KENYA

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KENYA

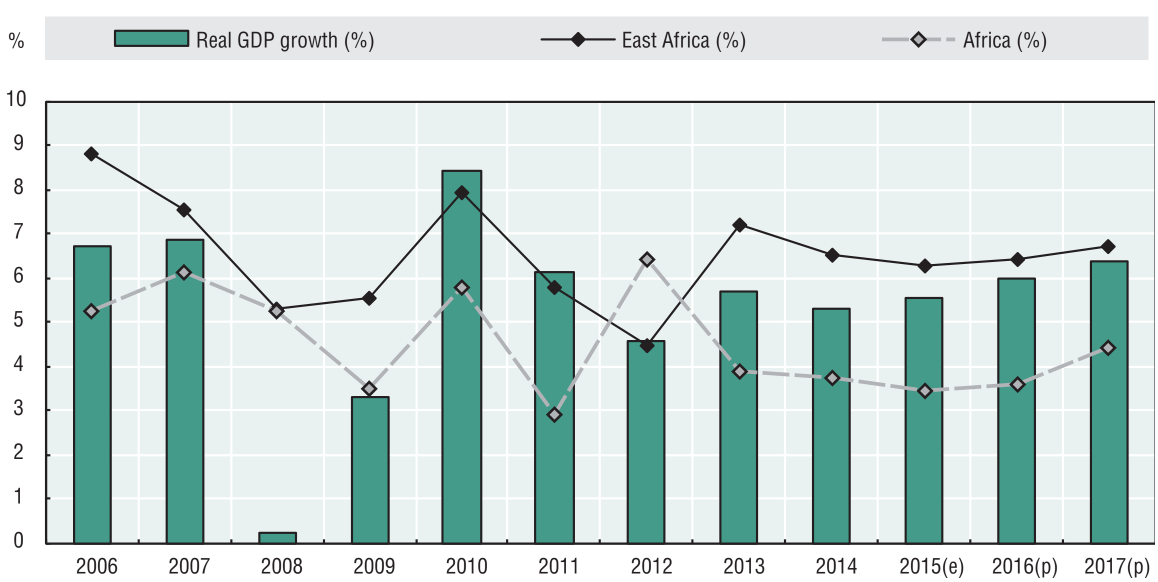
- **Real GDP growth was 5.3% in 2014, while the 2015 estimate and the 2016 and 2017 projections show economic expansion of 5.5%, 6.0%, and 6.4% respectively.**
- **In 2014 and 2015, the economy experienced a stable macroeconomic environment, with single-digit inflation despite a 10.0% currency depreciation in 2015. At the same time, calls to amend the constitution to increase finances to the 47 county governments dominated the political scene.**
- **Kenya is set to experience rapid urbanisation in the foreseeable future.**

Overview

GDP growth remained robust in 2014 at 5.3%. The expansion of construction, manufacturing, finance and insurance, information, communications and technology, and wholesale and retail trade buoyed GDP. The economy slowed in the first half of 2015, but growth is estimated to have reached 5.5% by year-end. As shown in Table 1, overall GDP growth prospects are 6.0% and 6.4% for the years 2016 and 2017 respectively. Consumer Price Index (CPI) inflation projections remain at around 6.0% over the same period. The short- to medium-term positive growth projections are based on the assumptions of increased rainfall and enhanced agricultural production, a stable macroeconomic environment, continued low international oil prices, the stability of the Kenya shilling (KES), improved security boosting tourism and reforms in governance and justice.

Political activity in 2015 continued to centre on two areas: a call by the opposition party, Coalition for Reforms and Democracy (CORD), to amend the constitution and county governments seeking to raise national government financial transfers from 15% to 45%.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

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Table 1. **Macroeconomic development**

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	5.3	5.5	6.0	6.4
Real GDP per capita growth	2.6	2.9	3.4	3.8
CPI inflation	6.9	6.0	6.0	5.2
Budget balance % GDP	-5.7	-8.8	-8.2	-6.3
Current account % GDP	-10.0	-7.9	-6.3	-6.9

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

Recent developments and prospects

Real GDP growth remained robust, rising to 5.7% in 2013 based on rebased statistics, before dropping slightly to 5.3% in 2014. The main drivers of growth were the expansions in construction, manufacturing, finance and insurance, information, communications and technology, and wholesale and retail trade. The economy slowed in 2014, partly due to a sharp drop in tourism following terrorist attacks in the country. However, the rebasing of GDP in 2014 led to the reclassification of Kenya to lower middle-income status, with a GDP of USD 52.8 billion and per capita income of USD 1 190.

