

KENYA ECONOMIC UPDATE

November 2020 | Edition No. 22



Navigating the Pandemic

Navigating the Pandemic

© 2020. World Bank Group

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this work is subject to copyright. Because The World Bank Group encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2422; e-mail: pubrights@worldbank.org.

TABLE OF CONTENTS

ABBREVIATIONS	i
FOREWORD	ii
ACKNOWLEDGEMENTS	iii
EXECUTIVE SUMMARY	v
THE STATE OF KENYA'S ECONOMY	
1. Recent Economic Developments	2
1.1. Global and regional economic growth has contracted sharply	2
1.2. Kenya's economy has been hit hard by COVID-19, but swift policy responses and a gradual re-opening have supported some subsequent recovery	3
1.3. The recovery in aggregate demand faces continued headwinds from the pandemic	7
1.4. Kenya's fiscal consolidation has paused due to the pandemic, and public debt is rising rapidly	11
1.5. Monetary policy has been accommodative to mitigate the impact of the pandemic	16
1.6. Kenya's external position has been supported by import compression and resilient remittances	19
2. Outlook and Risks	19
2.1. The economic outlook remains highly uncertain due to the pandemic	21
2.2. Risks to the outlook	23
3. Policy Discussion	24
3.1. Strengthen the capacity of Kenya's healthcare system by advancing critical reforms and promoting access to healthcare ..	25
3.2. Continue to assist the most vulnerable households, and help those who have lost jobs seek new employment by scaling and sustaining available social protection programs	26
3.3. Supporting firms' liquidity, reconnecting them to markets, and creating jobs	27
3.4. An accommodative monetary policy stance and supportive fiscal interventions	28
SPECIAL FOCUS	
4. The Socio-Economic Impact of the COVID-19 Pandemic	32
4.1. Introduction	32
4.2. Impact on the private sector	33
4.3. Socioeconomic impacts on households	37
4.4. Policy recommendations	46
REFERENCES	53
ANNEX TABLES	55

LIST OF FIGURES

Figure 1: COVID-19 confirmed deaths (cumulative total) and new cases (7-day moving average) in Kenya	2
Figure 2: Global growth has fallen sharply	2
Figure 3: The pandemic has slowed EAC growth momentum	3
Figure 4: Services and taxes contracted sharply in Q2 (contributions to change in real GDP y/y, percentage points)	3
Figure 5: The services contraction was led by the education subsector (contributions to change in real GDP y/y, percentage points) ...	4
Figure 6: The COVID-19 pandemic took a heavy toll on the Kenyan economy in H1 2020	6
Figure 7: Activity in agriculture remains strong	6
Figure 8: Broad-based slowdown in industrial activity	6
Figure 9: PMI shows a sequential expansion in Q3 2020	6

Figure 10: Electricity sales have rebounded from their April low, but remain below-trend	6
Figure 11: Activity in non-food manufacturing troughed in May	6
Figure 12: Unemployment rate (18-64 years, %)	7
Figure 13: Number of formal employees in the private sector has decreased relative to March 2020.....	7
Figure 14: Mobility data troughed in April and subsequently have been trending upwards.....	10
Figure 15: Private consumption accounts for most growth, but is expected to have been subdued in 2020	11
Figure 16: Net exports are expected to have contributed slightly to growth in 2020.....	11
Figure 17: Actual revenue vs target (% of GDP)	12
Figure 18: The fiscal balance deteriorated in FY2019/20	12
Figure 19: Government expenditure has leveled off as a share of GDP.....	14
Figure 20: Expenditure allocations to health and social protection have increased	14
Figure 21: The public debt burden is increasing.....	15
Figure 22: The increase in debt is driven by widening primary deficit and interest payments	15
Figure 23: There has been significant decline in headline inflation rate during 2020	16
Figure 24: Low food and non-food inflation has resulted in low overall inflation (percent y/y)	16
Figure 25: Headline inflation is moderate across the EAC partner states.....	17
Figure 26: Private sector credit growth remains modest, while credit to government has accelerated	17
Figure 27: Interbank rate and activity volume reflects ample liquidity.....	17
Figure 28: High NPLs constrain lending conditions	18
Figure 29: The flight to safety has led to net foreign outflows (NSE) and a reduction of the NSE 20 Share index.....	18
Figure 30: The current account deficit has compressed	19
Figure 31: Remittances remain steady, helping to limit the current account deficit	19
Figure 32: Goods imports declined at faster pace than exports	19
Figure 33: All categories of imports declined over the review period.....	19
Figure 34: Official borrowing helped finance the current deficit as portfolio flows contracted.....	20
Figure 35: Official foreign reserves have been supported by official borrowing inflows	20
Figure 36: Most currencies in Africa and the Middle East, including the Shilling, have depreciated vs. the US Dollar in 2020 (% depreciation through 13 Nov)	20
Figure 37: The significant real effective appreciation of the Shilling in recent years has only partly been reversed by developments in 2020	20
Figure 38: Recent revisions to real GDP growth projections (percent change in real GDP y/y)	21
Figure 39: The crisis is expected to have a large impact on real average incomes	21
Figure 40: Firm operating status	33
Figure 41: Change in sales.....	34
Figure 42: Margin of adjustment in employment.....	34
Figure 43: Share of firms affected by different transmission channels.....	35
Figure 44: Share of firms affected by different transmission channels.....	35
Figure 45: Business responses to the COVID-19 shock.....	36
Figure 46: Expectations and uncertainty about sales and employment	36
Figure 47: Share of firms that received any assistance and type of assistance received.....	36
Figure 48: Self-reported most needed public policies to support businesses.....	37
Figure 49: Unemployment rate (18-64 years).....	38
Figure 50: Hours worked for wage workers.....	38
Figure 51: Changes in wage earnings.....	38
Figure 52: Change in hours worked, by gender.....	38
Figure 53: Change in earnings, by gender	38
Figure 54: Operating status of businesses.....	39
Figure 55: Remittance value in 2-week period for February and May/June	39

