominantly utilized by wealthier individuals in urban areas, with limited reach among the poor, youth, and women, especially in rural areas.<sup>33</sup>

**Social and economic drivers lead to lower levels of education among women, with lifelong consequences for the labor market.** Poverty and the high cost of schooling presents obstacles for women especially in secondary years.<sup>34</sup> In addition, teen pregnancy and early marriage emerge as critical barriers. Addressing the multiple barriers that poorer women face through a comprehensive women economic empowerment program can help include more of them in economic activity where they can also share in the benefits of growth. Improving provision of quality childcare facilities is critical—both for early childhood investments as well as allowing women to participate in the labor force.

#### **Agricultural policy**

**Increasing productivity in the agricultural sector is especially important for incomes of rural households; a large share of the poor work in the agricultural sector.** Growth in the agricultural sector has fluctuated due to periodic shocks such as rainfall, pests and diseases, and changes to input prices. Agricultural productivity is affected by limited physical infrastructure, continued reliance on rainfall, deteriorating soil conditions, fragmented land holdings, and high use of fertilizers in some parts of the



<sup>30</sup> *The Skills Balancing Act in Sub-Saharan Africa (2019)*. World Bank: Washington, D.C.

<sup>31</sup> *The informal sector skills and occupations survey, 2018*.

<sup>32</sup> *Kenya Social Protection and Jobs Public Expenditure Review*. Washington, D.C.: World Bank, 2023. Group.

<sup>33</sup> *World Bank, 2023. Kenya Social Protection and Jobs Public Expenditure Review*.

<sup>34</sup> Booth, R. (2022). *Emerging Issues in East Africa for Girls' Education in East Africa*.



country and low use in others (World Bank 2019; Mather and Jayne 2018; Duflo, Kremer, and Robinson 2011). Policies should focus on boosting agricultural production so that surplus output can be marketed for higher revenues particularly via a shift away from subsidizing inputs to promoting technology adoption and participation in value chains. The government's identification of the priority seven value chains is promising in this regard. For poor households, encouraging diversification to non-staples is also important (Christopher B. Barrett et al. 2022). Measures that help agricultural households make investment decisions considering market and seasonal variations will be key. Another intervention that has been found to be effective is offering harvest time loans to farmers in the form of group microloans (Burke, Bergquist, and Miguel 2019). Providing training to farmers to adopt technologies suited to their local soil conditions, such as rainwater harvesting, has been found to be effective in raising agricultural output. Finally, greater agricultural research and development will help develop technologies tailored to Kenyan smallholders' needs (Suri and Udry 2022).

**Rethinking the e-voucher program to focus on technology adoption can increase productivity.** In April 2023, the government made significant changes to the e-voucher program, supposedly to reduce fertilizer procurement costs and raise agricultural supply to deal with the cost-of-living crisis. Nevertheless, this program has been benefitting larger farmers more than smallholders and has led from a shift from technology adoption to subsidizing production and reducing costs. From a productivity and inclusion perspective, rethinking the program—including considering reintroducing parts of the original design—is needed. A redesigned program can ensure that small holders have “ease of access” and encourage the bundling of inputs thereby ensuring technology adoption and leading to productivity enhancement. Critically, the enhanced targeting of the program is likely to ensure potential savings of nearly 50 percent of the total budget allocation for the current program (about Ksh 6.5 billion out of the overall Ksh 13.25 billion allocation for the year 2023–2024 including the additional Ksh 8.25 billion allocated as part of the supplementary budget).

**Entrepreneurial productivity—capital, managerial skills, and technology**

**Most non-agricultural workers are self-employed or**

**employed in micro-sized firms.** A key constraint faced by MSMEs in Kenya is lack of access to start-up capital, among several others. Most micro firms rely on own funding to start up as well as continue to operate, with very low access to either banks or microfinance institutions. Young low-income entrepreneurs do not have savings to fall back on, which poses a barrier for them to start a business. Women face barriers in accessing credit. Other key constraints to MSME growth include: (a) lack of soft skills and in particular socio-emotional, managerial, and entrepreneurial skills that are associated with entrepreneurial mindsets and help in successfully starting or increasing productivity of new businesses; (b) lack of relevant exposure and networks for starting and growing a business among youth and especially women; (c) lack of business support such as mentoring for young entrepreneurs and self-employed youth; and (d) limited information and capacity of youth to take advantage of entrepreneurship programs and market credit ecosystems. A new wave of programs in addition to traditional business training and provision of sustainable finance is important for entrepreneurs—alternative interventions include behavioral interventions that encourage entrepreneurialism, build networks, improve management skills, and support linking to markets and exports value chains.

**As a leader in the region, Kenya could do more to leverage technology.** The service sector can support inclusion by bringing appropriate new technologies that complement the skills and opportunities available to economically vulnerable people. This includes:

- Services solutions to build human capital (“EdTech”). EdTech solutions in Kenya range from online learning, e-textbook rentals, school and pupil assessments to inform excellence in teaching and learning, tutoring, educational resources for teachers, and gamified educational content. There are an estimated 133 EdTech startups addressing a variety of educational needs. Such solutions can also be used to provide digital skills or entrepreneurship training.
- Service solutions for agriculture to increase rural inclusion (“AgTech”). Agri-tech (AgTech) solutions range from mobile phone apps to solar applications, portable agriculture devices, and bio-fortified foods, and helping farmers to increase productivity, gain better access to markets and prices, as well as provide financial solutions. There are more than 100 AgTech firms in Kenya, providing solutions that span the agriculture value chain.



- Service solutions to boost entrepreneurship and productivity. Services also play an important role in providing firms with inputs, market access and technology, including for lower-income MSMEs. This includes providing access to finance (“FinTech”), where digital lenders are playing a larger role, market access through e-commerce and, especially important for women employees and entrepreneurs, child-care services.

### Public spending

**Fiscal policy can connect the poor and vulnerable to growth via smart public spending.** Cash transfer programs such as the hunger safety net program offer critical adaptive social protection and are effective in reaching less well-off households. Coverage of social safety nets stands at only 8.7 percent of the population in Kenya. Expenditure on social safety nets is much lower in Kenya, at 0.3 percent of GDP, when compared to 1.1 percent in LMICs. Even within the constrained fiscal space, the fiscal system can be used more effectively for poverty reduction and redistribution, for instance through scaling up means-targeted benefits while reducing un- or poorly targeted subsidies for consumption or production, for instance. Global experience shows that addressing constraints to productivity via policy reforms and removal of market distortions is a more efficient way to ensure affordability (Chapter 7, 2022 World Bank Poverty and Shared Prosperity Report). Any expansion of social assistance programs will not only help strengthen households’ resilience but also deepen the fiscal system’s poverty reduction and redistributive impact while balancing spatial disparities. An additional payoff to reviewing the size and coverage of select cash transfer programs is that they can help offset the incidence of VAT that falls on poorer households. Kenya’s pro-poor education spending at the primary level offers an opportunity to continue to build human capital and future productive capacity of children, particularly those from less well-off households and counties who are more likely to use the public education system. County-level incidence analysis shows that education spending is the largest in-kind benefit received by most counties. Protecting this category of spending during reforms will be important to maintain the momentum on human capital and to invest in better quality learning outcomes.