Kenya's growth outlook, however, remained positive for 2015, with overall GDP growth expected to be 5.5%, 6.0% and 6.4% in 2015, 2016 and 2017 respectively. CPI inflation is expected to remain at around 6% during the same period. The short- to medium-term positive growth projections are based on the assumptions of increased rainfall for enhanced agricultural production, a stable macroeconomic environment, continued low international oil prices, the stability of the KES improved security boosting tourism and reforms in the areas of governance and justice. In 2015, however, the security situation continued to deteriorate, while reforms in the areas of governance and justice have suffered from perceptions of an increase in cases of corruption and a weakened justice system.

Kenya has made efforts to diversify the economy to reduce reliance on traditional agriculture and manufacturing as the main sources of growth. In 2014, for example, the major drivers of the economy were agriculture, forestry and fishing, construction, wholesale and retail trade, education, and finance and insurance. The hotels and restaurants industry contracted for the second year in a row, while all the other sectors recorded positive growth. Efforts are being made to expand earnings from information and communications technology (ICT) by encouraging the construction of ICT industrial parks to tap into the global back-office operations market.

The Central Bank of Kenya (CBK) pursued a prudent monetary policy stance, which helped contain inflation at around 5.0% to date. CBK eased its monetary policy stance starting in July 2012, reducing the central bank rate (CBR) from 18.0% in June 2012 to 8.5% in January 2014. However, the continued widening of the current account deficit and the rapid depreciation of the KES, coupled with calls to raise interest rates, led to a reversal of some of the cautionary policies. The CBR rose to 11.5% in September 2015 to contain rising fragility in the money market. The KES remained largely stable in 2014, depreciating by about 4.9% against the US dollar (USD). However, in the first six months of 2015, it depreciated by 7.1%, compared to 1.6% in the same period in 2014. Recent studies suggest that Kenya's Real Effective Exchange Rate (REER) remained overvalued by between 4.0% (CBK) and 20.0% (Renaissance Capital). The depreciation affected government liquidity, leading to a drawdown on the IMF Emergency Support facility.

The public debt-to-GDP ratio remained below 50.0% during the five years to December 2012 but rose to 53.2% in October 2013. It presently stands at 52.0%, mainly driven by increased debt-to-finance expenditure related to the devolved government structure and infrastructure investments. The September 2015 updated debt sustainability analysis indicates Kenya's risk

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of external debt distress remains low, while overall public sector debt dynamics continue to be sustainable. However, the net present value (NPV) of Public and Publicly Guaranteed (PPG) external debt is projected to peak at 22.0% of GDP in 2016-17, well below the 50.0% indicative threshold. The NPV of the debt-to-exports ratio is forecast to plateau at around 123.0% in the medium term, remaining well under an indicative threshold of 200%.

Kenya's current account deficit has continued to widen due to a rise in imports against sluggish exports and reduced earnings from tourism, which has been hit by concerns over terrorism in the region. While import demand was boosted by manufacturers and contractors implementing large infrastructure projects, subdued tourism and declining earnings from exports led to a deterioration of the current account in the first half of 2015 compared to the same period in 2014.

Overall exports were about 10.0% less in the first half of 2015 as compared to the same period in 2014. Imports rose by 0.2%, leading to the overall nominal trade deficit worsening by 5.3% over the same period. Kenya's foreign direct investment (FDI) remains behind its neighbours, although investment levels increased from USD 605 million in 2009 to an estimated USD 994 million in the fiscal year (FY) 2012/13. FDI was projected to increase to USD 1.2 billion in FY 2013/14, mainly due to investment from Brazil, Russia, India, China and South Africa (BRICS), especially India and China in emerging extractive industries. FDI is expected to continue to grow thanks to the investment opportunities being rolled out by the national government and the 47 county governments. Investors are expected to take advantage of the attractive offers, including free land.

In 2014, agriculture contributed about 30.3% to GDP, followed by finance, real estate and business services at 15.7% (Table 2). Manufacturing continued to stagnate, contributing 11.1% to GDP, down from 12.6% in 2010. Renewed investment in energy and the revamping of agricultural production are expected to increase opportunities for agro-processing, thereby boosting the potential for the growth of the manufacturing sector.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2010	2014
Agriculture, forestry, fishing and hunting	27.8	30.3
of which fishing	0.7	0.8
Mining and quarrying	0.9	0.9
of which oil	…	…
Manufacturing	12.6	11.1
Electricity, gas and water	2.2	2.0
Construction	5.0	5.4
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	10.4	10.1
of which hotels and restaurants	1.8	1.0
Transport, storage and communication	10.1	10.6
Finance, real estate and business services	15.9	15.7
Public administration and defence	4.9	5.0
Other services	10.1	9.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The fiscal balance has remained under pressure from increased expenditure at both the national and county government levels. Although the medium target is 6.8% of GDP, the fiscal balance has increased, with the deficit standing at 8.8% in 2014/15 (Table 3). Targets for 2015/16

