KENYA ECONOMIC UPDATE

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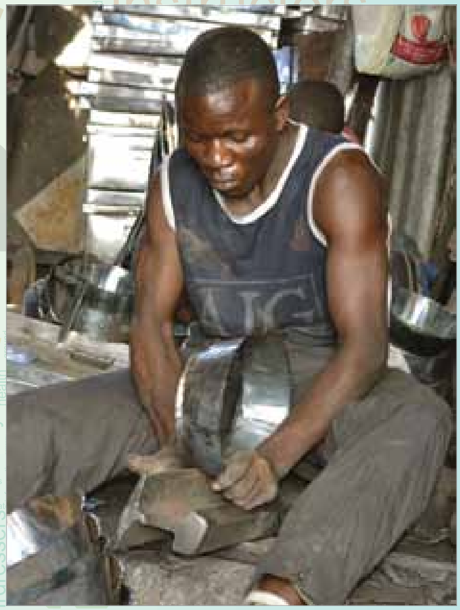

Kenya at work

Energizing the economy and creating jobs

THE WORLD BANK

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ABBREVIATIONS AND ACRONYMS

AAK	Africa Alliance of Kenya
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CCK	Communications Commission of Kenya
CEO	Chief Executive Officer
CPI	Consumer Price Index
EAC	East African Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IEBC	Independent Electoral and Boundaries Commission
IMF	International Monetary Fund
JKIA	Jomo Kenyatta International Airport
KEU	Kenya Economic Update
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MIA	Moi International Airport
MIC	Middle Income Country
MTP	Medium Term Plan
NEER	Nominal Effective Exchange Rate
NSE	Nairobi Securities Exchange
NYSE	New York Stock Exchange
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
RCA	Revealed Comparative Advantage
REER	Real Effective Exchange Rate
SME	Small & Medium Enterprises
SSA	Sub-Saharan Africa
TIVET	Technical, Industrial, Vocational, and Entrepreneurship Training
TVVP	Technical and Vocational Vouchers Program
UN	United Nations
US	United States of America
VAT	Value Added Tax
WB	World Bank
WDR	World Development Report

FOREWORD

It is my pleasure to present to you the seventh edition of the World Bank's Kenya Economic Update. As 2012 comes to a close, Kenya's economy stabilized after a rocky start. The Central Bank's tight monetary policy in the first half of the year effectively brought inflation under control and stabilized the exchange rate. But this came at a cost, as growth slowed to 3.4 percent in the first half of the year. We expect stronger growth in the second half, and for 2012 the economy is predicted to grow at 4.3 percent, slightly less than the 4.4 percent growth that it achieved in 2011.

This report has three main messages. First, while the economy is stabilizing, Kenya is heading into an election year, and that may impact growth. Historically, Kenya's economy has slowed during election periods, but Kenya could grow at 5 percent in 2013, provided that the next election and the subsequent transfer of power to a new administration are both achieved peacefully. Second, Kenya will need to continue expanding its exports and diversifying its markets so as to reduce the impact of the recession in the Euro zone, which is one of Kenya's major trading partners and a key source for its tourism industry. Furthermore, export growth is crucial if Kenya is to begin reversing its significant current account deficit, which could undermine its long-term stability and growth prospects. Third, Kenya needs to create more jobs to cater for the large number of people entering the work force. Kenya is on the verge of a significant demographic opportunity, as the working-age population is increasing faster than the number of dependents, both young and old. But this opportunity will yield a growth dividend only if Kenya is able to create jobs for the youth who are entering the workforce. That is why this KEU focuses on "Kenya at Work". Our analysis shows that the best way for Kenya to increase the number of higher-level wage jobs, and to absorb its growing work force, is to expand the manufacturing and industrial sectors, which are geared towards exports.

The World Bank remains committed to helping Kenyans as they embark on a challenging 2013, when, for the first time since the new constitution was passed in 2010, Kenya will operate a devolved form of government. The Bank's series of Economic Updates, which we publish in a new edition every six months, have become our leading vehicle to analyze development trends in Kenya, and to contribute to the implementation of the Bank's strategy for Sub-Saharan Africa, which puts a special emphasis on knowledge and partnerships. With these reports, we aim to support all those who want to improve economic management in Kenya. As in the past, we are proud to have worked with many key Kenyan stakeholders during the preparation of this report. We hope that you too will join us in debating policy issues that are topical in Kenya today, and in making your contribution to helping Kenya to grow, to achieve a permanent reduction in poverty, and to bring shared prosperity to all Kenyans.

Johannes Zutt
Country Director for Kenya
World Bank

ACKNOWLEDGEMENTS

This seventh edition of the Kenya Economic Update was prepared by a team led by John Randa and Gabriel Demombynes together with Angelique Umutesi and Paul Gubbins. The team was supervised by Wolfgang Fengler. The core team consisted of Jane Kiringai, Louise Fox, Roger Sullivan, Allen Denis, Leonardo Garrido, Jane Muthigani, Ian Mills, Laban Maiyo, Lucy Wariara and Carol Wambugu.

The report benefited from insights of several peer reviewers including Zeljko Bogetic, Dena Ringold, Dr. Nehemiah Ngeno and Paul Cook, as well as comments from William Wiseman and Cornelia Tesliuc. The team also received guidance from Paolo Zacchia and Johannes Zutt.

Partnership with key Kenyan policy makers was instrumental in the production of this report. On November 19, 2012, a draft of the report was presented at the Quarterly Economic Roundtable. The meeting was attended by senior officials from the Ministry of Finance, the Prime Minister's office, the Kenya National Bureau of Statistics, the Kenya Revenue Authority, the International Monetary Fund, and the National Executive and Social Council.

MAIN MESSAGES AND KEY RECOMMENDATIONS

Main Messages

- **Kenya will enter 2013 from an improving economic position.** While growth will reach an estimated 4.3 percent in 2012, Kenya is well positioned to achieve 5 percent in 2013, as declining inflation will allow the Central Bank to loosen monetary policy.
- **Kenya remains vulnerable to shocks.** In four of the last five years, the country experienced political, economic or weather-related shocks, and often a combination of these shocks (the exception was 2010). The current account deficit, which remains above 10 percent of GDP despite lower oil prices, makes Kenya's external position particularly vulnerable to increasing oil prices. Historically, Kenya has also been vulnerable to election-related shocks, and there will be increased attention on the conduct of the 2013 elections, given the post-election violence of 2007/08.
- **Amidst many transitions taking place in Kenya, among the most profound is the long-term shift out of family farming.** Twenty years ago, two-thirds of working Kenyans were on family farms; today it is less than half. Wage workers and the non-farm self-employed are growing at the same time as the country is undergoing a demographic transition, a scaling-up of education, and urbanization.
- **How Kenya manages these changes will determine if the economy will grow at higher levels and boost its citizens out of poverty**. A job creation strategy can help more Kenyans move into good wage jobs. While seeking to pave the way for more wage jobs, policymakers—particularly at the local level—can simultaneously help boost the productivity of informal household enterprises, by accepting them as legitimate parts of the Kenyan economy.

Key Recommendations to Energize the Economy

- **The Central Bank of Kenya (CBK) will have some room to stimulate growth through loosening monetary policy.** The CBK has lowered key interest rates over the last several months to encourage investment and economic growth. So far, this policy has succeeded, as economic activity has increased without pushing up prices. The CBK should continue these policies in the first quarter of 2013, as investors will likely delay major projects while waiting for the outcome of the elections. Consumption and services will likely fill the gap left by investors, driven by election season spending.
- **Kenya needs to adopt tax and expenditure policies that increase savings and investment.** Kenya's growth has been driven by consumption, and savings at 13 percent of GDP are inadequate. Kenya's GDP growth has mostly come from growth in the services sector, whereas countries with similar levels of development have often taken advantage of low labor costs, and the ability to locate manufacturing near seaports aggressively to expand exports. Kenya has all the necessary factors for export-led growth, but too many internal obstacles prevent exports from expanding more rapidly.
- **Maintaining macroeconomic stability is the single greatest foundation for a job creation strategy.** An economy that is free from shocks, or manages its shocks well, creates an environment that nourishes investment and leads to an increase in jobs as the economy expands. Similarly, severe shocks to the economy, in particular those associated with political violence, can lead to a loss of jobs, as foreign investment flees or remains on the sidelines, and productive capacity shrinks.

Key Recommendations for Creating Jobs

- **While seeking to boost the creation of high-productivity wage jobs, policymakers can also support the non-farm self-employed sector.** As more Kenyans move out of family farming, even as wage work expands, the number of the Kenyans working in low-productivity self-employment will grow. The government can support them by encouraging local authorities to accept their enterprises as part of the legitimate economy, provide urban space for them to operate, and discourage the pervasive harassment that such enterprises often face from local authorities.
- **Creating the right incentives for better-paying wage jobs means stimulating manufacturing and industrial growth.** Kenya is at a strategic crossroads in the types of jobs the economy will create over the next ten years. If it adopts export-led growth policies, the manufacturing and industrial sectors will expand, creating large numbers of jobs requiring high levels of skills and paying good wages. This in turn will lead to growth in the services sector (financial and IT) also generating jobs that pay well.
- **The level and quality of education has a significant pay-off in terms of jobs and earnings.** Education opens up greater possibilities of wage employment and higher earnings. The current provision of public education, however, is of uneven quality, with rural areas likely to have much poorer facilities and outcomes. The government needs to improve the quality of primary education across the board, and expand the opportunities for secondary education, so that it is accessible to all Kenyans, regardless of their socioeconomic standing.

EXECUTIVE SUMMARY

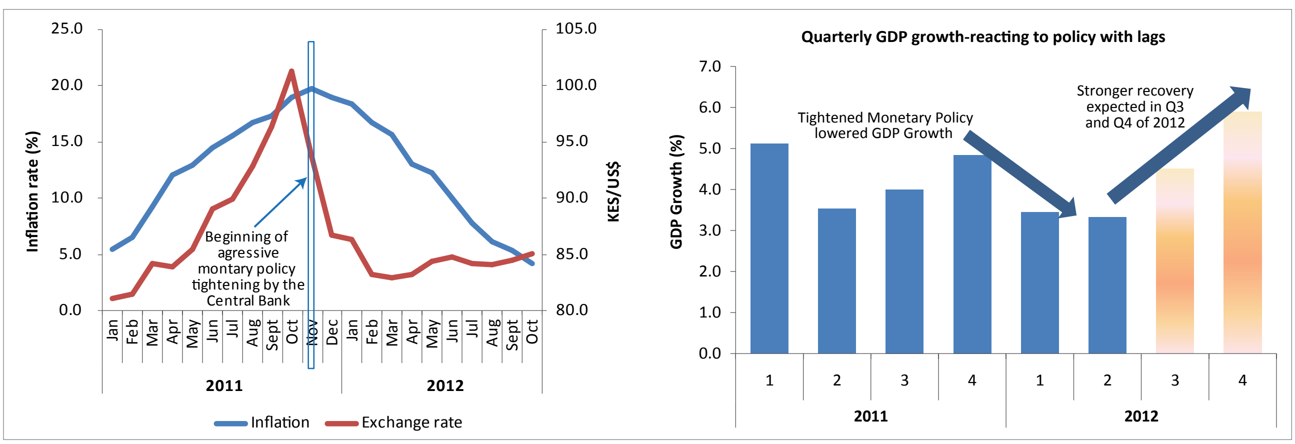
Kenya withstood another difficult year in 2012 as policy tightening and weaker global demand slowed economic activity. With decisive fiscal and monetary policies, the government managed to restore confidence in Kenya's medium term prospects. 2013 promises to be a better year. Yet hard realities remain —Kenya's growth rate is still below its potential and its peers, external imbalances remain which threaten its future growth, and the pace of economic growth is not generating enough modern sector wage jobs. With the passage of the new constitution in 2010 and its implementation, stronger institutions are emerging, putting Kenya on a sound footing ready to take off. In the very short term, what remains to be done is for Kenya to deliver a credible and peaceful election in March 2013, and thereafter a smooth transfer of power. In the medium term, Kenya will need to start building a stronger foundation for growth, and undertake structural reforms to correct the external imbalances. To generate more jobs for the burgeoning educated youth population, Kenya will also need to reduce the transaction cost for firms, by reducing job-smothering corruption and the cost of doing business (particularly in transport and energy).

Kenya's economy: A gradual return to stability

Kenya will enter 2013 from an improving economic position. During 2012, inflation declined sharply, the exchange rate stabilized and debt levels remained sustainable. But creating this strong macroeconomic foundation came at a cost. Projected growth will not meet earlier expectations of 5 percent. For 2012, the World Bank now estimates that GDP will grow at 4.3 percent, slightly less than the 4.4 percent achieved in 2011. A strong recovery at the end of the year and increased consumption driven by pre-election spending makes it possible for Kenya to achieve 5 percent growth in 2013—if the elections remain peaceful.

Economically, 2012 has been almost a mirror image of 2011. Last year the economy started out strongly, but by mid-year, high fuel and food prices led to a rapid rise in inflation, a weakened exchange rate, and ultimately a radical increase in interest rates towards the end of the year. Tightened monetary policy, together with an easing in global food and fuel prices, have brought inflation under control and stabilized the economy in 2012. But the high interest rate regime cooled the economy and resulted in the low growth of 3.5 percent in the first half of 2012 (Figure 1). With the decline in inflation and interest rates (with an appropriate lag), the economy is set for a strong recovery at the end of the year, and is expected to return to its natural growth potential of at least 5 percent in 2013.

Figure 1: The economy in 2012: A mirror image of 2011



Source: World Bank analysis based on KNBS and CBK data

Over the last five years, shocks and economic volatility have become the norm for Kenya, rather than the exception. Since the 2007 elections, the only year when Kenya grew above 5 percent was 2010. This was also the only year when Kenya did not experience either internal or external shocks. In 2008 and 2009, the post-election violence and a severe drought brought the economy to a standstill. In 2011 and 2012, another drought and macroeconomic instability exerted its toll on the economy, although in both these years the economy grew relatively robustly at 4.3-4.4 percent.

As a result, Kenya has been following, not leading, Africa's growth momentum. Despite Kenya's good location, strong human resources and a vibrant private sector, its level of income is only half of Africa's average. With around US$ 800, Kenya's average per capita income is still about 50 percent higher than its key EAC-neighbors Tanzania, Uganda and Rwanda, but only half of Africa's average of US$ 1,600. Africa's growth momentum has already propelled 22 economies above the US$ 1000 Middle Income threshold. Kenya is only ranked 24th, although it could be one of Africa's next economies to reach Middle Income status.

Kenya has the potential to be one of Africa's best performing economies. Most of Africa is experiencing a renaissance and has achieved strong growth rates since 2000. Kenya has benefitted from Africa's growth momentum through trade and its natural position as a hub for East Africa and beyond. Many international companies are choosing Kenya as their regional headquarters.

2013 and beyond

Kenya's capacity to mitigate shocks—political and economic—will be the single most important determinant of whether East Africa's largest economy will achieve sustained high growth for the remainder of this decade. It is unlikely that Kenya will digress to the poor performance of the 1980s and 1990s, but it is possible that the country will continue with sluggish growth rates of around 4 percent. This will be enough to create some degree of economic stability, but too little to achieve the economic transformation that would bring more and better jobs to Kenyans, as well as more rapid poverty reduction.

> "If violence accompanies the 2013 elections, Kenya's image as a maturing democracy would be tarnished for a long time

The conduct of the national elections in 2013 will determine international perceptions of Kenya for the years to come, and greatly influence Kenya's medium-term economic prospects. The World Bank maintains its growth projection of 5 percent, assuming that the elections proceed peacefully and don't disrupt economic activity. If violence accompanies the 2013 elections, Kenya's image as a maturing democracy would be tarnished for a long time. Investors and tourists may take their business to other African countries instead of Kenya. Moreover, Kenya could join the ranks of other unstable African countries, such as Democratic Republic of Congo or Cote d'Ivoire, and the distance between it and other emerging economies such as India and Indonesia would increase. In this worst-case scenario, growth would stagnate at between 3 and 4 percent.

Kenya is undergoing a number of long-term structural shifts and challenges. Like the rest of Africa, Kenya has started to catch-up with the rest of the world, but it has not yet achieved economic transformation. Exports remain weak and the current account deficit is growing ever larger, ending 2012 with a projected record deficit of US$ 4 billion (11.5 percent of GDP).

The strength of Kenya's export engine will not only determine its economic prospects, but also the opportunities for more and better jobs. In Asia, manufacturing has absorbed millions of workers with basic skills and a strong work ethic, creating the East Asian miracle. Kenya could be at the center of an "East African miracle" if it further upgrades infrastructure, enhances competition and continues to enhance the skill levels of its population. In the next decade, China alone will shed some 100 million jobs in light manufacturing (especially textiles, leather and agro-processing), providing new opportunities for job creation in Africa as a whole, and Kenya specifically.

Agriculture will play a critical role in Kenya's economic transformation and employment creation. The agricultural sector is the natural starting point for a country's industrial revolution. Kenya has already demonstrated in tea and horticulture—two of its top exports—that it can compete globally. Food processing is another sector where the country can use its natural base in agriculture to reach the next level of competitiveness. A more productive agriculture sector will also mean that there will be fewer Kenyans working in it. Higher agricultural productivity will thus reinforce the forces of urbanization and Kenya's economic transition towards manufacturing and services. At the same time, family farms will remain the main source of income for most poor Kenyans during these years of economic transition. Kenya will need to invest in rural infrastructure and address land reform to obtain productive increases from smallholder agriculture.

> Like the rest of Africa, Kenya has started to catch-up with the rest of the world, but it has not yet achieved economic transformation

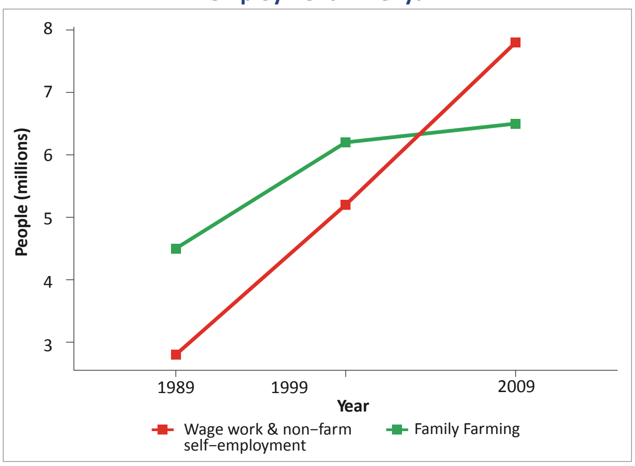
Kenya is at the beginning of several transitions that are reshaping the social and economic fundamentals of the country. The management of three interrelated trends and opportunities will largely determine if Kenya's economy will grow at higher levels and create sufficient jobs:

- **Demographic opportunity.** In the past decade, adults outnumbered children and this trend will accelerate for the next decades. By 2050, Kenya's workforce will exceed the number of dependents by two to one, providing an enormous opportunity for wealth creation.
- **Education dividend.** After accelerating access to primary education in the 1990s, Kenya is at the beginning of a great expansion in secondary education. By 2030, the number of adults in Kenya who have completed secondary school is expected to triple, from 6 million today to almost 18 million. By then, there will be more Kenyans with a secondary school education and university degree, than those with primary education only. This will creating significant economic opportunities, as the returns on secondary education are substantially higher than the returns on primary education.
- **Urbanization.** Kenya's cities are growing by three quarters of a million inhabitants each year. In almost every country of the world, urbanization is closely associated with higher standards of living. Despite many social problems, urbanization is creating many new job opportunities, especially for the poor. Only in urbanizing countries does labor live in close proximity to factories and industries, providing opportunities for export growth and a source of demand for an expanding domestic market.

Generating more and higher value jobs

The nature of jobs in Kenya is evolving as a result of social and economic forces. In 1989, the large majority of Kenyans were working on family farms. The number working in family agriculture grew slightly through 1999, and has remained constant since. Meanwhile, the growth in the numbers of individuals who are non-farm self-employed or holding wage jobs has increased, reflecting the steady growth in the services sector. As of the 2009 census, 14.3 million Kenyans were working, with 6.5 million in family farming, 2.7 million in non-farm self-employment, and 5.1 million in wage jobs. Among those with wage jobs, approximately 2 million were in jobs considered to be in the "modern sector" (Figure 2).

Figure 2: Wage jobs and self-employment have overtaken family farming as the predominant source of employment in Kenya



Source: World Bank analysis of Kenya census data

Although high youth unemployment and inactivity rates are in part transitional, focus group interviews with young Kenyans, indicate that they have legitimate concerns about their limited job opportunities. Many find that nepotism, tribalism, demands for bribes, and sexual harassment are major barriers to obtaining a job. Young people coming from wealthier and connected families are seen as having large advantages in finding work, regardless of skills and qualifications. Kenya will need to adopt proactive labor practices that address many of these issues head-on, if it is to provide employment opportunities to all Kenyans, not just those who come from the upper income strata.

The key question going forward is how will Kenya spur job creation and create broad opportunity? Over the long term, Kenyans will continue to shift out of family farming. The challenge in the coming decades will be to generate more "good jobs," which will be largely highly-productive wage jobs. Without the right policies in place, the economy will create fewer such jobs, and the bulk of Kenyans will be stuck in poorly paid self-employment and low-end wage jobs.

The policies for job creation are very closely linked to the factors that would make Kenya's business climate more attractive and the economy as a whole more successful. The report highlights four key elements to a wage job creation strategy for Kenya: (i) achieving political and macroeconomic stability; (ii) continuing to invest in transport and electricity; (iii) eliminating job-smothering corruption; and (iv) upgrading skills and making schools work for all Kenyans, not just the well-off. The private sector has indicated that the Government needs to act on the above elements for the private sector to make substantial new investments in manufacturing and industry, and in the process, generate new high wage jobs. While the Government has had a mixed track record to date, there are signs that it is taking most of these elements seriously.

> "Public investment has been increasing after years of neglect especially in road infrastructure

The management of shocks will remain a key factor for the job prospects of Kenyans. The Government needs to better manage the economic and political shocks which hampered Kenya's recent growth performance and at the same time, improve the competitiveness of the economy. In particular, government actions to reduce impediments to increased exports, including addressing bottlenecks at the port of Mombasa, will help to address the current account deficit. Equally important is the peaceful transfer of power to bolster Kenya's image as an increasingly stable democracy. These, in addition to implementing policies that discourage nepotism and tribalism in hiring practices, would go a long way in improving job prospects for the youth.

New investments in transport and electricity will spur manufacturing and industrial growth, creating more jobs. The private sector faces limitations because of the poor national road network, and because the power supply is inadequate and expensive. The government has been catching up after years of neglecting its roads infrastructure. It is also making substantial investments in energy. The government needs to continue with infrastructure investments, accelerating them where critical bottlenecks exist, such as in the electrical grid. The private sector frequently has to rely on its own generators, which are expensive to buy and operate. The government needs to adopt an aggressive infrastructure program to provide the building blocks for the private sector in order to efficiently expand its operations.

> "The World Bank estimates that if the private sector could redirect the money it now spends on corruption to creating jobs, it could create 250,000 jobs, sufficient to hire most unemployed urban Kenyans between the age of 15 and 34

The Government needs to get serious about job-smothering corruption. Kenya's corruption acts as a chokehold on the private sector. Most transactions involving government, from obtaining contracts to paying taxes, seem to have a corrupt element. The World Bank estimates that if the private sector could redirect the money it now spends on corruption to creating jobs, it could create 250,000 jobs, sufficient to hire most unemployed urban Kenyans between the age of 15 and 34. In addition young people seeking jobs often have to pay bribes to get them, a practice that can discourage would be entrants to the labor force. It will be easier to stop petty corruption once Government takes corruption seriously, and individuals not only lose their jobs, but also go to jail for corrupt behavior.

Kenya needs to continue to make education a priority and focus on the quality of education, not just the quantity. Kenya has made good progress in providing universal primary education and has greatly increased the availability of secondary education. Kenya will need to continue to make significant investments in education, not just in expanding access, but also in upgrading quality. Finally, Kenya needs to make special effort to ensure that education outcomes match the skills the private sector needs, as it also expands to meet new opportunities.

Economic performance and job creation will be central themes as Kenya enters a decisive year of its history. This decade can still become of one of the most successful in the country's history. Peaceful elections, continued investments in infrastructure, and a renewed fight against corruption, would not only make the economy grow at higher levels but be even better for the creation of jobs. Structural forces are in Kenya's favor. Most of Africa is on a sustained growth momentum, and Kenya has been following and benefitting from this momentum, given its natural role as a hub for East and Central Africa. Like other emerging economies, Kenya is also benefitting from a beginning demographic transition, increasing levels of education and rapid urbanization—all of which are also generating new challenges. This is why under normal circumstances, Kenya's economy should grow at 5 percent in 2013 and at higher levels thereafter. Such higher growth rates would propel Kenya into Middle Income status within a decade, and help it to reap the benefits of these structural factors which are trending in its favor.

The State of Kenya's Economy

1. Economic performance in 2012

The World Bank estimates Kenya's GDP will grow by 4.3 percent in 2012, around the same level as in 2011, when the economy grew by 4.4 percent. After a severe macroeconomic shock at the end of 2011 when inflation was almost hitting 20 percent, the government took decisive action and increased interest rates to stabilize the currency and help reduce inflation. The side effect of these measures is lower growth in 2012. By the second half of 2012, macroeconomic stability has returned and inflation will end the year below 5 percent. This positions Kenya well for stronger growth in 2013, which the World Bank projects at 5.0 percent driven by aggregate consumption related to the elections in the first half and a strong rebound in foreign and domestic investment in the second half, assuming that power transfers peacefully and a new administration outlines a growth-oriented economic agenda.

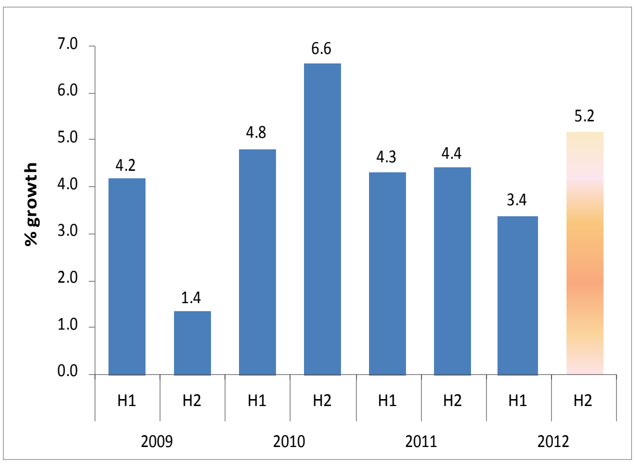
1.1 An economy still standing

Kenya's growth in 2012 has been sluggish. Following the macroeconomic challenges at the end of 2011 when inflation reached 20 percent and the exchange rate depreciated to a record low of KES 107 (per US$), the Central Bank helped to cool the economy by sharply rising interest rates. These measures were successful in stabilizing the exchange rate (at KES 84 per US$ for most of 2012) and slowing down inflation which has reached a new low of 4.1 percent end October 2012.

The price for these important macroeconomic measures is lower growth in 2012, projected at 4.3 percent. With interest rates at 18 percent through until September 2012, credit expansion stalled and the economy slowed down to 3.4 percent in the first half of 2012. This means that since 2008, Kenya's average growth has only been 4 percent, lower than Sub-Saharan Africa (excluding South Africa), which grew close to 5 percent and substantially lower than its East African neighbors Uganda, Tanzania, and Rwanda, which together grew at an average of 6.8 percent (Figure 1.2).

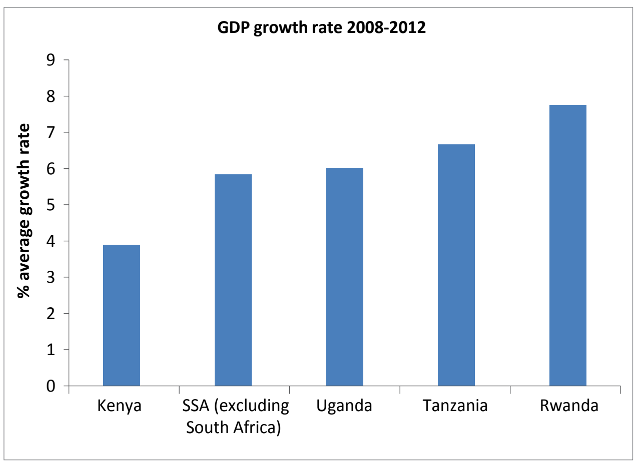
The Central Bank of Kenya (CBK) tightened monetary policy in the first half of 2012, to contain inflationary pressure and moderate credit growth. Demand for credit in all sectors fell, as investors and businesses curtailed their activities. In addition, Kenya exported fewer goods to Europe as the economic situation there weakened. Fewer tourists visited Kenya, in part a response to the global economic slowdown, but also out of concern over security issues between Kenya and Somalia.

Figure 1.1: Kenya's sluggish growth in 2011/12



Source: World Bank computation based on KNBS data

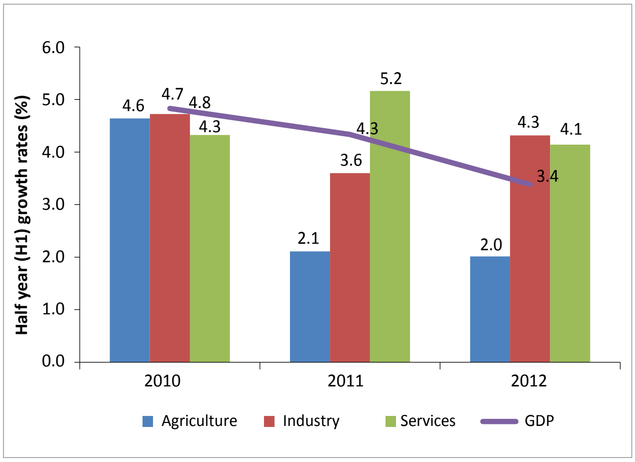
Figure 1.2: Kenya's growth rate remains among the lowest in East Africa



Source: IMF Africa Regional Economic Outlook, October 2012

Agricultural growth lagged behind growth in the industrial and services sector in the first half of 2012. It grew by 2.0 percent in the first half year of 2012, compared to 2.1 percent in 2011, reflecting a lackluster performance in the tea and horticulture subsectors (Figure 1.3). Tea production and export value declined by 6.5 and 4.5 percent respectively in the first eight months of 2012, as a result of frost earlier in the year and disputes between exporters and the Tea Board over a new levy which affected export sales.[1] Horticulture exports declined by 3.5 percent in volume, but values increased marginally by 1.1 percent in the first eight months of 2012. Horticulture exports and prices have picked up slightly in the last few months as the European market stabilized. Coffee production increased sharply in 2012, as a result of good weather. Coffee production rose by 58 percent and exports increased by 32 percent in volume. However, the value of coffee exports increased by only 21 percent in face of a 40 percent decline in international prices.