Figure 56:	Households that received assistance by change in remittances	39
Figure 57:	Strategies employed to cope with the impact of the crisis (multiple answers possible)	40
Figure 58:	Food shortages. In the past seven days, how many days have.....	41
Figure 59:	Worried about not having enough food to eat in the past 30 days.....	41
Figure 60:	Children have gone to bed hungry in the past 7 days	41
Figure 61:	Channels for reaching teachers (multiple answers possible).....	41
Figure 62:	Learning activities (multiple answers possible)	42
Figure 63:	Ability to go to routine health check-ups as frequently as before March.....	42
Figure 64:	Subjective well-being. In the past seven days, how many days have you..	43
Figure 65:	Sources of information on COVID-19 (multiple answers possible)	43
Figure 66:	Trust in the government	43
Figure 67:	Refugee employment rates before and after COVID-19.....	44
Figure 68:	Refugee who skipped meals during the past 7 days.....	45

LIST OF TABLES

Table 1:	Services contribution to GDP growth (in constant 2009 prices) in H1 of 2020.....	4
Table 2:	Preliminary fiscal out-turn (% of GDP) for FY19/20 and FY20/21Q1	15
Table 3:	The share of multilateral debt in total PPG external debt has increased	16
Table 4:	Financial soundness indicators (FSI) show a decrease in profitability	17
Table 5:	Recent revisions to real GDP growth projections (percent change in real GDP y/y)	22
Table 6:	Medium term growth projections	22

LIST OF BOXES

Box 1:	Treatment in the national accounts of education sector output	5
Box 2:	Sectoral employment and salary payouts during the height of COVID-19	8
Box 3:	Kenya's new credit guarantee scheme.....	9
Box 4:	GoK's response to COVID-19 pandemic.....	13
Box 5:	Youth-led micro-enterprise rapid response phone survey	40
Box 6:	Well-targeted cash transfers can be a powerful tool to mitigate shocks	52

ABBREVIATIONS

ASAL	Arid and Semi-Arid Lands
BPS	Basis Points
COV-BPS	COVID-19 Business Pulse Survey
CGS	Credit Guarantee Scheme
CBK	Central Bank of Kenya
CRR	Cash Reserve Ratio
EAC	East African Community
e-GP	Electronic Government Procurement
ERS	Post COVID-19 Economic Recovery Strategy
FSI	Financial soundness indicators
FDI	Foreign Direct Investment
GVC	Global Value Chains
GoK	Government of Kenya
GDP	Gross Domestic Product
H1	First half of the year
H2	Second half of the year
ICT	Information and Communication
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MSMEs	Micro, Small and Medium Enterprises
MSF	MSME Stabilization Fund
NBCC	National Business Compact on COVID19
NHIF	National Health Insurance Fund
NPLs	Non-Performing Loans
NSE	Nairobi Securities Exchange
NGO	Non-Governmental Organizations
PAYE	Pay as you earn
PPIP	Public Procurement Information Portal
PPADA	Public Procurement and Disposal Act
PMI	Purchasing Managers' Index
PFM	Public Financial Management
RRPS	Rapid Response Phone Surveys
SOEs	State Owned Enterprises
SSA	Sub-Saharan Africa
SACCOs	Savings and Credit Co-Operative Society
UNHCR	United Nations High Commissioner for Refugees
UHC	Universal Health Coverage
VAT	Value Added Tax



FOREWORD

The COVID-19 pandemic continues to unfold globally and in Kenya, threatening both lives and livelihoods. The pandemic is inflicting tragic loss of life and direct human suffering from illness, in addition to eroding progress in poverty reduction (with an additional 2 million new poor) through serious impacts on incomes and jobs. Against this challenging backdrop, the twenty-second edition of the World Bank's Kenya Economic Update (KEU 22) provides a detailed update of recent economic developments and the outlook and discusses policy options as Kenya continues to navigate through the pandemic. There are three key policy messages.

First, authorities should continue to allocate sufficient resources to the health sector to combat the pandemic, continue with mass testing, support self-quarantine, social distancing, and protect the most vulnerable groups. There is a need also to ensure continued access to safe healthcare for non-COVID-19 related health concerns, by assigning adequate resources to these areas (including non-communicable diseases). Given fiscal constraints, this will require redirecting expenditures to the highest priority areas, whilst maintaining a focus on raising the efficiency of spending and ensuring the transparent use of funds. As the crisis abates, Kenya will need to enhance its existing institutional setup for monitoring and responding to future communicable disease outbreaks, and further the still-critical "Big 4" agenda for medium-term inclusive growth, including realizing the government's vision of sustainably providing universal healthcare.

Second, supporting firms' liquidity and digital capabilities remains important to safeguard healthy firms from permanent closure. Furthermore, following the job- and income-losses precipitated by the crisis, support is needed for the "new poor" who have lost livelihoods. This could be achieved through a horizontal scale-up of social protection programs, appropriately targeted, timely, and temporary while the crisis persists. It is critical to ensure continued support to vulnerable households, while safeguarding human capital through expanded access to digital technology, combined with better access to information to mitigate usage of negative coping strategies (i.e. asset liquidation) and combat food insecurity while offsetting the increase in poverty.

Third, and critically, authorities should pursue an appropriate and balanced fiscal consolidation over the medium term to reduce mounting debt vulnerabilities and safeguard macroeconomic stability. In the near term, tax and spending measures should continue to support the healthcare system and protect the most vulnerable households. Creating fiscal space to fund these critical interventions could be supported through potential quick wins in areas such as: (i) streamlining of the large ongoing public investment portfolio to create space for new and impactful projects that could help create jobs; (ii) cutting wasteful expenditures and increasing the efficiency of spending (including by leveraging digitalization to cut operational costs); and (iii) taking advantage of debt service relief to free up liquidity that would otherwise be absorbed by debt service.