### 2.5.3 Strengthen households’ resilience to extreme weather shocks

The incidence of extreme weather events has been growing amidst persistent gaps in the capacity to address them. Under most modelled scenarios, Kenya is expected to become hotter and wetter due to climate change. Poor and vulnerable households tend to have high exposure and vulnerability to natural disasters, not least because they depend on subsistence farming for their livelihoods. They also have limited financial means to cope with and bounce back from the impacts of such events. It is important that the country promotes physical, financial, and social resilience against weather shocks particularly among poor households.<sup>35</sup> Further, building resilience of poor households will be critical for inclusive economic growth as well as poverty and inequality reduction.

**Social resilience can be strengthened by utilizing and expanding the country’s existing social protection system.** This will ensure the poor and vulnerable receive targeted and timely assistance after disasters. While fiscal constraints pose a challenge to expanding social protection in response to shocks, this remains a critical tool to assist poor and vulnerable households to manage risks. The existing Inua Jamii system provides a solid foundation for which Kenya can improve the coverage, timeliness, and adequacy of its social protection system. The on-going development of an enhanced single registry (ESR) can enhance the targeting of emergency response to different shocks across the country and the expansion of the Hunger Safety Net Program to additional arid and semi-arid counties will expand the coverage the program. However, further improvements can be made through:

The incidence of extreme weather events – particularly droughts and flood – has been growing

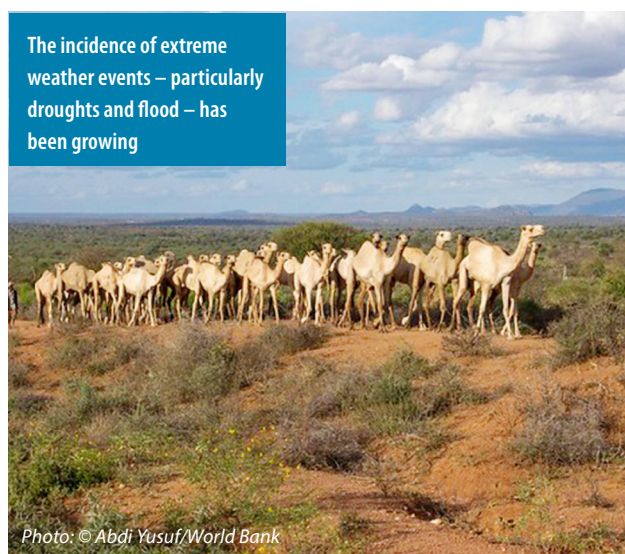


Photo: © Abdi Yusuf/World Bank

<sup>35</sup> Physical resilience helps to reduce risk and prevent disasters; financial resilience to minimize the financial impact of shocks; and social resilience helps households and society cope with shocks.

(i) ensuring sufficient financial resources are available to allow the shock-responsive element to deliver timely assistance to poor and vulnerable households; (ii) increase the coverage for social assistance in a manner that ensures the poorest are targeted first; and (iii) protect the real value of cash transfers through more frequent nominal increases. Other types of social assistance, such as digital public works, could also be considered to address short-term shocks and build job-relevant skills.<sup>36</sup>

**Financial resilience can be strengthened by leveraging risk management tools for poor rural households, and grassroots institutions play an important in this area.<sup>37</sup>**

A wide range of financial products can enhance resilience, from savings to credit to insurance. Only 14 percent of those employed in Kenya are in formal employment and have access to social insurance. Access to formal financial services also remains very limited among poor households. Design and operational innovations in long-term savings schemes targeted to attract informal sector workers (e.g., in schemes of Rwanda, China, India, and Colombia) incorporate flexibility in saving and withdrawal, offer tangible short-term benefits (by bundling services, such as maternity benefits), focus on communication, and invest in partnerships with the public, private sector, and civil society. Kenya could leverage further innovations in rural finance, including credit, equity financing, value chain financing, remittance transfer and remittance-based investment products. The development of weather risk management instruments, notably through weather index-based insurance would be important.

**Physical resilience can be strengthened through targeted investments for comprehensive and inclusive disaster risk management.** About 85 percent of Kenya's land area classified as a fragile arid and semi-arid ecosystem which is largely pastoral; therefore, it is important to strengthen the management of water systems and landscapes. Because the poor tend to rely on rainfed agriculture, this entails expanding and rehabilitating irrigation infrastructure where possible, leveraging the farmer led irrigation development (FLID) approach already being implemented in Kenya. Improving irrigation

services and operational and maintenance practices is also important. Measures to promote sustainable livestock grazing practices and sustainable land management practices can begin arresting widespread land degradation because of deforestation.

**Building climate-resilient infrastructure will strengthen resilience of infrastructure services and reduce the cost of maintenance.**

The water supply and sanitation sector is also widely affected by frequent flooding, causing frequent uptick of water-borne diseases due to contamination. Investing in water conservation and rangeland management interventions, leveraging on priorities identified by county integrated development plans, is important. Restoring watersheds and generally optimizing water use through nature-based solutions can improve water conservation. Rotational grazing, soil conservation and agroforestry can lead to better rangeland management. Developing and disseminating climate-smart agriculture (CSA)<sup>38</sup> technologies and services to farmers, including climate-smart seed systems can begin to address Kenya's vulnerabilities to extreme weather trends. This requires creating an enabling environment for CSA through incentive systems and safeguards, including addressing inequalities and discrimination, particularly by gender.<sup>39</sup> The uptake of new approaches hinges on building the capacity of farmers and community organizations to enable them to shift to new practices.

**Inclusive institutions and systems are important for resilience.**

This can be achieved through (i) developing and strengthening data and digital systems that support agricultural household resilience and climate adaptation planning, leveraging on existing digital solutions and platforms; (ii) strengthening meteorological services, making sure information is transmitted to poor households; (iii) making effective use of extension services to empower and build the capacity of small-scale farmers; and (iv) strengthening community engagement and enhancing the uptake of digital solutions at the farm level.