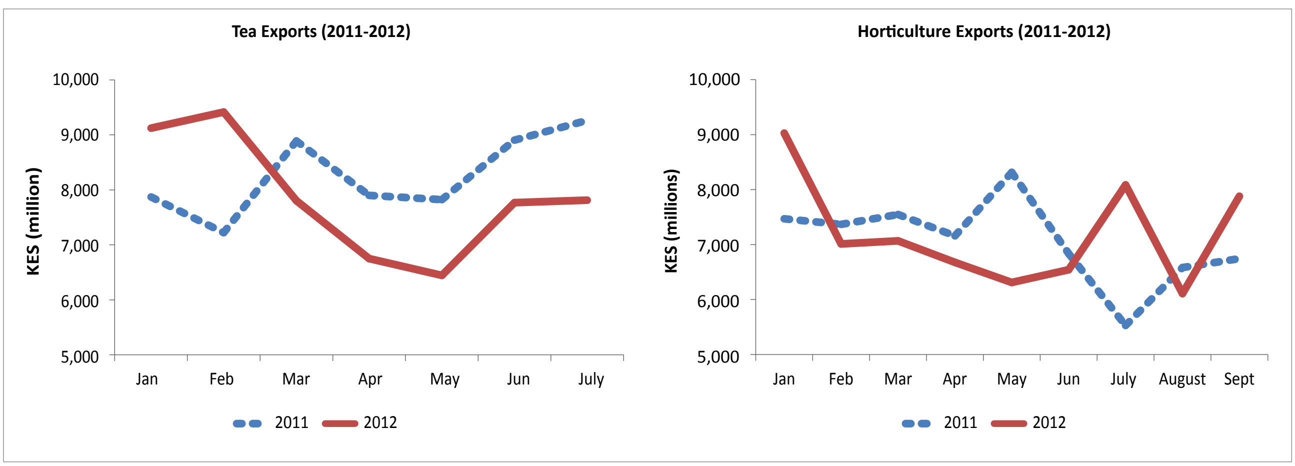
Figure 1.3: Kenya experienced low growth in the first half of 2012



Source: World Bank computation based on KNBS data

The industrial sector turned in a relatively strong performance in the first half of 2012, growing by 4.3 percent compared to 3.6 percent in 2011. Electricity and water output grew substantially by 11.9 percent in the first half of 2012, compared to 0.6 percent in the same period in 2011. Hydropower generation increased by 27 percent in the first 8 months of 2012 following good rainfall, while thermal power generation declined 22 percent (Figure 1.5). Consumers paid less for electricity in 2012 as lower cost hydropower replaced more expensive thermal power in the electrical grid. The manufacturing subsector performed better than it had in 2011, growing by 3.4 percent compared to 3.2 percent in 2011. However, the construction subsector growth declined from 6.0 percent in the first half of 2011, to 2.2 percent in the first half 2012. Higher interest rates, following tighter monetary policy, pushed up construction costs. Overall, the industrial sector benefited from the stabilized exchange rate, cheaper electricity costs as more hydropower became available, lower prices for imported oil and increased manufactured exports to the EAC.

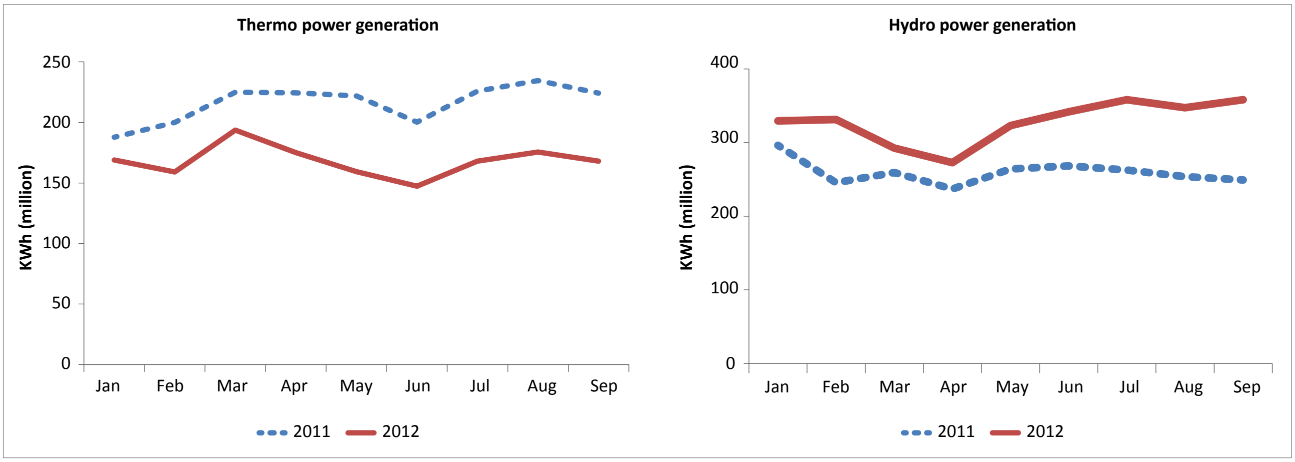
Figure 1.4: Leading Economic indicators in the Agricultural sector 2012



Source: World Bank computation based on KNBS data

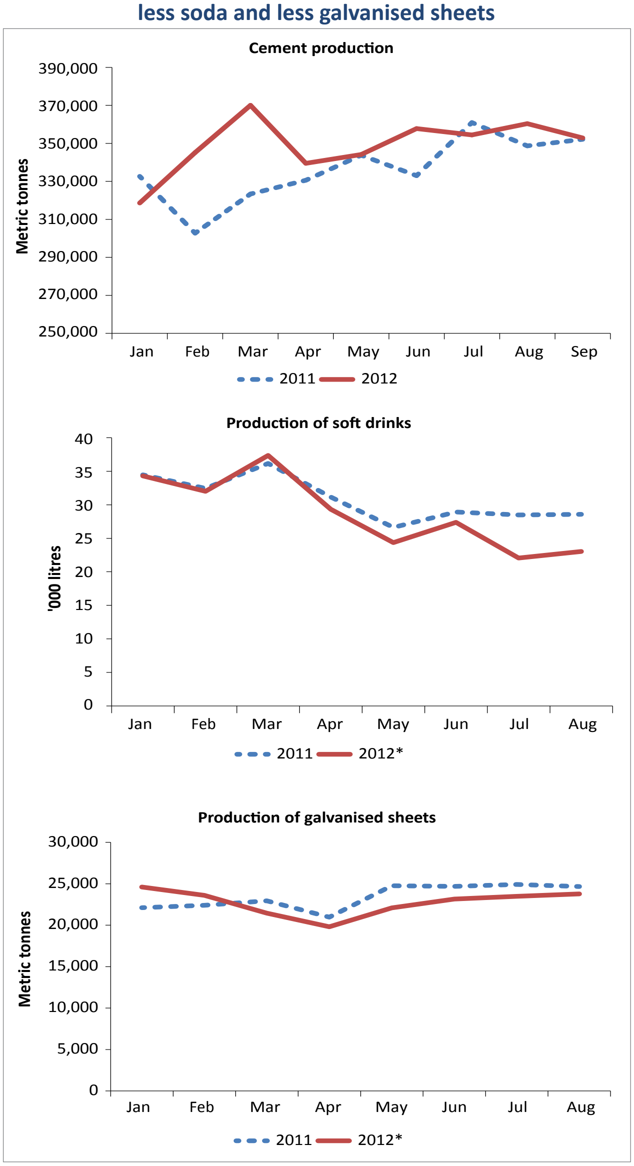
[1] *In January 2012 the Minister for Agriculture introduced an ad-valorem tea levy equivalent to one percent of the tea value at auction.*

Figure 1.5: Adequate rainfall increased hydro power generation … less expensive thermal power into the grid in 2012



Source: World Bank computation based on KNBS data

Figure 1.6: 2012 was a difficult year-more cement, less soda and less galvanised sheets

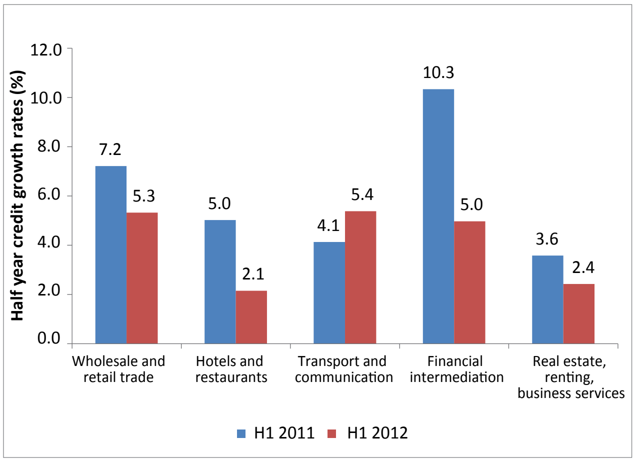


Source: World Bank computation based on KNBS data

Services grew less rapidly at 4.1 percent, compared to 5.1 percent in the first half of 2011. Tightened monetary policy significantly affected the performance of the wholesale and retail trade subsectors, which grew by 5.3 percent, compared to 7.2 percent in 2011. Financial intermediation growth declined from 10.3 percent in 2011, to 5.0 percent in 2012, while hotels and restaurants saw their growth fall from 5.0 percent to 2.1 percent. The number of tourists to Kenya declined by 2 percent until end August (from 829,000 in 2011 to 812,000 in 2012). Tourists' arrivals at Jomo Kenyatta International Airport increased marginally by 1.8 percent, but arrivals at Mombasa's international airport declined significantly by 19.3 percent. Security concerns following Kenya's incursion into Somalia contributed to the decline in tourism. Transport and communication once again proved to be resilient, growing by 5.4 percent compared with 4.1 percent growth in 2011 (Figure 1.7).

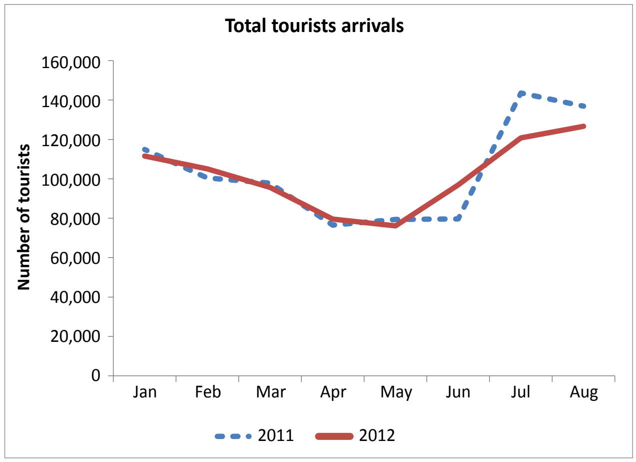
The ICT revolution in Kenya is continuing. Mobile subscriptions increased by 28 percent in 2012. By July 2012, there were almost 30 million mobile subscribers, more than the adult population above 15 years old (24.6 million). Internet users increased by 81.7 percent to 7.7 million subscribers in June 2012, and more than 50 percent of the adult population now has access to internet. The number of mobile subscribers enrolled to use mobile money grew by 12 percent to 19.5

Figure 1.7: The services sector felt the hardest impact from tight monetary policy



Source: World Bank computation based on CBK data

Figure 1.8: The number of tourist declined by 2 percent

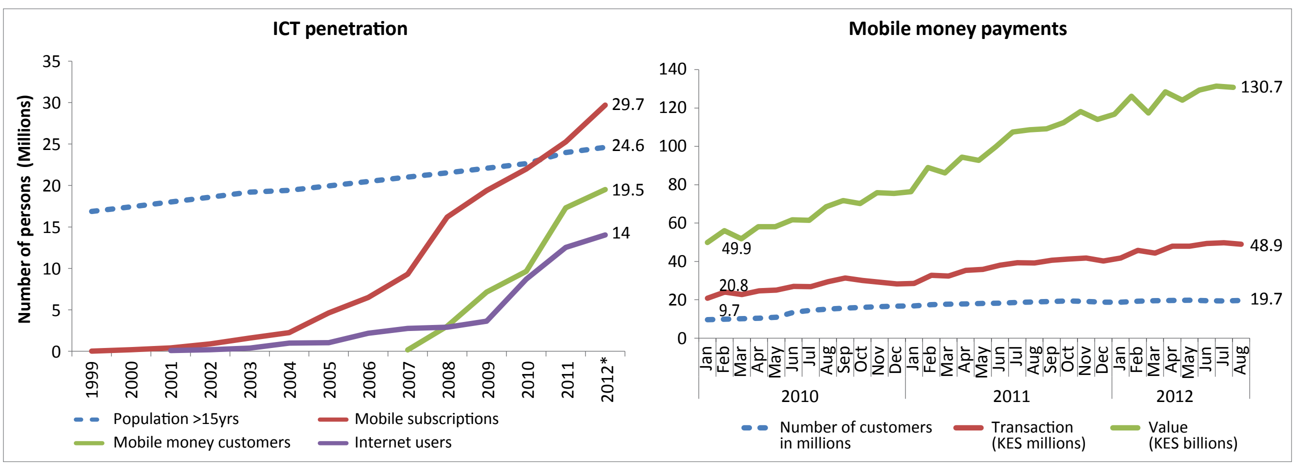


Source: World Bank computation based on KNBS data

million in June 2012, compared to 17.4 million a year earlier. Kenyans deposited US$ 8 billion into the mobile money service, M-Pesa, between July 2011 and June 2012. This represented a 38 percent increase over the previous year, up from US$ 5.8 billion. These numbers are truly staggering, and show the untapped potential of mobile money. The value of mobile money transactions has more than doubled since 2010, from KES 49.4 billion to KES 129.3 billion in 2012 (Figure 1.9).

Inflation has dropped significantly in response to tight monetary policy and substantial declines in food and international oil prices. High inflation rates in 2011 were driven by poor harvests in the agricultural sector which drove prices higher. In addition high inflation environment was attributed to high international oil prices, a weakened shilling which made import prices go up and high electricity costs driven by higher costs of generation from thermal as opposed to hydro power. The situation has reversed in 2012 as a bumper harvest of food has kept prices low, the exchange rate has stabilized from a peak of KES 107 (to the US$) to KES 85, and adequate rainfall has led to more generation of power from cheaper hydro, rather than thermal sources. All these factors, combined with tight monetary policy, have led to a low inflation environment. Overall inflation declined from 19 percent in October 2011, to 4.1 percent in October 2012. Food inflation fell from 26 percent in October 2011, to 1.4 percent in October 2012, while transport inflation declined over the same period from 26 percent to 2.8 percent. In addition,

Figure 1.9: Mobile revolution is continuing and its impact in the financial sector



Source: World Bank computation based on CCK and CBK food prices have stabilized as Kenya has benefited from the lifting of maize export bans by neighboring Tanzania and Uganda.

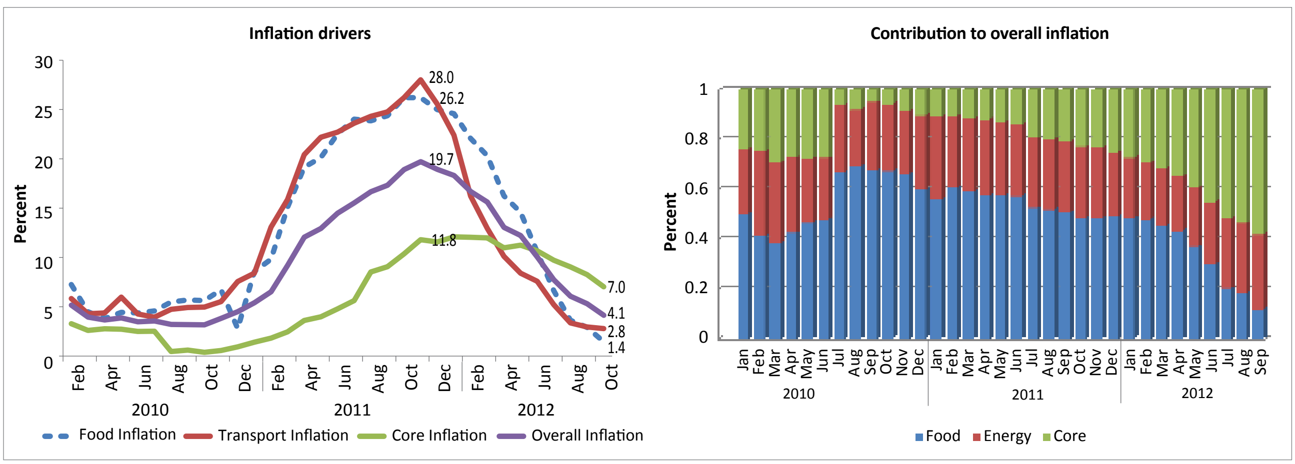
Core inflation, which excludes food and energy prices, declined prompting the Central Bank of Kenya to start easing monetary policy. Core inflation rose to a peak of 11.8 percent in November 2011, mainly as a result of depreciation of the exchange rate, high M3 growth (20.7 percent in October, 2011) and high private sector credit growth (36 percent in October 2011). Tight monetary policy, which began in October last year, stabilized the shilling against other world currencies and lowered M3 growth (to 14.2 percent in July 2012) along with credit growth to the private sector (to 7.8 percent in September 2012). As a result, core inflation declined to 7 percent in October 2012. Core inflation constituted 58 percent of the overall inflation rate in October 2012, while food and energy each contributed 11.6 and 30.4 percent respectively (Figure 1.10).

The effects of high inflation were felt disproportionately in the economy. There are a number of reasons for this. First, the low income groups were hit hardest in the 12 months to October 2012, with their inflation averaging 12.8 percent, while inflation for those in the middle and high income groups averaged 10.3 and 8.1 percent respectively. This is because food and transport prices, which comprise a larger proportion of low income group expenditures, increased by 15 and 13 percent respectively in the same period. Second, both borrowers and savers lost during this period. As monetary policy tightened and the Central Bank increased its policy rate from 6 to 18 percent, the commercial banks increased their lending rates from about 14 percent up to 30 percent without any significant increases in savings rate (Figure 1.12). Most borrowers who had variable borrowing rates struggled to keep up repayment, while high inflation rates eroded the returns on savings, which averaged less than 5 percent. Third, wholesale and retail traders suffered low demand for their goods as aggregate demand weakened. And fourth, the uptake for real estate declined significantly, as developers who had bank loans could not service their loans as demand for real estate plummeted.

1.2 Monetary policy was tight in 2012 but it has started to ease

The Central Bank's aggressive monetary policy intervention achieved its objectives. The strong policy interventions to stabilize the exchange rate and anchor market expectations that started in the last quarter of 2011 and continued in 2012, yielded the expected results. Interest rates in the money market increased in response to the steep hike of Central Bank Rate. This led to a number of outcomes. First, yields on Kenya's shilling denominated assets become more attractive to international investors, leading to huge short term inflows. The inflows

Figure 1.10: Overall Inflation has declined but CBK still needs to keep an eye on core inflation



Source: World Bank computation based on KNBS data

increased the supply of dollars into the market, which helped to stabilize the shilling. Second, the high lending rates charged by the commercial banks helped to curb domestic aggregate demand, as consumers found it expensive to borrow to consume. High lending rates also increased the cost of capital, and investments had to be postponed because of reduced margins. Third, the decisive action taken by the Central Bank to stabilize the economy, although it came late, helped strengthen its credibility.

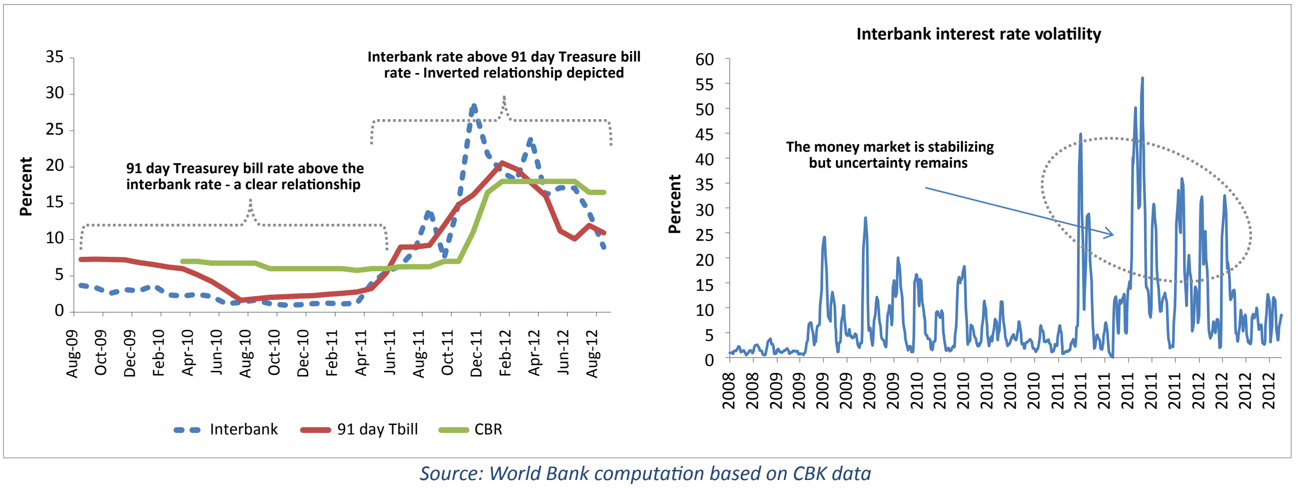
The strong and relentless effort to curb inflationary pressure, reduce general demand and anchor inflation expectation yielded fruits. Inflation declined from about 20 percent to below 5 percent. The exchange rate stabilized from KES 107 to the US$ to KES 85. Volatility in the exchange rate and money markets subsided.

Money market rates fluctuated significantly in the second half of 2011, as macroeconomic conditions deteriorated and investors remained uncertain about government's policy direction (Figure 1.11). Among the many issues driving market uncertainty, the most significant included concerns about inflation and the ability of the authorities to anchor inflation expectations, fluctuations in the exchange rate driven by concerns about current account financing, the Government's ability to address the causes of the large current account deficit, and the fiscal risks associated with devolution. The CBK's forceful actions to tighten monetary policy calmed the markets and began restoring investor confidence in the economy.

With macroeconomic stability restored, the Central Bank has started easing monetary policy to support economic activity. The CBK has begun to ease monetary policy by reducing the CBR by 700 basis points by November 2012 to stand at 11 percent. Interbank and 91 day Treasury bill rates peaked at 28.9 percent in late 2011 and have gradually declined, with the Interbank rate registering 9 percent and the 91 day Treasury bill rate, 10.9 percent, in August 2012 (Figure 1.11).

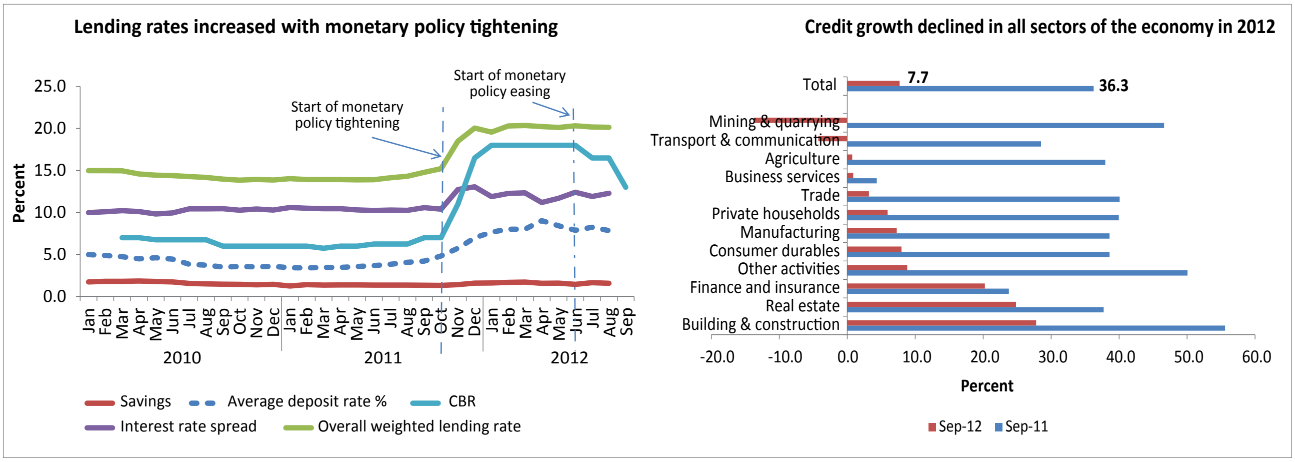
CBK sharply reduced the growth of monetary aggregates in a bid to fight inflation and anchor inflation expectation. By tightening monetary policy, CBK mopped up excess liquidity in the banking system through open market operations. The CBK's actions slowed the growth of narrow money ("M0" and "M1"), from 16.2 and 19.6 percent respectively in October 2011, to 3.6 and 2.3 percent in mid-2012. As a result, growth of broad money ("M3") also contracted from 20.7 percent to 14.2 percent during the same period. Foreign currency deposits initially increased sharply as uncertainty drove down investor confidence, but

Figure 1.11: Short term Interest rates have responded to monetary policy signals but uncertainty remains



Source: World Bank computation based on CBK data

Figure 1.12: As lending rates increased as a result of policy tightening, credit growth declined across all sectors



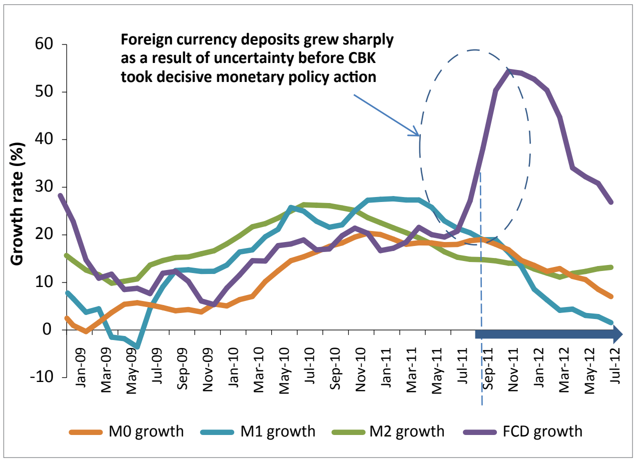
Source: World Bank computation based on CBK data

declined rapidly as CBK's policies began to take hold, calming the markets and stabilizing the exchange rate (Figure 1.13).

Access to private sector credit has spurred an increase in domestic consumption and GDP, but has also added to inflationary pressure. Kenya has seen substantial growth in private sector credit since 2003, as the government reduced its reliance on borrowing from the domestic market. With less crowding out by the government, there was a sharp increase in financial savings, leading to lower interest rates and increased lending. In addition, a more accommodative monetary policy encouraged a boom in borrowing by the private sector in 2008-2010. However, high credit growth is associated with inflationary pressure as shown in Figure 1.15.

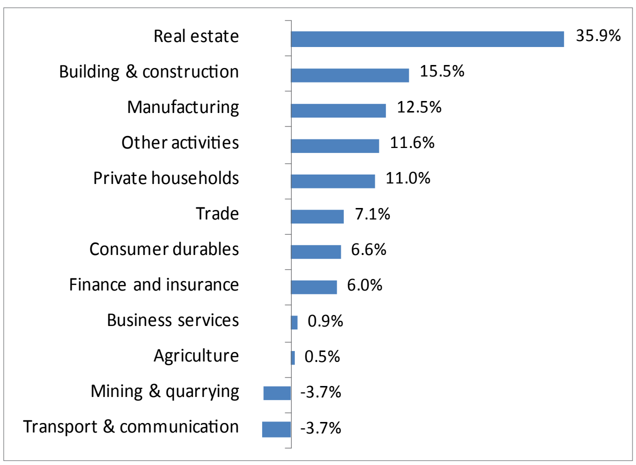
Activity in the equities market is picking up very strongly. The equities market is becoming more attractive to investors as inflation declines, the exchange rate stabilizes and corporate earnings improve. Yields on government securities have declined with the easing of monetary policy and with government's decision to seek international sources for some of its funding. In addition, investing in real estate has become less attractive due to speculative increases in land values, and the rising cost of construction materials. Consequently, the Nairobi Securities Exchange (NSE) has increased by

Figure 1.13: Monetary aggregates growth slowed down in 2012



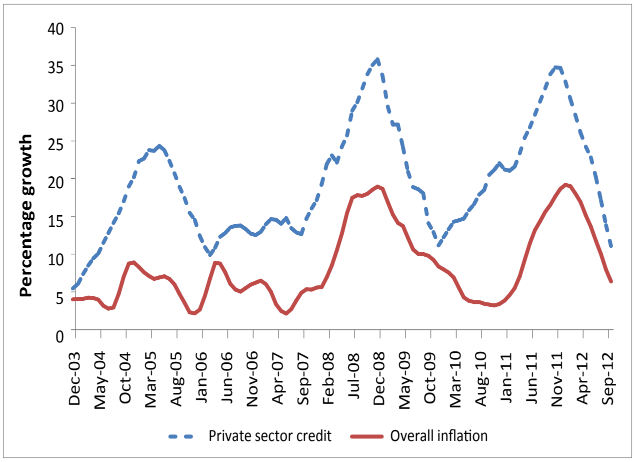
Source: World Bank computation based on CBK data

Figure 1.14: Real Estate and construction sectors received half of the private credit in 2012



Source: World Bank computation based on CBK data
Note: Allocation of private credit (KES 88.7 b) to sectors during monetary policy tightening period September 2011 - September 2012

Figure 1.15: As much as food and transport are the drivers of overall inflation, growth in private sector credit is a significant factor



Source: World Bank computation based on CBK and KNBS data

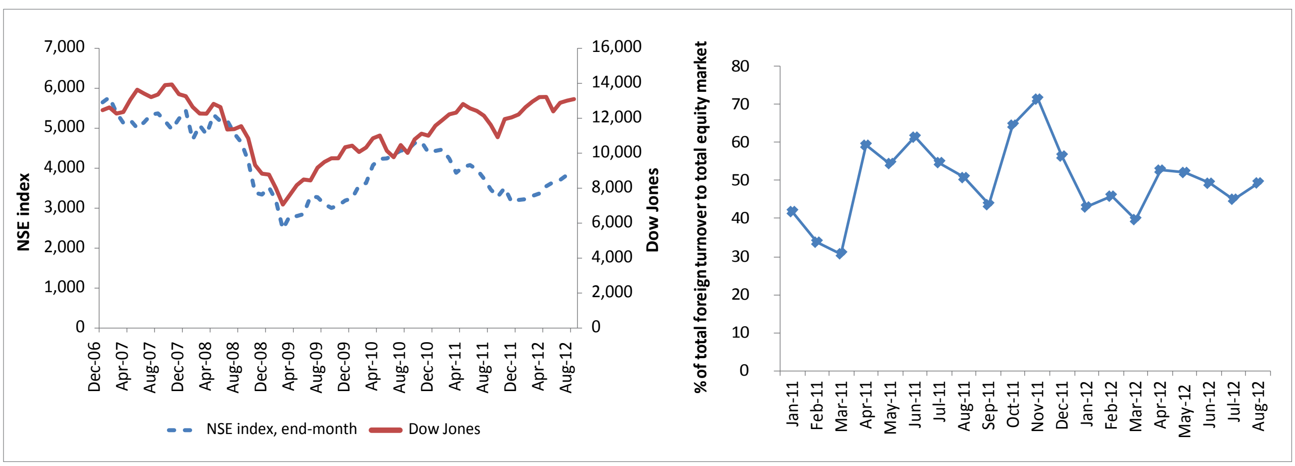
25 percent since December 2011, hitting the 4000 mark in October 2012 for the first time since June 2011. Foreign interest in Kenyan equities remains strong, with foreign investment accounting for an average of 47 percent of equity ownership on the Nairobi Stock Exchange (Figure 1.16).

As monetary policy tightened, credit growth to all sectors contracted significantly. Credit for agriculture grew by only 3.6 percent in July 2012, compared to 38 percent in 2011; manufacturing credit grew by 19.3 percent, compared to 38.6 percent the previous year; trade credit grew by 10.5 percent, compared to 40.1 percent growth in 2011; and credit for transport and communication declined in 2012 by 2.9 percent, compared to 28.5 percent growth in 2011 (Figure 1.12). Between September 2011 and September 2012, total credit to the private sector amounted to KES 88.7 billion, compared to KES 305.7 billion the previous year (71 percent decline). Real estate, building and construction received 50 percent (KES 46 billion) of the credit given out by commercial banks, while the manufacturing and trade sectors received 12 and 7 percent respectively. Transport and communication, business services and agriculture subsectors made net repayments to the banking sector during this period (Figure 1.14).