Keith E. Hansen

Country Director for Kenya, Rwanda, Somalia, and Uganda
World Bank



ACKNOWLEDGEMENTS

The 22nd edition of the Kenya Economic Update was prepared by a team led by Alex Sienaert and Peter W Chacha. The State of Kenya's Economy was written by Alex Sienaert, Angélique Umutesi, Celina Mutie, and Peter W Chacha (all in the Macroeconomics, Trade & Investment Practice). The preparation of the Special focus topic was led by Utz Pape (Poverty and Equity Practice) with contributions from Marcio Cruz, Verena Wiedemann, Alastair Haynes, Antonia Delius, and Caleb Gitau. The policy discussions were prepared by Peter W Chacha, Alex Sienaert, and Utz Pape.

The report benefited from excellent peer reviews from David Elmaleh (Senior Economist, EAWM2) and Arden Finn (Economist, EAEPV).

The team received overall guidance from Vivek Suri (Practice Manager, EA1M1), Pierella Paci (Practice Manager, EAEPV), Philip Schuler (Lead Economist, EA1M1), Allen Dennis (Program Leader, AFCE2), and Keith Hansen (Country Director, AFCE2).

We are grateful to Anne Khatimba for providing logistical support, Keziah Muthembwa and Vera Rosauer for managing communication and dissemination, Robert Waiharo for design and layout of the report, and Paul Clark for editorial support.

Close consultation with key economic policymakers and stakeholders in Kenya was instrumental in the production of this report. The preliminary findings of KEU22 were shared with the National Treasury, the Central Bank of Kenya, and Kenya Revenue Authority, among others, and their inputs are gratefully acknowledged. Views were also solicited from a range of private sector participants. The team is thankful to Tobias Rasmussen (IMF Resident Representative) for very helpful comments on the draft report.



EXECUTIVE SUMMARY

1. Kenya's economy has been hit hard by COVID-19, severely affecting incomes and jobs. The economy has been exposed through the dampening effects on domestic activity of the containment measures and behavioral responses, and through trade and travel disruption (affecting key foreign currency earners such as tourism and cut flowers). Real Gross Domestic Product (GDP) contracted by 0.4 percent in H1 2020 year-on-year (y/y), compared to growth of 5.4 percent in H1 of 2019. This reflects a worse-than-anticipated Q2 GDP outturn (-5.7% y/y), mainly due to a sharp reduction of services sector output, especially education (-56.2% y/y). As a result, the economy is projected to contract by 1.0 percent in 2020 in the baseline scenario, and by 1.5 percent in a more adverse scenario. This revision essentially adopts the adverse scenario outlined in the April 2020 update, reflecting the more severe impact of the pandemic to date than had been initially anticipated, including on the measured output of the education sector following the closure of institutions in March.

2. The special focus topic finds that the pandemic increased poverty by 4 percentage points (or an additional 2 million poor) through serious impacts on livelihoods, by sharp decreases in incomes and employment. The unemployment rate increased sharply, approximately doubling to 10.4 percent in the second quarter as measured by the KNBS Quarterly Labor Force Survey. Many wage workers who are still employed face reduced working hours, with average hours decreasing from 50 to 38 hours per week. Almost 1 in 3 household-run businesses are not currently operating, and between February and June average revenue from household-run businesses decreased by almost 50 percent. This has exacerbated food insecurity, and elevated pain and human suffering.

3. In response to the crisis, the government has deployed both fiscal and monetary policies to support the healthcare system, protect the most vulnerable households, and support firms to help preserve jobs, incomes and the economy's productive potential. Tax revenue dropped below target, due to the marked slowdown in economic activity, as well as tax relief as part of the government's fiscal response package. At the same time, expenditures were raised to strengthen the capacity

of the healthcare system to manage infections, protect the most vulnerable households, and support businesses. As a result, the fiscal deficit widened to 8.2 percent of GDP, up from the pre-COVID budgeted target of 6.0 percent of GDP and the debt to GDP ratio has risen to 65.6 percent of GDP as of June 2020 (from 62.4 percent of GDP in June 2019). Additional monetary stimulus and liquidity support was also made available through the Central Bank of Kenya (CBK), which reduced the policy rate by 125 basis points (bps) to 7.0 percent and reduced the cash reserve ratio by 100bps to 4.25 percent.

4. Kenya's economic outlook remains highly uncertain, as the COVID-19 pandemic continues to unfold in the country, and globally. The baseline outlook adjusts for the negative impact of COVID-19 on Kenya's growth in 2020, following which the economy is projected to rebound relatively quickly in 2021, lifting real GDP by 6.9 percent y/y. A major factor in this strong rebound is the impact on the national accounts of measured education sector output normalizing, which is projected to add 2.2 percentage points to real GDP growth next year. The baseline projection also assumes that the major economic impacts of the pandemic largely fade by the early part of 2021, and is also predicated on normal weather supporting agricultural output. However, the situation continues to be fluid, both in Kenya and worldwide; the global economy is tipped for a deep recession in 2020, with significant and potentially more prolonged negative spillovers on Kenya.

5. Risks to the base case are to the downside. The key downside domestic risk is that a further acceleration in community transmission of the virus severely disrupts economic activity for a more prolonged period. Another risk is that unanticipated drought could reduce agricultural output and rural incomes, as would a worsening and regional spread of the locust infestation (which has so far been confined to the north of the country). The key external risk is more prolonged and severe global economic weakness due to the pandemic, which would weigh on exports (including tourism) and remittances. Future GDP outturns may also be heavily affected by data revisions and technical adjustments, as national accounts methodologies take into account the unprecedented economic impacts of COVID-19.

Several near-term actions can play a role to combat recession and revive the economy's productivity, creating the conditions for a resilient and inclusive recovery.