**The proposed pillars of an inclusive growth agenda in Kenya are summarized in Figure 46.**

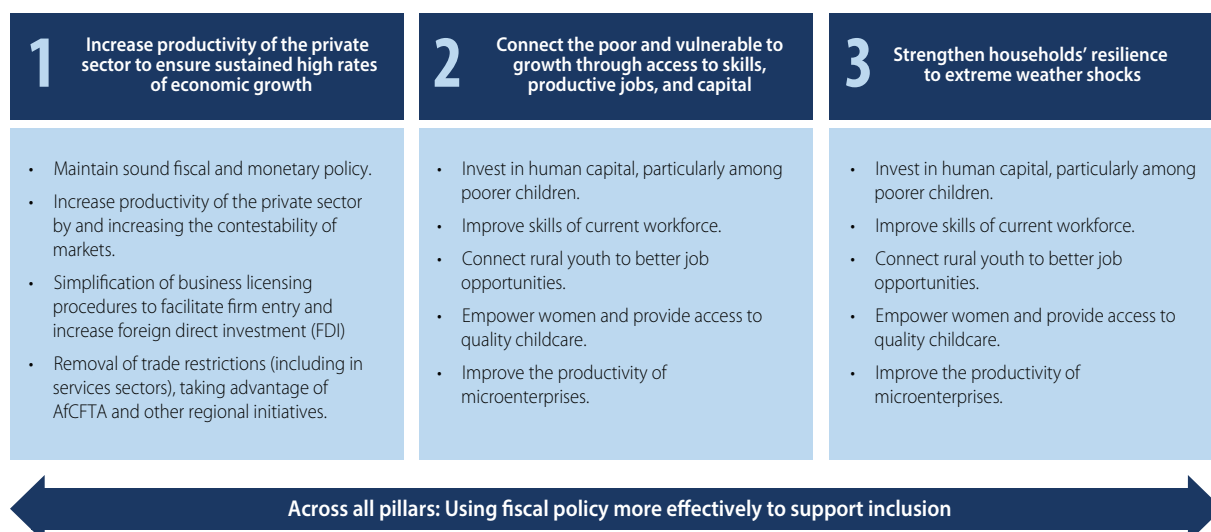
<sup>36</sup> World Bank, 2023. Kenya Social Protection and Jobs Public Expenditure Review.

<sup>37</sup> Grassroots institutions includes institutions such as local savings and credit associations, church or other religious associations and extended family networks. Membership-based organizations with market-related functions can also significantly reduce risk, as in the case of farmers' organizations that increase the bargaining power of small rural producers and enable access to credit or provide quality assurance for access to a warehouse receipt system.

<sup>38</sup> This includes manure composting and application, improved pastures management, drought-tolerant crop varieties and other techniques mentioned on Kenya's CSA Country Profile (<https://climateknowledgeportal.worldbank.org/sites/default/files/2019-06/CSA%20KENYA%20NOV%2018%202015.pdf>)

<sup>39</sup> Examples include inclusive and fair tenure systems regulating access to land, water, forests, and other productive assets, protecting the entitlements of poor rural people, and facilitating fair and transparent transactions around these assets.

Figure 46: Pillars and indicative policy areas for an inclusive growth agenda in Kenya



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## ANNEX TABLES

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**Table A1: Selected economic indicators, 2018-2022**

	2018	2019	2020	2021	2022
	Act.	Act.	Act.	Act.	Act.
<b>Output and prices</b>	<b>(Annual percentage change, unless otherwise indicated)</b>				
Real GDP	5.6	5.1	-0.3	7.6	4.8
Agriculture	5.7	2.7	4.6	-0.4	-1.6
Industry	3.8	4.0	3.3	7.5	3.9
Services	6.0	6.7	-1.8	9.5	6.7
Private consumption	4.7	5.0	-1.5	6.2	3.1
Government consumption	7.0	5.6	3.0	5.7	7.4
Gross fixed capital investment	-0.4	4.5	2.3	10.8	-1.1
Exports, goods and services	6.8	-3.2	-14.9	15.3	10.7
Imports, good and services	1.4	1.8	-9.4	22.2	4.5
GDP deflator	4.2	4.3	5.1	4.5	5.4
CPI (period average)	4.7	5.2	5.3	6.1	7.6
<b>Money and credit</b>	<b>(Annual percentage change, unless otherwise indicated)</b>				
Broad money (M3)	10.1	5.6	13.2	6.1	7.1
Credit to non-government sector	2.4	7.1	8.5	8.5	12.5
Policy rate (CBR)	9.0	8.5	7.0	7.0	8.8
NPLs (percent of total loans)	10.0	10.0	12.2	11.1	11.4
<b>Central government (fiscal year i.e 2019 = 2019/20)</b>	<b>(Percent of GDP, unless otherwise indicated)</b>				
Total revenue & grants	17.7	17.1	16.0	17.6	16.7
Tax revenues	14.4	13.0	12.6	13.9	13.2
Non-tax revenues	3.1	3.9	3.1	3.4	3.3
Grants	0.2	0.2	0.3	0.2	0.2
Expenditure	25.0	24.2	24.2	23.8	22.6
Current	15.7	15.5	15.8	16.8	16.2
Capital	5.6	5.6	4.9	4.3	3.5
Primary balance	-3.4	-2.8	-3.8	-1.6	-0.8
Overall balance including grants	-7.3	-7.0	-8.2	-6.2	-5.6
Financing	7.4	7.4	8.4	5.9	5.4
Net domestic borrowing	3.1	4.2	5.5	4.8	3.2
Foreign financing	4.3	3.2	2.8	1.1	2.2
<b>Public debt stock (fiscal year i.e 2019 = 2019/20)</b>	<b>(Percent of GDP, unless otherwise indicated)</b>				
Public gross nominal debt	59.6	63.0	67.7	68.0	71.4
External debt	31.0	33.1	35.2	33.9	37.5
Domestic debt	28.6	29.9	32.5	34.1	33.9
<b>Memo:</b>					
GDP at current market prices (KES billion)	9,340	10,238	10,715	12,028	13,368

Source: World Bank, National Treasury, Central Bank of Kenya, Kenya National Bureau of Statistics

**Table A2: GDP growth rates for Kenya and EAC (2018-2022)**

	2018	2019	2020	2021	2022
Kenya	5.6	5.1	-0.3	7.6	4.8
Uganda	6.3	6.4	3.0	3.4	4.7
Tanzania	5.5	5.8	2.0	4.3	4.6
Rwanda	8.5	9.5	-3.4	10.9	8.2
Burundi	1.6	1.8	0.3	3.1	1.8
Congo (DR)	5.8	4.4	1.7	6.2	8.9
South Sudan	-3.5	3.2	9.5	-5.1	-2.3