1.3 Kenya's fiscal position remains strong

The government's overall fiscal balance deteriorated in 2011/12 as a result of weak economic environment, but Kenya's fiscal position remained strong. In 2011/2012, the overall fiscal deficit deteriorated to 5.6 percent of GDP compared to 4.5 percent in 2010/2011 mainly on account of increased spending on development expenditure on infrastructure projects, which rose from 7.9 percent to 9.1 percent of GDP. The primary deficit (which excludes interest payments) also deteriorated from 1.8 percent in 2010/11 to 2.8 percent in 2011/12. Total government revenue declined from 23.9 percent of GDP to 22.6 percent. Government expenditure declined marginally from 29.1 percent of GDP in 2010/11 to 28.7 percent in 2011/12 mainly as a result of reduced recurrent spending which dropped from 21.3 percent to 19.6 percent in the same period (Figure 1.17 and

Figure 1.16: NSE activity is picking up as foreign participation in it remains significant



Source: World Bank computation based on AAK, CBK and NSE

Table 1.1: Fiscal position as percent of GDP

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Government revenue	21.5	20.5	21.6	22.0	21.8	21.5	23.9	23.9
Government expenditure	22.6	25.2	24.3	27.2	26.6	25.2	29.5	29.1
Recurrent expenditure	19.0	20.2	17.8	20.5	19.5	20.8	21.3	19.6
Development expenditure	3.5	5.0	6.5	6.7	7.2	8.7	7.9	9.1
Overall balance incl. grants	0.1	-3.4	-1.8	-3.9	-4.0	-2.6	-4.4	-4.5
Primary balance incl. grants	2.4	-0.7	0.7	-1.5	-1.7	-1.8	-1.8	-2.8

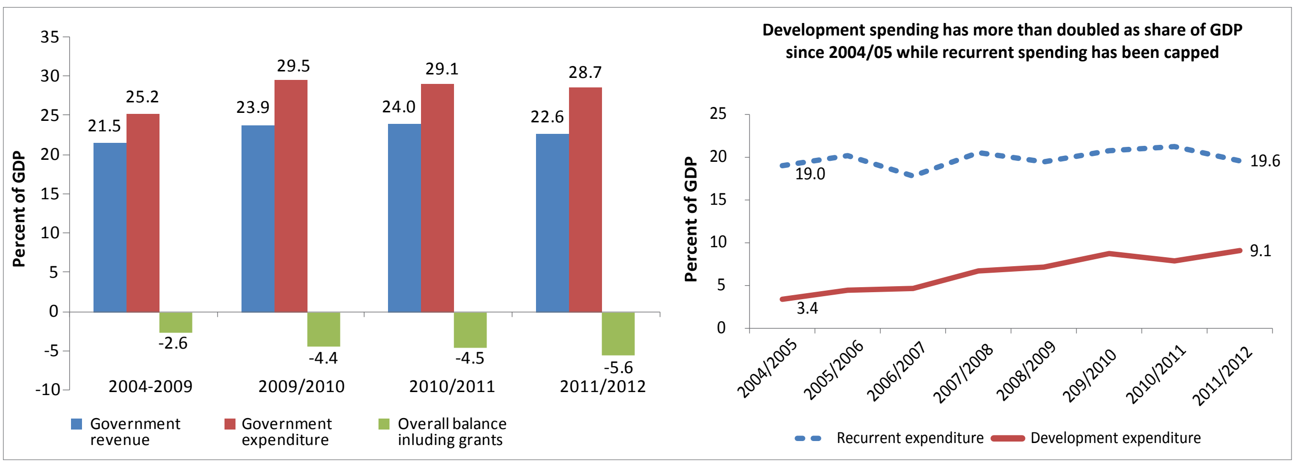
Source: World Bank computation based on Ministry of Finance, Quarterly Budget and Economic Review

Table 1.1). Foreign financing of the 2011/12 budget increased by 2 percent of GDP, as the government found it attractive to go to the international money markets where it successfully arranged a syndicated loan with a group of commercial banks. As a result, domestic financing declined by 1 percentage point.

Revenue collection remained robust despite weak aggregate demand. Domestic revenue achieved 96.4 percent of its target in 2011, with KES 707 billion collected against a target of KES 733 billion. Domestic VAT collections which provide a good barometer for aggregate demand underperformed by 38 percent, yielding KES 80.4 billion against a target of KES 111 billion, while income tax on individuals (PAYE) and other income taxes exceeded targets by 9 and 5 percent respectively.

Delays in recovering VAT refunds from the Kenya Revenue Authority (KRA) are hurting businesses and manufacturers. Firms are entitled to refunds on input taxes that KRA collects on zero rated goods and physical capital. However, firms complain about the lengthy period of the refund process, noting that it impacts the already high costs of doing business in Kenya. It takes an average of six months to recover VAT refunds from KRA, a process that lobbyists say is accumulating at a rate of KES 1.5 billion per year, and has reached an unpaid total of KES 6 billion. The cost to the firm of waiting for the refund increases depending on the amount due, length of the delay and interest on working capital. The VAT (2012) bill currently before parliament, if adopted, will resolve this problem.

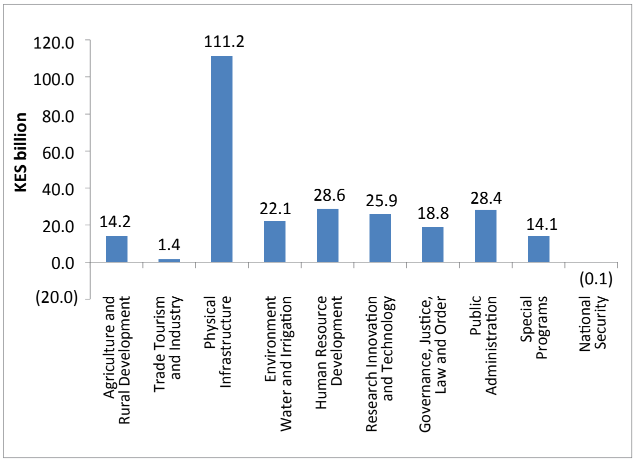
Figure 1.17: The fisical defecit has been growing moderately ... and helping to finance the expansion in development spending



Source: World Bank computation based on Ministry of Finance data

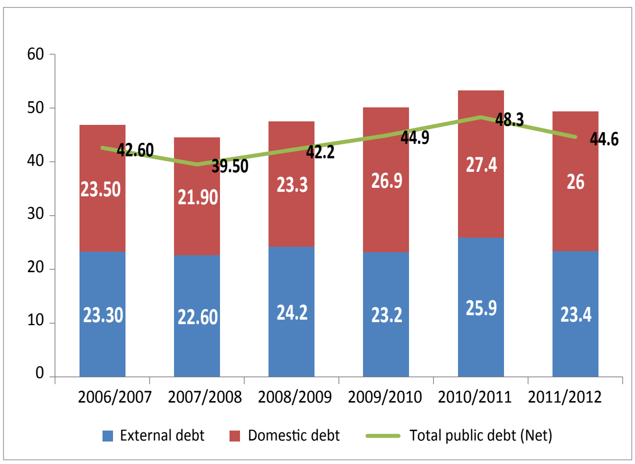
The government still faces serious challenges in implementing the budget. The current absorption capacity levels are still very low. In the revised expenditure estimates for 2011/12, Parliament approved KES 961 billion for expenditures by ministries and departments, but they only spent KES 696 billion, roughly a 72 percent absorptive rate. Recurrent expenditure's absorptive rate was 84 percent compared 55 percent for development spending (Figure 1.18). Donor disbursement was not any better with only a 46.6 percent disbursement rate. In the revised expenditure estimates, the Government planned for donors to spend KES 183 billion but only KES 85b was disbursed.

Figure 1.18: Budget execution remains challenging especially in infrastructure



Source: World Bank computation based on office of the Controller of Budget, 2012

Figure 1.19: Kenya's public debt is still sustainable but it needs to build more fiscal space



Source: World Bank computation based on Ministry of Finance, Quarterly Budget and Economic Review

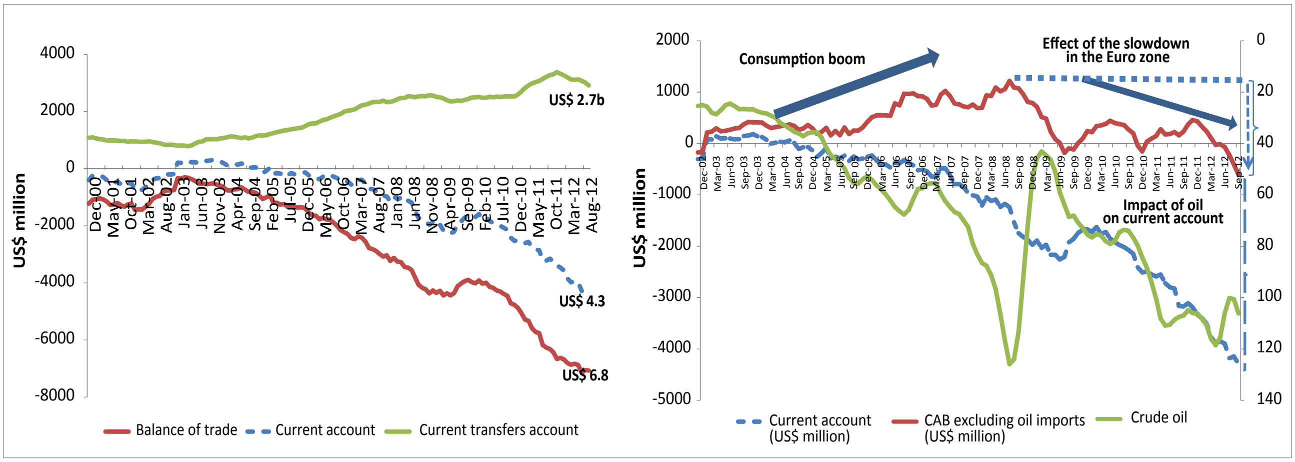
Kenya's public debt position improved in 2012 as a result of better economic management. Public debt declined as percentage of GDP from 48.3 percent in 2010/11 to 44.6 percent in 2011/12, mainly as a result of flexibility of fiscal policy when there were revenue shortfalls in 2011. The government was able to cut recurrent spending without compromising development spending to ride over revenue shortfall. Domestic debt declined from 27.4 percent of GDP in 2010/11, to 26 percent as the government substituted foreign borrowing to domestic borrowing when the local bond market was under-performing and domestic interest rates were not favorable due to macroeconomic stability. External debt declined from 25.9 percent to 23.4 percent in the same period, mainly as a result of exchange rate appreciation in 2011/12.

Kenya needs to build additional fiscal space to absorb future shocks. Even though net total public debt has declined from 48.3 percent in 2010/11 to 44.6 percent in 2010/11, Kenya is prone to numerous shocks. The government must therefore continue its fiscal consolidation to build more space to absorb future shocks. The fiscal space created in 2007/08 helped Kenya to ride the quadruple shocks of 2008/10. Additional fiscal space will also give comfort and confidence to the private investors who might be worried about the huge current account deficit should it start to unwind.

1.4 The external account remains under pressure

The Kenyan economy continues to be out of balance. The external account remains vulnerable to movements in international oil prices and global demand conditions. International crude oil prices averaged US$ 109.5 per barrel in the first nine months of 2012, compared to US$ 106.2 in 2011. The share of oil in Kenya's total imports remains at about 25 percent, with a value of just over US$ 4 billion in 2011. This is more than the value of Kenya's top seven merchandise exports. Tightening monetary policy reduced the growth of merchandise imports from 19.5 percent in 2011 down to 10.1 percent in 2012. However,

Figure 1.20: Kenya external account continues to deteriorate



Source: World Bank computation based on CBK data

export growth also declined from 11.1 percent to 2.9 percent, and services exports were down from 21.9 percent to 3.1 percent. This can be explained by high domestic prices, higher costs of production and weak external demand which combined to slow the growth of Kenya's exports. The drop in growth in services exports is explained by current transfers, which declined by 9.6 percent, compared to growth of 35.6 percent in 2011. However, non-factor services grew by 19.7 percent in 2012 from 1.6 percent in 2011 (Annex 24).

The current account deficit continues to deteriorate, driven by significant growth in machinery imports. While in 2011 the current account was being driven by a higher oil bill, in 2012 the main driver of the current account deficit is the growth in machinery imports to support oil and gas exploration. The current account deficit increased from US$ 3.3 billion in December 2011, to US$ 4.3 billion in September 2012 (Figure 1.20). As a share of GDP, the current account deficit increased marginally from 9.8 percent in December 2011 to 10.5 percent in September 2012. Excluding oil imports, the current account balance deteriorated by US$ 600 million from a surplus of US$ 434 million in December 2011, to a deficit of US$ 192 million in mid-2012. The deficit in the balance of trade and non-factor services, which deteriorated from US$ 6.4 billion (18.9 percent of GDP) to US$ 6.9 billion over the same period, drove the deterioration in the current account. Current transfers also declined from US$ 3.1 billion to US$ 2.8 billion (Annex 24).

Monetary policy managed to slow import demand but the trade deficit remained. Imports for the year up to September 2012 grew by 10 percent, down from 23 percent growth in 2011, with merchandise imports exceeding exports over this period (Figure 1.21). Imports of oil grew by 8 percent, down from 53 percent growth in 2011, and imports of manufactured goods grew by 5 percent, down from 27 percent in 2011. Imports of machinery and transport equipment grew by 11 percent in comparison with a 3 percent decline in 2011.

Merchandise exports continue to perform poorly when compared to imports. Exports over the 12 months ending in September 2012 grew by only 2.9 percent, compared with merchandise imports, which grew by 10.1 percent (Annex 24). Tea exports marginally increased by 2.2 percent compared to 2011 following poor weather at the beginning of the season and a dispute between the Tea Board and producers over a tea levy. Horticultural exports contracted by 6.5 percent in the face of weak demand in the Eurozone area, although the situation began improving in the second half of 2012. There was some good news as exports of raw materials and chemicals posted some significant growth rates with the former growing by 39 percent and the latter 5 percent.

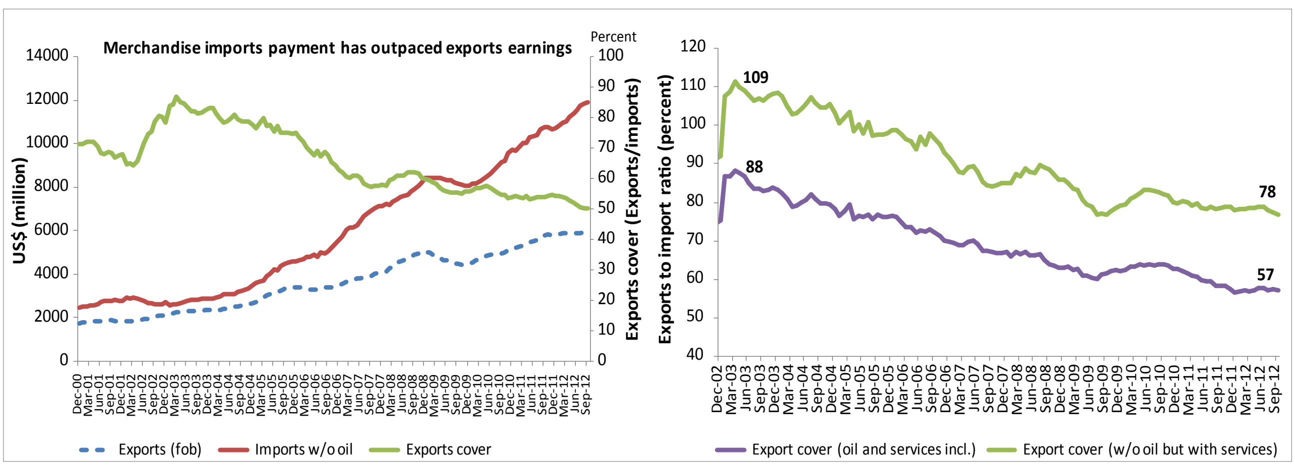
The gap between Kenya's exports and imports has widened considerably since 2003. Kenya's exports of goods and services were able to pay for 87 percent of imports in the first half of 2003, however, this fell to just 57 percent in 2012. Excluding oil, which is a major component of its imports, Kenya's exports of goods and services could cater for 109 percent of its imports in 2003, but in 2012 Kenya's exports could only cover 79 percent of its non-oil imports, a 30 percentage point reduction. Government policies need to urgently address Kenya's poor performance in the external sector.

Kenya continues to attract considerable capital and financial net inflows, which help to finance the huge current deficit. The capital and financial account increased by US$ 2.2 billion from US$ 3.3 billion to US$ 5.5 billion between December 2011 and September 2012. About US$ 880 million of the incremental financing came in form of official flows i.e bilateral loans for projects. Within the same period, short term flows increased by US$ 600 million, while errors and omissions increased by the same amount. Other capital inflows have responded to Kenya's attractive interest rate regime and relatively stable foreign exchange rate. As a result, the overall balance of payments improved significantly from a deficit of US$ 43 million in December 2011, to a surplus of US$ 1.3 billion in September 2012 (Annex 24).

The Kenya shilling has stabilized but risks remain. As part of its tight monetary policy, the CBK increased the CBR by 11 percentage points, increasing the returns on assets denominated in Kenya shillings and attracting short terms flows into Kenya. The increased supply of dollars in Kenya's foreign exchange market led to an appreciation of the shilling, which had fallen quite dramatically over several months in the second half of 2011. The shilling appreciated from a peak of KES 101.3 to the US$ in October 2011, to KES 86.7 in December, and has remained relatively stable in 2012. By end of September, 2012 the shilling had appreciated by 3.1 percent against the US$. The exchange rate volatility Kenya experienced in the second half of 2011 has subsided (Figure 1.23).

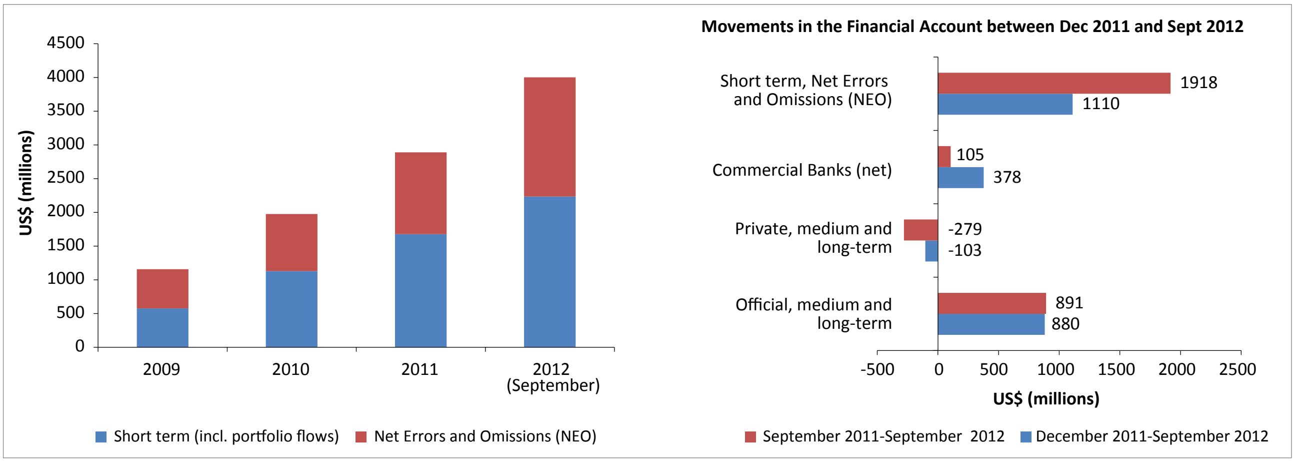
Nominal bilateral exchange rates have been stable with a minimal bias towards depreciation in the last decade. The shilling has depreciated by 19 percent cumulatively between 2000 and 2012, representing an annual depreciation of 1.6 percent. Given the higher price differences between Kenya and its trading partners, the shilling should have a higher nominal depreciation. The good news is

Figure 1.21: The capacity of Kenya's earnings to finance its external demand is deteriorating



Source: World Bank computation based on CBK data

Figure 1.22: Kenya receives significant flows to finance its external account balance

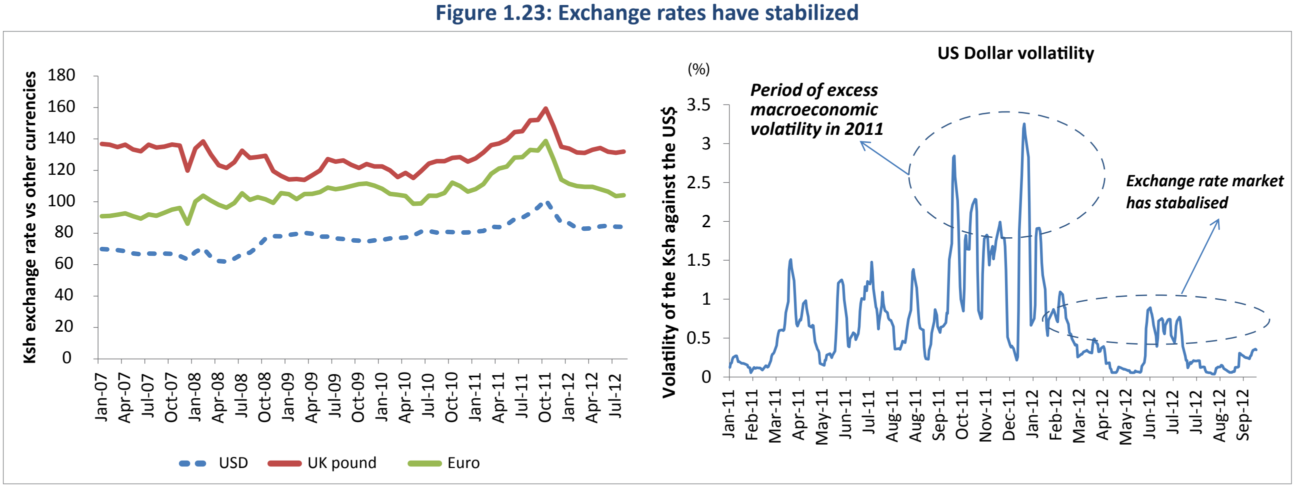


Source: World Bank computation based on CBK data

that exchange rates are market determined with no interferences from the Central Bank. The forex market in Kenya remains very thin, with few market participants, and as such, susceptible to large swings in both intraday markets and within a month. The average daily market trading averaged only about US$ 300 million in 2011, a relatively small amount. Large purchases of forex, for example to buy fertilizer or petroleum, subjects the shilling to large swings on the days the deal is completed. Since Kenya has an open capital account, volatility in the international currency markets and geo-political disturbances are passed through into the domestic currency market. In addition, the trade weighted exchange rate, shown below in Figure 1.24, indicates that despite the nominal depreciation of the exchange rate since 2008, Kenya's competitiveness has deteriorated by 30 percent since 2003.

The growing strength of the Kenyan shilling against its trading partners is eroding Kenya's export competitiveness and encouraging imports. The trade weighted real exchange rate has appreciated to 35 percent since January 2003, while the trade weighted nominal exchange rate depreciated by 14 percent in the same period (Figure 1.24). As a result, Kenya's domestic prices are higher relative to her trading partners, making its goods less competitive in international markets. This trend is not helpful for Kenya, which needs a trade strategy that stimulates exports, and leads to employment opportunities for millions of unemployed youth.

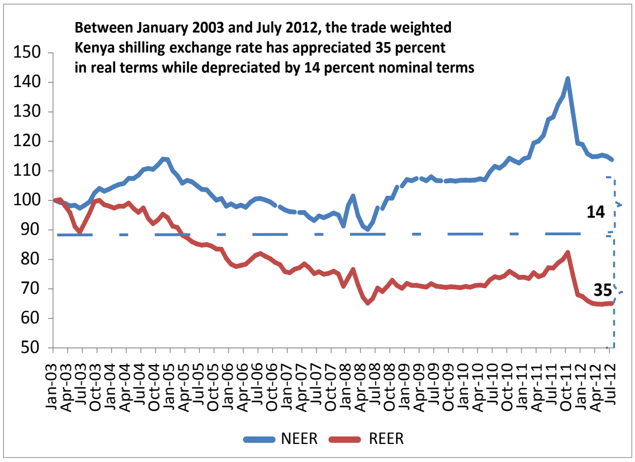
Figure 1.23: Exchange rates have stabilized



Source: World Bank computation based on CBK data

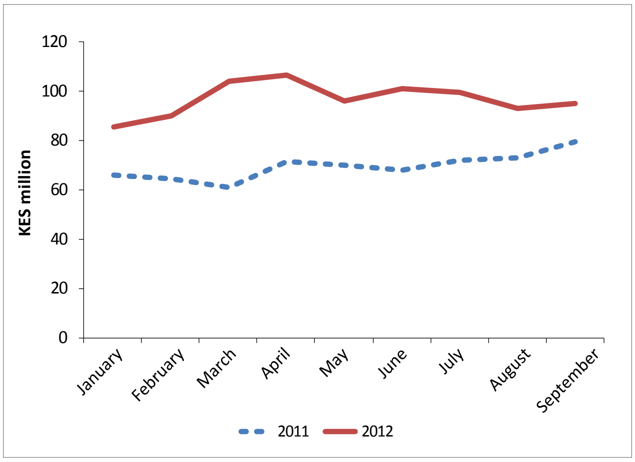
Remittances have increased significantly in 2012 compared to 2011. Remittances increased by 39 percent in the first nine months of 2012, from an average of KES 65 million per month to KES 94 million monthly (Figure 1.25). The increase is attributed to many factors, including efforts by the CBK and commercial banks to facilitate transfers into Kenya for investments in government securities or real estate. Inflows might also be associated with the run-up to the national elections.

Figure 1.24: The real appreciation of the shilling is eroding Kenya's export competitiveness



Source: World Bank computation based on CBK data

Figure 1.25: Remittances have increased significantly in 2012



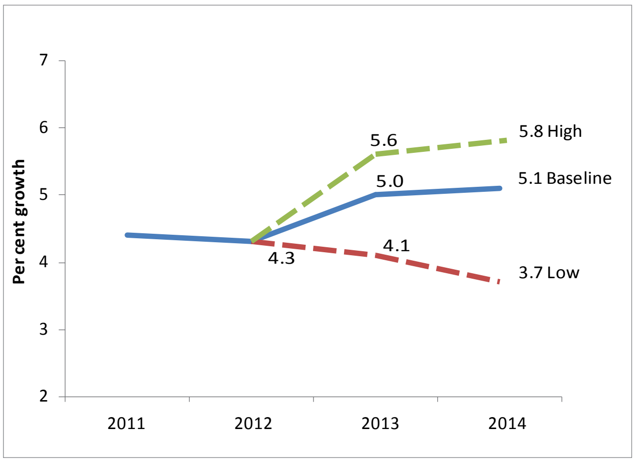
Source: World Bank computation based on CBK data

2. 2013 and beyond

2.1 Growth Prospects

The World Bank estimates that Kenya's economy will grow by 4.3 percent in 2012 and 5.0 percent in 2013. These estimates are lower than those made earlier in the year, and reflect the difficulties the economy has faced in 2012. However, this performance still reflects the underlying strength of the economy, and both estimates have the economy performing better than Kenya's economic growth over the last decade, which averaged 3.9 percent. GDP growth could reach 5.6 percent in 2013 in a high case scenario or remain at 4.1 percent in the low case (Figure 2.1). The baseline scenario of 5.0 percent assumes peaceful elections and transfer of power in the first quarter of 2013, followed by a pick-up in aggregate domestic demand as private sector credit growth kicks in. Domestic investment should increase as political risks diminish, and a projected moderate improvement in the global economy will boost exports. Kenya's growth outlook matches Sub-Saharan Africa's projected growth of 4.9 percent in 2013 (excluding South Africa),[2] but continues to lag behind the estimated growth rates for the EAC of 5.5 percent in 2012 and 6.1 percent in 2013.

Figure 2.1: Growth Outlook for 2013-2014



Source: World Bank computation

With inflation no longer a significant threat, the Central Bank has additional monetary policy space to stimulate aggregate demand and growth in 2013. The tight monetary policy environment in the first three quarters of 2012 saw a significant reduction in private sector credit growth. During this period, the weighted lending rates of commercial banks averaged 19.7 percent, compared to 14.8 percent the previous year, and rates on overdrafts loans, which are the main source of working capital for most firms, rose to 19.8 percent from 14.6 percent in 2011. Consequently, credit growth contracted by more than 20 percentage points to 13.8 percent in September 2012, compared to 36 percent previously. These developments along with elevated prices, which reduced aggregate demand, and the sluggish global economy contributed to Kenya's reduced growth in 2012. To stimulate economic activity the Central Bank has started easing monetary policy, lowering the Central Bank Rate (CBR) to 11 percent from a high point of 18 percent. Commercial banks have started to respond to CBK's action and have started reducing their average lending rates.

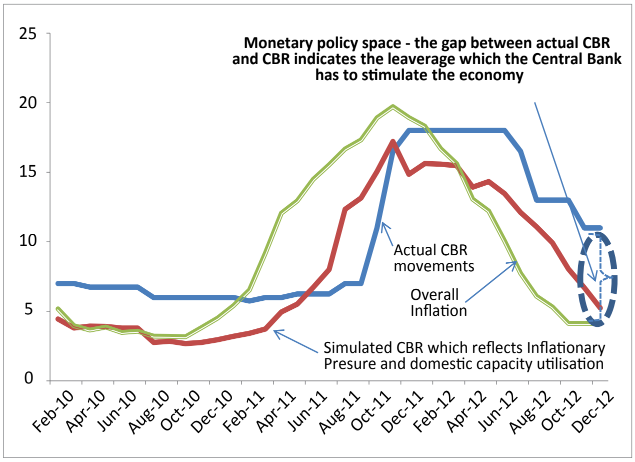
Table 2.1: Macroeconomic Indicators 2008-2014

	2008	2009	2010	2011*	2012**	2013***	2014***
GDP	1.5	2.6	5.8	4.4	4.3	4.5	5.1
Private Consumption	-1.3	5.0	7.2	2.8	4.2	5.4	6.5
Government Consumption	2.5	3.8	9.2	10.6	4.7	4.6	3.7
Gross Fixed Investment	8.8	5.5	5.0	16.1	5.6	6.3	4.6
Exports, GNFS	7.5	-7.0	6.1	8.9	3.1	5.9	6.5
Imports, GNFS	6.6	-0.2	3.0	8.6	3.3	5.8	6.3

Source: World Bank computation
** Preliminary ** Estimate *** Forecasts*

[2] *Growth rate in 2013 for oil importing countries in SSA (excluding South Africa) is 5.6 percent.*

Figure 2.2: CBR decreased following eased monetary policy



Source: World Bank computation based on CBK data

Aggregate demand will pick up in 2013 due to reduced cost of money and election-related spending. The World Bank expects an acceleration in private consumption during the first half of next year, as a result of the election cycle. Spending will begin in earnest in the first quarter of 2013, with the nomination stage of the national election cycle and will continue through the elections and run-offs if applicable. Domestic investment will be off to a slow start in 2013, but we expect to see a sharp pickup in the second half, assuming a peaceful political transition and pro-growth economic agenda, as investors position themselves to work with the next government. Despite the drag of negative net exports, domestic demand will continue to power Kenya's GDP growth, with public investment linked to infrastructure playing a leading role. Going forward into 2013-14, it appears that macroeconomic policies will remain generally accommodative as the government tries to balance fighting inflation and supporting growth, and as the supply side constraints particularly in agriculture ease as a result of projected levels of adequate rainfall, following recent periods of prolonged drought.

The discovery of oil and gas reserves in Kenya will attract high FDI flows to finance exploration starting in 2013. Large but yet to be verified, oil reserves in Turkana and gas reserves off Kenya's coast are expected to lead to substantial investment by global energy companies in Kenya. To date, the discovery of oil and gas in Turkana County has attracted interest from foreign investors, with all 46 exploration blocks in 4 sedimentary basins (Lamu, Mandera, Anza and Tertiary Rift) occupying 485,000 square kilometers, having been leased to approximately 20 companies. Under the production sharing contract, the Government's participation will amount to 20 percent during the exploration phase and could be the same or higher upon commencement of development and production.

As the economy strengthens, Kenya will be able to create additional fiscal space to cushion it against future shocks. Debt has increased to about 45 percent of GDP in 2011/12 from 40 percent in 2006/7. This debt level is sustainable, but if it goes much higher, it would undermine Kenya's ability to finance larger fiscal deficits without creating undue pressure on the economy. Kenya's peers have lower debt levels, and its private investors would likely become concerned about high levels of debt for fear it would trigger inflationary and exchange rate pressures, and because of the ensuing volatility in the money and capital markets. Lower debt levels would calm these fears. Consolidation of the fiscal space ought to be possible without compromising on infrastructure spending which has been a bottleneck on growth. Ways to rebuild the fiscal buffers include carefully monitoring the new wage and salary structures related to the constitutionally mandated devolution process, managing and rationalizing the number of county staff, passing the VAT bill currently in Parliament, and implementing the civil servants pension act to reduce the contingent liability of the government.

