KENYA

- GDP growth amounted to 6.9% and 5.7% in 2012 and 2013, respectively, while the 2014 estimate and the 2015 projection show economic expansion of 5.3% and 6.5%, respectively.
- In 2013 and 2014, the economy experienced a stable macroeconomic environment with single-digit inflation, whereas the political scene was dominated in 2014 by calls to amend the constitution.
- Reforms have been introduced in Kenya since 1990 to address critical differences in access to economic, political and social services, culminating in the introduction of 47 county governments in 2010.

Overview

GDP growth remained robust in 2013 at 5.7% based on rebased statistics and stood at 4.4%, 5.8% and 5.5% in the first three quarters of 2014 compared with 6.4%, 7.2% and 6.2% in comparable quarters of 2013. According to the central bank's economic monthly review of November 2014, growth was mainly supported by expansion in construction, manufacturing, finance and insurance, information, communications and technology, and wholesale and retail trade. The economy slowed in the third quarter of 2014, partly due to a sharp drop in tourism following terrorist attacks in the country. Overall GDP growth is expected to amount to 6.6% and 6.3% in 2015 and 2016, respectively. Consumer price index (CPI) inflation is expected to remain in the single digits, at around 5%, during the same period.

The short- to medium-term positive growth projections are based on assumptions of: increased rainfall for enhanced agricultural production; a stable macroeconomic environment; continued low international oil prices; stability of the Kenya shilling; improvement in the security situation for a positive influence on the tourism sector; and reforms in the areas of governance and justice.

Political activity in 2014 centred mostly on the call by both the opposition party, Coalition for Reforms and Democracy (CORD), and county governments – the latter mainly seeking amendments of the constitution – to raise national government financial transfers to county governments from 15% to 45%, as well as on the trials at the International Criminal Court (ICC) of the President of the Republic of Kenya, his deputy and a journalist. In December 2014, the trial of the president was dismissed because of insufficient evidence. The trial of his deputy and the journalist are continuing in 2015.

Spatial inclusion has remained a challenge in Kenya since independence because of major differences in access to economic, political and social services, leading to political and ethnic conflicts with serious cases of fighting and displacement of persons in 1992, 1997 and 2007-08. The 2010 constitution attempted to address these differences by introducing 47 county governments and putting political, economic and social structures in place aimed at introducing equity in resource distribution. The national government is to allocate at least 15% of the latest audited accounts to the annual budgets of the county governments. The constitution also addresses marginalisation through affirmative action programmes and policies designed to redress any historical disadvantages.
Recent developments and prospects

Kenya rebased its GDP in September 2014, resulting in the country’s moving to lower middle-income status. The rebasing raised Kenya’s nominal GDP for 2013 from USD 44.1 billion to USD 55.2 billion and per capita GDP from USD 994 to USD 1 246. The country leaped from the 12th to the 9th largest economy in Africa.

The government has implemented relatively sound macroeconomic policies in recent years, resulting in stable macroeconomic fundamentals. A prudent fiscal stance kept the budget deficit at an average of 5% of GDP in the five years leading to 2013. The deficit is projected to be higher than 8% in the short term, mainly on account of continued expansionary fiscal policy due to large infrastructure investments and consumption expenditure.

The World Bank/IMF Debt Sustainability Analysis (DSA) completed in September 2014 indicates that Kenya’s risk of external-debt distress continues to be low. All external-debt indicators remain well below the debt-burden thresholds under the baseline scenario, and no thresholds are breached under any of the standard stress tests.

As a share of GDP, the current account increased between 2013 and 2014, mainly due to the widening of the merchandise account by USD 980 million to stand at USD 12.272 billion in the year to October 2014, which more than offset the 9.6% improvement in the value of the services account. The widening of the merchandise account was a result of increasing imports while...
exports remained fairly stable. Despite the falling price of oil expected to continue through 2016, the current-account deficit is expected to grow to 11.2% in 2016 due to large equipment and hardware imports planned for infrastructure investments.

In a drive to improve the business environment in Kenya, the government, in collaboration with its development partners, the private sector and civil-society organisations, held a thematic Development Partners Forum (DPF) at the end of September 2014 on the theme of “Ease of Doing Business”. This was followed by the third Presidential Round Table meeting in December 2014, chaired by the president, which took stock of the progress that had been made. It was concluded that the country should continue to address the infrastructure, energy and security challenges that have been affecting the business environment adversely if it was to become an attractive investment destination.

The government and development partners held a second DPF in February 2015 on “Devolution”. The forum was mainly focused on the fiscal decentralisation challenges faced by the county governments, requisite capacity building, and intergovernmental and co-ordination related issues. It was agreed that revenue mobilisation should be enhanced at county levels, where expenditure should also be rationalised. Adherence to constitutional and other legal provisions was also emphasised.