6. First, the pandemic has shone a spotlight on the healthcare sector and elevated the agenda to strengthen the quality of, and access to, health services in Kenya. More specifically, authorities should continue to allocate sufficient resources to the health sector, continue with mass testing, support self-quarantine (especially for individuals who cannot isolate at home without risk of infecting others), and protect the most vulnerable groups. There is also an ongoing need to ensure access to safe healthcare for non-COVID-19 related health concerns, by assigning adequate resources to these areas (including non-communicable diseases). Given fiscal constraints, this will require redirecting expenditures to the highest priority areas, whilst maintaining a focus on raising the efficiency of spending and ensuring the transparent use of funds. As the crisis abates and focus turns to a sustainable health provision model, Kenya will need to enhance its existing institutional setup for monitoring and responding to communicable disease outbreaks, and a return to furthering the still-critical "Big 4" agenda for medium-term inclusive growth, including achievement of universal health coverage (UHC).

7. Second, supporting firms' liquidity and digital capabilities by a targeted approach, as well as improving access to information remains important to safeguard healthy firms from permanent closure. A key priority in the short term is to alleviate the restriction of cash flows due to lower demand and the disruption of business activity. Direct measures the government could take to address liquidity pressures could include, for example, continued efforts to accelerate VAT refunds and ensure prompt payment of pending bills. The pressure to react to the crisis may also offer an opportunity to improve overall managerial and especially digital capabilities throughout firms in Kenya. Information can help firms to access new markets to compensate for loss of sales. In addition, improving access to information about available support for businesses can increase the likelihood of reaching the firms most in need and could help improve expectations overall.

8. Third, supporting vulnerable households which have lost livelihoods through social protection programs, while safeguarding human capital for example by using

digital technology, combined with better access to information, can mitigate usage of negative coping strategies and combat food insecurity while offsetting the increase in poverty. Securing access to food and supporting livelihoods through social protection programs can help reduce the use of negative coping strategies compromising assets or food consumption. Despite the urgency of making such support available on a larger scale, a well-targeted approach is essential to limit fiscal costs. For example, a targeted cash transfer of KSh 20,000 to poor households requiring a budget of KSh 50 billion equal to the cost of the VAT relief could reach 2.5 million poor more than offsetting the increase of poverty by COVID-19. An expansion of the number of beneficiaries is essential as the 'newly' poor have different profiles from the current poor but current programs must also remain funded. In addition, new programs should be implemented within the existing Government's framework of social protection programs. The closure of schools has affected learning by children, especially for households without appropriate access to remote learning. COVID-19 has also created fear of infection at health facilities. Thus, specific interventions are needed to enhance access to education and health services, to reduce human capital losses. Digital technologies offer cost-effective tools for remote learning as well as for enhanced health services. Improving communication strategies can help enhance the adoption of preventive behaviors and build trust in the government's pandemic response.

9. Fourth, monetary policy should continue to cushion the economy, while enhanced bank supervision, considering increased loan quality challenges, is called for to contain any emerging systemwide risks. With core inflation low and a large negative output gap having opened up, there is scope for the CBK to maintain an accommodative monetary policy stance, transmitted through the policy rate and other available instruments. Systemwide NPLs have been persistently high (even before the crisis). Profitability in the sector has declined, and almost 40% of bank wide loans have been reprofiled. This calls for closer scrutiny to avoid systemic risks and to lean against rising macro-financial vulnerabilities.

10 Fifth, and critically, fiscal policy faces the challenge of balancing the need to combat the pandemic and its negative economic effects, with maintaining the focus on achieving fiscal consolidation over the medium-term. With a sharp decline in tax revenues (due to the

weakening in economic activity, and tax relief), and increase in COVID-related spending needs, the fiscal deficit has widened, and debt vulnerabilities have risen. In the near term, tax and spending measures should continue to support the healthcare system, protect the most vulnerable households, and support firms. Creating fiscal space to fund these critical interventions could be supported through potential quick wins in areas such as: (i) streamlining of the large ongoing public investment portfolio to create space for new, cleaner, greener, and impactful projects that could help create jobs; (ii) prioritization of other measures to cut wasteful

expenditures and increase the efficiency of spending, for example by strengthening public wage bill management; and (iii) taking advantage of debt service relief to free up liquidity that would otherwise be absorbed by debt service. Finally, and as economic conditions allow, policy should progressively prioritize returning to a medium-term fiscal consolidation path. This will be critical to reduce Kenya's public debt vulnerabilities and ensure continued macroeconomic stability, restore fiscal space to safeguard and expand spending on development priorities, and open more space for credit to the private sector and job-creating private investment.

