

COUNTRY PROFILE

**SAMPLE
FOR DISCUSSION**

COUNTRY PROFILE

KENYA

MARCH 2015



United Nations
Economic Commission for Africa

COUNTRY PROFILE

KENYA

MARCH 2015



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Contents

Acknowledgements	v
Notes on data source classifications	vi
Kenya at a glance	1
Overview	2
Economic performance	4
Measuring regional integration dynamics and processes	13
Social transformation in Kenya	15
Thematic structural transformation focus	19
Conclusion	28

Tables

Table 1: Data classification scores for international institutions	8
Table 2: Millennium Development Goals in Kenya (selected indicators)	16

Figures

Figure 1: Real gross domestic product growth (annual, percentage)	4
Figure 2: Real gross domestic product growth quarter-on-quarter (percentage)	5
Figure 3: Sector shares (percentage) and real growth (percentage), 2013	5
Figure 4: Contribution to gross value added growth (percentage), 2013	6
Figure 5: Inflation (annual average) and interest rates	7
Figure 6: Current account balance (millions of Kenya shillings)	10
Figure 7: Domestic exports, excluding re-exports (millions of Kenya shillings)	10
Figure 8: Direct imports (millions of Kenya shillings)	11
Figure 9: Foreign direct investment, portfolio and other investment (millions of Kenya shillings)	12
Figure 10: Inward foreign direct investment stock (millions of dollars), 2013	13
Figure 11: Scores for various dimensions of the Africa Regional Integration Index for 14 countries in Eastern Africa	14
Figure 12: Human development index	17
Figure 13: Life expectancy at birth, selected countries	17
Figure 14: Crude death and birth rates	19
Figure 15: Fertility and population growth	20
Figure 16: Population structure	21
Figure 17: Dependency ratios	21
Figure 18: Population in urban and rural areas	22
Figure 19: Main urban agglomerations	23
Figure 20: Sectoral value added (% GDP)	23
Figure 21: Agriculture shares (% GDP) in Eastern Africa	24
Figure 22: Industry shares (% GDP) in Eastern Africa	25
Figure 23: Services shares (% GDP) in Eastern Africa	25
Figure 24: Sectoral employment (% total, 2005)	26
Figure 25: Type of employment (% total)	26

Boxes

Box 1: Tracking forecasters	8
Box 2: Regional integration in practice: the Northern Corridor project	9

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Notes on data source classifications

Data sources for the “At a Glance” summary page and data forecast table have been classified as “good,” “satisfactory,” and “needs improvement”. They are colour coded accordingly.

Data sources in the “At a Glance” summary page have been evaluated for transparency and accessibility for each statistic. The evaluation took into consideration data timeliness, reproducibility, citation, and availability in the public domain. For timeliness, we checked whether the latest year’s data are available. For reproducibility, we evaluated the data based on whether methodologies were available by the source, and whether metadata were sufficient for researchers to comprehend how these statistics were produced. Citation criteria evaluated the clarity of the data source, be it from the national statistical offices or international institutions. Finally, public domain criteria evaluated whether data were in an easily accessible, open-access database. We have also provided a numerical index indicating the source of each statistic.

The data forecast table has been classified by data transparency, accessibility and forecasting accuracy for each selected international institution. The scores take into consideration the data reproducibility, timeliness, history, source, format, availability in the public domain, and forecasting accuracy.

Kenya at a glance

General information		Rankings	
Region	East Africa	HDI	147/187 (2013) 17
Official Language	Kiswahili, English	Gender Inequality Index	122/152 (2013) 17
Currency	Kenyan Shilling	Ibrahim Index of African Governance	17/52 (2014) 11
Capital city	Nairobi	Ease of Doing Business	136/189 (2015) 8
REC memberships	COMESA, CEN-SAD, EAC, IGAD	Corruption Perceptions	145/175 (2014) 12

Key demographic indicators		Education and employment		Health	
Population (millions)	46.7 (2015) 4	Literacy rate (15-24) (%)	85.9 (2015)* 13	Percentage of children under-5 underweight	16.4 (2009) 6
Children (0-14 years)	19.5 (2015) 4	Net enrolment rate in secondary (%)	56.0 (2012)* 13	Prevalence of Undernourishment (%)	25.8 (2012) 6
Adult (15-64 years)	25.9 (2015) 4	Female	55.0 (2012)* 13	Under 5 mortality rate (per 1,000)	70.7 (2013) 6
Aged (65+ years)	1.3 (2015) 4	Male	56.9 (2012)* 13	Infant mortality rate per 1,000	47.5 (2013) 6
Annual average growth rate	2.7 (2013) 4	Employment to population ratio (total) (%)	61.1 (2013) 8	Neo-natal mortality rate per 1,000 live births	26.3 (2013) 16
Urban (%)	25.2 (2014) 4	Unemployment rate (%)	9.2 (2013) 8	Maternal mortality ratio per 100,000 live births	400 (2013) 8
Crude birth rate (0/00)	38.0 (2005-2010) 4	Youth unemployment rate	17.1 (2013) 8		
Crude death rate (0/00)	10.0 (2005-2010) 4	Population below international poverty line (\$2/day) (%)	19.5 (2005) 8		
Total fertility rate	4.6 (2012) 4				
Life expectancy at birth	62 (2012) 4				

Economic performance and inflation		Top three crops production	
GDP, billion USD	55.2 (2013) 1	Sugar cane	5,900 (2013) 3
Real GDP growth rate (%)	5.7 (2013) 1	Maize	3,391 (2013) 3
Inflation annual change (%)	5.7 (2013) 2	Potatoes	2,193 (2013) 3
Money and finance		Top Three Minerals Production	
International reserves, billion USD	6.6 (2014) 8	Soda ash (thousand tonnes)	449 (2012) 2
Total external debt, billion USD	13.5 (2013) 8	Flourspar, (thousand tonnes)	91 (2012) 2
Government finance		Gold (kilograms)	3,643 (2012) 2
Total revenues and grants (% of GDP)	25.6 (2013) 2	Use of new information and communication technologies	
Total expenditures and net lending (% of GDP)	27.3 (2013) 2	Mobile cellular penetration rate (%)	71.9 (2012) 6
Overall deficit (-) / Surplus (+) (% of GDP)	4.7 (2013) 2	Individuals using the Internet (%)	32.1 (2012) 6
External sector		Environment	
Exports - Total, billion Kenyan Shilling*	460 (2013) 1	Forest area (% of land area)	6.1 (2011) 6
Imports - Total, billion Kenyan Shilling	1,409 (2013) 1	CO2 emission (1,000 metric tons)	12,427 (2010) 6
Net ODA, million USD	3,236 (2013) 8	Per capitametric tons	0.3 (2010) 6
Net FDI Inflows - million USD	514 (2013) 8	Energy consumption per capita (kg oil equivalent)	95.0 (2010) 6

* Dollar/Shilling average exchange rate for 2013 is 86.1

Data Source Code Index:

- | | | | |
|---------------------------|---------------|--------------------------------|--|
| 1. National official data | 6. UNSD | 11. MO Ibrahim foundation | 15. UN inter-agency group for child mortality estimation |
| 2. ASYB 2014 | 7. IMF | 12. Transparency International | 16. ITU |
| 3. FAO | 8. World Bank | 13. UNESCO | 17. UNDP |
| 4. UN Population Division | 9. OECD | 14. ILO | 18. USGS |
| 5. WHO | 10. UNCTAD | | |

Good **Satisfactory** **Needs improvement**



Overview

Kenya has recently benefited from a return to macroeconomic and political stability, and a relative improvement in external conditions. The economy has been on an encouraging growth path, averaging 5.4 per cent growth per year between 2011 and 2013. This performance has been driven partly by the agricultural sector, although other economic sectors have also provided significant contributions to gross domestic product (GDP) growth – especially the services sector. Nonetheless, this still falls short of the 10 per cent annual growth target set in the country's Vision 2030 and the regional growth average for 2011–2013, estimated at 6.3 per cent, which is somewhat surprising given the country's considerable endowments and human resources. There is also considerable debate over the relative underperformance of the manufacturing sector and the lack of structural transformation.

Kenya has made significant progress in several social indicators, even though many are falling short of the Millennium Development Goals targets, especially as regards income poverty and child and maternal mortality (Economic Commission for Africa and others, 2014). The incidence of poverty, as measured by the national poverty line, declined from 53 per cent in 1997 to 45 per cent in 2009. The incidence of hunger dropped by one quarter between 1991 and 2012, but it remains high, at 26 per cent. The net enrolment ratio in primary education increased by 34 per cent between 1999 and 2009, although it still falls short of the universality target. There is near gender parity in primary education but, despite greater representation in the Parliament, less than 10 per cent of seats are held by women. Child mortality and maternal mortality

were reduced between 1990 and 2012 by 26 per cent and 10 per cent, respectively. The HIV incidence rate declined, as did the tuberculosis mortality rate. Kenya has also registered a considerable improvement in the human development index, with its score rising from 0.455 in 2000 to 0.535 in 2013. Notwithstanding those positive trends, policies need to be implemented in order to accelerate progress.

In the present country profile, four key challenges that are likely to shape the medium-term prospects of Kenya are highlighted. The first relates to growing demographic pressures, and the need to create productive employment opportunities for young people in order to seize a demographic dividend. The second challenge is to manage the pace of urbanization and create the conditions to maximize the benefits of urban agglomeration while lessening potential negative effects. The third is to increase the pace of structural transformation, namely by shifting workers from low-productivity to high-productivity activities, with a view to accelerating and sustaining economic growth. The final challenge is to boost trade competitiveness, especially bearing in mind the recently signed Economic Partnership Agreement between the East African Community (EAC) and the European Union.

Kenya is a lower middle-income country in Eastern Africa with an estimated population of 41.8 million and a GDP of \$55.2 billion as of 2013. It is the seventh largest African country by population and the ninth largest economy in Africa. Kenya shares its borders with Ethiopia, Somalia, South Sudan, Uganda and the United Republic of Tanzania and belongs to four regional



economic communities: the EAC, the Common Market for Eastern and Southern Africa, the Intergovernmental Authority on Development and the Community of Sahel-Saharan States.

The recent economic performance of Kenya has been relatively solid, although the security situation remains delicate. Sporadic terrorist attacks have affected tourism and the transport sector, especially the Lamu Port–South Sudan–Ethiopia transport corridor.

The Kenyan economy grew by 5.7 per cent in 2013, more than the 4.5 per cent achieved in 2012 but significantly short of the 10 per cent annual growth target set in its Vision 2030. Nonetheless, Kenya recently surpassed the middle-income country threshold after the rebasing of its national accounts, which resulted in a 25 per cent increase in the country's estimated GDP. The GDP per capita is currently estimated to be \$1,246.

Economic growth has been fairly broad-based, albeit with some variation across sectors: for example, the mining and quarrying sector and the accommodation and restaurant sector experienced declines in 2013. The share of industry and services in GDP has declined in recent years, while the weight of agriculture in the economy has steadily increased. Those trends differ from the experience of most countries in the region, which have registered a declining share of agriculture and an expansion in the relative importance of services and industry. Despite its positive economic performance, Kenya has struggled to boost structural transformation, which is likely to undermine its medium-term economic prospects, owing to the generally low productivity and value-added associated with agricultural activities.

In 2013, the total value of the country's merchandise exports decreased by 3 per cent as compared to that of 2012. Tea and horticulture (mainly cut flowers, but also fresh vegetables and fruits) provide about a third of total merchandise export earnings. The export value of coffee decreased by 26.7 per cent, owing mainly to a decline in the volume of coffee exported. Tourism earnings have been affected by the terror attacks in 2013 and 2014. Machinery and transport equipment account for the largest share of the country's merchandise imports – about a third. In addition, mineral fuels, manufactured goods and chemicals collectively represent about half of total imports. The total value of imports increased by 2.8 per cent in 2013, with iron and steel registering the strongest growth, 42.5 per cent and 38.5 per cent, respectively, followed by chemical fertilizers and industrial machinery.

Although Kenya is the largest economy in Eastern Africa, its ability to attract foreign direct investment (FDI) has been disappointing. In 2013, FDI inflows totalled \$0.5 billion, compared to \$2.1 billion for the Democratic Republic of the Congo, \$1.9 billion for the United Republic of Tanzania and \$1.1 billion for Uganda. Hence, Kenya does not seem to be benefiting fully from its favourable geography, its higher than average, in the Eastern Africa region, per capita income, its relatively abundant skilled labour force and its reasonably good economic infrastructure.

Both government expenditure and receipts expanded by about 18 per cent in the 2013/2014 fiscal year, although the budget deficit increased from Ksh 250 billion to Ksh 296 billion. In relative terms, the fiscal deficit was 6.2 per cent of GDP in 2013/2014, compared to 5.9 per cent in the previous fiscal year. Public debt increased by 25 per cent in the 2013/2014 fiscal year to reach Ksh



2,370 billion in June 2014, just under 50 per cent of GDP.

Economic performance

The Kenyan economy registered a disappointing performance in 2008 and 2009, when it was affected by political instability and a weakened global economy. Despite a solid record since 2010, the economy has not kept pace with the regional growth average (figure 1). In 2013, real GDP grew by 5.7 per cent, compared to a regional average of 6.5 per cent.¹ Although that is a respectable growth rate, the population of Kenya is growing at 2.7 per cent per year, meaning that per capita income rose only by 3 per cent in 2013. Therefore, greater economic dynamism will be needed to achieve the target set in the Kenya Vision 2030: an overall GDP growth rate of 10 per cent.

Quarter-on-quarter growth stood at 4.4 per cent and 5.8 per cent in the first and second quarters of 2014, respectively. Although the figures are lower than those registered in the first half of 2013, they provide some evidence of a renewed growth momentum (figure 2). The lower growth observed in the last quarter of 2013 was partly due to a slowdown in agriculture and manufacturing. The performance of those two sectors significantly influences overall economic performance, given their weight in total output.