In 2013, agriculture contributed about 30% to GDP, followed by finance, real estate and business services at 15.8% (Table 2). Manufacturing remained stagnant and contributed 11.7% to GDP, down from 13.4% in 2009.

Following the drop in international oil prices, the domestic prices of super and regular petrol, diesel and paraffin have also dropped since 2014 by an average 23% between 1 March 2014 and 1 March 2015, compared to a 3% drop in the same period between 2013 and 2014. The drop in fuel prices, however, has not resulted in a similar drop in prices of goods and services. Most traders, mainly in the public-transport sector, have complained that other costs, for example maintenance costs, have either risen or remained the same, hence the lack of drop in prices.

<table>
<thead>
<tr>
<th>GDP by sector (percentage of GDP at current prices)</th>
<th>2009</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing &amp; hunting</td>
<td>26.1</td>
<td>29.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13.4</td>
<td>11.7</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Construction</td>
<td>4.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade; repair of vehicles household goods; Restaurants and hotels</td>
<td>9.8</td>
<td>10.2</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>16.2</td>
<td>15.8</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>5.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Other services</td>
<td>10.9</td>
<td>9.3</td>
</tr>
<tr>
<td><strong>Gross domestic product at basic prices / factor cost</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities
Macroeconomic policy

Fiscal policy

Kenya’s tax-revenue-to-GDP ratio of about 20% since 2010 has been high by regional standards, exceeding the tax-to-GDP ratios in Tanzania (17.4% in FY 2013/14) and Uganda (13% in FY 2013/14). The fiscal deficit (including grants) remained around 5% of GDP between fiscal years 2011/12 and 2012/13, rising from 4.0% to 5.6%, respectively. This trend was maintained despite: i) several new institutions established to implement the 2010 constitution, both at the national level and within the 47 counties, which has put pressure on the government for increased spending; and ii) pressure from public servants to have their remuneration and other public benefits increased.

The share of funds for economic development in the total government budget continued to rise from 27.7% in fiscal year 2009/10 to 30.2% in fiscal year 2011/12 and slightly down to 27.4% in 2013/14. In addition, the government earmarked development-financing allocations to the 47 counties in the 2012/13, 2013/14 and 2014/15 fiscal years. This is consistent with the government’s objective of allocating more resources to infrastructure development and to crowd in private investment in order to lay the foundations for high economic growth as underscored in Vision 2030, Kenya’s long-term development blueprint.

The government has continued to expand borrowing for infrastructure projects by issuing infrastructure bonds and through the successful issuance of the eurobond in 2014, which generated USD 2 billion for the government and was oversubscribed fourfold. As observed by the IMF September 2014 report, the favourable terms of Kenya’s first-ever eurobond, the largest so far in sub-Saharan Africa, reflects the favourable position of Kenya relative to other frontier markets.

The 2014/15 budget incorporates important revenue measures. These measures include: i) a revision of the Excise and Income Tax Acts, ii) higher duties on iron and steel products, iii) improved tax administration, especially in the case of VAT and iv) amendments to the Income Tax Act to address tax avoidance by multinationals. Expected higher revenue will also reflect the full-year effects of VAT reforms introduced in September 2013, as well as the impact of measures adopted to incorporate landlords into the tax base. The authorities expect these measures to yield about 1.3% of GDP in 2014/15.

Total revenue as a percentage of the GDP is therefore expected to average 22% in the next two years while total expenditure and net lending will remain above 30%, and the overall budget deficit will remain above 8% of the GDP.

Table 3. Public finances (percentage of GDP at current prices)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total revenue and grants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>17.3</td>
<td>16.5</td>
<td>16.9</td>
<td>16.2</td>
<td>20.1</td>
<td>20.9</td>
<td>20.7</td>
</tr>
<tr>
<td>Grants</td>
<td>1.2</td>
<td>0.6</td>
<td>1.1</td>
<td>0.9</td>
<td>1.5</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total expenditure and net lending (a)</strong></td>
<td>23.4</td>
<td>24.0</td>
<td>25.6</td>
<td>26.0</td>
<td>29.6</td>
<td>31.3</td>
<td>30.5</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>19.0</td>
<td>17.5</td>
<td>17.1</td>
<td>19.3</td>
<td>22.5</td>
<td>24.4</td>
<td>26.2</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>16.5</td>
<td>15.2</td>
<td>14.9</td>
<td>16.5</td>
<td>19.8</td>
<td>19.8</td>
<td>18.8</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>6.9</td>
<td>5.9</td>
<td>5.7</td>
<td>6.6</td>
<td>7.6</td>
<td>7.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Interest</td>
<td>2.5</td>
<td>2.3</td>
<td>2.2</td>
<td>2.7</td>
<td>2.7</td>
<td>4.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>4.1</td>
<td>6.4</td>
<td>8.4</td>
<td>6.7</td>
<td>7.0</td>
<td>6.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Primary balance</td>
<td>-0.6</td>
<td>-1.5</td>
<td>-1.8</td>
<td>-2.9</td>
<td>-5.3</td>
<td>-4.2</td>
<td>-0.9</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-3.1</td>
<td>-3.7</td>
<td>-4.0</td>
<td>-5.6</td>
<td>-8.0</td>
<td>-8.8</td>
<td>-8.3</td>
</tr>
</tbody>
</table>