2.2 Risks to outlook

Kenya will need to manage a number of risks if it is to achieve baseline growth projections. Chief among these are: (i) the impacts of continued sluggish performance in the Euro Zone and the possible fiscal cliff in the US; (ii) the potential impact of monetary policies that are too accommodative and possible disturbances in the commodity markets; (iii) the need to balance between fighting inflation and supporting growth; (iv) possible fluctuations in the foreign exchange rate and other economic disturbances; (v) the current account deficit; (vi) uncertainty associated with the run-up to 2013 elections and political transition to a new government; and (vii) the potential fiscal risk arising from the constitutionally mandated devolution of power to 47 county governments.

Uncertainties related to deteriorating economic conditions in Europe and possibilities of a fiscal cliff in the USA would slow Kenya's economic performance if they materialize. Kenya relies on Europe as a market for its exports, a source for its tourism industry, and as a major provider of foreign direct investment. A prolonged recession in Europe would spill over into Kenya, affecting demand for its exports, particularly horticulture, and the supply of FDI, which would otherwise flow into the country to finance numerous investment opportunities in the post-election era. The number of European tourist visitors to Kenya would also decline under this scenario. Finally, the potential of the fiscal cliff in the USA would ripple through the international markets if it materializes, impacting FDI, tourism and Kenya's exports. If any of the above developments materialize, Kenya's growth rate in 2013 would likely fall to the low case scenario.

> Kenya relies on Europe as a market for its exports, a source for its tourism industry, and as a major provider of foreign direct investment

Domestic factors, including accommodative monetary policies and disturbances in the commodity markets, could create inflationary pressures. First, as the CBK uses its monetary space to boost economic activities, it needs to move carefully to ensure that monetary policy action does not disturb the foreign exchange market. As discussed elsewhere in this report, the current account deficit is still at an unsustainable level, and any sharp drop in interest rates could trigger excess volatility in the foreign exchange market, unmooring inflation expectations and reversing the short term flows which have supported the shilling. Second, pressures are building up in the international grain market. Should Kenya have a food deficit, the cost of imports might worsen the external account. Finally, economic performance is dependent on the amount of rainfall. Below normal rainfall could create inflationary pressures as Kenya turns to the external market to secure sufficient supplies of grain.

Balancing between the need to fight inflation and to support growth. The macroeconomic uncertainty experienced in 2011 was mainly attributed to delay in tightening monetary policy after the 2008/10 CBK stimulus to support economic growth. The key lesson learned through the 2011 crisis is the need for policymakers to react fast to anchor market expectations and prioritize the fight of inflation over the role of supporting growth. Even though inflationary risk has waned, the monetary policy space available should be used judiciously, so as not to unsettle the exchange rate and financial markets. Experience from other countries shows that Central Bank's policy instruments are not good tools in supporting GDP growth.

The high level of Kenya's current account deficit remains a concern as any exogenous shocks in 2013 could heighten macroeconomic instability. The current account deficit stood at 10 percent in 2012, the same level as in 2011 despite monetary policy action. As previously discussed, Kenya's current account deficit (when oil is excluded as part of imports) has been increasing since 2010 as a result of sluggish global demand for Kenya's exports.

Kenya faces elevated risks as it heads towards the March 2013 elections and the political transition thereafter. As Kenyans go to the polls in 2013, they will be very conscious of the December 2007 elections, which were followed by a short but convulsive period of violence, in which a number of people were killed and over 100,000 persons became internally displaced. Significant reforms have taken place since 2008 as the government, following the adoption of the new Constitution in 2010, has put into place new institutions of governance or strengthened existing ones. The newly created Independent Electoral and Boundary Commission (IEBC) appears to have a firm hand in running the elections, and is capable of ensuring that they are fair and transparently conducted. The justice sector has become much stronger, with the appointment of a new Chief Justice and the careful vetting of existing judges that is currently underway. Although the possibilities for electoral violence are reduced, it is worth noting that Kenya's growth performance has suffered during election years (both before and after the elections). Over the past three decades, Kenya has had its lowest growth periods—on average about one percentage point below the long term average—in or just following an election year (Table 2.2).

Table 2.2: Traditionally, Kenya's growth is lower in election and post-election years

	Average growth rate (%)
All years 1980-2011	3.5
Election years	2.4
Post-election years	2.7
Non-election years	3.9

Source: World Bank computation based on Kenya Economic Update (no. 5): Navigating the storm, delivering the promise, December 2011

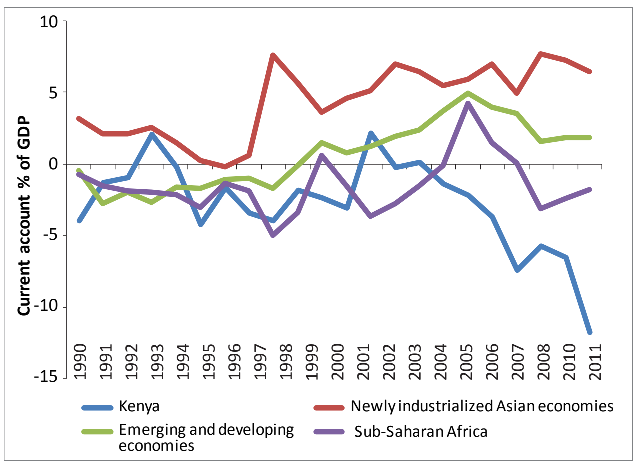
The implementation of the new constitution will lead to the creation of 47 new counties after the 2013 general elections, posing significant fiscal risks to the Government, if adequate and timely measures are not taken. There are a number of issues associated with devolution, which have fiscal implications and need to be sorted out, including: (i) the slow progress in attaining agreement on vertical and horizontal sharing between Treasury, the Commission on Revenue Allocation and other stakeholders; (ii) the integration of local authorities staff with those civil servants whose national functions have been decentralized to the counties without threatening the public service wage bill; and (iii) emerging demands among public servants for higher wages.

2.3 A policy agenda for the next government

In the last 10 years, Kenya has managed to lay a strong foundation for Kenya's future growth. The challenge for the next administration would be to reduce the volatility of growth, restructure the economy to generate more jobs as it grows, and for economic growth to be more inclusive. A number of challenges still exists which the new administration needs to tackle.

First, compared to other countries in SSA, as well as emerging and newly industrialized economies, Kenya's current account is significantly out of balance and needs urgent attention. The current account balance in an average emerging and newly industrialized country is in surplus, meaning it exports more than it imports (Figure 2.3). Kenya's current account last recorded a surplus in 2004. Since then, the current account has deteriorated and has registered deficits, thoroughly undermining Kenya's path towards industrialization.

Figure 2.3: Kenya's current account is out of balance, even when compared to the SSA average



Source: World Bank computation

Second, foreign direct investment and development assistance will be critical in helping Kenya finance its development agenda. Kenya needs to provide reliable energy to its industrial sector at competitive rates. It needs roads to connect its cities with both domestic and international markets, and it needs more fiber optic connections to facilitate commerce. These are huge investments which need big injections of capital into the economy. Government funds are constrained and cannot be relied upon to deliver such costly investments. Foreign direct investment and donor assistance will be critical in closing the gaps in the capital development budget.

Third, the savings investment gap needs to be addressed. Savings have consistently lagged behind investment. Since Kenya has a prudent fiscal policy, the current account deficit in Kenya is more indicative of a consumption binge. As such, it also implies low savings rather than high investment, as GDP growth has relied more on domestic expenditure and less on exports. For a country of Kenya's potential with significant investment opportunities, the low level of domestic savings constrains investment and is one of the underlying causes of the current account deficit.

Fourth, even though public debt has decreased to within tolerable levels, a debt level below 40 percent of GDP would provide a comfortable cushion to improve confidence levels in the financial markets, and expand the fiscal space to ride out any future shocks. Kenya's debt levels are still high compared to debt levels in emerging economies and newly industrialized economies. Experience has shown that the economy is prone to both external and exogenous shocks, brought about by such developments as spikes in international oil prices or negative spill overs from Kenya's trading partners and drought. Public debt levels will be lower if the economy expands faster than the rate of its debt accumulation.

Fifth, real exchange rate measurements indicate that Kenyan goods are losing their competitive edge in international markets. The price and trade adjusted exchange rate shows significant appreciation of about 30 percent since 2003. That significant appreciation of the shilling discourages exports, but encourages consumption of foreign goods thereby worsening the current account.

Lastly, the Kenyan economy is underperforming compared to its peers. Kenya needs to undertake structural reforms to unleash its potential. The second MTP 2013-2018 should articulate that Kenya's growth needs to be more balanced, credit growth needs to be restrained, and current account deficits reduced, as exports assume a more prominent role. Even though this growth strategy might lead to more muted growth than before, the impact of future recessions will be much less deep and only recur over a longer horizon, average growth will be faster than the domestic demand led boom and bust growth that Kenya has experienced in recent years. The strength of Kenya's economy will depend on how well the government is able to maintain a flexible exchange rate regime, provide for a higher degree of economic openness, continue to support export diversification, and encourage growth and innovation in the financial sector, all actions that will make a country with a persistent current account deficit less vulnerable to economic reversals.

2.4 Energizing the economy for job creation

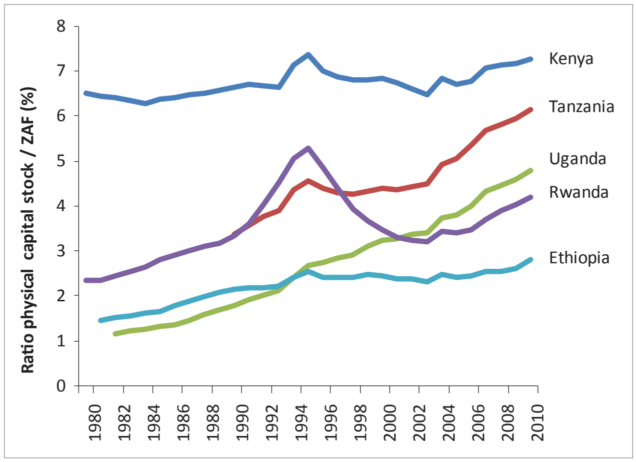
Kenya needs to formulate and undertake a structural reform agenda aimed at overcoming binding constraints to economic activity. Accelerating Kenya's GDP growth and sustaining it (avoiding hills and valleys) cannot be taken for granted. Kenya needs to strike a delicate balance between providing adequate stimulus for fueling and sustaining growth of output and employment, while maintaining the necessary macro stability. Whatever the strategy for high, sustained and inclusive growth, enhancing physical (and human) capital formation will play a central role, considering the huge gaps in satisfying infrastructure.[3]

Even though Kenya has experienced higher growth from 2003 onwards, the economy is not generating sufficient amounts of better paid, modern jobs, at a sufficiently rapid pace, especially for the younger and generally better educated working age cohort. According the official government data, modern wage jobs are growing at much slower rate, just above 6 percent of those entering working age.[4] This raises concerns regarding the inclusiveness and sustainability of the growth process, and is creating a problem that is only likely to become more widespread as a result of the ongoing demographic transition.

Fiscal incentives to encourage investors to build capital stocks to provide workers with adequate machinery, equipment and other inputs for value added generation to increase workers' productivity is necessary to enhance Kenya's growth foundation. Even though the value of capital stock per unit of labor force has steadily increased throughout the 2000s, there remain substantive gaps relative to the most equipped countries of the region. Furthermore, the ongoing demographic transition that determines a faster increase in working age population and labor force, relative to population growth; together with the process of structural transformation, whereby subsistence agricultural workers shift towards modern, more capital intensive sectors; will naturally increase, everything else equal, the demand of physical capital per person relative to GDP.

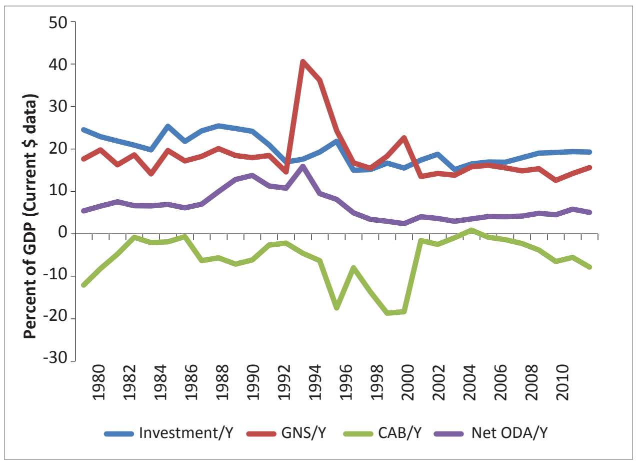
Kenya's domestic savings is low, constraining physical capital formation. Enhancing physical capital formation requires adequate financing. While the ratio of investment to GDP have increased since 2000, savings ratios have remained largely stagnant, which has resulted in widening current account deficits. Gross national savings, have remained at around 15 percent of GDP in the 2000s, and have been sustained by net foreign transfers, mainly in the form of official development assistance, which remain at around 4 percent of GDP. To the extent that current account deficits are financed by the accumulation of net foreign liabilities mainly short term flows, there exists a perceived upper bound regarding the value of investment that can be financed by sources other than national savings.[5]

Figure 2.4: Even though Kenya's growth is favourably in East Africa, its capital base is relative to that of South Africa



Source: World Bank computation

Figure 2.5: The savings investments gap drives Kenya's current account defecit



Source: World Bank computation

[3] *According to World Bank's Africa Infrastructure Country Diagnostic (2010) Kenya's infrastructure spending needs are -at 4 US$ billions per year for the period 2006-2015 among the highest in Africa. Relative to the size of its economy, that spending amounts to a 21 percent of [2007's] GDP. Investment alone absorbs around 15 percent of GDP, comparable to what China invested in infrastructure during the mid-2000s.*

[4] *Data from various issues of the Economic Survey (Kenya National Bureau of Statistics).*

[5] *There exists a limit in the current account deficits a country can run over the medium to long term, for which its net foreign asset position is stabilized so that no substantial changes in the RER are required (see Lee, Milesi-F., Ostry, Prati, & Ricci, 2008).*

The problem of insufficient employment generation relative to growth in the labor force is a multi-dimensional problem, resulting from many complex social and economic interactions in the Kenyan society. How many jobs are created when the economy grows depends on a number of factors: (i) the pattern of growth which determines the degree at which labor demand increases with value addition (output). For example in the agricultural sector, tea picking can be done manually (which generates more jobs) or by tea harvesting machine, which does not generate as many jobs. (ii) Improvements in productivity, this results from the provision of complementary factors of production (such as public infrastructure). (iii) Better macroeconomic management and business environment. (iv) Domestic savings—Increased availability of savings and access to financing can accelerate capital formation for output and employment generation. (v) Education and skills—opportunities for Kenyans to continue and enhance their education and build-up relevant skills can trigger an environment suitable for the emergence of activities that rely on the availability of human capital.

Kenya's demographic transition presents an opportunity to boost its savings, investment and employment in the medium term. There is no reason to believe that savings ratios will remain stagnant in Kenya over the medium and long term. In fact, there are few reasons, derived from experiences elsewhere, to believe that such ratios may increase in the medium to long term, this is because: (i) as poverty falls and per capita income increases, Kenyans will be able to save an increasing proportion of their income; (ii) as the fraction of working age population relative to young and elderly population that is characteristic of a demographic transition increases, the savings ratio is also expected to increase, following ideas for the life cycle hypothesis;[6] and (iii) as businesses grow and a higher fraction of enterprises become formalized, their contribution to government revenues and savings tend also to increase.

[6] *See Modigliani (1966).*

Special Focus: Creating Jobs

3. The jobs landscape

The nature of work in Kenya is changing. In the past twenty years, Kenyans have moved away from family farming towards jobs that pay wages or to start small businesses outside of agriculture. As this transition continues for new and larger generations of Kenyan workers, their future will be determined by whether the country succeeds in generating good jobs. Today, young Kenyans face considerable hardship, discrimination and inequality of opportunity in accessing good jobs. Meanwhile, economic instability, weaknesses in infrastructure and pervasive corruption limit business growth and job creation. The analyses in this report point to a job creation strategy focused on boosting industrial activity and wage jobs through better management of economic and political shocks, new investments in transport and electricity and serious action to reduce corruption.

3.1 Why jobs matter

Jobs are essential to the well-being of Kenyans, and the typical profile of a job is changing. Twenty years ago, most Kenyans of all ages worked on family farms. Today, young Kenyans are more likely to be working in wage jobs or in self-employment outside agriculture. This change is part of the larger transformation taking place, that is renewing the aspirations for a generation of Kenyans and bringing new meaning to the concept of work.

Kenyans look to their government to help create jobs. The 2011 Afrobarometer survey asked Kenyans what they saw as the most important problems facing this country that government should address. "Unemployment" was the second most common response, after "management of the economy."

Like people everywhere, Kenyans want good jobs to ensure a better future for themselves and their families. In a focus group study conducted for this report, Kenyans described their hopes for good jobs:

> *"I aspire a better future with a well-paying job as a senior driver (earning above 15,000 shillings) so that I can afford all basic needs, own a house and [provide] better schools for my children"* ***(employed man in peri-urban area of Mombasa)***

> *"I like to be successful—some kind of business. At least somewhere I will be earning my own money so that I can be able to support my own kid. So at least I won't be a burden to anyone. Yeah. Coz you know it is not that easy. When you know you have a kid and your sister as well. And the other kid has to go to school. So if I can at least have something [to] live a good life, so if only I can get something I can have a successful business that is what I want"* ***(unemployed woman in Nairobi)***

There are three ways to think about why jobs are important. These include living standards, productivity, and social cohesion.[7]

First, on an individual level, jobs are what determine living standards. Fundamentally, people work to make a living—to earn either cash income or food on which to survive. For most people, work is the main source of income, and people escape from or fall into poverty because family members get or lose a job. Higher yields in agriculture, access to small off-farm activities, and transitions to wage employment are milestones on the path to prosperity. As earnings increase, individual choices expand—household members can choose to stay out of the labor force or to work fewer hours and dedicate more time to education, to retirement, or to family.

[7] This framework is used by the World Development Report on Jobs (World Bank 2012).

Second, on an economy-wide level, jobs are about productivity. Economic growth happens as jobs become more productive, but also as the economy creates more productive jobs and less productive jobs disappear. New goods, new methods of production and transportation, and new markets may ultimately drive these gains, but they materialize through a constant restructuring and reallocation of resources, including labor.

Third, jobs matter for social cohesion. Jobs influence how people view themselves, how they interact with others, and how they perceive their stake in society. Unemployment and job loss are associated with lower levels of both trust and civic engagement. Countries that can generate "good jobs" for a wide swath of citizens, may be better able to avoid the social fragmentation and violence that can accompany economic change.

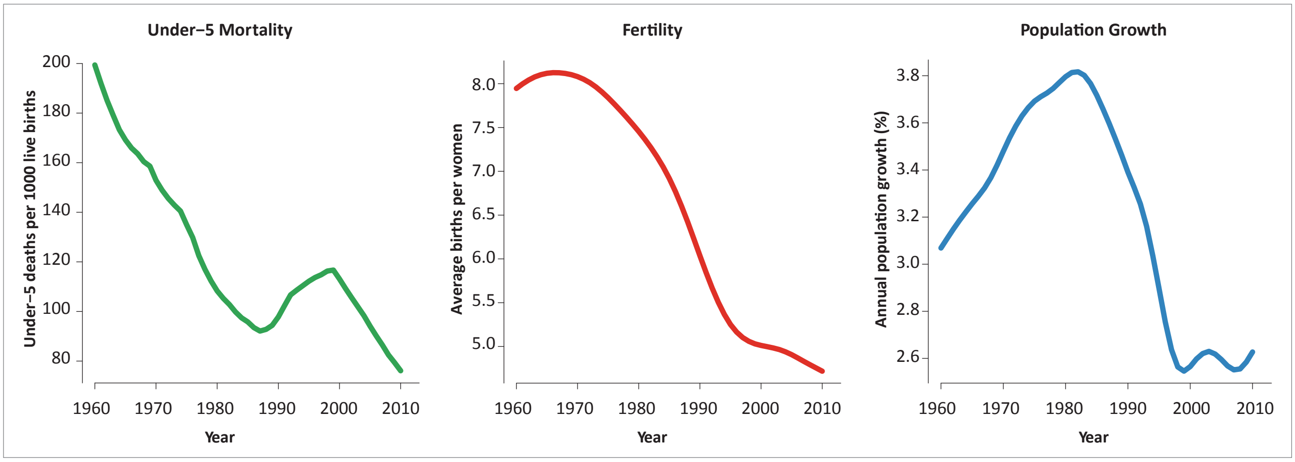
3.2 The changing face of jobs

The nature of jobs in Kenya is evolving, as the country experiences the long-run change common to every country that has moved up the ladder of economic development. Sometimes called structural transformation, this change brings both new challenges and opportunities to the country. Structural transformation has three components: (i) the demographic transition as death and then birth rates fall; (ii) migration to towns and cities; and (iii) a sector shift in output and employment from agriculture to industry and services.

Kenya is in the middle of a demographic transition with an ongoing drop in both death and birth rates. During the 1960s, the typical Kenyan mother could expect to have 8 children and see at least 1 and often more not surviving to the fifth birthday. Child death rates have since fallen by more than half, and the average Kenyan woman now has fewer than 5 children (Figure 3.1). At the same time, Kenyan adults are living longer. The consequences of these trends are two-fold: an overall decline in population growth rates, and an increasing share of the population in the working ages (Figure 3.2). Today, more than 55 percent of the population is between 15 and 64 years of age—up from 47 percent in 1990.

These shifts are creating an opportunity known as the demographic dividend. The proportion of the population who are of working age is steadily increasing. This means that the dependency ratio—the number of children and elderly supported by each working age person—is dropping. In other countries, this bulge of people of working age has generated a period of high growth. It is contingent, however, on creating new jobs to absorb the bulge of potential workers.[8]

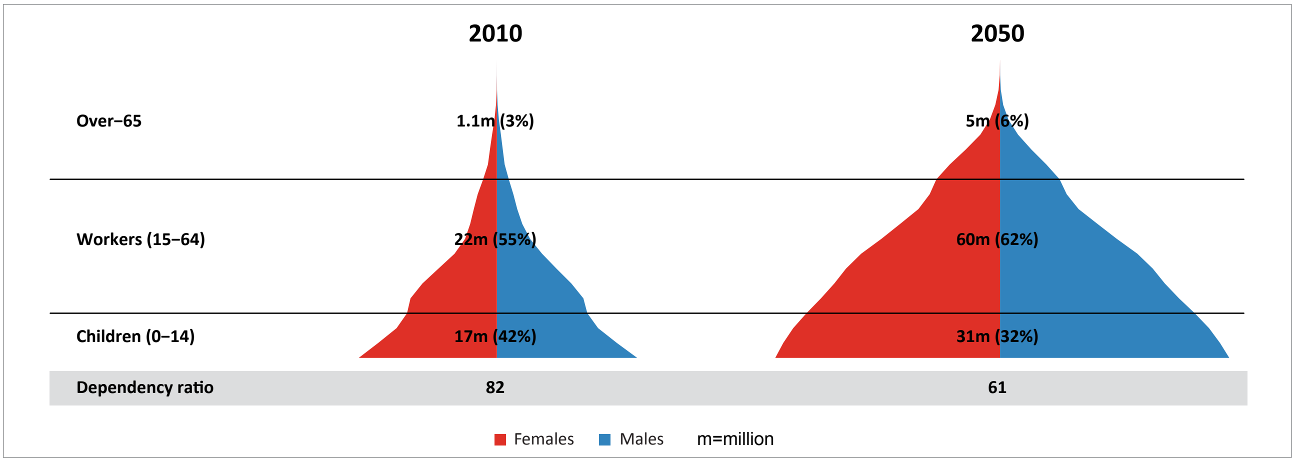
Figure 3.1: The continuing demographic transition in Kenya



Source: World Bank computation based on World Development Indicators

[8] *For a full discussion of Kenya's demographic dividend see Kenya Economic Update, Turning the Tide in Turbulent Times, June 2011.*

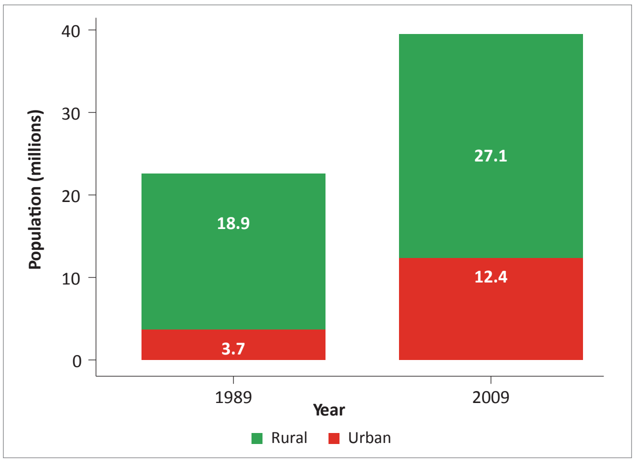
Figure 3.2: The coming bulge in the working age population



Source: World Bank computation based on UN projections

The second component of Kenya's structural transformation occurs as people migrate from rural areas to towns and cities. Kenya is still an overwhelmingly rural country, with more than 2 out of 3 Kenyans living in the countryside. At the same time, the country is urbanizing, and the nexus of job generation is increasingly towns and cities. Over the last 20 years, the urban population grew more than twice as fast as the country overall (Figure 3.3). The increase in the urban population reflects both the growing density of towns and cities, and the conversion of previously rural areas into towns following higher rural densities.

Figure 3.3: Kenya's urban population is growing rapidly



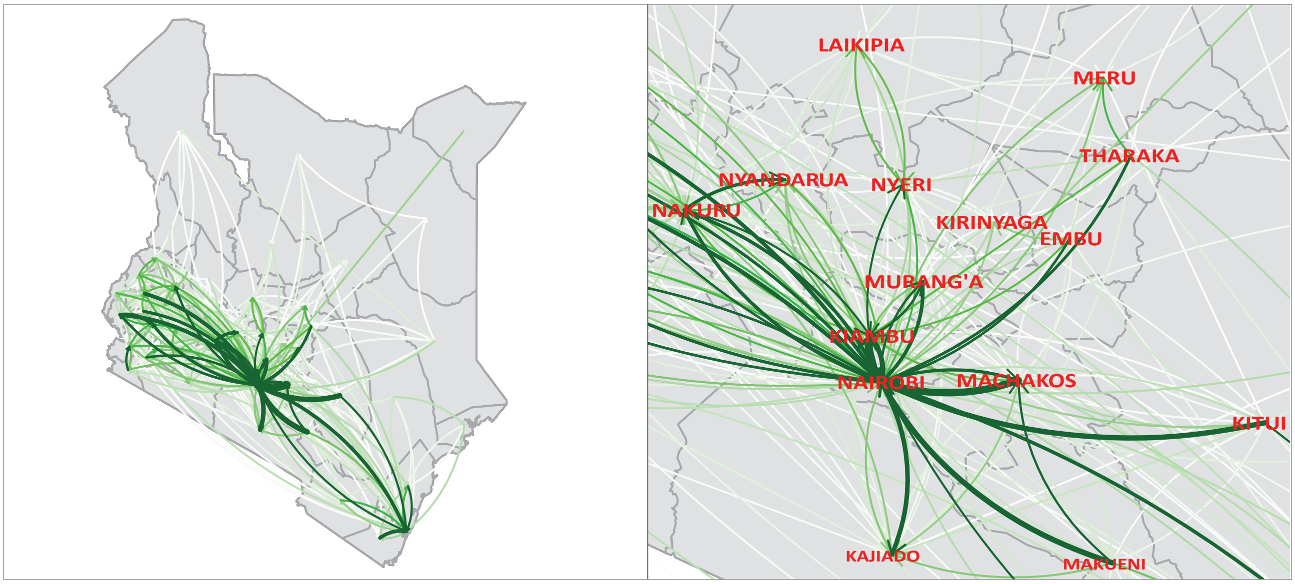
Source: World Bank computation based on Kenya census data

Notes: The increase in the urban population reflects a combination of growth in the population of areas previously designated as urban, as well as the classification of areas as urban that were previously considered rural. In particular, in 2009, people living in "peri-urban" areas—which previously would have been considered rural—were considered to be urban residents. Thus part of the apparent increase in the urban population reflects a change in the definition of urban

The country's urbanization fundamentally reflects a quest for opportunity, as Kenyans move to the towns and cities seeking jobs and better lives for themselves and their families. A map of year-to-year migration based on the 2009 census shows that the overwhelmingly flows are to and from Nairobi, and to a lesser extent other cities, principally Mombasa and Kisumu (Figure 3.4).

The shift out of agriculture into services and industry comprises the third element of Kenya's structural transformation. The shift is seen clearly in the overall pattern of GDP changes in Kenya (Figure 3.5). Since independence, the Kenyan economy has experienced ups and downs, with an initial period of rapid growth through the mid-1970s, followed by stagnation up until the turn of the millennium, and then growth during the most recent decade. Over that long period, farming's importance in the Kenyan economy has fallen, and agriculture now accounts for just 25 percent of GDP, down from 40 percent at independence. The decline in the share of agriculture has been mirrored by an increase in the services sector. In many countries, the structural transformation has involved a shift to manufacturing. In Kenya, however, the share of industry—which includes manufacturing as well as mining, construction, electricity, water, and gas—has remained stable at just 20 percent of output while manufacturing has consistently constituted about half of industrial

Figure 3.4: Migration is primarily from highly populated rural areas to major urban centers

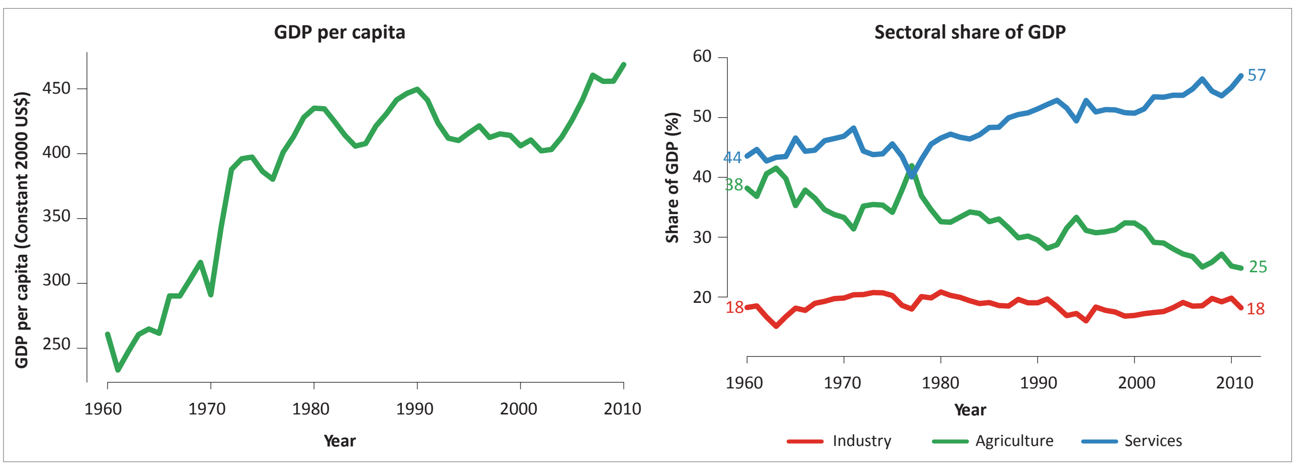


Source: World Bank computation based on Kenya census data
Note: Lines show flows of migration between 2008 and 2009, and the thickness of lines is proportional to the number of migrants

output, and remained stagnant throughout the last decade.

A change in the composition of jobs has accompanied the shift in GDP. Employment can take many different forms. When some people think of a job they may imagine wage employment in the modern sector, such as an engineer with a mobile telecommunications company in Nairobi, a line worker with a cut flower firm in Naivasha, or a worker at the port in Mombasa. More broadly, a job is whatever someone does to make a living. Using the census data, jobs can be divided into three main categories: family farming, non-agricultural self-employment, and wage work.[9] At the time of the 1989 census, the large bulk of Kenyans were working on family farms. The number working in family agriculture grew slightly through 1999 and then remained constant. Meanwhile, the growth in the numbers of non-agricultural self-employed and those holding wage jobs reflects the steady growth in the services sector (Figure 3.6).