Sectoral performance

Agriculture remains a key sector in the Kenyan economy, accounting for nearly 29 per cent of gross value added (figure 3). The sector grew, in real terms, by 5.1 per cent in 2013 and by an average of 5.7 per cent in the first half of 2014. The information and technology, finance and insurance, and wholesale and retail trade sectors expanded considerably in 2013, with

Figure 1
Real gross domestic product growth (annual, percentage)

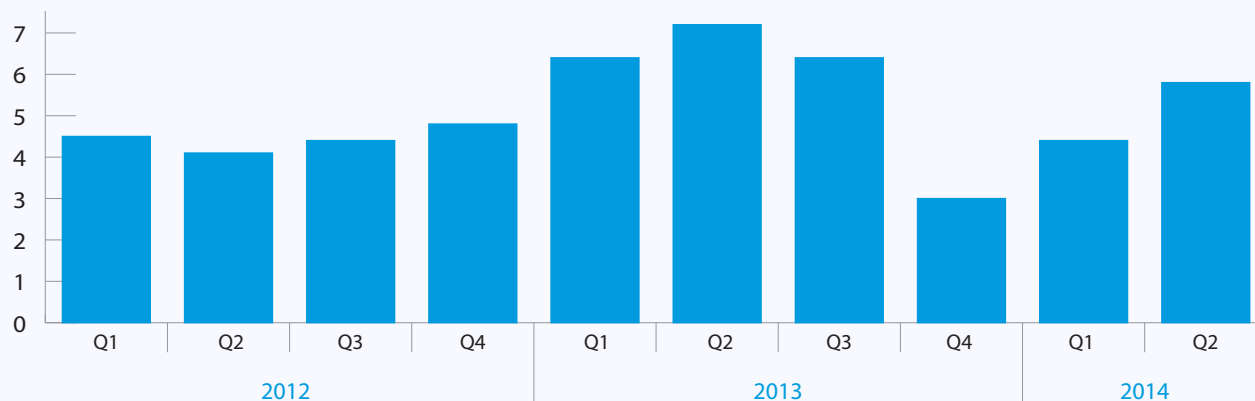


Source: Economic Commission for Africa calculations.
Note: Data for Eastern Africa do not include Somalia or South Sudan.

¹ The Eastern Africa region includes Burundi, the Comoros, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Seychelles, Somalia, South Sudan, the United Republic of Tanzania and Uganda. The regional average calculation for Eastern Africa does not include Somalia and South Sudan.

Figure 2

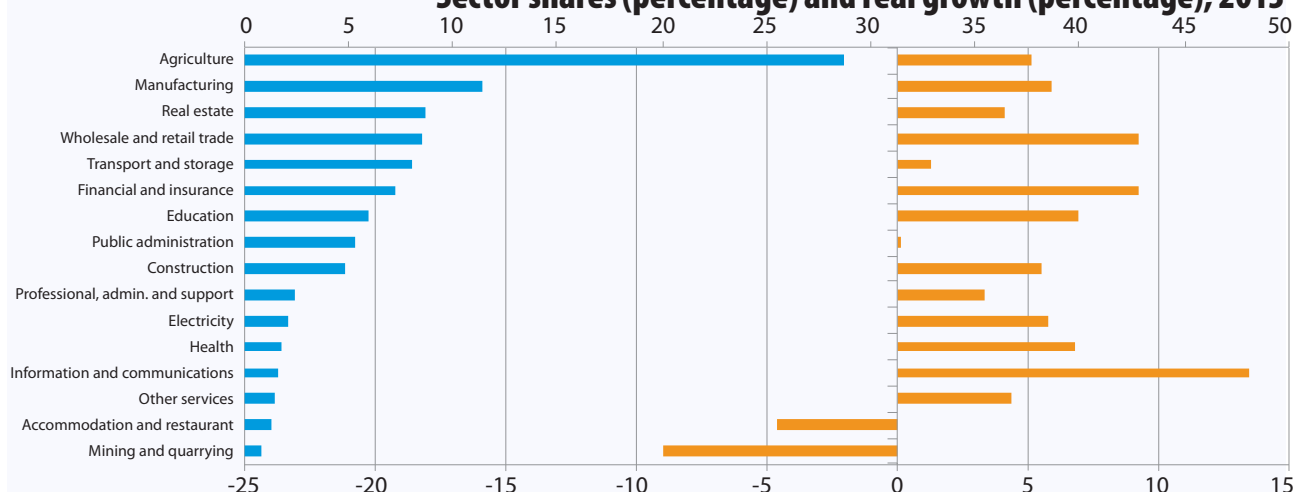
Real gross domestic product growth quarter-on-quarter (percentage)



Source: Kenya National Bureau of Statistics (2014c).

Figure 3

Sector shares (percentage) and real growth (percentage), 2013



Source: Calculated from Kenya National Bureau of Statistics (2014c).

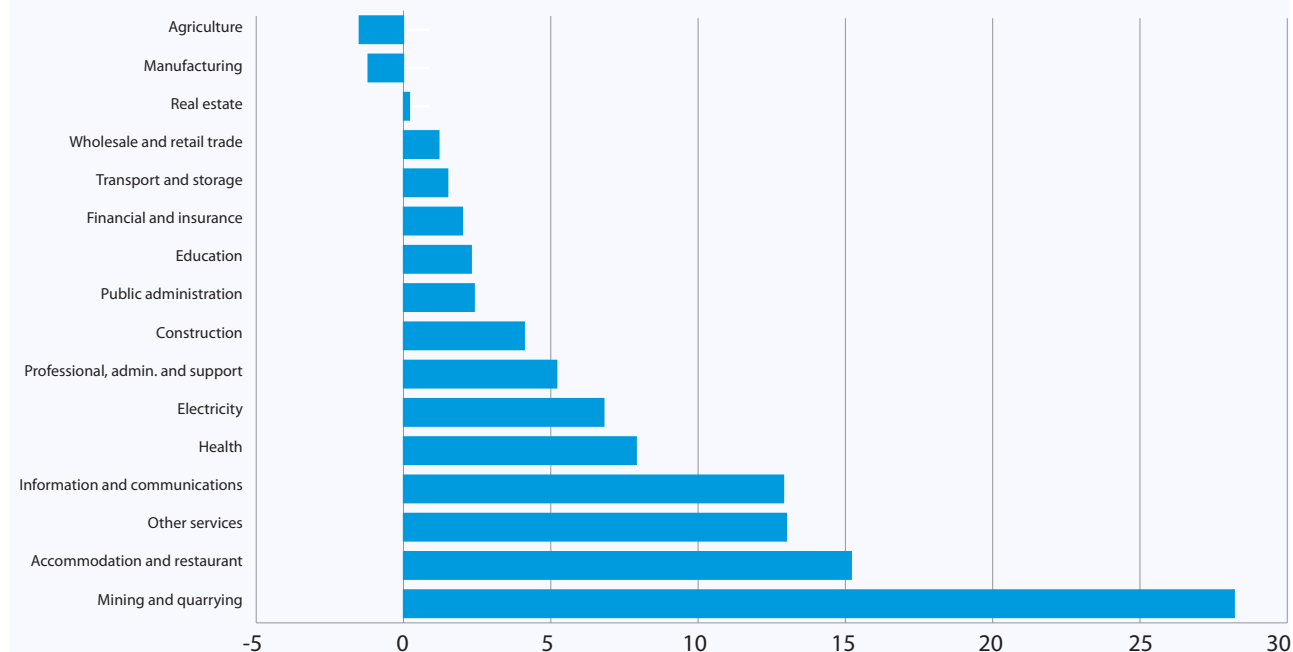
annual growth rates above 9 per cent. In the first half of 2014, health, construction, and wholesale and retail trade recorded strong performances in relation to the same period in the previous year – all above 10 per cent. However, mining and quarrying endured a significant decline in 2013, while the accommodation and restaurant sector registered an even sharper decline in activity in the first and second quarters of 2014:

32.7 per cent and 18.6 per cent, respectively. The latter was partly due to security fears stemming from terror attacks.

In terms of the sectoral contributions to gross value added growth, agriculture stands out as a key driver of economic performance, accounting for over 28 per cent of such growth, followed by wholesale and retail trade (15 per cent), manufacturing (13 per



Figure 4
Contribution to gross value added growth (percentage), 2013



Source: Calculated from Kenya National Bureau of Statistics (2014c).

cent) and finance and insurance (13 per cent) (figure 4). It can be argued that recent economic growth has been fairly broad-based, in the sense that a significant number of economic sectors have contributed to the expansion of national output. As noted above, however, the mining and quarrying sector and accommodation and restaurant sector dampened growth in 2013.

Over the past eight years, the share of agriculture in GDP has gradually increased, from 23 per cent in 2006 to 30 per cent in 2013, while the share of services has declined from 55 per cent to 51 per cent over the same period. Those trends differ from the experience of most countries in the region. The contribution of manufacturing to GDP has also declined, from 14 per cent in 2006 to 12 per cent in 2013 (Kenya National Bureau of Statistics, 2014b).² Despite a fairly solid

² Note that GDP includes financial intermediation services indirectly measured and taxes on product, while gross value added does not.

economic performance, Kenya has struggled to boost the transformation of its economy into sectors with higher productivity, which is needed to underpin its medium-term prospects.

Fiscal policy

Provisional data for the 2013/2014 fiscal year suggests that total government expenditures reached Ksh 1,298 billion, compared to Ksh 1,101 billion recorded in the preceding fiscal year (Central Bank of Kenya, 2014b). Development expenditures accounted for 25 per cent of total spending, salary and wages represented 22 per cent, and 10 per cent was devoted to servicing public debt, that is, interest payments on domestic and foreign debt stocks. Other recurrent expenditures amounted to 29 per cent. County transfers, a new element in the budget, represented 15 per cent of total spending. The transfers are part of the Government's policy to devolve

power to the counties, namely, the revenue-sharing process.

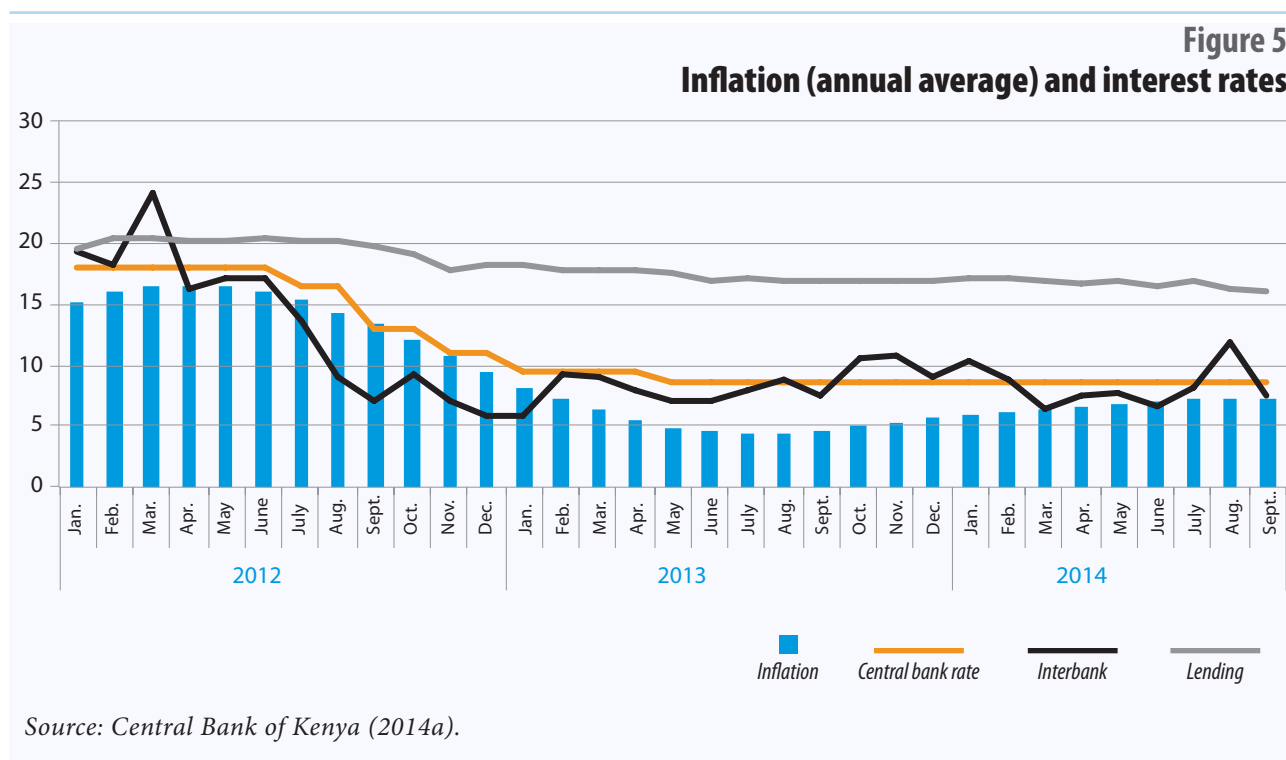
Total government receipts, that is, revenue and grants, totalled Ksh 1,001 billion, a increase from the Ksh 851 billion registered in 2012/2013. The bulk of those receipts stemmed from income tax (45 per cent), value added tax (23 per cent), excise duty (10 per cent) and import duty (7 per cent). External grants accounted for only 3 per cent of total receipts.

Although both government expenditure and receipts expanded by about 18 per cent in 2013/2014, the budget deficit increased from Ksh 250 billion to Ksh 296 billion, on a commitment basis. In relative terms, the budget deficit was 6.2 per cent of GDP in 2013/2014, compared to 5.9 per cent in the previous fiscal year. About two thirds of the budget gap was financed largely from domestic sources. Public and publicly guaranteed debt increased by 25 per cent in the 2013/2014 fiscal year to reach Ksh 2.37 billion in June 2014, just under 50 per cent

of GDP. Domestic debt, especially treasury bonds, accounts for about 54 per cent of total debt, while concessional loans from the International Development Association accounted for a large share of total external debt (34 per cent).

Monetary policy

In May 2013, the Central Bank of Kenya lowered the central bank rate to 8.5 per cent, which remains the current level, in a bid to reactivate economic growth (figure 5). A year earlier, the central bank rate stood at a record high of 18 per cent. The loosening policy helped to increase the demand for private credit and had a positive effect on the performance of several economic sectors. More recently, claims on the private sector increased by 25 per cent between September 2013 and September 2014, with the private sector currently accounting for about 80 per cent of domestic credit. Nonetheless, average lending rates remain high, at 16 per cent as at September 2014, thus presenting an obstacle to the further expansion of domestic investment. The Government recently tried



Box 1: Tracking forecasters

It is important to assess the quality of economic forecasts, since they often influence and inform a country's policymaking process. For this purpose, an exercise was undertaken to compare the accuracy of forecasts across five macroeconomic variables: GDP growth, the inflation rate, the current account balance, the internal balance and the exchange rate for the Kenyan economy. Forecasts were collected from five sources: the International Monetary Fund (IMF), the Economist Intelligence Unit (EIU), the National Treasury of Kenya, the African Development Bank (AfDB) and the Department of Economic and Social Affairs of the United Nations. Theil's (1966) methodology was used for the decomposition of the mean standard error into three main components in order to assess the bias, the variance and the covariance related to the deviations of actual values from the forecast. The decomposition of the mean standard error was then calculated to provide a measure of the bias and variance of the forecasts (see the table below).





The results suggest that the forecasts produced by the National Treasury of Kenya tend to be the most accurate. Its forecasts on GDP growth, inflation rate and the current account balance show the lowest combined value for bias and variance. Forecasts on the internal balance are also quite precise, just behind those of AfDB. This suggests the need to support the statistical capacity and forecasting units of national institutions in Africa as sources of more accurate, timely and useful forecasts.