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors’ calculations.
Monetary policy

Annual headline inflation is projected to ease to 5.5% in 2015 from 7.0% in 2014. The government’s target is to keep inflation at around 5%. The Central Bank of Kenya (CBK) has pursued a prudent monetary policy stance overall. To control inflation, the CBK retained the central bank rate at 8.5% between May 2013 and March 2015. The Kenya Bank Reference Rate (KBRR), a uniform base rate that is used to inform commercial bank lending rates, was reduced from 9.1% in July 2014 to 8.54 in January 2015. These measures have mitigated internal and external shocks and led to a relative stability of domestic prices and of the exchange rate since 2012. Although introduction of the KBRR was expected to contribute to reducing lending rates, the average lending rate had only fallen by one percentage point to 15.9% in January 2015. It is however expected that the spread from the base rate will drop to 5.8% by July 2015 from the end-2014 figure of 7.8%.

As confirmed by the IMF September 2014 report, the CBK has kept net domestic assets well below the programme-stipulated ceiling and net international reserves above the floor, thanks in part to private capital inflows, particularly to the equity market. Kenyan commercial banks are expanding by raising domestic credit, providing new borrowers with access to funds and increasing operations beyond Kenya’s borders. Banks remain sound and profitable despite a moderate 5.6% increase in the ratio of non-performing loans (NPLs) to total loans in May 2014 (up from 4.6% one year earlier). Credit growth has been increasingly funded externally, mainly owing to a more intensive use of medium-term, mostly concessional foreign-currency lines for small and medium-sized enterprise (SME) project financing and increased credit limits placed by international banks on their subsidiaries. Financial inclusion continues to progress with mobile-banking loans and deposits driven by M-Shwari, a new mobile money banking service (7 million customers in its first year of operations) and higher SME access to credit. Regionally, the CBK is also actively negotiating an East African Community (EAC) monetary union, slated to come into effect in 2022.

The exchange rate remained stable – between KES 86.9 (Kenya shillings) to KES 89.5 per USD from January to November 2014 – owing to improved liquidity management in the interbank market, resilient foreign-exchange inflows through remittances, increased purchases of equity by foreigners at the Nairobi Securities Exchange (NSE), and an improved macroeconomic stability boosting investor confidence. The exchange rate is expected to remain stable in the medium term despite continued pressure from the widening current account in addition to the inflationary risk associated with the monetary easing to stimulate growth.

In February 2015, the IMF approved Kenya’s request for a USD 688.3 million standby loan that will only be drawn upon if needed. The money would be available to the CBK in the fiscal year 2015/16 to cushion internal and external shocks to the local currency in case they should occur, such as adverse weather conditions or major imports for infrastructure projects.

Economic co-operation, regional integration and trade

Kenya is one of the key drivers of economic co-operation within eastern Africa by promoting trade facilitation through enhancements at the Port of Mombasa (now operating 24/7), investing in the improvement of the northern corridor road network and in 2014, launching construction of the Standard Gauge Railway to link Mombasa to Kampala with a USD 5 billion loan from China. Kenya also launched the Lamu Port and South Sudan-Ethiopia Transport road and rail network with the construction of berths at Lamu, in progress. The Jomo Kenyatta International Airport remains the gateway to East Africa and its expansion is underway to enable the airport to handle more cargo and passengers. Kenya therefore actively promotes and conducts trade with all its neighbours, including war-torn Somalia.

Kenya is one of the most proactive and leading examples in the implementation of all conventions and agreements inside the EAC. The adoption of a unique electronic identity card,
soon to be active, has seen countries like Kenya and Rwanda at the forefront of this initiative. In February 2014, the Single East Africa Tourist Visa was officially launched by the Heads of State of Kenya, Rwanda and Uganda in Kampala, completing one of the major integration projects jointly undertaken by the three countries.