Source: World Bank

**Table A3: Kenya annual GDP (2010-2021)**

Years	GDP, current prices	GDP, 2016 constant prices	GDP/capita, current prices	GDP growth
	KSh Millions	KSh Millions	US\$	Percent
2010	3,598,000	5,794,000	930	8.1
2011	4,163,000	6,090,000	1,010	5.1
2012	4,767,000	6,368,000	1,060	4.6
2013	5,311,000	6,610,000	1,130	3.8
2014	6,004,000	6,942,000	1,260	5.0
2015	6,884,318	7,287,024	1,330	5.0
2016	7,594,064	7,594,064	1,500	4.2
2017	8,483,396	7,883,816	1,550	3.8
2018	9,340,307	8,330,891	1,730	5.6
2019	10,237,727	8,756,946	1,890	5.1
2020	10,715,070	8,733,060	1,900	(0.3)
2021	12,027,662	9,395,942	2,080	7.6
2022	13,368,340	9,851,329	2,170	4.8

Source: Kenya National Bureau of Statistics and World Development Indicators

**Table A4: Contribution by sub-sectors (percentage points)**

Year	Quarterly	Agriculture	Industry by sub sector contribution				Industries	Services by subsector contribution						Other	Services
			Mining and quarrying	Manufacturing	Electricity and water supply	Construction		Accommodation and restaurant	Transport and storage	Real estate	Information and communication	Education	Financial and insurance		
2019	Q1	1.0	0.0	0.2	0.1	0.3	0.6	0.4	0.2	0.7	0.2	0.5	0.4	0.8	3.7
	Q2	0.7	0.1	0.4	0.0	0.4	0.9	0.5	0.1	0.9	0.2	0.7	0.5	0.9	4.2
	Q3	0.2	0.0	0.2	0.0	0.4	0.8	0.5	0.1	0.5	0.2	0.8	0.5	1.0	3.9
	Q4	0.2	0.1	0.1	0.0	0.4	0.5	0.4	0.2	0.5	0.2	0.4	0.5	0.7	3.6
2020	Q1	1.0	0.1	0.1	0.0	0.5	0.8	0.4	-0.1	0.2	0.2	0.5	0.2	0.8	2.2
	Q2	1.7	0.0	-0.4	-0.1	0.4	-0.1	-0.3	-0.6	-1.7	0.1	0.3	0.3	-1.9	-3.8
	Q3	-0.8	0.0	-0.2	0.0	0.6	0.5	-0.4	-0.7	-1.1	0.1	0.3	0.5	-1.3	-2.6
	Q4	1.5	0.1	0.4	0.1	0.7	1.2	0.2	-0.7	-0.7	0.2	0.8	0.6	-0.5	-0.1
2021	Q1	-0.1	0.1	0.2	0.1	0.3	0.7	0.7	-0.3	-0.8	0.2	0.7	0.4	0.8	1.7
	Q2	-0.4	0.1	0.9	0.2	0.4	1.6	0.8	0.3	1.6	0.3	1.0	0.5	3.3	7.8
	Q3	-0.1	0.2	0.9	0.2	0.4	1.7	0.6	0.6	1.4	0.0	0.9	0.3	3.1	6.9
	Q4	0.4	0.4	0.6	0.1	0.4	1.4	0.6	0.7	0.7	0.2	1.1	0.2	2.3	5.8
2022	Q1	-0.3	0.3	0.3	0.1	0.3	1.0	0.4	0.3	0.7	0.3	1.3	0.3	1.5	4.8
	Q2	-0.5	0.2	0.3	0.1	0.3	0.9	0.3	0.3	0.7	0.3	1.3	0.2	1.2	4.3
	Q3	-0.2	0.0	0.2	0.2	0.2	0.5	0.3	0.2	0.5	0.4	0.8	0.2	1.1	3.4
	Q4	-0.2	0.0	0.2	0.1	0.1	0.4	0.2	0.2	0.3	0.3	0.9	0.3	0.8	3.0
	Q1	1.1	0.0	0.2	0.1	0.2	0.4	0.5	0.2	0.6	0.3	0.5	0.4	1.0	3.5
	Q2	1.5	0.1	0.1	0.0	0.1	0.3	0.3	0.1	0.3	0.2	1.3	0.2	1.0	3.4

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 A5: National fiscal position**

Actual (percent of GDP)	2018/19	2019/20	2020/21	2021/22	2022/23*
Revenue and grants	17.7	17.1	16.0	17.6	16.7
Total revenue	17.5	16.9	15.7	17.3	16.5
Tax revenue	14.4	13.0	12.6	13.9	13.2
Income tax	7.0	6.7	6.1	6.9	6.6
VAT	4.2	3.6	3.6	4.1	3.9
Import duty	1.1	0.9	1.0	0.9	0.9
Excise duty	2.0	1.8	1.9	2.0	1.9
Other revenues	1.0	1.8	1.2	1.2	1.1
Railway levy					
Appropriation in aid	2.1	2.1	2.0	2.2	2.2
Grants	0.2	0.2	0.3	0.2	0.2
<b>Expenditure and net lending</b>	25.0	24.2	24.2	23.8	22.6
Recurrent	15.7	15.5	15.8	16.8	16.2
Wages and salaries	4.3	4.2	4.3	4.1	3.8
Interest payments	3.9	4.1	4.4	4.6	4.8
Other recurrent	7.6	7.1	7.1	8.1	7.6
Development and net lending	5.6	5.6	4.9	4.3	3.5
County allocation	3.7	3.1	3.5	2.8	2.9
Parliamentary service	0.3	0.3	0.3	0.3	
Judicial service	0.1	0.1	0.1	0.1	
Equalization of funds	0.1	0.0	0.0	0.0	
<b>Fiscal balance</b>					
Deficit including grants (cash basis)	-7.3	-7.0	-8.2	-6.2	-5.6
<b>Financing</b>	7.4	7.4	8.4	5.9	5.4
Foreign financing	4.3	3.2	2.8	1.1	2.2
Domestic financing	3.1	4.2	5.5	4.8	3.2
Total public debt (gross)	59.6	63.0	67.7	68	71.4
External debt	31.0	33.1	35.2	33.9	37.5
Domestic debt	28.6	29.9	32.5	34.1	33.9
Memo:					
GDP (Fiscal year current market prices, Ksh bn)	9,746	10,621	11,370	12,698	14,274

Source: National Treasury  
Note: \*indicate Preliminary results





**Table A6: 12-months cumulative balance of payments**

BPM6 Concept (US\$ million)