Tracking forecasters (2009–2013): decomposition of the mean standard error

	GDP growth	Inflation rate	Current account balance	Internal balance	Exchange rate
EIU	0.36	0.06	0.19	0.73	0.05
National Treasury	0.01	0.02	0.16	0.26	0.27
IMF	0.02	0.35	0.21	0.49	..
AfDB	0.70	0.09	0.57	0.20	..
Department of Economic and Social Affairs	0.20	0.52

Sources: Economic Commission for Africa and African Union Commission calculations based on data from the International Monetary Fund (World Economic Outlook, 2003–2013), Economist Intelligence Unit (country reports), National Treasury of Kenya (Budget Policy Statements, 2011–2015), African Development Bank (African Economic Outlook, 2009–2014) and the Department of Economic and Social Affairs (2009–2014).

Table 1
Data classification scores for international institutions

Institutions	IMF	EIU	AfDB	UNDESA
Classification score				

Legend  Good  Satisfactory  Need improvement

Box 2: Regional integration in practice: the Northern Corridor project

In May 2014, African leaders signed an agreement with China for the construction of a \$3.8 billion new railway line connecting Burundi, Kenya, Rwanda, Uganda and South Sudan. The first stage of the project will link the Kenyan cities of Mombasa and Nairobi, and will be jointly funded by China's Eximbank (90 per cent) and the Government of Kenya (10 per cent). The railway line will then be extended to Kampala, Kigali, Bujumbura and Juba. Passenger trains will travel at a top speed of 120 km/h, while freight trains will have a maximum speed of 80 km/h, significantly boosting transport efficiency and lowering trade costs. The deal is part of the Northern Corridor Projects Integration initiative, which is aimed at enhancing regional integration through railways, energy, infrastructure development and streamlined customs procedures, as well as at easing free movement of citizens and tourists.

to reduce its reliance on domestic borrowing, with a view to forcing commercial bank lending rates down. Large interest rate spreads – the deposit rate was 6.6 per cent in September 2014 – also undermine efficient financial intermediation, despite some improvements since 2012.

Inflation declined in the second half of 2012 and the first half of 2013, partly owing to lower food and fuel prices. During that period, lower inflation offered some room for a gradual reduction of the central bank rate. However, inflation has picked up since mid-2013, from a low of 4.4 per cent in July 2013 to 7.2 per cent in September 2014, although without threatening macroeconomic stability. The increase is partly linked to the recent depreciation of the Kenya shilling in relation to the United States dollar.

Meanwhile, the foreign exchange reserves of Kenya were estimated at \$9.7 billion in December 2014, a sharp increase from the previous year, mostly due to the government sovereign bond that generated \$2 billion (Central Bank of Kenya, 2014b).

Current account: trade performance

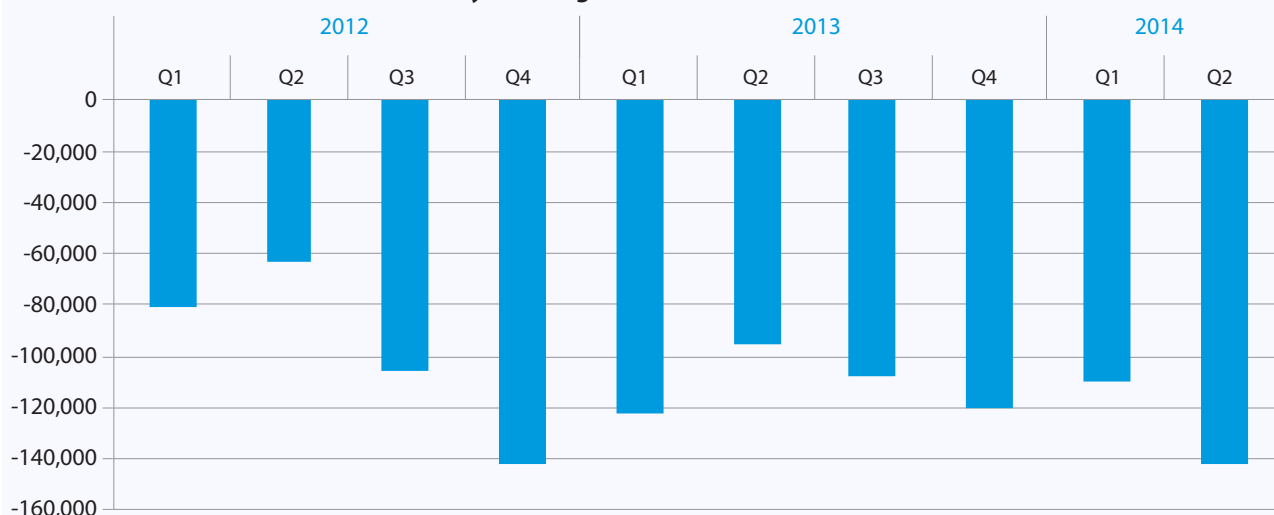
The current account balance improved in the first half of 2013, easing the deficit of

Ksh 142 billion in the last quarter of 2012 to Ksh 95 billion in the second quarter of 2013 (figure 6). The current account has deteriorated since then, reaching a deficit of Ksh 143 billion in the second quarter of 2014. That was partly due to a strong increase in imports of goods in the second quarter of 2014 and a significant deterioration of the income account since the last quarter of 2013. Increases in current transfers and re-exports in the first half of 2014 were not sufficient to counter those trends.

Tea and horticulture provide about one third of export earnings, with chemicals and petroleum products following behind (figure 7).³ Horticulture predominantly includes cut flowers, but also fresh vegetables and fruits. The export value of petroleum products has, for the first time, surpassed that of coffee. In 2013, the total value of the country's exports decreased by 3 per cent, when compared to 2012. The export value of coffee decreased by 26.7 per cent, mainly owing to a decline in the volume of coffee exported. Leather and apparel industries were the top performers in 2013, growing at 20.7 per cent and 17.9 per cent, respectively. Stronger investment in the port of Mombasa and other infrastructural

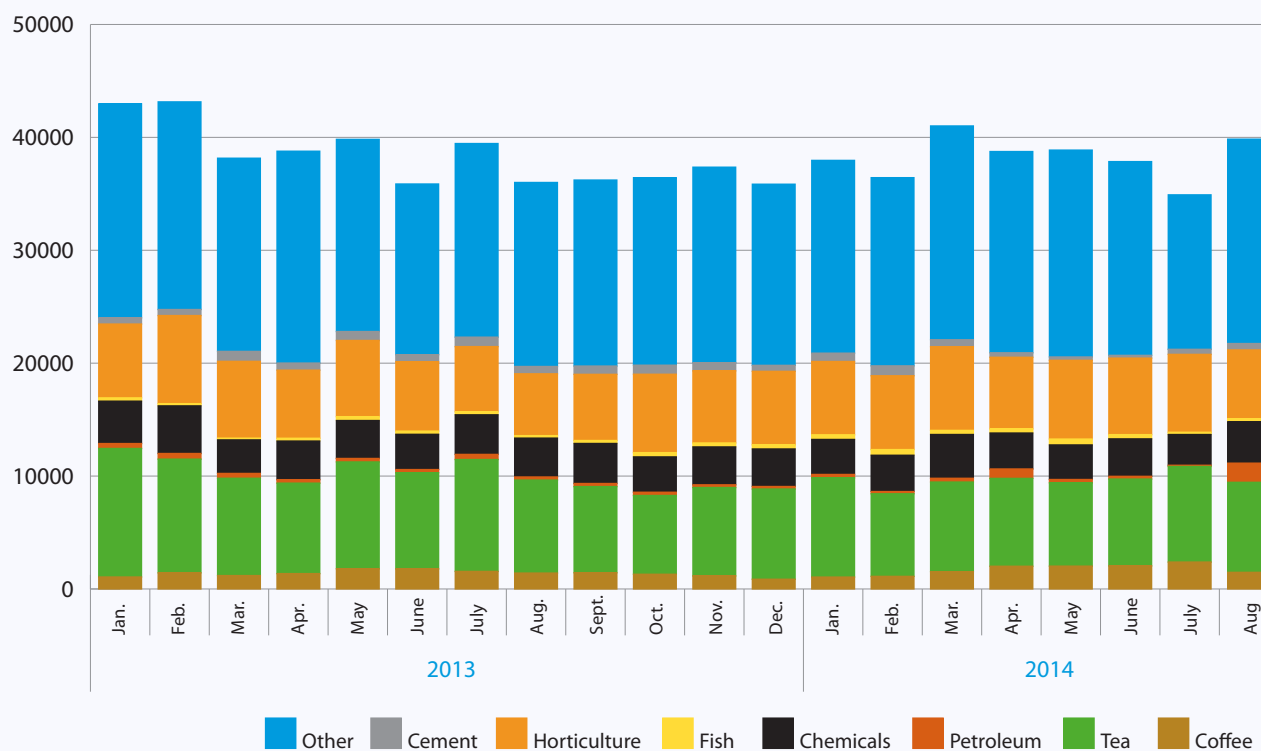
³ Oil production is not expected to start until 2017. However, the oil refinery in Mombasa processes imported crude petroleum into petroleum products, some of which are exported.

Figure 6
Current account balance (millions of Kenya shillings)



Source: Kenya National Bureau of Statistics (2014c).

Figure 7
Domestic exports, excluding re-exports (millions of Kenya shillings)



Source: Central Bank of Kenya (2014a).

hubs would enable Kenya to leverage its position as a gateway between East Africa and the rest of the world.

Machinery and transport equipment account for the largest share of imports – about one third (figure 8). In addition, mineral fuels, manufactured goods and chemicals collectively represent approximately half of total imports. The total value of imports increased by 2.8 per cent in 2013, with iron and steel registering the strongest growth – 42.5 per cent and 38.5 per cent, respectively – followed by chemical fertilizers and industrial machinery.

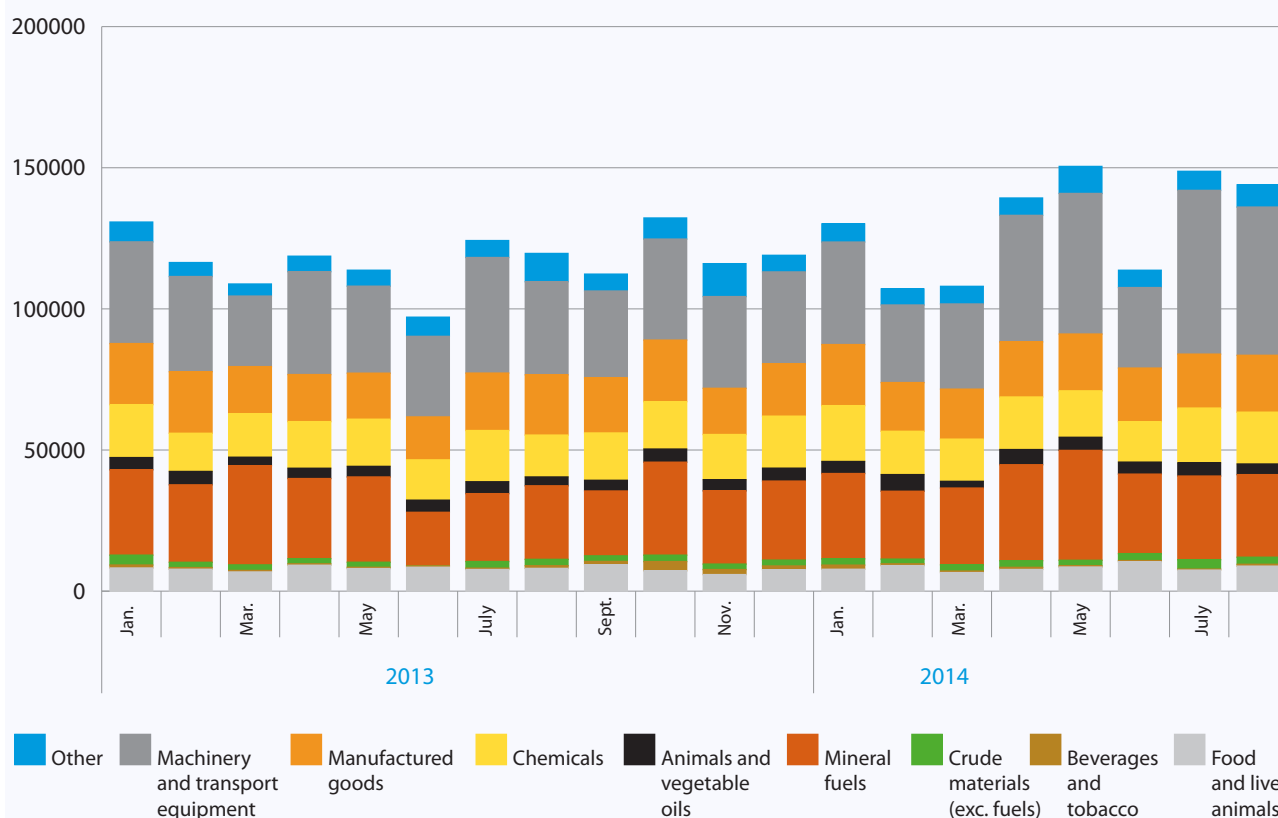
The merchandise exported by Kenya to the rest of the EAC constituted about 26 per cent of total exports of goods in 2013

(United Nations Conference on Trade and Development, 2014). Intraregional trade has been driven mainly by the manufacturing industry, and particularly the fast moving consumer goods and processed products that are major drivers of the economy.⁴ The country's competitive edge in that industry stems from the diversification of its exports basket, which makes it less vulnerable to shocks (Kimenyi and Kibe, 2014). Given the contribution of agriculture and manufacturing to the Kenyan economy, it is vital to strengthen investment in those sectors, especially in the area of agricultural value chains.

Capital account

FDI has limited weight in the country's capital account. In 2013, FDI accounted for

Figure 8
Direct imports (millions of Kenya shillings)



Source: Central Bank of Kenya (2014a).

⁴ These include food, beer, soft drinks and personal products.