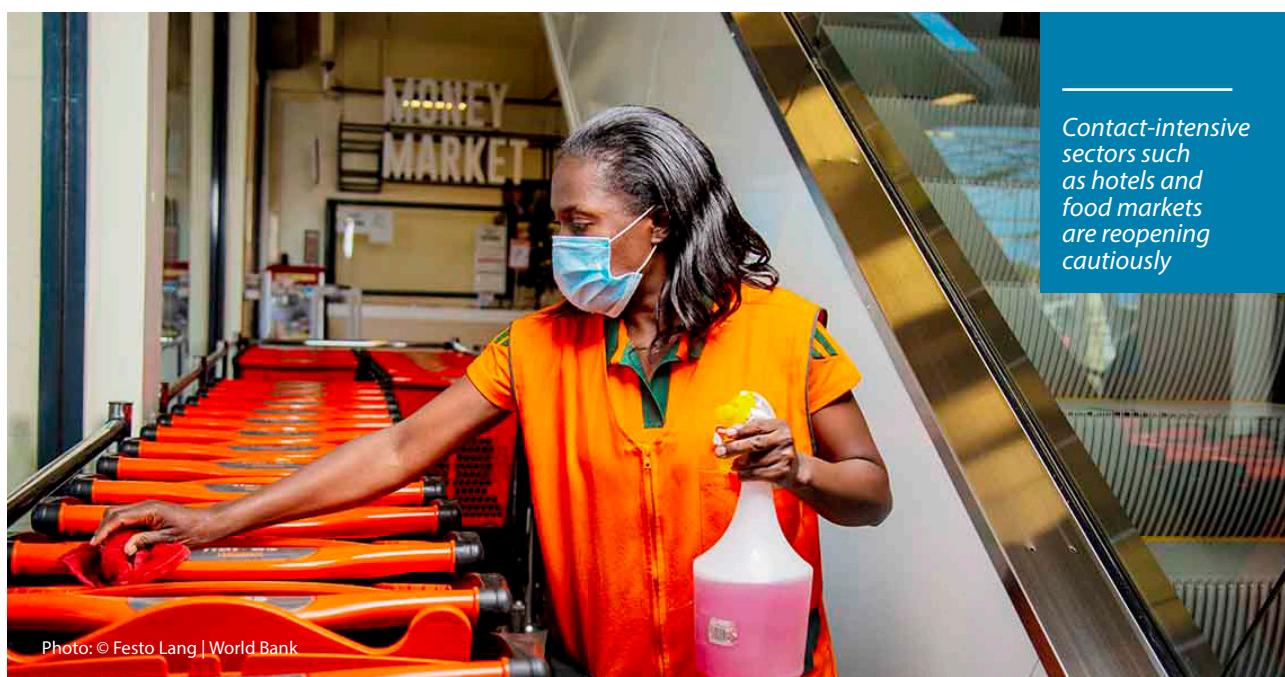
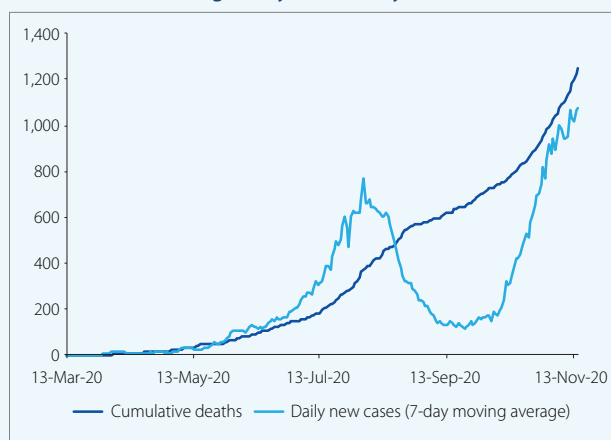


Photo: © Festo Lang | World Bank

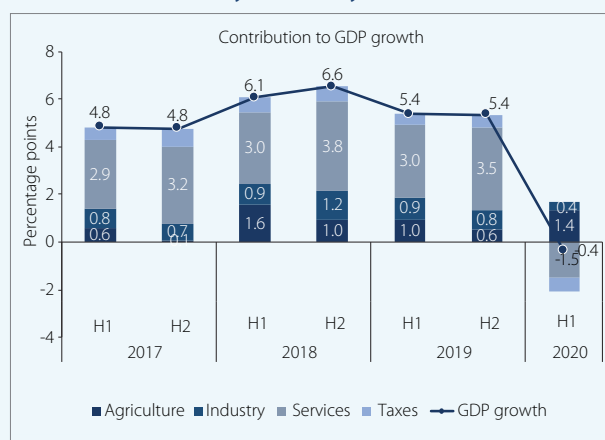
RECENT ECONOMIC TRENDS AND OUTLOOK

The COVID-19 pandemic continues to play out globally and in Kenya



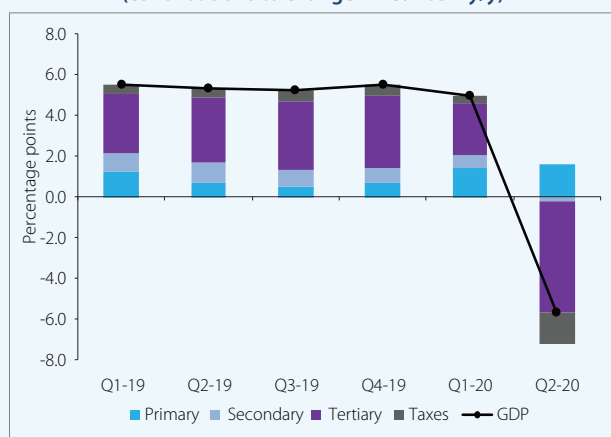
Source: World Health Organization

The COVID-19 pandemic took a heavy toll on the Kenyan economy in H1 2020



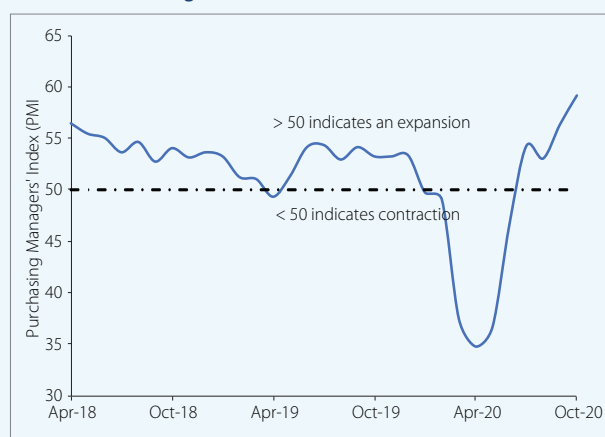
Source: Kenya National Bureau of Statistics and World Bank

COVID-19's economic impact has been felt most strongly in the services sector (contributions to change in real GDP y/y)



