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# **Unbundling the Slack in Private Sector Investment**

*Transforming Agriculture Sector Productivity and  
Linkages to Poverty Reduction*

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## ABBREVIATIONS

AGRA	Alliance for a Green Revolution in Africa
ASAL	Arid and Semi-Arid Land
ASTGS	Agricultural Sector Transformation and Growth Strategy
CBA	Commercial Bank of Africa
CBK	Central Bank of Kenya
CBPP	Contagious Bovine Pleuropneumonia
CBR	Central Bank Rate
CGD	Center for Global Development
COMESA	Common Market for Eastern and Southern Africa
DAP	Diammonium phosphate fertilizer
DSA	Debt Sustainability Analysis
EAC	East African Community
EAGC	Eastern Africa Grain Council
EMBI	Emerging Markets Debt Index
EMDE	Emerging Markets and Developing Economies
EU	European Union
FoB	Free on Board
FOs	Farmer Organizations
FY	Fiscal year
GDP	Gross Domestic Product
H1, H2	First, Second Half
ha	Hectare
ICT	Information Communication Technology
IMF	International Monetary Fund
KCB	Kenya Commercial Bank
KEU	Kenya Economic Update
Kg	Kilogram
KIHBS	Kenya Integrated Household Budget Survey
KMRC	Kenya Mortgage Refinancing Company
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MFMod	Macroeconomic and Fiscal Model
MOALFI	Ministry of Agriculture; Livestock Fisheries and Irrigation
MOH	Ministry of Health
MoIT	Ministry of Industrialization, Trade and Enterprise
MoLands	State Department of Lands
MoPW	State Department of Public Works
MT	Metric Tonnes
MTDMS	Medium Term Debt Management Strategy
NCPB	National Cereals and Produce Board
NHIF	National Health Insurance Fund
NPL	Non-Performing Loans
NSE	Nairobi Security Exchange
NT	National Treasury
PDMO	Public Debt Management Office
PEAS	Public Expenditure of Agriculture Sector
PMI	Purchasing Managers' Index
PPP	Purchasing Power Parity
PPR	Peste des Petit Ruminants
SGR	Standard Gauge Railway
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
US	United States
VAT	Value Added Tax
y-o-y	Year on year



# FOREWORD

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The 19<sup>th</sup> edition of the Kenya Economic Update comes against a backdrop of a strong rebound in Kenya's GDP growth supported by favorable harvests in 2018, improved investor sentiment and a stable macroeconomic environment. Nonetheless, delays in the March-May 2019 rainy season and a growing need for emergency interventions to deal with food shortages in several counties is a reminder of the outstanding challenges in managing agricultural risks in Kenya. Against this background, the Special Focus topic makes a timely contribution by highlighting a few of the many factors underlying low agricultural productivity and what can be done to transform the sector and deliver on food and nutritional security. The report has three key messages.

First, the Kenyan economy rebounded in 2018 thanks to a recovery in agriculture and a still resilient services sector. Nonetheless, the demand side shows significant slack with growth driven purely by private consumption as private sector investment lags and government spending is slowing due to planned fiscal adjustment. The benign demand pressure is reflected by a lack of adequate credit to the private sector, slow demand for industrial imports, and weak profitability by corporates. The medium-term growth outlook is stable but recent threats of drought could drag down growth. The Bank's growth projection for 2019 is for a slight decrease to 5.7 percent, before rising to about 5.9 percent over the medium term.

Second, boosting credit growth to the private sector and improving fiscal management could help strengthen aggregate demand and economic growth. Regarding private sector credit growth (which stands at 3.4 percent in February 2019), policy could intervene by addressing factors that led to imposition of interest rate caps and by building a consensus for its eventual reform. Making these changes will also restore the potency of monetary policy, which is essential in responding to shocks emanating from changes to the business cycle. With regard to the potential for improving fiscal management, there is scope to enhance revenue mobilization, improve promptness of payments to firms that trade with the government to restore liquidity, and strengthen debt management by putting in place an electronic trading platform for issuance of government securities. Finally, accelerating the implementation of structural reforms aimed at crowding in private sector participation in the Big 4 development agenda remains crucial.

Third, and regarding the Special Focus topic, a two-pronged policy suggestion is proposed, including measures to transform agricultural productivity and initiatives to boost farmer's income with improved farm gate prices. In order to transform the sector's productivity, there is need to reform the fertilizer subsidy program to ensure it is efficient, transparent and well targeted; invest in irrigation and agricultural water management as well as other enabling infrastructure; and leverage modern agricultural technology to generate a wide range of agricultural support applications, including e-extension services. Secondly, and to boost farm gate prices and farmers' incomes, policy could seek to end post-harvest losses and marketing challenges by fast-tracking implementation of the national warehouse receipt system and a commodities exchange; and by scaling-up agro-processing and value addition to increase returns on agricultural produce.



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## EXECUTIVE SUMMARY

**1. The Kenyan economy rebounded in 2018 and economic activity in the first quarter of 2019 was healthy, although emerging drought conditions could curtail GDP growth for the remainder of the year.** The economy expanded by 6.0 percent in the first three quarters of 2018 compared to 4.7 percent during the same period in 2017 driven by strong private consumption in part due to improved income from agricultural harvests in 2018, remittance inflows, and lower food prices. The Bank's GDP growth estimate for 2018 is about 5.8 percent. A strong pick-up in economic activity in Q1 of 2019 was reflected by real growth in consumer spending and stronger investor sentiment. Nonetheless, a delayed start to the March-May 2019 "long" rainy season could affect the planting season-resulting in poor harvests. In addition, ongoing emergency intervention to address food shortages in several counties could impose fiscal pressure constraining capital spending. These developments have slowed the growth forecast for 2019 and for the medium term relative to our October 2018 Update.

**2. Inflation remains within the government's target range of  $5\pm 2.5$  percent.** Headline inflation averaged 4.7 percent in 2018 compared to 8.0 percent in 2017, primarily due to the slowdown in food inflation, which in turn offset a temporary acceleration in energy prices. Further, core inflation has remained below 5 percent, suggesting benign underlying demand pressures. With low inflation, monetary policy could be more accommodative to support growth if needed, but with interest rate caps tied to the policy rate, further loosening would be constrained. The low inflationary pressure has also been supported by a stable local currency. The shilling has traded within a narrow band of Ksh100/US\$-Ksh.103/US\$ in 2018, thereby serving as a nominal anchor to inflationary expectations.

**3. The current account deficit narrowed in 2018 and remains adequately financed.** In 2018, the current account deficit narrowed to 4.9 percent of GDP (from 6.3 percent of GDP in 2017) due to stronger diaspora remittance inflows, improved exports of tea and horticulture, and strong receipts from tourism. The current account deficit continues to be adequately financed by resilient capital flows (government and corporate loans) resulting in a 9.3 percent increase in official foreign reserves to US\$8,131

million (or 5.3 months of import cover) in 2018 relative to 2017. This continues to provide a comfortable buffer against external short-term shocks.

**4. The ongoing fiscal consolidation has halted the rapid rise in the stock of public debt.** Notwithstanding underperformance in revenues, the fiscal deficit narrowed to 6.8 percent in FY2017/18 from 8.8 percent of GDP in FY2016/17 due to a significant contraction in development expenditures and a marginal decrease in recurrent expenditures. As a result, public debt remained at about 57.5 percent of GDP in 2018, halting the rapid accumulation that had begun in FY2012/13. In FY2018/19, the fiscal deficit is projected to decrease further to 6.3 percent of GDP. The most recent fiscal out-turn shows revenue collection and expenditure falling below target due to delays in budget implementation, which could lead to a ramp-up in expenditure in the latter half of the fiscal year and could potentially exert pressure on public finances.

**5. The medium-term growth outlook is stable but recent threats of drought could drag down growth.** GDP growth is projected at 5.7 percent in 2019 (after accounting for potential drag from drought), rising to 5.9 and 6.0 percent, respectively in 2020 and 2021, supported by private consumption, a pick-up in industrial activity and still strong performance in the services sector. Inflation is expected to remain within the government's target range while the current account deficit is projected to remain manageable.

**6. The risks to the outlook are tilted to the downside.** On the domestic front, risks include: Drought conditions that could curtail agricultural output-especially if the country's grain growing counties are affected, and fiscal slippages on account of revenue underperformance that could compromise macroeconomic stability. On the external front, risks include: Rising global trade tensions that could affect Kenya's exports and remittance inflows, an unanticipated spike in oil prices, and tighter global financial market conditions that could lead to a disorderly adjustment of capital outflows from Kenya. On the upside, a fast tracking of structural reforms in support of the Big 4 agenda could add positively to growth.



**7. Several macro and structural reforms, if pursued, could help rebuild resilience and speed-up the pace of poverty reduction.** Macro policies could include enhancing revenue mobilization to support planned fiscal consolidation, reviving the potency of monetary policy and recovery in growth of credit to the private sector, and improving debt management. The following areas, while not exhaustive, require special focus from policy makers.

**8. Enhance revenue mobilization to support planned fiscal consolidation.** Increasing tax revenue mobilization is essential to support fiscal consolidation. Domestic revenue mobilization measures could focus on rationalizing tax expenditures and putting in place a governance framework that checks the re-creeping of tax exemptions. Additional work is needed to guard against base erosion and profit shifting (for example through transfer pricing). Moreover, improving realism in forecasting revenue from the existing tax base could also help, even as efforts are underway to expand the tax net.

**9. Fast-track a comprehensive solution to factors that led to the imposition of interest rate caps for an eventual repeal of the caps and revival of the potency of monetary policy.** The continued retention of interest rate caps has constrained monetary policy space. For example, with core-inflation below the mid-target range of five percent, there is space for accommodative monetary policy that could be used to support growth if needed. Nonetheless, with interest rate caps still tied to the policy rate, the ability of monetary policy to do this remains compromised. There is need to repeal interest rate caps and restore the potency of monetary policy, which is essential in responding to shocks emanating from changes to the business cycle and stabilizing growth. Efforts seeking a comprehensive solution to the broader range of factors that led to the imposition of the interest rate cap, including through addressing consumer financial protection concerns, also need to be fast-tracked.

**10. Restore credit growth to the private sector to support projected private sector investment and sustainable growth.** The private sector requires sufficient credit to support desired expansion in real output through investment. The repeal of interest rate caps could certainly provide a conducive environment for lenders to price risks, thereby curbing the rationing of credit to SMEs and individuals perceived as riskier by commercial banks. In addition, the slow credit growth cycle could be reversed by

adopting a package of measures including improving the pricing mechanism for credit, putting in place measures for consumer protection, stemming predatory lending, and assuring credit flow to previously excluded sectors of the economy.

**11. Address the problem of pending bills (or arrears) to restore liquidity and profitability among firms trading with the government and stimulating private sector activity.** Public payment delays affect the economy mostly through a liquidity channel. Increased delays in public payments affect private sector liquidity and profitability and ultimately weaken aggregate demand and economic growth. There is evidence of a buildup in pending bills in Kenya, especially at the county level of government. A decisive policy action to clear pending bills, perhaps in a phased-out approach in line with funding requirements, could restore liquidity, stimulate private sector activity and create jobs.

**12. Improve debt management by putting in place a transparent and regular platform for primary issuance of debt instruments.** Adopting an electronic platform could improve the primary auction of government securities. This could promote transparency and enhance efficiency in the management of government debt. Adoption of this technology could, for instance, hasten the settlement period after every auction and reduce liquidity management challenges. With a growing inclination towards foreign debt, a clear communication strategy on the government's preparedness to tackle upcoming debt repayments (interest and principal), including refinancing strategies, remains critical to sustaining market confidence. Debt management strategy could also focus on rebalancing the mix of expensive and shorter maturity commercial loans by taking advantage of available concessional debt, which tends to be more affordable.

**13. Accelerate the implementation of structural reforms to crowd in private sector participation in the Big 4 development agenda.** Since the announcement of the Big 4, the government has made tremendous progress within the affordable housing pillar by completing the legal and regulatory framework for Kenya Mortgage Refinancing Company (KMRC), waiver of stamp duty for first time home buyers, and passing through cabinet the sectional properties bill that will enable titling of plots within multi-story buildings. In agriculture progress has been achieved in passing warehousing receipt legislation,

cabinet approval of the commodities exchange bill, and the expected new irrigation act for better management of irrigation schemes and water usage. On universal health coverage, reforms to reduce administrative costs at the National Health Insurance Fund (NHIF) are ongoing, while in manufacturing a new investment policy providing a framework for attracting and retaining foreign investors is being developed. Accelerating implementation of reforms across all the Big 4 priority areas and the enabling sectors could help crowd in the private sector and achieve the government's inclusive growth agenda.

**14. The Special Focus topic examines ways to transform agricultural productivity and delivering on the Big 4 promise of food and nutritional security and poverty reduction.** The agriculture sector is a major driver of the Kenyan economy and the dominant source of employment for roughly half of the Kenyan people. The analysis provides a snapshot of the performance of the sector, its linkage to poverty reduction, and policy suggestions to enhance sector productivity and boost farm gate prices.

**15. Agriculture is a major contributor to poverty reduction in Kenya.** Poverty in Kenya declined from 46.6 percent to 36.1 percent between 2005/06 and 2015/16. During the same period rural poverty declined from 50.5 percent to 38.8 percent. In contrast, urban poverty rates have statistically stagnated, reducing from 32.1 percent to 29.4 percent. Households that exclusively engaged in agriculture contributed 31.4 percent to the reduction in rural poverty. Furthermore, agricultural income remains the largest income source for both poor and non-poor households in rural areas. Thus, productivity increases in the agricultural sector could benefit poor households, potentially lifting them out of poverty.

**16. However, Kenya's agricultural total factor productivity (TFP) dropped by at least ten percentage points between 2006 and 2013 but has since stabilized.** The analysis finds that real agricultural value added has declined relative to levels attained in 2006, primarily due to weather related shocks, prevalence of pests and disease, and dwindling knowledge delivery systems (i.e. lack of extension services on adoption of modern technology). Consequently, Kenya's agriculture TFP growth over 2006-2015 lags Rwanda, Ethiopia and Tanzania and is also well below levels attained by countries in South Asia and East Asia. The analysis seeks to explain the

underlying causes of low agricultural productivity in Kenya and highlight the following:

**17. First, notwithstanding the government's fertilizer subsidy program, use of fertilizer remains inadequate.** With average fertilizer usage at 30kg/ha, it is quite low compared to the peak of the green revolution in Asia, when fertilizer utilization averaged over 100kg/ha. The analysis also points to evidence that the targeting mechanism for the fertilizer subsidy could be inefficient, benefiting medium to large scale farmers relative to small scale holders. Thus, reforming fertilizer subsidies to ensure that they are efficient and transparent, and target smallholder farmers remains key in restoring productivity.

**18. Second, distortions in output markets as seen in the government's still outsized role in marketing agriculture outputs could result in mis-allocation of resources and crowding out the private sector.** The government still retains a big role in marketing agricultural outputs, especially maize. This creates opportunity for rent-seeking by public officials and political elites and leaves little room for private sector participation in maize marketing. Further, National Cereal and Produce Board (NCPB) buys maize at a premium above the price determined by market forces. These interventions result in undue fiscal pressures, mis-allocation of resources from other potentially high productivity expenditures (extension services) and disincentivize to private sector participation.

**19. Third, declining farm size and limited irrigation usage is a binding constraint to improving agricultural productivity.** Kenyan farms are generally small and shrinking and are becoming uneconomical to operate. The analysis shows that approximately 87 percent of farmers operate less than 2 ha of land, while 67 percent operate less than 1 ha. Land scarcity is also reflected in the surge in rental prices of agricultural land. With 83 percent of Kenya's land area being Arid and Semi-Arid, one would expect use of irrigation in farming would be a top priority. Nonetheless, only two percent of arable land is under irrigation compared to an average of six per cent in sub-Saharan Africa (SSA) and 37 percent in Asia. The low usage of irrigation means Kenya's agriculture is fully rain dependent and susceptible to drought shocks. The analysis shows that investing in irrigation and agricultural water management for smallholders can reduce productivity shocks and raise the sector's TFP, potentially climate proofing the sector.



**20. Fourth, limited access to agricultural financing.**

While Kenya represents a vibrant and enabling market for Fintech, the more traditional banking that is needed to service commercial agriculture is lacking. Only about four percent of commercial bank lending is for agribusiness, despite a majority of Kenyans being employed in agriculture or agribusiness. There is also a distinct lack of medium- to long-term agri-related debt in the market. An innovative Livestock Insurance Program supported by the World Bank targets subsistence farmers. Such innovations could be explored to also de-risk investment in more commercially oriented enterprises. With improved value-chain structure and performance, there are opportunities for increased private sector activity in the areas of value-chain finance, equipment finance, and various forms of insurance.

**21. Fifth and finally, poor markets integration and low value addition.**

Kenya has many geographically dispersed smallholders that are not integrated into key agriculture value chains. Dispersion increases production costs and reduces small farmers' competitiveness. The analysis shows that stronger farmer organizations (FOs) could foster economic inclusion of smallholders and increase their market power-thereby raising their

incomes and productivity. Further, while value addition to agricultural commodities remains low, increasing the agribusiness to agriculture ratio could create more jobs and reduce poverty. The analysis shows that agro-processing and other agro-based enterprises provide an avenue for accumulating skills, stimulating innovation, and strengthening the backward and forward linkages with the rest of the economy.

**22. These policies can directly and indirectly benefit poor rural households as well as – indirectly – poor urban households, but it remains critical to make them accessible and attractive to poor agricultural households.**

Rural households consuming all their agricultural output are more often poorer than rural households able to sell at least part of their agricultural output. Thus, increasing agricultural productivity and market access can enable more rural poor households to begin selling agricultural output, leading to welfare gains and poverty reduction. Poor households can also indirectly benefit from policies improving agricultural productivity. For instance, more jobs can become available on larger farms and increased productivity should lead to a rise in supply of food, therefore, reducing food prices.

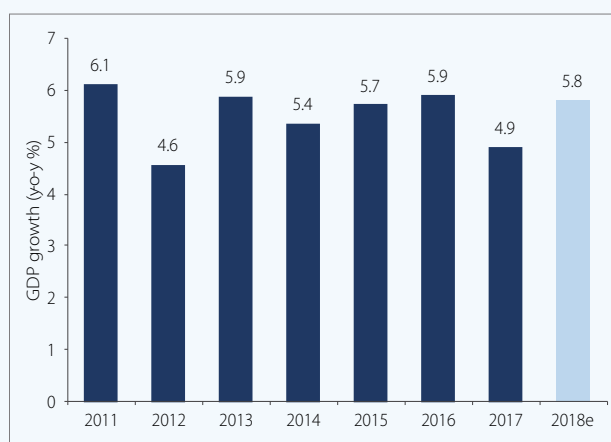




*The mobile technology has improved livelihood and ICT growth remains robust.*

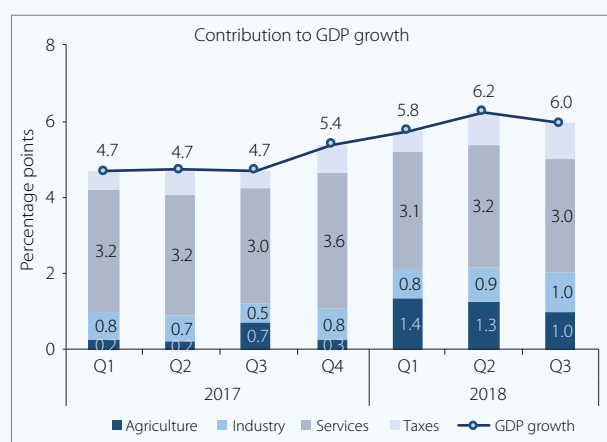
# RECENT ECONOMIC TRENDS AND OUTLOOK

## The Kenyan economy has rebounded



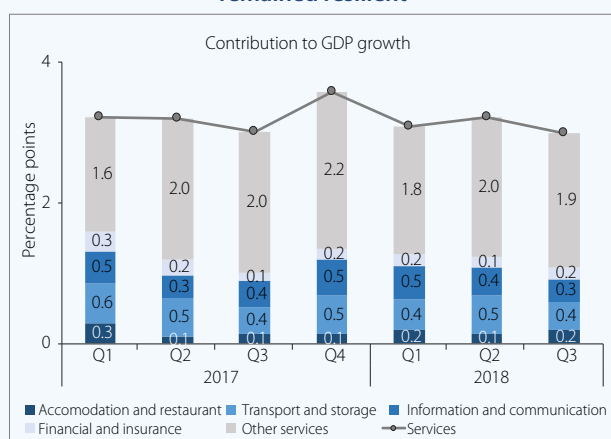
Source: Kenya National Bureau of Statistics and World Bank  
Note: "e" denotes an estimate

## The rebound was driven by a bumper harvest



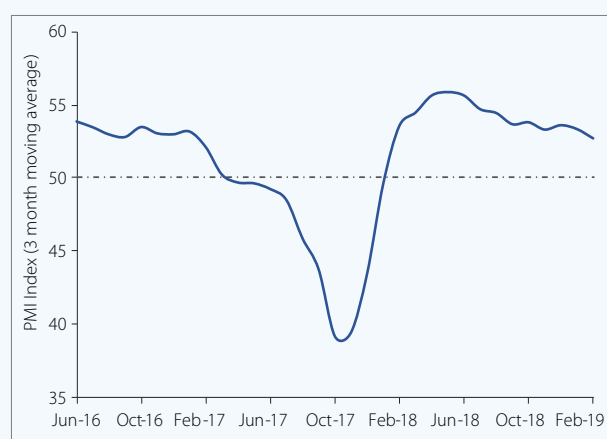
Source: Kenya National Bureau of Statistics and World Bank

## The services sector's contribution to GDP growth remained resilient



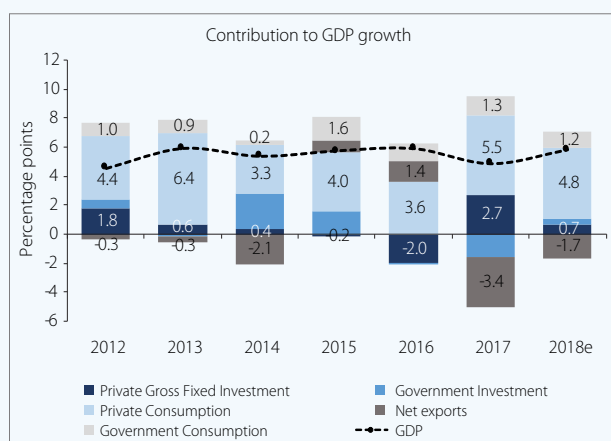
Source: Kenya National Bureau of Statistics and World Bank

## The Purchasing Managers' Index (PMI) indicates positive business sentiment



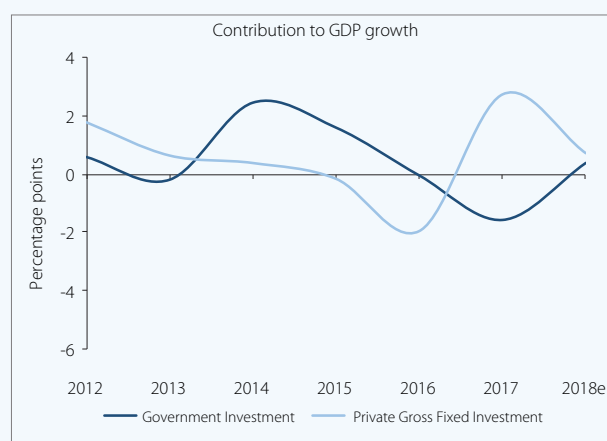
Source: CFC Stanbic and World Bank

## Private consumption supported the rebound



Source: Kenya National Bureau of Statistics and World Bank  
Note: "e" denotes an estimate; excludes statistical discrepancy and inventory

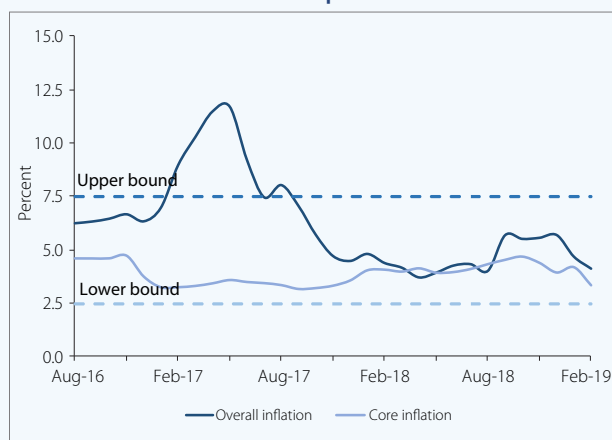
## Private investment contribution to GDP growth remains weak



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

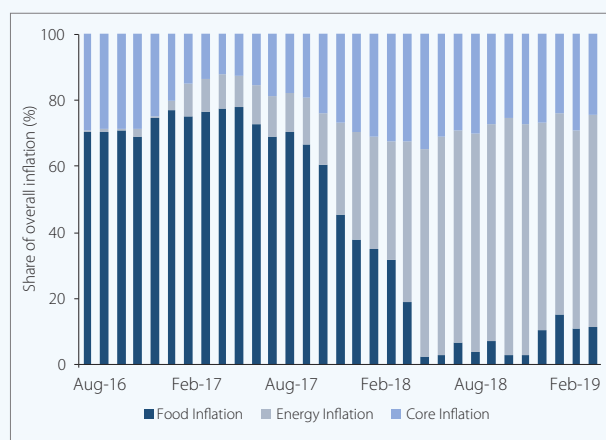
# RECENT ECONOMIC TRENDS AND OUTLOOK

## Inflation remains within the target range of $5 \pm 2.5$ percent



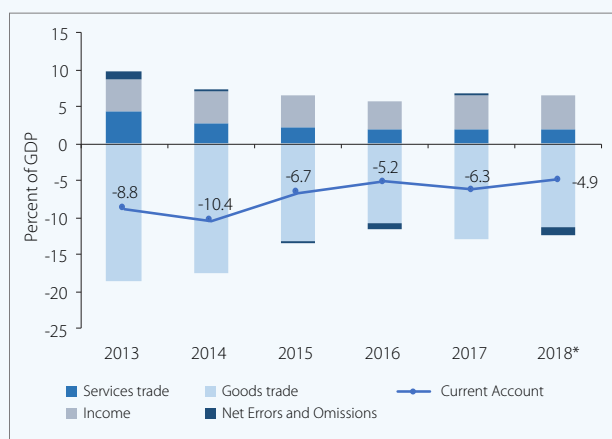
Source: Kenya National Bureau of Statistics and World Bank