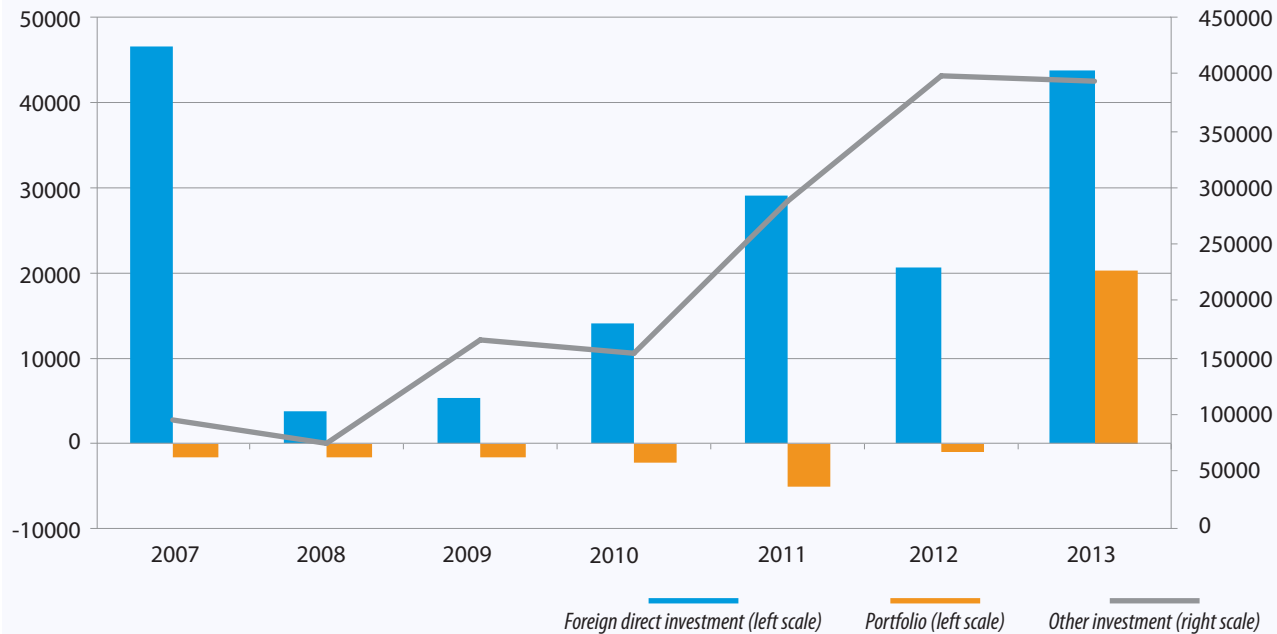


only 10 per cent of net investment inflows, while “other investment”, in particular short-term flows, accounted for the bulk of external investment in the country (figure 9). The FDI upsurge in 2007 was due mostly to two very large FDI deals: the entry of a new mobile telephone operator and the privatization of Telkom Kenya (United Nations Conference on Trade and Development, 2013). After a subsequent disappointing performance in the 2008–2010 period, FDI inflows appear to be gaining some ground. For instance, 2013 marked the return to the Ksh 40 billion mark.

Kenya is the largest economy in Eastern Africa, but its ability to attract FDI has been disappointing. The economy has a low stock of inward FDI – \$3.4 billion as at 2013, lagging significantly behind other

countries in the region, especially Uganda and the United Republic of Tanzania (figure 10). A similar picture emerges in relation to FDI inflows: \$0.5 billion in 2013, compared to \$2.1 billion in the Democratic Republic of the Congo, \$1.9 billion in the United Republic of Tanzania and \$1.1 billion in Uganda. Hence, Kenya does not seem to be fully benefiting from its favourable geography, its higher than average, in the Eastern Africa region, per capita income, its relatively abundant skilled labour force and its reasonably good economic infrastructure. Nonetheless, growing investments in the extractive industries are likely to boost overall FDI levels and spur economic growth; in fact, they were partly responsible for doubling inward FDI in 2013.⁵ Despite significant investments in transport and energy infrastructure, the country has

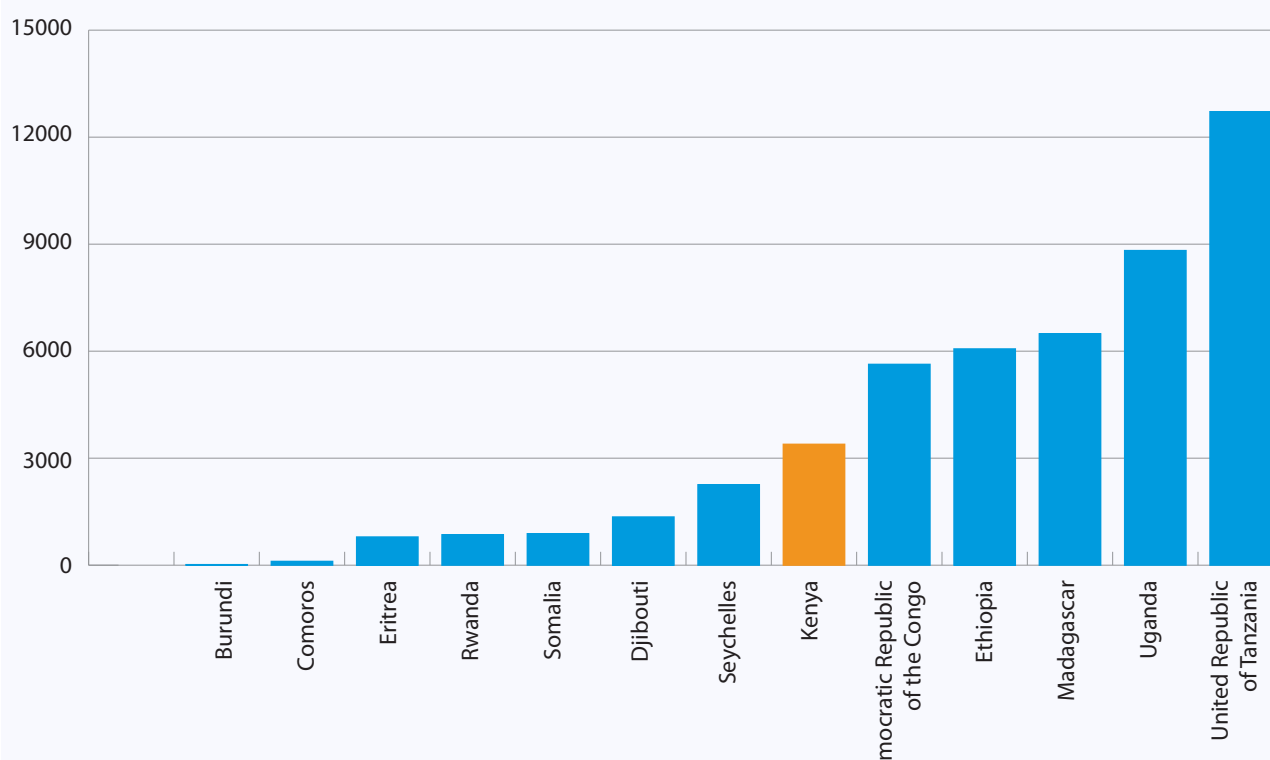
Figure 9
Foreign direct investment, portfolio and other investment (millions of Kenya shillings)



Source: Central Bank of Kenya (2014a).

⁵ The Government prioritized oil production in its Second Medium Term Plan 2013–2017.

Figure 10
Inward foreign direct investment stock (millions of dollars), 2013



Source: United Nations Conference on Trade and Development (2014).

dropped significantly in the ease-of-doing-business rankings: from 72nd (out of 178) in 2007 to 136th (out of 189) in 2013/2014 (World Bank, 2007; 2014b).⁶

Meanwhile, net portfolio investment inflows increased from a deficit of Ksh 1.1 billion in 2012 to a surplus of Ksh 20 billion in 2013, reflecting growing foreign investment in the Nairobi Securities Exchange (Kenya National Bureau of Statistics, 2014a).

Measuring regional integration dynamics and processes

The Africa Regional Integration Index measures the extent to which countries are integrating with the rest of the continent.* Kenya ranks high in terms of infrastructure – third – in most part due to its information and communication technologies and transport. In particular, the country does well in Internet bandwidth per person (first), cost of roaming (ninth) and quality of transport infrastructure (sixth). Kenya also ranks relatively high in financial integration (twenty-second), owing to its conducive regulatory environment. For instance, the country does fairly well with respect to foreign direct investment (sixteenth).

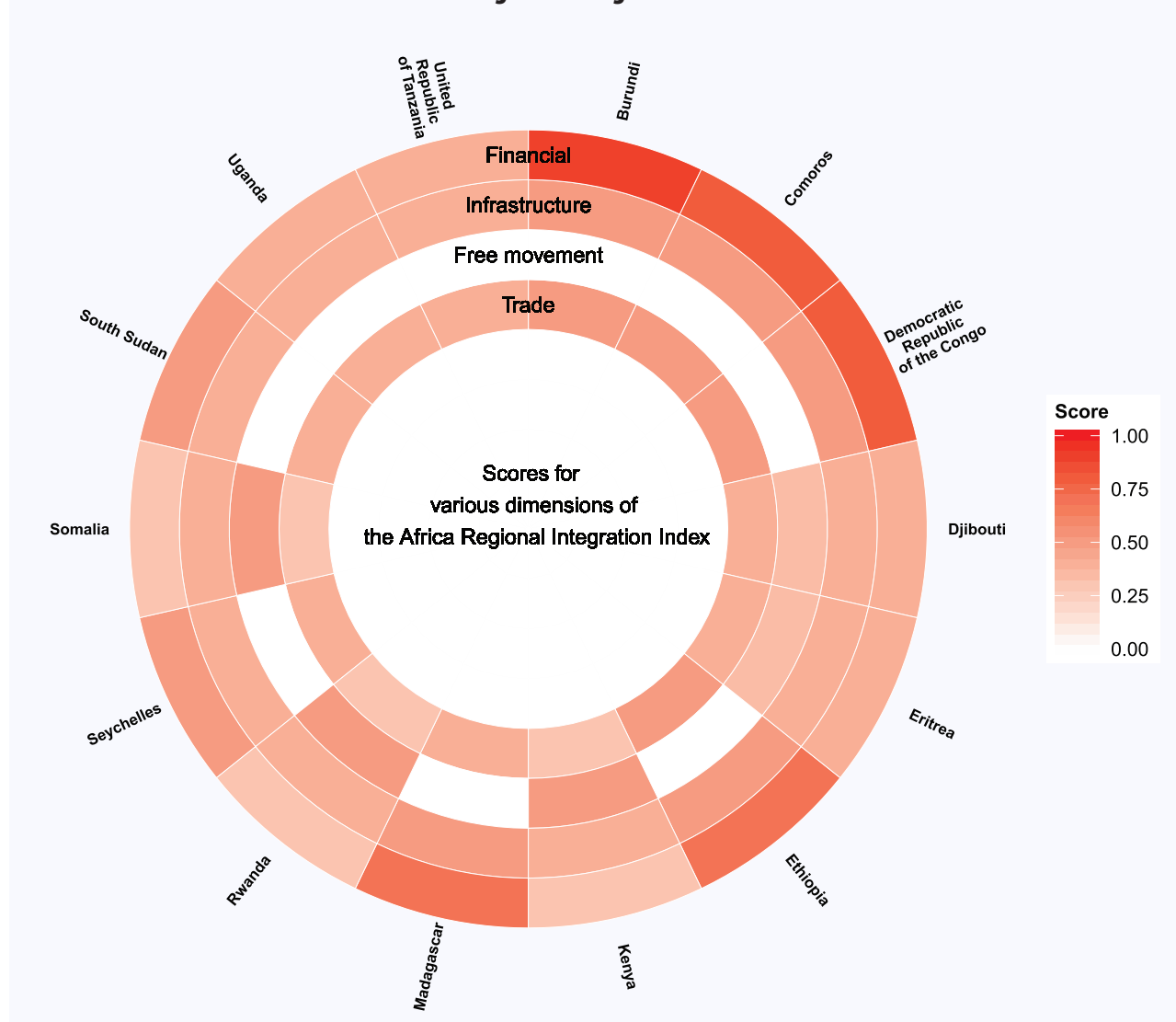
⁶ Some of that, however, might be explained by changes in the methodology.



With regard to its trade ranking (twenty-third), Kenya has scope to improve in many areas. Facilitating trade across borders could boost its current position. Despite the country's trade being highly complementary with trade patterns in the rest of the continent, trade with the rest of Africa is relatively low, ranking twenty-seventh in terms of the share of intra-African goods trade to gross domestic product.

Finally, Kenya ranks around the middle – twenty-sixth – in terms of free movement of persons and labour markets. The country allows nationals of about half of the African countries to enter its territory visa free or with a visa on arrival. It has also ratified the free movement of persons protocols of the regional economic communities of which it is a member.

Figure 11
Scores for various dimensions of the Africa Regional Integration Index for 14 countries in Eastern Africa



* For technical details on the index, see the documents on an update to the approach and methodological issues of the Africa Regional Integration Index and on emerging findings relating to the Index, both submitted for presentation at side events to the eighth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, March 2015.

The figure 11 below compares the scores for the 14 countries in the East Africa region across some of the different dimensions of the index.

Social transformation in Kenya

The social pillar of the country's Vision 2030 is aimed at building "a just and cohesive society with social equity in a clean and secure environment". That has significant implications for social policy and provides a call for stronger investments in human development. In order to achieve that vision, Kenya needs to place a determined emphasis on both social and economic outcomes. For instance, in 2012 the Government announced a new population policy to encourage family planning and control population growth. The policy is crucial in the context of Vision 2030, in particular with a view to achieving sustainable and equitable economic development and improving the living standards of the population (Kenya, 2012).⁷ Coupled with increased spending in social sectors, Kenya is hoping to register discernible progress in that dimension.⁸

Human development

Kenya has made significant progress in several social indicators, even though many are falling short of the Millennium Development Goals targets. The incidence of poverty actually increased from 38 per cent in 1992 to 43 per cent in 2005, as measured using the international poverty line of \$1.25 purchasing power parity per day, although the latest data suggests that it subsequently

declined to 40 per cent in 2010.⁹ Using the national poverty line, the incidence of poverty declined from 53 per cent in 1997 to 45 per cent in 2009 (Kenya National Bureau of Statistics, 2014a). The incidence of hunger dropped by one quarter between 1991 and 2012, but it remains very high, at 26 per cent (see table). The net enrolment ratio in primary education increased by 34 per cent between 1999 and 2009, although it still falls short of the universality target. There is near gender parity in primary education but, despite greater representation in parliament, less than 10 per cent of seats are held by women. Child mortality and maternal mortality were reduced between 1990 and 2012 by 26 per cent and 10 per cent, respectively. The HIV incidence rate declined, as did the tuberculosis mortality rate. Notwithstanding those positive trends, policies need to be implemented in order to accelerate progress.

Kenya has registered considerable improvement in human development, reflected in the increase of its human development index value from 0.455 in 2000 to 0.535 in 2013 (figure 12). Life expectancy at birth declined from 60 years in 1985–1990 to 54 years in 1995–2000, mostly owing to HIV/AIDS, which had a negative impact on human development (figure 13).