The trade balances as percentages of GDP, shown in Table 4 below, depict general volatility since 2006. For example, the current-account balance worsened from a deficit of 1.9% in 2006 to one of 9.4% in 2011 before improving to a deficit of 2.9% in 2013. The current-account deficit is projected to worsen to 11.2% in 2016. In terms of value, the overall balance-of-payments surplus improved to USD 1.507 billion in the year to October 2014 from USD 607 million in the year to October 2013. The current-account balance worsened by 7.5% to a USD 5.422 billion deficit in the year to October 2014 from USD 5.041 billion deficit in the year to October 2013. This deterioration reflects an 8.7% worsening of the merchandise-account deficit, which more than offset the 9.6% improvement in the services-account surplus.

As shown in Table 4, the trade balance is projected to remain at an 11-to-12% deficit in 2015 and 2016, owing to increasing imports of equipment and infrastructure-related materials. The current-account balance is expected to continue to worsen, rising to above 11% in 2016. The government will need to put measures in place aimed at increasing export earnings, from both goods and services, in order to improve the external position in the medium term.

Remittance inflows remained resilient in 2014, with an 11% increase of the cumulative flow to USD 1.42 billion from USD 1.29 billion remitted in 2013. Official reserves held by the CBK increased to USD 7.839 billion (5.1 months of import cover) at the end of October 2014 from USD 6.263 billion (4.3 months of import cover) at the end of October 2013.

Table 4. Current account (percentage of GDP at current prices)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014(e)</th>
<th>2015(p)</th>
<th>2016(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td>-12.6</td>
<td>-20.6</td>
<td>-18.9</td>
<td>-13.0</td>
<td>-14.1</td>
<td>-11.1</td>
<td>-12.1</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
<td>13.6</td>
<td>14.2</td>
<td>12.5</td>
<td>13.4</td>
<td>12.5</td>
<td>10.7</td>
<td>9.5</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
<td>26.2</td>
<td>34.8</td>
<td>31.3</td>
<td>26.3</td>
<td>26.6</td>
<td>21.8</td>
<td>21.6</td>
</tr>
<tr>
<td>Services</td>
<td>4.1</td>
<td>4.8</td>
<td>5.0</td>
<td>4.9</td>
<td>4.1</td>
<td>5.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Factor income</td>
<td>-0.3</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.6</td>
<td>-1.1</td>
<td>-2.1</td>
<td>-3.8</td>
</tr>
<tr>
<td>Current transfers</td>
<td>6.9</td>
<td>6.5</td>
<td>5.7</td>
<td>5.8</td>
<td>3.5</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Current account balance</td>
<td>-1.9</td>
<td>-9.4</td>
<td>-8.6</td>
<td>-2.9</td>
<td>-7.5</td>
<td>-7.9</td>
<td>-11.2</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors’ calculations.

Debt policy

Kenya successfully tapped international capital markets with a debut USD 2 billion eurobond issuance. Of the proceeds, USD 600 million were used to repay a syndicated loan contracted in 2012 and the remaining will serve to finance energy and infrastructure projects. The issuance comprises a five-year bond totalling USD 500 million and a ten-year bond totalling USD 1.5 billion. The government also signed a loan with China in May 2014 for the construction of the Mombasa-Nairobi Standard Gauge Railway (USD 5 billion), to be implemented in about five years. Kenya has not sought debt relief under either the Heavily Indebted Poor Countries initiative or the Multilateral Debt Relief Initiative. The share of debt from private creditors continued to increase in 2014, reflecting Kenya’s successful inaugural sovereign bond issuance in June 2014.

According to a the DSA conducted by the national treasury jointly with the World Bank and the IMF in September 2014, Kenya’s debt burden in relation to thresholds for a “medium performer” country should decline substantially by 2024. There is therefore space for the uptake of more debt. The analysis incorporated as a key assumption that the 2013/14 USD 2 billion sovereign debt would contract, which it did. The findings noted that the public debt should peak in 2015.
and subsequently remain on a downward trend in the baseline scenario. In 2014, overall public debt is estimated to have risen to 45% of GDP. The sovereign-bond issuance and railway-loan disbursements should lift public debt to around 46% of GDP in 2015. In subsequent years, based on the assumption that the primary deficit is kept to 3% of GDP in 2016 and gradually brought down thereafter, public debt should ease to below 46% of GDP by 2018. In present value (PV) terms, the public debt-to-GDP ratio would remain stable around 41-42% through to end-2018, falling thereafter. The PV of the public debt-to-revenue ratio would gradually decline from around 200% in 2014-15 to 191% in 2018.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**

![Graph showing stock of total external debt and debt service](image)

Source: IMF (WEO & Article IV)