## Low food inflation off-set energy inflation resulting in low overall inflation



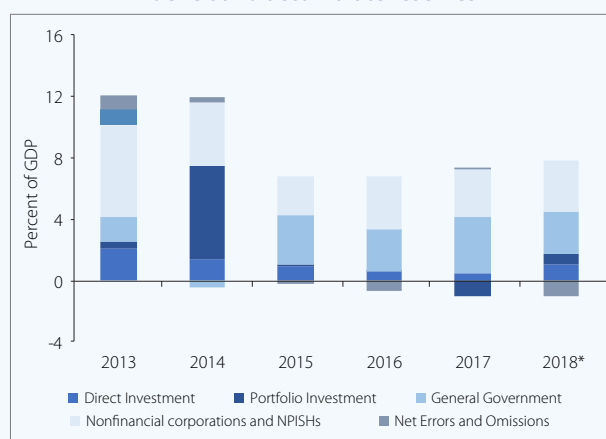
Source: Kenya National Bureau of Statistics and World Bank

## The current account deficit has narrowed



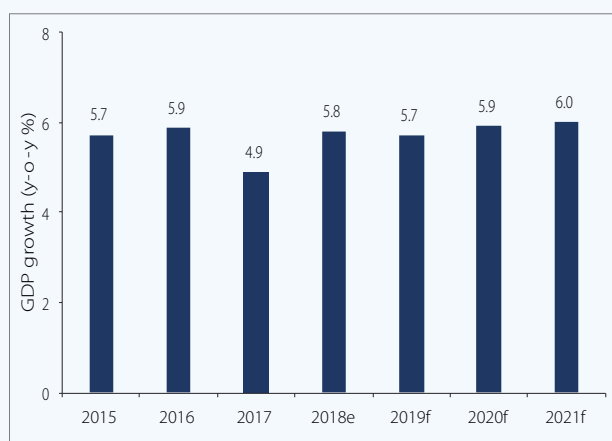
Source: Kenya National Bureau of Statistics and World Bank

## Capital inflows have helped to finance the current account deficit and accumulate reserves



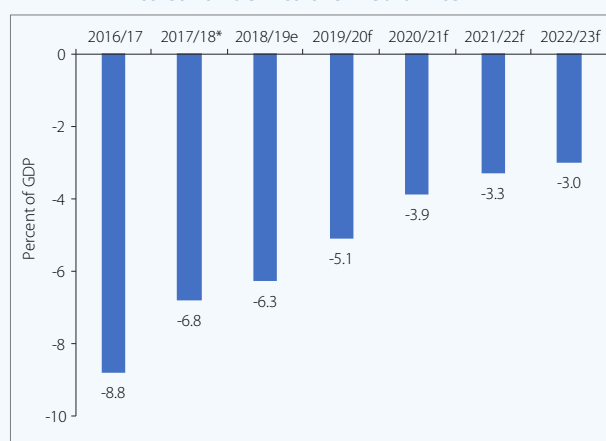
Source: Kenya National Bureau of Statistics and World Bank

## The medium-term outlook remains stable



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

## The ongoing fiscal consolidation is expected to continue into the medium term



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



# Part 1: The State of Kenya's Economy



Photo: © Simone D. McCourtie | World Bank

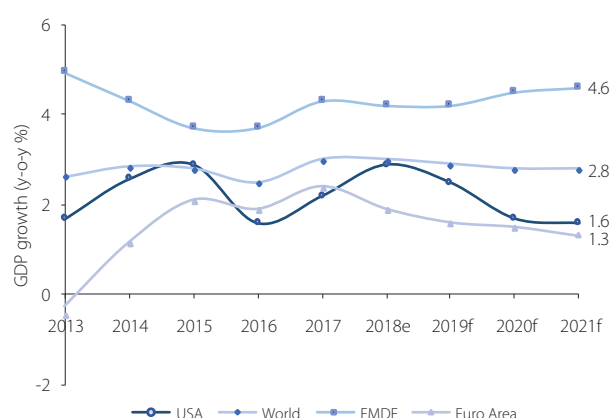
# 1. Recent Economic Developments

## 1.1. Global economic prospects have darkened

**1.1.1. Global economic growth is projected to moderate over the medium term.** The World Bank expects global growth to ease to 2.9 percent in 2019 from 3 percent in 2018 because of rising trade tensions, weakening industrial production and tighter global financial market conditions (World Bank, 2019a). Growth in advanced economies is projected to decelerate from 2.2 percent in 2018 to 2.0 percent in 2019 (Figure 1), as the fiscal stimulus in the United States fades and monetary policy accommodation is removed (in the US and the Euro area). Emerging and developing economies (EMDEs) continue to grow but recovery among commodity exporters is much slower against the backdrop of a deteriorating global trade environment.

**1.1.2. Economic activity in the sub-Saharan Africa (SSA) region is projected to continue its recovery in 2019.** Supported by a strong recovery in the economies of commodity-exporting countries, growth in the SSA region rebounded from a 22-year low of 1.2 percent in 2016 to 2.3 percent in 2018 (World Bank 2019b) and is projected to reach 3.4 percent in 2021 (Figure 2). The recovery in growth for Angola, Nigeria and South Africa is expected to boost regional growth over the medium term as investment and consumer spending rebound. Nonetheless, unanticipated weaker global growth prospects with associated easing of commodity prices could exert pressure on the growth of the resource-rich countries, constraining the region's growth outlook.

**Figure 1: Global growth prospects have moderated**



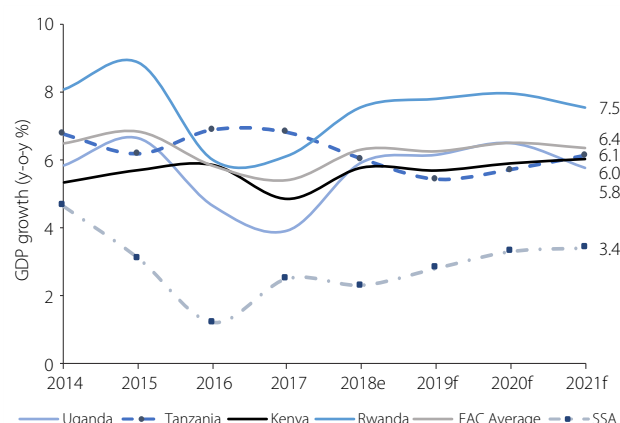
Source: World Bank, Global Economic Prospects  
Notes: "e" denotes an estimate "f" denotes forecast.

**1.1.3. Growth within the East African Community (EAC) continues to outpace the rest of SSA.** After decelerating in 2017, growth in the EAC recovered in 2018. The average real output for the regional trade block expanded from 5.3 percent in 2017 to 5.9 percent<sup>1</sup> in 2018 on account of improved agricultural production and ongoing infrastructure investment (Figure 2). Improved growth in Kenya and Uganda, which had been lagging the regional average, has complemented the growth acceleration in Rwanda, lifting average growth. In Kenya and Uganda, growth was supported by both improved agricultural output and ongoing public infrastructure spending, while in Tanzania and Rwanda growth was driven by a bumper harvest and a rebound in exports. In 2019, average growth for the regional block is projected to reach 6.1 percent, driven by recovery in agricultural output and aggregate demand.

## 1.2. The Kenyan economy rebounded in 2018 and economic activity remains steady in Q1 of 2019

**1.2.1. Reflecting improved agricultural production and positive business sentiment, activity in the Kenyan economy rebounded.** For the first three quarters of 2018, economic growth expanded by 6.0 percent on a year-on-year basis compared to 4.7 percent during the same period in 2017 (Figure 4). Growth was also lifted by recovery in private consumption in part due to better returns from a bumper harvest, strong remittance inflows and lower food prices. Consequently, full year GDP growth in 2018

**Figure 2: GDP growth in the EAC countries is projected to be robust**



Source: World Bank (Mfmod), World Bank (Africa's Pulse)  
Notes: "e" denotes an estimate "f" denotes forecast.

<sup>1</sup> EAC growth rates are calculated using constant 2010 U.S. dollar weights. South Sudan is excluded from the EAC average due to lack of data. Growth rates incorporate Tanzania's recently rebased GDP statistics.

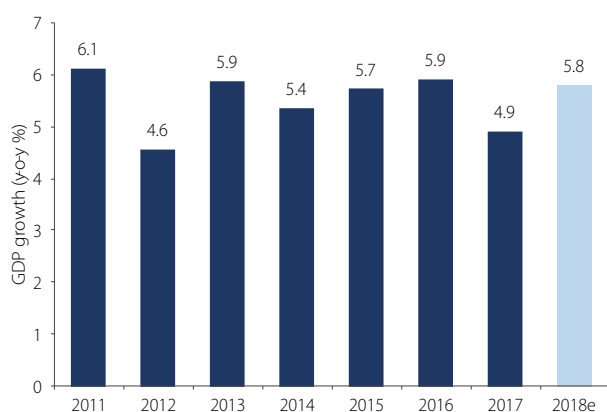
is estimated at 5.8 percent (Figure 3), representing a 0.1 percent upgrade to the forecast made in the October 2018 Kenya Economic Update. A healthy pick-up in economic activity continues in Q1 of 2019, partly reflecting solid real growth in consumer spending and stronger investor sentiment. Nonetheless, emerging drought conditions could curtail GDP growth in the remainder of 2019.

**1.2.2. Favorable weather conditions have contributed to a strong recovery in agricultural output.** Reflecting favorable weather conditions in 2018, the sector's contribution to GDP rose from a meager 0.3 percentage points in the first three quarters of 2017 to 1.3 percentage points over the same horizon in 2018, as in Figure 4. The recovery in the agriculture sector is broad-based and stems from improved maize production and expansion of output of key cash crops. For example, output for cane, tea and coffee have picked-up in 2018 relative to 2017 (Figure 5). While food prices have so far remained low in 2019, suggesting good harvests in the past quarter, the recently

updated weather outlook from the Kenyan Meteorological Department forecasts a delay in precipitation for the extended March-May rainy season. This could reduce agricultural production, especially in the grain growing counties of the country.

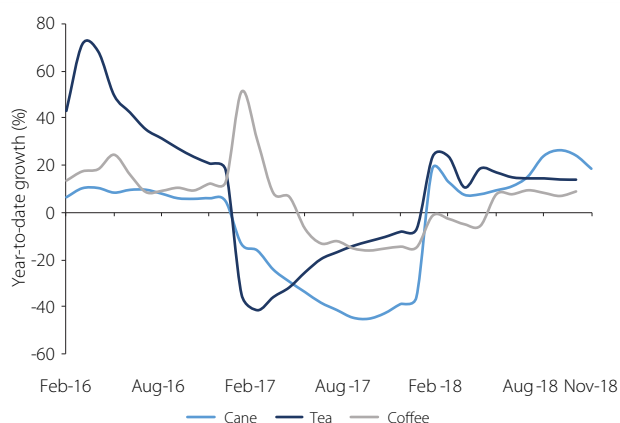
**1.2.3. The Special Focus topic examines in detail, the recent growth trends in agricultural sector and linkages to poverty reduction.** While favorable weather explains the 2018 rebound in the sector, the analysis shows that Kenya's agricultural TFP declined substantially before stabilizing at a relatively low level in recent years. Real agricultural value added has decreased relative to levels attained in 2006, primarily due to weather shocks, prevalence of pests and disease, and dwindling knowledge delivery systems (i.e. lack of extension services on adoption of modern technology). Nonetheless, the sector accounts for majority of income for rural households and thus contributed around 30 percent to the reduction of poverty among poor rural households.

**Figure 3: The Kenyan economy has rebounded**



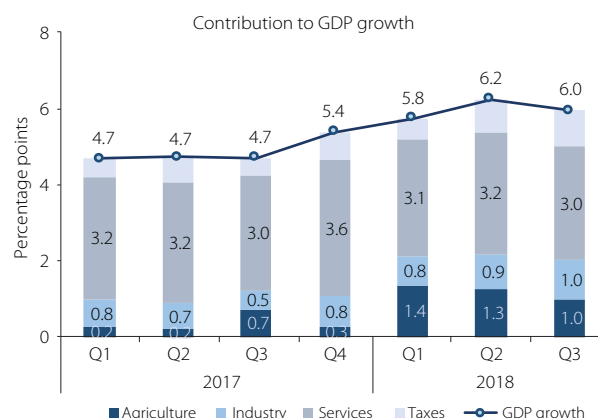
Source: Kenya National Bureau of Statistics and World Bank  
Notes: "e" denotes an estimate

**Figure 5: Output of selected crops has recovered**



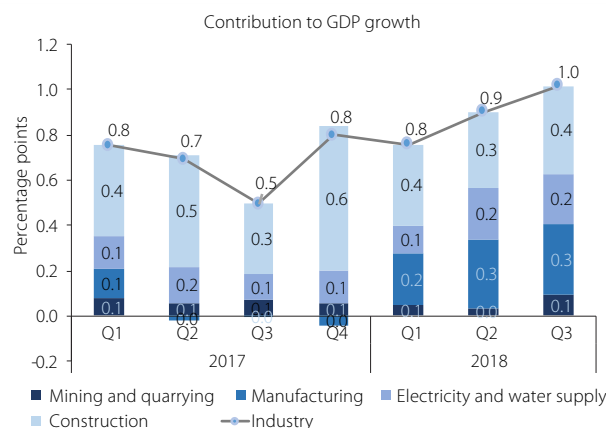
Source: Kenya National Bureau of Statistics and World Bank

**Figure 4: The rebound was driven by a bumper harvest**



Source: Kenya National Bureau of Statistics and World Bank

**Figure 6: A gradual uptick in industrial activity is underway**



Source: Kenya National Bureau of Statistics and World Bank

Indeed, agricultural incomes (from crops, livestock and fishing) account for 64 percent of the income sources of the poor and 53 percent of income sources for the non-poor (World Bank, 2018). The section highlights a few of the many factors underlying low agricultural productivity in Kenya and what can be done to transform it and deliver on food and nutritional security.

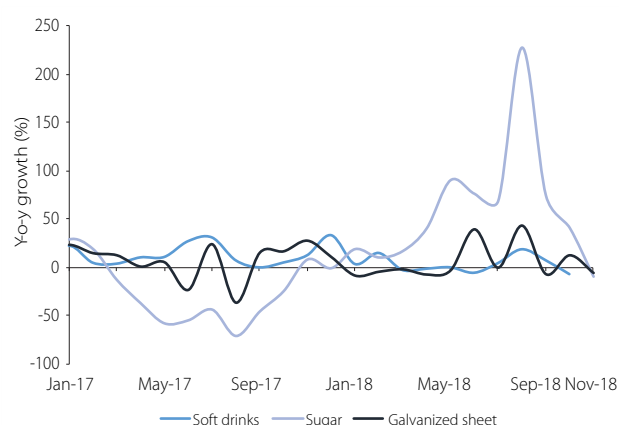
**1.2.4. A gradual pick-up in industrial activity is underway.** Supported by the recovery in business sentiment, improvement in private consumption and favorable external demand from the EAC and COMESA regional markets, the contribution of the industrial sector has risen from 0.5 percentage points of GDP in the first three quarters of 2017 to 1.0 percentage points over the same time in 2018 (Figure 6). The contribution from manufacturing to GDP growth has recovered but remains below its historical trend of at least 1.2 percentage points. Recovery is supported by both food manufacturing (soft drinks, and sugar) and non-food manufacturing such as galvanized sheets (Figure 7). High frequency data shows an increase in electricity consumption and imported raw materials by 3 and 28 percent, respectively in 2018 relative to 2017, while imports of machinery and equipment contracted by about 6 percent in 2018—indicating a gradual recovery in industrial production. Thus far in 2019 the Purchasing Managers' Index (PMI) has remained expansionary (at the 50-mark) indicating improved orders as the manufacturing sector recovers (Figure 8).

**1.2.5. Construction, electricity and water supply sub-sectors (of industry) continue to perform well.** Growth

in the construction sector was about 6.7 percent in 2018 on account of ongoing public sector infrastructure investment (second phase of the SGR - Standard Gauge Railway) and a recovery in credit flows to the sector, which rose from 1.7 percent in 2017 to 10.7 percent in 2018. Favorable rains have contributed to improved water supply and increased generation from hydropower, a cheaper source of energy within Kenya's electricity generation mix. As a result, growth in the electricity and water sub-sectors increased from 5.5 percent in 2017 to 7.4 percent in 2018 and is projected to continue in 2019 given ongoing government development spending in infrastructure (affordable housing) and the expectation of normal rains.

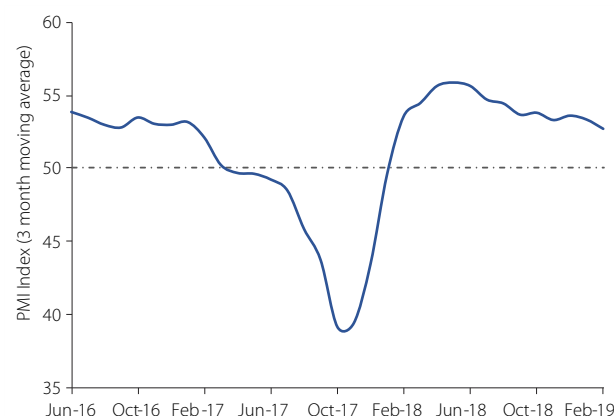
**1.2.6. The services sector continues to account for most of total GDP growth, although there is a considerable slowdown in the financial services sub-sector.** The services sector routinely accounts for at least half—and often more than two-thirds—of GDP growth (Figure 9), both because of its larger share in output (approximately 58.5 percent of GDP in 2017), and because of high average growth rates (6.5 percent in 2018 and 6.9 percent in 2017). The growth performance across the main sub-sectors was broadly strong (Figure 9). Economic activity in wholesale and retail trade, accommodation and transportation sub-sectors, as well as the ICT and real estate sub-sectors remained buoyant. However, reflecting an anemic business environment for the financial services sector, including introduction of interest rate caps, growth decelerated from 4.4 percent in 2017 to 2.5 percent in 2018.

**Figure 7: Selected output in manufacturing reveal a sluggish recovery**

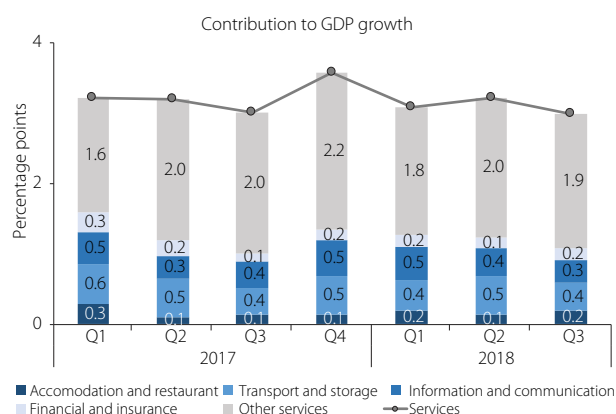


Source: Kenya National Bureau of Statistics and World Bank

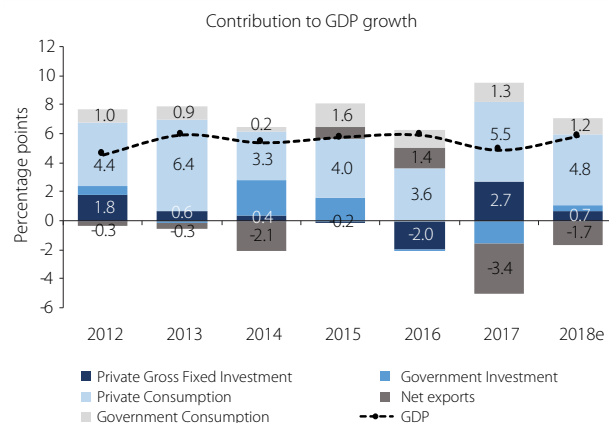
**Figure 8: The Purchasing Managers' Index (PMI) indicates positive business sentiment**



Source: CFC Stanbic and World Bank

**Figure 9: The services sector's contribution to GDP growth remained resilient**

Source: Kenya National Bureau of Statistics and World Bank

**Figure 10: Private consumption supported the rebound**

Source: Kenya National Bureau of Statistics and World Bank

\*Note: excludes statistical discrepancy and changes in inventory

### 1.3. On the demand side, growth is supported by the recovery in private consumption

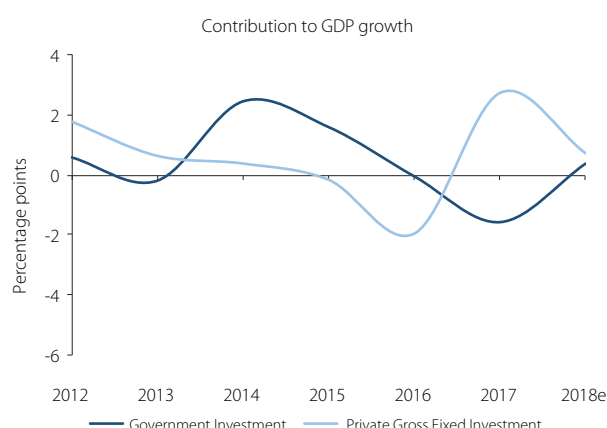
**1.3.1. A pick-up in private consumption has so far contributed to the economic rebound and is expected to support growth in 2019.** The three-year average contribution to GDP growth from household consumption increased from 4.4 percentage points of GDP in 2017 to 4.7 percentage points in 2018 driven by improved incomes from agricultural harvests<sup>2</sup>, lower food inflation (estimated at 1.6 percent in 2018 relative to 13.5 percent in 2017), and strong remittance inflows. The three-year average contribution to GDP growth from private investment decreased from 2.7 percentage points in 2017 to 0.7 percentage points in 2018 (Figure 10). Although 2019 data on household consumption is not yet available, high frequency data suggest strong growth. For example, real sales of VAT-applicable goods in the formal economy increased by 12 percent between January 2018 and January 2019.

**1.3.2. The contribution of public investment to GDP growth is decreasing in part due to completion of key flagship public investment projects but also due to the narrowing of fiscal space.** In FY2017/18 total government spending grew at 0.1 percent compared to average annual growth of 17.1 percent in the previous four years. Consequently, government's investment contribution to GDP growth has decreased from a high of 2 percentage

points of GDP in FY2014/15 to about [0.4] percent of GDP in FY2018/19 (Figure 11). The slowdown in the pace of public investment is associated not only with completion of flagship infrastructure development (e.g. the first phase of SGR) but also with a government policy decision to focus resources on completing existing projects and limiting funding of new projects to those aligned with the Big 4 development agenda, such as affordable housing. The environment of waning public investment makes the need for a significant acceleration in private investment growth all the more important.

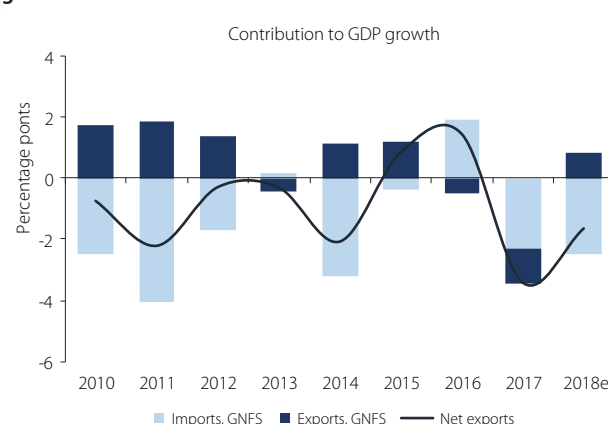
**1.3.3. The rebound in exports made a modest contribution to the recovery in GDP growth.** A more favorable external environment boosted export revenue from tea, horticulture, and tourism. The special Focus Topic shows that agriculture is responsible for most of the country's exports, accounting for up to 65 percent of Kenya's merchandise exports in 2017. Meanwhile, import growth has moderated on account of slowing private investment but also due to a base effect, as food imports have slowed significantly following a bumper harvest of Kenya's staple food (maize) (Figure 12). On balance, net exports exerted less of a drag on GDP growth in 2018 than in 2017 (Figure 10). In 2019, strong growth in Kenya's sub-regional markets is expected to support manufacturing exports, while limited increases in oil prices are expected to reduce the drag from net exports.

<sup>2</sup> The Special Focus topic shows that agricultural income remains the most important income source for both the poor and non-poor households and a bumper harvest is typically associated with improved income and household consumption.

**Figure 11: Private investment contribution to GDP growth remains weak**

Source: World Bank

Notes: "e" denotes an estimate

**Figure 12: The negative contribution from net exports to growth is moderate**

Source: Kenya National Bureau of Statistics and World Bank

Notes: "e" denotes an estimate

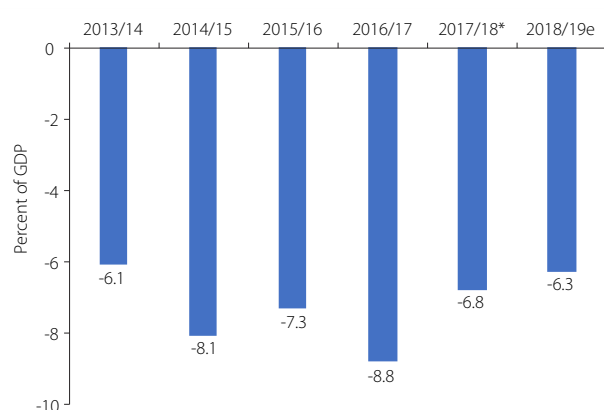
## 1.4. Fiscal consolidation is underway although its quality could be improved

**1.4.1. Reflecting government's commitment to fiscal consolidation, the overall fiscal deficit decreased for a second fiscal year.** The overall fiscal deficit (including grants) was reduced to 6.8 percent in FY2017/18 from 8.8 percent of GDP in FY2016/17 (Figure 13a), surpassing the targeted budget deficit of 7.2 percent of GDP. Notwithstanding progress in consolidation, Kenya's fiscal deficit is elevated relative to EAC peers (Figure 13b).

**1.4.2. Although government spending has dropped, the full burden of fiscal adjustment was shouldered by cuts in development spending.** Government spending decreased from 27.5 percent of GDP in FY2016/17 to 23.9 percent in FY2017/18 with development expenditure falling from 8.4 percent of GDP to 5.3 percent of GDP (or by 2.5 percentage points) over the same horizon. In FY2018/19, government spending is estimated at approximately 24.9 percent of GDP with a projected pick-up in capital spending to 6.3 percent of GDP (Figure 14).