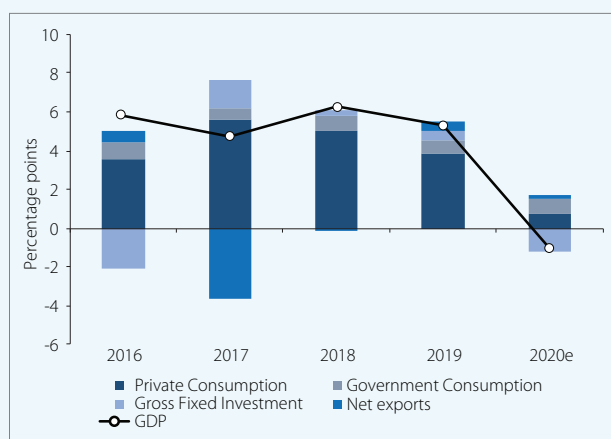
Source: Kenya National Bureau of Statistics and World Bank

High frequency indicators, such as the PMI, are consistent with a significant rebound in Q3 2020



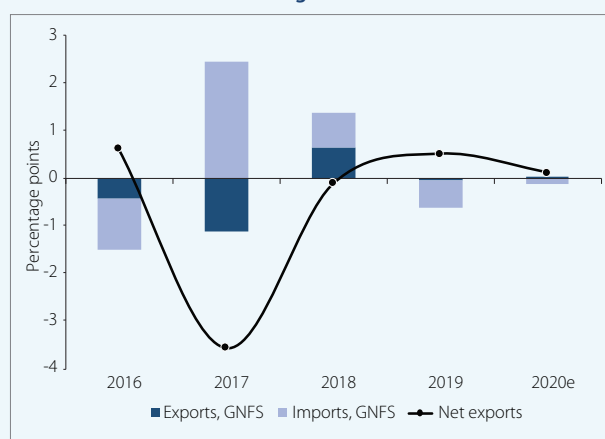
Source: CFC Stanbic Bank

Private consumption usually drives growth, but is expected to have been subdued in 2020



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

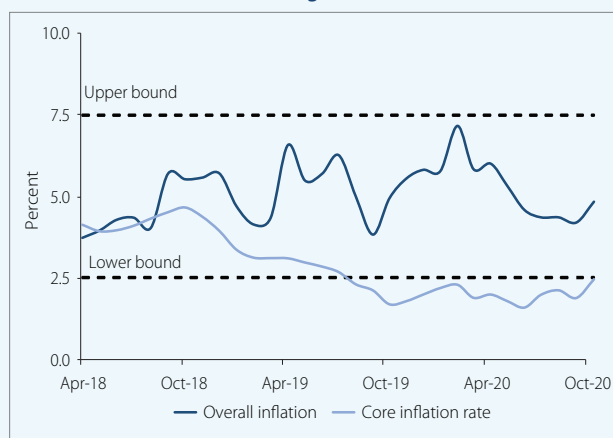
Net exports are expected to have been broadly neutral for growth in 2020



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

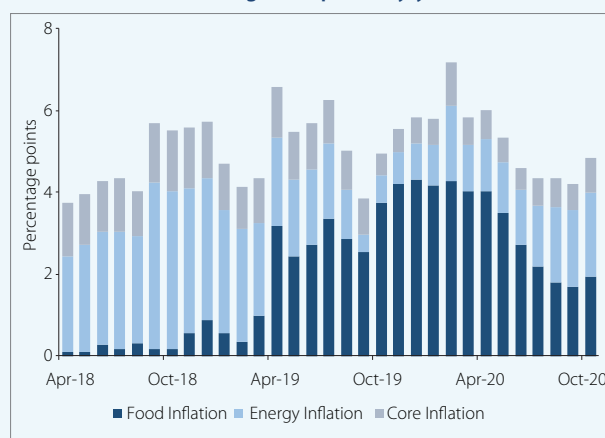
RECENT ECONOMIC TRENDS AND OUTLOOK

The headline consumer inflation rate has declined significantly during 2020



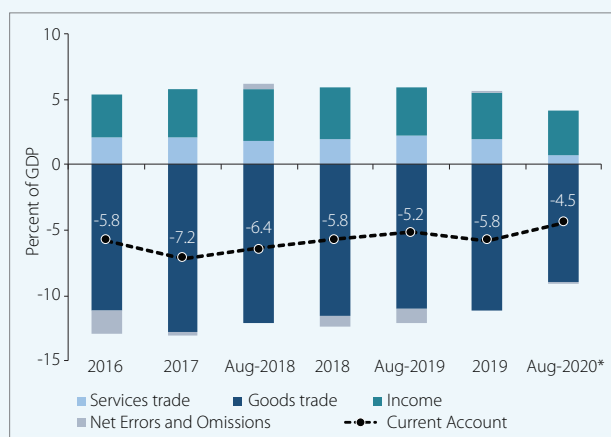
Source: Kenya National Bureau of Statistics and World Bank

Both food and non-food inflation have moderated during 2020 (percent y/y)



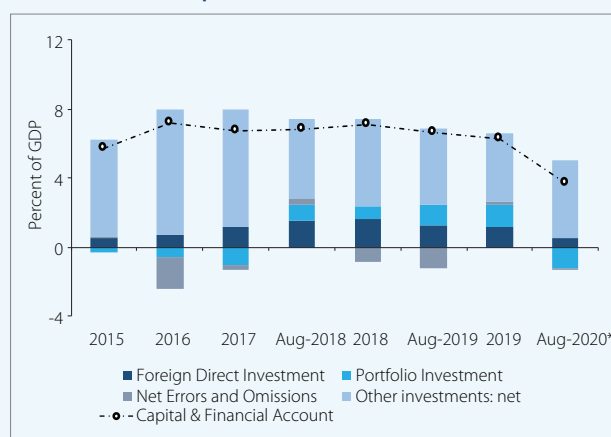
Source: Kenya National Bureau of Statistics and World Bank