	2019	2020	2021	2022	2023 (August)
A. Current Account, n.i.e.	(5,541)	(4,619)	(6,027)	(5,774)	(4,126)
Merchandise A/C	(10,679)	(8,430)	(11,439)	(11,715)	(9,911)
Goods: exports f.o.b.	5,872	6,062	6,730	7,421	7,305
Goods: imports f.o.b.	16,551	14,492	18,169	19,136	17,216
Oil	3,310	2,185	3,480	5,548	4,779
Services	1,767	355	740	1,165	915
Services: credit	5,621	3,732	4,859	6,436	5,996
Services: debit	3,854	3,377	4,120	5,271	5,081
Income	3,371	3,456	4,673	4,776	4,870
B. Capital Account, n.i.e.	208	131	195	142	133
C. Financial Account, n.i.e.	(6,233)	(2,950)	(7,058)	(4,362)	(3,188)
Direct investment: net	(1,132)	(499)	4	(339)	(372)
Portfolio investment: net	(1,312)	1,279	(135)	712	681
Financial derivatives: net	(5)	(73)	(35)	(20)	(7)
Other investment: net	(3,789)	(3,730)	(6,927)	(4,735)	(3,497)
D. Net Errors and Omissions	154	38	(416)	(897)	(365)
E. Overall Balance	(1,059)	1,427	(845)	2,147	1,163
F. Reserves and Related Items	1,059	(1,427)	845	(2,147)	(1,163)
Reserve assets	905	(819)	1,185	(1,528)	(368)
Credit and loans from the IMF	(154)	608	847	619	795
Exceptional financing	-	-	(507)		
Gross Reserves (US\$ million)	12,851	12,992	14,199	12,085	13,676
Official	9,116	8,297	9,491	7,969	7,652
Commercial Banks	3,735	4,695	4,708	4,115	6,024
Imports cover (36 months import)	5.5	5.1	5.6	4.5	4.1
Memo:					
<b>Annual GDP at Current prices (US\$ million)</b>	<b>100,380</b>	<b>100,639</b>	<b>109,970</b>	<b>113,420</b>	<b>110,067</b>

Source: World Bank and Central Bank of Kenya



**Table A7: Inflation**

Year	Month	Overall Inflation	Food Inflation	Energy Inflation	Core Inflation
2020	January	5.8	14.9	4.7	2.2
	February	6.4	9.6	5.5	2.3
	March	5.5	11.9	4.5	1.9
	April	5.6	11.6	4.9	2.0
	May	5.3	10.6	5.0	1.8
	June	4.6	8.2	5.4	1.6
	July	4.4	6.6	6.1	2.0
	August	4.4	5.4	7.6	2.1
	September	4.2	5.2	7.6	1.9
	October	4.8	5.8	8.2	2.5
	November	5.3	6.1	7.8	2.9
	December	5.6	7.2	8.1	2.9
2021	January	5.7	7.4	8.7	2.7
	February	5.8	6.9	10.1	2.7
	March	5.9	6.7	11.1	2.7
	April	5.8	6.4	10.5	2.7
	May	5.9	7.0	10.0	2.8
	June	6.3	8.5	9.5	2.8
	July	6.4	8.8	8.2	3.0
	August	6.6	10.7	6.5	2.7
	September	6.9	10.6	7.6	2.9
	October	6.5	10.6	7.0	2.4
	November	5.8	9.9	7.2	2.0
	December	5.7	9.1	7.2	1.9
2022	January	5.4	8.9	6.0	1.9
	February	5.1	8.7	4.7	2.0
	March	5.6	9.9	4.3	2.2
	April	6.5	12.2	6.2	2.4
	May	7.1	12.4	6.2	2.6
	June	7.9	13.8	7.0	3.0
	July	8.3	15.3	6.3	3.1
	August	8.5	15.3	6.6	3.4
	September	9.2	15.5	8.8	3.6
	October	9.6	15.8	9.4	4.0
	November	9.5	15.4	8.9	4.3
	December	9.1	13.8	9.6	4.3
2023	January	9.0	12.8	10.2	4.7
	February	9.2	13.3	10.3	4.8
	March	9.2	13.4	10.1	4.7
	April	7.9	10.1	9.7	4.8
	May	8.0	10.2	9.9	4.3
	June	7.9	10.3	9.4	4.1
	July	7.3	8.6	10.4	3.8
	August	6.7	7.5	10.3	3.7
	September	6.8	7.9	9.7	3.7
	October	6.9	7.8	10.7	3.8

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

Table A8: 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
2021	January	9.3	15.6	12.6	5.5	2.5	14.4	14.0	8.8	-6.1	4.7	18.7	6.5	5.8
	February	9.6	13.4	15.8	3.9	5.2	19.0	9.0	8.8	21.6	4.2	20.3	5.0	3.8
	March	7.7	12.3	10.7	2.1	2.9	17.4	7.5	7.7	-3.6	2.9	17.6	5.7	5.2
	April	6.7	10.0	4.0	0.9	3.4	13.3	7.6	5.8	-8.8	4.5	19.3	7.2	24.3
	May	7.1	4.3	1.5	3.8	4.5	16.3	6.7	5.7	-18.1	3.1	22.0	6.9	39.8
	June	7.7	3.7	8.1	1.9	2.0	11.8	11.5	4.0	-13.0	3.2	23.4	5.2	65.2
	July	6.1	2.8	9.4	1.3	0.4	0.2	8.9	3.2	-22.1	2.4	21.7	4.9	58.0
	August	7.0	1.4	9.3	2.7	1.7	11.8	7.7	2.8	-23.1	2.0	20.1	5.8	56.0
	September	7.7	3.3	9.8	4.7	0.5	10.9	11.7	2.9	-8.4	2.6	17.6	7.6	59.5
	October	7.8	2.7	10.9	5.5	-0.5	9.6	8.9	2.4	6.2	2.7	16.5	8.2	64.1
	November	7.7	1.3	11.5	6.1	2.8	8.3	7.1	1.1	8.3	3.3	15.3	10.8	55.2
	December	8.6	0.5	13.1	8.5	1.9	14.3	5.8	0.6	42.9	3.7	15.0	9.5	38.9
2022	January	8.8	1.3	9.7	9.6	2.9	20.7	3.5	0.5	24.9	4.3	14.6	8.4	46.8
	February	9.1	3.0	7.6	8.9	7.9	24.1	3.6	0.7	-10.7	5.0	14.0	11.6	49.7
	March	10.9	7.7	9.9	10.4	6.4	25.0	3.6	0.5	-4.9	7.5	15.6	14.7	60.5
	April	11.5	6.4	12.0	10.7	8.2	28.9	5.8	0.8	28.3	6.7	16.1	12.2	53.6
	May	11.9	11.6	15.5	9.1	9.0	26.5	5.3	0.8	47.9	7.5	15.1	11.3	57.5
	June	12.3	12.5	15.2	11.6	13.9	22.2	6.5	0.5	28.5	6.1	14.7	15.2	57.2
	July	14.2	10.8	16.1	15.2	14.1	27.0	2.8	1.7	78.6	7.6	14.8	16.9	69.8
	August	12.5	19.2	15.2	13.3	11.5	13.5	1.2	1.0	97.2	7.8	14.3	16.1	60.8
	September	12.9	17.0	14.2	16.4	12.5	21.6	0.2	0.1	57.4	7.8	14.4	12.5	53.8
	October	13.3	21.7	17.5	15.3	8.0	22.8	5.4	1.6	53.5	5.9	14.0	13.2	49.8
	November	12.5	20.3	14.9	14.3	6.0	21.8	4.4	2.8	58.3	6.0	12.6	14.5	44.8
	December	12.5	22.3	13.8	11.4	8.2	23.5	7.6	3.2	31.3	8.2	12.9	13.7	41.8
2023	January	11.5	20.7	13.8	11.1	5.8	16.6	6.7	3.3	54.2	7.8	12.5	13.7	33.3
	February	11.7	18.0	15.2	11.8	3.0	16.5	21.1	2.9	97.7	7.8	12.4	13.5	15.3
	March	11.6	14.9	15.8	11.9	5.8	17.4	28.4	2.3	83.2	7.2	12.7	9.3	11.9
	April	13.2	16.9	21.7	13.7	4.2	18.0	32.3	2.4	55.6	5.0	13.3	12.5	20.6
	May	13.2	18.3	19.3	15.4	5.1	22.0	32.7	1.9	41.3	7.0	11.9	13.5	6.8
	June	12.2	18.6	18.0	10.2	4.9	19.8	29.7	3.7	24.0	8.4	12.0	12.1	8.7
	July	10.3	19.0	14.7	7.4	1.9	16.4	35.4	3.0	16.7	7.0	12.9	10.7	0.5
	August	12.6	14.9	19.6	9.4	2.7	24.9	38.7	3.7	23.7	7.8	12.7	8.1	10.8