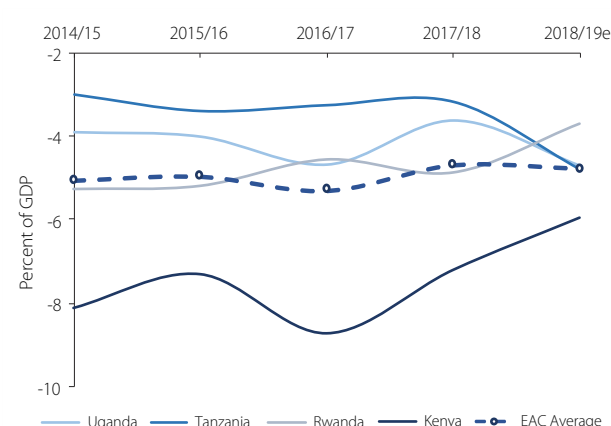
This level of spending, together with a projected recovery in revenue collection, are expected to result in a narrower fiscal deficit estimated at 6.3 percent of GDP in FY2018/19. Nonetheless, with limited discretionary budget (total expenditure and net lending less non-discretionary budget), the scope for achieving fiscal adjustment through expenditure cuts without hurting priority spending and growth is narrowing.

**1.4.3. Reflecting the fiscal consolidation effort, yields on government bonds have come down, creating space for the private sector to borrow.** The yields on government securities have come down in the first two months of 2019 (Figure 15). Nonetheless, credit growth to the private sector remains modest and recovery in private investment is less buoyant (Figure 11). Although the slow growth in credit requires a more technical analysis on the factors undermining faster response, the retention of interest rate caps and a still strong government presence in domestic borrowing could be constraining recovery in credit to the private sector in Kenya.

**Figure 13(a): The overall fiscal balance is narrowing**

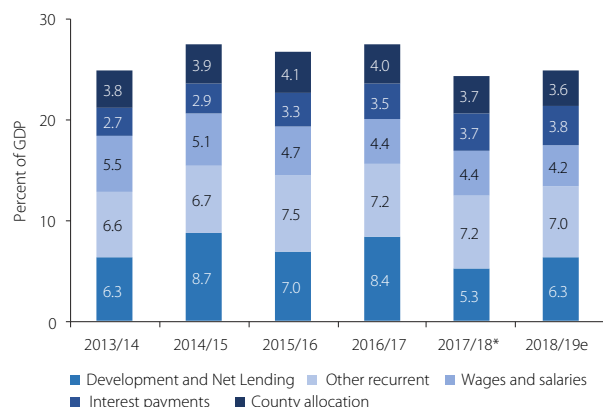
Source: The National Treasury

Notes: \* indicates preliminary results 'e' denotes an estimate

**Figure 13(b): Kenya's fiscal balance is wider relative to EAC peers**

Source: The National Treasury and Africa Development Bank

'e' denotes an estimate

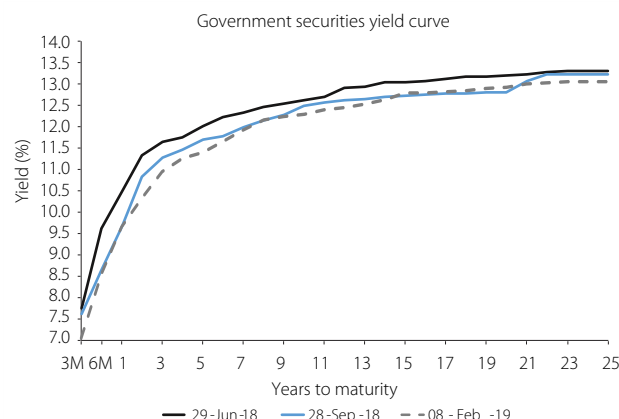
**Figure 14: Government spending has picked up moderately after a steep cut in FY2017/18**

Source: The National Treasury

Notes: \* indicates preliminary results 'e' denotes an estimate

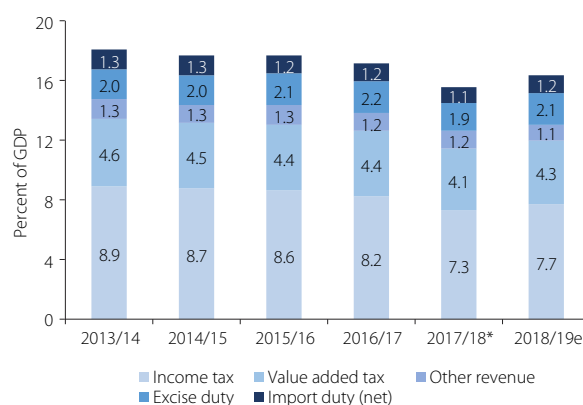
**1.4.4. The recent increase in the government's pending bills or/ and arrears could affect profitability and working capital for vendors that trade with both the National and County governments, potentially curtailing private sector activity.** Increased delays in public payments can affect private sector liquidity and profits and ultimately economic growth.<sup>3</sup> The 2018 enterprise survey for Kenya finds that approximately 12 percent of the 1,001 firms surveyed (or 120 firms) have had a contract with government that was in arrears (Kenya Enterprise Survey, 2018). The total value of pending bills is estimated to have increased from 0.9 percent of GDP in FY2015/16 to 1.6 percent in FY2017/18 (Box B.1). This, if allowed to persist, could reduce firm liquidity and cause postponement of new investments or any hiring plans. It could also increase firms' default rate (in business to business transactions), which can be associated with a rise in non-performing loans for the banking sector (which stands at 12.8 percent in February 2019). This trend underscores the importance of curbing pending bills and arrears for fiscal prudence, without which an economy could descend into weaker growth prospects as private sector activity and aggregate demand are curtailed.

**1.4.5. Further fiscal consolidation will require improving domestic revenue mobilization.** Tax revenue fell to 15.4 percent of GDP in FY2017/18 from 18.1 percent in FY2013/14, although revenue is estimated to recover to 16.4 percent of GDP in FY2018/19 (Figure 14). The improvement in tax revenue is expected to come from income tax (0.4 percent of GDP), VAT (0.2 percent of GDP), excise duty (0.3 percent of GDP), and import duty (0.1

**Figure 15: Yields on government securities have come down**

Source: Central Bank of Kenya

percent of GDP) – Kenya's largest sources of tax revenue [Figure 16]. The Finance Act of 2018 introduced several tax policy measures to improve revenue mobilization, including an [8] percent value added tax on petroleum products, a presumptive tax of 15 percent on the single business permit, an increased excise tax on voice calls and internet data, and new withholding taxes on winnings (betting and gaming) among others. These measures are expected to yield approximately 0.9 percent of GDP in additional revenues and could help reverse the downward trend in revenue collection, especially if accompanied by apt administration.

**Figure 16: Tax revenue collection as a share of GDP is falling**

Source: The National Treasury

Notes: \* indicates preliminary results 'e' denotes an estimate

**1.4.6. Nonetheless, the fiscal out-turn for H1 FY2018/19 shows revenue collection and expenditure falling below target.** Tax revenue underperformed by 0.5 percent of GDP to close at 7.2 percent of GDP for the H1 of 2018/19 (Table 1). This under-collection arose from deficiencies in income tax (0.4), excise duty (0.2),

<sup>3</sup> See Checherita et al. 2015.

**Table 1: H1 of FY2018/19 fiscal out-turn (% of GDP)**

	Actual	Target	Deviation
<i>(In percent of GDP)</i>			
<b>Total Revenue</b>	7.7	8.6	(0.8)
<b>Ordinary Revenue</b>	7.2	7.8	(0.5)
Import duty	0.5	0.6	(0.1)
Excise Taxes	0.9	1.1	(0.2)
Income Tax	3.3	3.7	(0.4)
VAT	1.9	2.1	(0.1)
Other Revenue	0.6	0.4	0.2
<b>Total expenditure</b>	10.7	11.3	(0.6)
Recurrent Expenditure	6.6	7.7	(1.1)
Domestic Interest	1.3	1.9	(0.5)
Foreign Interest	0.5	0.6	(0.1)
Net issues (O&M)	4.2	4.3	(0.1)
Wages & Salaries	2.1	2.1	0.0
Development	2.9	2.3	0.6
Grants	0.1	0.2	(0.1)
<b>Deficit incl. grants (Cash basis)</b>	(2.9)	(2.5)	(0.3)
<b>Total Financing</b>	2.9	2.5	0.3
Net Foreign	1.4	0.3	1.1
Net Domestic	1.5	2.2	(0.6)
Primary balance deficit	(1.1)	(0.1)	(1.0)
<b>Nominal GDP estimate 2018/19 (Ksh billion)</b>	<b>9,990</b>	<b>9,990</b>	

Source: The National Treasury  
Note: Nominal GDP is for FY2018/19

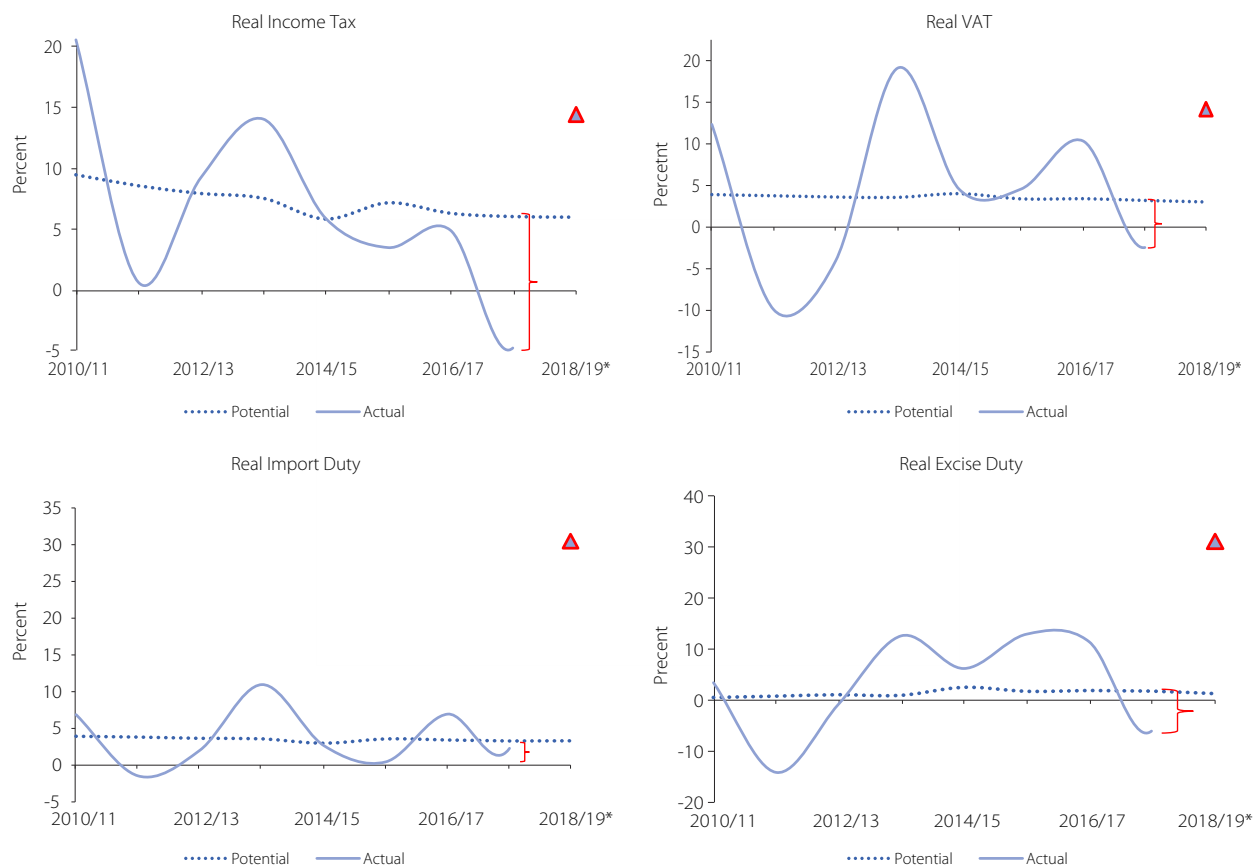
VAT (0.1), and import duty (0.1). Income tax collection fell below target due to low withholding tax on winnings, declining corporate tax installments from commercial banks (even with high reported profits) due to deductions carried forward from the previous year. However, with the delay in budget implementation, expenditures and net lending have also fallen below target (0.6 percent of GDP). Consequently, the fiscal deficit at the end of July-December 2018 was 2.9 percent of GDP relative to the target of 2.5 percent of GDP. With a significant delay in budget implementation, this could lead to a ramp-up in expenditure in the latter half of the year, potentially exerting pressure on public finances.

**1.4.7. The growth in revenue for Kenya's main tax heads lags the underlying potential growth rate, implying scope for reforms to accelerate revenue mobilization.** There is a broad-based deviation in the growth of actual revenues from their underlying potential trend (derived using the HP filter), at least for FY2017/18.

The gap between actual real revenue and underlying trend revenue growth was about 10.8 percent for income tax, 5.7 percent for VAT, 1 percent for import duty, and 7.8 percent for excise duty (Figure 17). This implies that if actual revenue from the main tax heads were made to grow at their structural rate, then the underperformance in revenue relative to target would have been much smaller. Reflecting the challenges of realistic revenue forecasting<sup>4</sup>, the envisioned rebound in FY2018/19 may prove overly optimistic and risk attainment of the fiscal deficit target. Additional tax policy reforms as contemplated in the revised Income Tax bill, whose aim is to rationalize tax expenditures, may limit tax base erosion and profit shifting, and its enhanced administrative measures could also assist in bridging the tax collection gap.

**1.4.8. The ongoing fiscal consolidation has halted the rapid rise in the stock of public debt.** Because of years of fiscal expansion, overall public debt rose from about 42.1 percent of GDP in FY2013/14 to 57.6 percent

<sup>4</sup> The World Bank is providing revenue modelling and forecasting Technical Assistance (TA) to the authorities to improve realism in revenue forecasting.

**Figure 17: Actual revenue growth over time relative to underlying trend (2013-18)**

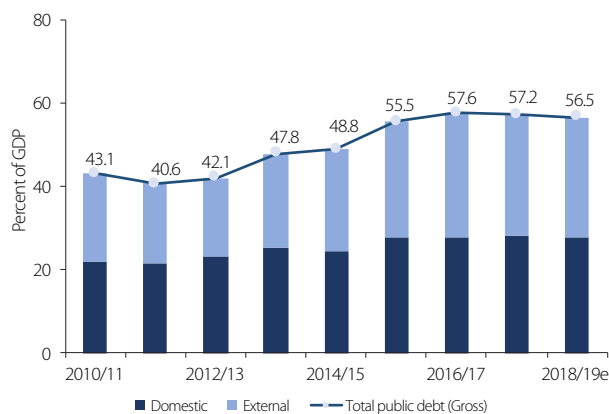
Source: The National Treasury and World Bank

Note: a) Underlying trend revenues are obtained using the HP filter on deflated annual revenue series. Revenues are deflated using the CPI series.

b) Projected growth in tax revenue in FY 2018/19

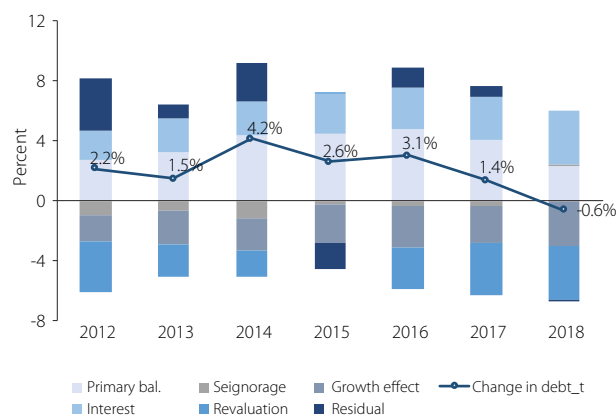
of GDP in FY2016/17 before stabilizing in FY2017/18 at 56.5 percent of GDP (Figure 18). This is partly attributed to a narrowing of the fiscal deficit in FY2017/18, but also due to growth in GDP and a relatively stable exchange rate. The drop in primary deficit from an average of 5.0 percent of GDP in FY2015/16 to an average of about 3.0

percent in FY2017/18 (Figure 19) slowed the pace of debt accumulation. However, interest payments' contribution to debt stock increased from an average of 2.9 percent of GDP in FY2015/16 to an average of 3.4 percentage points of GDP over the FY2017/18 period.

**Figure 18: Public debt has stabilized after a rapid rise in previous years**

Source: The National Treasury

Notes: \* indicates preliminary results

**Figure 19: Public debt moderation is driven by a decrease in the primary balance**

Source: The National Treasury and World Bank

### Box B.1: The macroeconomic impact of delays in public payments

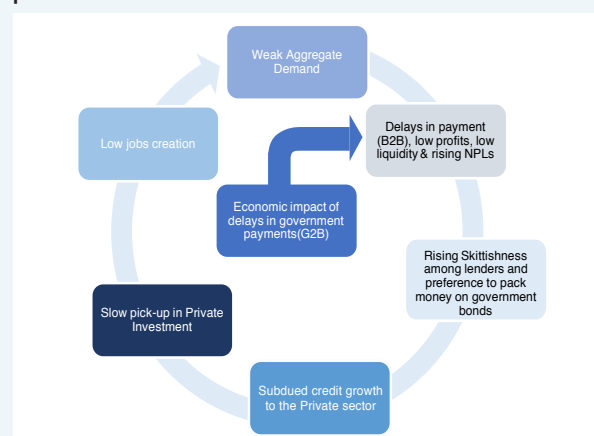
Data from latest enterprise survey for Kenya and other government data sources show that national and country level governments are increasingly delaying their payments to vendors. The 2018 enterprise survey for Kenya finds that approximately 12 percent of the 1,001 firms surveyed (or 120 firms) have had a contract with government that was in arrears (Kenya Enterprise Survey, 2018). The total value of pending bills has increased from 0.9 percent of GDP in FY2015/16 to 1.6] percent in FY2017/18.

Governments accumulate pending bills for various reasons, including for purposes of achieving a lower public debt or fiscal deficit. But the literature shows that delaying payments to deal with funding shortages or debt limits is costly because of the consequences for the rest of the economy (Checherita et al. 2016, Diamond and Schiller, 1993, Ramos, 1998 Flynn and Pessao, 2014). Furthermore, efforts to accelerate payments could help boost the economy, revamp tax revenue collection and create jobs.

Public payment delays affect the economy mostly through the liquidity channel. Increased delays in public payments reduces vendors' liquidity and profitability, which in turn weakens aggregate demand and economic growth (Figure B.1). Consequently, curbing pending bills and arrears constitutes a prudent fiscal surveillance program for any country. For example, the EU has a directive (since March 2013) imposing a maximum delay for new government payments of 30 days (60 days for a limited set of exceptions) and an 8 percent surcharge for infringement.

There is an inverse relationship between public payment delays and overall economic performance. This can be explained as follows: Firstly, delays tend to reduce corporate profits as unexpected delays change the present discounted value of payments. If no or a low interest rate surcharge applies, this reduces supplier profitability. Secondly, the size of the corporate sector could be affected if liquidity-constrained firms (e.g. SMEs) go bankrupt or stop servicing debt, leading to deterioration in bank's portfolio. Third, a higher failure rate of firms could increase the cost of capital (risk premia) and the government's cost of future orders could rise as suppliers build in the anticipated financing costs. As the business environment deteriorates, firms become liquidity constrained, delay hiring and ultimately lay off workers. Consequently, aggregate demand, and finally growth, could be negatively impacted.

**Figure B.1: Delays in public payments and economic performance**



**1.4.9. The accumulation of total public debt included both external and domestic components, as government borrowed widely to finance large infrastructure projects.** In FY2018/19, the split between external and domestic debt in the total debt stock is about 51:49. However, reflecting higher domestic interest rates, debt servicing charges on the domestic debt stock are about three times higher than from the external debt stock. Kenya continues to access international markets to refinance its external debt. For example, in February 2018 it successfully issued a US\$2 billion Eurobond (US\$1 billion for 10 years and US\$1 billion for 30 years at 7.25 and 8.25 percent respectively) and is expected to maintain a presence in the international

markets in 2019. The proceeds from any new issuances are expected to help refinance upcoming bullet payments on external debt obligations.

**1.4.10. An update of the Debt Sustainability Analysis (DSA)<sup>5</sup> shows Kenya's risk of external debt distress has increased from low to moderate.** The rating assessment is based on breach of three key liquidity indicators, namely: External debt service to export ratio, external debt service-to-revenue ratio, and the present value of external debt to export ratio. The rating reflects the fact that Kenya could face a few risks in meeting its near-term repayment obligations. However, given continued access to international financial markets, a comfortable

<sup>5</sup> The thresholds are set based on the country's CPIA score. Kenya's score places it at medium range with debt-to-GDP threshold of 74 percent as an indicator of solvency.

level of official foreign exchange reserves, together with ongoing fiscal consolidation, mitigates this risk. Furthermore, Kenya's public debt is expected to gradually decline over the medium term in line with continued fiscal consolidation.

**1.4.11. A regular update of primary auction guidelines, automation and improved transparency could enhance efficiency in the management of public debt.** The government remains committed to prudent management of public debt as articulated in its regularly published Medium Term Debt Management Strategy (MTDMS). Nonetheless, for this to be realized there is need to strengthen the institutional framework for cash and debt management and especially the Public Debt Management Office (PDMO). PDMO did not have a duly appointed head for a while, which affected its capacity to carry out operations. This was remedied in January 2019 with the appointment of substantive director general. Further, leveraging technology including adoption of an electronic platform could improve primary auction of government securities and hasten the settlement period for primary auctions.

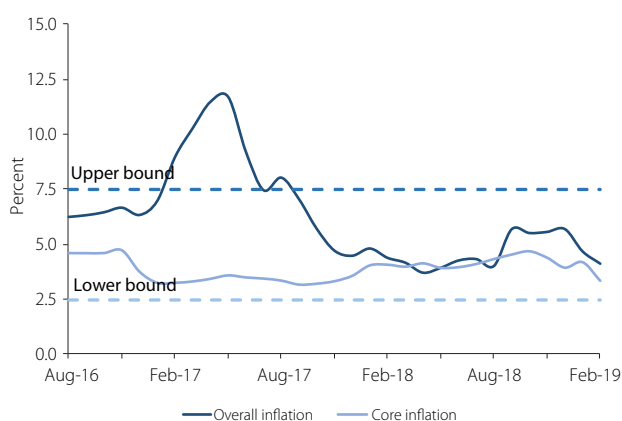
## 1.5. The macroeconomic environment remains stable but the recovery in private sector credit growth is anemic

**1.5.1. Inflation has remained within the government's target range of  $5 \pm 2.5$  percent.** Headline inflation averaged 4.7 percent in 2018 compared to [8.0] percent in 2017, representing the lowest inflation rate over the last seven years (Figure 20). Sufficient rains and a rebound

in agriculture brought down food inflation from about 14 percent in 2017 to 2.3 percent in 2018. The low food inflation in turn offset a temporary acceleration in energy prices resulting in a lower overall consumer price index. Further, core inflation, which excludes food and energy prices, has remained below mid target of 5 percent reflecting an economy where underlying demand pressures are still benign (Figure 20). The low inflationary pressure has also been supported by a stable local currency. The shilling has traded within a narrow band of Ksh.100/US\$-Ksh.103/US\$ in 2018 (Figure 23), thereby serving as a nominal anchor to inflationary expectations.

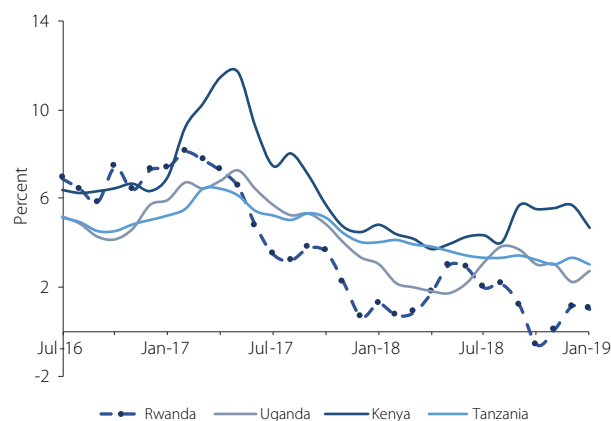
**1.5.2. The Kenyan economic recovery has not been accompanied by a pick-up in private sector credit growth.** Thus far, the recovery of the real sector has not translated into a rebound in credit growth to the private sector. As of December 2018, credit growth stood at 2.4 percent, well below its ten-year average of about 19 percent (Figure 24). In real terms, credit growth in Kenya is actually negative. Although credit growth has also been weak across the EAC (Figure 25), some factors behind the slowdown in credit growth in Kenya could be country specific. These include a sharp depreciation of the Kenyan shilling in 2015, earlier bank liquidations that created uncertainty in the banking sector and tightening of prudential regulations. All of these were further compounded by the interest rate caps that Kenya imposed in the last quarter of 2016. Moreover, with interest rate caps tied to the policy rate, the effectiveness of monetary policy in supporting growth through the credit channel has been compromised.<sup>6</sup>

**Figure 20: Inflation remains within the target range**



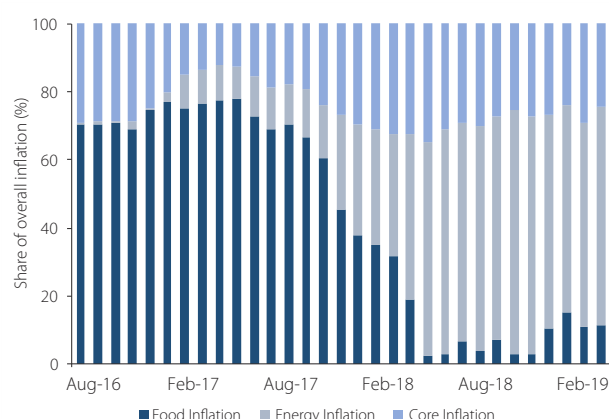
Sources: Kenya National Bureau of Statistics and World Bank

**Figure 21: Inflation remains low across the EAC**

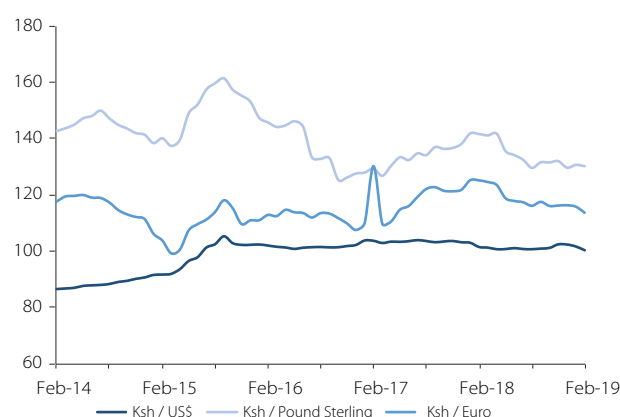


Source: Kenya National Bureau of Statistics, National Institute of Statistics Rwanda, Uganda Bureau of Statistics and Tanzania National Bureau of Statistics

<sup>6</sup> For instance, under the new regime, a lowering of the policy rate - an action often taken by Central Banks globally if they want to stimulate economic activity - could lead to the opposite effect since the lowering of the cap further narrows the spread between yields on risk free government securities and the maximum allowed lending rates.