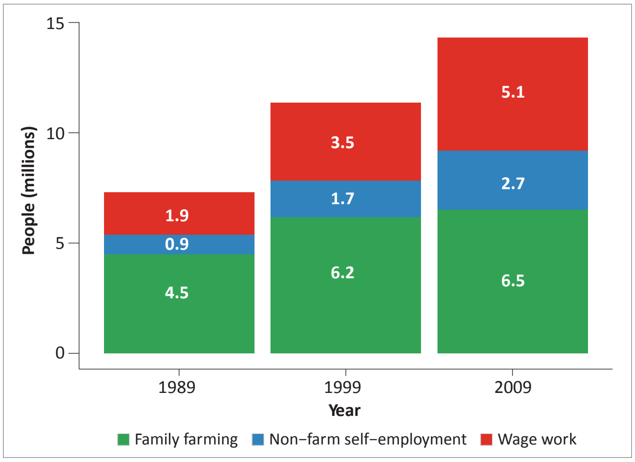
Figure 3.5: Through ups and downs since independence, economy has shifted from agriculture to services



Source: World Bank computation based on World Development Indicators and Kenya National Bureau of Statistics data

[9] *See Annex 1 for a detailed description of how these categories are defined. Non-agricultural firm owners are included in the non-farm self-employment category.*

Figure 3.6: Wage jobs and self-employment outside agriculture have increased, while employment on family farms has remained constant



Source: World Bank computation based on Kenya census data

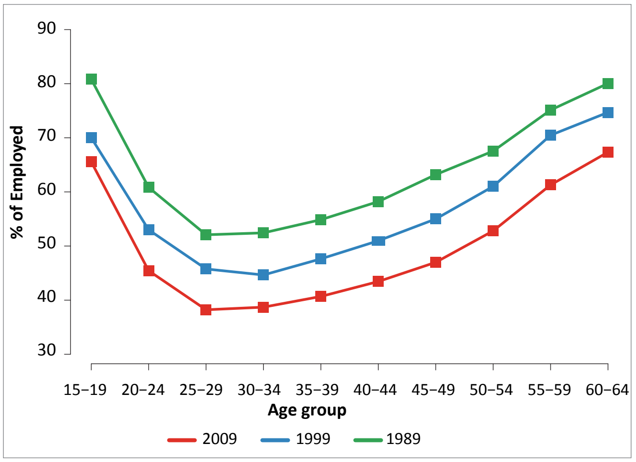
Figure 3.7: Major job categories by gender and urban-rural in 2009

Source: World Bank computation based on Kenya census data

Men are much more likely than women to hold wage jobs, and women are more likely to work on family farms. Figure 3.7 shows breakdowns of employment in 2009 by gender and urban vs. rural areas. Twice as many men as women hold wage jobs, and more men work principally in wage jobs than on family farms. Likewise, more than twice as many women as men report that their principal activity is family farming. Rates of non-farm self-employment are roughly equal for men and women. The urban-rural breakdown shows that even in areas designated as urban, a significant number (17 percent) report that they are working in family farming. Additionally, while urban residents are much more likely to work in wage jobs or non-farm self-employment, rural areas are home to most (55 percent) of the non-farm self-employed and a significant fraction (42 percent) of wage workers.

Kenyans of every age have shifted out of family farming. The pattern of work on family farms follows a U-shaped pattern. Among those working, the very young (age 15-19) are most likely to be working on family farms. These numbers decline significantly for workers in their 20s and gradually increase for workers 30 and older. In 1989, a majority of working Kenyans at every age worked on family farms, but by 2009, only very young workers and those above 50 had majorities of their age group working on family farms (Figure 3.8).

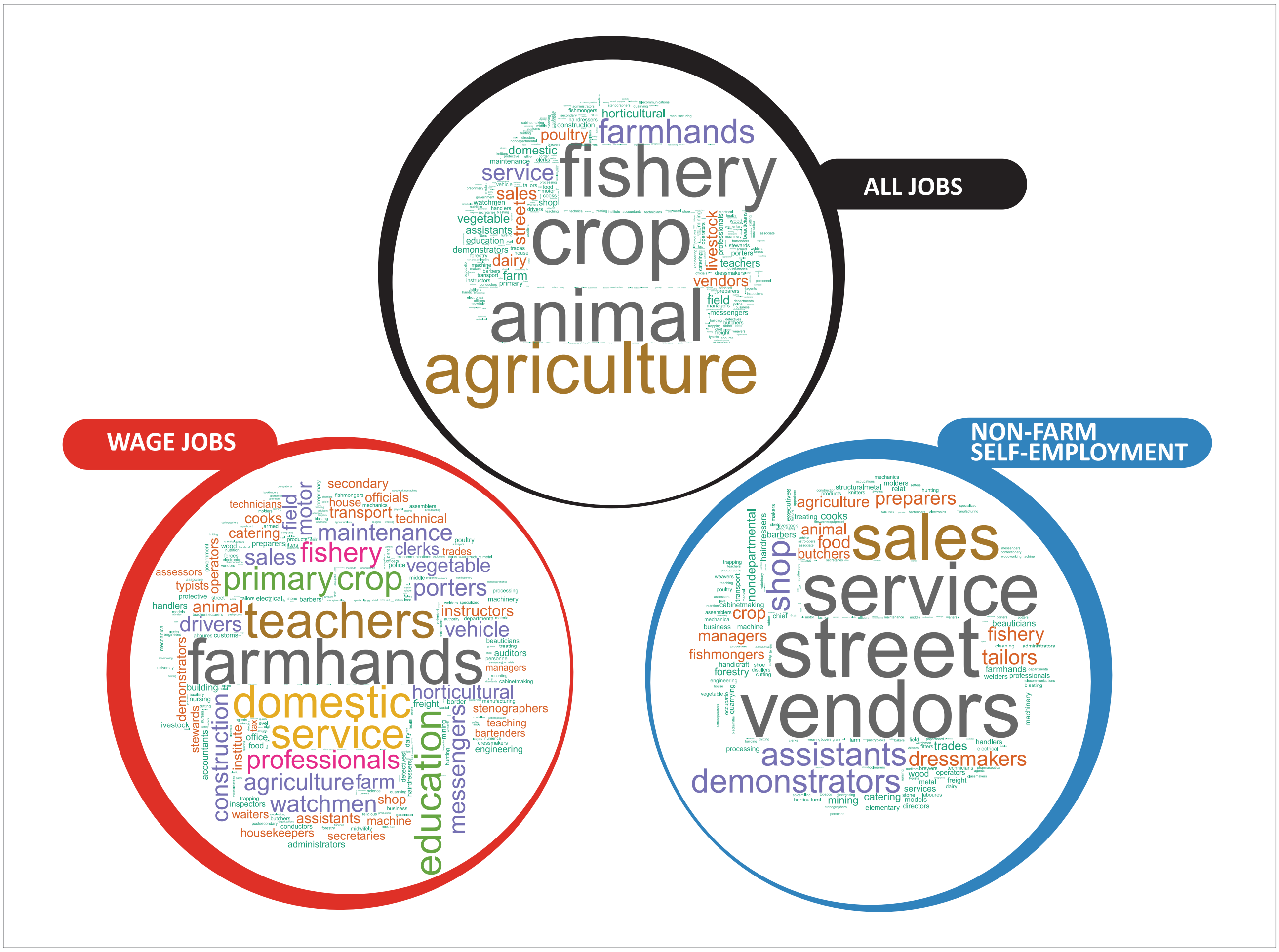
Figure 3.8: The percent of Kenyans Working on family farms has fallen for every age group



Source: World Bank computation based on Kenya census data

Despite the relative decline of agriculture, farming is still the dominant way of life for much of the population. Figure 3.9 shows the most common words associated with jobs based on an analysis of the 2005-06 Kenya Integrated Household Budget Survey, with the size of the words proportional to how many have jobs involving those words. The figure on top shows such a "word cloud" for all jobs. The largest words reflect the dominance of agriculture and related activities. Below that are word clouds for wage jobs and for non-farm self-employment. Farmhands comprise the largest single category of wage jobs. Other prominent categories are service related, such as domestic workers, while smaller categories include the

Figure 3.9: Words associated with the most widely held jobs in Kenya



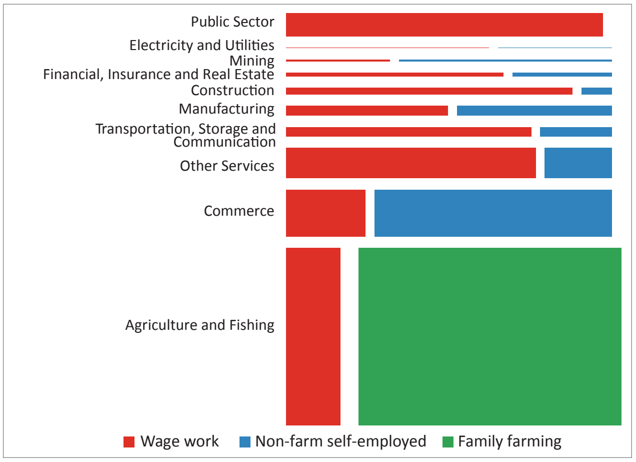
Source: World Bank computation based on the 2005-06 Kenya Integrated Household Budget Survey

words engineering and technical in reference to the industrial sector. Street vendors make up the largest single category in non-farm self-employment, which also includes skilled trades like dressmakers and butchers.

The overwhelming majority of non-wage jobs are in agriculture, while wage jobs are spread across sectors. Figure 3.10 shows a breakdown of the three major job categories by sector. The agriculture and fishing sector consists of some wage work, but mainly (non-wage) family farming. Work in other sectors is broken down into wage work and self-employment. Similar to the word cloud, this figure illustrates the great diversity in wage work. Almost all public sector jobs are wage jobs, but wage jobs are also found across other sectors, including agriculture and fishing. Non-farm self-employment is principally commerce—largely street vendors and other retail sales—but also includes a substantial number in other services as well as manufacturing.

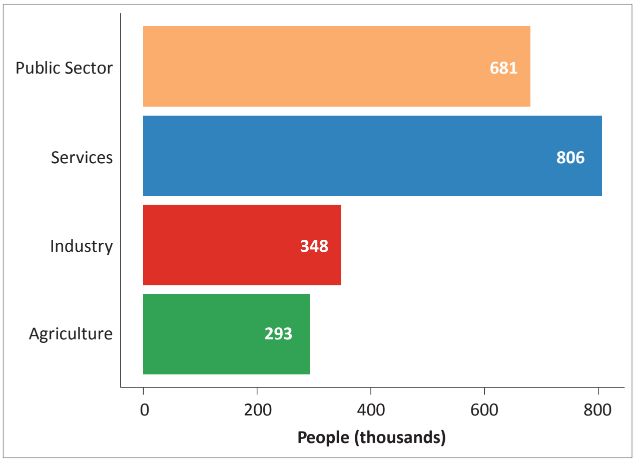
In Kenya, approximately two out of five wage jobs are modern (or formal). These modern wage jobs are a subset of overall wage employment and correspond to what many would view as a "good job." The Economic Survey produced by the Kenya National Bureau of Statistics (KNBS) estimates that total modern sector wage employment was 2.1 million in 2011 (compared to 5.2 million total wage jobs recorded in the 2009 census). These figures are based on firm surveys conducted by KNBS. Modern wage jobs include approximately

Figure 3.10: Most non-wage jobs are in agriculture, while wage jobs are in a diverse set of sectors



Source: World Bank computation based on Kenya census data
Note: Economic sectors are shown on the vertical access. Areas are proportional to the number of jobs in each combination of economic sector and job category (wage work, non-farm self-employed, family farming.)

Figure 3.11: Most modern wage jobs are in services and in the public sector



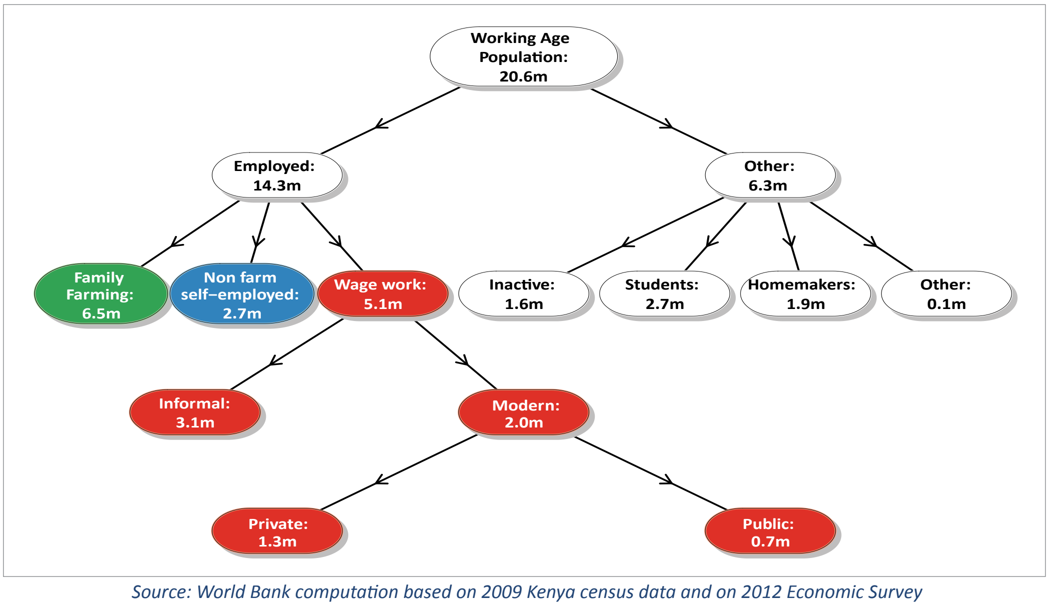
Source: World Bank computation based on Kenya National Bureau of Statistics, 2012 Economic Survey

800,000 in services, 350,000 in industry, 290,000 in agriculture, and 680,000 in the public sector (Figure 3.11).

According to the Economic Survey figures, modern sector wage jobs are increasing by about 50,000 per year, while the working age population by approximately 800,000 per year. In other words, at the current rate of job creation in the modern sector, barely 6 percent of those entering working age are finding modern wage jobs. At this rate of modern sector job creation, competition for such jobs is fierce, and modern sector jobs will remain constant and possibly fall as a share of overall employment.

An overall picture of Kenya's working age population is given in Figure 3.12. This figure summarizes information combined from the 2009 census and the Economic Survey publication. The overall total of 20.6 million Kenyans of working age (age 15-64) is based on census data from 2009. Given the ongoing growth of the population, as of 2012, the number of Kenyans of working age has increased to approximately 23 million.

Figure 3.12: Breakdown of Kenya's working age population by employment status



Source: World Bank computation based on 2009 Kenya census data and on 2012 Economic Survey

4. Challenges facing youth in the job market

The scarcity of "good jobs" and modern sector wage jobs in particular means that many young Kenyans have difficulty finding work. Youth unemployment is seen as a major concern in Kenya. There is a perception that inactive youth are particularly at risk for being recruited into criminal activity. High youth unemployment also raises the concern that young people who are currently out of work may face limited longterm job prospects. Consequently, policymakers have often highlighted the need to reduce youth unemployment.

Unemployment is almost entirely an urban phenomenon, while underemployment is more widespread and more prevalent in rural areas. Overall unemployment rates (for all ages) using the conventional definition are not extremely high. The unemployment rate is conventionally defined as the percentage of the labor force that is seeking work. The labor force consists of the sum of those who have jobs and those who are looking for work. Using this standard definition applied to the 2009 census data, 7 percent of urban adults are unemployed, compared to 2.5 percent of adults in rural areas. In rural areas, unemployment rates are low, because most of those without other jobs are working on family farms. Rather than unemployment, in rural areas the more common phenomenon is underemployment—people working at below their productive potential.

Unemployment rates are highest for young people, especially those in urban areas. The overall unemployment rate for Kenyans age 20-24 (rural and urban combined) is 8.1 percent. The unemployment rate for urban residents age 20-24 is 13.2 percent. There is no difference by gender; unemployment rates are identical for urban men and women in this age group.

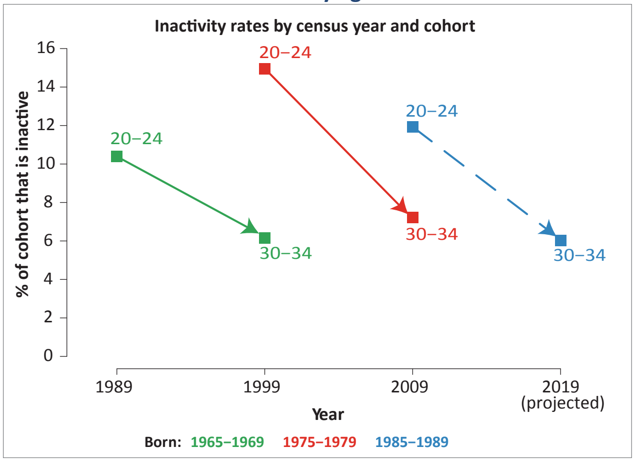
The conventional measure of unemployment can understate the extent of the problem when large numbers of people are not in wage jobs, and consequently a broader "inactivity rate" measure may be more useful. The unemployment rate is highly sensitive to whether people consider themselves to be "seeking work." However, the concept of seeking work is not well-defined for people whose main work option is unpaid work on a family farm or non-wage self-employment. A broader measure is the "inactivity rate," the fraction of the population that is neither studying nor working in any form (including in housework). Inactivity rates in Kenya are substantially higher than conventional unemployment rates. The overall inactivity rate for Kenya is 8 percent—twice the unemployment rate. The inactivity rate is particularly high for Kenyans age 20-24 in urban areas: 15.6 percent.[10]

Inactivity rates fall as individuals grow older. Using multiple censuses, it is possible to track groups by their birth cohort over time. In 1999, inactivity rates for those 20-24 were nearly 15 percent. By 2009, the inactivity rate for those same individuals, then 30-34, had fallen by more than half to 7 percent (Figure 3.13). Similarly, although inactivity rates were high for Kenyans 20-24 in 1989, the same group had much lower inactivity rates when observed 10 years later. If past trends continue, the inactivity rate of those 20-24 in 2009 will fall from 11.6 percent to approximately 6 percent by 2019. These patterns are similar to those seen elsewhere: globally, youth unemployment rates are typically 2-2.5 times those of adults.

This suggests that youth unemployment is high as Kenyans transition from school to work but after some time, most of them find work. In previous generations, inactivity rates for young people have dropped as they aged. Based on a recent focus group study of young men and women, described below, it appears quite normal for youth leaving secondary school to spend one or more years at

[10] *See Annex 33 to 37 for a full breakdown of both unemployment and inactivity rates by age, gender, and urban/rural is given.*

Figure 4.1: High inactivity rates fall for young people as they age



Source: World Bank computation based on Kenya census data. The 2019 inactivity rate is projected based on past trends

home before going to college, or if college does not look likely, to look for wage work or work in the informal sector. In this time they usually live at home or on the farm doing chores and odd jobs. By the time the next census occurs, ten years later, most will have either attended college or received some other training, and found employment of one kind or another. The current generation is likely to repeat the same pattern.

Although high youth unemployment and inactivity rates are in part transitional, focus group interviews with young Kenyans indicate that they have legitimate concerns about their limited job opportunities. The remainder of this section is based principally on interviews conducted in October 2012 with Kenyans age 20-30, including a mix of employed and unemployed young men and women from a variety of walks of life in both rural and urban areas around Nairobi, Nakuru, and Mombasa. In these interviews, young Kenyans illustrate the obstacles they face in obtaining jobs and how unemployment may lead to prostitution, drug dealing, and other criminal behavior.

> *"Since that 100 shillings [I earn doing odd jobs] is not enough I will say I am a woman, I will go out there and get a man who will give me 500 shillings or 1000 shillings on a lucky day and I will sleep with him. That is why prostitution here is very high. If I don't get I will try tomorrow. How can I survive on 100 shillings yet the child needs education, and with the free education he will need books, food, clothes? It is a bad trade because we fear diseases and others will beat you or steal from you. It's not something we want to do, but we are forced by circumstances."* ***(unemployed 30 year old woman, peri-urban Mombasa)***

> *"I say that I have some mix up, and mostly I am stressed when I don't have money and I have to look for ways to get money. There was a time I had started practicing conning. Lack of work actually forces us to steal even chickens from home because we are hungry."* ***(unemployed man in peri-urban area of Nairobi)***

The qualitative interviews show that defining whether someone is employed is often not black-and-white. Many of those who described themselves as unemployed in the initial screening for the focus groups revealed during the discussion that they had some part-time income-earning activity. This shows that many of those who report themselves to be unemployed or inactive in survey and census data may be more properly considered underemployed. A large proportion of those working also have secondary jobs.

> *"I am a broker so I work on the highway, if I get people who want to sell say cereals or diesel I get a buyer for them. Also if a lorry breaks down and they want people to offload cargo and load it to another vehicle we are there. Being a hustler you do not select the type of work you do, just what brings you some daily bread. Oh yes and I also do DJ part time."* ***(unemployed man in rural Nakuru)***

> *"I am a hair dresser and beautician, specializing in beauty. I also hawk, when the business is low, I also sell second hand toys."* ***(employed woman in rural Nakuru)***

Respondents were very conscious of the value that education has in improving their job opportunities. Many had to drop out of school early for lack of money to cover school costs, or in the case of women because of pregnancy. Many hoped to get more education but ended up entering the job market instead.

> *"I first dropped out of school at Form 2. My dad could not afford to pay my school fees and that of my brother, so when he passed and because he was a boy, I was told to first drop out of school so that my brother could be taken to Form 1. I went to stay with my Auntie, helping her to sell clothes."* ***(employed woman in peri-urban area of Mombasa)***

The most common theme in the focus group discussions—among both the employed and the unemployed—was the challenge of breaking into the job market for young Kenyans. Many find that nepotism, tribalism, demands for bribes, and sexual harassment are major barriers to obtaining a job. Young people coming from wealthier and connected families are seen as having large advantages in finding work, regardless of skills and qualifications:

> *"There is a low class, low income earners, if you come from that family bracket, generally known as mwanachi wa kawaida [the general public] it is hard to get a job because you do not have the means but those who came from rich families, they sail through because they have the means and connections so they can corrupt their way through."* ***(unemployed man in urban Nakuru)***

Nepotism is seen as a great obstacle to job access. Most respondents felt that it was almost impossible to access the labor market if one did not know someone to connect him or her to the job environment, and this was cited as the obstacle that prevented the unemployed from getting jobs. Most job seekers felt that it was a waste of time and resources to apply and attend interviews if one did not know someone to push her or him through.

> *"The main problem when we try to get these jobs even when you have the qualifications that is required is that if you do not know someone you cannot get a job, they just employ their own and sometimes those who get the jobs are not even qualified."* ***(unemployed man in rural Nakuru)***

> *"If you want to get a job in Kenya you should either have a godfather or a relative in your area. It is very difficult to get a job if you do not know someone. When I finished Form 4 I went to stay with my parents in Nyahururu where I did my driving course … Then a friend told me that there was a supermarket that needed some drivers and all they needed was a driving license and a form of good conduct from the police … When I went for a test drive the supervisor was very impressed by my driving, and I thought I had got the job. But I was not even shortlisted. I pleaded with them but they kicked me out. Then I came to learn later that the staff had brought their own relatives. I was very disappointed. I rarely go for those interviews any more."* ***(unemployed man in urban Nakuru)***

The youth whose parents were more connected and had a wider network of influential relatives and friends were more likely than their counterparts to get jobs. None of the respondents interviewed had accessed the job market without a helping hand.

> *"When people say that its God [who provides job opportunities for them], I don't think it is God. Your name must be there. Somebody needs to take your papers before you go for the interview."* ***(unemployed woman, urban Nairobi)***

"There are probably a few people who get jobs through merits, but the majority they get through godfathers. I know someone who was in my class, he got an F in college but because he knew someone somewhere he secured a job in a parastatal, and he is being paid well." ***(employed man, peri-urban Mombasa)***

Bribery and corruption are other major obstacles young Kenyans face in securing jobs. Respondents indicated that demands for bribes to get jobs were common, and the more competitive the vacancy, the greater the amount of bribe demanded. Many respondents said they had been disappointed and disillusioned by the corruption they had witnessed.

"I went somewhere in town and I wanted to get a supermarket job as a cashier. When I met the employer, he told me point blank that the salary for the position was 30,000 shilling, but for me to get the job, I had to first give him 10,000. I did not have even 1000—I had borrowed money for fare. So I requested him to allow me in, then I would give him the 10,000 [with first salary], but he refused." ***(unemployed man in rural Nakuru)***

"I have this strong desire to join the armed forces from the time I was a child ... so I have tried twice once in Kisumu and another time in Kisii. The last one I went everybody was asked to write on their feet barua ya mzazi [the content of the parents offer]. … I passed in all the tests, running, height, physical fitness. Then on the last stage we were told that those who had a letter [code word for bribe] from the parents to move aside and I went, and I could see many people wondering and shocked that there was a letter that was required and they had not been told. So I went to the last stage and we were asked to write the parents' letter on our feet. If you have 100,000 that is what you write. Then we were asked to kneel down (to expose the written amount on foot) and I could see people had large amounts like 200,000 and half a million. Then another officer came and passed behind us scanning the amounts and selecting those who had the largest amounts and asking them to move to another location. We did not know what he was doing so the rest of us were left kneeling there. After a while another officer came and told us that we had failed because our parent's letters were not heavy. I went home so disappointed and so depressed I could not eat for nearly a whole week, I just locked myself in the house. This I think is the worst problem we have, corruption of the highest order." ***(unemployed man in rural Nakuru)***

Focus group respondents also identified tribalism as a major barrier for youth in accessing jobs. Tribalism was widely mentioned by respondents from diverse tribes and regions of the country. They felt that individuals older than 40 were more likely to prefer members of their own tribe than were younger Kenyans. Many said that recruiters prefer people from their own tribes and said that at some point they had been denied a job due to tribalism.

"If you go to some companies you will find that they only employ people of the same tribe because the CEO comes from that tribe, there was one time my brother was trying to connect me with his friend who worked in one of the prominent tea estates in Kericho, and he asked my brother to take me there but unfortunately the recruitment officer was not there that day so he asked us to go and spend the night at his place. Then my brother heard his wife arguing with him and telling him that the recruiting officer did not want people from our tribe [Kikuyu] and that he was too daring to bring us into her house. My brothers know the Kalenjin language so he told me we needed to leave very early the following morning because we were in danger." ***(unemployed man in urban Nakuru)***

"There is some work just next to my place for excavating fish ponds. When they started we went there, but we were told there was no work. But since the Manger is a Digo he has gone to his home area and collected his Digo friends and relatives—they are the ones working there." ***(unemployed female in urban Nairobi)***

"In that hotel I was working in, the majority of workers are Kambas, in all departments: security, house keeping and the bosses are Kambas, so its difficult to get a job if you are from another tribe. I was just working there because it was training, so they were not paying me. When I asked for employment after my training they declined." ***(unemployed female in peri-urban Mombasa)***

Sexual harassment is also another major barrier to job market access. Both men and women reported experiencing sexual harassment in job recruitment, but it was more commonly reported by women. A number of women said they had given up on looking for a job because of repeated experiences with sexual harassment.

"I also have a friend whom we were school with, she has been looking for work for 6 years, yet she is educated, she has a degree and other post graduate qualifications but every office she goes they want to get down with her before she gets a job. She is pretty and has a good body structure. She tells me these stories crying and when she gets a job the boss start tuning her, she has a major problem." ***(employed woman, urban Mombasa)***

"Some people tend to think that men are the only people who harass ladies, but men are also being harassed by the women. Like me, the business I do, there was a woman who had made me go to her office 20 times in one month. Just sweet talking me. That is when I came to learn that she had a hidden agenda." ***(self-employed man, urban Nairobi)***

"Those who hawk food at the construction sites must sleep with the construction supervisor to be allowed to access the construction site. Then after that he will get another woman, sleeps with her then he will find an excuse to throw you out. He will start complaining that the food is little or it is not good just so that he can get another woman to sleep with. It is really difficult for women." ***(unemployed woman, peri-urban Mombasa)***

The focus group study paints a broad picture of hardship and inequality of opportunity for young Kenyans entering the job market. For those with the least power in Kenyan society, the possibility of obtaining a wage job—or even just the access to markets for a self-employed job—can seem so daunting or hopeless. Desirable jobs are already scarce and to have them rationed by connections, bribery, and tribal affiliation exacerbates the anguish young people face in seeking employment. Pervasive discrimination stacks the deck against the poor and women, threatening to exacerbate inequalities over time.

These stories of severe challenges faced by young people invite the question of what public policy can do to reduce such hardship. The importance of connections to obtaining a job is nearly universal, but Kenya can aspire to fight tribalism, bribery, and sexual harassment. One part of the possible policy response is to assert as matters of principle that society opposes such practices and prohibit such behavior through legislation. Kenya has in fact already adopted this approach, through the new Constitution, which asserts broad principles of equal opportunity regardless of tribe and gender, and bribery is already illegal for recruitment for public positions. Given how embedded these practices are in Kenyan society, implementing these provisions and enforcing them will require strong leadership and a longterm effort. The Bill of Rights (Chapter 4) includes the following provisions under "Rights and Fundamental Freedoms" (Part 2):

(3) Women and men have the right to equal treatment, including the right to equal opportunities in political, economic, cultural and social spheres.
(4) The State shall not discriminate directly or indirectly against any person on any ground, including race, sex, pregnancy, marital status, health status, ethnic or social origin, colour, age, disability, religion, conscience, belief, culture, dress, language or birth.
(5) A person shall not discriminate directly or indirectly against another person on any of the grounds specified or contemplated in clause (4).

While tribalism, corruption, and sexual harassment will persist for some time and may never be entirely eliminated, there are some positive signs that things are starting to change. Successive rounds of the Afrobarometer survey (2005, 2008, and 2011) show that Kenyans over time have become more likely to identify as Kenyan and less likely to identify principally as members of their tribe. Although rates of payment of bribes (also measured by the Afrobarometer survey) are largely unchanged over time, there is some indication that citizen outrage over the bribery culture has increased, as evidenced by initiatives such as the I Paid a Bribe Kenya website, through which Kenyans can anonymously report demands for bribes.

Abuses by job recruiters are likely to continue to be acute as long as good jobs remain intensely scarce. Many respondents in the focus group study aspired to modern sector wage jobs. Others, recognizing the unlikelihood of getting such jobs, saw self-employment as the best option. As noted in the first section of this report, the ranks employed in modern sector wage jobs grow by just 50,000 a year, while the number of people of working age expands by roughly 800,000 a year. Until the Kenyan economy can create jobs at a much more rapid pace—employment will continue to be rationed in large part through exploitative practices. The next section of this report examines how Kenya can achieve its job creation potential.

5. How can Kenya spur job creation?

The key question going forward is how will Kenya spur job creation in a manner that supports and sustains its longterm structural transformation process? Kenyans will continue to shift out of family farming. The first challenge is to move them into better jobs, principally high productivity wage jobs. Only through generating more high productivity wage jobs will Kenya achieve substantial growth in incomes and a reduction in poverty over the long term. Without the right policies in place, the economy will create fewer such jobs, and the bulk of Kenyans will be stuck in poorly paid self-employment and low-end wage jobs. At the same time, it is inevitable that non-farm self-employment and wage jobs associated with the informal sector will continue to be the main livelihood for millions of Kenyans for many years to come. Consequently, a second challenge is how to increase incomes for the non-farm self-employed and informal wage workers in the medium term. These two challenges are addressed here in turn.

A job creation strategy also needs to recognize that nearly half of Kenyans work on family farms, and although the ranks of family farmers are shrinking in relative terms, they will constitute the livelihoods of millions of Kenyans for years to come. Because the issues and policies for family farming are substantially different than those for other forms of employment, a full discussion is outside the scope of this study. Box 3.1 briefly considers policies to improve productivity in family farming.