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and 2016/17 are projected to be 8.2% and 6.3% respectively against current account deficit projections of 6.3% and 6.9% over the same period. Public sector employees, who continue to demand increased pay, add to the pressure at the national level. For example, 280 000 public sector teachers went on strike in September 2015, demanding a 50% to 60% pay rise, which had been awarded by the courts but not implemented by the government. The Salaries and Remuneration Commission is therefore undertaking a staffing assessment aimed at setting appropriate salaries for state and public sector employees. However, despite this the government still makes an effort to ensure that fiscal policy responses to shocks are reasonably rapid. For example, the expected El Niño rains in the fourth quarter of 2015 resulted in budgetary adjustments in order to provide adequate resources to respond to the potential effects of the adverse weather. The quality of public goods provision, including investments in energy and roads, has been highlighted as one of the key drivers of growth over the last three years. Despite high fiscal deficits, inflation has largely remained low as it mainly depends on demand. This is especially the case for food and oil prices, which have remained favourable over the last two years. Notwithstanding recent discoveries, Kenya is not yet producing oil and has mainly benefited from the falling oil prices, which have kept inflation in check.

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

	2006/2007	2011/2012	2012/2013	2013/2014	2014/2015(e)	2015/2016(p)	2016/2017(p)
Total revenue and grants	**19.3**	**19.2**	**18.9**	**20.0**	**22.5**	**22.0**	**20.7**
Tax revenue	17.3	17.4	17.0	18.7	20.9	19.2	17.8
Grants	0.8	1.0	0.9	0.5	0.4	1.8	2.0
Total expenditure and net lending (a)	**20.1**	**25.1**	**25.7**	**25.7**	**31.3**	**30.1**	**27.0**
Current expenditure	16.1	16.7	19.0	19.4	23.5	23.7	21.2
Excluding interest	14.0	14.6	16.3	16.7	21.2	18.5	16.0
Wages and salaries	6.3	5.6	6.5	5.6	6.9	8.5	7.8
Interest	2.1	2.1	2.7	2.6	2.3	5.2	5.2
Capital expenditure	4.0	8.3	6.6	6.3	7.7	6.4	5.7
Primary balance	**1.3**	**-3.7**	**-4.1**	**-3.1**	**-6.5**	**-3.0**	**-1.0**
Overall balance	**-0.8**	**-5.9**	**-6.8**	**-5.7**	**-8.8**	**-8.2**	**-6.3**

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

Total revenue as a percentage of GDP is therefore expected to average 21% in the next two years. Conversely, total expenditure and net lending will remain above 30%, and the average overall budget deficit will remain above 7% of GDP.

Monetary policy

Despite prudent monetary policy stances of the Central Bank of Kenya (CBK), there have been slippages following rapid currency depreciation in 2015. Strong food production and declining petroleum prices have been more successful at keeping inflation down than deliberate monetary policy interventions. However, CBK continues to use its CBR to contain inflation. It was reduced from 18.0% in June 2012 to 8.5% in May 2013. It was then raised in September 2015 to 11.5% to contain rising fragility in the money market. These efforts have mitigated and provided responses to internal and external shocks, which have led to the relative stability of domestic prices of goods and services.

The exchange rate remained stable until 2014 but became very volatile in 2015, with massive depreciation resulting in the loss of almost 10% of the value of the KES in 2015. The depreciation has been largely attributed to the global appreciation of the US dollar, which left most currencies on a downward spiral, thereby affecting all the East African Community (EAC) common market

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regional currencies. This exacerbated the challenges facing the EAC Monetary Union, which is delayed by convergence challenges.

As noted by the IMF in its latest review of September 2015: "Kenya's economic performance has remained satisfactory despite headwinds from rising volatility in global markets and domestic security challenges. Real GDP growth has been robust, and, notwithstanding the recent depreciation of the KES, inflation has remained within the authorities' target range. External buffers to date have remained adequate."

Credit to the private sector has declined relative to public sector borrowing. Domestic credit from the banking sector increased by 29.2% in the year to June 2015, compared with 14.6% in the same period in 2014. This growth in domestic credit was largely reflected in a drawdown of government deposits at CBK following the utilisation of proceeds from the USD 2 billion Eurobond (issued in June 2014) and its tap sale in December 2014 of USD 815 million. Credit to government consequently grew by 84.4% in the year to June 2015. Over the same period, growth in credit to the private sector decreased to 20.5% from 25.8% the previous year.

Economic co-operation, regional integration and trade

The Protocol on the Establishment of the EAC Common Market provides for the free movement of goods, labour, services and capital. Since the adoption of the protocol, the EAC continues to embrace the free movement of labour, and some of the member countries have signed to a single entry visa for non-EAC member countries. The EAC Customs Union protocol also provides service suppliers, providers and consumers from across the region with guarantees of equivalent treatment to local providers. Partner states are expected to progressively open up some sub-sectors within the following seven broad sectors over the period of 2010-15: i) business and professional services; ii) communication services; iii) distribution services; iv) educational services; v) financial services; vi) tourism and travel related services; and vii) transport services. Partner states are to make commitments on the remaining five sectors (health and social services, construction and related services, energy services, environment services, and movement of natural persons), plus additional commitments on the above indicated seven service sectors in line with Article 23 (2) of the protocol.