Although Kenya is placed in the low human development category in the Human Development Report 2014, ranking 147th out of 187 countries, the country is close to the medium human development threshold (0.550). Interestingly, Kenya ranks 160th in the gross national income per capita dimension (in constant 2011 purchasing power parity dollars), suggesting that the income dimension is lagging behind achievements in health and education, at

⁷ The National Council for Population and Development estimates that the population of Kenya will reach 77 million by 2030.

⁸ For instance, total development expenditure in the social sector (by the national Government) was expected to increase by 48 per cent: from Ksh 56.2 billion in 2012/2013 to Ksh 83.1 billion in 2013/2014 (Kenya National Bureau of Statistics, 2014a).

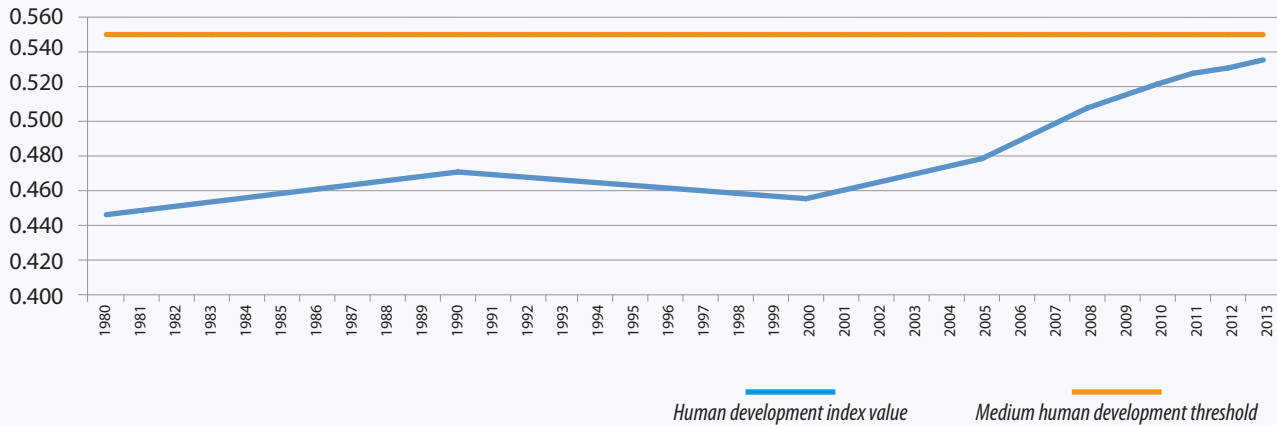
⁹ See the World Bank MDG Data Dashboards (<http://data.worldbank.org/mdgs>).



Tableau 2
Objectifs du Millénaire au Kenya (indicateurs sélectionnés)

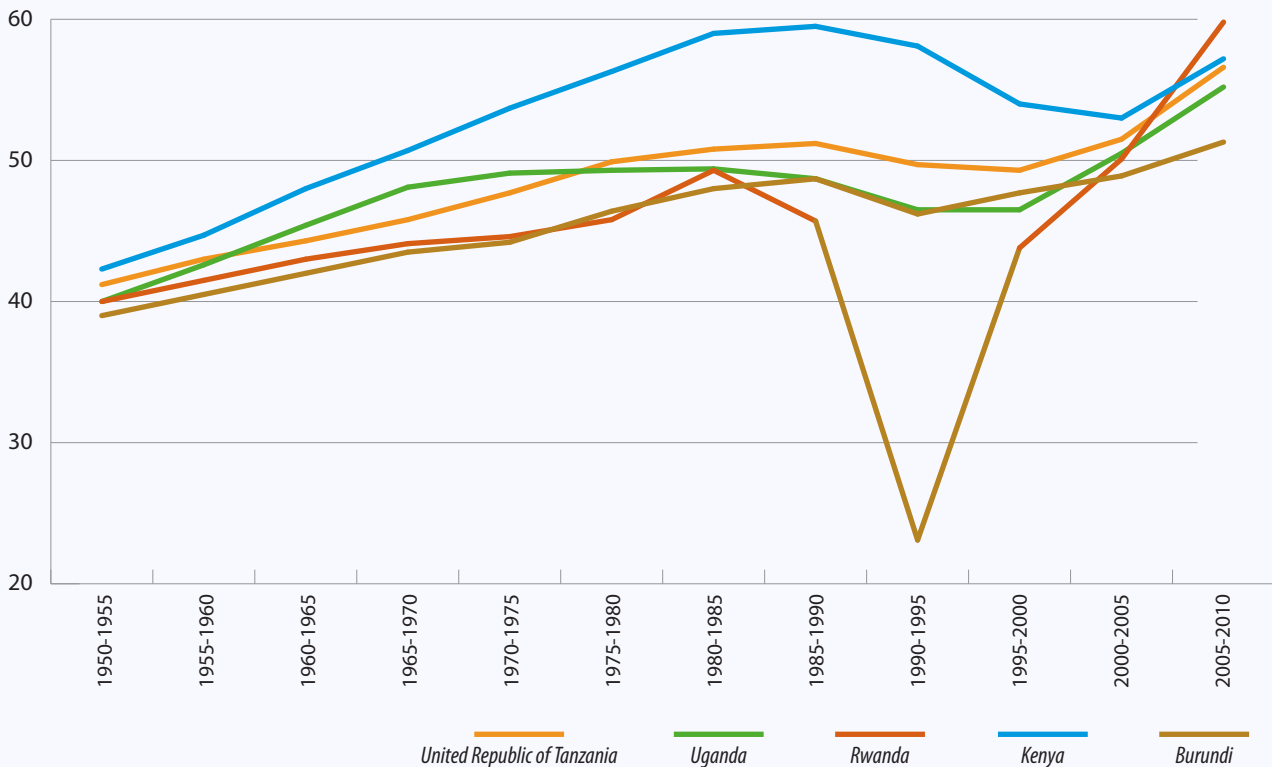
Objectifs et cibles	Indicateurs	Première année		Dernière année		Variation (%)
		Valeur	Année	Valeur	Année	
Objectif 1: Éradiquer l'extrême pauvreté et la faim						
Réduire de moitié l'extrême pauvreté	Pourcentage de la population vivant avec moins de 1,25 dollar par jour (en parité de pouvoir d'achat)	38,4	1992	43,4	2005	13
Réduire la faim de moitié	Pourcentage de la population consommant moins que le niveau minimum requis d'énergie alimentaire (%)	34,8	1991	25,8	2012	-26
Objectif 2: Assurer l'éducation primaire pour tous						
Scolarisation primaire universelle	Taux net d'inscription dans l'éducation primaire (taux d'inscription pour 100 enfants)	62,6	1999	84	2009	34
Objectif 3: Promouvoir l'égalité des sexes et l'autonomisation des femmes						
Nombre égal de filles inscrites à l'école primaire	Ratio filles/garçons dans les écoles primaires	0,97	1990	0,98	2009	1
Représentation égale des femmes dans les parlements nationaux	Pourcentage de sièges occupés par des femmes au Parlement (%)	1,1	1990	9,8	2013	793
Objectif 4: Réduire la mortalité infantile						
Réduire de deux-tiers la mortalité des enfants de moins de 5 ans	Taux de mortalité des enfants de moins de 5 ans (nombre de décès pour 1 000 naissances)	9,2	1990	72,9	2012	-26
Objectif 5: Améliorer la santé maternelle						
Réduire de trois quarts la mortalité maternelle	Taux de mortalité maternelle (décès maternels pour 100 000 naissances vivantes)	400	1990	360	2012	-10
Accès universel à la santé reproductive	Taux de prévalence des contraceptifs (pourcentage de femmes âgées de 15 à 49 ans, mariées ou en union, qui utilisent une forme de contraception)	32,7	1993	45,5	2009	39
Objectif 6: Combattre le VIH/sida, le paludisme et d'autres maladies						
Enrayer et commencer à inverser la propagation du VIH/sida	Taux d'incidence du VIH (nombre de nouveaux cas d'infection au VIH par an pour 100 personnes âgées de 15 à 49 ans)	0,66	2001	0,45	2011	-32
Enrayer et inverser la propagation de la tuberculose	Nombre de nouveau cas pour 100 000 habitants	139	1990	288	2011	107
	Nombre de décès pour 100 000 habitants	28	1990	22	2011	-21

Figure 12
Human development index



Source: United Nations Development Programme (2014).

Figure 13
Life expectancy at birth, selected countries



Source: United Nations (2013).

least in relative terms. For instance, Kenya ranks 154th in life expectancy at birth (61.7 years) and 129th in mean years of schooling (6.3). Nonetheless, the recent rebasing of the economy is likely to improve the human development index score, and the country

will possibly enter the medium human development category.

Access to education

In terms of financial resources, the Government of Kenya is making a very



significant commitment to enhancing educational opportunities. In the current budget year, the education sector accounted for 27.3 per cent of the country's total budget, amounting to Ksh 294.6 billion – an increase of 7.6 per cent compared to Ksh 273.5 billion in the previous fiscal year. The allocation is expected to enhance access to education and transform the education system. While free primary education, introduced in 2003, has increased enrolment in primary schools, transitioning to higher levels continues to present an important challenge (Kenya, Ministry of Education, 2010). In 2008, the Government introduced a policy for tuition-free secondary education; that helped improve transition rates, which increased from 64.1 per cent in 2008 to 76.6 per cent in 2012 (Kenya, 2013). Nonetheless, it is crucial to also address more qualitative issues.¹⁰ Using mobile schools to reach nomadic communities is an innovative approach in the provision of education. However, the One Laptop per Child project, which is envisaged to bridge the gap between rich and poor children, did not take off in 2013/2014 as expected.¹¹

The 2013/2014 and 2014/2015 budgets and speeches convey the Government's intention to improve the education system and make it suitable for a knowledge-based economy. Free primary education, the school feeding programme, teacher training, the rehabilitation of school buildings and other initiatives continue to receive attention and funding. For the 2014/2015 fiscal year, the Government allocated Ksh 55 billion for university education, Ksh 6.4 billion for technical training institutes

and Ksh 5.7 billion for higher education loans. Technical, industrial and vocational education and training continue to enjoy support, since vocational education is seen as a pathway to acquiring marketable skills. Village polytechnics have been allocated Ksh 540 million for instructors. This devolution exercise could translate into improvements in access to education and equity. Many vulnerable communities, for example, the mobile communities in the north, should be able to get access to education more easily if resources are well channelled. The improved focus on educational inputs should be matched with the same vigour in addressing quality.

Social protection

The 2013/2014 budget allocates Ksh 13.4 billion – about 0.9 per cent of the total budget – for social protection, covering orphans and vulnerable children, elderly persons and persons with disabilities, the urban food subsidy and the secondary school bursary scheme for orphans and for poor and bright students. Expenditure on food dominates the budget of most Kenyan households, particularly in the rural areas, an indication of high levels of income poverty and probably high food prices.

The social protection schemes in Kenya remain exemplary. The cash transfer programme for orphans and vulnerable children has had a significant positive impact on the consumption patterns, school enrolment and health outcomes of children. Funding for orphans and vulnerable children increased four-fold between 2012 and 2013, while the fund for older persons doubled during the same period. The number of households targeted for social protection increased from 49,000 in 2012 to 164,000 in 2013 (Kenya National Bureau of Statistics, 2014a). While Kenya has a long history of investing in social protection schemes, in

¹⁰ Murunga, Kilaha and Wanyoni (2013) are of the view that free secondary education has brought with it over-enrolment, non-payment of fees for uniforms and other costs.

¹¹ Some evaluations have cast a doubt on the effectiveness of this type of project. In Peru, for example, the ratio of computers per student increased from 0.12 to 1.18 in treatment schools, without an observed impact on reading and math scores, despite some improvements in cognitive skills (Cristia and others, 2012).

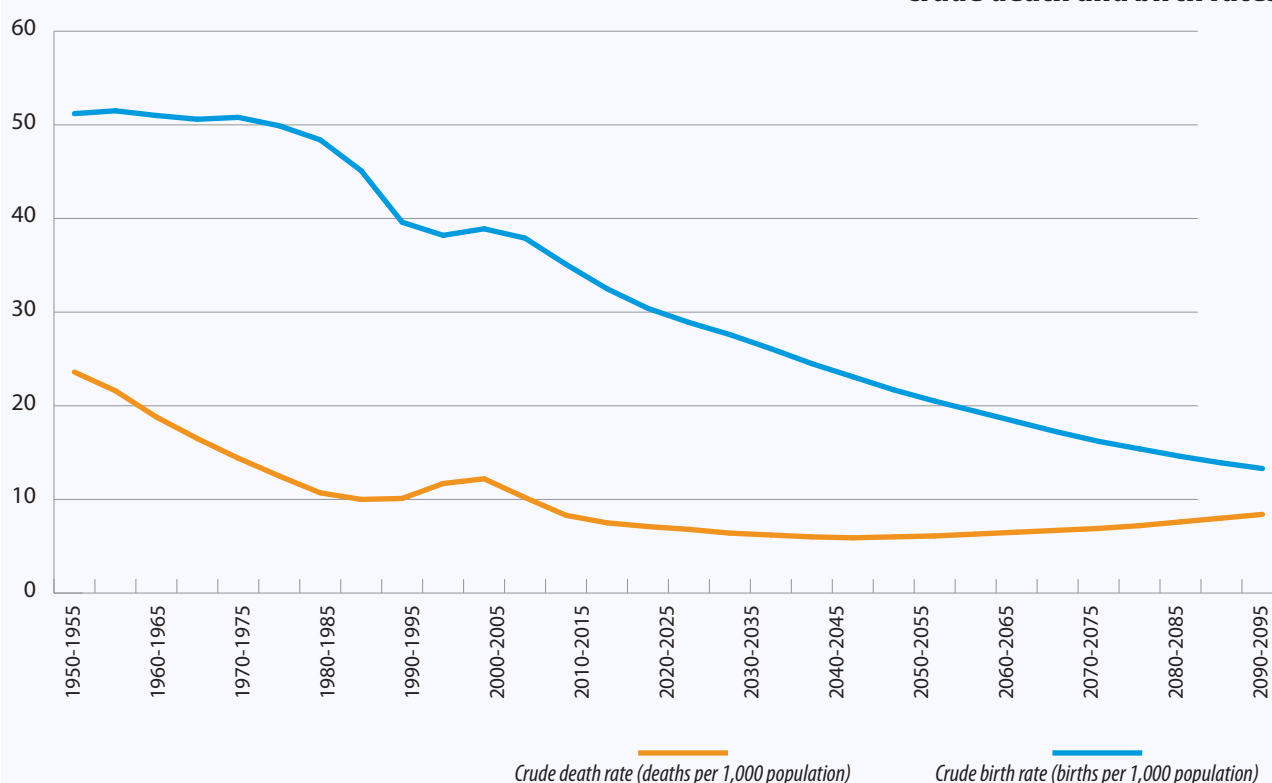
the form of free education and humanitarian relief in response to drought, there is a need for better targeting, especially for the mobile communities. The Government has already been targeting vulnerable communities, including orphaned and vulnerable children. Studies have demonstrated the efficacy of targeting social programmes, especially cash transfers, to reach vulnerable communities.¹² Addressing nutritional needs should be prioritized. Considering that stunting in Kenya is at 35 per cent (Kenya National Bureau of Statistics, 2010), a figure that is high by any standard, efforts should be mobilized to address that challenge.