High productivity wage employment should form a principal pillar of Kenya's job creation strategy. In countries like Brazil, China, South Korea and Vietnam, the expansion of high productivity wage employment has helped drive income growth and poverty reduction. Unless high productivity wage employment expands in Kenya, the scope for poverty reduction is limited.

Three broad sectors will account for the bulk of high productivity jobs: modern agriculture, skilled services such as information and communications technology (ICT), and manufacturing. Kenya has had notable success in recent years in expanding its wage-based agricultural sector—in cut flower farming, tea, and coffee—and likewise ICT has been a small but leading area of growth. Both wage agriculture and skilled services are likely to continue to be success stories for the Kenyan economy. However, what stands out in the trajectory of Kenya's economy over several decades is its failure to see a substantial takeoff of manufacturing. Thus, the bulk of the discussion presented here is framed around addressing the barriers to growth in manufacturing wage jobs.

Kenya's private sector, particularly in manufacturing, is somewhat paradoxical. Kenyan businesses are recognized worldwide for their dynamism and innovation, and the private sector is highly diverse. At the same time, growth—particularly in the manufacturing sector—has been limited. This apparent contradiction suggests that the country has a high potential for private sector job growth, if the binding constraints to job growth are loosened.

The large bulk of modern wage jobs will be created in the private sector. Thus a principal question is why more Kenyans have not found modern wage jobs in the past and what can be done to ensure that more have such jobs in the future. Within a basic economics framework, the possibilities fall into two categories, corresponding to supply and demand.

- **"Supply"** in the labor market refers to the availability of Kenyans with skills. Is the main issue that employers want to hire workers but cannot find the right numbers with adequate skills? More broadly, how are skills related to the prospects Kenyans have of getting good jobs?

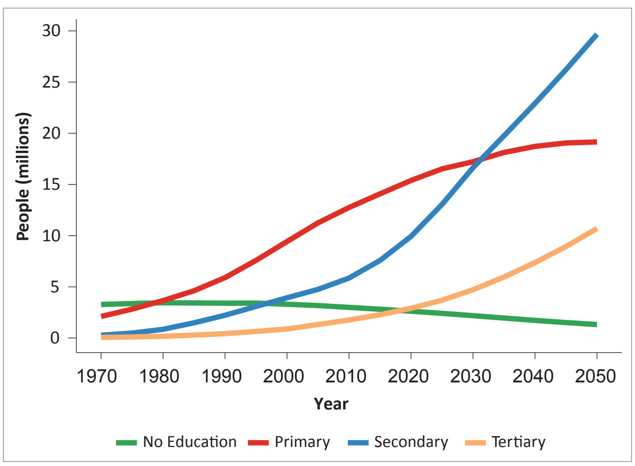
- **"Demand"** refers to job creation by Kenyan firms. Is the main issue that Kenyans have skills but that firms are creating few jobs? If so, what is stopping firms from creating more jobs? Private sector jobs will expand as the private sector grows. If the main constraint to creating good jobs is on the demand side, what is holding back growth of the private sector?

The discussion below first considers the role of skills (supply) and then considers constraints to job creation on the side of employers (demand).

5.1 The supply side: Does the workforce have the skills needed for good jobs?

Over the long term, the average level of skills in Kenya has increased dramatically. Among those who were in their 30s at the time of Kenya's independence, approximately ¾ had never attended school. Now, very few do not attend school at all, and in the most recent cohorts, ⅔ completed primary school and half of primary school graduates completed secondary school. Due to policies in the last ten years that have boosted primary school enrollments, both primary and secondary completion rates are likely to see substantial gains in the next few years. Assuming completion rates continue to rise, Kenya will see a tripling of its secondary school graduates by 2030. The number in the workforce will rise from 6 million to 18 million (Figure 5.1).

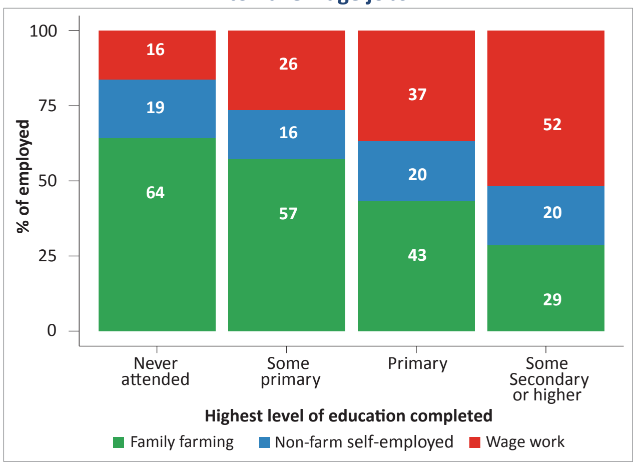
Figure 5.1: Kenya's education dividend



Source: World Bank computation based on University of Vienna analysis

An important question is to what extent education pays off in terms of jobs or earnings. This is often referred to as the "returns to education." One way education can pay off is in opening up greater possibilities of wage employment, and data does show that the probability of getting a wage job increases steadily with education level. More than half (52 percent) of those with secondary education or more have wage jobs, compared to barely a quarter (27 percent) of those with only some primary education (Figure 5.2).

Figure 5.2: More educated Kenyans more likely to have wage jobs



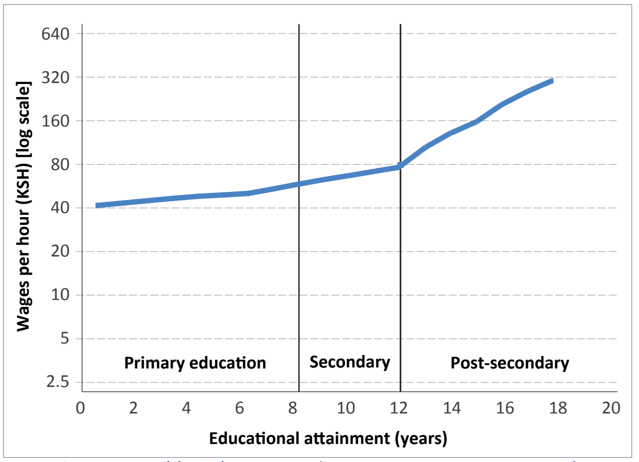
Source: World Bank computation based on Kenya census data

Among those with wage jobs, one can analyze the returns to education by considering how much wages increase with each year of education. For Kenya, the returns to primary education in the wage market are low. In other words, wages increase only slightly with each year of education (Figure 5.3). Wages increase more rapidly for each year of secondary school and most steeply for post-secondary education. This means that the payoff in the wage market from more education is very substantial at high levels, but not at the low end.[11]

The low wage returns to primary education suggest that the quality of education is limited. One way to understand the quality of primary education is through the tests in basic literacy and numeracy administered by the Uwezo organization to a random sample of schools across Kenya,

[11] *This same general pattern has been found in earlier work in Kenya based on other data. It is important to note the returns analysis here only concerns wage jobs, and it is possible that primary and secondary education pays off in terms of higher productivity in family farming or non-farm self-employment, as well as improving other outcomes like child survival.*

Figure 5.3: The returns to education are high for post-secondary education but low for primary education



Source: World Bank computation based on Kenya Integrated household Budget Survey data

Uganda, and Tanzania on an annual basis. The 2011 Uwezo results show that although Kenya students score above those of Ugandans and Tanzanians, substantial numbers of pupils from the lower socioeconomic strata perform poorly. Overall 1/3 of Standard 3 students cannot pass a Standard 2 level test. Pass rates are far lower for the poor. Less than half (49 percent) of students from extremely poor households age 10-16 can pass literacy and numeracy tests for their grade level (Figure 5.4). These results indicate a severe inequality of opportunity between children by household wealth.

>> Box 5.1: Reinvigorating family farming

The fact that nearly half of working Kenyans are on family farms argues strongly for a renewed effort to improve the productivity of smallholder agriculture. This report focuses on wage and non-farm work, which are the growing categories of employment in Kenya. Although family farming is in decline as a share of employment in Kenya, it remains the main livelihood for 46 percent of working Kenyans.

Over the long term, Kenyans will continue to move out of family farming, and agriculture will become concentrated in larger farms. Following the pattern of other countries, by employing more capital and taking advantages of economies of scale, Kenyan agriculture will be able to produce more with fewer people. In the medium term, however, smallholder agriculture will continue to be the main livelihood for millions of Kenyans.

The broad formula for making small farms more productive is well known. It includes improving the institutions relevant to smallholder agriculture as well as targeted public investment. Improvements in property rights would help productivity. Likewise, reform of the relevant marketing boards could improve incentives for producers. Important public investments include those in rural roads to connect farmers to markets, as well as irrigation and agricultural extension services.

On the institutional side, in many rural areas land rights remain tenuous due to decades-long disputes over land ownership. Over the long term, land reform, which resolves these disputes and clarifies ownership, will help raise productivity by creating incentives for investment in family farms and facilitating the function of land markets. The new Kenyan Constitution calls for new land tenure reforms.

Important investments that will increase output on family farms include developing rural roads and irrigation systems as well as improving farming techniques through agricultural extension. Of particular importance is public investment in rural roads. Transportation costs remain high in Kenya, restricting the ability of smallholders to access wider markets.

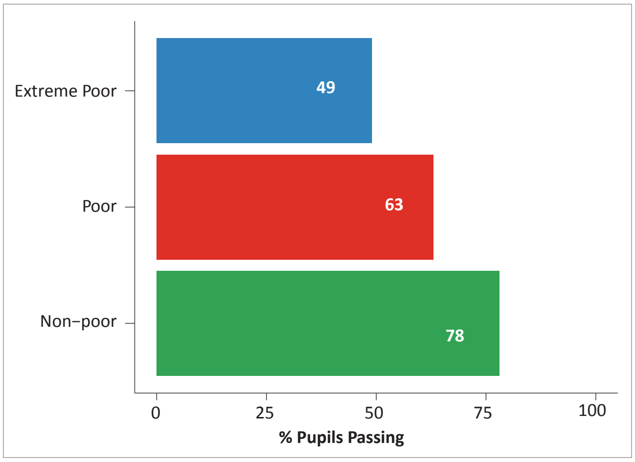
Underinvestment in public goods relevant to agriculture characterizes Kenya's historical experience, as groups in power have directed investments to their friends and family. This was true particularly the 1980s and 1990s, when the government neglected infrastructure, and investments favored those linked to the political elite.

The last decade has seen a resurgence of public investment, particularly in rural roads. To a large extent, Kenya has spent the last several years playing catch-up after the neglect over the previous two decades. Continued investments along the same lines are likely to yield payoffs in improved farm incomes.

Evidence suggests that rural farm productivity is already showing the benefits of policy changes over the last decade. Panel data from the Tegemeo rural household survey shows that the maize productivity of smallholder farms has increased, which appears to be a consequence of partial liberalization of maize and fertilizer marketing as well as public investments relevant to agriculture.

Source: World Bank

Figure 5.4: Poor students are much less likely to pass basic literacy and numeracy exams



Source: World Bank computation based on Uwezo testing data

This brief analysis of education paints a mixed picture. On the one hand, Kenyans who graduate from elite secondary schools, and especially those who complete post-secondary education (just over 1 percent of Kenyans), have strong job prospects in both the public and private sectors. The high wages that graduates with post-secondary education can command indicate that the highly skilled are scarce relative to demand. At the same time, even after the large expansion of education, ⅓ of Kenyan children still fail to finish primary school. The low returns to primary education as reflected in the poor performance on basic skills test results suggests that the education system is failing to prepare millions of less advantaged Kenyan youth for good jobs.

Kenya can build on its impressive gains in educational attainment over the last several decades to make education work for all Kenyans, not just those at the high end. The most important objectives to ensure that young Kenyans have the skills for good jobs are: (i) achieving universal primary completion; (ii) increasing completion rates for secondary school; and (iii) increasing the quality and relevance of education at all levels.

Other measures may offer a second chance for those who dropout of school early and are out of work. Such approaches can include allowing for primary/secondary equivalency certificates through the formal education system. Skills and vocational training and apprenticeships all require a certain education foundation that only the education system can provide. Literacy and numeracy programs, equivalency degrees, and accelerated learning programs can also teach basic skills to youth who did not acquired them by the time they left school. (Further discussion of training programs can be found in the section on non-farm self-employment later in this report).

Although improving skills is important for job creation in the long run, in surveys of firms, few identify skills as their binding constraint to growth. In the World Bank's most recent (2007) Enterprise Survey, lack of a skilled workforce did not rank among the top constraints cited by firm owners and managers. The total number of modern wage jobs is growing by just 50,000 per year, and these slots are easily filled by the significant number of highly educated Kenyans who graduate each year. Given this slow rate of job growth, the low level of school attainment and quality for the larger mass of Kenyans is not currently a substantial constraint. Nonetheless, if the other key constraints are lessened, and job creation is energized, it is likely that skills will become a more binding limitation on job growth.

5.2 The demand side: Constraints to job creation by employers

The main constraint to creating good jobs in Kenya today is on the demand side. Firms are not hiring more workers into modern wage jobs because their businesses are not growing sufficiently. Thus the question of how to spur creation of good wage jobs can be answered by determining how to boost private sector business growth. In other words, the way to create more jobs is to make it possible for Kenyan companies to prosper and grow.

The obstacles to job creation can be assessed using surveys of Kenyan companies. In these surveys, firm managers and owners were asked what they saw as the principal obstacles to growth. Recent firm surveys in Kenya include the World Bank's Enterprise Survey in 2007 and a similar survey by the McKinsey Global Institute in 2011. These surveys have a weakness, which is that they can only survey existing firms. As a result, they reflect obstacles faced by firms that are able to operate within the constraints of the Kenyan economy. They do not reflect concerns of firms that have gone out of business or those that never entered Kenya because of the current set of obstacles. Nonetheless, they do provide a rough guide to barriers to job creation faced by the existing private sector.

Firm surveys in Kenya point to 3 main barriers to job creation: (i) potential political and macroeconomic instability; (ii) weaknesses in transportation and electricity; and (iii) corruption. More than half of manufacturing firms report each of these factors to be major or very severe constraints. Tackling these barriers could form the core of a job creation strategy for the country. A fourth element of a job creation strategy—which derives not from the firm surveys, but from the broad experience of successful economies around the world—is the importance of making cities work for everyone, as they will be the centers of wage job creation.

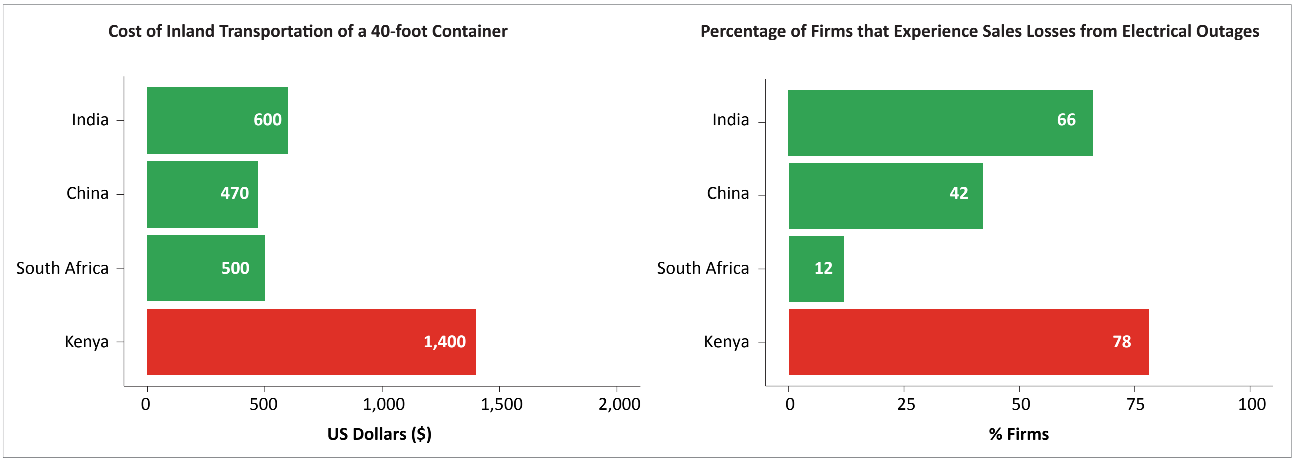
Political and macroeconomic instability present a substantial barrier to job growth in the short term. The Enterprise Survey was conducted in 2007, before the last elections and the ensuing post-election violence. Political and macroeconomic instability do not rank in that survey as major concerns. However, in a more recent survey conducted of employers in Kenya in 2011 by the McKinsey Global Institute, these risks emerged as pre-eminent concerns, with 74 percent citing macroeconomic conditions and instability among the top three obstacles to growth. Likewise, 44 percent mentioned political instability. As the first half of this KEU notes, Kenya faces elevated risks as it heads toward the March 2013 elections and the political transition thereafter. In the past, Kenya's growth has suffered during election years, and over the past three decades, Kenya has had its lowest growth periods—on average about one percentage point below the long term average—in or just following an election year. The single most important step Kenya can take to spur job creation is to achieve a peaceful political transition in 2013.

Weaknesses in transport and electricity are a second severe constraint to firms, and thus job growth. Supply chain problems due to transport problems often result in firms holding large inventories. Manufacturing enterprises in Kenya hold on average 47 days worth of inventory of the most important inputs they need for their production. This is substantially higher than China, India, Tanzania, and Uganda. Transport costs, measured as the cost of inland transportation of a 40-foot container, also remain very high in Kenya relative to most comparator countries (Figure 5.6). High transport costs are driven by several factors, including poor infrastructure, the cartel structure of the trucking industry, long waits at weighbridges and the port of Mombasa, and demands for bribe payments.[12]

Despite improvements in power generation in the last decade, inadequate electricity is another substantial barrier for job creation. Close to 80 percent of firms in Kenya experience losses resulting from power interruptions. On average, losses from power disruption average 7 percent of sales. By comparison, only 40 percent of Chinese firms report losses from power outages, and fewer than 13 percent of firms in South Africa. Due to power shortages, two out of three firms in Kenya own or share a generator, and use it for 16 percent of their electricity needs. Owning a generator is costly, requiring both expensive fuel purchases and substantial capital investments, which average 3-5 percent of the total value of machinery and equipment. Additionally, obtaining a power connection is still difficult in Kenya, and consequently, the country ranks 162 out of 185 in the ease of Getting Electricity in the World Bank's 2012 Doing Business rankings.

[12] *See Box 6.4 of the June 2012 Kenya Economic Update for a discussion of these issues.*

Figure 5.6: Weak transport and electricity are principal constraints to job creation

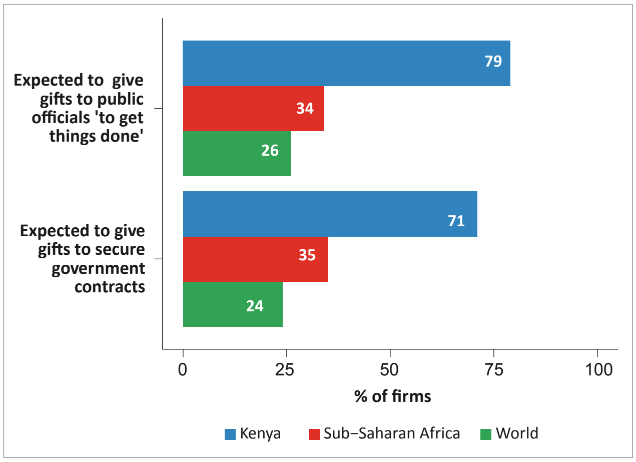


Source: World Bank computation based on Investment Climate Assessment

Notes: Transportation costs average export and import costs

A third drag on job creation comes from kickbacks on government contracts and pervasive demands for bribe payments. In the Enterprise Surveys, Kenya stands out for its high level of business-related corruption. Overall, 71 percent of firms say they need to give gifts to obtain government contracts, and the average amount paid is 12 percent of the value of the contract. Likewise, 79 percent say they have to give gifts to public officials to "get things done." On both counts, corruption rates are much higher in Kenya than in the world and Sub-Saharan Africa as a whole. Firms report that on average 4 percent of the value of their sales is directed towards bribe payments.

Figure 5.7: Kenya's firms are much more likely to face demands for bribes



Source: World Bank computation based on Enterprise Survey data

Corruption smothers job creation in multiple ways. First, it attracts qualified Kenyans into rent-seeking activities rather than job-creating entrepreneurial activity. Second, it discourages firms from growing and expanding their workforces. Third, it directly diverts funds that could otherwise be used to hire workers. The effect on growth is likely to be substantial over the long run but it is difficult to quantify. Based on the responses in the Enterprise Survey, it is possible to roughly estimate the total funds paid in kickbacks on public procurement as well as bribe payments by firms to "get things done." By these calculations, total kickbacks paid on government contracts are approximately 36 billion Kenyan shillings, and other bribe payments paid by firms total 69 billion Kenyan shillings. If these funds were used to hire workers at the average formal sector wage, they could be used to create nearly 87,000 and 166,000 jobs, respectively. By this calculation, the total cost of corruption affecting businesses amounts to more than 253,000 jobs. This is close to the number of urban unemployed youth in Kenya (age 15-34). In other words, if firms were able to redirect all the funds they use for bribes to salaries, they could hire almost every young unemployed Kenyan.[13]

[13] *This calculation of the "job cost" of corruption is necessarily highly approximate. Each element of the calculation is based on reliable data, but the underlying assumptions are simplified. The 12 percent average payment for government kickbacks in the Enterprise Survey may be more or less than the average paid across all government contracts. Likewise, based on the 4 percent of sales average bribe bill reported in the Enterprise Survey, it is assumed that 4 percent of all household consumption expenditure (with the exception of expenditure on education and agricultural production) ultimately funds bribe payments. Overall, because this calculation does not take into account the broader growth effects of corruption, 253,000 is likely to be a lower bound on the "job cost" of corruption.*

A fourth issue for job creation is the importance of making cities work for everyone. As the analysis earlier in this report shows, the country is undergoing a wave of urbanization, as Kenyans move into the towns and cities—particularly Nairobi—in search of opportunity. Large towns and cities are centers of innovation and engines of job growth, and they will continue to draw Kenyans looking for better lives. As cities expand, it is important for the government to invest in urban infrastructure, so that they continue to flourish as drivers of job creation.

5.3 Raising productivity of non-farm self-employment

Even in the best case scenario, as Kenya's service economy expands, an increasing number of Kenyans will make their living in non-farm self-employment. This category covers the work known in Kenya as *jua kali*, as well as what is typically described as informal work. This group accounts for 18 percent of workers nationwide, and this type of work will persist as the central livelihood for many Kenyans for some time. With a growing labor force, even if Kenya tackles the obstacles discussed above and succeeds in expanding wage work, non-farm self-employment will continue to grow for decades.

Non-farm self-employment—also referred to as household enterprises—have largely been neglected by both policymakers and researchers. Household enterprises were largely seen as the symptom of failed development policy. Only recently has a new consensus recognized that "informal is normal" in Kenya and many other countries, and that policy should consider how to improve the welfare of those in non-farm self-employment. Consequently, although a number of studies are underway, research thus far provides few clear guidelines on how to improve the productivity of such enterprises. Going forward, greater use of rigorous impact evaluations are needed to understand what works for improving household enterprises productivity.

Household enterprises face three main barriers: harassment by authorities, access to finance, and lack of skills. These three areas present the main opportunities for increasing the productivity of non-farm self-employment.

Table 5.1: The "Job cost" of bribes in Kenya

Source of funds	Total Value (KSH 2011)	Corruption costs	Market value of corruption (KSH 2011)	Opportunity cost of corruption in yearly jobs
Public Procurement	298,587,883,000	12%	35,830,546,000	87,000
Private Sales	1,714,879,791,000	4%	68,595,192,000	166,000
Total	**2,013,467,674,000**		**104,425,738,000**	**253,000**

Source: World Bank computation

Notes:

1) Public procurement figures are from Public Procurement Oversight Authority: Total value of public procurement in Central government estimated as 10% of GDP, taken from: http://www.ppoa.go.ke/downloads/Procurement%20Journal/issue_no._5.pdf

2) Household final consumption expenditure (representing 80% of GDP) is used to estimate private sales. This excludes the share of household consumption in agriculture and education.

3) Estimates of the financial burden of corruption on firms in Kenya were taken from the Kenya Investment Climate Assessment. This report found that Kenyan firms pay 12 percent of the value of a public contract as informal payments. In addition, the report found that the costs of informal payments to officials to deal with rules and regulations cost 4 percent of annual sales.

4) The opportunity cost calculations are based on dividing the total "market value of corruption" in each category by average modern sector wage earnings. Average modern sector wage earnings are KSH 413,010 per year (for both private and public sector), according to the the 2012 Economic Survey (KNBS).

Abuse and harassment by the police of household enterprises is extraordinarily common. This is particularly the case for traders, who make up a large portion of the non-farm self-employed. One study of women street vendors in Nairobi found that "Harassment is the main mode of interaction between street vendors and authorities" (Muiruri 2010). The study found that demands for bribes by police—amounting to 3-8 percent of income—as well as sexual abuse are common. Summarizing the difficulties of the street vendors, the study found the following:

> *"The most significant challenges on the street were the different types of harassment especially from the city authorities over licensing, taxation, site of operation, sanitation and working conditions. Various forms of harassment were reported including, beating, confiscation of goods, corruption, evictions, fines, arrests and imprisonment."*

Similar findings emerge from studies of household enterprises in other contexts. In particular, space for informal traders is often neglected in urban planning. The combination of a lack of fixed space and legal marginalization leave many household enterprises vulnerable to exploitation by authorities.

A second challenge faced by household enterprises is access to financing. Those working in non-farm self-employment typically cite lack of access to capital as a major constraint. A few studies have shown that providing cash grants can increase entry into self-employment, but evidence is more limited on the effects of: (i) cash grants on increasing household enterprise productivity; and (ii) the effects of micro-credit on either entry into self-employment or household enterprise productivity.

One recent rigorous study in Kenya offers some positive evidence on providing access to savings for women in non-farm self-employment (Dupas and Robinson 2009). In the study in a rural area of western Kenya, women market vendors offered access to savings accounts in substantial numbers used the accounts, saved more, and increased their productive investment and private expenditures. In contrast, no effect was found for male bicycle-taxi drivers offered the same accounts. This finding also suggests that saving and investment constraints may be binding for self-employed women (but not men), since women may have greater problems saving on their own, due to pressures to share their savings with others.

The ability of public policy to address financing constraints for household enterprises may be limited, but innovative private sector solutions have emerged. Grant programs are likely to be difficult to scale up, and micro-finance programs present substantial administrative challenges. At the same time, the private sector in Kenya has begun to provide solutions that ease finance constraints for micro-enterprises. Most importantly, the rise of Kenya's home-grown mobile money system has been a very positive development, as it has provided entrepreneurs with a mechanism for the safe storage and transfer of funds. (This phenomenon was discussed in the December 2010 Kenya Economic Update). Additionally, private sector innovations such as small scale lending from Equity Bank have helped increase access to finance. Both developments are likely to have boosted the productivity of household enterprises.

A third challenge for household enterprises is lack of skills. Formal schooling typically provides limited education that is directly applicable to household enterprises. A number of different approaches have been attempted to improve skills for the self-employed. Broadly, these have included training in business skills, training in technical skills through apprenticeships or vocational training, and training in behavioral skills. In broad summary, rigorous evaluations are scarce (particularly in Africa), and when rigorously evaluated, programs in all three categories typically are found to have limited effects. Although apprenticeship and vocational training programs are widespread, the evidence is particularly weak on their effectiveness. The most consistent positive effects have come from programs that train the self-employed in business skills like bookkeeping and market research. Serious evaluations of such programs typically do find effects on business practices, but this does not always translate into higher earnings, even with intensive training.

A promising training approach in Kenya, the Technical and Vocational Vouchers Program (TVVP), is currently being examined with a rigorous impact evaluation. The program provides beneficiaries with vouchers to purchase the training they want either from government/public or private sector operators. Initial analysis has found that giving young Kenyan adults vouchers does boost enrollment in training programs. The study has also found that recipients offered a choice between government and private training (rather than being restricted to government training) are more likely to enroll and less likely to drop out. Future analysis will examine the effects of the program on earnings and other outcomes.

As a whole, the existing body of knowledge on non-farm self-employment points to two conclusions. First, microfinance programs and training approaches like TVVP are very worth pursuing through rigorously evaluated pilot programs but are largely unproven as vehicles to improve the productivity of household enterprises—particularly given the administrative challenge of scaling up such programs. Second, the single most important action that governments can take to improve the welfare of the self-employed is to accept them as part of the legitimate economy and recognize that "informal is normal." This meansencouraging urban authorities to provide space to household enterprises to operate and protecting such enterprises from pervasive harassment.

5.4 Creating good jobs: The way forward

This special focus began by highlighting that the nature of work is changing in Kenya, and jobs are important for living standards, productivity, and social cohesion, in the framework of the 2013 World Development Report. As Kenyans move off family farms and to the cities in search of good jobs, their future will be determined by whether the country succeeds in generating good jobs. The WDR framework shows how the benefits of "good jobs" go beyond the individual worker and extend to the society as a whole. In terms of living standards, jobs which increase the incomes of women can have benefits for children's health and education. For productivity, jobs in cities that catalyze knowledge spillovers can raise productivity across firms. For social cohesion, jobs which provide an alternative to idleness and violence among youth can have payoffs for society. All of these dynamics reinforce the importance of Kenya achieving job growth.

The analysis in this report highlights five elements to a job creation strategy to boost wage job creation. These five components are as follows:

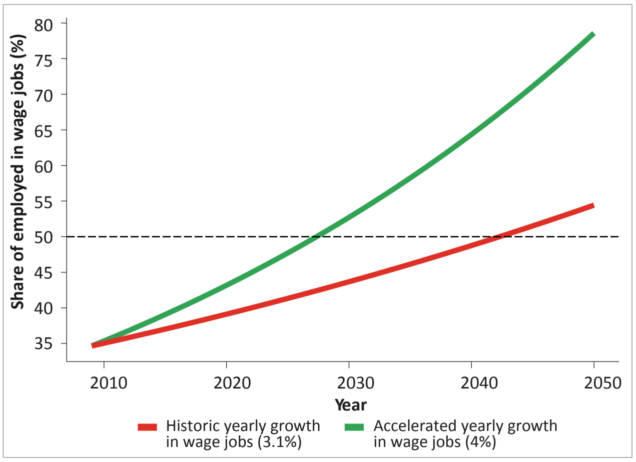
(i) maintain political and macroeconomic stability
(ii) reduce the costs and improve reliability of transport and electricity
(iii) eliminate job-smothering corruption
(iv) invest in cities so that they continue to flourish as centers of innovation and job creation
(v) upgrade skills and make schools work for all Kenyans

Although this report emphasizes the central role of modern wage jobs, it also emphasize the need to promote the welfare of the growing ranks of the non-farm self-employed.

Currently comprising nearly 1 in 5 workers, the ranks of this sector are likely to grow as the shift out of family farming continues. Authorities can directly support this sector principally by recognizing them as part of the legitimate economy and providing such enterprises space to operate.

A job creation strategy oriented towards modern wage jobs will also boost the welfare of the self-employed and those working in the informal wage sector. This is for two reasons. First, many of the issues addressed by the 5-point strategy above directly affect those outside the modern wage sector. In particular, as the focus group interviews presented in this study illustrate, the culture of corruption harms job seekers at all levels. Likewise upgrading skills across the economy will benefit all young Kenyans. Second, growth of modern wage jobs will generate demand for the goods and services provided by those in the self-employed and informal wage sectors.

Figure 5.8: With accelerated wage job growth, most Kenyans could be in wage work by 2030



Source: World Bank computation based on Kenya census data

To a substantial extent, the country is already pursuing elements of the strategy laid out here. The importance of achieving a peaceful political transition in 2013 is widely recognized. During the last few years, the country has made important investments in the road network as well as power generation and the electricity network. The need to focus on school quality is the consequence of the largely successful efforts in the last decade to expand school access. Though corruption has proved harder to root out and remains a key challenge.