Kenya has been at the forefront of the removal of economic barriers and has taken the initiative to expand financial services across the regional member countries. Several Kenyan financial institutions have proceeded to establish branches in the other EAC member countries. These include Kenya Commercial Bank, Equity Bank and Fina bank, among others. This is in addition to the mobile telephony financial services, which extend across the region, including the M-Pesa services. Kenya also continues its central role in promoting peace and security and is participating in ongoing efforts to restore stability in Somalia and South Sudan. Other notable achievements include institutionalisation of mechanisms for early warning about conflicts, refugee management, control of the proliferation of small arms, electoral monitoring within member states and information exchange for monitoring external threats to the region.

As shown in Table 4, the trade balance is projected to remain above 10.0% owing to increased imports of equipment and infrastructure-related materials. The current account balance is expected to stand at a 6.3% to 6.9% deficit in 2016 and 2017. The government will need to put measures in place aimed at increasing export earnings in order to improve the external position in the medium term.

Kenya continues to be the driver of economic co-operation within eastern Africa, propelling trade facilitation through enhancements at the port of Mombasa. Kenya continues investing in the improvement of the northern corridor road network and in 2014 launched the construction of the Single Gauge Rail linking Mombasa to Kampala, with a USD 5 billion loan from China. Kenya also launched the LAPPSET road network, which links the port of Lamu to South Sudan

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and Ethiopia, with the construction of berths at Lamu already in progress. Kenya's exports to the COMESA region currently stands above 35.0%. These are largely destined for Zambia (13.0%), Uganda (10.2%), Rwanda (2.2%), Egypt (5.1%) and Tanzania, a non-COMESA but Tripartite Member (6.3%).

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

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-13.3	-18.5	-12.8	-9.6	-16.2	-14.4	-16.3
Exports of goods (f.o.b.)	12.9	12.2	13.2	12.8	9.8	9.0	9.1
Imports of goods (f.o.b.)	26.2	30.7	26.0	22.5	26.1	23.5	25.4
Services	4.0	4.8	-1.0	-5.7	3.1	3.0	3.6
Factor income	-0.5	-0.3	-0.6	-0.9	-1.3	-1.3	-1.3
Current transfers	6.6	5.6	5.7	6.2	6.6	6.5	7.2
Current account balance	**-3.2**	**-8.4**	**-8.7**	**-10.0**	**-7.9**	**-6.3**	**-6.9**

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

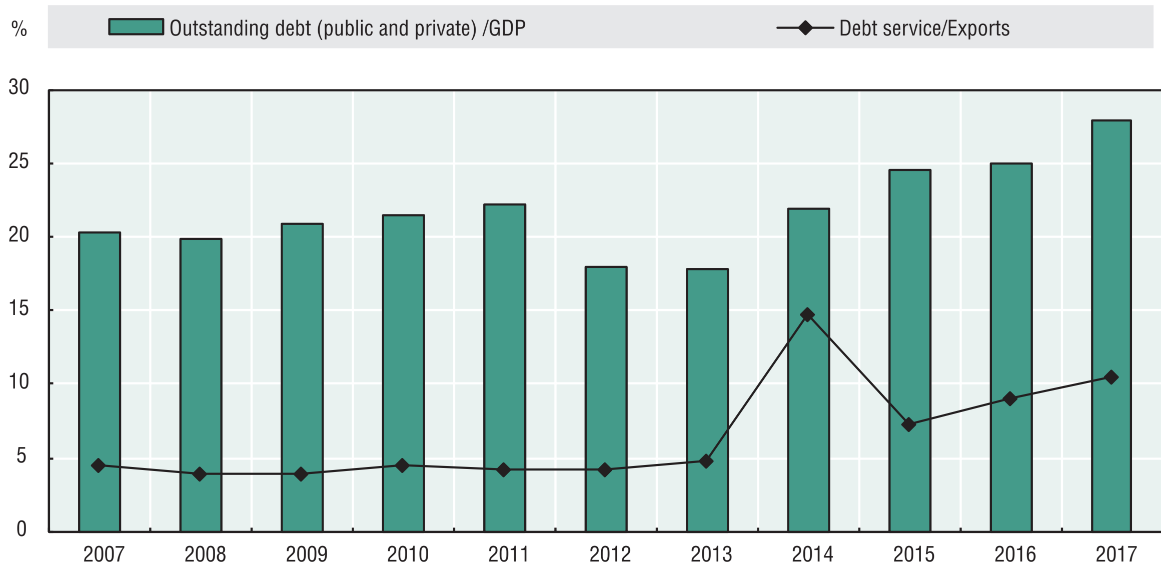
Debt policy

The 2015 debt sustainability analysis confirmed Kenya's debt is sustainable in the medium term. The updated debt sustainability analysis finds that even assuming full drawings under the IMF precautionary programme Kenya remains at low risk of external debt distress, notwithstanding a modest deterioration in the medium-term public debt trajectory. Kenya's capacity to repay could be enhanced once the recent sizeable oil and gas discoveries come on stream. This is consistent with the findings of the Bank Group Credit worthiness assessment, conducted in the first quarter of 2015, which also confirmed that Kenya remains creditworthy.