**Figure 22: Low food inflation off-set energy inflation resulting in low overall inflation**

Sources: Kenya National Bureau of Statistics and World Bank

**Figure 23: The stability in exchange rate continues to provide a nominal anchor to inflationary expectations**

Sources: Central Bank of Kenya

### 1.5.3. The interest rate cap limits the appropriate pricing of risk, therefore effectively rationing out lending to SME's and individuals perceived as riskier.

The government is aware of unintended consequences associated with this policy and seeks to allow banks to appropriately price risks. Nonetheless, a proposal to remove interest caps contained in the Finance Bill 2018 was unsuccessful as it was voted out by Parliament. The Government is now seeking a comprehensive solution to the broader range of factors that led to the imposition

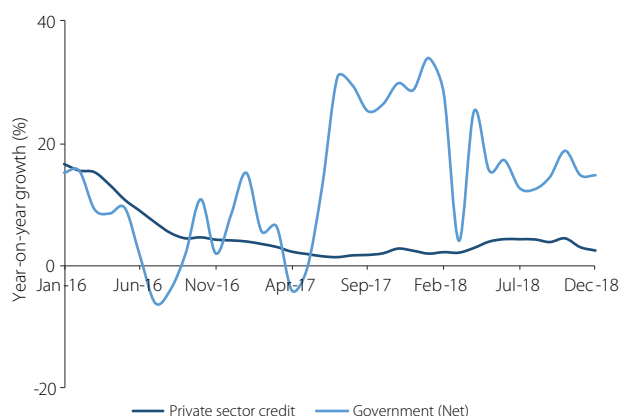
of the interest rate cap including through addressing consumer financial protection concerns. This is being done through supporting the various financial sector regulators to develop conduct regulations under their respective legal frameworks, including for non-deposit taking credit providers and FinTech. Concurrently, the government has in recent years strengthened credit information sharing mechanism through credit bureaus as well as Kenya's electronic movable asset collateral registry to help reduce the costs for SMEs.

## Box B.2: Economic recovery in the absence of sufficient credit to the private sector

In a creditless recovery, real output typically recovers well ahead of a trough in credit. Creditless recoveries imply episodes where real credit growth is negative in the initial years following a recession, mainly as a result of impaired financial intermediation. Creditless recoveries are more common in low-income countries and emerging markets (Calvo et al. 2006) than in advanced economies and the probability of such an event occurring increases when a downturn in GDP growth is preceded by a credit boom, a banking crisis, and/or real estate boom-bust cycle (Claessens et al. 2009; Abiad et al. 2011).

There are three possible explanations for creditless recoveries. Firstly, private consumption outpaces recovery in private investment. Private consumption is often the most important contributor to output growth during recoveries because investment (especially non-residential) recovers only with a lag. Secondly, firms and households can get external financing from sources other than commercial banks. These sources are not captured in the aggregate credit series in reported statistics. Third and finally, credit reallocation among firms/sectors could switch from more to less credit-intensive sectors in such a way that overall credit does not expand, yet, because of productivity gains, output increases. Similarly, banks may cut credit to some sectors/firms and extend to others and if the sector/firm receiving credit is more productive, allowing overall output to increase even when aggregate credit is weak.

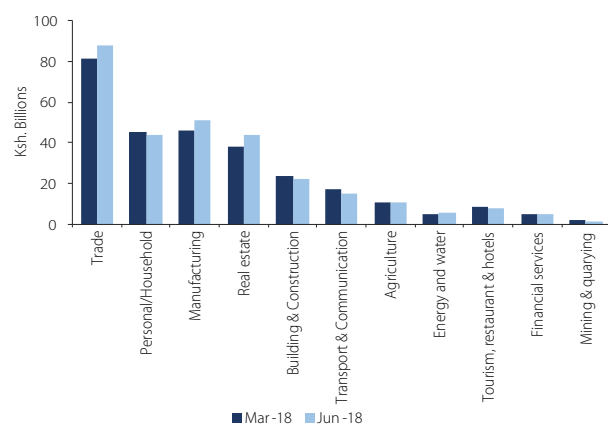
Some of the issues typical of creditless recoveries are also relevant in Kenya. For example, the incomplete recovery in private investment relative to consumption could be the result of low credit growth and structural factors that contribute to inflexibility in the supply of credit (rising NPLs, interest rate cap). While earlier bank liquidations may not have led to a full-blown banking crisis, at least three banks were liquidated, which could have created some uncertainty in the banking sector and contributed to entrenched interbank market segmentation. Further, GDP growth has been primarily driven by a rebound in agriculture—which is somewhat less credit intensive relative to industry and services. Finally, although data is not yet available, the increase in fintech loans to households—through mobile payment platforms—suggests access to credit that may not be reflected in reported statistics. This underscores the need for further empirical research on this topic.

**Figure 24: Private sector credit growth remains subdued**

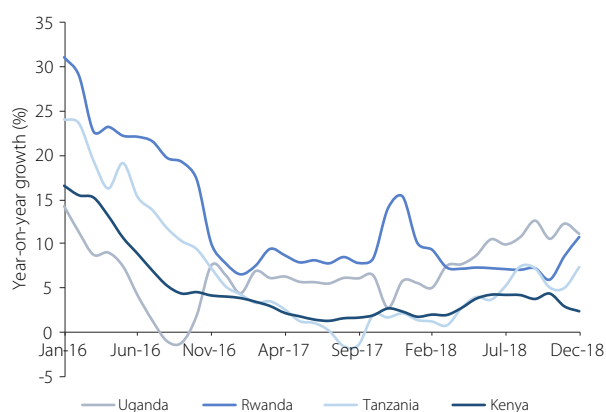
Source: Central Bank of Kenya

**1.5.4. Banks continue to face elevated levels of non-performing loans, although they remain highly profitable and well capitalized.** High levels of non-performing loans (NPLs), estimated at 12.8 percent in February 2019, continue to constrain lending across key sectors such as trade, manufacturing, construction, agriculture, and transport and communications (Figure 26). While headwinds from the low-growth environment in 2017 reduced bank profitability, their return on assets remained sizeable and capital adequacy ratios remain high at 18.4 percent in December 2018. Nonetheless, smaller banks face a difficult operating environment as interest rate controls have significantly eroded operating margins.

**1.5.5. The interbank market remains volatile.** Currently, both the interbank rate and trading volumes on the interbank lending market exhibit significant volatility (Figure 27). For example, the difference in quoted interbank

**Figure 26: Higher non-performing loans constrain lending conditions**

Source: Central Bank of Kenya

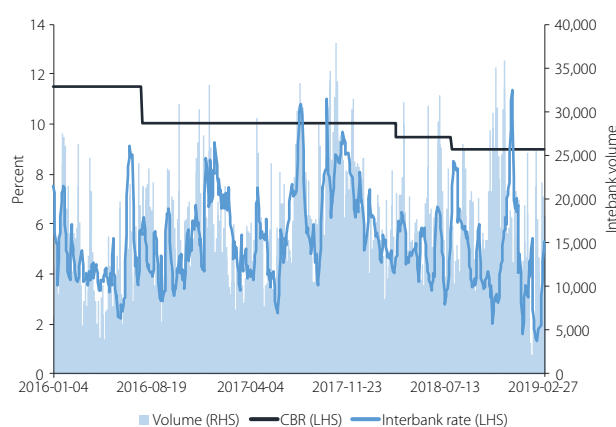
**Figure 25: Synchronized collapse of credit in the EAC region**

Source: Central Bank of Kenya, National Bank of Rwanda, Bank of Uganda and Bank of Tanzania

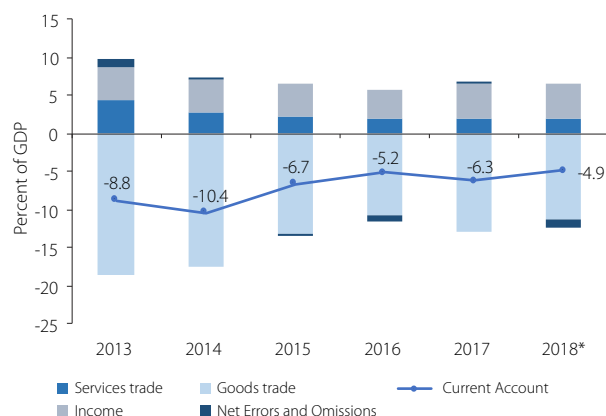
rates on the same day can be as high as [8] percent with small Banks facing much higher borrowing rates. This is driven in part by liquidity segmentation in the banking system and structural factors that feed into the volatility of rates and transactions. In addition, the large differences between the policy rate and the interbank market rate complicates the assessment of liquidity conditions in the economy and ultimately the ability of monetary policy to steer the economy. So far in the first quarter of 2019, quoted interbank rates have come down, indicating eased liquidity conditions.

## 1.6. Kenya's external account has improved

**1.6.1. The current account deficit has narrowed and remains adequately financed.** In 2018, the current account deficit narrowed to 4.9 percent of GDP compared to 6.3 percent of GDP in 2017 (Figure 28) due to stronger diaspora remittance inflows, and increased export revenue from tea, horticulture and tourism. Nonetheless,

**Figure 27: Interbank rates and volumes remain volatile**

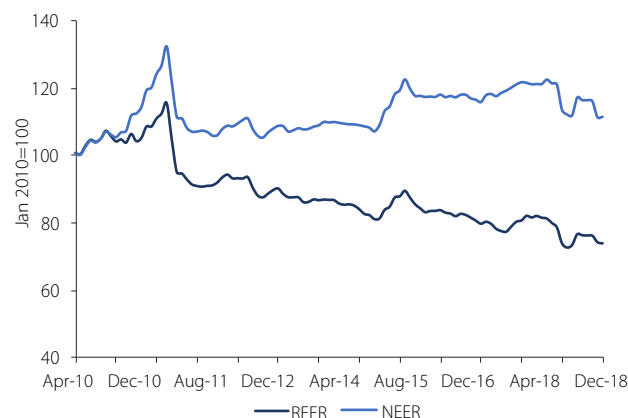
Source: Central Bank of Kenya

**Figure 28: The current account deficit has narrowed**

Source: Central Bank of Kenya  
Notes: \* indicates preliminary results

Kenya's manufacturing exports destined to the EAC sub-region have contracted, in part reflecting competitiveness challenges for Kenya's manufacturing sector. Broadly, the current account deficit continues to be adequately financed by resilient capital flows (government and corporate loans) resulting in an increase in official foreign reserves by 9.3 percent to US\$8,131 million (or 5.3 months of import cover) in 2018 relative to 2017.

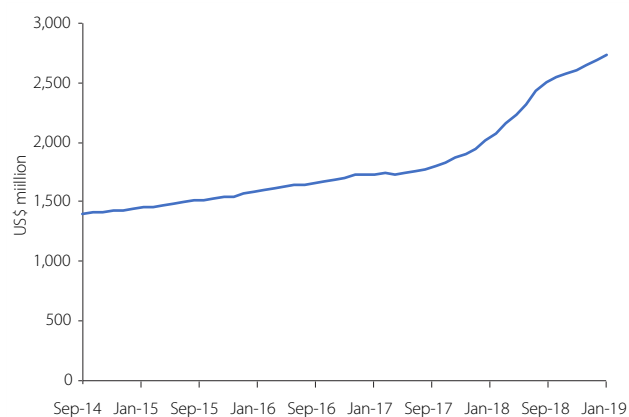
**1.6.2. The Kenyan shilling has remained generally stable with a slight appreciation.** A relatively lower import bill, strong remittance inflows (Figure 30), a rebound in tourism, and government borrowing in foreign currency have continued to support a stable exchange rate market with a moderate appreciation of the Kenyan shilling against the US dollar in late 2018. Nonetheless in the last quarter of 2018 and to some extent the first quarter of 2019, both nominal and real exchange rates have tended to appreciate (Figure 29) driven by narrowing current account deficit and improving terms of trade. A further

**Figure 29: The nominal and real effective exchange rates are broadly stable**

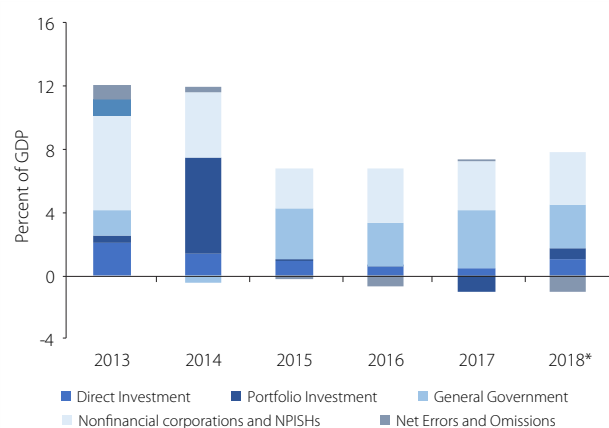
Source: Central Bank of Kenya

appreciation of the shilling could have implications on Kenya's export competitiveness in its main export markets.

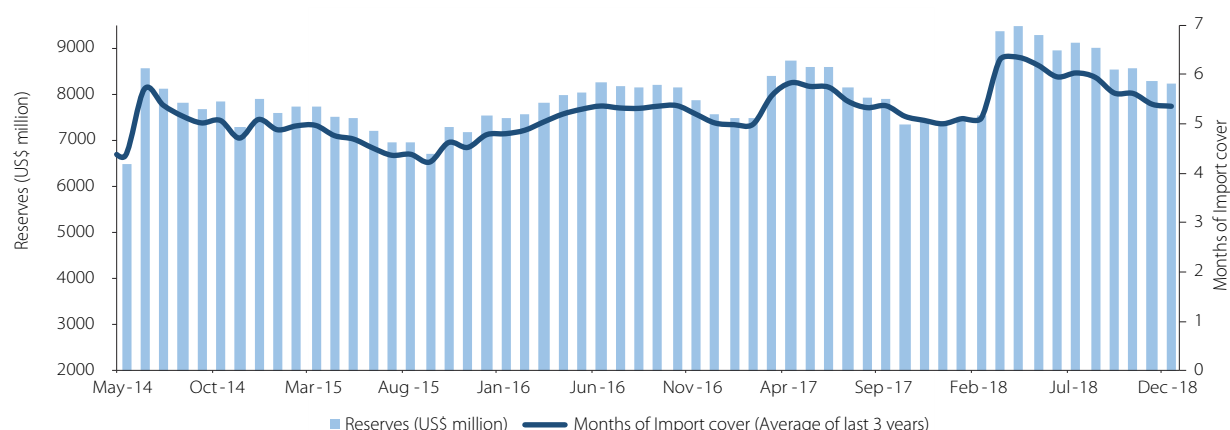
**1.6.3. The financial account recorded a surplus following favorable capital flows that were adequate to finance the current account deficit and to accumulate foreign exchange reserves.** The financial account improved to 6.5 percent of GDP in the year to June 2018, compared to 6.1 percent of GDP in June 2017 (Figure 31). In terms of the breakdown of capital flows, net foreign direct investment inflows improved slightly in part reflecting the recovery of the global economy. Although official foreign exchange reserves have decreased from US\$ 9,103.1 million (5.6 months of import cover) in September 2018 to US\$ 8,131 million (5.3 months of import cover) in December 2018, the level remains adequate and a comfortable buffer against short-term external shocks (Figure 32). Resilient capital inflows reflect ongoing foreign investor confidence in the Kenyan economy and global search for yield amongst investors.

**Figure 30: Remittance inflows have increased sharply**

Source: Central Bank of Kenya

**Figure 31: Government and corporate loans are the major flows financing the current account deficit**

Source: Central Bank of Kenya  
Note: \* Indicates provisional

**Figure 32: Official foreign reserves buffers are comfortable**

Source: Central Bank of Kenya

## 2. Outlook

### 2.1. Kenya's medium-term outlook remains stable, despite drought challenges and a less favorable external environment

**2.1.1. The medium-term growth outlook remains stable despite emerging drought challenges and a less favorable external environment.** Reflecting emerging drought challenges, GDP growth is projected to slow

down to 5.7 percent in 2019 before recovering to 5.9 and 6.0 percent, respectively in 2020, and 2021 (Table 2, Figure 33). Growth is supported by ongoing key investment to support implementation of the Big 4 development agenda and improved business sentiment. Growth could have been stronger in the absence of interest rate caps that continue to derail recovery in private credit growth.

**Table 2: Medium term growth outlook (percent, unless otherwise states)**

	2016	2017	2018 e	2019 f	2020 f	2021 f
<b>Real GDP growth, at constant market prices</b>	5.9	4.9	5.8	5.7	5.9	6.0
Private Consumption	4.7	7.2	6.2	6.1	6.6	6.7
Government Consumption	8.5	8.5	7.6	7.1	6.1	6.2
Gross Fixed Capital Investment	-9.4	6.3	5.8	6.9	6.8	7.1
Exports, Goods and Services	-2.6	-6.2	5.1	6.8	7.1	7.1
Imports, Goods and Services	-6.3	8.4	8.7	8.9	9.0	9.0
<b>Real GDP growth, at constant factor prices</b>	5.9	4.6	5.8	5.7	5.9	6.0
Agriculture	4.7	1.6	5.3	4.3	4.6	4.8
Industry	5.7	3.6	5.0	5.4	5.4	5.7
Services	6.5	6.2	6.3	6.4	6.6	6.7
<b>Inflation (Consumer Price Index)</b>	6.3	8.0	4.7	5.7	6.5	6.9
<b>Current Account Balance (% of GDP)</b>	-5.2	-6.3	-4.9	-5.5	-5.8	-6.0
<b>Net Foreign Direct Investment (% of GDP)</b>	0.3	0.5	0.5	0.7	0.6	0.8
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-7.3	-8.8	-6.8	-6.3	-5.1	-3.9
<b>Debt (% of GDP)<sup>a</sup></b>	57.6	57.2	56.5	55.8	54.0	51.2
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-4.0	-5.3	-3.1	-2.5	-1.3	-0.3
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>b,c</sup></b>	36.4	35.3	34.6	33.8	32.9	32.0
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>b,c</sup></b>	66.0	65.5	65.2	64.8	64.3	63.9
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>b,c</sup></b>	86.4	86.1	85.9	85.6	85.4	85.1

Source: World Bank, Poverty &amp; Equity and Macroeconomics, Trade &amp; Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Data for fiscal balance, debt, and primary balance is sourced from National Treasury and presented in Fiscal Years (2015 = 2014/15).

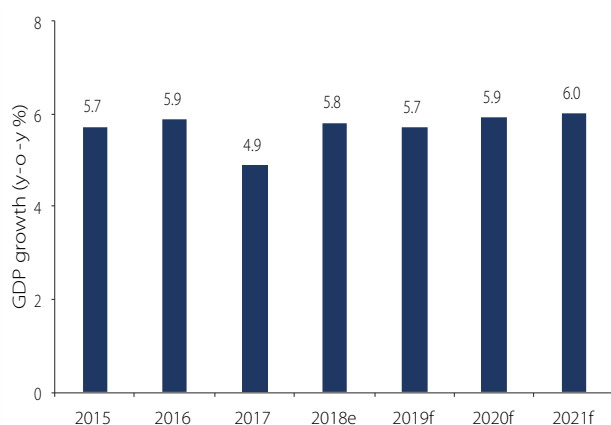
(b) Calculations based on 2005-IHBS and 2015-IHBS. Actual data: 2015. Nowcast: 2016-2018. Forecast are from 2019 to 2021.

(c) Projection using annualized elasticity (2005-2015) with pass-through = 1 based on private consumption per capita in constant LCU.

**2.1.2. On the supply side, delays in the long March-May 2019 rainy season could affect the planting season and performance of agriculture.** The Special Focus topic underscores agriculture as a key driver of growth, jobs and poverty reduction in Kenya. Still, a large share of agriculture is rain dependent implying that in years with drought (as is likely in 2019), poor harvests are possible—potentially pushing poor households into poverty. Over the medium term, ongoing policy and institutional reforms (including irrigation, post-harvest losses management, enhanced input markets) are expected to bear fruit and improve management of agriculture risks stemming from frequent droughts. The industrial sector (manufacturing, construction, and electricity and water) is projected to pick-up slightly in 2019 due to inherent pent-up investment demand and ongoing government infrastructure projects.

**2.1.3. Performance in the services sector is projected to remain stable.** The services sector is projected to grow at an average rate of 6.5 percent over the medium term. Wholesale and retail trade are expected to continue their strong growth as credit growth to this sector is rising. Reforms in the ICT sector, particularly those that support improved delivery of government services, enhance connectivity and broadband access, will lower the cost of doing business and support improvements in total factor productivity over the medium term. However, the contribution to growth from the financial services sector is forecast to remain relatively weak, reflecting a challenging environment for doing business, including retention of interest rate caps and weak aggregate demand.

**Figure 33: GDP growth is projected to accelerate slightly over the medium-term**



Source: World Bank

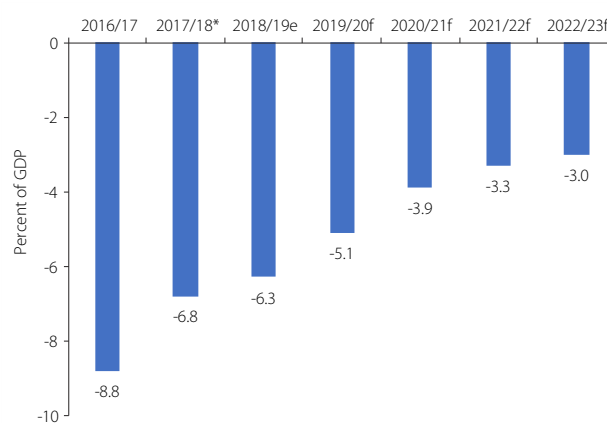
Notes: "e" denotes an estimate, "f" denotes forecast

## 2.2. Private consumption is expected to aid growth in the medium term

**2.2.1. On the demand side, private consumption is expected to continue spurring growth even as government consumption tapers due to fiscal consolidation.** Recovery in private consumption is underpinned by improving purchasing power (a growing middle class), low inflation and solid remittances inflows (even though growth prospects in the advanced economies have deteriorated). In addition, the ongoing boom in fintech and the advancement of digital loans are enabling households to offset weak credit growth from the banking sector. These developments are helping to smooth consumption in the face of shocks and also to boost total consumption growth. For example, the January 2019 launch of the *Fuliza*<sup>7</sup> mobile money overdraft service has attracted 7.7 million subscriptions and disbursed Ksh 2.2 billion in two months—all repayable in two-three days. On the other hand, the growth in government consumption is expected to decelerate in line with fiscal consolidation.

**2.2.2. The contribution to growth from private investment is projected to remain constrained by the lack of credit.** The KEU's baseline assumes that private sector investment in 2019 and over the medium term will remain subdued. A return to previous levels will require adequate credit to the private sector, especially SMEs.<sup>8</sup> Interest rate caps are expected to continue undermining private investment growth.<sup>9</sup>

**Figure 34: The ongoing fiscal consolidation is expected to continue into the medium term**



Source: The National Treasury

Notes: "e" denotes an estimate "f" denotes forecast

<sup>7</sup> *Fuliza* is a continuous overdraft service that allows you to complete M-PESA transactions when you have insufficient funds as an overdraft facility, which was launched on January 5, by Safaricom together with Commercial Bank of Africa (CBA) and KCB Group.

<sup>8</sup> Abdul Adiad et al (2011). *Creditless Recoveries*. IMF Working Paper. WP/11/58.

<sup>9</sup> IMF (2018). *SSA Regional Outlook*. May 2018.

**2.2.3. The government is committed to fiscal adjustment over the medium term.** The medium-term fiscal framework projects a narrowing of the overall fiscal deficit, including grants, from 6.8 percent of GDP in FY2017/18 to 6.3 percent in FY2018/19 and an eventual stabilization at 3.3 percent of GDP in FY2021/22 (Figure 34).<sup>10</sup> The authorities aim to achieve this through containment of spending growth and boosting domestic revenue mobilization. The decreased deficit should help reduce the stock of debt (as a share of GDP) and ultimately reduce the cost of servicing debt. The rationalization of corporate income exemptions through the revised Income Tax Act is expected to safeguard the tax base and yield additional tax revenues.

**2.2.4. Inflation is expected to stay within the government's target band of 5±2.5 percent.** Barring unanticipated price shocks, this provides scope for a more accommodative monetary policy stance to support growth if needed. The expected slowdown in global growth may also result in lower oil prices, a key driver of energy prices. Nonetheless, adverse weather

conditions could usher another round of high food inflation, especially if food production is affected by drought in 2019. Still, both overall and core inflation are expected to stay within the target range, providing ample monetary policy space to react in the event of unanticipated demand pressure on prices.

**2.2.5. Though the current account deficit is projected to widen, it is expected to be adequately financed.** Exports are projected to improve only marginally over the medium term, in the context of a less favorable growth prospects in Kenya's trading partners. Further, receipts from tourism and remittances are projected to remain steady amidst a deteriorating external environment. However, the trade balance is expected to remain negative while the current account deficit is projected to widen between 2019 and 2021. The projected widening of the current account deficit is driven by a higher import bill arising from a pick-up in domestic demand over the forecast horizon. A steady level of capital inflows (government and corporate loans) is expected to finance the projected current account deficit.

## 3. Risks to the Outlook

### 3.1. Domestic risks

**3.1.1. Fiscal slippages could reduce the fiscal space needed for the Big 4 agenda and potentially compromise macro-stability.** The baseline assumes that the government will adhere to its medium-term fiscal consolidation targets. If it does not, however, expanded government borrowing would tend to crowd out the private sector's access to credit and limit much-needed private sector investment. Fiscal slippages could also increase the cost of servicing government domestic debt. Further, fiscal slippages could compromise macroeconomic stability, thereby restricting government resources and its ability to catalyze the Big 4 agenda as well as disincentivizing private sector investment.