**Economic and political governance**

**Private sector**

The Government of Kenya continues to make significant strides in improving the country's business environment, primarily through significant investments in physical infrastructure. In furtherance of its agenda to promote an effective public-private dialogue, the government, in collaboration with the Kenya Private Sector Alliance (KEPSA), established the Presidential Round Table (PRT) discussion series aimed at examining the role each partner should play in improving the business climate in Kenya. Three PRT meetings were held in 2014 at which the critical issues discussed included: infrastructure development (energy, roads, rail, traffic congestion, speedy port services and expansion of the port), taxes (policy stabilisation in the taxation regime, particularly the VAT and excise and custom duties); land (increasing access and removing constraints that prevent easy registration of properties by businesses); trading across borders (eliminating fragmentation of documentation, complicated border processes and bureaucratic bottlenecks); and enforcing contracts and resolving commercial disputes.

The World Bank report *Doing Business 2015* showed that the country's ranking had declined to 136th out of 189 countries in 2014 from 129th in 2013. The fall was attributed to high taxes (specifically, an increase in employers' social-security contribution rate) and the high cost of getting
construction permits. One area where it was reported to have made significant improvement was the in the ease of getting credit by investors. The country’s Global Competitiveness Index ranking improved marginally to 90th out of 144 countries for 2014/15, compared to 96th out of 148 countries for 2013/2014.

Overall, Kenya has a relatively market-friendly business environment in which SMEs are very dynamic, due mainly to strong financial inclusion and small-business access to credit, which is also one of the reforms cited in the World Bank report Doing Business 2015 where Kenya has shown substantial improvement.

Financial sector

Kenya’s financial sector continues to demonstrate strong growth thanks largely to information and communication technologies and innovations, macroeconomic stability, and domestic and regional expansion in economic activities at the devolved level of government. The banking sector, which is largely private-sector driven, still comprises 43 licensed commercial banks and 1 mortgage finance company, 9 deposit-taking microfinance institutions, 7 representative offices of foreign banks, 101 foreign-exchange bureaus, 1 remittance provider and 2 credit reference bureaus.

Persons accessing financial services increased from 27% of the adult population in 2006 to 67% in 2013. In addition, a freely available document mapping all financial touch points, the 2014 FinAccess GIS Mapping, shows that 77% of the adult population lives within 5 km of a financial service provider, compared to 35% in Tanzania, 47% in Nigeria and 43% in Uganda.

Domestic credit from the banking sector increased by KES 380.6 billion (21.1%) in the 12 months to August 2014, versus KES 208.5 billion (13.0%) in the same period in 2013. This increase was largely reflected in growth of credit to the private sector, which accelerated to 24.5% in the year to August 2014 from 16.2% in the same period in 2013. The private sector continued to dominate banking-system lending, accounting for 81.2% of total lending in August 2014 compared with a 17.0% share of lending to the government.

The NSE is the largest securities exchange in both East and Central Africa. It accounts for 59 of the 93 companies in the whole of East Africa and it is the fourth largest market in Africa. Its annualised returns stand at 36%, making it the second-best performing market on the African continent. In terms of value, which comprises both debt and equity, it stood at KES 1.7 trillion in January 2015.

Credit growth has accelerated sharply in lending to manufacturing, real estate, telecommunications, business services and individuals. This is explained to a large extent by an upward shift in credit demand consistent with the initiation of new projects. On the other hand, the latest CBK data shows that NPLs increased by 30.9% in 2013 to KES 107.1 billion in December 2014, mainly due to poor performance in the tourism sector after it was hit by the wave of insecurity concerns in 2013, a slowdown in agricultural exports and the government’s delay in paying contractors. The Banking Supervision Department of the CBK monitors these risks closely, and regards the impact of rising NPLs on banks’ financial statements as largely manageable.

Public sector management, institutions and reform

According to the Kenya Salaries and Remuneration Commission (SRC), over 55% of the government’s domestic revenue was being spent on salaries to public servants in December 2014. The SRC fears that the wage bill will attain unsustainable levels. The SRC has commenced a comprehensive job evaluation of all state officers as well as a series of consultations and dialogue at both the national and county levels in order to raise awareness about the unsustainable wage bill. This is being done in collaboration with relevant government ministries such as the National Treasury and the Ministry of Devolution and Planning.
In August 2014, the government launched biometric registration of public servants as part of the Inter-Governmental Steering Committee for the Capacity Assessment and Rationalization of the Public Service Programme. The exercise established the workforce at 190,000 with about 12,000 non-existent workers illegally listed in the government’s payroll. An earlier audit undertaken in early 2014 found that Kenyan taxpayers were losing more than KES 1.8 billion annually on salary payments to “ghost” workers and other financial malpractices in the civil service.