Kenya has the potential to take advantage of its demographic opportunity and provide good wage jobs for the coming bulge in Kenyans of working age. The country lies at a crossroads. Given the shrinking numbers of young people working on family farms and the inevitable pull of urban life, it is very likely that fewer and fewer Kenyans will make their living on family farms. The country's success in addressing impediments to job creation will determine whether new entrants to the labor force end up mostly in non-farm self-employment or in better paying wage jobs. Two scenarios for Kenya's future in 2030 are presented in Figure 3.20. In one, wage job creation stagnates at its current rates, and non-farm self-employment absorbs most of the demographic bulge. (These calculations are for wage employment as a whole, not just modern wage employment.) Under this scenario, less than 40 percent of Kenyans will have wage jobs in 2030. In the alternative scenario, wage employment creation accelerates, and by 2030, a majority of both men and women will hold wage jobs. The country will need to overcome key barriers for job creation to achieve this second scenario.

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ANNEXES

Annex 1: Macroeconomic environment

	2008	2009	2010	2011	2012
GDP Growth Rates (%)*	**1.5**	**2.7**	**5.8**	**4.4**	**3.4**
Agriculture	-4.3	-2.5	6.3	1.6	2.0
Industry	4.7	2.8	5.4	2.8	4.3
Services	2.5	5.1	5.6	5.1	4.1
Fiscal Framework (% of GDP)					
Total Revenue	21.8	21.9	23.8	23.8	24.7
Total Expenditure	27.2	27.9	29.7	29.2	30.7
Grants	-0.1	-0.1	-0.1	0.0	0.0
Budget Deficit (incl grants)	-4.3	-5.2	-5.1	-4.3	-4.5
Total Debt	45.6	47.5	49.9	48.5	47.2
External Account (% of GDP)**					
Exports (fob)	18.7	14.4	16.5	17.1	14.3
Imports (cif)	42.5	32.8	39.1	43.5	38.2
Balance of Trade	-15.7	-12.4	-14.7	-18.9	-16.4
Current Account Balance	-7.3	-5.3	-7.9	-9.8	-10.3
Financial and Capital Account	5.6	7.8	8.4	9.7	13.3
Overall Balance	-1.7	2.5	0.5	-0.1	3.0
Inflation (average)***	**16.2**	**10.5**	**4.1**	**14.0**	**12.3**
Exchange Rate (KES /$)***	**69.2**	**77.4**	**79.2**	**88.8**	**85.0**

Source: World Bank computation based on KNBS and CBK
** 2012 Value are for H1. ** 2012 Value are for September. *** 2012 Value are for October*

Annex 2: GDP growth rates 2008-2012 Kenya, SSA and EAC

	2008	2009	2010	2011	2012*	2008-2012
Kenya	1.5	2.7	5.8	4.4	4.3	5.0
SSA (excluding South Africa)	6.2	4.0	6.4	6.5	6.1	5.8
Uganda	7.7	7.0	6.1	5.1	4.2	6.0
Tanzania	7.4	6.0	7.0	6.4	6.5	6.7
Rwanda	11.2	4.1	7.2	8.6	7.7	7.8

Source: World Bank computation based on IMF data
** Projection*

Annex 3: Kenya annual GDP

Years	GDP, current prices	GDP, constant prices	GDP/capita, current prices	GDP Growth
	KES billions	KES billions	U.S. dollars	Percent change
2000	968	965	399	0.6
2001	1026	1011	413	4.7
2002	1039	1014	408	0.3
2003	1142	1042	456	2.8
2004	1274	1090	478	4.6
2005	1416	1156	547	6.0
2006	1623	1229	637	6.3
2007	1834	1315	749	7.0
2008	2108	1335	813	1.5
2009	2367	1371	793	2.7
2010	2550	1450	810	5.8
2011	3025	1514	833	4.4

Source: World Bank computation based on IMF data

Annex 4: Broad sectors half year growth rates (%)

Years	Quarters	Agriculture	Industry	Services	GDP
2006	1	2.5	4.7	8.0	6.1
	2	6.1	5.3	5.1	6.5
2007	1	5.5	6.6	7.4	7.7
	2	-0.1	7.6	8.8	6.4
2008	1	-2.7	4.6	2.5	1.6
	2	-5.6	4.8	2.5	1.4
2009	1	-2.7	4.6	7.3	4.2
	2	-2.3	1.1	3.0	1.4
2010	1	4.6	4.7	4.3	4.8
	2	7.8	6.0	6.8	6.6
2011	1	2.1	3.6	5.2	4.3
	2	1.1	2.0	5.1	4.4
2012	1	2.0	4.3	4.1	3.4

Source: World Bank computation based on KNBS data

Agriculture = Agriculture and forestry + Fishing
Industry = Mining and quarrying + Manufacturing + Electricity ans water + Construction
Servics = Wholesale and retail trade + Hotels and restaurants + Transport and communication + Financial intermediation + Real estate, renting and business services + Public administration + Education + Other services + FISIM

Annex 5: Quarterly growth rates (%)

Years	Quarters	Agriculture			Industry			Services			GDP		
		Q/Q-1	Q/Q-4	(Q:Q-3) / (Q-4:Q-7)	Q/Q-1	Q/Q-4	(Q:Q-3)/ (Q-4:Q-7)	Q/Q-1	Q/Q-4	(Q:Q-3)/ (Q-4:Q-7)	Q/Q-1	Q/Q-4	(Q:Q-3)/ (Q-4:Q-7)
2007	1	-15.5	8.7	6.5	-2.2	3.8	4.6	3.5	5.6	5.9	-2.8	7.1	6.6
	2	-9.6	2.0	5.8	5.7	9.3	5.9	2.8	9.3	6.3	0.1	8.3	7.1
	3	24.8	-0.1	4.0	3.2	8.9	6.9	4.7	8.5	6.6	9.1	6.3	6.6
	4	4.7	-0.2	2.3	-0.5	6.2	7.1	-2.0	9.1	8.1	0.1	6.4	7.0
2008	1	-19.7	-5.2	-0.9	-5.3	2.8	6.8	-3.1	2.2	7.2	-7.6	1.1	5.5
	2	-4.6	0.1	-1.3	9.2	6.2	6.0	3.4	2.8	5.6	1.2	2.2	4.0
	3	18.1	-5.2	-2.7	3.4	6.4	5.4	5.8	3.8	4.4	9.5	2.6	3.1
	4	4.0	-5.9	-4.3	-3.5	3.2	4.7	-4.6	1.1	2.5	-2.1	0.3	1.5
2009	1	-16.0	-1.5	-3.4	-1.4	7.5	5.8	5.9	10.6	4.5	-2.0	6.4	2.8
	2	-6.9	-3.9	-4.3	3.6	1.9	4.7	-2.6	4.1	4.9	-2.9	2.1	2.8
	3	18.9	-3.3	-3.8	0.2	-1.3	2.7	8.1	6.4	5.5	9.3	1.9	2.6
	4	6.2	-1.3	-2.5	1.4	3.7	2.8	-10.7	-0.5	5.1	-3.1	0.8	2.7
2010	1	-9.9	5.9	-0.7	-0.8	4.4	2.1	11.3	4.6	3.7	1.9	4.8	2.4
	2	-9.2	3.3	0.8	4.2	5.0	2.9	-3.1	4.1	3.7	-2.9	4.8	3.1
	3	25.0	8.6	4.0	2.2	7.2	5.1	8.6	4.6	3.2	10.5	6.0	4.1
	4	4.5	6.9	6.3	-0.9	4.8	5.4	-6.7	9.3	5.6	-1.8	7.3	5.8
2011	1	-15.6	0.2	4.9	-0.7	4.9	5.5	7.9	6.0	5.9	-0.2	5.1	5.8
	2	-5.5	4.2	5.1	1.7	2.4	4.8	-4.6	4.3	6.0	-4.4	3.5	5.5
	3	20.3	0.3	2.9	0.6	0.8	3.2	9.5	5.1	6.1	11.0	4.0	5.0
	4	6.2	1.9	1.6	1.5	3.3	2.8	-6.7	5.1	5.1	-1.0	4.8	4.4
2012	1	-15.3	2.3	2.1	0.7	4.7	2.8	7.1	4.3	4.7	-1.5	3.4	4.0
	2	-6.0	1.7	1.5	1.0	3.9	3.2	-4.9	4.0	4.6	-4.5	3.3	3.9

Source: World Bank computation based on KNBS data

Annex 6: Inflation

Year	Month	Overall inflation	Food Inflation	Energy Inflation	Core Inflation
2011	January	5.4	8.6	5.7	1.4
	February	6.5	9.8	7.8	1.8
	March	9.2	15.1	9.6	2.5
	April	12.1	19.1	12.7	3.6
	May	13.0	20.1	14.4	4.0
	June	14.5	22.5	15.5	4.8
	July	15.5	24.0	16.2	5.6
	August	16.7	23.9	16.8	8.5
	September	17.3	24.4	17.6	9.1
	October	18.9	26.2	19.2	10.4
	November	19.7	26.2	20.6	11.8
	December	18.9	25.0	19.7	11.6
2012	January	18.3	24.6	17.3	12.1
	February	16.7	22.1	14.8	12.1
	March	15.6	20.3	13.0	12.0
	April	13.1	16.2	11.1	11.0
	May	12.2	14.6	10.0	11.3
	June	10.1	10.5	9.0	10.7
	July	7.7	6.6	7.4	9.7
	August	6.1	3.6	6.7	9.0
	September	5.3	2.9	6.0	8.3
	October	4.1	1.4	5.0	7.0

Source: World Bank computation based on KNBS data

Annex 7: Tea production and exports

Year	Month	Production	Price	Exports	Exports value
		MT	KES/Kg	MT	KES million
2010	January	37,713	227	37,495	8,559
	February	34,834	240	37,751	8,995
	March	39,175	231	34,692	8,454
	April	35,857	217	27,945	6,629
	May	35,618	199	35,423	7,962
	June	29,815	192	40,653	8,118
	July	24,401	191	40,687	8,120
	August	23,177	224	31,413	6,588
	September	28,883	226	28,692	6,406
	October	34,140	223	24,737	5,674
	November	37,063	224	35,137	8,091
	December	38,330	237	35,410	8,022
2011	January	35,999	256	31,110	7,871
	February	26,711	251	28,814	7,223
	March	22,459	243	35,852	8,890
	April	31,482	241	32,084	7,900
	May	32,856	245	31,898	7,825
	June	28,955	264	34,957	7,825
	July	26,343	283	33,629	8,907
	August	24,471	294	32,693	9,266
	September	30,493	292	26,430	9,333
	October	39,926	291	29,422	7,686
	November	36,825	269	33,353	8,855
	December	41,393	251	35,187	9,334
2012	January	36,205	250	35,382	9,145
	February	18,412	245	37,656	9,123
	March	17,859	251	31,280	9,415
	April	18,118	256	26,816	7,804
	May	37,383	264	25,060	6,445
	June	30,197	279	29,148	7,770
	July	24,306	288	28,054	7,813
	August	31,920	288	--	--

Source: KNBS

Annex 8: Coffee production and exports

Year	Month	Production	Price	Exports	Exports value
		MT	KES /Kg	MT	KES million
2010	January	4,473	360	2,235	672
	February	5,243	418	3,592	1,172
	March	5,930	374	4,408	1,660
	April	3,221	284	4,206	1,548
	May	2,496	239	3,860	1,583
	June	1,699	233	4,523	1,632
	July	0	0	4,872	458
	August	5,140	544	2,795	1,038
	September	2,570	404	3,988	1,804
	October	2,634	370	2,971	1,202
	November	4,065	473	3,252	1,241
	December	1,467	538	2,432	867
2011	January	3,774	682	3,067	1,282
	February	3,851	640	3,261	1,671
	March	3,639	587	4,204	2,155
	April	2,298	474	4,254	2,294
	May	0	0	3,878	1,963
	June	1,136	596	2,677	1,322
	July	3,305	592	2,857	1,749
	August	4,558	582	3,096	1,955
	September	2,904	593	3,317	2,161
	October	1,388	543	3,298	2,134
	November	1,331	541	1,990	1,173
	December	1,800	603	1,672	940
2012	January	4,770	544	3,094	1,454
	February	6,505	369	3,668	1,937
	March	3,317	389	5,069	2,550
	April	4,801	342	4,625	2,369
	May	5,472	303	4,924	2,275
	June	3,884	258	4,887	2,098
	July	3,086	298	5,727	2,397
	August	3,948	277	--	--
	September	4,474	265	--	--

Source: KNBS

Annex 9: Horticulture exports

Year	Month	Exports	Exports value
		MT	KES million
2010	January	11,714	3,436
	February	10,286	2,919
	March	14,461	4,535
	April	12,197	2,791
	May	13,394	3,192
	June	12,386	2,886
	July	11,818	2,791
	August	12,251	4,372
	September	13,265	3,191
	October	15,290	3,956
	November	15,850	4,279
	December	4,219	1,824
2011	January	16,231	7,470
	February	17,531	7,368
	March	21,287	7,548
	April	23,448	7,159
	May	21,839	8,315
	June	17,730	6,836
	July	15,420	5,531
	August	16,128	6,582
	September	15,658	6,745
	October	17,553	9,508
	November	17,277	6,647
	December	16,145	8,915
2012	January	16,191	9,029
	February	17,196	7,014
	March	20,856	7,070
	April	18,713	6,676
	May	18,267	6,312
	June	16,454	6,544
	July	18,384	8,086
	August	17,175	6,110
	September	17,998	7,881

Source: KNBS

Annex 10: Local electricity generation by source (million KWh)

Year	Month	Hydro	Geo-thermal	Thermal	Total
2010	January	173	111	166	451
	February	146	97	169	412
	March	183	116	173	472
	April	237	111	159	507
	May	294	133	123	550
	June	305	132	113	551
	July	325	122	124	572
	August	318	126	125	569
	September	314	125	132	571
	October	296	124	165	585
	November	297	120	164	580
	December	307	125	155	587
2011	January	296	119	188	603
	February	246	105	200	551
	March	259	126	225	610
	April	237	120	224	582
	May	264	124	222	610
	June	268	118	200	586
	July	263	122	226	611
	August	254	125	234	614
	September	249	121	224	595
	October	253	122	225	601
	November	263	115	208	587
	December	331	125	156	613
2012	January	330	129	169	627
	February	332	125	159	616
	March	293	134	194	620
	April	273	124	175	572
	May	323	132	159	615
	June	342	129	147	618
	July	358	119	168	646
	August	348	122	176	645
	September	358	119	168	646

Source: KNBS

Annex 11: Soft drinks, sugar, galvanised sheets and cement production

Year	Month	Soft drinks	Sugar	Galvanised sheets	Cement
		"000" litres	MT	MT	MT
2010	January	29,405	48,100	14,254	290,805
	February	31,178	42,982	13,700	266,889
	March	33,984	45,388	20,095	300,610
	April	29,352	43,801	18,929	284,987
	May	29,445	34,465	18,842	294,158
	June	29,588	37,828	16,006	312,176
	July	29,332	33,495	16,790	334,444
	August	28,525	41,911	16,457	323,478
	September	29,593	45,595	16,299	319,464
	October	30,435	43,669	18,488	351,963
	November	29,333	50,822	16,219	323,447
	December	31,163	55,414	15,331	307,385
2011	January	34,446	55,974	22,094	332,632
	February	32,457	52,069	22,386	302,747
	March	36,156	53,842	22,928	323,358
	April	31,162	52,061	20,957	330,535
	May	26,622	49,130	24,744	343,746
	June	28,910	38,818	24,677	332,994
	July	28,478	25,884	24,906	360,923
	August	28,580	26,060	24,659	348,639
	September	29,674	22,815	17,988	352,099
	October	28,540	28,990	16,619	320,962
	November	27,366	32,689	22,104	294,007
	December	38,962	36,729	24,033	326,361
2012	January	34,317	53,852	24,605	318,615
	February	32,009	49,480	23,599	345,153
	March	37,363	52,342	21,446	370,062
	April	29,331	44,914	19,794	339,456
	May	24,359	40,503	22,092	344,080
	June	27,391	45,111	23,141	357,721
	July	22,073	41,607	23,482	354,453
	August	23,045	--	23,777	360,389

Source: KNBS

Annex 12: Tourism arrivals

Year	Month	JKIA	MIA	Total
2009	January	54,167	24,315	78,482
	February	54,503	24,542	79,045
	March	52,320	18,866	71,186
	April	52,458	7,026	59,484
	May	50,941	4,181	55,122
	June	61,946	7,113	69,059
	July	83,972	13,689	97,661
	August	82,658	17,656	100,314
	September	63,288	12,734	76,022
	October	67,951	13,229	81,180
	November	65,030	19,027	84,057
	December	74,682	24,579	99,261
2010	January	63,734	29,580	93,314
	February	66,562	25,392	91,954
	March	63,975	22,673	86,648
	April	55,739	8,016	63,755
	May	61,175	6,642	67,817
	June	71,077	8,395	79,472
	July	97,920	18,839	116,759
	August	77,471	23,993	101,464
	September	78,300	17,281	95,581
	October	80,165	18,769	98,934
	November	66,900	23,772	90,672
	December	79,568	29,346	108,914
2011	January	79,142	35,770	114,912
	February	69,221	31,211	100,432
	March	71,734	26,027	97,761
	April	66,276	10,181	76,457
	May	74,148	5,167	79,315
	June	72,944	6,676	79,620
	July	131,519	12,037	143,556
	August	113,438	23,402	136,840
	September	85,397	17,317	102,714
	October	88,918	18,741	107,659
	November	89,394	19,641	109,035
	December	94,355	21,624	115,979

Annex 12: Tourism arrivals (continued)

Year	Month	JKIA	MIA	Total
2012	January	83,450	28,134	111,584
	February	80,405	24,636	105,041
	March	75,668	19,965	95,633
	April	72,023	7,531	79,554
	May	71,287	4,830	76,117
	June	90,972	5,934	96,906
	July	108,136	12,671	120,807
	August	108,869	17,771	126,640

Source: KNBS

Annex 13: Exchange rate

Year	Month	USD	UK POUND	EURO
2010	January	75.8	122.5	108.3
	February	76.7	120.1	105.1
	March	76.9	115.8	104.5
	April	77.3	118.5	103.7
	May	78.5	115.2	98.8
	June	81.0	119.6	99.0
	July	81.4	124.3	103.9
	August	80.4	125.9	103.8
	September	80.9	125.9	105.6
	October	80.7	128.0	112.2
	November	80.5	128.5	110.1
	December	80.6	125.7	106.5
2011	January	81.0	127.7	108.2
	February	81.5	131.5	111.3
	March	84.2	136.1	117.9
	April	83.9	137.1	121.1
	May	85.4	139.5	122.4
	June	89.0	144.4	128.1
	July	89.9	145.0	128.5
	August	92.8	151.9	133.0
	September	96.4	152.1	132.7
	October	101.3	159.4	138.7
	November	93.7	148.2	127.1
	December	86.7	135.1	114.1
2012	January	86.3	133.9	111.4
	February	83.2	131.4	110.1
	March	82.9	131.2	109.6
	April	83.2	133.2	109.6
	May	84.4	134.3	108.0
	June	84.8	132.0	106.5
	July	84.1	131.3	103.6
	August	84.1	132.1	104.2
	September	84.5	136.1	108.7
	October	85.0	136.6	110.2

Source: World Bank computation based on CBK data

Annex 14: Interest rate

Year	Month	Interbank	91-Tbill	CBR	Average deposit rate %	Savings	Overall weighted lending rate	Interest rate spread
2010	January	3.7	6.6	-	5.0	1.8	15.0	10.0
	February	2.4	6.2	-	4.9	1.8	15.0	10.1
	March	2.2	6.0	7.0	4.7	1.8	15.0	10.2
	April	2.5	5.2	7.0	4.5	1.8	14.6	10.1
	May	2.2	4.2	6.8	4.6	1.8	14.4	9.8
	June	1.2	3.0	6.8	4.5	1.7	14.4	9.9
	July	1.4	1.6	6.8	3.8	1.6	14.3	10.4
	August	1.7	1.8	6.8	3.7	1.5	14.2	10.4
	September	1.2	2.0	6.0	3.5	1.5	14.0	10.4
	October	1.0	2.1	6.0	3.6	1.5	13.9	10.3
	November	1.0	2.2	6.0	3.5	1.4	13.9	10.4
	December	1.2	2.3	6.0	3.6	1.5	13.9	10.3
2011	January	1.0	2.0	6.0	3.4	1.3	14.0	10.6
	February	1.0	3.0	6.0	3.4	1.4	13.9	10.5
	March	1.0	3.0	6.0	3.5	1.4	13.9	10.4
	April	4.0	3.0	6.0	3.5	1.4	13.9	10.5
	May	6.0	5.0	6.0	3.6	1.4	13.9	10.3
	June	6.0	9.0	6.0	3.7	1.4	13.9	10.2
	July	9.0	9.0	6.0	3.9	1.4	14.1	10.3
	August	14.0	9.0	6.0	4.1	1.4	14.3	10.3
	September	7.0	12.0	7.0	4.2	1.3	14.8	10.6
	October	15.0	15.0	7.0	4.8	1.3	15.2	10.4
	November	29.0	16.0	11.0	5.7	1.4	18.5	12.7
	December	22.0	18.0	17.0	7.0	1.6	20.0	13.1
2012	January	19.0	21.0	18.0	7.7	1.6	19.5	11.9
	February	18.0	20.0	18.0	8.0	1.7	20.3	12.3
	March	24.0	18.0	18.0	8.0	1.7	20.3	12.3
	April	16.0	16.0	18.0	9.0	1.6	20.2	11.2
	May	17.0	11.0	18.0	8.4	1.6	20.1	11.7
	June	17.0	10.0	18.0	7.9	1.5	20.3	12.4
	July	14.0	12.0	17.0	8.3	1.7	20.2	11.9
	August	9.0	11.0	17.0	7.9	1.6	20.1	12.3
	September	--	--	13.0	--	--	--	--

Source: CBK
** World Bank computations*

Annex 15: Credit to private sector

Year	Month	Total private sector KES million	Agriculture	Manufacturing	Trade	Building and construction	Transport and communication	Finance and insurance	Real estate	Mining and quarrying	Private households	Consumer durables	Business services	Other activities
2010	January	15.7	17.8	-6.3	25.3	-12.3	12.7	55.8	37.3	121.6	21.4	42.5	-8.8	16.6
	February	14.3	10.9	6.1	28.9	-2.5	10.3	60.9	38.3	7.3	24.9	46.6	-8.8	-7.8
	March	15.0	10.7	3.5	26.2	-1.9	17.3	64.8	38.0	6.1	34.5	41.7	0.3	-19.7
	April	16.0	11.6	3.4	35.1	-3.1	20.4	73.8	44.6	1.1	29.0	36.8	-2.8	-16.3
	May	17.0	18.6	7.8	36.8	-12.4	22.2	37.5	75.2	-22.9	34.0	25.2	-7.7	-7.5
	June	17.2	23.6	14.5	31.0	-22.3	21.7	19.2	88.6	-23.5	40.0	17.8	-4.1	-16.7
	July	19.4	16.8	15.9	33.7	-7.8	9.3	7.9	88.8	-12.7	44.4	14.1	2.8	-7.7
	August	19.8	19.0	14.4	35.6	-21.1	2.9	12.2	101.8	-11.8	41.8	16.0	9.8	-11.7
	September	22.4	9.8	24.4	29.0	-16.3	2.1	14.8	100.4	193.9	14.0	16.9	17.7	16.6
	October	22.2	12.7	31.4	29.4	-26.2	1.8	-42.8	90.6	206.0	14.1	31.6	30.5	13.8
	November	23.3	9.9	30.5	25.5	-27.2	1.1	2.1	90.2	102.3	14.1	8.9	39.6	11.3
	December	21.3	11.9	27.7	13.7	-28.7	-5.9	-4.2	87.1	78.0	36.4	12.5	41.6	4.1
2011	January	21.6	20.8	30.3	33.5	-1.9	-5.5	-8.2	96.2	-12.0	17.0	15.2	34.4	-7.1
	February	24.4	17.4	27.4	29.5	-2.2	2.3	-19.1	93.6	23.2	21.6	17.8	18.1	18.8
	March	26.1	20.8	26.6	28.8	1.1	-3.0	-22.9	95.1	59.5	20.5	16.9	25.3	35.8
	April	27.7	24.0	26.6	22.1	3.9	2.8	-14.0	96.6	53.7	23.5	50.2	21.0	22.7
	May	28.6	21.4	28.4	29.0	15.1	3.8	-6.5	63.0	45.9	22.0	27.2	13.8	49.2
	June	31.8	27.7	30.6	30.6	27.1	13.6	2.4	44.5	56.0	29.3	30.1	13.6	59.8
	July	33.3	35.8	28.5	39.5	38.7	26.1	26.9	47.2	40.0	27.4	33.5	9.0	41.2
	August	33.9	33.1	29.0	37.5	36.5	29.2	25.8	42.4	45.2	33.8	37.5	4.5	43.9
	September	37.2	38.0	38.6	40.1	55.6	28.5	23.8	37.7	46.6	40.0	38.6	4.4	50.1
	October	36.1	28.8	39.6	37.8	53.4	32.6	24.5	35.7	45.6	39.9	35.8	3.4	48.8
	December	31.1	27.6	30.3	24.3	55.7	45.3	31.2	39.0	73.3	32.5	26.7	-5.8	47.4

Annex 15: Credit to private sector (continued)

Year	Month	Total private sector KES million	Agriculture	Manufacturing	Trade	Building and construction	Transport and communication	Finance and insurance	Real estate	Mining and quarrying	Private households	Consumer durables	Business services	Other activities
2012	January	28.6	24.7	24.8	27.4	54.2	40.9	14.1	38.3	93.7	24.4	21.3	-15.4	53.7
	February	26.6	21.1	22.2	26.3	65.2	31.1	22.9	39.4	28.3	17.4	19.2	-0.5	40.2
	March	25.2	16.6	30.5	24.0	54.4	36.3	28.4	36.7	18.0	17.4	19.9	-5.0	23.7
	April	24.2	14.5	29.7	27.4	59.4	25.0	19.3	29.0	37.9	15.7	-7.4	-5.7	47.6
	May	23.1	14.3	26.9	25.4	51.8	28.7	17.9	29.7	10.0	13.0	16.3	0.0	25.0
	June	17.6	10.1	23.4	21.4	49.9	10.3	10.0	27.8	1.8	7.0	14.7	-5.1	16.2
	July	15.3	3.6	19.0	10.5	36.7	-2.9	10.7	26.4	3.3	7.7	13.7	-1.3	27.0
	August	13.3	3.9	14.8	7.8	35.2	-2.7	16.2	26.2	-10.4	8.1	12.5	0.5	21.7
	September	9.0	0.7	7.3	3.2	27.8	-4.3	20.3	24.8	-13.7	6.0	8.0	0.9	8.8

Source: CBK

Annex 16: Money aggregate

Year	Month	Broad money (with FCDs of residents) M3	Foreign currency deposits (FCDs)	Broad money supply (M2)	Money (M1)	Money (M0)
2010	January	19.2	14.2	20.1	16.2	4.9
	February	20.5	10.9	22.1	20.3	6.7
	March	22.3	18.6	22.9	13.9	9.6
	April	20.9	14.0	22.1	24.5	14.3
	May	24.9	20.6	25.6	25.0	13.5
	June	26.2	19.6	27.3	27.7	16.0
	July	24.6	16.6	26.0	22.2	16.7
	August	23.7	14.4	25.3	18.7	16.6
	September	26.0	20.1	27.0	23.9	19.5
	October	24.7	25.0	24.6	23.7	18.8
	November	23.1	19.1	23.8	27.6	20.3
	December	21.6	16.8	22.4	30.5	21.8
2011	January	20.4	14.1	21.5	24.3	18.0
	February	20.5	20.7	20.5	28.0	17.5
	March	19.6	20.7	19.4	29.7	18.5
	April	18.9	23.3	18.2	24.3	19.0
	May	16.5	16.1	16.6	23.3	17.3
	June	15.2	19.2	14.5	21.2	17.4
	July	16.4	27.0	14.7	19.6	19.2
	August	18.1	35.4	15.2	20.4	19.7
	September	19.3	52.1	14.3	16.9	18.2
	October	20.7	63.6	14.0	19.6	16.2
	November	18.3	47.4	13.8	12.4	16.3
	December	19.1	50.9	14.1	7.9	11.4
2012	January	17.1	59.7	10.6	5.3	13.0
	February	15.2	40.5	11.2	5.7	12.5
	March	14.5	34.0	11.5	1.4	13.1
	April	15.1	27.7	13.0	6.1	8.1
	May	15.6	34.9	12.5	1.7	10.6
	June	15.5	29.8	13.1	0.6	6.9
	July	14.2	15.8	13.9	2.3	3.6

Source: CBK

Annex 17: Mobile payments

Year	Month	Number of agents	Number of customers (millions)	Number of transactions (millions)	Value of transactions (Billions)
2009	January	7,512	5.8	11.1	28.7
	February	13,358	6.3	13.6	33.8
	March	14,790	6.5	13.8	34.0
	April	16,029	6.8	15.0	36.8
	May	16,641	7.2	16.0	38.2
	June	18,504	7.4	16.9	40.3
	July	18,780	7.7	17.0	40.7
	August	19,803	8.0	18.4	45.4
	September	20,631	8.4	19.9	48.6
	October	22,476	8.6	20.0	47.5
	November	23,012	8.9	21.7	52.3
	December	24,850	9.5	20.1	48.5
2010	January	25,394	9.7	20.8	49.9
	February	27,622	10.0	24.1	56.1
	March	29,570	10.2	22.7	51.8
	April	31,036	10.5	24.7	58.1
	May	31,902	10.9	25.0	58.1
	June	32,974	13.5	26.9	61.8
	July	33,864	14.6	26.8	61.5
	August	35,373	15.2	29.4	68.5
	September	37,009	15.7	31.3	71.8
	October	38,201	16.1	30.0	70.3
	November	39,449	16.4	29.1	75.9
	December	33,968	16.7	28.2	75.4
2011	January	34,572	16.9	28.5	76.3
	February	36,198	17.5	32.7	89.0
	March	37,309	17.8	32.4	86.1
	April	38,485	17.9	35.3	94.4
	May	42,840	18.1	35.8	92.6
	June	43,577	18.3	38.0	99.7
	July	44,762	18.6	39.3	107.4
	August	46,234	18.9	39.2	108.6
	September	47,874	19.2	40.6	109.1
	October	49,091	19.5	41.2	112.3
	November	50,471	19.2	41.7	118.1
	December	52,315	18.8	40.2	114.1

Annex 17: Mobile payments (continued)

Year	Month	Number of agents	Number of customers (millions)	Number of transactions (millions)	Value of transactions (billions)
2012	January	53,685	18.8	41.8	116.7
	February	55,726	19.2	45.8	126.1
	March	56,717	19.5	44.4	117.4
	April	59,057	19.7	48.0	128.4
	May	61,313	19.8	47.9	124.0
	June	63,165	19.6	49.4	129.3
	July	64,439	19.4	49.7	131.4
	August	67,301	19.7	48.9	130.7

Source: CBK

Annex 18: Nairobi stock exchange (20 share index) and the Dow Jones (New York)

Year	Month		
2009	January	3,198.9	8,001
	February	2,474.8	7,063
	March	2,805.0	7,609
	April	2,800.1	8,168
	May	2,852.6	8,500
	June	3,294.6	8,447
	July	3,273.1	9,172
	August	3,102.7	9,496
	September	3,005.4	9,712
	October	3,066.0	9,713
	November	3,189.6	10,345
	December	3,247.4	10,428
2010	January	3,565.3	10,067
	February	3,629.4	10,325
	March	4,072.9	10,857
	April	4,233.2	11,009
	May	4,241.8	10,137
	June	4,339.3	9,774
	July	4,438.6	10,466
	August	4,454.6	10,015
	September	4,629.8	10,788
	October	4,659.6	11,119
	November	4,395.2	11,006
	December	4,432.5	11,578
2011	January	4,464.9	11,892
	February	4,240.2	12,226
	March	3,887.1	12,320
	April	4,029.2	12,811
	May	4,078.1	12,570
	June	3,968.1	12,414
	July	3,738.5	12,143
	September	3,284.1	10,913
	October	3,507.3	11,955
	November	3,155.5	12,046
	December	3,205.0	12,218