**3.1.2. A recurrence of drought would reduce agricultural output, presenting a downside risk to growth prospects.** The projections assume that the grain growing regions of Kenya will receive normal rains, albeit with some delays in 2019 before normalizing over

the medium term. However, if severe drought recurs, that poses a downside risk to agricultural output and the medium-term growth. A recent update to the weather outlook by the Kenya Meteorological Department indicates risk of drought to be high and already some counties have started experiencing incidents of famine. If the March-May 2019 long rains disappoint, especially for the grain growing regions, then this could result into further downward revision of growth for 2019 (by at least 0.6 percentage points), in line with the typical decline in growth observed in Kenya in years of poor rains. The Special Focus topic discusses policy interventions that if implemented could improve management of agriculture risks, including reducing vulnerability to drought.

**3.1.3. A rise in terror-related incidents could dampen the robust growth of the tourism and accommodation sector.** While taking note of the terrorist attack in January 2019, the baseline assumes improved security over the medium term. However, in the unlikely event of a new

<sup>10</sup> The government's intentions are outlined in the Budget Policy Statement (issued in February 2019) and the Budget Estimates for FY2018/19, which have been approved in parliament.

attack, a deterioration of security (reinforced by the issuance of negative travel advisories) would weaken investor confidence and dampen growth, particularly in the tourism industry.

### 3.2. External risks

**3.2.1. Tighter global financial conditions as a result of unexpectedly rapid normalization of monetary policy in advanced economies presents a risk to financial flows to Kenya.** Our baseline assumes an orderly adjustment to higher interest rates in advanced economies. Nonetheless, continued jitteriness among global investors regarding emerging and frontier markets including Kenya suggests continuing vulnerability to changing sentiments and contagion from financial stress. Kenya's vulnerabilities could intensify given the upcoming bullet payments for its Eurobonds. However, given a comfortable level of foreign exchange reserves and the recent commencement of fiscal consolidation, these risks are assessed as low.

**3.2.2. A faster and unexpected increase in oil prices presents a downside risk to the projected growth.** The baseline assumes the recent stability in oil prices will hold following less buoyant global economic prospects.

However, if a sharper and unexpected rise in oil prices occurs, this presents a significant downside risk as it could exert pressure on Kenya's terms of trade, compelling both energy prices and inflation to rise. Higher inflation would erode purchasing power and dampen domestic demand, and overall economic growth.

**3.2.3. Escalating trade tensions could weaken global growth, including amongst Kenya's major trading partners.** The risks of rising trade protectionism remain high with adverse effects on global trade and investment. Weaker global growth could weaken demand for Kenya's exports, reduce remittance inflows and tourist arrivals, thereby dampening growth prospects in Kenya beyond our projected forecast.

**3.2.4. On the upside, several factors not considered in our baseline assumptions could surprise with an upswing to projected growth.** These include fast-tracked structural reforms in support of the Big 4 agenda, stronger than anticipated recovery in credit to the private sector and an unexpected acceleration in global growth. Overall, the balance of risks to the outlook is tilted to the downside.

## 4. Policy options for building resilience and supporting inclusive growth

**4.1.0. With emerging drought challenges and a less favorable external growth prospects, rebuilding macroeconomic policy buffers and fast-tracking structural reforms are needed to rebuild resilience and support the government's inclusive growth agenda.** In this section we summarize the key policy messages from the analysis in sections one and two. Several macro and structural reforms, if pursued, could help rebuild resilience, create fiscal space for implementation of the Big 4 agenda, and speed-up the pace of poverty reduction.

### 4.1. Rebuilding macroeconomic policy buffers through prudent fiscal policy and reviving potency of monetary policy

**4.1.1. Enhance revenue mobilization to support planned fiscal consolidation.** Increasing tax revenue mobilization is essential to support fiscal consolidation. Domestic revenue mobilization measures could focus on rationalizing tax expenditures and putting in place a

governance framework that checks the re-creeping of tax exemptions. Additional work to guard against base erosion and profit shifting (for example through transfer pricing) need to be done. Moreover, improving realism in forecasting revenue from the existing tax base, even as efforts are underway to expand the tax net, could help.

**4.1.2. Fast-track a comprehensive solution to factors that led to imposition of interest rate caps for eventual repeal of the caps and revival of the potency of monetary policy.** The continued retention of interest rate caps has constrained monetary policy space. For example, with core-inflation below the mid-target range of 5 percent, there is space for accommodative monetary policy that could be used to support growth if needed. Nonetheless, with interest rate caps still tied to the policy rate, the ability of monetary policy to do this remains constrained. There is need to repeal interest rate caps and restore the potency of monetary policy, which is

extremely essential in responding to shocks emanating from changes to the business cycle and stabilizing growth. The effort to seek a comprehensive solution to the broader range of factors that led to the imposition of the interest rate cap including through addressing consumer financial protection concerns could be fast-tracked.

**4.1.3. Restore credit growth to the private sector to support projected private sector investment and sustainable growth.** The private sector requires sufficient credit to support desired expansion in real output through investment. The repeal of interest rate caps could certainly provide a conducive environment for lenders to price risks, thereby curbing the rationing of credit to SME's and individuals perceived as riskier by commercial banks. In addition, the slow credit growth cycle could be reversed by adopting a package of measures including improving the pricing mechanism for credit, putting in place measures for consumer protection, stemming predatory lending, and assuring credit flow to previously excluded sectors of the economy.

**4.1.4. Address the problem of pending bills (or arrears) to restore liquidity and profitability among firms trading with the government and stimulating private sector activity.** Public payment delays affect the economy mostly through a liquidity channel. Increased delays in public payments affect private sector liquidity and profitability and ultimately weaken aggregate demand and economic growth. There is evidence of a buildup in pending bills in Kenya, especially at the county level of government. A decisive policy action to clear pending bills, perhaps in a phased-out approach in line with funding requirements, could restore liquidity, stimulate private sector activity and create jobs.

**4.1.5. Improve debt management by putting in place a transparent and regular platform for primary issuance of debt instruments.** Adopting an electronic platform could improve the primary auction of government securities. This could promote transparency and enhance

efficiency in the management of government debt. Adoption of this technology could, for instance, hasten the settlement period after every auction and reduce liquidity management challenges. With a growing inclination towards foreign debt, a clear communication strategy on the government's preparedness to tackle upcoming debt repayments (interest and principal), including refinancing strategies, remains critical to sustaining market confidence. Debt management strategy could also focus on rebalancing the mix of expensive and shorter maturity commercial loans. This could be done, for example, through taking advantage of concessional debt, which is more affordable and with longer maturity profiles.

## **4.2. Monitoring implementation progress in structural and institutional reforms for the inclusive growth agenda**

**4.2.1. Advancing structural reforms can help crowd in the private sector to achieve the inclusive growth agenda.** Since the announcement of the Big 4, the government has made tremendous progress within the affordable housing pillar by completing the legal and regulatory framework for KMRC, waiver of stamp duty for first time home buyers, and passing through cabinet the sectional properties bill that will enable titling of plots within multi-story buildings. In agriculture, progress has been achieved in passing warehousing receipt legislation, cabinet approval of the commodities exchange bill, and the expected new irrigation act for better management of irrigation schemes and water usage. On universal health coverage, reforms to reduce administrative costs at the NHIF is ongoing, while within manufacturing a new investment policy providing a framework for attracting and retention of foreign investors is underway. Accelerating implementation of reforms across all the Big 4 priority areas and enabling sectors could help crowd in private sector and achieve the inclusive growth agenda of the government. Table 3 summarizes policy and structural reforms lined up for implementation and highlights progress made to date.



**Table 3: Implementation progress for structural and institutional reforms**

Progress on structural policy and institutional reforms to advance the Big 4	MDA responsible	Completed	Incomplete	
			Progress	Limited progress
Affordable Housing				
Issue the Mortgage Refinance Companies Regulation to provide a framework to operationalize the business of mortgage refinancing	NT/CBK	X		
Enacted an amendment to the CBK Act to empower the CBK to license and supervise Mortgage Refinancing Businesses	NT/CBK	X		
Waive stamp duty for first time home buyers	NT/MoLands	X		
Pass amendments to the Sectional Property Act to allow for individual titling of units in multistory buildings	MoLands		X	
Enact the Built Environment Bill which provides that changes be made to the building regulations on construction materials to address safety of the built environment	MoPW			X
Enact through its parliament, the Building Surveyors Act with the objective to improve building standards including in low-income housing units	Housing	X		
Agriculture				
Restructured the fertilizer subsidy program from a manual program to an e-voucher subsidy program	MOALFI		X	
Enact through its parliament the Warehouse receipt System Act providing the legal framework for the establishment of a warehouse receipt system	MOALFI	X		
Established the Warehouse Receipt Council to operationalize the Warehouse receipt Act	MOALFI			X
Cabinet approved the structure for the establishment of Commodities Exchange and registered the Company	MOALFI	X		
Enacted the Irrigation Act, which supports better use and harnessing of water resources for irrigation	MOALFI		X	
Universal Health Care				
Approve Health Financing Policy	MOH		X	
Implement action plan to reduce NHIF administrative costs	MOH			X
Manufacturing				
Finalization of intellectual property rights	MolT		X	
Anti-counterfeit measures	MolT		X	
Cabinet approved the Kenya Investment Policy, which simplifies the process of investor entry, establishment, aftercare, and retention services and support green investments	MolT		X	
Review regulations implementing the Special Economic Zones Act 2015 to provide mandate of the regulator, and guidelines for developers and enterprises	MolT			X

Notes: NT=National Treasury; MoLands=State department of lands; MoPW=state department of public works; Housing =State department of housing; MoALFI=Ministry of Agriculture; Livestock Fisheries and Irrigation; MoH=ministry of health; MoIT=Ministry of industrialization, trade and enterprise.

# Part 2: Special Focus

Transforming Agriculture Sector Productivity and  
Linkages to Poverty Reduction



## 5. Transforming Agriculture Sector Productivity and Linkages to Poverty Reduction

### 5.1. Introduction

**5.1.1. The agriculture sector is a major driver of growth for the Kenyan economy and a dominant source of employment for roughly half of the Kenyan people.** The sector is pivotal for the country to achieve the formidable goals established in the government's Vision 2030,<sup>11</sup> which are to transform Kenya into a globally competitive, prosperous country with a high quality of life by 2030. It accounts for about 51 per cent of GDP (26 per cent directly and 25 per cent indirectly through its linkage with other sectors). Further, approximately nine million Kenyans (or 56 percent) of total employment (KNBS, 2018) were employed in agriculture in 2017. Agriculture is also responsible for most of the country's exports, accounting for up to 65 percent of merchandise exports in 2017. Consequently, the sector remains central to GDP growth, with years of strong agricultural sector growth reflecting in overall GDP growth.

**5.1.2. Agricultural households contributed one third to the reduction of poverty among rural households in the past decade.** Poverty declined in Kenya from 46.6 percent in 2005/06 to 36.1 percent in 2015/16, driven by the large decline in rural poverty from 50.5 percent to 38.8 percent. In contrast, urban poverty rates statistically remained stagnant at 32.1 percent in 2005/06 and 29.4 percent in 2015/16. Rural-urban migration does not explain the stark decline in rural poverty, as households who migrate from rural to urban areas were not from the bottom part of the wealth distribution. Rather, improved livelihoods in rural areas allowed households to escape poverty. In fact, agricultural households contributed 31.4 percent of the reduction in rural poverty.<sup>12</sup>

**5.1.3. Recognizing the importance of agriculture in economic development and poverty reduction, the government has recently launched the Agricultural Sector Transformation and Growth Strategy (ASTGS) that is expected to guide sector programs over the next ten years.** The strategy has three main pillars: Raising the incomes of small-scale farmers, pastoralists and fisherfolks; increasing agricultural output and value-added; and boosting household food resilience. The sector is also

part of the Big 4 priority sectors which are expected to drive the government's inclusive growth agenda over the medium term. The Big 4 agenda for agriculture is to attain 100 percent nutritional and food security for all Kenyans by 2022.

**5.1.4. Nonetheless, the sector faces formidable challenges and risks that could weaken its potential to contribute towards achievement of the Big 4 agenda.**

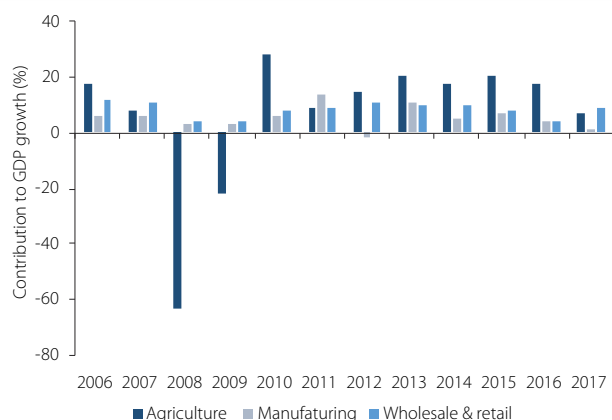
The sector's performance over the last two decades has been erratic with productivity of food crops falling rapidly relative to growing demand, leaving many poor households without adequate access to food. The flagging productivity of cereal crops such as maize, wheat and rice has resulted in rising import bills to plug the food deficit and widening of the current account deficit. Furthermore, climate change is increasingly becoming a threat to agricultural output with negative implications for food security, livelihoods, and economic growth. The Center for Global Development (CGD) ranks Kenya 13<sup>th</sup> out of 233 countries for "direct risks" arising from "extreme weather" and 71<sup>st</sup> of 233 for "overall vulnerability" to climate change (after adjusting for coping ability) (CGD, 2018). Other challenges facing the sector include scarcity of arable land, lack of access to credit, poor infrastructure, and lack of integrated markets. This Special Focus examines the recent developments in the agricultural sector, its linkage to poverty reduction, and policy suggestions to transform the sector's ability to deliver on the Big 4 agenda.

### 5.2. Recent trends in agricultural output in Kenya

**5.2.1. The contribution of agriculture to real GDP growth has decreased over the past five years (2013-2017) while year-on-year growth has dropped due to the impact of the last drought.** The sector's average contribution to real GDP growth has decreased from about 23.9 percent (2008-2012) to 21.9 percent (2013-2017) (Figure 35). Furthermore, the sector's year-on-year growth exhibits significant volatility (Figure 36), in part due to weather shocks and prevalence in pests and disease (including the attack from the Fall Armyworm in 2017). For example, after rebounding strongly in 2010

<sup>11</sup> Republic of Kenya (2008).

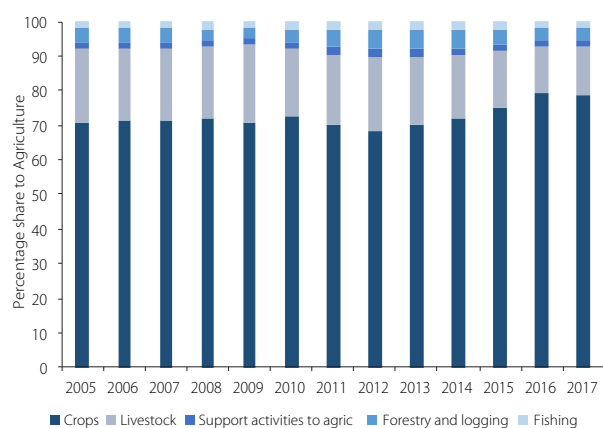
<sup>12</sup> World Bank, 2018.

**Figure 35: Sector contribution to GDP growth**

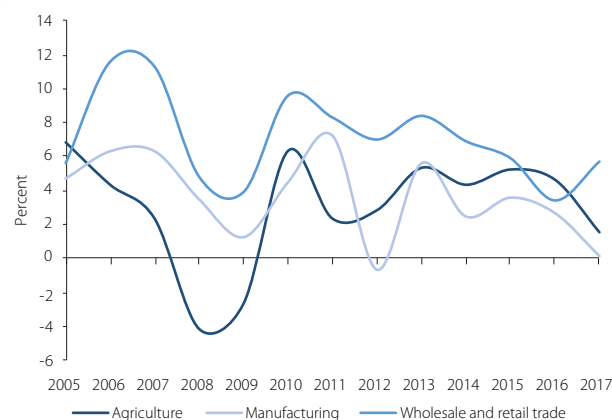
Source: Kenya National Bureau of Statistics

(reaching 6.4 percent), the sector's growth slowed down to about 1.6 percent in 2017 because of a prolonged drought. Reflecting sector interlinkages, the slowdown in agriculture is also associated with anemic annual growth in manufacturing, and also in the wholesale and retail sectors (2005-2018).

**5.2.2. Crops production accounts for the largest share of real output in the sector while livestock, forestry and fisheries follow in that order.** Over the past 10 years, crop production accounted for about 73 percent of the value added in agriculture, while livestock accounted for about 20 percent. Forestry and fishing made up the rest (Figure 37). A diverse array of produce is farmed in Kenya, including cash crops (tea, coffee, horticulture, sugarcane, cotton, pyrethrum, and sisal), and food crops (maize, rice, wheat, beans, millet, sorghum, potatoes, cabbages, tomatoes and bananas). Nonetheless, real agriculture

**Figure 37: Subsector contribution to agriculture GDP**

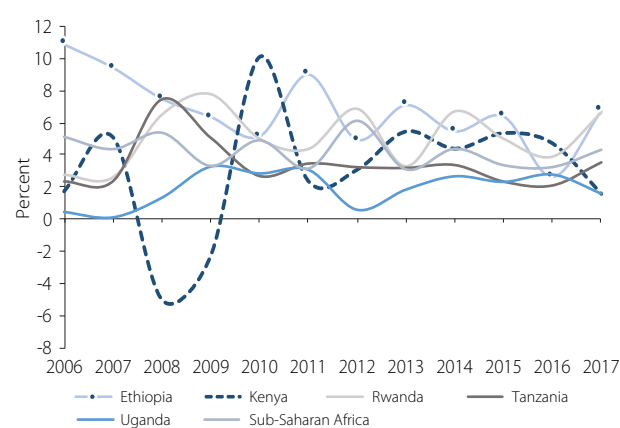
Source: Kenya National Bureau of Statistics

**Figure 36: Growth rates for agriculture, manufacturing & retail sectors**

Source: Kenya National Bureau of Statistics

value added has contracted in recent years mainly due to volatility in production because of shocks. The shocks have mainly been weather-related in the form of increasingly unreliable rainfall and prevalence of pests and diseases (such as the Fall Armyworm and Rift Valley Fever). The decreasing trend in real agricultural value added is also seen across SSA countries (Figure 38).

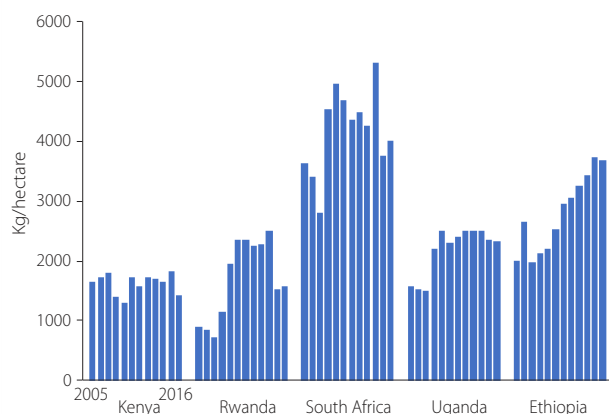
**5.2.3. Maize and beans are the predominate crops grown in Kenya, with 85 percent of Kenya's cultivated land devoted to growing these two staples in 2015/16.** Kenya's productivity in maize and beans has stagnated, whilst neighboring countries have experienced increases in productivity between 2005/06 and 2015/16 (Figure 39 and Figure 40). Furthermore, there are differences in yields across provinces and genders, with female headed households having lower productivity in both beans and maize crops<sup>13</sup>.

**Figure 38: Annual growth rate in real agriculture value added**

Source: World Bank

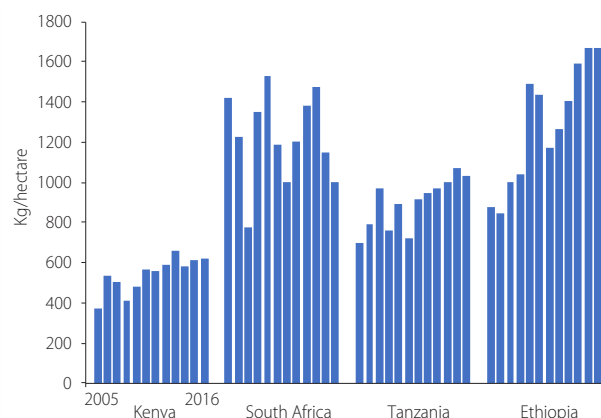
<sup>13</sup> World Bank, 2018.

Figure 39: Maize yields in selected African countries, 2005-16



Source: World Bank based on FAO data.

Figure 40: Bean yields in selected African countries, 2005-16



Source: World Bank based on FAO data.

**5.2.4. Kenya's agricultural total factor productivity (TFP) dropped at least ten percentage points between 2006 and 2013 before stabilizing thereafter (Figure 41).** Kenya's TFP growth lags Rwanda, Ethiopia and Tanzania and is well below that recorded for South Asia and South East Asian countries (Figure 41a and Figure 41b). The decline in TFP<sup>14</sup> was among other factors associated with ineffective knowledge delivery system (poor agricultural extension and advisory services), inability to adopt high yield seeds and improved fertilizer usage. Rwanda and Ethiopia have benefited from increased investments in agriculture, specifically in terms of knowledge dissemination through extension services and use of technologies such as improved seed and fertilizer. For Kenya to raise its agricultural productivity levels, increased use of inputs must be coupled with knowledge dissemination.

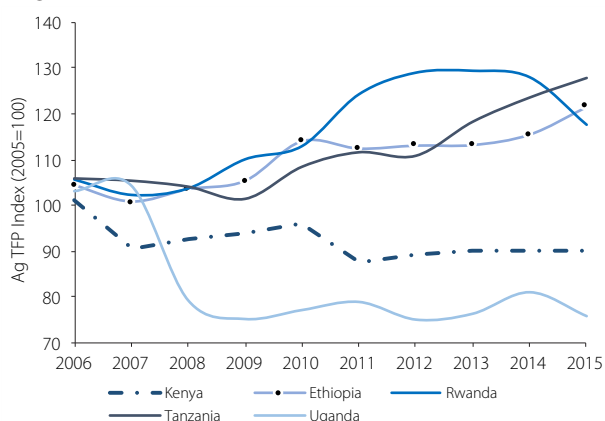
**5.2.5. The share of value addition compared to agricultural production is relatively low in Kenya.** As shown

in Figure 42, only 16 percent of Kenya's agricultural exports are processed, compared with 57 percent for imports. Likewise, Kenya exports only US\$11 of processed agricultural products per capita, compared with US\$83 in South Africa and US\$77 in Côte D'Ivoire. This is partly a result of the fact that many of Kenya's major cash crops either do not require processing (for example, cut flowers) or require only primary processing prior to export (for example, coffee, tea). Of processed exports, only pineapples (US\$100 million per year) and beans (US\$50 million per year) have achieved any significant scale.

**5.2.6. There is great potential to expand processed exports in fruit purees (mangoes, passion fruit), processed vegetables, and nuts (macadamia), with longer-term potential in meat.** For the domestic market, a wider range of agro-processing growth opportunities exist, including in fruit purees, potatoes and other vegetables, fish (for example, canned, smoked), meat,

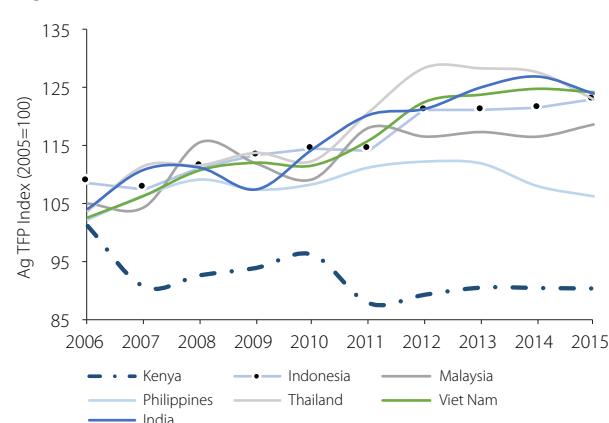
Figure 41: Agricultural TFP for Kenya and selected countries

a) Agricultural TFP (2006-2015) relative to EAC



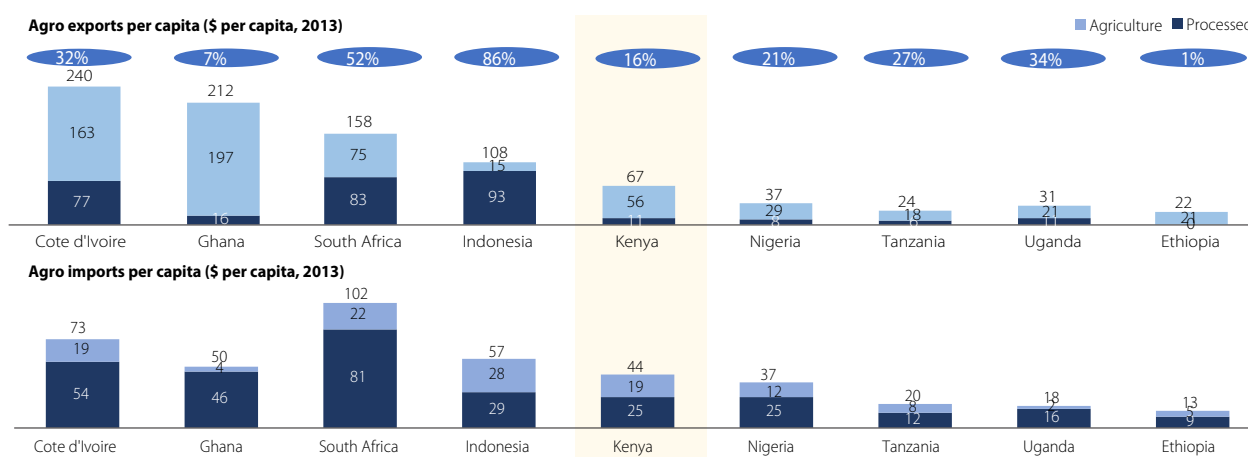
Source: USDA, 2018 (Economic Research Service)

b) Agricultural TFP (2006-2015) relative to S/East Asian countries



Source: USDA, 2018 (Economic Research Service)

<sup>14</sup> See Special Focus Annex Table 1 for detailed decomposition.