Kenya's public and publicly guaranteed debt stood at 52.8% of GDP in June 2015, up from 44.2% of GDP in June 2014. As a result of the debut sovereign loan issuances and first disbursements of the railway-related loan package, the NPV of public and publicly guaranteed (PPG) external debt is estimated at 20.0% of GDP at year-end 2014. With additional project financing and moderate additional commercial financing, the NPV of PPG external debt is projected to peak at 22.0% of GDP in 2016–17 (well below the 50% indicative threshold). The NPV of the debt-to-exports ratio is forecasted to plateau at around 123.0% in the medium term, remaining well under an indicative threshold of 200.0%. Over 90.0% of external debt is owed to multilateral and bilateral creditors, mostly IDA, ADB, Japan and China.

In its medium-term debt policy framework, Kenya confirms that the fiscal anchor remains maintaining gross public debt below 45% of GDP in present value terms, and is committed to gradually bringing the fiscal deficit over the medium term towards the EAMU's convergence criteria of 3% of GDP. This requires containing current spending and mobilising additional revenues. Parliament has also set the borrowing limit for Kenya at KES 2.2 trillion (USD 21 billion), thereby providing the legal upper limit for borrowing. The authorities have adopted a pre-emptive approach to process debt repayments by relying on their reporting systems rather than on invoices from lenders. They are also starting the payment process at 30 days before the due date to allow for internal approvals while the Debt Management Office (DMO) delivers to the Cabinet Secretary of the National Treasury a quarterly report with all obligations coming due in order to ensure accountability. The internal processes between the different units will be fully automated, and there will be a significant strengthening of staffing at the DMO, with the appointment of a full-time director general and significant strengthening of risk and compliance functions.

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



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

In an effort to transform Kenya's business climate, the government in 2015 enacted the Companies Act, the Insolvency Act and the Special Economic Zones Act, the Business Registration Service, the Companies and Insolvency Legislation (Consequential Amendments) Act 2015 and the Finance Act Amendments 2015. The new laws have made starting business in the country much easier. The Special Economic Zones Act, the first of its kind in Africa, is aimed at creating the enabling environment for global and local investors in specially designated zones.

In the World Economic Forum's Global Competitiveness Report (GCP) 2015/16 report, Kenya faired relatively well. The country ranked 23 for its intensity of local competition, 53 for its extent of market dominance, 60 for its effectiveness of anti-monopoly policy, 71 for its effect of taxation on incentives to invest and 70 for total tax rate as a percentage of profits. Other rankings were 116 for the number of procedures to start a business (10), 112 for the time required to start a busy (30 days), 59 for agricultural policy costs, 95 for prevalence of non-tariff barriers, 105 for trade tariffs, 92 for the burden of customs procedures and 58 for the degree of customer orientation. All of these scores were fairly good improvements on previous positions.

The World Bank's 2016 ease of doing business index indicated that Kenya had moved up 21 rankings to 108. This made Kenya the third most improved out of 189 countries in registering and conducting business. Drivers of this include an improvement in credit indicators as a result of the introduction of Credit Reference Bureaus, which allow financial institutions to assess the credit-worthiness of firms and individuals. The country also reduced electricity connection procedures from 158 to 110 days, and reforms in stamp duty from 30 to 26. Overall, the report ranked Kenya's ease of doing business at 108 in *Doing Business (DB) 2016*, up from 136 in *DB 2015* out of the 189 economies surveyed globally. While the ranking marked a marginal improvement from position 137 the previous year, it showed Kenya retained scores on most of the parameters but slipped in some.

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Financial sector

Despite a difficult 2015, Kenya has maintained relative financial stability over the last five years, with only two (Dubai Bank and Imperial Bank) out of 44 commercial banks being put under receivership due to lack of prudential management.

The average lending rate increased slightly to 15.48% in June 2015 from 15.26% in May 2015, while the average deposit rate increased to 6.64% from 6.55% over the same period. Consequently, the interest rate spread increased marginally to 8.9% in June 2015 from 8.7% in May 2015. While gross non-performing loans (NPLs) rose 22.0% between June 2014 and June 2015, the ratio of gross NPLs to gross loans declined marginally to 4.6% at the end of June 2015, compared with 4.7% in June 2014. The quality of assets, measured as a proportion of net NPLs to gross loans, decreased marginally from 2.8% in June 2014 to 2.7% in June 2015. Both commercial banks and non-banking financial institutions also had strong liquidity positions in June 2015. At 38.9% and 24.0% respectively, they both exceeded the 20% minimum requirement.