Annex 18: Nairobi stock exchange (20 share index) and the Dow Jones (New York) (continued)

Year	Month		
2012	January	3,224.9	12,633
	February	3,303.8	12,952
	March	3,366.9	13,212
	April	3,546.7	13,214
	May	3,650.9	12,393
	June	3,703.9	12,880
	July	3,832.4	13,009
	August	3,865.8	13,091
	September	3,972.0	--
	October	4,143.0	--

Source: World Bank computation based on NSE and NYSE data

Annex 19: Foreign investors participation (in/out flows) - KES millions

Year	Month	Foreign purchases (FP)	Foreign sales (FS)	Equity market turnover (ET)	% of FP TO ET	% of FS to ET	% overall net foreign participation to ET
2011	January	4948	2961	9462	52.3	31.3	0.4
	February	2408	1786	6216	38.7	28.7	0.3
	March	3226	1674	7984	40.4	21.0	0.3
	April	3160	6184	7883	40.1	78.4	0.6
	May	2909	6243	8406	34.6	74.3	0.5
	June	3527	5124	7047	50.0	72.7	0.6
	July	4487	3314	7132	62.9	46.5	0.5
	August	3410	2789	6109	55.8	45.7	0.5
	September	2646	2111	5453	48.5	38.7	0.4
	October	3242	2523	4466	72.6	56.5	0.6
	November	2820	2789	3928	71.8	71.0	0.7
	December	2709	1774	3973	68.2	44.7	0.6
2012	January	1118	1930	3544	31.5	54.5	0.4
	February	1999	1204	3493	57.2	34.5	0.5
	March	3860	1209	6386	60.4	18.9	0.4
	April	4912	3141	7640	64.3	41.1	0.5
	May	5141	4042	8815	58.3	45.9	0.5
	June	3880	2241	6214	62.4	36.1	0.5
	July	3134	2306	6038	51.9	38.2	0.5
	August	3327	2279	5681	58.6	40.1	0.5

Source: AAK

Annex 20: Nominal and real exchange rate

Year	Month	NEER 2003=100	REER 2003=100
2009	January	107	72
	February	107	71
	March	107	71
	April	107	71
	May	107	71
	June	108	72
	July	107	71
	August	107	71
	September	107	71
	October	107	71
	November	107	71
	December	107	70
2010	January	107	71
	February	107	71
	March	107	71
	April	107	71
	May	107	71
	June	110	73
	July	112	74
	August	111	74
	September	112	74
	October	114	76
	November	113	75
	December	113	74
2011	January	114	74
	February	115	73
	March	119	76
	April	120	74
	May	122	75
	June	127	77
	July	128	77
	August	133	79
	September	135	80
	October	141	82
	November	130	75

Annex 20: Nominal and real exchange rate (continued)

Year	Month	NEER 2003=100	REER 2003=100
2012	December	119	68
	January	119	67
	February	116	66
	March	115	65
	April	115	65
	May	115	65
	June	115	65
	July	114	65
	September	--	--
	October	--	--

Source: CBK

Annex 21: ICT penetration

	2007	2008	2009	2010	2011	2012*
Population >15yrs	21,027,161	21,548,388	22,100,911	22,653,434	23,990,000	24,617,051
Mobile subscriptions	9,304,818	16,200,000	19,400,000	22,000,000	25,270,000	29,703,439
Mobile money customers	169,114	3,038,523	7,153,028	9,643,408	17,300,000	19,505,702
Internet users	2,770,296	2,900,205	3,648,406	8,700,000	12,538,030	14,032,366

Source: CCK and World Bank
**FY 2011/2012*

Annex 22: Budget implemenation

	Total Expenditure in KES million		Deviation	Absorption %
	Revised Gross Estimates 2011/2012	Actual Expenditure		
Agriculture and Rural Development	43694.7	29512.6	14,182.1	67.5
Trade Tourism and Industry	13128.6	11717.2	1,411.4	89.2
Physical Infrastructure	215091.2	103918.1	111,173.1	48.3
Environment Water and Irrigation	52809.2	30692.4	22,116.8	58.1
Human Resource Development	232500.8	203854.2	28,646.6	87.7
Research Innovation and Technology	63196.1	37282.6	25,913.5	59.0
Governance, Justice, Law and Order	117825.8	98986.9	18,838.9	84.0
Public Administration	102625.2	74234.8	28,390.4	72.3
Special Programs	41571.9	27472.9	14,099.0	66.1
National Security	78560	78695	-135.0	100.2
Total	**961003.5**	**696366.7**	**264,636.8**	**72.5**

Source: World Bank computation based on office of the Budget Controller. Budget Implementation Review report. 4th Q 2011/2012

Annex 23: Fiscal position

Actual % of GDP	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Revenue and grants	**22.7**	**21.8**	**22.5**	**23.3**	**22.6**	**25.1**	**24.6**	**23.1**
Total Revenue	21.6	20.5	21.6	22.0	21.8	23.9	24.0	22.6
Tax Revenue	19.8	18.7	19.7	20.2	20.4	21.9	21.9	20.9
Income Tax	7.0	7.2	7.2	8.0	8.2	8.8	9.3	9.5
VAT	5.7	5.0	5.6	5.7	5.7	6.0	6.2	5.6
Import Duty	1.8	1.4	1.6	1.7	1.6	1.7	1.7	1.6
Excise Duty	3.3	3.3	3.3	3.2	3.1	3.0	2.9	2.4
Other Revenues	2.1	1.8	2.0	1.7	1.7	2.4	1.9	1.9
Appropriation-in-aid	1.8	1.8	1.9	1.8	1.4	1.9	2.1	1.7
Grants	1.1	1.3	0.9	1.3	0.8	1.3	0.7	0.5
Expenditure & Net Lending	**22.6**	**25.2**	**24.3**	**27.3**	**26.6**	**29.5**	**29.1**	**28.7**
Recurrent	19.0	20.2	17.8	20.6	19.5	20.8	21.3	19.6
Wages and Salaries	7.9	7.4	7.4	7.4	6.6	7.0	7.1	6.8
Interest Payments	2.3	2.7	2.5	2.4	2.3	2.6	2.7	2.8
Development and Net lending	3.4	4.5	4.7	6.7	7.2	8.7	7.9	9.1
Deficit (commitment Basis)								
Excluding grants	-1.0	-4.7	-2.7	-5.2	-4.8	-5.7	-5.2	-6.0
Including grants	0.1	-3.4	-1.8	-3.9	-4.0	-4.4	-4.5	-5.6
Financing	-0.5	2.4	2.1	-0.4	5.2	7.1	4.3	5.2
Foreign	-0.1	0.1	-0.1	0.3	1.8	0.9	1.0	3.0
Domestic Borrowing	-0.5	2.3	2.2	-0.7	3.4	6.2	3.2	2.2
Public Debt to GDP (Net)	**-**		**42.6**	**39.5**	**42.2**	**44.9**	**48.3**	**44.6**
External Debt			23.3	22.6	24.2	23.2	25.9	23.4
Domestic Debt			23.5	21.9	23.3	26.9	27.4	26.0

Source: World Bank computation based on Ministry of Finance. Quarterly Economic and Budgetary Review,August 2012

Annex 24: 12-months cumulative balance of payments (US$ millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
1. CURRENT ACCOUNT	**-492**	**-595**	**-293**	**145**	**-133**	**-253**	**-511**	**-1034**	**-1973**	**-1671**	**-2512**	**-3330**	**-4290**
Balance of Trade	-1279	-1273	-828	-636	-1007	-1397	-2226	-2996	-4260	-3892	-4642	-6440	-6831
2. MERCHANDISE ACCOUNT	**-1558**	**-1614**	**-1195**	**-1364**	**-1906**	**-2488**	**-3817**	**-4936**	**-6444**	**-5768**	**-7169**	**-9007**	**-9996**
2.1 Exports (fob)	**1782**	**1891**	**2162**	**2426**	**2726**	**3462**	**3516**	**4132**	**5048**	**4528**	**5225**	**5807**	**5971**
Coffee	154	94	84	81	89	128	138	166	155	201	209	222	269
Tea	463	435	437	435	456	561	656	693	924	892	1159	1153	1156
Horticulture	209	241	258	351	416	433	509	607	763	692	725	678	672
Manufactured Goods	162	175	194	218	292	350	422	513	625	526	608	729	712
Other	793	947	1190	1342	1473	1990	1792	2153	2580	2216	2525	3026	3161
2.2 Imports (cif)	**3339**	**3504**	**3357**	**3790**	**4632**	**5950**	**7333**	**9069**	**11492**	**10296**	**12395**	**14814**	**15966**
Oil	850	721	607	879	1119	1341	1745	1919	3051	2192	2673	4081	4056
Chemicals	431	479	508	591	746	833	1004	1156	1446	1324	1603	1947	2057
Manufactured Goods	361	437	421	497	687	779	1065	1435	1589	1411	1774	2250	2296
Machinery & Transport Equipment	944	1162	1060	969	1119	1783	2252	2800	3063	3065	3808	3686	4392
Other	753	705	760	854	961	1214	1267	1759	2343	2304	2537	2848	3166
3. SERVICES	**1065**	**1019**	**902**	**1509**	**1773**	**2234**	**3306**	**3902**	**4470**	**4097**	**4657**	**5676**	**5706**
3.1 Non-factor services	279	341	367	728	898	1091	1591	1940	2184	1876	2527	2566	3164
3.2 Income account	-133	-123	-143	-88	-127	-109	-70	-143	-45	-38	-158	7	-118
3.3 Current Transfers account	920	801	678	869	1001	1253	1785	2106	2331	2259	2288	3103	2659
of which remittances						382	408	574	611	609	642	891	1123
4. CAPITAL & FINANCIAL ACCOUNT	**710**	**967**	**351**	**219**	**250**	**560**	**1186**	**1888**	**1505**	**2451**	**2675**	**3288**	**5534**
4.1 Capital Account	63	69	81	163	145	188	211	267	294	290	154	235	216
4.2 Financial Account	647	898	270	56	105	372	975	1621	1210	2161	2522	3053	5318
4.2.1.1 Official, medium- & long-term	-170	-284	-44	-229	-195	-216	-202	-16	106	466	308	340	1221
4.2.1.2 Private, medium- & long-term	96	307	257	84	-20	458	38	592	72	44	176	35	-68
4.2.1.2.3 Direct Investment (FDI)	143	-18	-42	55	-7	-55	-11	438	153	127	106	107	96
4.2.1.3 Commercial Banks (net)	-221	95	-172	104	-122	-202	-156	-5	15	494	61	-213	164

Annex 24: 12-months cumulative balance of payments (US$ millions)(continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
4.2.2 Short Term and Net Errors & Omissions (NEO)	942	780	229	97	442	332	1296	1050	1017	1158	1977	2891	4001
Short Term (incl. portfolio flows)	379	396	348	423	443	568	714	1032	995	577	1130	1678	2235
Net Errors and Omissions (NEO)	562	384	-119	-326	-1	-236	582	18	22	581	847	1213	1766
5. OVERALL BALANCE	**217**	**372**	**59**	**365**	**117**	**306**	**675**	**854**	**-469**	**781**	**163**	**-43**	**1244**
Memo:													
Gross Reserves	1398	1459	1614	1887	2078	2534	3331	4557	4641	5064	5123	6045	7214
Official	897	1064	1067	1480	1519	1799	2415	3355	2875	3847	4002	4248	5476
Commercial Banks	501	395	547	408	560	735	916	1202	1765	1217	1121	1797	1738
Imports cover (calender year)	2.7	3.0	3.2	4.2	3.4	3.2	3.55	4.00	2.75	4.08	3.55	3.12	3.8
Import cover (36 months imports)			3.3	4.4	4.1	3.98	3.89	4.84	3.36	4.08	3.85	3.71	4.3
GDP market price (KES m)	967838	1020022	1035374	1131783	1274328	1415724	1622434	1833511	2107589	2366984	2549825	3024782	3548526
GDP market price (US$ m)	12293	12963	13018	14888	15688	19397	23302	28964	27053	31359	31665	34059	41747

Source: CBK

Annex 25: Growth outlook

	2008	2009	2010	2011*	2012**	2013***	2014***
BASELINE							
GDP	1.5	2.6	5.8	4.4	4.3	5.0	5.1
Private Consumption	-1.3	5	7.2	2.8	4.2	5.4	6.5
Government Consumption	2.5	3.8	9.2	10.6	8.0	4.6	3.7
Gross Fixed Investment	8.8	5.5	5	16.1	4.6	6.3	4.6
Exports, GNFS	7.5	-7	6.1	8.9	3.1	5.9	6.5
Imports, GNFS	6.6	-0.2	3	8.6	3.3	5.8	6.3
Output Gap (% of GDP)	--	--	--	--	-0.6	-0.4	0.1
HIGH CASE SCENARIO							
GDP	1.5	2.6	5.8	4.4	4.3	5.6	5.8
Private Consumption	-1.3	5	7.2	2.8	4.2	6.0	6.5
Government Consumption	2.5	3.8	9.2	10.6	4.7	4.6	3.7
Gross Fixed Investment	8.8	5.5	5	16.1	5.6	6.3	6.5
Exports, GNFS	7.5	-7	6.1	8.9	3.1	7.2	7.5
Imports, GNFS	6.6	-0.2	3	8.6	3.3	5.9	6.5
Output gap	--	--	--	--	-0.8	0.0	1.2
LOW CASE SCENARIO							
GDP	1.5	2.6	5.8	4.4	4.3	4.1	3.7
Private Consumption	-1.3	5	7.2	2.8	4.2	4.4	5.0
Government Consumption	2.5	3.8	9.2	10.6	4.7	4.6	3.7
Gross Fixed Investment	8.8	5.5	5	16.1	5.6	6.3	4.6
Exports, GNFS	7.5	-7	6.1	8.9	3.1	4.6	4.6
Imports, GNFS	6.6	-0.2	3	8.6	3.3	5.0	5.9
Output Gap	--	--	--	--	-0.8	-1.4	-2.2

Souce: World Bank computation
** Preliminary ** Estimates ***Forecasts*

Annex 26: Defining and measuring employment from census data

The analysis presented in this report uses data from the 1989, 1999 and 2009 Kenya Population and Housing Censuses. The census data was used to generate labor market indicators derived from standard definitions: labor force participation (the economically active population), employment status (the proportion of people with jobs) and the type of employment (wage, non-farm self-employed, and family farming). A flow chart showing the relationship of these categories is given in Figure A1. To identify employment categories and generate standard labor market indicators from the census data, responses from the following census question were used: What was -NAME- mainly doing during the last 7 days preceding the census night?

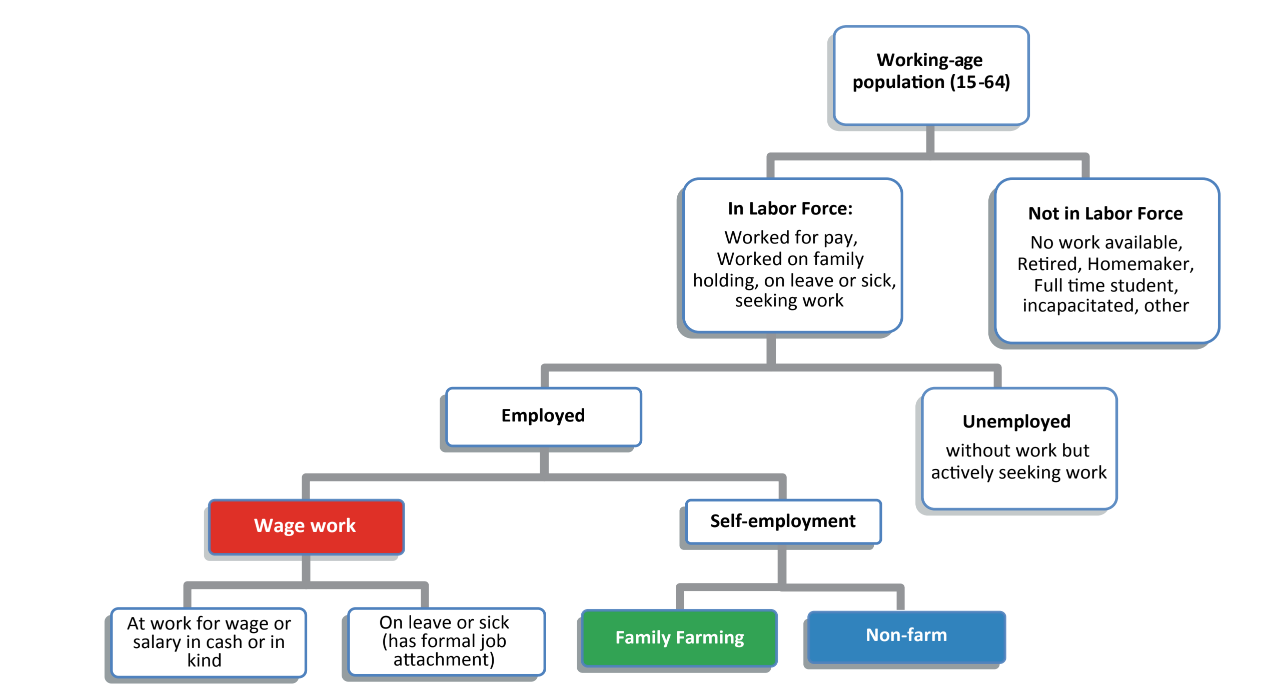
Annex 27: Response categories to primary activity question in census data

1989	**2008**	**1999**
▪ Work for pay or profit ▪ Family agriculture ▪ On leave, sick ▪ Seeking work ▪ No work available ▪ Full time student ▪ Homemaker ▪ Incapacitated ▪ Retired ▪ Other	▪ Work for pay ▪ Family business ▪ Family agriculture ▪ On leave, sick ▪ Seeking work ▪ No work available ▪ Full time student ▪ Homemaker ▪ Incapacitated ▪ Retired ▪ Other	▪ Work for pay ▪ Family business ▪ Family agriculture ▪ On leave, sick ▪ Intern/Apprentice ▪ Volunteer ▪ Seeking work ▪ No work available ▪ Full time student ▪ Homemaker ▪ Incapacitated ▪ Retired ▪ Other

Source: World Bank computation based on Kenya census data

The table displays the response categories for this question in each of the three censuses. The response categories are generally consistent but become more detailed over time. In the 1989 census, only two employment categories are available: family agriculture and work for pay or profit. Thus it was not possible to distinguish between wage work and non-farm self-employment in 1989. In 1999, non-farm family holding was added as an employment category, and in 2009, several new categories were introduced, including intern, apprentice, and volunteer. Figure A2 explains in more detail the criteria used by enumerators to label individuals in categories corresponding to the employed: family farming, non-farm self-employment, and wage work.

Annex 28: Standard definitions of the working age population, labor force, the employed and unemployed



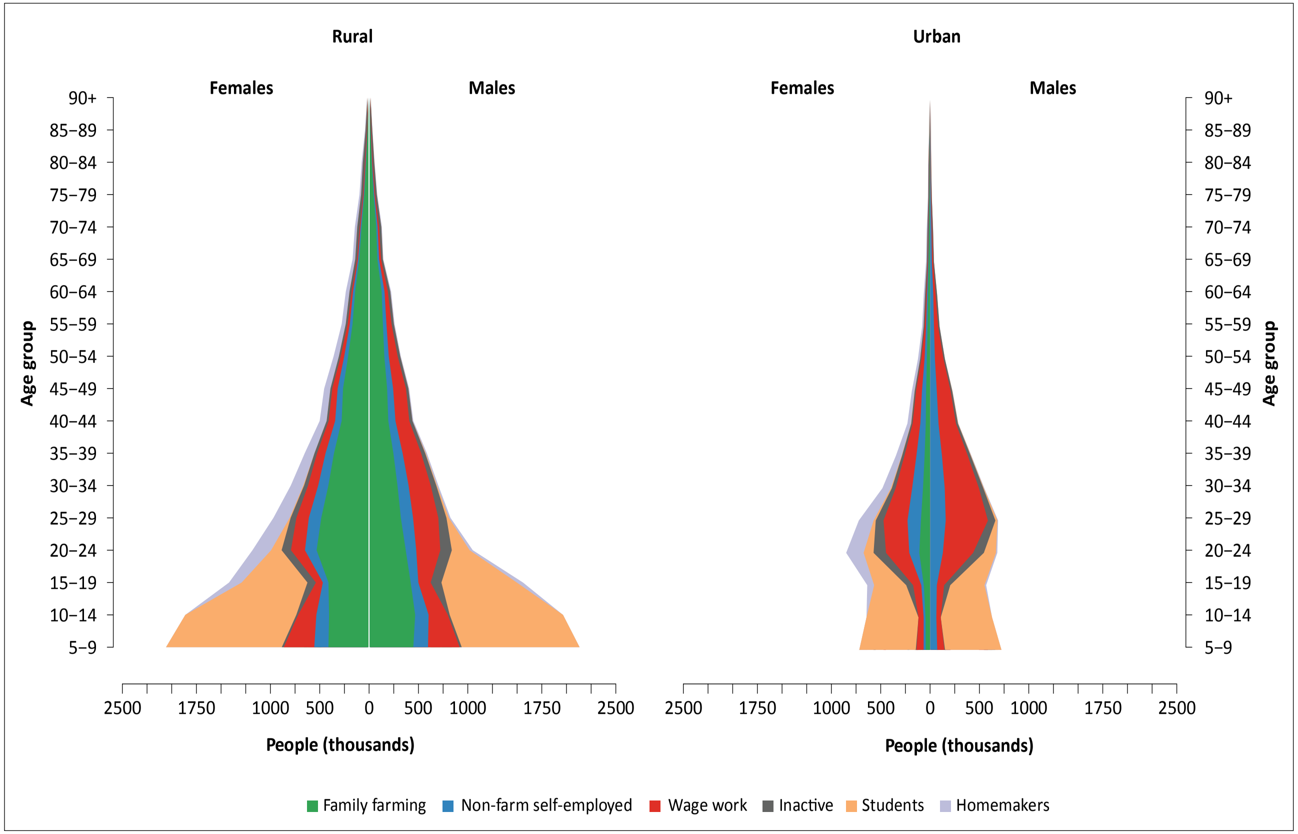
Source: World Bank computation

Annex 29: Defining family farming, non-farm self-employment and wage work from Census data

Employment category	**Self-employed on family farm [family farming]**	**Self-employed in family enterprise [non-farm self-employment]**	**Wage work**
	Own-Family Agriculture Holding	**Own- Family Business**	**Worked for Pay**
2009 census responses to “What was -NAME- mainly doing during last 7 days preceeding the census night?” used to categorized employment.	Self-employed individuals working on a family agricultural holding where a holding is a unit of land, farm or shamba which is owned or leased by the family and is used for purposes of cultivation or rearing livestock. All members of a household who work on the holding without pay or profit are included.	Self-employed individuals working on their own business or individuals who work on their own family business for family gain. This includes *”Jua-Kali*” artisans, mechanics, traders in farm produce, and family workers not on wage employment.	Individuals who in the seven days preceding the census worked most of the time for wages, salaries, commissions, tips, contracts, and paid in kind (especially in the rural areas where people who have rendered services may be paid using food or clothing). Includes individuals who reported they were on leave for sickness or other reasons who have a formal attachment to a job. Includes members of households who are paid for their work in a household enterprise or on a family farm.

Source: World Bank computation based on 2009 Kenya Population and Housing Census, Enumerators Instructors Manual

Annex 30 Age pyramids showing activity, urban and rural in 2009



Source: World Bank computation based on Kenya census data

Annex 31: Unemployment and other measures of joblessness

By the standard definition, a person is unemployed if he or she is of working age (15-64) and not working but actively seeking work. The unemployment rate is the number of persons who are unemployed divided by the labor force. The labor force is made up of those age 15-64 who are working plus those who are not working and seeking work. An alternative measure of joblessness used in this report is the inactivity rate. Inactive individuals are people between the ages of 15 and 64 who are neither working nor studying. Homemakers are considered to be working for purposes of this calculation. The inactive include those who are seeking work, those who say no work is available, the incapacitated, and the retired. Definitions of the unemployment and inactivity rate are presented in Figure A4.

Annex 32: Measures of joblessness

(1) Unemployment rate =

$$\frac{\textit{Number of persons seeking work}}{\textit{Number of persons seeking work} + \textit{Number of persons working}}$$

(2) Inactivity rate =

$$1-\left[\frac{\textit{Number of workers} + \textit{Number of students} + \textit{Number of homemakers}}{\textit{Number of persons in population}}\right]$$

Source: World Bank computation based on Kenya census data

Annex 33: All Kenya - Unemployment and inactivity rates overall, by age, sex and urban/rural setting, 2009

	All Kenya			
	Unemployed		Inactive	
Age Group	Percent	N	Percent	N
15-19	5.4	83,965	8.0	334,468
20-24	8.1	209,867	11.9	449,485
25-29	5.2	135,730	9.2	295,319
30-34	3.4	72,950	7.2	181,883
35-39	2.5	44,158	6.2	124,344
40-44	2.0	25,305	6.1	89,204
45-49	1.7	18,743	5.7	72,264
50-54	1.4	11,256	7.3	69,977
55-59	1.2	7,256	9.3	66,130
60-64	1.1	5,045	12.1	71,790
Overall	**4.1**	**614,274**	**8.5**	**1,754,866**

Source: World Bank computation based on Kenya census data.

Annex 34: Males and females - Unemployment and inactivity rates overall, by age, sex and urban/rural setting, 2009

	Males				Females			
	Unemployed		Inactive		Unemployed		Inactive	
Age Group	Percent	N	Percent	N	Percent	N	Percent	N
15-19	5.5	44,048	8.4	178,010	5.3	39,917	7.6	156,443
20-24	8.9	113,410	13.3	230,834	7.3	96,456	10.8	218,642
25-29	5.7	77,422	10.3	155,231	4.6	58,308	8.3	140,078
30-34	3.9	45,334	8.2	102,518	2.8	27,616	6.2	79,350
35-39	3.0	28,481	7.0	70,550	2.0	15,677	5.3	53,784
40-44	2.5	17,426	7.1	52,512	1.3	7,879	5.0	36,682
45-49	2.2	13,235	6.6	41,812	1.1	5,507	4.8	30,444
50-54	1.9	8,170	8.3	39,296	0.8	3,085	6.3	30,676
55-59	1.6	4,924	10.6	37,877	0.9	2,332	7.9	28,247
60-64	1.4	3,477	13.3	39,316	0.7	1,568	10.8	32,470
Overall	**4.6**	**355,928**	**9.4**	**947,957**	**3.6**	**258,346**	**7.6**	**806,817**

Source: World Bank computation based on Kenya census data

Annex 35: Urban and Rural - Unemployment and inactivity rates overall, by age, sex and urban/rural setting, 2009

	Urban				Rural			
	Unemployed		Inactive		Unemployed		Inactive	
Age Group	Percent	N	Percent	N	Percent	N	Percent	N
15-19	13.4	48,992	10.7	128,355	3.0	34,973	6.9	206,084
20-24	13.2	133,329	15.6	236,885	4.8	76,538	9.5	212,482
25-29	7.5	85,814	11.0	154,851	3.4	49,917	7.8	140,392
30-34	4.9	43,495	8.3	84,832	2.3	29,455	6.5	97,017
35-39	3.8	25,245	7.1	53,928	1.8	18,913	5.7	70,397
40-44	3.1	13,838	6.8	34,778	1.4	11,467	5.7	54,418
45-49	2.8	9,959	6.8	27,794	1.2	8,783	5.2	44,463
50-54	2.3	5,346	9.3	25,731	1.0	5,909	6.5	44,241
55-59	2.4	3,447	13.7	24,564	0.9	3,809	7.8	41,561
60-64	2.3	2,241	19.0	25,731	0.8	2,804	10.0	46,055
Overall	**7.0**	**371,706**	**10.7**	**797,451**	**2.5**	**242,568**	**7.2**	**957,110**

Source: World Bank computation based on Kenya census data

Annex 36: Urban males and rural males - Unemployment and inactivity rates overall, by age, sex and urban/rural setting, 2009

	Urban Males				Rural Males			
	Unemployed		Inactive		Unemployed		Inactive	
Age Group	Percent	N	Percent	N	Percent	N	Percent	N
15-19	14.2	23,647	10.8	61,131	3.2	20,401	7.5	116,875
20-24	13.2	66,559	16.3	110,955	6.1	46,851	11.3	119,845
25-29	7.1	44,992	10.8	74,480	4.4	32,430	9.8	80,729
30-34	4.8	25,164	8.3	45,559	3.1	20,170	8.1	56,947
35-39	3.8	15,175	7.1	29,363	2.5	13,306	7.0	41,180
40-44	3.4	9,105	7.0	19,938	2.0	8,321	7.2	32,571
45-49	3.2	6,944	7.0	15,884	1.7	6,291	6.4	25,926
50-54	2.6	3,698	9.3	14,174	1.5	4,472	7.8	25,121
55-59	2.7	2,261	14.5	14,224	1.2	2,663	9.2	23,651
60-64	2.6	1,487	19.7	14,204	1.0	1,990	11.2	25,111
Overall	**6.7**	**199,033**	**10.7**	**399,910**	**3.2**	**156,895**	**8.6**	**547,956**

Source: World Bank computation based on Kenya census data

Annex 37: Urban females and rural females - Unemployment and inactivity rates overall, by age, sex and urban/rural setting, 2009

	Urban Females				Rural Females			
	Unemployed		Inactive		Unemployed		Inactive	
Age Group	Percent	N	Percent	N	Percent	N	Percent	N
15-19	12.8	25,345	10.6	67,226	2.6	14,572	6.3	89,188
20-24	13.2	66,770	15.0	125,936	3.6	29,687	7.8	92,616
25-29	8.1	40,822	11.2	80,374	2.3	17,486	6.1	59,647
30-34	5.1	18,331	8.2	39,271	1.5	9,286	5.0	40,057
35-39	3.7	10,070	7.1	24,563	1.1	5,608	4.4	29,209
40-44	2.6	4,733	6.5	14,839	0.8	3,146	4.3	21,838
45-49	2.1	3,015	6.5	11,909	0.7	2,492	4.1	18,531
50-54	1.8	1,648	9.3	11,557	0.5	1,437	5.3	19,116
55-59	2.1	1,186	12.7	10,339	0.5	1,146	6.5	17,906
60-64	1.9	754	18.1	11,527	0.5	814	8.9	20,941
Overall	**7.3**	**172,673**	**10.7**	**397,540**	**1.8**	**85,673**	**6.0**	**409,050**

Source: World Bank computation based on Kenya census data

Kenya at work

Energizing the economy and creating jobs

Kenya is entering a decisive year in its history. So far in 2012, Kenya has successfully navigated an economic storm. In 2013, Kenya's main risk is the potential for political and social instability during the March national elections. These elections will also mark the transition to a new decentralized political system. This momentous political transition is happening at a time of major social and economic transformation marked by a workforce that is growing rapidly, is more educated and is increasingly settling in cities with the expectation of finding good jobs. While Kenya's economy has stabilized in 2012, it has not yet created the number and quality of jobs it needs to become one of Africa's vibrant emerging economies.

This report which focuses on ***Kenya at work*** *has three main messages. First, while the economy is stabilizing, Kenya is heading into an election year, and that may impact growth. Historically, Kenya's economy has slowed during election periods, but Kenya could grow at 5 percent in 2013, provided that the next election and the subsequent transfer of power to a new administration are both achieved peacefully. Second, Kenya will need to continue expanding its exports and diversifying its markets so as to reduce the impact of the recession in the Euro zone, which is one of Kenya's major trading partners and a key source for its tourism industry. Furthermore, export growth is crucial if Kenya is to begin reversing its significant current account deficit, which could undermine its long-term stability and growth prospects. Third, Kenya needs to create more jobs to cater for the large number of people entering the work force. Kenya is on the verge of a significant demographic opportunity, as the working-age population is increasing faster than the number of dependents, both young and old. But this opportunity will yield a growth dividend only if Kenya is able to create jobs for the youth who are entering the workforce.*

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