Source: Central Bank of Kenya

**Table A9: Mobile payments**

Year	Month	Number of agents	Number of customers (Millions)	Number of transactions (Millions)	Value of transactions (Billions)
2021	January	287,410	66.6	173.9	590.4
	February	294,111	67.2	164.2	568.0
	March	293,403	65.9	182.3	537.8
	April	294,706	67.1	173.4	502.2
	May	298,883	67.8	180.8	536.7
	June	301,457	67.8	175.8	532.6
	July	303,718	68.5	184.0	588.0
	August	304,822	68.1	184.5	586.5
	September	305,831	67.7	180.9	585.4
	October	295,105	66.9	190.1	618.1
	November	299,053	67.2	186.0	601.0
	December	298,272	68.0	189.8	622.1
2022	January	299,860	68.3	181.9	585.8
	February	301,108	67.9	171.4	568.7
	March	302,837	68.6	195.8	664.3
	April	295,237	68.7	188.2	663.5
	May	305,830	70.0	193.0	692.6
	June	304,693	70.3	186.2	665.1
	July	309,856	71.6	194.8	722.5
	August	310,450	70.1	184.8	677.4
	September	308,799	71.7	189.7	674.5
	October	311,957	73.2	196.9	646.5
	November	315,240	73.2	190.5	639.8
	December	317,983	73.1	207.0	708.1
2023	January	319,079	74.4	198.3	589.3
	February	323,613	74.0	184.8	578.1
	March	321,149	73.7	204.8	645.8
	April	329,968	76.0	195.0	615.3
	May	334,726	77.3	205.9	670.4
	June	328,543	77.0	197.4	643.8
	July	330,912	77.2	202.9	684.6
	August	333,428	77.6	208.6	666.6
	September	336,033	77.1	201.6	660.8

Source: Central Bank of Kenya

**Table A10: Exchange rate**

Year	Month	USD	UK Pound	Euro
2021	January	109.8	149.7	133.8
	February	109.7	151.8	132.6
	March	109.7	152.2	130.9
	April	107.9	149.3	129.1
	May	107.4	151.1	130.4
	June	107.8	151.4	130.1
	July	108.1	149.4	127.9
	August	109.2	150.9	128.6
	September	110.2	151.5	129.8
	October	110.9	151.6	128.6
	November	111.9	151.0	127.9
	December	112.9	150.2	127.6
2022	January	113.4	153.6	128.4
	February	113.7	153.7	128.8
	March	114.3	151.0	126.2
	April	115.4	150.1	125.5
	May	116.3	145.1	123.0
	June	117.3	144.8	124.1
	July	118.3	141.8	120.7
	August	119.4	143.5	121.0
	September	120.4	136.7	119.3
	October	121.0	136.6	119.0
	November	121.9	143.0	124.2
	December	122.9	149.8	130.8
2023	January	123.9	151.3	133.4
	February	125.4	151.9	134.5
	March	129.7	157.4	138.8
	April	134.4	167.3	147.4
	May	137.3	171.3	149.2
	June	139.7	176.3	151.4
	July	141.4	182.1	156.3
	August	143.9	182.9	157.1
	September	146.8	182.3	156.9

Source: Central Bank of Kenya





**Table A11: Nairobi securities exchange**  
(NSE 20 Share Index, Jan 1966=100, End - month)

Year	Month	NSE 20 share index
2021	January	1,882
	February	1,916
	March	1,846
	April	1,867
	May	1,872
	June	1,928
	July	1,974
	August	2,021
	September	2,031
	October	1,961
	November	1,871
	December	1,903
2022	January	1,889
	February	1,887
	March	1,847
	April	1,801
	May	1,682
	June	1,613
	July	1,701
	August	1,751
	September	1,718
	October	1,678
	November	1,638
	December	1,676
2023	January	1,657
	February	1,647
	March	1,622
	April	1,579
	May	1,546
	June	1,575
	July	1,577
	August	1,540
	September	1,508