**Figure 42: Key trade indicators for the agro-processing sector, selected countries**

Source: Kenya Country Private Sector Diagnostic (CPSD)

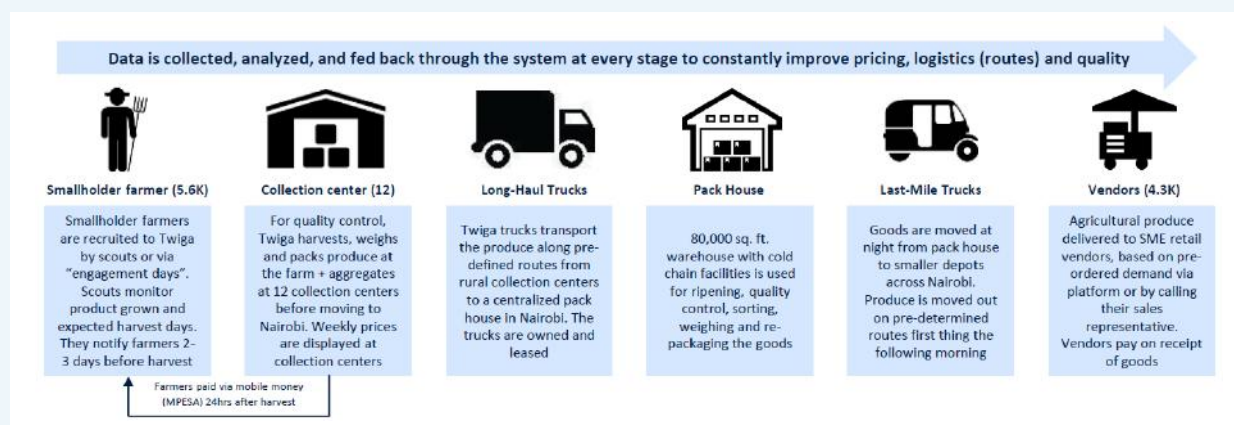
dairy and, to a lesser degree, tea and coffee. Few firms are active in this space mainly due to production issues that is, securing sufficient quantity and quality of raw material to justify capital-intensive processing investments. Opportunities also exist to expand processing of imported commodities for the local market (for example, vegetable oils, wheat into pasta, and so on) but such initiatives face constraints related to the cost and reliability of power and access to finance.

**5.2.7. Leveraging modern technology could spin-off a wide range of agricultural applications, from providing weather updates, market data and access to finance**

**for farmers, to driving logistical efficiencies for input suppliers and buyers, as well as providing traceability opportunities across the value chain.** Kenya is ahead of the curve on innovation, and the agribusiness sector is no exception (Box B.3). Other innovations include Safaricom's digifarm and Masoko. The former enables farmers to obtain information on soil types, markets, and credit, while the latter connects sellers to buyers overcoming search and matching costs. Thus, there is a clear will and capacity of entrepreneurs in Kenya for market-based innovation and adoption of agro-based technologies that could enhance farmer access to information and boost productivity and farmer incomes.

#### Box B.3: Using mobile technology to enhance food supply chains by Twiga Foods

Launched in 2014, Twiga Foods is a fast-growing Kenya based enterprise using mobile technology and logistics to enhance food supply chains by more effectively and rapidly consolidating highly fragmented, informal market supply and demand (thereby reducing food prices and spoilage). The company's clients include both farmers, to whom it provides a guaranteed offtake (currently 5,600 farmers with 600+ percent year-on-year growth), and small-scale vendors (for example, street sellers, kiosks) to whom it provides distributed wholesale services (currently 4,300). Twiga started off with bananas but has since grown to include other fresh fruit and vegetables (mangoes, potatoes, onions, tomatoes, and so on). The logistics solutions provided across the value chain (including cold-storage packhouse facilities) are described in more detail in the diagram below.



### 5.3. Agricultural productivity and linkages to poverty reduction in Kenya

**5.3.1. While households with diversified incomes are less likely to be poor, agricultural incomes remain the most important income source for rural households.** Poverty rates are higher among households that focus solely on agriculture compared to households engaged in non-agricultural activities. Diversifying away from agricultural activities allows a household to mitigate against adverse agricultural shocks such as drought. Despite an increase in the income share from wage employment in the service sector, agricultural income remains the most important income source for both poor (64 percent) and non-poor (53 percent) households in rural areas.

**5.3.2. In Kenya, households with higher agricultural productivity are less often poor.** Provinces with higher maize and bean yields generally have lower poverty rates (Figure 43a and b). Similarly, counties with higher farm productivity within a given province have lower poverty rates. Likewise, in each province poverty rates tend to be lower in households in higher yield deciles (Figure 44).<sup>15</sup> Thus, increases in crop yields can reduce rural poverty given the strong negative correlation between yields and poverty rates in Kenya.

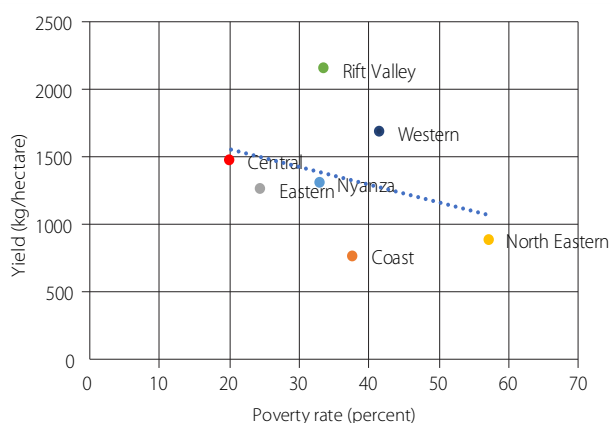
**5.3.3. Productivity increases in the agricultural sector can benefit poor households-lifting them out of poverty.** Productivity gains can directly benefit poor agricultural households. Households producing agricultural output purely for consumption will be able to produce greater yields and, therefore, be able to increase

their consumption or start selling surplus output to the market. Furthermore, households that already sell agricultural output can produce more and, therefore, sell greater amounts in the market. Poor households may also indirectly benefit from increased agricultural productivity, either through increased agricultural wages or reduced food prices brought about through increased supply. However, it is important to keep in mind that net-producing agricultural households can be negatively affected by lower food prices if they cannot increase their productivity. Therefore, it is important that agricultural policies are also targeted to poor agricultural households allowing them to improve productivity.

**5.3.4. The rural poor are less likely to be selling agricultural produce than rural non-poor households.** Rural households that engage in agriculture in Kenya can be divided into two groups: Subsistence households who produce output purely for their own consumption, and market-selling households who sell some of their output in the market. Selling outputs on the market enables households to avoid poverty as only 26 percent of market sellers are poor compared to 38 percent of subsistence households. While half of non-poor households are selling agricultural output, only 34 percent of poor households bring their produce to market (Figure 45).

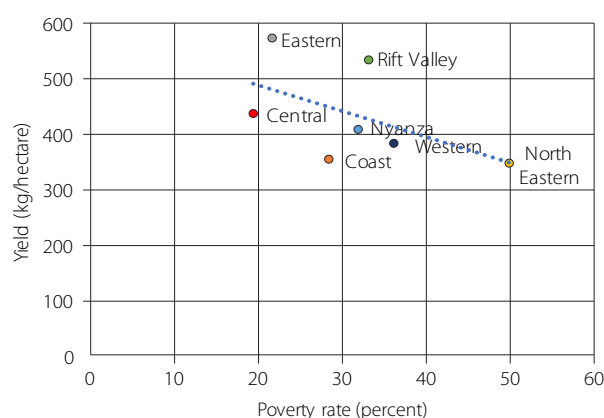
**5.3.5. Market-selling and subsistence households grow similar crops; however, market-selling households have greater diversity in the crops they grow.** Around half of both market-selling and subsistence agricultural households grow beans, legumes and nuts as their main crop.<sup>16</sup> More subsistence households grow maize and

**Figure 43a: Maize yield and poverty by province in 2015/16**



Source: Kenya Poverty and Gender Assessment, World Bank (2018).

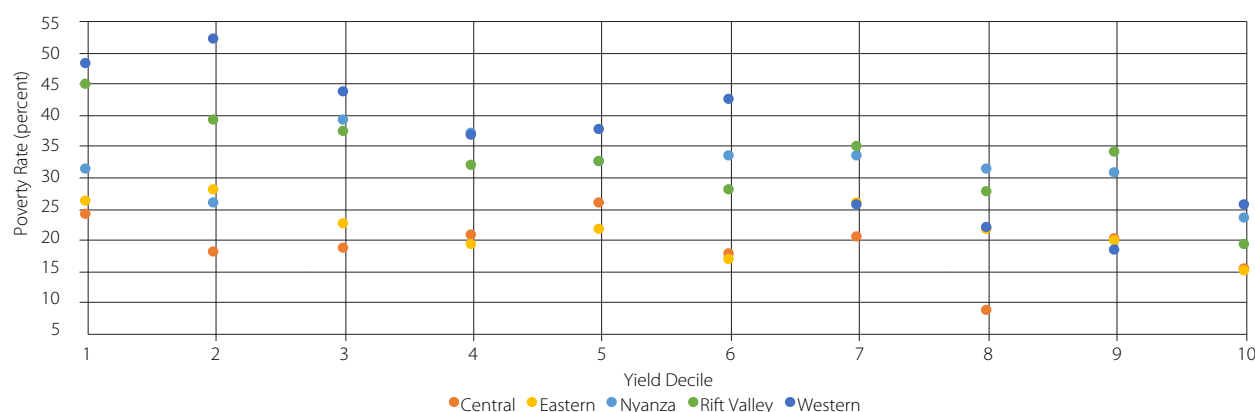
**Figure 43b: Bean yields and poverty by province in 2015/16**



Source: Kenya Poverty and Gender Assessment, World Bank (2018).

<sup>15</sup> World Bank, 2018.

<sup>17</sup> The main crop is defined as the crop which received over 50 percent of the total cultivated land.

**Figure 44: Maize yield decile and poverty rates in rural Kenya 2015/16**

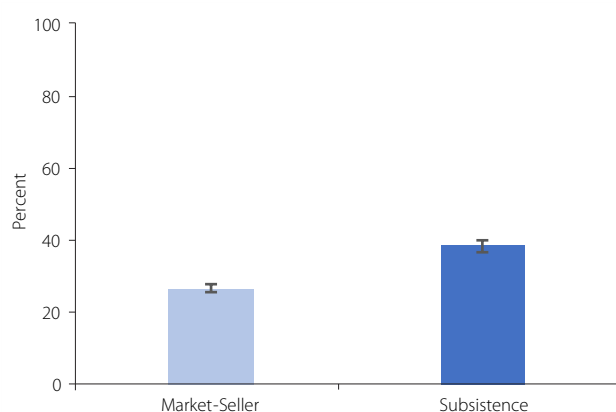
Source: Kenya Priority and Gender Assessment, World Bank (2018)

other cereals as their main crop compared to market-selling households. In contrast, market-selling households more frequently grow all other crop types as their main crop, with the exception of other cash crops (Figure 46).<sup>17</sup> Market-selling households also allocate land to a more diverse range of crops. Subsistence households grow almost exclusively maize and cereals, and beans, legumes and nuts (94 percent of cultivated land; Figure 47).

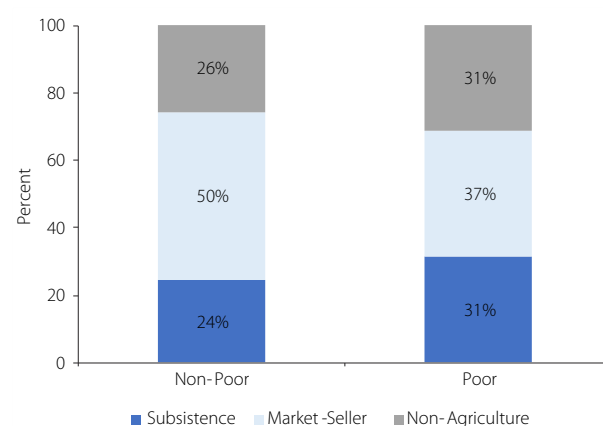
**5.3.6. Market-selling households have a greater usage rate of inorganic fertilizer and irrigation while spending larger amounts on inputs.** Increased use of inorganic fertilizer can lead to increased yields, with households who applied chemical fertilizer experiencing a 20 percent increase in their maize yields between 2000 and 2010. While the application of chemical fertilizer is also positively associated with higher bean yields, the yield increase is negligible. Market-selling households are also more likely to cover a greater percentage of their land parcels with inorganic fertilizer and irrigation than

subsistence households. Furthermore, market-selling households spend larger amounts than subsistence farmers on agricultural inputs, suggesting that credit constraints may be restricting subsistence household's input use (Figure 48).

**5.3.7. Access to credit increases the use of inorganic fertilizer in both subsistence and market-selling households.** The provision of credit may help low-income households overcome financial constraints to purchase agricultural inputs. Having access to a farmer's credit group in the community is associated with high usage rates of inorganic fertilizer in both market-selling and subsistence households (Figure 49). This suggests that access to credit helps increase agricultural households' usage rates of agricultural inputs through the removal of credit constraints. Irrigation usage rates remain similar, regardless of whether there is an availability of credit. Therefore, low usage rates may be caused by a lack of supply, rather than financial constraints.

**Figure 45a: Poverty rates**

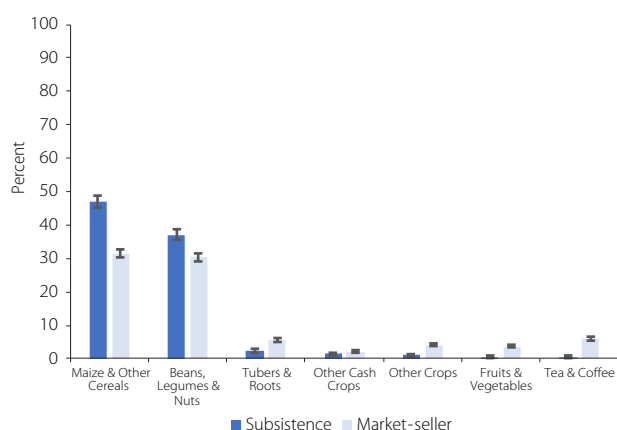
Source: World Bank using KIHBS 2015/16 data

**Figure 45b: Household type by activity**

Source: World Bank using KIHBS 2015/16 data

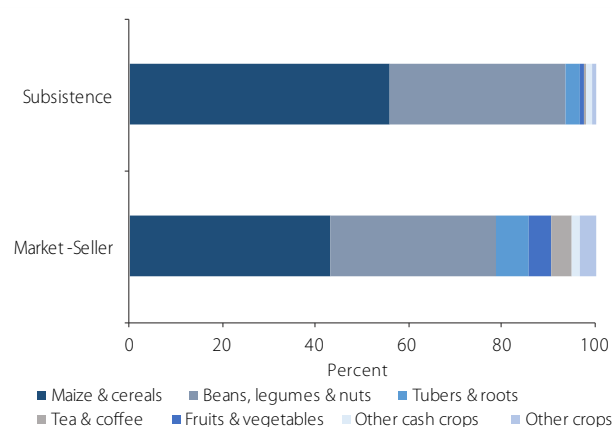
<sup>17</sup> World Bank, 2018.

Figure 46: Major crops produced



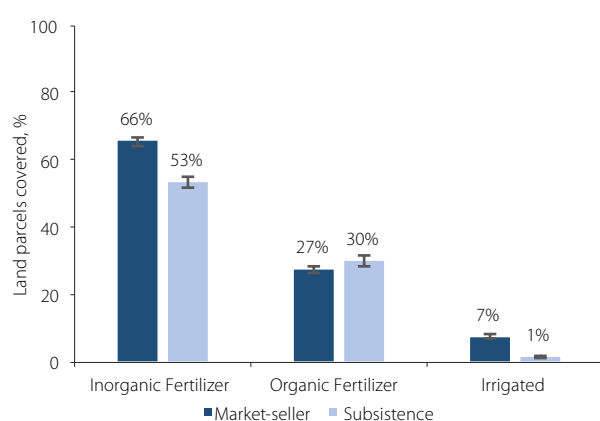
Source: World Bank using KIHBS 2015/16 data

Figure 47: Percent of cultivated land allocated to each crop



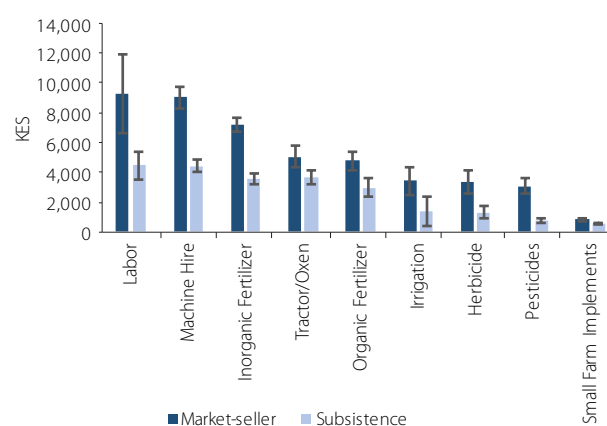
Source: World Bank using KIHBS 2015/16 data

Figure 48a: Agricultural input use



Source: World Bank using KIHBS 2015/16 data

Figure 48b: Agricultural input expenditure



Source: World Bank using KIHBS 2015/16 data

**5.3.8. To summarize, agricultural income remains the most important income source for both poor and non-poor households.** Productivity increases in the agricultural sector could benefit poor households, lifting them out of poverty. The analysis shows that rural households classified as market selling are characteristically different from subsistence farmers. Market selling households have greater diversity in crops grown and demonstrate greater usage of fertilizer. Access to credit and more widespread use of fertilizer enables subsistence households to sell output, potentially lifting them out of poverty.

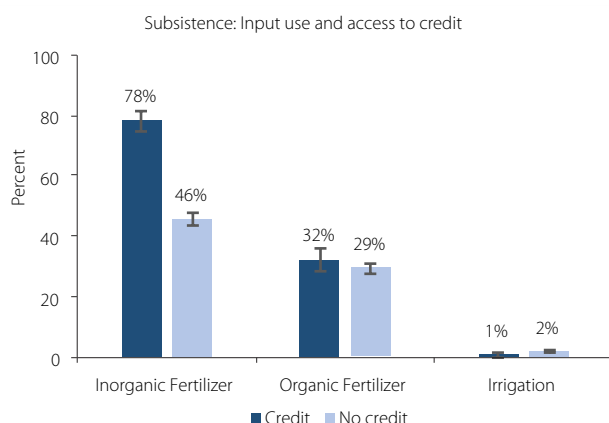
## 5.4. Factors underlying low productivity

**5.4.1. Low agricultural productivity results from several underlying causes,** including lack of quality inputs, (seeds, breeds and fertilizers), distorted input and output markets, minimal adoption of modern production technologies (mechanization, greenhouse, ICT), high incidence of pests and diseases (Fall Armyworm, Rift Valley Fever, Peste des Petit Ruminants (PPR), Contagious Bovine

Pleuropneumonia (CBPP)), poor soil health (acidity due to excessive use of nitrogen-based fertilizers), poor delivery of extension services, and low investment in infrastructure (irrigation, drainage, rural roads). The following section highlights a few of these.

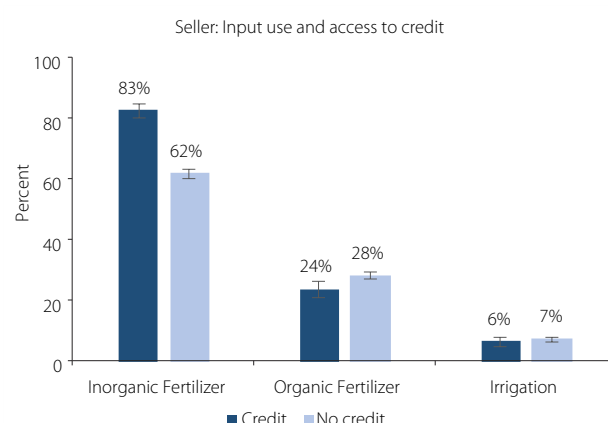
**5.4.2. Fertilizer use remains low and the government's efforts to increase fertilizer use through subsidy programs has not resulted in productivity gains.** Fertilizer remains a key input to reversing low productivity. Current average fertilizer use in Kenya is 30 Kg/ha, which although high compared to regional peers (Figure 50a), is quite low compared to the peak of the green revolution in Asia, when fertilizer utilization averaged over 100 Kg/ha (David & Otsuka, 1994). Nonetheless, cereal productivity in Kenya lags that of its regional peers, an indicator of inefficiencies in the utilization of fertilizer (Figure 50b). Despite being a cereals production leader in the 1980s and 1990s, Kenya now has the lowest grain yields in East Africa. This is due

Figure 49a: Subsistence household input use



Source: World Bank using KIHBS 2015/16 data

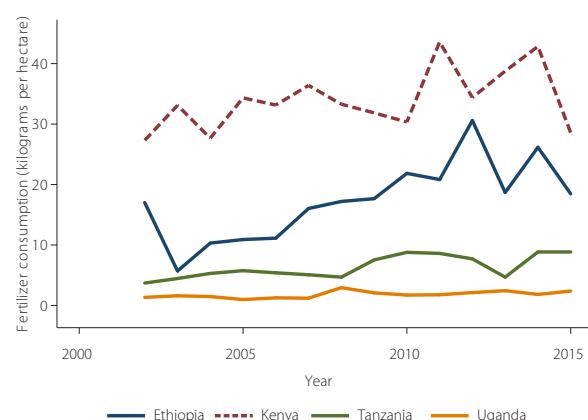
Figure 49b: Market-selling household input use



Source: World Bank using KIHBS 2015/16 data

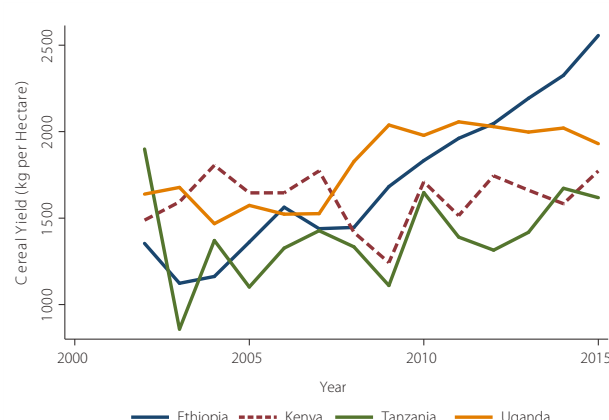
Figure 50: Comparisons of Kenya's fertilizer consumption against cereal productivity, selected countries

a) Fertilizer consumption (Kg/ha)



Source: World Bank, 2018

b) Cereal yield (Kg/ha)



Source: World Bank, 2018

to production-related shocks and lackluster results from ongoing government interventions to promote fertilizer use. More worryingly, implementation of the fertilizer subsidy program is not yielding the desired impact of raising utilization and productivity (Box B.4).

**5.4.3. The pervasive use of input subsidies that are not targeted tend to crowd out other core expenditures that are essential to raise productivity.** The most recent Public Expenditure of Agriculture Sector (PEAS) report shows that on average 22 percent of expenditures in the sector are directed to input subsidies, mainly to fertilizers and seeds. These subsidies are highly distortionary and crowd out the private sector from investing in fertilizer importation and distribution (Box B.4). The targeting mechanism is inefficient to the extent that farmers holding medium-to large sized farms are benefiting from subsidized fertilizers at the expense of smallholders. Moreover, the design of the subsidy program also provides incentives for diversion to retail markets.

Figure 51 shows the increasing price differential between the subsidy price and commercial retail prices for DAP fertilizer, which incentivizes diversion and reselling. The subsidized fertilizer is also skewed towards maize growing areas. Makau et al., (2016) found that the probability of purchasing fertilizer from commercial markets was reduced by 30 percent in major maize growing areas in Kenya. Rising expenditure on input subsidies is potentially limiting spending on other essential services such as extension and rural infrastructure that could have a positive impact on productivity (Box B.5).

**5.4.4. Despite market liberalization reforms of the 1990s, the government retains an outsized role in marketing agriculture outputs, especially maize through the NCBP.** This heavy government presence creates opportunities for rent seeking by public officials and political elites and leaves little room for private sector participation in maize marketing. NCPB's buying operation is based on depots spread around Kenya but

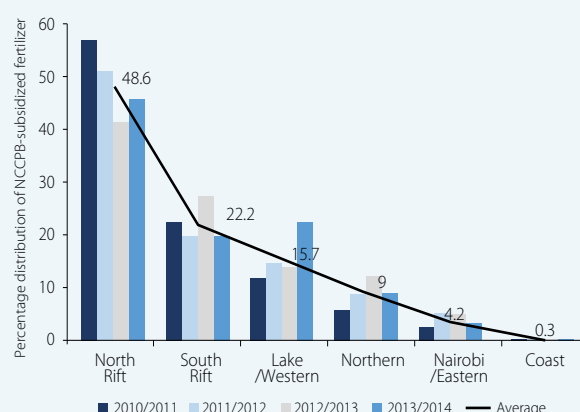
### Box B.4: Challenges facing the general fertilizer subsidy program

The general fertilizer subsidy program was established in 2008 following rapid and significant increases in fertilizer prices because of the international oil price shock. The program was designed to be available to all farmers after going through a verification process. Farmers can access subsidized fertilizer from NCPB. Since 2008, the national fertilizer subsidy program purchased and distributed about 1.3 billion MT of fertilizer at the cost of Ksh.31 billion (approximately US\$310 million at current exchange rate).

Since distribution of the fertilizer is through a NCPB stores, the subsidy program became synonymous with maize. (Figure B.4) shows that the fertilizer distribution between 2010 and 2014 was concentrated in the maize producing areas.

The government procured and delivered bulk fertilizer to the NCPB depots (which on average are located about 25 Km from farming households) (Tegemeo Institute, 2015) at Ksh 1,500 for DAP, which was less than half the price offered by an agrovet next door selling at Ksh 3,200. Despite the huge subsidy, the program is ineffective due to poor targeting of beneficiaries, late delivery, and inefficient distribution resulting in leakages and low standards of delivered fertilizer (Makau, et al., 2018). In addition, the subsidy program led to crowding out of private sector retail fertilizer markets in the maize growing areas (Makau, et al., 2016). Despite the program, maize yields (1,628 Kg/ha in 2015) remain lower than its neighbors (Ethiopia and Uganda) and even lower than yield levels achieved two decades ago (1,918 Kg/ha in 1994).