Thematic structural transformation focus

Demographic pressure or demographic dividend?

Improving and sustaining long-term prosperity usually entails significant changes in socioeconomic structures. For instance, demographic transitions, that is, declining death and birth rates, reduce dependency ratios and can thus lead to a demographic dividend; urbanization affects the spatial organization of production and work, potentially contributing to a more dynamic economy and society; and sectoral shifts in production and employment provide a much needed productivity boost that helps increase per capita incomes. However, those benefits

Figure 14
Crude death and birth rates



Source: United Nations (2014).



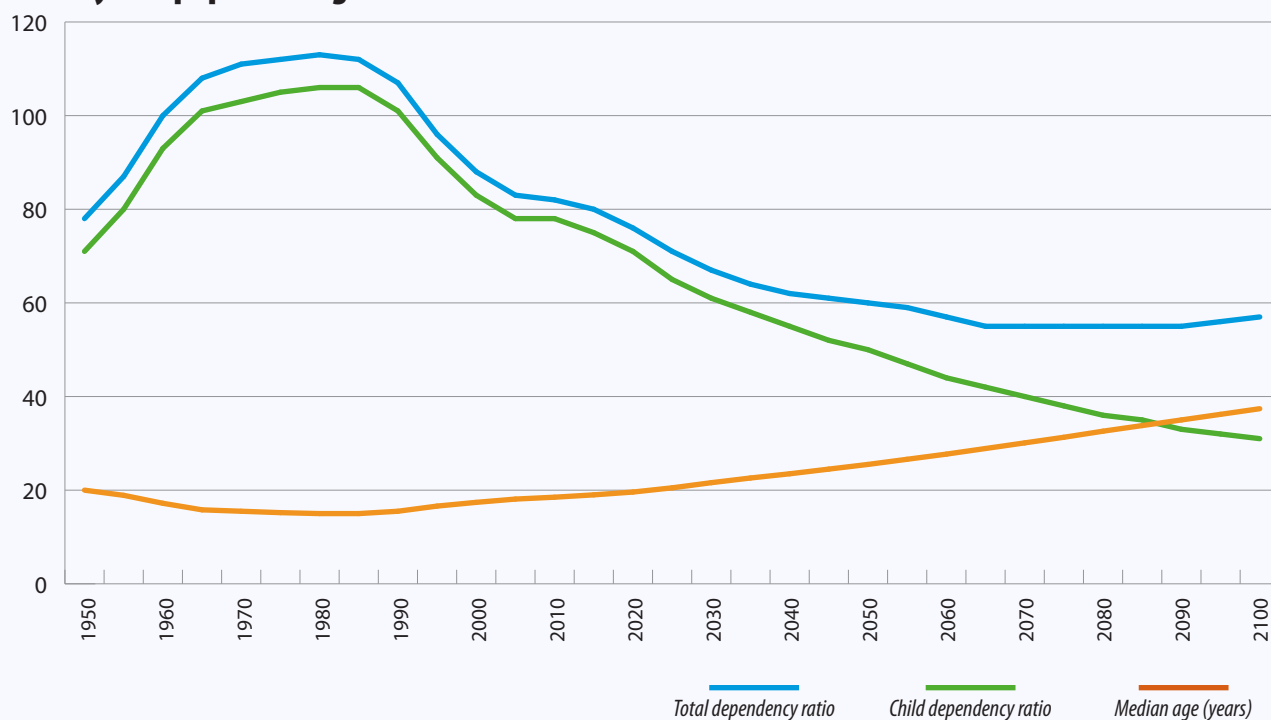
are not automatic and depend on a number of enabling factors.

The crude death rate in Kenya has declined from about 24 deaths per 1,000 population in the early 1950s to about 10 deaths per 1,000 population in 2005–2010 (figure 14). That can be partly attributed to improved health care and nutrition, which have led to a particularly significant decline in child mortality. The crude birth rate fell from 51 to 38 births per 1,000 population in the same period. This trend is intrinsically linked to the strong decrease in total fertility, from a peak of eight children per woman in 1965–1970 to fewer than five children per woman at present (figure 15). Population projections suggest that birth rates will plummet to about 23 births per 1,000 population in 2045–2050 and to 13 births per 1,000 population in 2095–2100, which implies a total fertility rate below three children per woman in 2045–2050 and fewer than two children per woman

in 2095–2100. Consequently, population growth is expected to slow down from the current 2.7 per cent per year to 1.7 per cent in 2045–2050 and 0.5 per cent in 2095–2100.

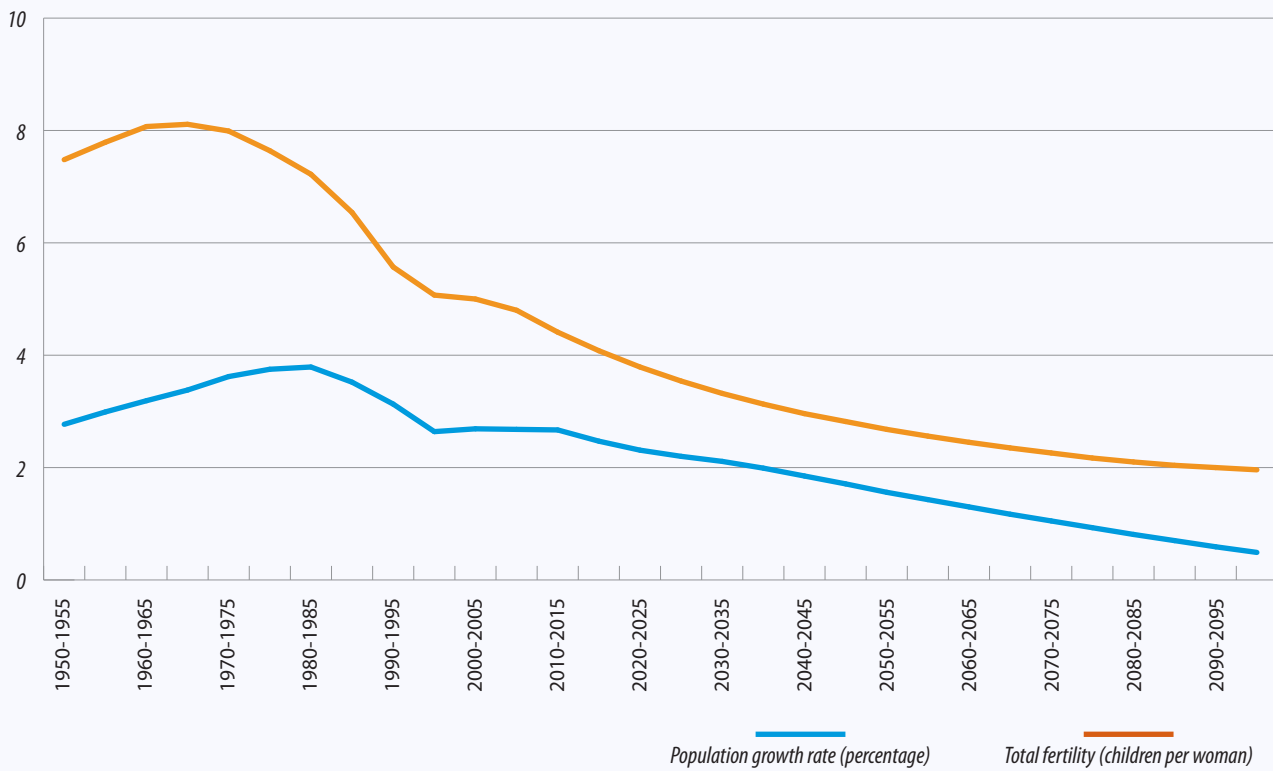
Those trends will have strong implications for the structure of the population. Demographic trends are strong determinants of the supply of labour in an economy. The size of the working age population will expand considerably, while the growth of the population aged 0–14 will slow down because of lower fertility and birth rates (figure 16). However, from the mid-twenty-first century the population aged 65 or over is expected to grow considerably. Dependency ratios will continue to fall, opening a crucial window of opportunity for a demographic dividend as the number of children and elderly supported by each person of working age declines (figure 17). Nonetheless, adequate policies need to be implemented in order to seize the positive momentum. The younger

Figure 15
Fertility and population growth



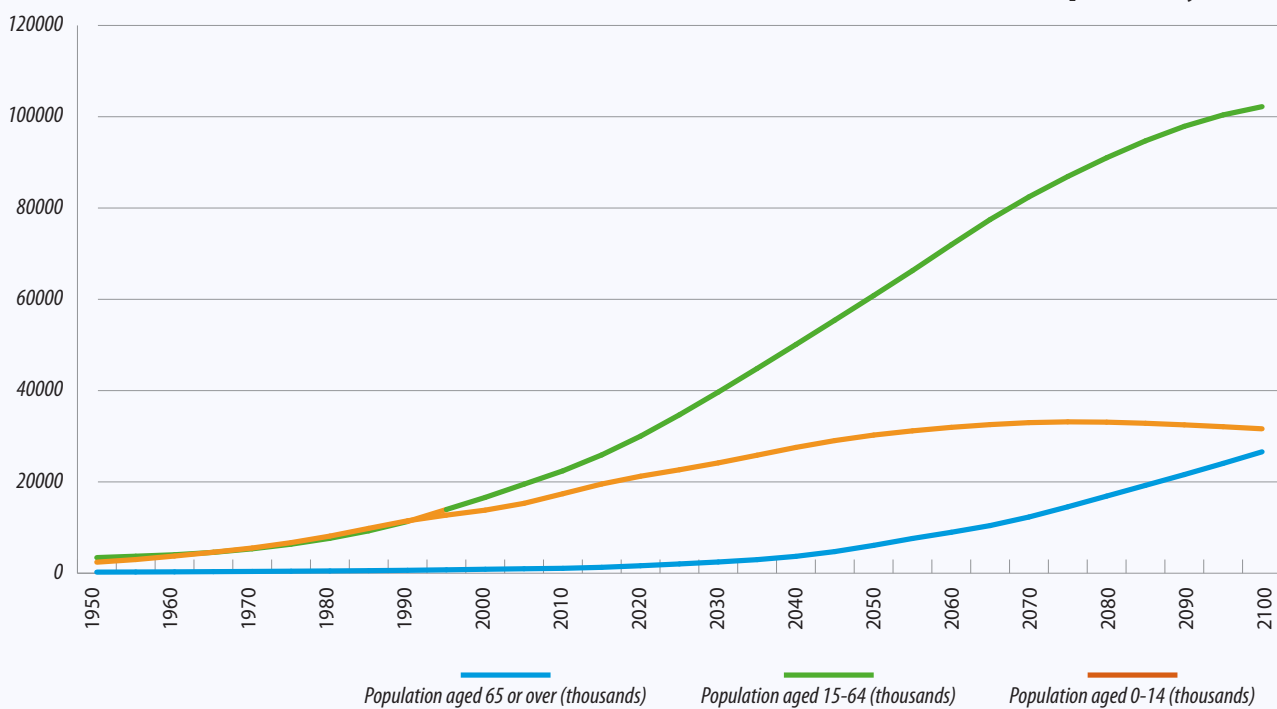
Source: United Nations (2014).

Figure 16
Population structure



Source: United Nations (2014).

Figure 17
Dependency ratios



Source: United Nations (2014).



population that is entering the labour market needs to be equipped with adequate skills, and the economy needs to create a sufficient number of good job opportunities. If that is not the case, this bulge of young workers could become significantly frustrated with the lack of prospects and potentially fuel social instability.

(Un)managed urbanization

Another key demographic element relates to the migration of the population from rural to urban areas. Urbanization can bring several economic benefits. It can create benefits of scale by expanding the size of urban markets and the pool of workers available to work in the modern sector and can strengthen the quality of the workforce by enabling greater access to education and health services. In addition, it may promote the exchange of ideas, knowledge and information. While the populations living in urban and rural areas are both set to expand considerably over the coming decades, the share of the population

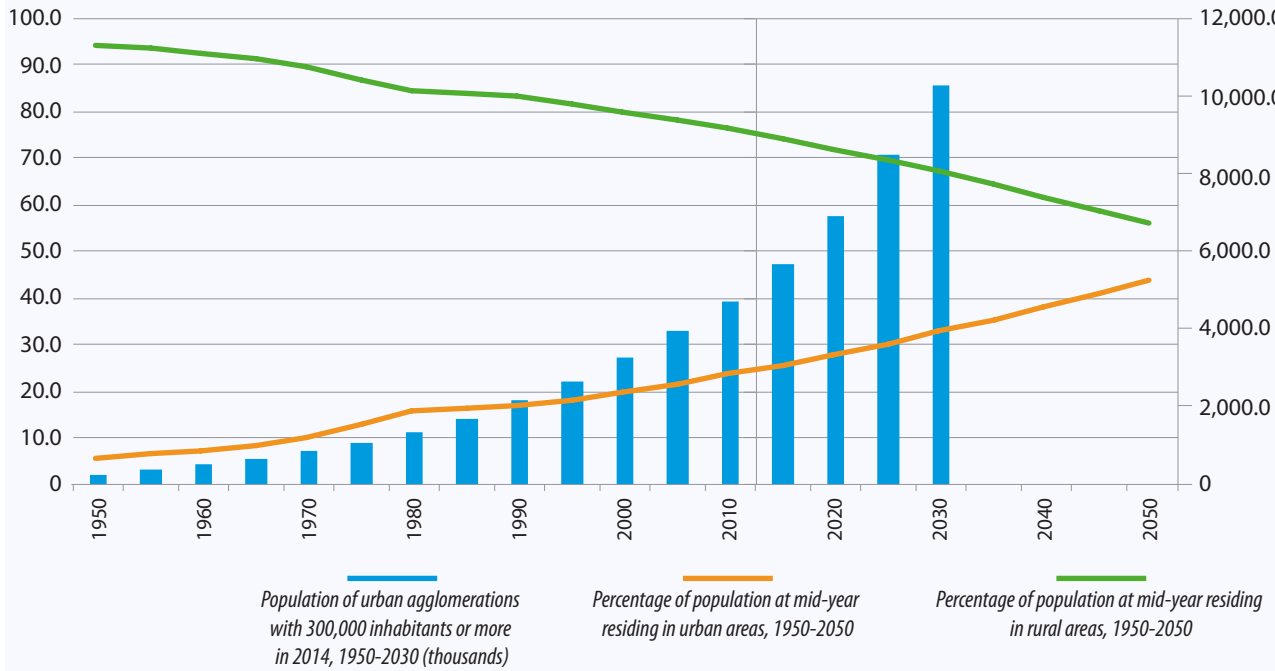
living in urban areas is projected to increase from the current 25.6 per cent to 44 per cent in 2050 (figure 18).