The current account deficit has compressed, as the trade deficit has narrowed



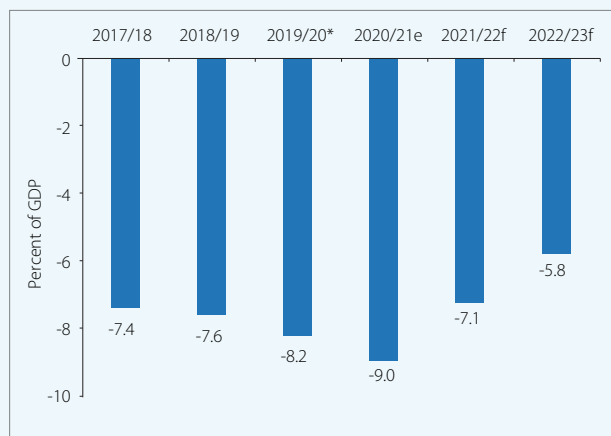
Source: Central Bank of Kenya
Notes: * indicates an estimate

Official borrowing helped finance the current account deficit, while portfolio investment declined



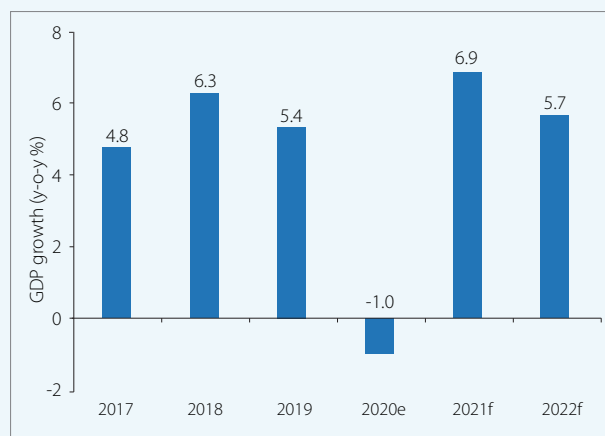
Source: Central Bank of Kenya
Notes: * indicates an estimate

A larger fiscal deficit has been budgeted for FY20/21, reflecting slower growth and COVID-19 responses



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

Kenya's GDP is projected to contract in 2020 due to the COVID-19 shock, and to rebound in 2021



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

The State of Kenya's Economy



Photo: © Festo Lang | World Bank

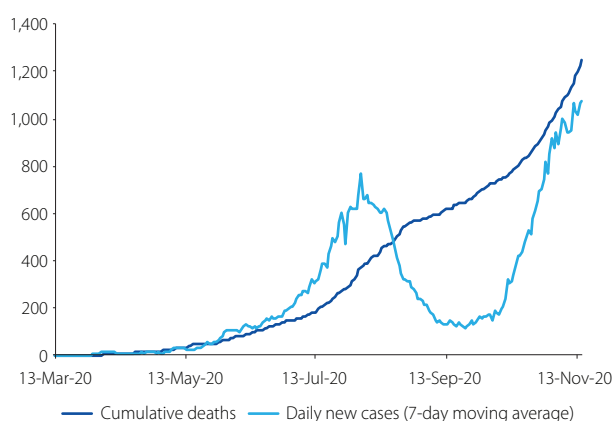
1. Recent Economic Developments

1.1. Global and regional economic growth has contracted sharply

1.1.1. The COVID-19 pandemic continues to play out globally and in Kenya. Globally, many major economies have been affected by renewed waves of COVID-19 infections and deaths during the northern hemisphere Summer and through October. The number of cases and deaths has so far been lower than feared in sub-Saharan Africa (SSA), but concerns remain regarding limited healthcare system capacity. In Kenya, the number of confirmed cases fell encouragingly in the month to mid-September, only to surge again in October (Figure 1).

1.1.2. The pandemic is having a prolonged and severe impact on the global, regional and Kenyan economies. The global economy faces a deep recession. The outbreak of COVID-19 and health policy responses adopted globally (social distancing, lockdowns, restricted travel), weaker consumer confidence, and uncertain future business prospects, have resulted in a marked drop in global consumption and investment. High frequency indicators show severe contraction in the first half (H1) of 2020, but activity is recovering moderately in H2, led by China. Nonetheless, global trade is expected to contract by over 10 percent in 2020. As a result, global economic activity in 2020 has shrunk to its lowest level since the global financial crisis of 2009 (Figure 2). Fiscal policy measures (with an estimated global fiscal stimulus equivalent to US\$11 trillion¹) and monetary policy measures (policy rate reductions, quantitative easing and liquidity support) have helped limit the damage. The IMF's latest (October) estimate is for world GDP to contract by 4.4 percent.

Figure 1: COVID-19 confirmed deaths (cumulative total) and new cases (7-day moving average) in Kenya

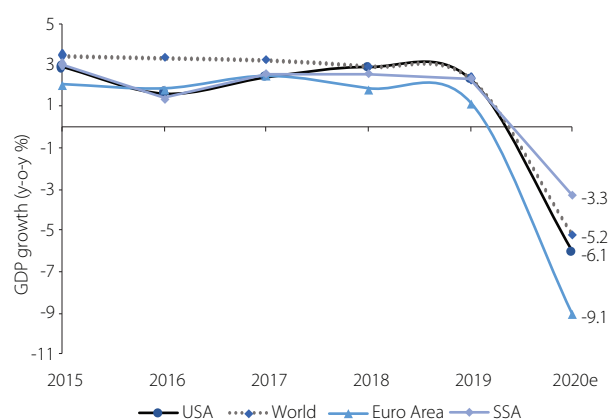


Source: World Health Organization

1.1.3. The pandemic has reversed previously strong growth in sub-Saharan Africa (SSA) and intensified macro-financial vulnerabilities in the region. The region's output is projected to contract for the first time in over two decades, due to the decline in external demand (from the region's key trading partners, China and Europe), the fall in global commodity prices weighing on the region's resource-exporters, reduced tourism and other export receipts, as well as the domestic economic impacts of COVID-19 containment measures and behavioral responses. SSA output is expected to contract by 3.3 percent in 2020 with the resource rich countries being the most affected. Average Gross Domestic Product (GDP) growth for SSA's metal exporters is estimated at -6.0 percent, while oil exporters' growth is estimated at -4.0 percent in 2020.² Fiscal pressures have mounted sharply, as governments have ramped up spending (including on health services and cash transfers), and revenue collections have contracted on the back of discretionary tax cuts (to support economies) and weakening economic activity. As a result, most economies are experiencing increased fiscal deficits and rising public debt burdens.