**Figure B.4: Distribution of the general fertilizer subsidy between 2010 and 2014**



Source: (Makau, et al., 2016)

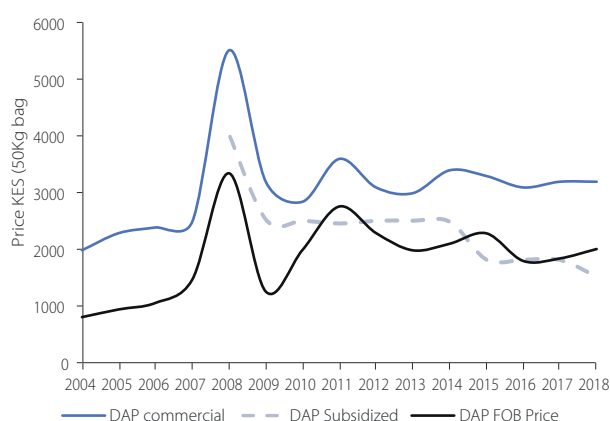
is centered in the maize-surplus zones of the northern Rift Valley and Western Kenya. NCBP is buying maize at a premium above the price offered by the market resulting in double subsidy to farmers who also received subsidized fertilizers. NCBP also releases stocks by selling to milling companies at a discounted price leading to financial losses. For example, in 2017 the NCBP purchased maize at Ksh 3,200/Kg and released the stocks to millers at Ksh 2,600/Kg despite incurring transport and storage costs. In 2018, the government had to subsidize maize flour due to the price spike caused by shortage of maize in

Kenya following successive drought years. These market intervention measures are not only causing fiscal strain but also creating disincentives for the private sector to participate in maize marketing activities.

#### 5.4.5. Kenyan farms are generally small and shrinking and are becoming uneconomical to operate.

Because 83 percent of Kenya's land area is in the ASAL region, only 17 percent of the country is suitable for crop production. Further, increasing population in rural areas and rising urbanization means that 80 percent of the population lives on arable land, reducing per capita arable land from about 0.7 acres in the mid-1970s to 0.3 acres in 2015. Consequently, land scarcity is becoming a binding constraint to agriculture growth and is leading to unsustainable forms of agricultural production (Muyanga & Jayne, 2017; Muyanga & Jayne, 2014). For example, about 87 percent of farmers operate less than 2 hectares, and approximately 67 percent operate less than 1 hectare. Since 20 percent of farmers with the smallest holdings generate 57 percent of their incomes from farming activities, the decline in the availability of arable land demonstrates the importance of improving productivity to ensure food security.

**Figure 51: Trends in DAP fertilizer prices**



Source: World Bank, USDA

**5.4.6. In Kenya, many geographically dispersed smallholders are not integrated into key agriculture value chains.** Dispersion increases production costs and reduces small farmers' competitiveness, while small production volumes increase purchaser transaction costs. Stronger Farmer Organizations (FOs) can foster economic inclusion of smallholders and increase their market power. Vertical integration between FOs, (representing small farmers as members) off-takers and aggregators can help overcome the challenges of processing, branding and retailing high value and perishable commodities such as fruits, vegetables and dairy products. By organizing production and facilitating quality grading by integrating producers into processing firms, challenges of branding can be overcome (Delgado, 1999).

**5.4.7. Value addition to agricultural commodities remains low and sector growth is largely coming from increasing production and marketing activities.** Although the sector contributes nearly two-thirds (65 percent) of merchandise exports, almost 91 percent of these agricultural exports are in raw or semi-processed form. This means the country foregoes significant income by not adding value to its products and exports manufacturing jobs. However, global experience suggests that an increasing agribusiness-to-agriculture ratio has been an important driver of poverty reduction and generating more productive employment. This is illustrated by the experiences of Israel in the 1960s, and Thailand and Brazil in the 1980s. Agro-processing and other forms of agro-enterprise activity provide avenues for the accumulation of skills, stimulating product and process innovations, and strengthening the backward and forward linkages with the rest of the economy.

**5.4.8. Although infrastructure enjoys the largest share of the budgetary allocation, averaging 26 percent (2013-2017), more resources are needed to attain a suitable level of investment for improved returns in agriculture.** Despite 83 percent of Kenya being in ASALs, only two percent of arable land is under irrigation compared to an average of six per cent in SSA and 37 percent in Asia. According to the National Water Master Plan (1992), Kenya's irrigation potential is estimated at

539,000 ha based on surface water and another 800,000 ha if groundwater and water harvesting are considered. However, since only about 120,000 ha are currently under irrigation, massive investments would be needed in small-scale farmer-managed irrigation schemes to spur the sector's growth. This would also require the development and maintenance of rural roads and the establishment of marketing and storage facilities (warehouses, cold rooms, milk collection centers), both of which are additional binding constraints to growth in the sector.

**5.4.9. Irrigation remains a key enabler for building resilience and climate proofing the sector.** Studies have shown that returns to public spending on smallholder irrigation schemes could be significant (Government of Kenya, 2018). For instance, in SSA returns to irrigation range from 17 percent for large-scale farmers to 43 percent for small-scale farmers, and could triple per capita farm incomes, with significant impacts on poverty reduction. As such, there is need to boost investment in small holder irrigation schemes and to promote private sector investment in irrigation. Reforming water use policy could also allow the private sector to price and sell water to small-scale producers.

**5.4.10. Limited access to credit and financial services for the agricultural sector.** The agricultural sector suffers from low levels of credit and financing (Njagi, et al., 2017) and commensurately sub-optimal levels of investment (Government of Kenya, 2018). Many farmers are often hindered in the purchase of productivity-enhancing inputs (e.g., seed, fertilizer, pesticides etc.) due to limited access to finance. Alliance for a Green Revolution in Africa (AGRA) and the Government of Kenya estimate that in 2015 the annual credit needs of key commodity chains amounted to Ksh 130 billion, whereas credit to the sector was only Ksh 40 billion. One potential area of reform to help ease the situation could be through passing and implementation of the warehouse receipts bill that would allow farmers to use receipts as collateral. Improving the use of crop and livestock insurance as collateral would also be welcome as another way to increase agricultural credit.



## Box B.5: Public Agricultural investments between 2013/14 and 2016/17

Table B.5 shows the share of expenditure for agricultural functions at the national level between 2013 and 2016 based on PEAS analysis. On average, infrastructure has the highest share of public expenditure at the national level (26%), followed by subsidies (22%), knowledge expenditures (21%) and multipurpose projects (20%).

**Table B.5: Share of agricultural functions as a share of the national budget**

	2013-14	2014-15	2015-16	2016-17	Average
	21%	23%	21%	25%	22%
Capital subsidies	0%	0%	1%	0%	0%
Input subsidies	12%	13%	16%	13%	13%
Storage subsidies	8%	10%	4%	12%	8%
<b>Knowledge</b>	12%	24%	26%	22%	21%
Research	6%	15%	20%	15%	14%
Extension and advisory services	3%	4%	1%	1%	2%
Training	0%	1%	1%	2%	1%
Inspection/quality control	3%	5%	3%	5%	4%
<b>Infrastructure</b>	34%	21%	25%	24%	26%
Feeder Roads	0%	0%	0%	0%	0%
Irrigation	26%	20%	23%	18%	21%
Other infrastructure	3%	0%	0%	2%	1%
Processing and marketing	5%	1%	2%	4%	3%
<b>Multipurpose</b>	26%	18%	14%	22%	20%
Multipurpose projects	14%	6%	8%	10%	9%
Multipurpose - SAGA	12%	12%	7%	13%	11%
<b>Administrative costs</b>	7%	14%	15%	7%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Comprehensive Public Expenditure Review, 2018

A closer look shows that irrigation accounted for the lion's share of infrastructure expenditure. An examination of the irrigation budget reveals that most spending was on two large-scale flagship irrigation projects, the Galana-Kulalu Food Security Project and the Thika dam project. Reorienting these expenditures to improvements in road and market infrastructure, investments in small-scale irrigation and water harvesting technologies, as well as enhancements in storage infrastructure could have a greater impact on smallholder farmers and rural economies.

## 5.5. Policy recommendations to boost agricultural productivity

**5.5.1. To transform the agricultural sector and build resilience to climate change, a two-fold agricultural transformation strategy is needed.** One focusing on commercially-oriented smallholders and large farmers and the other on subsistence-oriented smallholders. These different sets of policy actions and strategic investments are necessary to achieve both the development aspired in Kenya Vision 2030, which emphasizes growth in agricultural productivity and commercialization (medium-to large-scale farmers), and to achieve the parallel goal of shared prosperity through reduced poverty and food

insecurity and increased employment, especially among the rural poor subsistence-oriented smallholders).

**5.5.2. Reform the fertilizer subsidy programs to ensure that they are efficient and transparent, and target smallholder farmers.** This is the best way of raising the yields and incomes of subsistence farmers, improving household and national food security, and realizing the "green revolution" benefits experienced elsewhere in the world. The government could reform the NCBP to streamline its Strategic Food Reserves (SFR) function and ensuring its gradual exit from fertilizer import and distribution activities. Both reforms could create space for

the private sector to engage in fertilizer marketing, as well as offtake of cereals. Biometric registration of recipients of fertilizer subsidies and electronic (e-Voucher) systems for delivering the subsidy could be adopted to improve targeting and effectiveness of the scheme. The role of NCPB influencing maize prices and milling activities, as well as distributing maize seeds could also be revised to minimize market distortions in these connected markets that are key for productivity and food security.

**5.5.3. There is need to improve the post-harvest and marketing challenges that farmers face.** Kenya's agriculture sector is constrained by inefficiencies in the commodities supply chain due to limited post-harvest handling infrastructures and inefficient price discovery systems that lead to low farm gate prices and exploitation of small holder farmers. Currently, NCPB and Eastern Africa Grain Council (EAGC) are operating pilot systems which involve certifying warehouses that receive grain deposits and issue tradable and transferable warehouse receipts. However, the systems are challenged by the lack of a legal and regulatory framework that can create an enabling trading environment for warehouse receipts. In this regard, one of the targeted areas of reforms under the ASTGS is the establishment of Structured Commodity Trading to minimize inefficiencies that continue to be a big drawback to enhanced performance of agricultural value chains and transformation of small holder farmers from subsistence into successful agribusinesses. Thus, fast-tracking implementation of the national Warehouse Receipt System and a Kenya Commodity Exchange could reduce post-harvest losses and boost farm gate prices for farmers.

**5.5.4. Developing policies and strategies that will increase access to land is critical to providing on-farm employment and commercialization.** Access to land could have a major influence on whether many new entrants—especially those who are unskilled or semi-skilled—will be able to earn viable livelihoods in agriculture. Otherwise, new entrants will be pushed into poverty-wage jobs in the informal sector and contribute to the problems of urbanization without income growth. Policies to improve land tenure security, land use and development, and sustainable conservation of the environment could be helpful. On the technical side, creating a consolidated, geo-referenced land registry, developing and implementing

a land-use master plan (both at national and county levels), and investing in institutions should be a priority. In addition, the government could consider divestiture or subdivision of large public farms where there is unused or underutilized land. This land could be used to resettle smallholders from farming areas where no more land can be brought under cultivation.

**5.5.5. Address limited access to agricultural financing.** While Kenya represents a vibrant and enabling market for Fintech, the more traditional banking that is needed to service commercial agriculture is lacking. Only about four percent of commercial bank lending is for agribusiness, despite a majority of Kenyans being employed in agriculture or agribusiness. An innovative Livestock Insurance Program supported by the World Bank and targeting subsistence farmers is one approach to de-risking investment in more commercially oriented agricultural enterprises. With improved value-chain structure and performance, there are opportunities for increased private sector activity in the areas of value-chain finance, equipment finance, and various forms of insurance.

**5.5.6. Scaling up agro-processing and value addition is essential to increase returns on agricultural produce.** The share of value addition compared to agricultural production is relatively low in Kenya. Only 16 percent of Kenya's agricultural exports are processed, compared with 57 percent for imports. Likewise, Kenya exports only US\$11 of processed agricultural products per capita, compared with US\$83 in South Africa and US\$77 in Côte D'Ivoire. This is partly a result of the fact that many of Kenya's major cash crops either do not require processing (for example, cut flowers) or require only primary processing prior to export (for example, coffee, tea). There is potential to expand processed exports in fruit purees (mangoes, passion fruit), processed vegetables, and nuts (macadamia), with longer-term potential in meat.

**5.5.7. Leveraging modern technology could spin-off a wide range of agricultural applications.** From providing weather updates, market data and access to finance for farmers, to driving logistical efficiencies for input suppliers and buyers, as well as providing traceability opportunities across the value chain. Kenya is ahead of the curve on innovation, and the agribusiness sector is no exception. There is a clear will and capacity of entrepreneurs in



Kenya for market-based innovation and adoption of agro-based technologies that could enhance farmer access to information and boost productivity and farm gate prices.

**5.5.8. Investing in irrigation and agricultural water management for smallholders can reduce income poverty directly and indirectly.** Agricultural water management can increase farm output and incomes by increasing yields, allowing for greater cropping intensity

and enabling farmers to switch to higher-value crops. Farm output and incomes can be further increased because water management itself justifies the use of additional yield-enhancing inputs. The government could support several interventions in small-scale irrigation and water harvesting infrastructure. This could be done by rehabilitating viable and sustainable irrigation (small and medium scale) schemes both in the ASAL counties and in counties with greater agriculture potential.



Photo: © Arne Howel | World Bank

*Agricultural water management can increase farm output and incomes by increasing yields, allowing for greater cropping intensity and enabling farmers to switch to higher-value crops*

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# STATISTICAL TABLES

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**Table 1: Macroeconomic environment**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e
GDP growth rates (percent)	3.3	8.4	6.1	4.6	5.9	5.4	5.7	5.9	4.9	5.8
Agriculture	-2.3	10.1	2.4	3.1	5.4	4.3	5.3	4.7	1.6	5.3
Industry	3.7	8.7	7.2	4.2	5.3	6.1	7.3	5.7	3.6	5.0
Manufacturing	-1.1	4.5	7.2	-0.6	5.6	2.5	3.6	2.7	0.2	
Services	6.2	7.3	6.1	4.7	5.4	6.0	6.4	6.5	6.2	6.3
Fiscal Framework (percent of GDP) <sup>a</sup>										
Total revenue	19.4	19.1	18.7	19.2	19.2	19.0	18.7	18.6	17.3	18.3
Total expenditure	24.0	23.8	23.7	25.1	25.6	28.1	27.2	27.6	24.4	25.1
Grants	1.0	0.6	0.4	0.5	0.5	0.5	0.5	0.4	0.3	0.5
Budget deficit (including grants)	-5.8	-3.5	-4.5	-5.7	-6.1	-8.1	-7.3	-8.8	-6.8	-6.3
Total debt (gross)	40.7	43.1	40.6	42.1	47.8	48.8	55.5	57.6	57.2	56.5
External account (percent of GDP)										
Exports (fob)	12.2	13.1	13.9	12.3	10.6	10.1	9.3	8.1	7.3	6.8
Imports (cif)	25.6	28.7	33.8	30.8	29.2	28.6	22.4	18.9	20.2	18.1
Current account balance	-4.6	-5.9	-9.1	-8.3	-8.8	-9.8	-6.7	-5.2	-6.3	-4.9
Financial account	-10.2	-8.1	-8.2	-11.0	-9.4	-11.4	-6.1	-5.8	-5.8	-6.8
Capital account	0.7	0.6	0.6	0.5	0.3	0.4	0.4	0.3	0.2	0.3
Overall balance	-3.0	-0.4	2.1	-2.4	-0.7	-2.4	0.4	-0.2	0.2	-1.2
Prices										
Inflation	9.2	4.0	14.0	9.4	5.7	6.9	6.6	6.3	8.0	4.7
Exchange rate (average Ksh/\$)	77.4	79.2	88.8	84.5	86.1	87.9	98.2	101.5	103.4	101.3

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

Note: a) Figures for 2017 are actuals for 2017/18

b) End of FY in June (e.g 2009 = 2009/2010)

**Table 2: GDP growth rates for Kenya and EAC (2011-2018)**

	2011	2012	2013	2014	2015	2016	2017	2018e
Kenya	6.1	4.6	5.9	5.4	5.7	5.9	4.9	5.8
Uganda	9.4	7.2	3.7	5.8	6.6	4.6	3.9	5.9
Tanzania	7.7	4.5	6.8	6.7	6.2	6.9	6.8	6.0
Rwanda	8.0	8.2	4.6	8.1	8.9	6.0	6.1	7.6
Average	7.8	6.1	5.3	6.5	6.8	5.8	5.4	6.3

Source: World Bank  
 Note: a) 'e' denotes an estimate  
 b) Average excludes Burundi and South Sudan

**Table 3: Kenya annual GDP**

Years	GDP, current prices	GDP, 2009 constant prices	GDP/capita, current prices	GDP growth
	Ksh millions	Ksh millions	US\$	Percent
2007	2,151,349	2,765,595	839	6.9
2008	2,483,058	2,772,019	917	0.2
2009	2,863,688	2,863,688	920	3.3
2010	3,169,301	3,104,303	967	8.4
2011	3,725,918	3,294,026	987	6.1
2012	4,261,370	3,444,339	1,155	4.6
2013	4,745,090	3,646,821	1,229	5.9
2014	5,402,647	3,842,186	1,335	5.4
2015	6,284,185	4,061,901	1,355	5.7
2016	7,194,147	4,300,302	1,463	5.9
2017	8,196,666	4,509,896	1,595	4.9

Source: Kenya National Bureau of Statistics and World Development Indicators

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

Year	Quarterly	Agriculture	Industry	Services	GDP
2012	Q1	3.1	5.2	4.3	4.1
	Q2	2.2	2.1	5.3	4.2
	Q3	3.1	5.2	4.4	5.2
	Q4	4.2	4.2	4.9	4.7
2013	Q1	5.3	9.4	4.0	6.1
	Q2	6.8	6.9	6.7	7.5
	Q3	5.8	6.2	5.8	6.4
	Q4	3.6	-0.6	5.2	3.5
2014	Q1	4.2	5.8	5.6	5.2
	Q2	4.4	9.9	5.8	6.0
	Q3	7.1	3.5	5.1	4.6
	Q4	1.8	5.3	7.5	5.6
2015	Q1	7.8	6.4	5.2	5.7
	Q2	4.4	7.0	6.3	5.6
	Q3	4.0	9.1	7.0	6.1
	Q4	4.5	6.6	5.5	5.5
2016	Q1	4.5	4.6	6.9	5.3
	Q2	7.7	6.4	6.5	6.2
	Q3	4.7	5.9	6.4	5.7
	Q4	1.0	5.8	7.2	6.3
2017	Q1	0.9	4.1	7.2	4.7
	Q2	0.8	3.6	7.0	4.7
	Q3	3.7	2.5	6.1	4.7
	Q4	1.5	4.1	7.0	5.4
2018	Q1	5.3	4.1	6.8	5.8
	Q2	5.4	4.7	6.9	6.2
	Q3	5.2	5.3	6.0	6.0

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

Note: Agriculture = Agriculture, forestry and fishing

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

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

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

	Quarterly	Agriculture contribution to GDP	Industry by sub sector contribution				Industries	Service by sub sector contribution						Services
			Mining and quarrying	Manufacturing	Electricity and water supply	Construction		Accommodation and restaurant	Transport and storage	Real estate	Information and communication	Financial and insurance	Other	
2012	Q1	0.8	0.1	-0.1	0.2	0.7	0.9	0.2	0.5	0.4	0.4	0.0	0.5	1.9
	Q2	0.5	0.2	-0.2	0.1	0.3	0.4	0.0	0.5	0.3	-0.2	0.3	1.4	2.4
	Q3	0.6	0.2	0.1	0.2	0.5	1.0	0.0	-0.1	0.3	-0.4	0.4	2.0	2.1
	Q4	0.8	0.2	0.0	0.2	0.4	0.9	0.1	-0.1	0.3	0.5	0.6	0.9	2.4
2013	Q1	1.4	0.2	1.0	0.1	0.4	1.7	-0.5	-0.6	0.3	0.4	0.6	1.5	1.8
	Q2	1.7	-0.2	0.8	0.2	0.4	1.3	0.0	0.1	0.3	0.3	0.6	1.7	3.0
	Q3	1.1	0.0	0.6	0.2	0.4	1.2	0.2	0.2	0.4	0.4	0.4	1.3	2.8
	Q4	0.7	-0.1	0.1	0.1	-0.1	-0.1	0.0	0.7	0.4	0.5	0.3	0.7	2.5
2014	Q1	1.1	0.1	0.5	0.1	0.3	1.1	-0.3	0.2	0.4	0.4	0.4	1.4	2.5
	Q2	1.1	0.2	0.8	0.1	0.7	1.8	-0.3	0.4	0.4	0.3	0.4	1.4	2.6
	Q3	1.4	0.0	0.1	0.2	0.4	0.7	-0.4	0.6	0.5	0.6	0.5	0.7	2.5
	Q4	0.3	0.2	-0.3	0.2	0.9	1.0	0.0	0.3	0.5	0.7	0.6	1.6	3.7
2015	Q1	2.0	0.1	0.3	0.2	0.6	1.2	-0.1	0.5	0.5	0.3	0.6	0.6	2.3
	Q2	1.1	0.1	0.3	0.3	0.6	1.3	0.0	0.6	0.5	0.2	0.5	1.0	2.9
	Q3	0.8	0.2	0.5	0.2	0.8	1.7	0.0	0.7	0.6	0.2	0.7	1.1	3.4
	Q4	0.8	0.1	0.4	0.1	0.7	1.3	0.1	0.4	0.7	0.3	0.4	0.8	2.7
2016	Q1	1.2	0.1	0.1	0.2	0.4	0.9	0.1	0.5	0.7	0.4	0.5	0.7	2.9
	Q2	1.8	0.1	0.5	0.3	0.4	1.2	0.1	0.5	0.7	0.3	0.5	0.9	2.9
	Q3	0.9	0.1	0.4	0.2	0.5	1.2	0.1	0.4	0.7	0.3	0.4	1.2	3.1
	Q4	0.2	0.2	0.1	0.1	0.7	1.1	0.2	0.7	0.7	0.5	0.3	1.3	3.7
2017	Q1	0.2	0.1	0.1	0.1	0.4	0.8	0.3	0.6	0.5	0.5	0.3	1.1	3.2
	Q2	0.2	0.1	0.0	0.2	0.5	0.7	0.1	0.5	0.5	0.3	0.2	1.5	3.2
	Q3	0.7	0.1	0.0	0.1	0.3	0.5	0.1	0.4	0.5	0.4	0.1	1.5	3.0
	Q4	0.3	0.1	0.0	0.1	0.6	0.8	0.1	0.5	0.6	0.5	0.2	1.7	3.6
2018	Q1	1.4	0.1	0.2	0.1	0.4	0.8	0.2	0.4	0.6	0.5	0.2	1.3	3.1
	Q2	1.3	0.0	0.3	0.2	0.3	0.9	0.1	0.5	0.5	0.4	0.1	1.5	3.2
	Q3	1.0	0.1	0.3	0.2	0.4	1.0	0.2	0.4	0.5	0.3	0.2	1.4	3.0

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

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

Table 6: Quarterly growth rates (percent)

Year	Quarter	Agriculture			Industry			Services			GDP		
		Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average
2012	Q1	48.2	3.1	2.6	-4.6	5.8	6.7	-1.0	4.4	5.2	7.5	4.7	5.4
	Q2	-10.2	2.2	2.3	-1.2	2.0	4.6	-1.3	5.3	5.2	-3.5	4.3	4.8
	Q3	-21.9	3.1	1.9	3.8	4.6	4.7	5.2	4.5	4.8	-1.5	4.5	4.5
	Q4	0.3	4.2	2.9	6.7	4.4	4.2	1.9	4.8	4.7	2.5	4.7	4.6
2013	Q1	49.8	5.3	3.3	-0.6	8.8	4.9	-1.8	3.9	4.6	8.3	5.5	4.8
	Q2	-8.9	6.8	4.7	-2.8	7.0	6.2	1.3	6.7	4.9	-1.8	7.0	5.6
	Q3	-22.7	5.8	5.7	3.7	6.8	6.7	4.3	5.8	5.3	-1.7	7.2	6.2
	Q4	-1.9	3.6	5.6	-0.8	-0.7	5.3	1.5	5.3	5.4	-1.1	3.5	5.9
2014	Q1	50.7	4.2	5.4	5.9	5.8	4.6	-1.6	5.6	5.8	10.1	5.2	5.8
	Q2	-8.7	4.4	4.7	0.9	9.9	5.4	1.6	5.8	5.6	-1.0	6.0	5.5
	Q3	-20.7	7.1	4.8	-2.4	3.5	4.6	3.6	5.1	5.5	-2.9	4.6	4.9
	Q4	-6.6	1.8	4.4	0.9	5.3	6.1	3.8	7.5	6.0	-0.2	5.6	5.4
2015	Q1	59.8	7.8	5.5	7.0	6.4	6.2	-3.7	5.2	5.9	10.3	5.7	5.5
	Q2	-11.5	4.4	5.5	1.4	7.0	5.6	2.6	6.3	6.1	-1.2	5.6	5.4
	Q3	-21.1	4.0	4.8	-0.4	9.1	7.0	4.3	7.0	6.5	-2.5	6.1	5.7
	Q4	-6.4	4.5	5.3	-1.4	6.6	7.3	2.3	5.4	6.0	-0.7	5.5	5.7
2016	Q1	59.7	4.5	4.4	5.1	4.6	6.8	-2.5	6.7	6.4	10.1	5.3	5.6
	Q2	-8.9	7.7	5.3	3.2	6.4	6.6	2.3	6.4	6.4	-0.3	6.2	5.8
	Q3	-23.3	4.7	5.4	-0.9	5.9	5.9	4.4	6.4	6.2	-3.0	5.7	5.7
	Q4	-9.5	1.0	4.7	-1.5	5.8	5.7	3.2	7.4	6.7	-0.2	6.3	5.9
2017	Q1	59.5	0.9	3.5	3.3	4.1	5.6	-2.7	7.2	6.9	8.4	4.7	5.7
	Q2	-9.0	0.8	1.7	2.8	3.6	4.8	2.1	7.0	7.0	-0.3	4.7	5.3
	Q3	-21.0	3.7	1.5	-1.9	2.5	4.0	3.5	6.1	6.9	-3.0	4.7	5.1
	Q4	-11.5	1.5	1.6	0.0	4.1	3.6	4.1	7.0	6.9	0.5	5.4	4.9
2018	Q1	65.5	5.3	2.9	3.3	4.1	3.6	-3.0	6.8	6.7	8.8	5.8	5.2
	Q2	-8.9	5.4	4.2	3.4	4.7	3.9	2.2	6.9	6.7	0.2	6.2	5.5
	Q3	-21.2	5.2	4.6	-1.4	5.3	4.6	2.7	6.0	6.7	-3.2	6.0	5.8