The share of the population living in urban agglomerations with at least 300,000 inhabitants is projected to increase from the current 12 per cent to 16 per cent by 2030 (figure 19). In particular, the expansion of Nairobi, already with a population of more than 3 million inhabitants, is likely to be substantial; that could contribute to greater economic dynamism, but may also place strong pressures on socioeconomic infrastructure, social cohesion and the environment.

Slow structural transformation

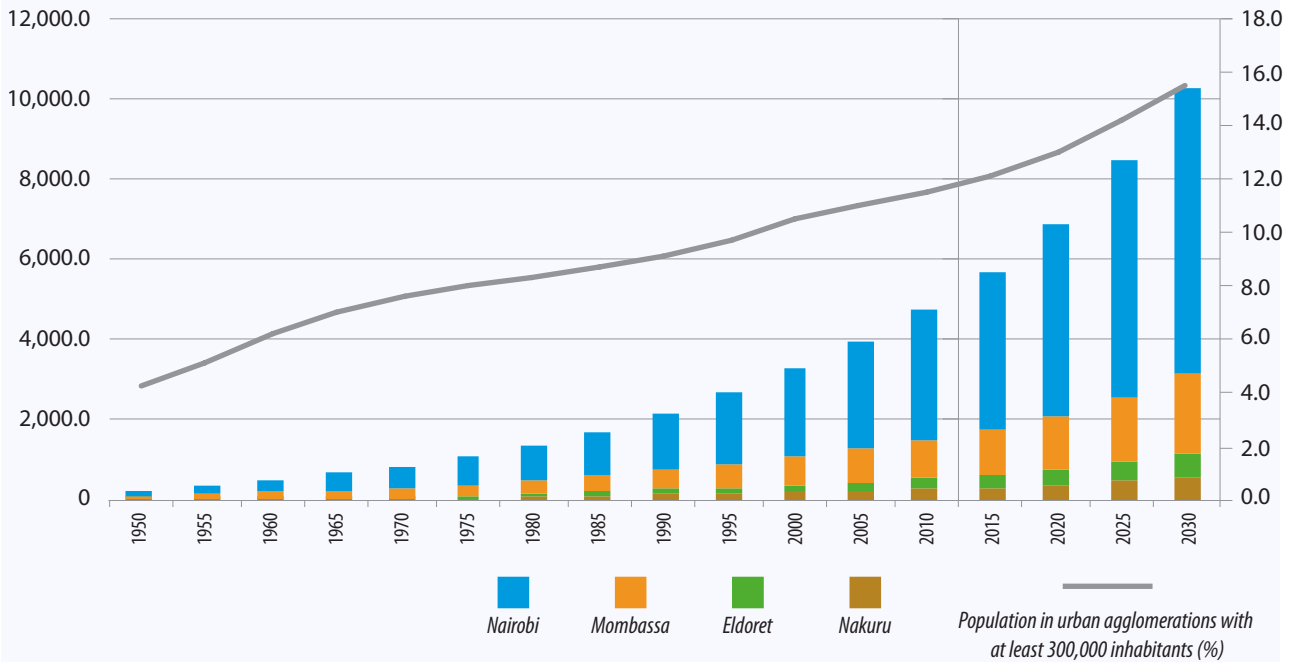
Structural transformation also entails a significant shift in production structures. Improvements in total labour productivity are essential to raise per capita incomes; this can be achieved through higher productivity within each economic sector and through the

Figure 18
Population in urban and rural areas



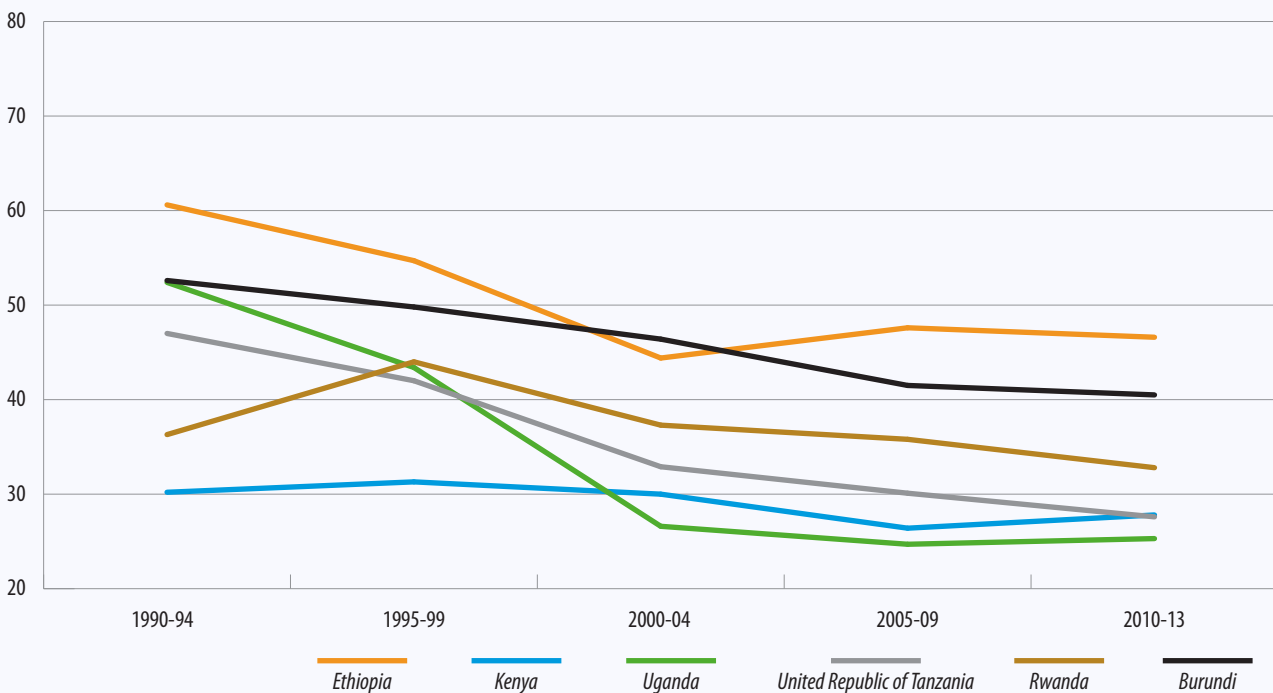
Source: United Nations (2014).

Figure 19
Main urban agglomerations



Source: United Nations (2014).

Figure 20
Sectoral value added (% GDP)



Source: World Bank (2014a).



movement of labour from lower-productivity sectors, such as subsistence agriculture, to higher-productivity and more dynamic sectors, such as manufacturing and modern services. This transition is vital to sustain long-term economic growth.

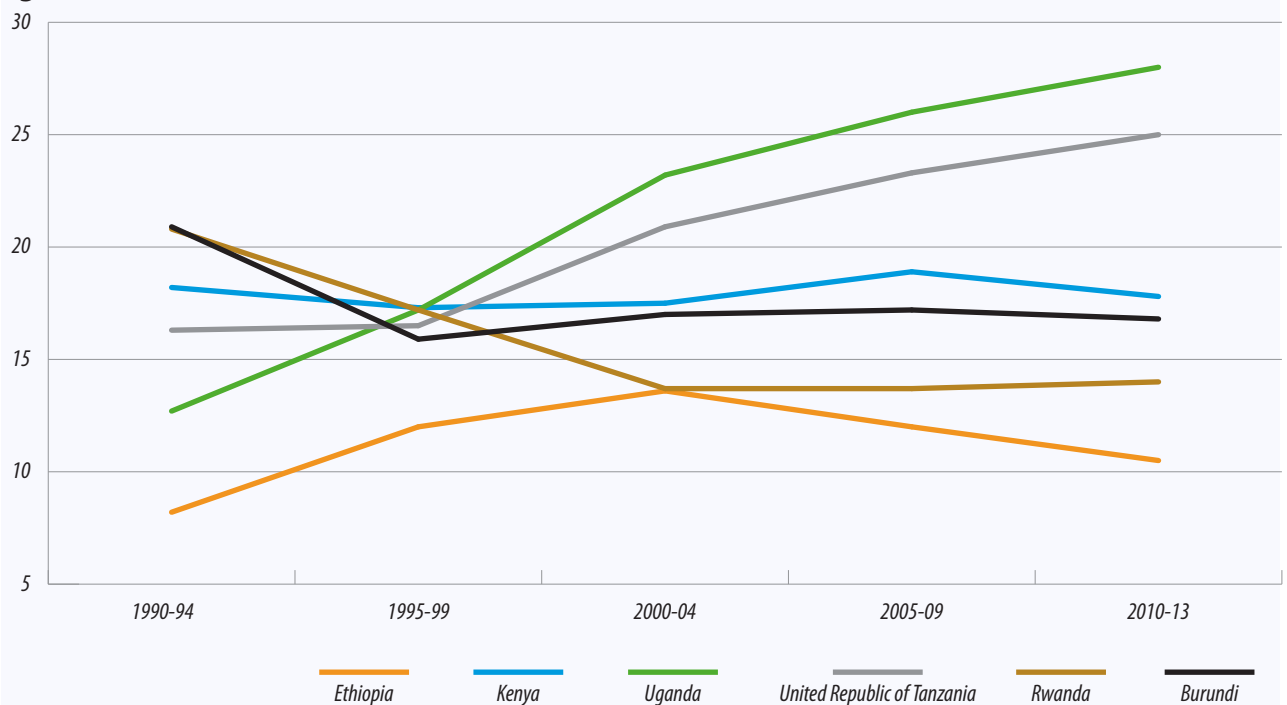
In Kenya, the share of industry in GDP has floated in the 15 to 20 per cent range since 1960, while agriculture's weight in total output has declined by about 10 percentage points, with a corresponding increase in services (figure 20). Although this suggests that some structural change has happened, the process has been arguably slow over the past 50 years.

The economy of Kenya has traditionally been less dependent on agriculture than the economies of its regional peers. However, many countries in the region are also recording fast reductions in the weight of the agricultural sector (figure 21). For instance,

the United Republic of Tanzania and Uganda have registered sharp declines, and have recently reached the levels of Kenya. The United Republic of Tanzania and Uganda have managed to significantly increase the share of industry in GDP, although mining partly accounts for that performance (figure 22). In terms of the services sector, all countries in the region have been catching up to the level of Kenya (figure 23).

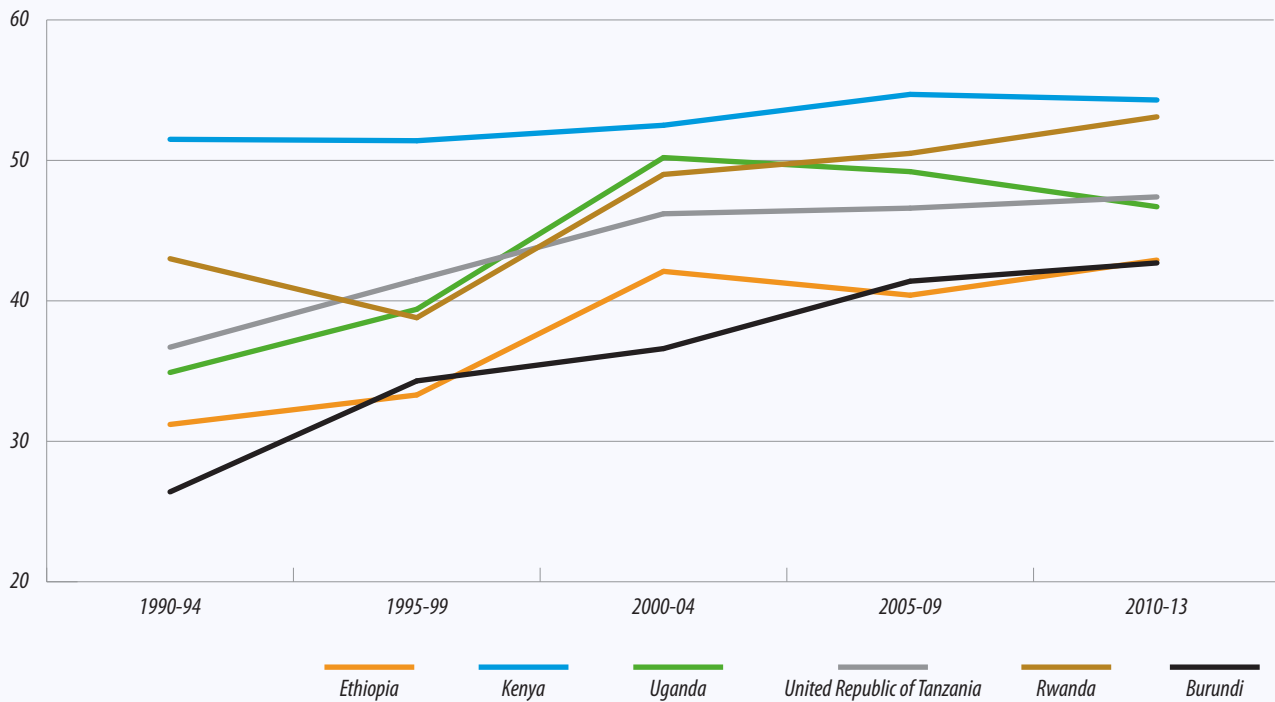
Labour market data is relatively scarce, which makes it difficult to assess employment dynamics. In 2005, 61 per cent of the Kenyan population was employed in the agricultural sector, despite the sector accounting for only about 30 per cent of total output (figure 24). Industry employed 7 per cent of all workers, and the services sector, 32 per cent. However, there is a notable gender variation. About 68 per cent of women worked in agriculture, compared to 55 per cent of men. About 83