On-site supervision efforts have intensified, and the CBK has asked banks to reclassify some of their loans and increase provisioning for credit losses. These continuing efforts have already led to a higher loan loss provisioning coverage ratio for several banks. While the banking sector remains sound, recent credit and market risk events have underscored the importance of ensuring sound lending standards, compliance with prudential guidelines, adequate provisioning and sufficient buffers against losses.

Kenya continues to do well in electronic payments, with its M-Pesa mobile phone-based payment system. In addition, the M-KESHO banking and M-SHWARI lending services provide opportunities for the poor to save and borrow as little as USD 1.2 at any point in time. M-Pesa is used by more than two-thirds of Kenyan adults, supported by more than 85 000 agents and 50 000 merchants. It processes over eight million transactions every day, totalling close to USD 20 million, and has enabled financial institutions to offer new financial products via mobile networks.

Public sector management, institutions and reform

The Global Competitiveness Index (GCI) of the World Economic Forum's *Global Competitiveness Report 2015-2016* ranks Kenya 70 for property rights and 81 for intellectual property protection out of 140 countries. A national titling centre was launched in 2014 to aid in bulk titling and generating new titles, while assessment and payment of stamp duty services were also rolled out. Through the proposed Land Bill 2015, the government is in the process of reviewing legislation on the ease of property registration, aligning land use policy to the constitution and digitising land and property registries.

Following the rigorous restructuring of the judiciary as provided for in the 2010 constitution, the application of commercial laws has remained largely predictable. The appeals process is comprehensive, including the initial process at the magistrates' courts, high courts, appellate courts and supreme court. The GCI ranks Kenya at 61 out of 140 countries in terms of judicial independence.

The 2010 constitution and public sector and county government legislation provide for the orderly organisation of government and mechanisms for coordination between the legislature, executive and judicial branches. However, in 2014 and 2015 there was a conflict of operations between the three branches of government, with various cases ending up in litigation. The GCI ranks Kenya 89 in favouritism in decisions of government officials, 62 in wastefulness of government spending, 44 in the burden of government regulation and 52 in the efficiency of the legal framework in settling disputes.

The government is aware that the number of reported crimes is growing. Criminal gangs continued to operate in 2015, with serious attacks leading to several deaths reported in Kilifi, Nairobi, Garissa, Mandera and Wajir counties. However, in 2015 the government was able to provide security to high-level visitors, including the President of the United States (September 2015) and the Pope (November 2015). Kenya also hosted the WTO (December 2015), indicating renewed confidence in the government's ability to handle security matters.

Natural resource management and environment

Roughly 42% of Kenya's GDP and 70% of overall employment are dependent on sectors related to natural resources, including agriculture, mining, forestry, fishing, tourism, water supply and energy. There is greater awareness that climate change can lead to adverse impacts across all these sectors, with the agricultural sector standing apart as particularly vulnerable. In 2010, the Kenyan government released the National Climate Change Response Strategy, followed by the 2013–17 National Climate Change Action Plan (NCCAP). The objective of the action plan was to identify low carbon climate-resilient development pathways that incorporate sustainable development, adaptation and mitigation and align them with existing national planning documents.

Although Kenya has little historical or current responsibility for global climate change, and greenhouse gas (GHG) emissions are low relative to global emissions, the NCCAP recognises that national emissions are set to increase as Kenya realises its development aspirations. Specifically, the NCCAP estimates that GHG emissions are expected to increase from 59 million tonnes of carbon dioxide equivalent ($MtCO2^e$) in 2010 to 102 $MtCO2^e$ in 2030, consistent with the growing population and expanding economy. This necessitates Kenya's transition to a low carbon development pathway. The National Environment Management Authority (NEMA) has since 2014 continued to enforce legislation regarding pollution, while various county governments have put in place legislation to deal with various aspects of pollution.

Political context

In 2015, the political scene continued to be dominated by a push for a referendum by the opposition party, the CORD, and the Council of Governors, which was matched by the government's launch of a counter-referendum initiative. CORD and the Council of Governors were demanding for at least 45% of national revenue to be devolved to the counties as opposed to the constitutional provision of 15%.

Kenya experienced a number of security incidents, including terrorist attacks in northern and coastal regions of the country in 2015. A terrorist attack at Garissa University in April 2015 left about 150 students dead, leading to the university being shut down. To respond adequately to these challenges the government submitted a security law (amendment) bill to parliament to give the executive branch more power. Despite protests and concerns that Kenya would become a police state, the bill was passed into law in December 2014. However, early in 2015, the Constitutional Court declared a number of clauses in the new law unconstitutional.