By January 2015, the harmonisation of allowances in the public service nonetheless led to a proposed additional payment of KES 19.7 billion (USD 218.8 million) to be made in 2015/16. This does not include the demands for a more than 200% pay rise, an almost additional KES 255 billion (USD 2.8 billion) for the more than 270,000 teachers currently undergoing a dispute resolution by the judiciary. If all these payments are brought into effect, the country’s wage bill could rise to KES 823 billion (USD 9.04 billion), or 90% of domestic revenues before further harmonisation to align the rest of civil-service wages with those of teachers.

In the Corruption Perceptions Index (CPI) of 2014 prepared by Transparency International, Kenya is ranked 145th out of 175 assessed countries with a score of 25 out of a possible 100. The country has a consistently poor performance in Transparency International’s CPI, ranking at the bottom of the index, amongst the countries perceived as most affected by public-sector corruption. A large majority, 70%, of respondents to Transparency International's Global Corruption Barometer 2013 indicated that they had paid a bribe to at least one of eight public services in the twelve months preceding the survey.

Natural resource management and environment

Over 75% of Kenya’s population is directly dependent on land and natural resources for livelihood, which is very much vulnerable to the effects of climate change, such as alternating droughts and floods. Kenya has however taken commendable steps to protect its environment as articulated in the 2010 Constitution of Kenya. According to the Kenya Economic Survey 2014, 42% of the country’s GDP is derived from natural resources. This is one of the reasons the government has prioritised a clean, secure and sustainable environment as a fundamental goal to be achieved by 2030. The government, through the National Environment and Management Authority is also implementing programmes aimed at achieving sound environmental management while at the same time reducing the country’s vulnerability to the adverse effects of climate change. These measures have included the development and launching of the National Climate Change Response Strategy in 2010 and the National Climate Change Action Plan 2013-17 in early 2013.

In terms of forest cover, the target of Vision 2030 is to meet a 10% minimum of forest cover and to plant about seven billion trees to address food, water and energy security. In 2011, Kenya’s total area of forest cover amounted to 6.6% and by 2013 had increased by 0.39%, so good progress was made towards achieving the 10% target with a view to comply with Millennium Development Goal (MDG) 7 (ensure environmental sustainability) as well as MDG 1 (eradicate extreme poverty and hunger).

Political context

The political scene was dominated in 2014 by a push for a referendum by both the opposition party, the CORD, and the Council of Governors, which was matched by the government’s launch of a counter-referendum initiative.

ICC cases in The Hague against the president, the deputy president and a radio journalist were also prominently featured in the political discourse. On 3 December 2014, the case against the president was dismissed for lack of substantial evidence, but the cases against his deputy and the journalist were continuing in early 2015.
The security situation in the country continues to remain fragile, exacerbated by long, porous borders, the presence of more than 600 000 refugees in the north-eastern part of the country and regional instabilities, especially in Somalia, South Sudan and the Great Lakes Region. In the months of May, June and November 2014, the country experienced devastating violence in the Mandera, Wajir, Tana Delta and Lamu districts leading to the deaths of more than 125 persons. According to official figures, the number of internally displaced persons across the country was estimated to be higher than 215 000 at end-2014.

To address and adequately respond to the many security challenges faced by the country, the government submitted a Security Laws (Amendment) Bill to Parliament, which was to amend at least 22 laws in the country aimed at giving the executive branch more power in dealing with these challenges. The bill was passed on 18 December 2014 in Parliament after a chaotic parliamentary session and protest by activists outside Parliament, with the opposition members of Parliament warning that Kenya was becoming a police state. In February 2015, the Constitutional Court threw out a number of clauses in the new law as unconstitutional, and the government was considering an appeal.

**Social context and human development**

**Building human resources**

Kenya has made significant strides in achieving universal primary education. The net enrolment ratio increased from 67.8% in 2000 to 95.9% in 2013, while the gross enrolment ratio in 2013 amounted to 117.3% (including persons over 14 years old who are enrolled in primary schools). The proportion of pupils starting Grade 1 who were able to reach the last grade of primary school increased from 57.7% in 2000 to 80.3% in 2013. These achievements can be attributed to the government’s free primary education programme introduced in 2003 and its substantial investment in education at all levels. Kenya is well on track to achieve MDG 2 (achieve universal primary education) by 2015.

About 52% of Kenya’s population has access to basic healthcare services within 5 km. Access to basic primary healthcare and referral services remains, however, a challenge. By 2013, the infant mortality rate in Kenya had fallen to 48 per one thousand live births from 67 in 2000. The under-five mortality rate stood at 71 per one thousand live births in 2013 versus 110 in 2000. Amongst the main factors contributing to child and infant mortality in Kenya are acute respiratory infections/pneumonia, diarrhoea, malaria and HIV/AIDS.

