

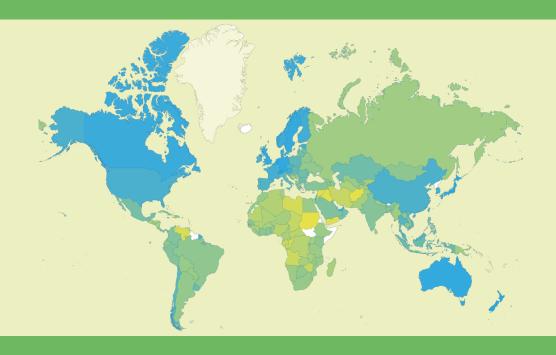
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ELITE QUALITY REPORT 2023

Kenya: A successful mix of policy reforms but plenty of work ahead

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Kenya: A successful mix of policy reforms but plenty of work ahead

Over the past decade, Kenya has outperformed its lower middle-income country peers, posting impressive economic growth rates and gains in social development and political stability. The expansion of the Kenyan economy has resulted in a more educated and healthier labor force that is growing and contributing immensely to the country's GDP (World Bank, 2023). This is partly attributed to political and economic reforms carried out by the Kenyan government in response to the changing global economic and geopolitical climate (RTC, i.1, rank # 39). However, its key development challenges are still poverty, inequality, unemployment (UEM, iv, rank # 70), transparency and accountability, climate change and the vulnerability of the economy to internal and external shocks. This is all reflected in its overall EQx2023 score (rank # 71).

Kenya's economy expanded by 6.7% in 2021 after suffering a contraction of 0.3% in 2020. Growth was driven by services on the supply side and by private consumption on the demand side, both benefiting from supportive policies and eased CO-VID-19 restrictions. The country's COVID-19 containment efforts were successful enough to prevent a high COVID-19 mortality rate, age-adjusted (COM, iii, rank # 37). Economic growth decelerated to 5.9% in 2022 and is projected to be 5.7% in 2023. This is driven on the demand side by a decline in domestic and external demand caused by lower income and an increase in food and fuel import costs. On the supply side, tepid economic activity across several sectors can be attributed to cost-push factors such as the war between Russia and Ukraine. In 2023, inflation will rise to 7% driven by increasing energy and food costs (African Development Bank Group, 2022), but given the strong global rise in Inflation, Kenya fares relatively well compared to her peers (DOI, iv.11, rank # 57).

Kenya is *Open for business* (OFB, iv.10, rank # 43) and has put in place tax incentives and reforms geared towards attracting FDI and improving the business environment. In this regard it is important to note that Kenya's *Unionization rate* (UNI, ii.4, rank # 7) is based on a fairly elaborate institutional and legal framework anchored on a

tripartite set-up characterized by the government, workers' trade unions and employers and guided by ratified ILO Conventions. Another strength is the country's exemplary performance in terms of gender as shown by high proportion of Women in senior and middle management positions (WMA, i.3, rank # 1) which is attributable to Kenyan government programmes and policies geared towards the education of girls and female empowerment. Inclusiveness is also well illustrated by the Labor force participation ratio - male vs female (LFR, iv.12, rank # 11).

In 2021, Kenya put in place mitigation and adaptation measures to achieve the COP26 emission reduction targets that are forecasted to cost \$64.9 billion between 2021 and 2030. They include increasing the share of renewables in the electricity generation mix, increasing tree cover to at least 10% of land area, building a low carbon and efficient transportation system, and increasing the uptake of adaptation technology across all sectors. The country's new policies and frameworks to tackle climate change, emissions and conserve the environment are on track, as suggested by CO2 emissions (metric tons per capita) (CDO, iii.9, rank # 28), Air quality index (AIR, iii.9, rank # 36), Hazardous Waste per capita (HAZ, iii.9, rank # 20) and Waste collected per capita (WPC, iii.9, rank # 7).

Kenya's new government's bottom-up economic model prioritizes agriculture, healthcare, housing, and manufacturing. The EQx2023 shows that it is doing well in terms of Economic Power (ii, rank # 56) as reflected by Top 3 industries exports as % of GDP (IEE, ii.4, rank # 43) and Domestic market diversification (HHI, ii.4, rank # 24). Given these promising conditions, however, Kenya could do better in terms of Economic Value (iv, rank # 105), an area where the new government policies are expected to have their greatest impact.

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