Figure 21
Agriculture shares (% GDP) in Eastern Africa



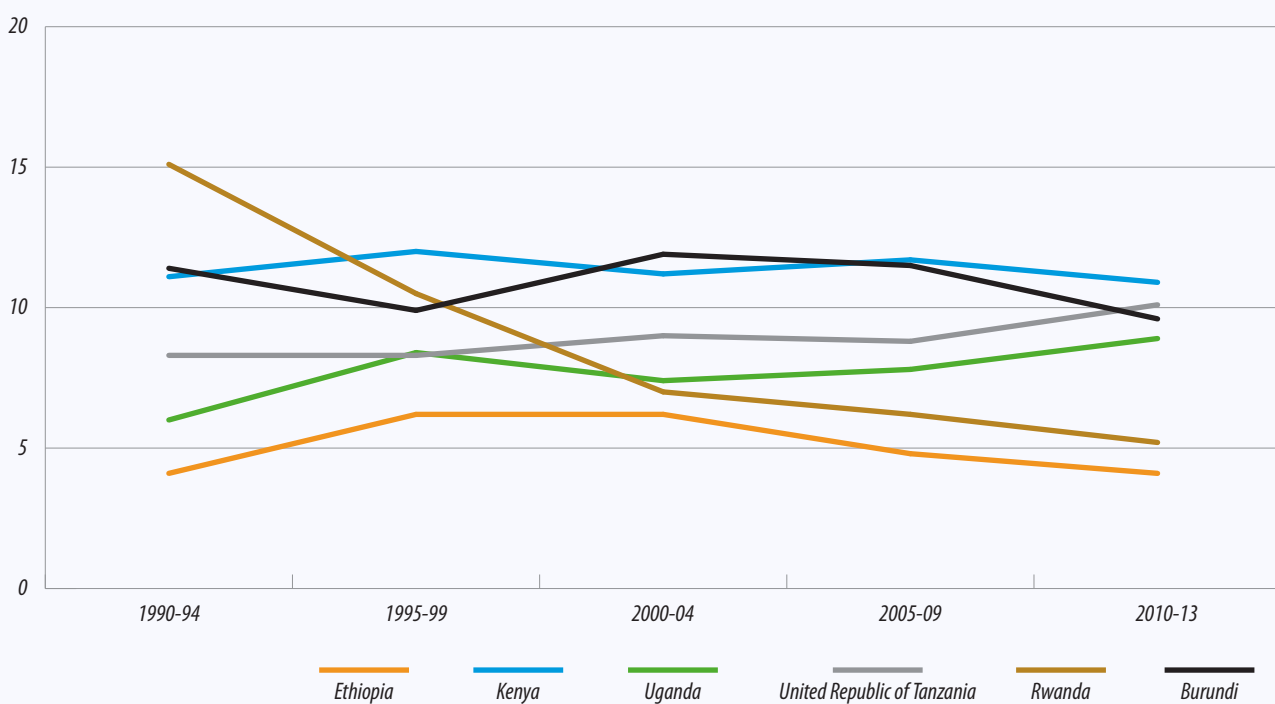
Source: World Bank (2014a).

Figure 22
Industry shares (% GDP) in Eastern Africa



Source: World Bank (2014a).

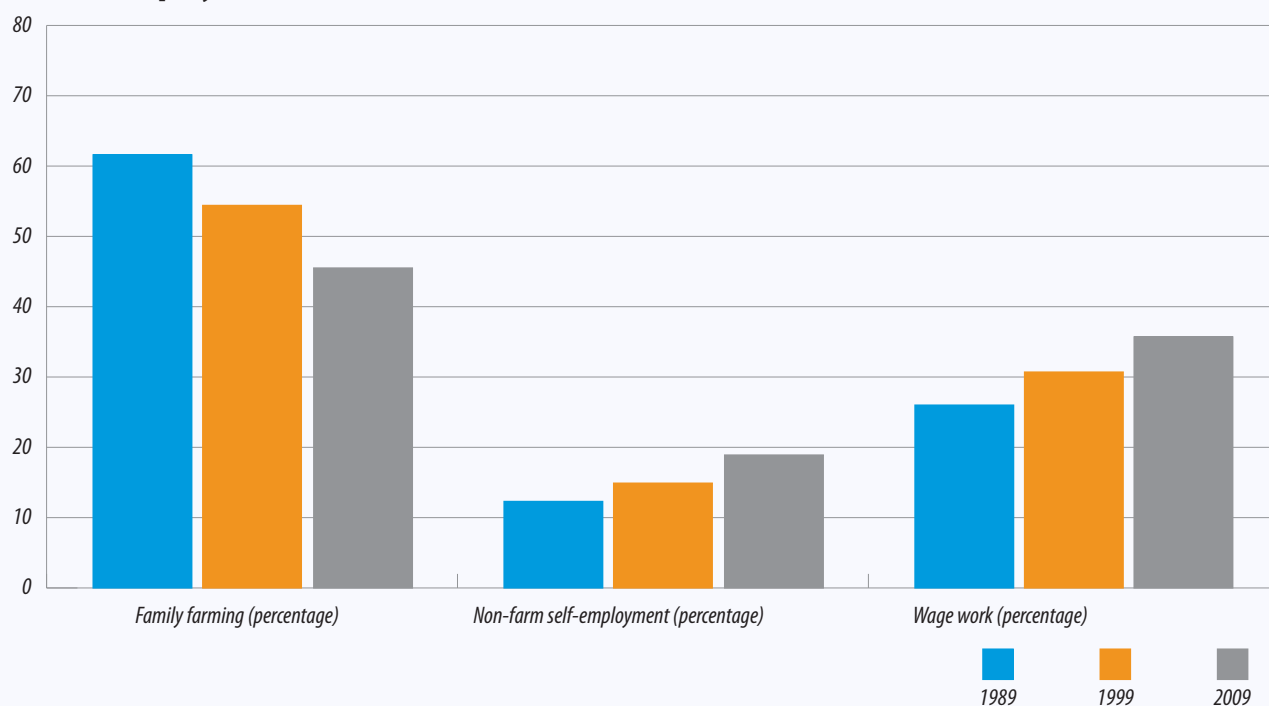
Figure 23
Services shares (% GDP) in Eastern Africa



Source: World Bank (2014a).

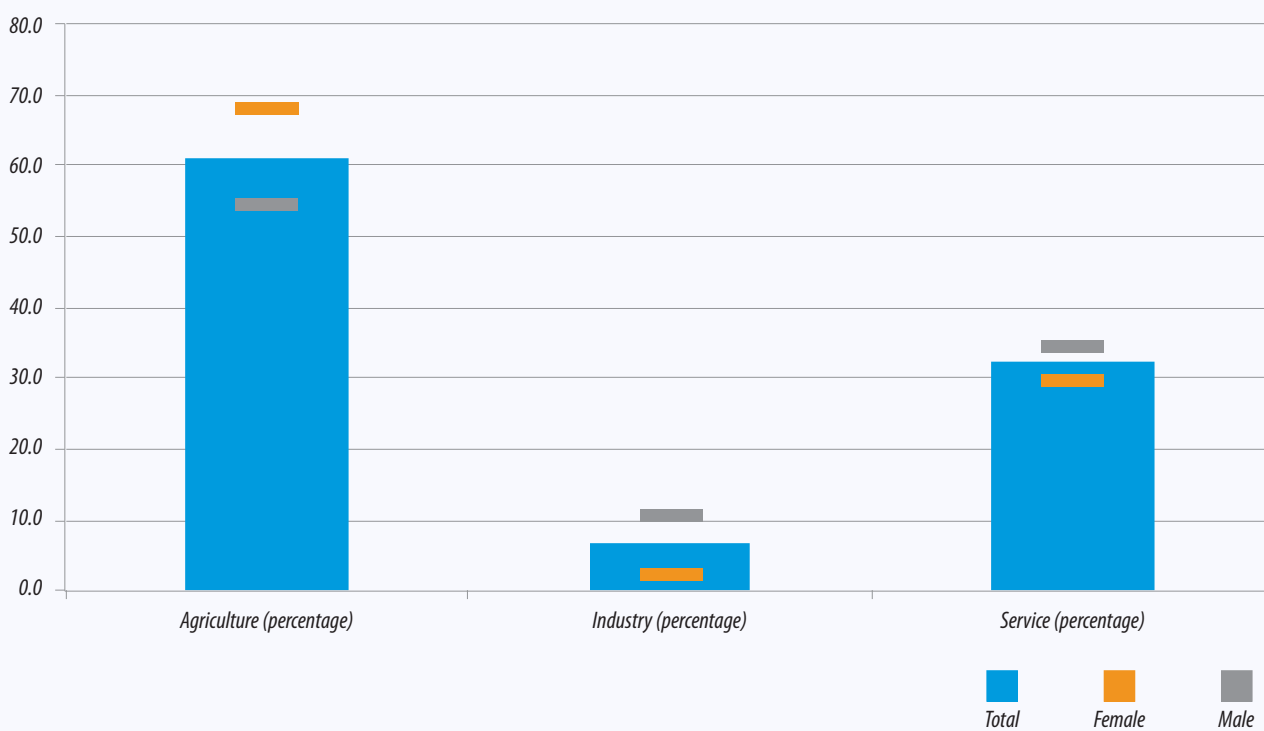


Figure 24
Sectoral employment (% total, 2005)



Source: World Bank (2012). Based on population censuses.

Figure 25
Type of employment (% total)



Source: International Labour Organization (2013).

per cent of workers in industry were men, while the gap in services was significantly smaller. It is unclear whether there has been a significant movement of labour between sectors, but data from population censuses suggests that wage work increased from 26 per cent of total employment in 1989 to 36 per cent in 2009, while family farming declined from 62 per cent to 46 per cent during the same period (figure 25).

Accelerating the pace of structural transformation, that is, moving workers from low-productivity activities, such as subsistence farming, to higher-productivity activities, such as manufacturing and modern services, will be fundamental to improve and sustain economic growth.

Trade competitiveness

The EAC agreed and signed an Economic Partnership Agreement with the European Union in October 2014. The agreement covers trade in goods and development cooperation, with “rendezvous” clauses for services and rules chapters (European Commission, 2014). The European Union will continue to grant duty-free and quota-free market access for all EAC imports, while the EAC will gradually open its markets to European Union goods, for the most part within 15 years.¹³ However, this does not include “sensitive” products, accounting for about 17 per cent of imports from the European Union by value, which will continue to face import duties in order to avoid undue competition. Some of the goods excluded from liberalization include agricultural products, chemicals, plastics, textiles and clothing, and vehicles.

The Economic Partnership Agreements have been subject to some debate and criticism. There have been concerns both

about the negotiation process itself and about the trade-off between potential benefits and costs. Since the agreements will require developing countries to liberalize most European Union imports within a relatively short time frame, and given the large differences in productivity between producers in the European Union and in Kenya, it could potentially lead to a significant loss of tariff revenues and considerable damage to local industries and job prospects.

As a way of promoting greater regional integration, the European Union has encouraged developing countries to negotiate such agreements as part of regional groupings, the EAC being one of them. But by competing with Kenyan exports to other EAC markets, the EAC-European Union Economic Partnership Agreement could also end up undermining regional trade. Kenya is in a different position from its regional partners, since it is the only country in the regional block that is not classified as a least developed country. This means that it does not benefit from the Everything But Arms initiative, which provides least developed countries with full duty-free and quota-free access to the European Union market, with the exception of armaments. Therefore, among EAC partner countries, Kenya probably stood to lose the most if the agreement had not been signed.

The European Union is Kenya’s main trading partner. In 2013, 24 per cent of total merchandise exports from Kenya went to the European Union, compared to 13 per cent to Uganda, 8 per cent to the United Republic of Tanzania and 6 per cent to the United States of America. In terms of merchandise imports, 19 per cent originated from the 28 countries of the European Union, compared to about 13 per cent from China, 12 per cent from the United Arab Emirates, 11 per cent

¹³ The EAC committed to liberalize about 83 per cent of imports from the European Union by value.



from India and 6 per cent from South Africa (World Trade Organization, 2014). Most of the horticultural exports from Kenya, such as flowers and fresh vegetables, are destined for the European Union market. For instance, the

Netherlands alone receives more than half of Kenya's flower exports, while the United Kingdom of Great Britain and Northern Ireland receives about 20 per cent of Kenya's tea exports. Overall, about 40 per cent of Kenya's fresh produce exports go to the European Union.

In the absence of the Economic Partnership Agreement, Kenya's exports would have faced significant tariffs under the Generalized System of Preferences; the 8.5 per cent import duty on flowers could have been particularly damaging, but other key horticultural products, tea and coffee would have also faced considerable additional costs to enter the European Union market. The exclusion of agricultural products means that EAC producers will not face even stronger competition from highly subsidized European agricultural products, which is likely to be positive for Kenya. The exclusion of chemicals might also be significant, since it is Kenya's third largest export by value, mostly to other EAC markets. Finally, the exclusion of textiles and clothing might also be considered an important achievement.

Despite these accomplishments, it is unclear what the net results will be over the medium term. For instance, tariff cuts will benefit Kenyan consumers only if they lead to lower import prices rather than increased profit margins for European Union exporters. Moreover, the elimination of import tariffs might adversely affect the existing and emerging industries in Kenya through increased competition from European Union products, which could possibly lead to wage cuts or even job losses. In fact, tariff cuts

may undermine structural transformation if they create a greater incentive to export primary products, with low value added, at the cost of more sophisticated products, such as manufactured goods. The EAC Common External Tariff currently offers a significant level of protection to EAC producers, with a 25 per cent external tariff on consumer goods.¹⁴ This has benefited Kenyan manufacturers, who have been able to boost exports to the rest of the EAC. The liberalization of those tariffs is likely to affect industry in Kenya. The impact on the public finances is also non-negligible, as the liberalization is likely to reduce tax receipts and thus diminish policy space to promote structural transformation.

Conclusion

The economic and social record of Kenya has improved in recent years. Economic growth has been relatively solid since 2010, while social indicators reveal advances in health and education. However, the pace of economic and social progress is falling short of the targets set in Vision 2030 and the Millennium Development Goals. In the present country profile, four key challenges likely to shape the medium-term prospects of Kenya were highlighted.

The first relates to growing demographic pressures. Kenya is in the early stages of a demographic transition, which creates a considerable youth bulge and presents a unique opportunity to seize a demographic dividend. However, the dividend will materialize only if young people entering the labour market have adequate skills and

¹⁴ The EAC Common External Tariff has a three-band structure: 0 per cent on raw inputs and capital, 10 per cent on intermediate products, and 25 per cent on consumer goods. However, there are some exceptions, for example, some medicines are not subject to tax, and tariffs can be significantly higher for sensitive products, such as sugar, milk and wheat. Overall, Kenya's average applied tariff was 12.7 per cent in 2013 (see World Trade Organization, 2014).



are able to find decent and productive jobs. Second, urbanization can generate considerable economic benefits, but may also place undue pressures on socioeconomic infrastructure, social cohesion and the environment. The challenge is to manage the pace of urbanization and create conditions that maximize the benefits of urban agglomeration while lessening potential negative effects. Third, the slow pace of structural transformation undermines the sustainability of the growth process. It is vital to create conditions for workers to move towards higher productivity activities, namely by supporting employment creation in manufacturing and modern services. Finally, it is vital to boost international trade competitiveness. Under the recently signed EAC-European Union Economic Partnership Agreement, Kenya will gradually liberalize European Union imports. Boosting the productivity of domestic firms will be critical to ensure that Kenyan industries are able to compete with European Union goods.