Maternal mortality continues to be a serious development challenge in Kenya at both national and county levels. Kenya’s maternal mortality rate is placed at 400 per one hundred thousand live births in 2013. Fifteen of Kenya’s 47 counties have been found to account for 98.7% of the national total of maternal deaths. In 2014, the governors of these counties signed a commitment to end preventable maternal and new-born’s deaths in their counties.

The HIV/AIDS prevalence rate declined from over 10% in 1999 to 5.6% in 2012 while HIV/AIDS prevalence amongst the 15-24 age group declined to 2.1% in 2013 from 3.6% in 2003. With United Nations support, Kenya prepared in 2014 the MDG Acceleration Framework, which focused on the realisation of MDGs 4 (reduce child mortality) and 5 (improve maternal health). In addition, Kenya’s first lady launched the Beyond Zero Campaign to focus on maternal and child health, and HIV. In addition, Kenya is now ranked 16th amongst countries with the highest TB burden. The TB incidence rose from 112 per one hundred thousand in 1990 to 341 per one hundred thousand in 2013. Otherwise, the proportion of children less than 5 years old sleeping under insecticide-treated bed nets increased from 2.9% in 2000 to 42.2% in 2011, leading to a reduction in malaria-related deaths.
Poverty reduction, social protection and labour

The World Bank’s June 2013 Kenya Economic Update alludes to still existing widespread inequalities. It notes that the average Kenyan is healthier, more educated and receives better infrastructure services than a decade earlier, while a large fraction of the population continues to live in fragile conditions with substandard access to water, sanitation and energy. The situation is particularly critical in the north and north-east, where poverty levels and vulnerability are highest.

To deal with entrenched inequalities in many segments of the Kenyan society, the government, amongst other actions, set up the Uwezo Fund in 2013, which enables women, youth and persons with disabilities to access finance in order to establish businesses at the constituency level, thereby alleviating poverty and unemployment amongst these groups. A social protection fund was also established to facilitate access to credit and cash transfer to the poor, the elderly and vulnerable individuals for them to live a meaningful, better-quality life.

In 2013, the government also instituted a 30% Public Procurement Preferences and Reservations for youth, women and persons living with disabilities actively engaged in businesses and enterprise development. The government has also put a National Youth Service programme in place aimed at giving young Kenyans training in vocational skills to prepare them for employment in society. The total number of service men and women hired increased from 5,827 in 2012 to 7,543 in 2013, with total funds paid to them increasing from KES 4.1 million in 2012 to KES 5.3 million in 2013.

Gender equality

The 2010 Constitution of Kenya (2010) provides that one-third of all appointments in the public sector is to be reserved for women as a way of increasing the number of women in decision-making positions. In addition, through affirmative action, female students are given preferential considerations for admittance into universities and higher learning institutions and are being encouraged to take science and technical courses in these institutions. Gender targets are also included in performance contracts of public servants as a way of further mainstreaming gender at all levels of the public sector.

Despite these efforts, gender equality still remains a major development challenge in Kenya. For instance, the ratio of girls to boys at the primary level stood at 0.98 in 2013. However, at the secondary level, the ratio of girls to boys was 0.89, which could probably be attributed to girls not continuing their education after the primary level due to lack of resources or the persistence of cultural practices that force them out of school. At the tertiary level, the ratio of females to males was 0.81 in 2013.

In 2013, the percentage of women in wage employment in the non-agriculture sector was 35.9% compared to 30.6% in 2003. Similarly, in 2013 women’s participation in the National Assembly was 19.7% compared to 8.1% in 2003. Despite this progress, Kenya is unlikely to meet the MDG target of 50% female participation in parliament by 2015, given that the next general elections are in 2017.

Thematic analysis: Regional development and spatial inclusion

According to a 2012 report by the Kenya Commission on Revenue Allocation, since independence marginalisation has persisted in some regions of Kenya due to the underlying resource-allocation policy embedded in Sessional Paper No. 10 of 1965. The allocation policy was based on a strategy of channelling resources to areas of high returns in order to attain rapid economic growth, thus promoting an equitable distribution of resources throughout the country. However, the practice actually did the opposite and caused marginalisation.
Furthermore, the pervasive perception of economic and political marginalisation emerged from the concentration of power in the hands of a few elite groups since independence. According to an Inclusive Growth Study by USAID (2013), issues of political governance have been amongst the most prominent features of the Kenyan landscape over the past few decades. Historical underlying political tensions, recurrently defined along ethnic lines and expressed through corrupt activities favouring members of the sitting leadership’s ethnic group, created and continue to create a strong perception of a higher risk environment. In addition, there has been a clear correlation between major politically related events and significant disruption of economic growth.