Source: World Bank and Kenya National Bureau of Statistics

**Table 7: Growth Outlook**

Annual growth (percent)	2016	2017	2018e	2019f	2020f	2021f
BASELINE						
GDP						
Revised projections	5.9	4.9	5.8	5.7	5.9	6.0
Revised projections (KEU 18)	5.9	4.9	5.7	5.8	6.0	
Revised projections (KEU 17)	5.8	4.8	5.5	5.9	6.1	
Private consumption	4.7	7.2	6.2	6.1	6.6	6.7
Government consumption	8.5	8.5	7.6	7.1	6.1	6.2
Gross fixed capital investment	-9.4	6.3	5.8	6.9	6.8	7.1
Exports, goods and services	-2.6	-6.2	5.1	6.8	7.1	7.1
Imports, good and services	-6.3	8.4	8.7	8.9	9.0	9.0
Agriculture	4.7	1.6	5.3	4.3	4.6	4.8
Industry	5.7	3.6	5.0	5.4	5.4	5.7
Services	6.5	6.2	6.3	6.4	6.6	6.7
Inflation (Consumer Price Index)	6.3	8.0	4.7	5.7	6.5	6.9
Current Account Balance, % of GDP	-5.2	-6.3	-4.9	-5.5	-5.8	-6.0
Fiscal balance, % of GDP	-7.3	-8.8	-6.8	-6.3	-5.1	-3.9
Debt (% of GDP)	57.6	57.2	56.5	55.8	54.0	51.2
Primary Balance (% of GDP)	-4.0	-5.3	-3.1	-2.5	-1.3	-0.3

Sources: World Bank and the National Treasury

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

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

**Table 8: National Fiscal position**

Actual (percent of GDP)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19*
<b>Revenue and Grants</b>	19.7	19.1	19.7	19.7	19.5	19.2	18.9	17.6	18.7
Total Revenue	19.1	18.7	19.2	19.2	19.0	18.7	18.6	17.3	18.3
Tax revenue	18.0	17.1	17.2	18.1	17.7	17.7	17.1	15.5	16.5
Income tax	7.9	7.8	8.3	8.9	8.7	8.6	8.2	7.3	7.7
VAT	5.0	4.4	4.1	4.6	4.5	4.4	4.4	4.1	4.3
Import Duty	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.1	1.2
Excise Duty	2.3	2.0	1.9	2.0	2.0	2.1	2.2	1.9	2.1
Other Revenues	1.5	1.6	1.7	1.3	1.3	1.3	1.1	1.2	1.1
Railway Levy	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Appropriation in Aid	1.1	1.7	2.0	1.1	1.3	1.0	1.3	1.6	1.5
Grants	0.6	0.4	0.5	0.5	0.5	0.5	0.4	0.3	0.5
<b>Expenditure and Net Lending</b>	23.8	23.7	25.1	25.6	28.1	27.2	27.6	24.4	25.1
Recurrent	16.9	16.3	18.1	14.8	14.8	15.6	15.2	15.4	15.1
Wages and salaries	5.7	5.5	6.1	5.5	5.1	4.7	4.4	4.4	4.2
Interest Payments	2.3	2.1	2.7	2.7	2.9	3.3	3.5	3.7	3.8
Other recurrent	8.9	8.8	9.3	6.6	6.7	7.5	7.3	7.2	7.0
Development and net lending	6.8	7.4	6.8	6.3	8.7	7.0	8.4	5.3	6.3
County allocation			0.2	3.8	3.9	4.1	3.7	3.5	3.1
Contingencies	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0
Parliamentary Service				0.4	0.4	0.3	0.3	0.3	0.4
Judicial Service				0.3	0.2	0.2	0.2	0.1	0.1
Fiscal balance									
Deficit including grants (cash basis)	-3.5	-4.5	-5.7	-6.1	-8.1	-7.3	-8.8	-6.8	-6.3
Financing	3.5	4.5	5.7	6.1	8.1	7.3	9.1	7.2	6.3
Foreign Financing	0.8	2.8	3.8	4.0	4.4	3.1	4.1	3.1	3.1
Domestic Financing	2.7	1.6	1.9	2.1	3.7	4.1	5.0	4.0	3.2
Total Public Debt (gross)	43.1	40.6	42.1	47.8	48.8	55.5	57.6	57.2	56.5
External Debt	21.0	19.6	18.7	22.4	24.4	27.6	30.0	29.1	28.7
Domestic Debt	22.2	21.5	23.3	25.3	24.4	27.9	27.6	28.2	27.8
Memo:									
GDP (Fiscal year current market prices, Ksh bn)	3,448	3,994	4,503	5,074	5,828	6,566	7,658	8,793	10,030

Source: 2019 Budget Policy Statement (BPS) and Quarterly Budgetary Economic Review (First Quarter, Financial Year 2018/2019), National Treasury  
Note: \*indicate Preliminary results

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

<b>KShs. Millions</b>	<b>Sep-15</b>	<b>Dec-15</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>	<b>Mar-17</b>	<b>Jun-17</b>	<b>Sep-17</b>	<b>Dec-17</b>	<b>Mar-18</b>	<b>Jun-18</b>	<b>Sep-18</b>	<b>Dec-18</b>
<b>TOTAL PUBLIC DEBT (Net)</b>	2,723,628	2,844,004	2,938,291	3,210,775	3,276,654	3,448,699	3,675,734	3,972,526	4,048,978	4,217,515	4,304,497	4,529,996	4,638,932	4,834,753
Lending	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
Government Deposits	(208,869)	(305,496)	(320,041)	(394,856)	(426,911)	(373,016)	(364,909)	(428,774)	(432,113)	(350,924)	(573,884)	(503,337)	(501,404)	(432,049)
<b>Total Public Debt (Gross)</b>	2,938,199	3,155,200	3,264,033	3,611,331	3,709,266	3,827,417	4,046,344	4,407,001	4,486,793	4,574,140	4,884,082	5,039,034	5,146,037	5,272,503
External Debt	1,550,233	1,615,183	1,617,506	1,796,198	1,854,711	1,896,443	2,101,391	2,294,736	2,310,198	2,353,795	2,512,431	2,560,199	2,605,333	2,723,734
Bilateral	482,203	481,282	478,883	548,351	545,652	641,763	689,119	724,823	742,064	782,588	800,912	816,119	812,545	894,046
Multilateral	754,599	751,154	762,089	798,842	839,936	781,256	806,922	841,899	842,814	841,847	836,766	820,966	877,730	874,680
Commercial Banks	295,642	366,231	360,175	432,377	452,495	458,122	594,140	712,100	708,231	712,274	858,062	906,389	898,349	938,151
Suppliers Credit	17,788	16,516	16,359	16,628	16,628	15,302	11,210	15,914	17,089	17,086	16,691	16,725	16,709	16,857
Domestic Debt	1,387,966	1,540,017	1,646,527	1,815,133	1,854,555	1,930,973	1,944,953	2,112,265	2,176,595	2,220,345	2,371,651	2,478,835	2,540,704	2,548,769
Central Bank	107,637	101,386	102,648	99,856	58,945	85,528	85,316	55,061	79,201	96,797	93,583	110,782	90,210	118,196
Commercial Banks	682,694	764,399	829,688	927,307	969,790	947,030	975,803	1,141,889	1,148,296	1,124,950	1,226,866	1,266,457	1,315,333	1,289,558
Non Banks & Nonresidents	597,635	674,232	714,192	787,970	825,820	898,415	883,834	915,316	949,098	998,598	1,051,202	1,101,596	1,135,161	1,141,015
(%) of Total public debt(gross)														
External Debt	52.8	51.2	49.6	49.7	50.0	49.5	51.9	52.1	51.5	51.5	51.4	50.8	50.6	51.7
Domestic Debt	47.2	48.8	50.4	50.3	50.0	50.5	48.1	47.9	48.5	48.5	48.6	49.2	49.4	48.3
% of External debt														
Bilateral	31.1	29.8	29.6	30.5	29.4	33.8	32.8	31.6	32.1	33.2	31.9	31.9	31.2	32.8
Multilateral	48.7	46.5	47.1	44.5	45.3	41.2	38.4	36.7	36.5	35.8	33.3	32.1	33.7	32.1
Commercial Banks	19.1	22.7	22.3	24.1	24.4	24.2	28.3	31.0	30.7	30.3	34.2	35.4	34.5	34.4
Suppliers Credit	1.1	1.0	1.0	0.9	0.9	0.8	0.5	0.7	0.7	0.7	0.7	0.7	0.6	0.6
% of Domestic debt														
Central Bank	7.8	6.6	6.2	5.5	3.2	4.4	4.4	2.6	3.6	4.4	3.9	4.5	3.6	4.6
Commercial Banks	49.2	49.6	50.4	51.1	52.3	49.0	50.2	54.1	52.8	50.7	51.7	51.1	51.8	50.6
Non Banks & Nonresidents	43.1	43.8	43.4	43.4	44.5	46.5	45.4	43.3	43.6	45.0	44.3	44.4	44.7	44.8

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

Note: \*Provisional

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
A. Current Account, n.i.e.	(505)	(796)	(1,821)	(1,713)	(2,371)	(3,821)	(4,205)	(5,517)	(6,447)	(4,291)	(3,697)	(5,016)	(4,406)
Merchandise A/C	(3,243)	(4,222)	(5,593)	(4,952)	(6,216)	(8,355)	(9,315)	(10,309)	(10,780)	(8,377)	(7,665)	(10,202)	(10,172)
Goods: exports f.o.b.	3,509	4,153	5,067	4,526	5,248	5,834	6,212	5,780	6,149	5,981	5,748	5,792	6,152
Goods: imports f.o.b.	6,752	8,375	10,659	9,479	11,464	14,189	15,527	16,089	16,929	14,358	13,413	15,994	16,325
Oil	1,745	1,919	3,051	2,192	2,673	4,082	4,081	3,838	4,026	2,500	2,087	2,728	3,386
Services	1,013	1,263	1,377	1,084	1,744	1,994	2,602	2,318	1,676	1,317	1,421	1,558	1,697
Services: credit	2,431	2,938	3,260	2,904	3,789	4,131	4,990	5,130	5,023	4,636	4,154	4,651	5,571
Services: debit	1,418	1,675	1,883	1,820	2,045	2,138	2,387	2,813	3,347	3,319	2,733	3,093	3,874
Income	1,725	2,162	2,395	2,156	2,101	2,540	2,507	2,475	2,657	2,769	2,547	3,627	4,069
B. Capital Account, n.i.e.	168	157	94	261	240	235	235	158	275	262	206	185	254
C. Financial Account, n.i.e.	(677)	(2,247)	(1,423)	(3,782)	(3,252)	(3,425)	(5,542)	(5,204)	(7,398)	(3,914)	(4,137)	(4,606)	(6,156)
Direct investment: net	(27)	(1,001)	(384)	(1,452)	(1,117)	(1,364)	(1,142)	(920)	(746)	(382)	(235)	(415)	(935)
Portfolio investment: net	21	16	25	(81)	(156)	1	(218)	(273)	(3,716)	156	385	775	(625)
Financial derivatives: net	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investment: net	(671)	(1,262)	(1,064)	(2,249)	(1,979)	(2,062)	(4,182)	(4,011)	(2,936)	(3,688)	(4,286)	(4,966)	(4,595)
D. Net Errors and Omissions	235	(805)	(189)	(1,215)	(947)	(734)	(348)	523	227	(139)	(516)	76	(959)
E. Overall Balance	(575)	(802)	493	(1,115)	(174)	896	(1,223)	(369)	(1,453)	255	(129)	150	(1,044)
F. Reserves and Related Items	575	802	(493)	1,115	174	(896)	1,223	369	1,453	(255)	129	(150)	1,044
Reserve assets	618	941	(480)	1,322	154	246	1,455	859	1,333	(361)	38	(227)	885
Credit and loans from the IMF	(6)	116	(17)	199	(34)	284	193	177	(119)	(107)	(91)	(77)	(159)
Exceptional financing	48	23	30	8	13	858	38	312	-	-	-	-	-
Gross Reserves (USD Million)	3,331	4,557	4,641	5,064	5,123	6,045	7,160	8,483	9,738	9,794	9,588	9,646	11,516
Official	2,415	3,355	2,875	3,847	4,002	4,248	5,702	6,560	7,895	7,534	7,573	7,332	8,231
Commercial Banks	916	1,202	1,765	1,217	1,121	1,797	1,458	1,923	1,843	2,259	2,015	2,314	3,286
Imports cover (36 mths import)	3.9	4.4	3.1	3.9	3.9	3.4	4.0	4.5	5.1	4.8	5.0	5.0	5.4
Memo:													
Annual GDP at Current prices (USD Million)	25,826	31,958	35,895	37,022	40,000	41,953	50,411	55,097	61,448	64,007	70,875	74,938	89,163

Source: Central Bank of Kenya

**Table 11: Inflation**

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

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

Table 12: Credit to Private Sector Growth (%)

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

Source: Central Bank of Kenya

**Table 13: Mobile payments**

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

Source: Central Bank of Kenya

**Table 14: Exchange rate**

Year	Month	USD	UK Pound	Euro
2016	January	102.3	147.5	111.1
	February	101.9	145.9	113.0
	March	101.5	144.2	112.6
	April	101.2	144.8	114.8
	May	100.7	146.3	114.0
	June	101.1	144.3	113.7
	July	101.3	133.4	112.1
	August	101.4	132.9	113.7
	September	101.3	133.2	113.5
	October	101.3	125.4	111.9
	November	101.7	126.3	110.0
	December	102.1	127.7	107.7
2017	January	103.7	128.0	110.2
	February	103.6	129.5	130.4
	March	102.9	126.9	109.9
	April	103.3	130.4	110.7
	May	103.3	133.5	114.8
	June	103.5	132.5	116.2
	July	103.9	134.9	119.4
	August	103.6	134.2	122.2
	September	103.1	137.1	122.9
	October	103.4	136.4	121.6
	November	103.6	136.8	121.4
	December	103.1	138.2	122.0
2018	January	102.9	141.9	125.4
	February	101.4	141.7	125.3
	March	101.2	141.2	124.7
	April	100.6	141.9	123.7
	May	100.7	135.7	119.0
	June	101.0	134.2	118.0
	July	100.7	132.6	117.5
	August	100.6	129.7	116.2
	September	100.8	131.7	117.7
	October	101.1	131.6	116.2
	November	102.4	132.1	116.4
	December	102.3	129.7	116.4
2019	January	101.6	130.8	115.9
	February	100.2	130.3	113.8

Source: Central Bank of Kenya



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

Year	Month	NEER	REER	USD
2016	January	100.0	100.0	100.0
	February	100.1	100.4	99.6
	March	100.0	100.5	99.2
	April	100.6	100.7	98.9
	May	99.9	99.8	98.5
	June	100.3	99.5	98.9
	July	99.9	98.5	99.0
	August	100.6	99.4	99.1
	September	100.6	99.0	99.0
	October	99.7	98.0	99.0
	November	99.3	97.0	99.4
	December	98.7	95.8	99.8
2017	January	100.4	96.6	101.4
	February	100.8	95.8	101.3
	March	100.2	94.0	100.5
	April	101.0	93.2	101.0
	May	101.6	93.0	100.9
	June	102.3	94.8	101.2
	July	103.2	96.6	101.5
	August	103.7	97.0	101.2
	September	103.6	98.7	100.8
	October	103.2	98.1	101.1
	November	103.3	98.6	101.2
	December	103.3	98.0	100.8
2018	January	104.4	97.7	100.6
	February	103.4	96.1	99.1
	March	103.1	94.5	98.9
	April	96.8	88.8	98.3
	May	95.6	87.3	98.4
	June	95.4	88.2	98.7
	July	99.8	92.0	98.4
	August	99.2	91.7	98.3
	September	99.2	91.6	98.6
	October	98.9	91.5	98.8
	November	94.9	89.2	100.0
	December	95.0	88.8	100.0
2018	January			99.3
	February			98.0

Source: Central Bank of Kenya and World Bank

**Table 16: Nairobi Securities Exchange**

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

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

Source: Central Bank of Kenya



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

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

Source: Central Bank of Kenya

Table 18: Interest rates

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

Source: Central Bank of Kenya

**Table 19: Money aggregate**

Year	Growth rates (yoy)	Money supply, M1	Money supply, M2	Money supply, M3	Reserve money
2016	January	10.9	10.8	11.1	9.1
	February	9.9	10.0	9.3	9.2
	March	10.9	10.7	11.2	16.1
	April	10.6	9.9	9.5	9.0
	May	12.8	9.8	8.6	7.6
	June	13.4	9.2	8.1	4.9
	July	9.4	7.8	6.9	4.3
	August	9.5	6.9	6.8	6.8
	September	26.1	8.8	8.0	4.3
	October	24.3	6.8	6.8	-7.4
	November	25.3	6.2	6.2	0.5
	December	28.1	4.8	3.7	4.8
2017	January	21.9	5.3	5.2	5.1
	February	23.7	4.5	5.4	2.9
	March	22.1	5.7	6.4	3.2
	April	23.6	6.3	7.1	9.0
	May	21.8	6.2	6.7	5.2
	June	22.5	5.4	6.0	2.9
	July	24.6	7.5	8.3	5.0
	August	22.5	7.5	7.7	7.7
	September	11.6	7.5	7.7	8.1
	October	9.5	7.0	7.9	3.8
	November	7.8	7.4	7.8	6.2
	December	6.7	7.5	8.9	6.7
2018	January	7.2	8.9	9.7	8.3
	February	7.6	9.0	8.7	6.3
	March	3.5	6.2	6.6	0.8
	April	3.2	6.0	6.2	2.7
	May	3.1	6.5	8.2	5.5
	June	2.5	8.1	11.1	7.4
	July	3.9	8.4	10.8	2.1
	August	2.1	7.8	9.9	6.6
	September	-0.2	6.8	9.2	6.0
	October	3.0	8.1	9.8	7.4
	November	1.6	7.1	9.1	9.0
	December	5.8	8.6	10.9	12.1

Source: Central Bank of Kenya and World Bank

**Table 20: Coffee production and exports**

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

Source: Kenya National Bureau of Statistics

**Table 21: Tea production and exports**

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

Source: Kenya National Bureau of Statistics

**Table 22: Horticulture Exports**

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

Source: Kenya National Bureau of Statistics



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

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

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

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

Year	Month	Hydro KWh Million	Geo-thermal KWh Million	Thermal KWh million	Wind KWh million	Total KWh million
2016	January	322	392	93		808
	February	297	392	95		784
	March	335	383	112		830
	April	303	394	102		800
	May	334	403	92		830
	June	348	342	113		803
	July	337	393	110		842
	August	364	345	138		850
	September	349	335	137		824
	October	357	364	135		862
	November	315	369	158		848
	December	299	371	158		836
2017	January	252	380	197	7.0	837
	February	214	354	182	7.5	758
	March	234	388	230	6.3	858
	April	212	381	223	6.6	822
	May	229	394	224	3.5	849
	June	180	376	274	3.1	834
	July	193	402	271	1.5	867
	August	251	415	159	3.3	829
	September	239	403	213	3.6	859
	October	217	416	224	4.3	861
	November	305	411	153	7.1	877
	December	250	436	184	7.3	879
2018	January	223	430	242	3	900
	February	193	387	249	7	837
	March	248	448	202	4	903
	April	317	428	139	3	887
	May	386	447	83	2	918
	June	401	430	82	1	914
	July	420	438	87	2	947
	August	417	427	117	3	964
	September	392	440	85	7	925
	October	365	432	87	75	960
	November	340	398	80	139	957
	December	283	423	92	133	931

Source: Kenya National Bureau of Statistics



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

Year	Month	Soft drinks litres (thousands)	Sugar MT	Galvanized sheets MT	Cement MT
2016	January	50,502	41,348	21,330	533,490
	February	45,237	41,440	20,102	531,813
	March	58,038	48,865	20,120	541,438
	April	44,429	42,148	23,109	568,253
	May	43,189	36,874	21,980	585,929
	June	39,191	36,202	20,180	547,238
	July	42,393	32,158	18,320	575,193
	August	39,331	38,508	24,190	591,612
	September	48,884	40,291	21,045	528,494
	October	46,131	43,203	18,328	573,034
	November	41,877	40,141	19,143	584,780
	December	52,185	49,966	19,431	545,956
2017	January	50,409	53,071	26,230	565,440
	February	43,353	49,094	22,994	491,307
	March	50,623	42,238	22,574	570,522
	April	46,399	26,230	23,225	535,061
	May	40,742	15,246	23,081	482,762
	June	45,875	16,113	15,424	513,313
	July	41,980	17,882	22,640	553,631
	August	41,217	10,892	15,296	451,651
	September	40,221	21,649	24,188	498,167
	October	45,275	32,296	21,312	498,374
	November	45,073	43,175	24,357	483,956
	December	66,378	49,240	21,438	518,410
2018	January	52,062	62,819	23,919	494,709
	February	49,685	53,833	21,890	490,020
	March	49,140	49,148	22,048	476,730
	April	45,690	36,682	21,434	474,740
	May	40,699	28,933	22,271	452,034
	June	43,260	28,320	21,434	454,322
	July	43,725	30,105	22,510	465,575
	August	48,795	35,646	21,847	473,861
	September	43,116	37,652	22,425	460,546
	October	42,049	45,324	23,906	470,524
	November		38,768	22,877	460,967
	December				461,922

Source: Kenya National Bureau of Statistics

**Table 26: Tourism arrivals**

Year	Month	JKIA	MIA	TOTAL
2016	January	65,431	9,407	74,838
	February	62,856	9,983	72,839
	March	49,996	8,551	58,547
	April	51,311	3,869	55,180
	May	59,294	3,578	62,872
	June	64,451	4,182	68,633
	July	81,729	7,832	89,561
	August	87,141	9,817	96,958
	September	67,249	8,381	75,630
	October	63,229	9,015	72,244
	November	61,224	7,990	69,214
	December	67,602	10,267	77,869
2017	January	67,876	11,482	79,358
	February	62,659	7,809	70,468
	March	65,095	8,406	73,501
	April	63,842	4,128	67,970
	May	65,711	2,678	68,389
	June	75,049	5,072	80,121
	July	97,955	7,284	105,239
	August	79,053	10,729	89,782
	September	78,329	9,111	87,440
	October	56,034	7,557	63,591
	November	61,617	10,956	72,573
	December	90,745	15,117	105,862
2018	January	61,137	15,512	76,649
	February	70,169	13,482	83,651
	March	61,652	14,321	75,973
	April	49,388	6,653	56,041
	May	70,981	4,047	75,028
	June	71,461	5,147	76,608
	July	115,908	10,889	126,797
	August	100,698	14,291	114,989
	September	81,052	9,588	90,640
	October	83,241	12,192	95,433
	November	83,097	14,948	98,045

Source: Kenya National Bureau of Statistics



**Table 27: New Vehicle registration**

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

Source: Kenya National Bureau of Statistics



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## **SPECIAL FOCUS: ANNEX**

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**Table 1: Decomposition of TFP by factor shares between 2000 and 2015**

	Agricultural Labor	Agricultural land	Livestock (Capital)	Machinery (Capital)	Materials, Crops (fertilizer, pesticide, seed)	Materials, Livestock (feed, pharmaceuticals)
Kenya	0.25	0.32	0.31	0.02	0.06	0.05
Rwanda	0.25	0.32	0.31	0.02	0.06	0.05
Tanzania	0.25	0.32	0.31	0.02	0.06	0.05
Uganda	0.25	0.32	0.31	0.02	0.06	0.05
Ethiopia	0.25	0.32	0.31	0.02	0.06	0.05
Indonesia	0.39	0.33	0.12	0.01	0.05	0.10
Malaysia	0.39	0.33	0.12	0.01	0.05	0.10
Philippines	0.39	0.33	0.12	0.01	0.05	0.10
Thailand	0.39	0.33	0.12	0.01	0.05	0.10
Vietnam	0.39	0.33	0.12	0.01	0.05	0.10

Source: USDA, 2018



# Unbundling the Slack in Private Sector Investment

## *Transforming Agriculture Sector Productivity and Linkages to Poverty Reduction*

*The 19<sup>th</sup> edition of the Kenya Economic Update comes against a backdrop of a strong rebound in Kenya's GDP growth supported by favorable harvests in 2018, improved investor sentiment and a stable macroeconomic environment. Nonetheless, delays in the March-May 2019 rainy season and a growing need for emergency interventions to deal with food shortages in several counties is a reminder of the outstanding challenges in managing agricultural risks in Kenya. Against this background, the Special Focus topic makes a timely contribution by highlighting a few of the many factors underlying low agricultural productivity and what can be done to transform the sector and deliver on food and nutritional security. The report has three key messages.*

*First, the Kenyan economy rebounded in 2018 thanks to a recovery in agriculture and a still resilient services sector. Nonetheless, the demand side shows significant slack with growth driven purely by private consumption as private sector investment lags and government spending is slowing due to planned fiscal adjustment. The benign demand pressure is reflected by a lack of adequate credit to the private sector, slow demand for industrial imports, and weak profitability by corporates. The medium-term growth outlook is stable but recent threats of drought could drag down growth. The Bank's growth projection for 2019 is for a slight decrease to 5.7 percent, before rising to about 5.9 percent over the medium term.*

*Second, boosting credit growth to the private sector and improving fiscal management could help strengthen aggregate demand and economic growth. Regarding private sector credit growth (which stands at 3.4 percent in February 2019), policy could intervene by addressing factors that led to imposition of interest rate caps and by building a consensus for its eventual reform. Making these changes will also restore the potency of monetary policy, which is essential in responding to shocks emanating from changes to the business cycle. With regard to the potential for improving fiscal management, there is scope to enhance revenue mobilization, improve promptness of payments to firms that trade with the government to restore liquidity, and strengthen debt management by putting in place an electronic trading platform for issuance of government securities. Finally, accelerating the implementation of structural reforms aimed at crowding in private sector participation in the Big 4 development agenda remains crucial.*

*Third, and regarding the Special Focus topic, a two-pronged policy suggestion is proposed, including measures to transform agricultural productivity and initiatives to boost farmer's income with improved farm gate prices. In order to transform the sector's productivity, there is need to reform the fertilizer subsidy program to ensure it is efficient, transparent and well targeted; invest in irrigation and agricultural water management as well as other enabling infrastructure; and leverage modern agricultural technology to generate a wide range of agricultural support applications, including e-extension services. Secondly, and to boost farm gate prices and farmers' incomes, policy could seek to end post-harvest losses and marketing challenges by fast-tracking implementation of the national warehouse receipt system and a commodities exchange; and by scaling-up agro-processing and value addition to increase returns on agricultural produce.*

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