Source: Central Bank of Kenya



**Table A12: Central bank rate and Treasury bills**

Year	Month	Central Bank Rate	91-Treasury Bill	182-Treasury Bill	364-Treasury Bill
2021	January	7.0	6.9	7.5	8.4
	February	7.0	6.9	7.6	8.8
	March	7.0	7.0	7.8	9.1
	April	7.0	7.1	7.9	9.4
	May	7.0	7.2	8.0	9.4
	June	7.0	7.0	7.6	8.4
	July	7.0	6.6	7.1	7.5
	August	7.0	6.6	7.1	7.4
	September	7.0	6.8	7.3	7.8
	October	7.0	7.0	7.4	8.1
	November	7.0	7.1	7.7	8.7
	December	7.0	7.3	7.9	9.1
2022	January	7.0	7.3	8.1	9.5
	February	7.0	7.3	8.1	9.7
	March	7.0	7.3	8.1	9.8
	April	7.0	7.4	8.3	9.7
	May	7.5	7.7	8.7	9.9
	June	7.5	7.9	9.1	10.0
	July	7.5	8.2	9.3	10.0
	August	7.5	8.6	9.4	9.9
	September	8.3	8.9	9.6	9.9
	October	8.3	9.1	9.7	9.9
	November	8.8	9.2	9.7	10.2
	December	8.8	9.4	9.8	10.3
2023	January	8.8	9.4	9.9	10.4
	February	8.8	9.6	10.1	10.6
	March	9.5	9.8	10.3	10.8
	April	9.5	10.0	10.5	10.9
	May	9.5	10.5	10.8	11.3
	June	10.5	11.5	11.5	11.7
	July	10.5	12.1	12.2	12.5
	August	10.5	13.9	13.2	13.6
	September	10.5	14.6	14.4	14.6
	October	10.5		15.0	15.3

Source: Central Bank of Kenya



**Table A13: 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
2021	January	5.1	6.9	7.0	6.3	2.7	12.0	5.7
	February	4.5	6.9	7.0	6.5	3.4	12.0	5.6
	March	5.2	7.0	7.0	6.5	3.5	12.0	5.6
	April	5.1	7.1	7.0	6.3	2.7	12.1	5.8
	May	4.6	7.1	7.0	6.3	2.5	12.1	5.8
	June	4.6	7.0	7.0	6.4	2.5	12.0	5.6
	July	4.2	6.6	7.0	6.3	2.5	12.1	5.8
	August	3.1	6.6	7.0	6.3	2.6	12.1	5.8
	September	4.7	6.8	7.0	6.3	2.6	12.1	5.8
	October	5.3	7.0	7.0	6.4	2.6	12.1	5.7
	November	5.0	7.1	7.0	6.4	2.6	12.1	5.7
	December	5.2	7.3	7.0	6.5	2.6	12.2	5.7
2022	January	4.3	7.3	7.0	6.5	2.5	12.1	5.6
	February	4.7	7.3	7.0	6.6	2.6	12.2	5.6
	March	4.8	7.3	7.0	6.5	2.5	12.2	5.7
	April	4.7	7.4	7.0	6.6	2.6	12.2	5.6
	May	4.6	7.7	7.5	6.6	2.5	12.2	5.6
	June	5.0	7.9	7.5	6.6	2.5	12.3	5.7
	July	5.5	8.2	7.5	6.7	2.9	12.3	5.6
	August	5.4	8.6	7.5	6.9	3.5	12.4	5.5
	September	4.4	8.9	8.3	6.8	3.4	12.4	5.6
	October	5.1	9.1	8.3	7.0	3.5	12.4	5.4
	November	4.5	9.2	8.8	7.1	3.5	12.6	5.5
	December	5.3	9.4	8.8	7.2	3.6	12.7	5.5
2023	January	5.9	9.4	8.8	7.5	3.6	12.8	5.3
	February	6.4	9.6	8.8	7.5	3.6	13.1	5.5
	March	7.1	9.8	9.5	7.6	3.5	13.1	5.5
	April	8.5	10.0	9.5	7.7	3.6	13.1	5.4
	May	9.4	10.5	9.5	7.7	3.5	13.2	5.5
	June	9.5	11.5	10.5	7.8	3.9	13.3	5.5
	July	10.0	12.1	10.5	8.1	4.0	13.5	5.4
	August	12.5	13.9	10.5	8.4	4.1	13.8	5.4
	September	12.3	14.6	10.5				

Source: Central Bank of Kenya



**Table A14: Money aggregate** (Growth rate y-o-y)

Year	Growth rates (yoy)	Money supply, M1	Money supply, M2	Money supply, M3
2021	January	12.6	11.0	13.2
	February	10.6	9.9	12.4
	March	7.6	7.7	10.1
	April	7.7	7.9	9.3
	May	7.8	6.9	7.6
	June	5.1	4.6	6.4
	July	6.3	5.6	6.9
	August	10.0	8.8	10.0
	September	6.3	7.2	8.7
	October	4.9	6.6	7.3
	November	3.5	6.1	7.1
	December	7.4	5.6	6.1
2022	January	4.5	4.6	4.7
	February	5.6	4.7	4.4
	March	4.6	4.9	4.7
	April	8.6	6.3	6.9
	May	7.8	5.8	6.8
	June	7.2	5.2	7.4
	July	12.4	5.0	7.6
	August	4.9	2.6	5.1
	September	8.2	4.3	6.1
	October	4.7	2.7	5.2
	November	4.4	3.0	5.3
	December	6.4	5.3	7.1
2023	January	8.6	6.9	9.2
	February	4.9	5.5	8.8
	March	5.0	5.9	10.6
	April	3.1	4.7	9.4
	May	2.4	5.3	10.4
	June	10.0	8.5	13.4
	July	5.8	8.4	14.3

Source: Central Bank of Kenya

**Table A15: Coffee production and exports**

Year	Month	Production MT	Price KSh/Kg	Exports MT	Exports value KSh Million
2021	January	3,824	697	2,129	1,342
	February	5,325	664	3,481	2,161
	March	4,318	544	6,065	4,557
	April	2,196	436	3,337	2,307
	May			4,430	3,010
	June	502	551	3,437	2,272
	July	1,278	674	2,696	1,764
	August	1,479	684	2,504	1,658
	September	1,889	664	2,480	1,735
	October	999	671	2,432	1,674
	November	3,539	775	2,170	1,740
	December	2,816	789	2,314	1,919
2022	January	5,990	762	3,239	2,634
	February	6,271	730	4,618	3,546
	March	6,646	571	4,067	3,416
	April	1,846	519	5,749	4,468
	May	491	424	5,903	4,877
	June	304	627	4,945	3,818
	July	2,111	664	5,179	3,824
	August	4,380	637	3,213	2,482
	September	3,409	589	3,172	2,365
	October	3,015	494	3,224	2,412
	November	1,775	433	3,654	2,388
	December	1,613	463	2,224	1,416
2023	January	4,440	603	1,921	1,217
	February	5,598	680	3,878	2,569
	March	5,073	622	5,486	3,851
	April	4,407	566	5,428	3,896
	May	1,374	604	6,359	4,745
	June			7,078	5,001
	July			6,175	4,192
	August			4,652	3,264
	September			2,967	2,024