The 2015 the World Bank's Worldwide Governance Indicators (WGI) project shows that in most dimensions of political governance (political stability and absence of violence, control of corruption and voice and accountability) Kenya's scores were in the 8-45 percentile range on a scale of 0-100 out of the 215 countries surveyed. Among East African countries, Kenya ranked best in voice and accountability (42.4), third in control of corruption (10.1, Rwanda being the best at 70.3) and last in political stability and nonviolence (8.7, Rwanda being the best with 42.7). According to the 2014 Ibrahim Index of African Governance (IIAG), Kenya scored 57.4 out of 100.0 (down from 54.8 in 2010), continuing to remain above the African average (51.5) and ranking 17 out of 52 overall. The scores continued to be higher than the regional average for East Africa, which was 48.5.

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Social context and human development

Building human resources

Despite the significant progress made in education, issues related to educational quality persist, especially at the primary level, with illiteracy rates increasing among students with six years of primary schooling. Over a quarter of young people have less than a lower secondary education, and one in ten youths did not complete primary school. At the university level, the Kenya Economic Survey reported in 2015 the student population grew by 22.8 % between 2013 and 2014. The World Education News and Reviews of the non-profit World Education Services (WES) stated similar growth is expected to continue, yet funding was cut back by 6.0% in the 2015 national budget. The mismatch between funding and enrolment growth will mean a heavier tuition burden for students, increasing the significant access issues that already exist for the marginalised and adding to quality issues related to overcrowding, overburdened infrastructure and faculty shortages.

Findings of the 2014 Kenya Demographic and Health Survey have shown improvements in various indicators for Millennium Development Goals (MDGs), particularly child mortality and maternal health. For example, neonatal mortality declined from 31 deaths in 2008/09 to 22 deaths per 1 000 live births in 2014. Infant mortality declined from 52 deaths in 2008/09 to 39 deaths per 1 000 live births in 2014, and under-five mortality declined from 74 deaths in 2008/09 to 52 deaths per 1 000 live births in 2014. There was a marginal decline in maternal mortality from 488 deaths per 100 000 live births to 400, though this is still one of the highest rates in Africa. Improvements in child survival are associated with the marginal improvements in maternal health, including increases in the proportion of births assisted by a skilled provider, delivery in health facilities and more prevalent post-natal care.

Kenya's national HIV prevalence rate now stands at 6.0%, with male prevalence at 5.6% and female 7.6%. According to the June 2014 Kenya HIV Estimates and Kenya HIV Prevention Revolution Road Map reports, there are approximately 1.6 million people living with HIV, of whom 191 840 are children. New HIV infections in 2013 were recorded at 101 560. Of this number, children account for 12 940, women 50 530 and men 38 090. Nine of Kenya's 47 counties account for 65% of the new infections. They are: Homa Bay, 15 003; Kisumu, 12 645; Siaya, 12 059; Migori, 8 292; Kisii, 5 976; Nakuru, 4 326; Turkana, 3 141; Nyamira, 2 507; and Bomet, 1 965. Overall, HIV and AIDS related deaths are reported to have declined significantly over the years, mainly due to the increase in the number of people with access to lifesaving treatment.

Poverty reduction, social protection and labour

Recent and reliable data on the poverty headcount is virtually non-existent, which makes policy formulation and implementation challenging. The last survey measuring poverty was conducted in 2005/06. This is likely to change in 2016, with the new integrated household budget survey now underway. Nevertheless, the last MDGs report published in late 2014 placed the poverty level at 45.2%, while estimates from the World Bank put it at 34.8 %. The World Bank attributes the decline in poverty levels to improvements in economic growth, social safety nets and migration to urban areas.

Social protection programmes are an integral part of the Kenya's Vision 2030 and Medium Term Plan (MTP) II, mainly targeting the youth, women and vulnerable groups like the elderly, orphans and vulnerable children (OVC). Allocated funds for social protection programmes for the elderly rose by 59.4% from KES 3.2 billion in FY 2013/14 to KES 5.1 billion in FY 2014/15. Disbursement of cash to the elderly also increased substantially by 69.0%, from KES 2.9 billion to KES 4.9 billion over the same periods. The funds allocated to OVC increased by 25.0%, from KES 4.8 billion in FY 2013/14 to KES 6.0 billion in FY 2014/15. Cash disbursement to OVC increased by 28.9%, from KES 4.5 billion to KES 5.8 billion over the same period.