The USAID study also established significant deficiencies in non-urban infrastructure, particularly with regard to the supply of electricity, preventing the expansion of economic activity outside of the capital. Kenya performed poorly in supplying electricity outside of large urban centres. For example, at 39 MW/million persons in 2011, electricity connection was high within Nairobi (69% in 2011), while a low nationwide connectivity rate (16% in 2009) suggested a very low rural connectivity rate (estimated at roughly 4%). While such a low non-urban connectivity rate exacts a level of hardship on households, more importantly it represents a severe geographical restriction of economic activity to a very small handful of cities.

Marginalisation also emerges from investible resources. Although there is good evidence of financial-sector deepening in Kenya, the development of the financial sector in the country does not seem to have spread across all economic sectors. While the agriculture sector contributes 29% to GDP and employs over 80% of the rural population, commercial credit to agriculture remains low, with commercial-bank credit to this sector averaging approximately 5% in the five years leading to 2013.

Development in Kenya has largely been concentrated in the west-east corridor straddling the northern corridor linking the port city of Mombasa to the western part of Kenya. About two-thirds of the country, covering northern and eastern parts, and to some extent the southern parts, remain underdeveloped, largely occupied by nomadic pastoralists.

Spatial tensions or conflicts have, since 1990, largely resulted from the perception of economic and political dominance, and land ownership. The first major conflict resulting from political and ethnic tensions occurred in the period preceding the December 1992 general elections, leading to displacement of populations from several districts in the Rift Valley. A larger conflict occurred after the 2007 general elections leading to the deaths of over 1,200 persons and the displacement of more than 600,000 persons, principally from the Rift Valley and coastal regions. Between 2012 and 2014, conflict has been confined to the northern, north-eastern and coastal regions, mainly associated with conflict over land, pasture, water, as well as terrorist activities led by Al-Shabaab.

Limited conflict has been witnessed in the large cities of Nairobi and Mombasa, and these have been largely associated with the illegal occupation of private land by squatters and perceived corrupt acquisition of land. Similarly, the recent discovery of oil, gas, aquifer and coal has led to tensions and active debate on how the revenue generated from the new discoveries will be shared.

Since 1990, Kenya has gone through political and economic reorganisation intended to address perceived historical injustices associated with sharing of resources. In 1992, the administrative boundaries were organised around 41 districts and 8 provinces. Each of the districts were empowered to prepare and implement their own District Development Plans, with resources planned and allocated by the national government. Although most districts were delineated along ethnic lines, the local planning and political mobilisation led to some feeling of inclusion in the management of national development.

Between 1992 and 2010, the reform drive continued to the adoption and promulgation of a new constitution in August 2010, largely meant to address economic and political marginalisation.
The constitution established two layers of government, national and 47 semi-autonomous county governments charged with planning, legislation and the implementation of autonomous budgets. The national government is obliged to allocate the equivalent of at least 15% of the latest audited accounts to the annual budgets of the county governments. The constitution addresses marginalisation through affirmative action programmes and policies that are designed to redress any historical disadvantages. The 2010 Constitution defines marginalised communities as one or more of the following: i) a community that – because of its relatively small population or for any other reason – has been unable to fully participate in the integrated social and economic life of Kenya as a whole; ii) a traditional community that – out of a need or desire to preserve its unique culture and identity from assimilation – has remained outside the integrated social and economic life of Kenya as a whole; and iii) an indigenous community that has retained and maintained a traditional lifestyle and livelihood based on a hunter or gatherer economy, or pastoral persons and communities, whether they are nomadic or a settled community, that – because of its relative geographic isolation – has experienced only marginal participation in the integrated social and economic life of Kenya as a whole.

The constitution as well as general laws also have provisions and measures to address: the depletion of natural resources; management of growing metropolises; and territorial balance or spatial inclusion through the affirmative actions outlined above and specific regional authorities responsible for regional development.

According to the Exploring Kenya’s Inequality report (2013), urban areas have a smaller proportion of 0-14 years old, 36.5% compared to 46.1% in rural areas, owing to the tendency to have fewer children in urban areas. Urban areas have a larger number of youth (15–34 years old), at 42.4% of the population, compared to 31.8% rural areas. This is attributed to a significantly high number of those aged between 20 and 34 years migrating from rural to urban areas in search of employment and education opportunities. Consequently, urban areas have a greater working-age population (15–64 years old), forming 61.3% of the population, compared to 49.8% in rural areas. Rural areas have higher numbers of elderly persons (older than 65), i.e. 4.1% of the population compared to 2.2% of this age group in urban areas.