Source: Kenya National Bureau of Statistics





**Table A16: Tea production and exports**

Year	Month	Production MT	Price KSh/Kg	Exports MT	Exports value KSh Million
2021	January	48,896	223	48,812	11,379
	February	43,399	230	50,390	11,726
	March	48,693	219	53,432	12,673
	April	44,299	207	51,899	11,576
	May	45,322	205	50,042	11,071
	June	43,469	196	43,993	9,548
	July	34,732	189	43,844	9,204
	August	33,635	230	44,421	9,874
	September	43,185	244	36,308	8,566
	October	48,957	268	40,078	10,316
	November	50,719	278	45,318	12,181
	December	52,526	296	47,922	12,725
2022	January	48,683	294	45,585	12,629
	February	40,826	311	44,093	13,303
	March	46,321	301	46,044	13,559
	April	41,171	304	43,446	12,769
	May	50,093	280	47,380	13,777
	June	43,268	286	46,795	13,693
	July	33,854	280	45,584	13,465
	August	35,895	286	42,940	12,604
	September	38,196	284	48,312	14,168
	October	50,466	298	41,077	12,253
	November	49,220	304	51,641	16,035
	December	55,323	294	47,848	14,892
2023	January	54,919	289	44,556	13,520
	February	32,730	291	44,329	13,511
	March	30,489	311	50,831	16,191
	April	49,491	321	37,025	12,180
	May	57,886	300	48,229	16,176
	June	48,128	292	45,318	15,446
	July			39,944	12,910
	August			58,591	20,193
	September			47,807	16,980

Source: Kenya National Bureau of Statistics

**Table A17: Local electricity generation by source**

Year	Month	Hydro	Geo-thermal	Thermal	Wind	Solar	Co-generation	Total
2021	January	330	465	75	138	7	0	1,015
	February	281	422	106	110	7	0	926
	March	305	461	63	200	8	0	1,037
	April	308	425	60	165	7	0	964
	May	369	385	116	130	8	0	1,008
	June	318	409	84	185	7	0	1,003
	July	286	463	123	153	13	0	1,037
	August	274	453	109	190	17	0	1,043
	September	262	440	107	187	18	0	1,014
	October	309	388	118	201	23	0	1,039
	November	293	378	135	196	23	0	1,025
	December	339	349	167	131	28	0	1,014
2022	January	320	311	206	156	32	0	1,026
	February	244	305	224	123	30	0	926
	March	243	410	170	202	35	0	1,061
	April	229	441	126	179	31	0	1,006
	May	284	521	80	153	33	0	1,071
	June	265	494	83	181	28	0	1,051
	July	252	521	104	208	25	0	1,111
	August	257	513	121	186	22	0	1,099
	September	244	488	118	201	26	0	1,077
	October	247	478	97	237	39	0	1,098
	November	233	494	124	177	39	0	1,067
	December	221	541	133	139	42	0	1,076
2023	January	185	525	107	203	47	0	1,067
	February	113	472	142	191	43	-	961
	March	126	509	167	152	41	-	995
	April	191	476	120	157	39	-	983
	May	238	511	95	182	44	-	1,070
	June	258	505	68	168	37	-	1,035
	July	279	495	108	198	38	0	1,119
	August	259	523	90	187	41	0	1,099
	September	247	512	130	141	39	0	1,070

Source: Kenya National Bureau of Statistics



**Table A18: Soft drinks, sugar, galvanized sheets and cement production**

Year	Month	Soft drinks litres (thousands)	Sugar MT	Galvanized sheets MT	Cement MT
2021	January	50,153	58,044	18,631	669,530
	February	42,749	61,508	20,762	612,980
	March	53,157	66,194	21,781	721,444
	April	43,742	58,404	21,572	695,953
	May	38,327	57,796	21,165	717,669
	June	46,518	58,968	22,365	698,424
	July	33,864	57,513	20,343	876,998
	August	42,744	64,134	19,662	896,825
	September	53,923	45,347	17,479	866,344
	October	52,394	49,899	20,111	892,975
	November	55,226	60,022	25,926	807,553
	December	57,993	62,333	20,348	791,050
2022	January	46,537	64,839	21,546	855,883
	February	44,407	64,191	21,671	818,496
	March	61,898	79,448	19,616	911,250
	April	45,868	68,508	19,479	842,239
	May	44,289	63,209	23,383	752,698
	June	45,640	70,376	22,073	773,153
	July	35,855	70,278	20,895	804,401
	August	38,842	46,460	17,064	745,559
	September	50,841	60,388	21,833	829,930
	October	50,393	76,533	19,951	824,474
	November	52,363	67,990	20,589	821,768
	December	62,536	63,279	17,686	774,124
2023	January	52,571	81,648	17,350	811,864
	February	48,988	67,486	22,457	771,004
	March	55,405	49,761	22,373	839,348
	April	40,807	31,920	21,404	769,259
	May	38,269	31,495	23,555	806,072
	June	42,192	34,072	21,100	794,915
	July		33,246	23,930	844,919
	August		27,680		865,310
					831,534

Source: Kenya National Bureau of Statistics



**Table A19: Tourism arrivals**

Year	Month	JKIA	MIA	TOTAL
2021	January	43,234	3,045	46,279
	February	32,047	3,005	35,052
	March	37,214	3,194	40,408
	April	27,850	3,037	30,887
	May	32,153	1,735	33,888
	June	46,494	2,038	48,532
	July	64,493	4,532	69,025
	August	72,291	6,257	78,548
	September	66,667	3,633	70,300
	October	67,608	5,201	72,809
	November	71,271	5,435	76,706
	December	82,867	7,637	90,504
2022	January	63,277	6,655	69,932
	February	67,560	6,390	73,950
	March	76,336	5,073	81,409
	April	77,379	3,949	81,328
	May	87,058	3,429	90,487
	June	103,332	4,834	108,166
	July	118,347	6,580	124,927
	August	103,163	7,892	111,055
	September	100,682	6,240	106,922
	October	105,318	8,663	113,981
	November	96,533	11,321	107,854
	December	113,630	15,086	128,716
2023	January	98,059	15,989	114,048
	February	99,432	14,863	114,295
	March	95,560	14,034	109,594
	April	81,339	7,315	88,654
	May	90,752	5,493	96,245
	June	124,483	7,814	132,297
	July	145,859	12,241	158,100
	August	141,792	16,301	158,093

Source: Kenya National Bureau of Statistics

Note: JKIA (Jomo Kenyatta International Airport), MIA (Moi International Airport)







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