The national budget continues to ringfence various poverty-focused interventions, including the Constituency Development Fund, which allocates 2.5% of national revenue across the 290 constituencies based on their poverty profiles. There are also funds targeting women (Women Enterprise Fund) and youngsters (Youth Enterprise Fund). The 2010 constitution guarantees a transfer of at least 15.0% of national revenue to the 47 county governments, and there is an Equalization Fund of 0.5%. In 2014, the government introduced the Uwezo Fund, targeting women and youth across the country. It aims to enhance economic growth by eradicating extreme poverty and hunger and promoting gender equality and empowering women (MDGs 1 and 3). The Uwezo Fund is a flagship programme for Vision 2030, seeking to reach these goals by providing women, young people and the disabled with access to financing to promote businesses and enterprises at the constituency level. It also provides mentorship opportunities to enable the beneficiaries to take advantage of the 30.0% government procurement preference through its capacity-building programme. The Uwezo Fund is therefore an avenue for incubating businesses, catalysing innovation, promoting industry, creating employment and, as a result, growing the economy.

Gender equality

Article 27 (8) of the 2010 constitution of the Republic of Kenya requires progressive realisation of the enforcement of the two-thirds gender rule or requires this to be implemented during general elections. In addition, Article 27 (6) provides for strong affirmative action, aimed at ensuring full realisation of gender equality. However, implementation of these constitutional provisions has been hampered by historical and cultural factors across and within the regions and counties of Kenya. Progress, however, towards gender equality is being made. This can be attributed to the 2010 constitution of Kenya, affirmation action and various policy measures supporting institutionalising gender equality at all levels in both the public and private sectors. For instance, in August 2015 the president of Kenya unveiled the national multimedia campaign dubbed *Tubadili, Tusitawi Pamoja,* a Swahili motto for rallying men and women to work together to promote sustainable development through the realisation of the two-thirds gender principle in political representation. The campaign was part of a broad strategy to lobby for the passage of the 2015 amendment bill No. 4, which ensures that at any one time parliament is constituted as per the two-thirds gender principle. The campaign also seeks to promote change in behaviour and attitudes among voters so they can appreciate the economic value of electing women to key leadership positions.

Thematic analysis: Sustainable cities and structural transformation

Kenya must contend with the challenges of rapid urbanisation that has taken place in recent years. Kenya's population currently exceeds 43 million, with a considerable percentage now living in urban areas, led by Nairobi, Mombasa, Kisumu, Nakuru, Nyeri and Eldoret. By way of example, just a decade ago, Nairobi had a population of about 2 million. As of 2015, the capital was home to 3.5 million people, an increase of roughly 75%. Sixty percent of its residents live in slums where the provision of public services is inadequate. The rapid growth of the urban population is, therefore, not commensurate with the capacity of cities and towns to create jobs, not only for Kenyans overall but also for the rapidly growing youth population.

A study by OXFAM (2009) concluded Kenya is facing a new urban challenge, with millions of Nairobi residents undergoing a daily struggle for food and water. The organisation observed that a combination of falling household income, rising prices, and poor governance was making life difficult for the poor in Kenya's capital. It was further observed that rapid urbanisation was changing the face of poverty in Kenya. Nairobi's population is set to nearly double to almost six million by 2025, and, as mentioned, 60% of residents live in slums with no or limited access to even the most basic services such as clean water, sanitation, housing, education and healthcare.

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Whereas the starkest poverty had previously been found in remote rural areas, within the next ten years half of all poor Kenyans are expected to live in towns and cities.

In tandem with the rapid rise in the urban population, coupled with rural-urban migration, there has been a spike in youth unemployment and slum populations against the backdrop of rising poverty rates. The Kenyan government has been responding to these challenges through programmes such as slum upgrading, intended to provide shelter to poor slum dwellers. These have been introduced in the shantytowns of Kibera, Mathare, Nairobi, Mombasa and Kisumu. If Kenya's rapid urbanisation is left unmitigated, the country could see even higher rates of unemployment.

According to Vision 2030 launched in 2008, Kenya has set its targets on becoming a middle-income economy by 2030. However, this requires an effective approach to control rapid urbanisation. The efforts should include legislative review to put in place laws and policies that are required to govern and manage urban areas as provided for under the 2010 constitution. Further work should involve spatial and physical planning, the provision of adequate facilities in cities and towns, efforts to attract people to rural areas through investment in agriculture, environment management plans and implementing policies for managing risks and disaster, particularly in urban areas.

The country has plans to build a number of resort cities along the Lamu Port Southern Sudan-Ethiopia Transport (LAPPSET) corridor. The port of Lamu will serve them, providing many jobs. Other resort cities are to be constructed around Nairobi, e.g. the Konza city. The government has recognised the importance of paying attention to and harnessing the positive aspects of urbanisation. With this in mind, the president created a new ministry to handle urban development under the new ministerial structure. The government also recognises that without managing urbanisation and creating economic opportunities for young people, it will be hard to curb insecurity and high levels of crime in urban areas. Investing in jobs for young Kenyans and supporting urban and rural employment initiatives could provide reasonable ways to mitigate a growing force weighing down on Kenya.

Reference

OXFAM (2009), "Kenya threatened by new urban disaster", OXFAM, Oxford, www.oxfam.org/en/pressroom/pressreleases/2009-09-10/kenya-threatened-new-urban-disaster.