1.1.4. The growth momentum in the East African Community (EAC) over the last decade has been interrupted. Economic growth has declined, but remains positive in Tanzania, Uganda and Rwanda, while Kenya's economy is expected to contract in 2020 (Figure 3). Most countries have also put in place fiscal and monetary policy countermeasures to protect vulnerable households and support firms through the crisis. Activity is beginning to pick up in the second half (H2) of 2020, with the Purchasing

Figure 2: Global growth has fallen sharply



Source: World Bank computation; GEP June 2020; Africa's Pulse October Issue

¹ International Monetary Fund, "World Economic Outlook Update", June 2020. <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

² Africa's Pulse October 2020.

Managers' Index (PMI) across Kenya, Uganda, and Tanzania staying above the 50 points mark, signaling renewed expansion in industrial activity.

1.2. Kenya's economy has been hit hard by COVID-19, but swift policy responses and a gradual re-opening have supported some subsequent recovery

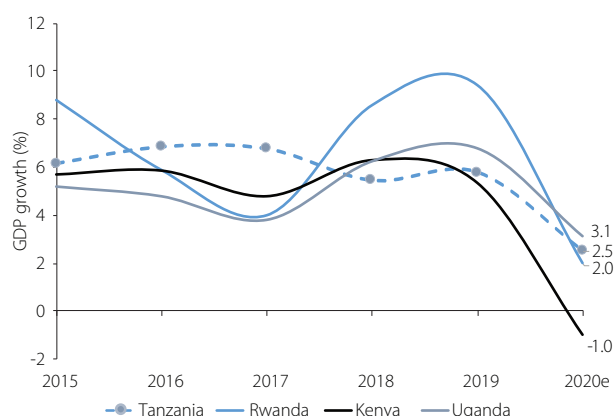
1.2.1. This edition of the KEU focuses on how the economic impact of the pandemic has evolved, including in comparison to expectations at the time of the previous update in April. Kenya's economy contracted by 0.4 percent in H1 2020, weighed down from March onwards by the COVID-19 shock, compared to growth of 5.4 percent in H1 of 2019. Moving into the second half of the year, high frequency data point to a recovery in economic activity, but output remains well below levels experienced before the shock generated by the pandemic. Micro-level data show that hardships and socio-economic challenges (lost incomes and unemployment) remain elevated, the extent of which is discussed in the special focus topic.

1.2.2. Broadly in line with the expectations outlined in the previous update in April, the COVID-19 pandemic has exerted a heavy toll. Real GDP growth moderated to 4.9 percent y/y in Q1 2020 (from 5.5 percent in Q1 2019), but the main impact of the pandemic so far was felt in Q2, during which the economy contracted sharply, by 5.7 percent y/y (Figure 4). In response, the government has deployed fiscal and monetary policy measures to strengthen the capacity of the healthcare system, protect the most vulnerable households, and support businesses. These policy responses, together with a gradual reopening of the economy in recent months, have contributed to a modest recovery in H2 of 2020.

1.2.3. COVID-19's economic impact has been felt most strongly in the services sector, due to the shutdown of education institutions, as well as travel suspensions affecting tourism, and stringent social distancing measures that interrupted face-to-face services. The services sector contracted by 3.2 percent year-on-year (y/y) in H1 of 2020, as a moderation in the first quarter was followed by a sharp outright contraction in the second quarter (Figure 5). Activity in the accommodation, education, and transportation subsectors was severely curtailed. As a result, accommodation and restaurants (tourism) contracted by 83.3 percent y/y in Q2, subtracting 0.9 percentage points from overall GDP growth. Transport and storage services contracted by 11.6 percent y/y, and wholesale and retail trade activity by 6.9 percent y/y over the same horizon, also contributing to the services sector contraction. The impact on education was particularly large, and was the main driver of the contraction of overall output in Q2. With schools and other institutions shut down, education sector output is estimated to have contracted by 56.2 percent y/y in Q2, exerting a drag of 3.8 percentage points on year-on-year GDP growth during the quarter.

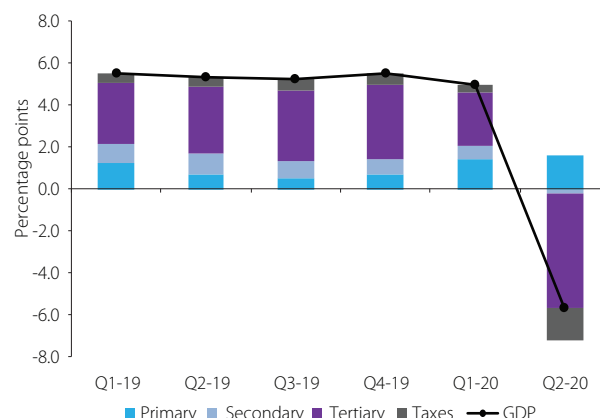
1.2.4. A review of available national accounts data across all services for 2020 to date makes clear that the pandemic has severely constrained activity almost across the board. In the first half, wholesale and retail trade's contribution to growth declined to nil, while the contribution from transport and accommodation contracted severely (Table 1). This reflects the closure of national borders, suspension of international flights, and limited mobility. As a result, accommodation and food services' contribution to GDP shrunk to -0.5 percentage

Figure 3: The pandemic has slowed EAC growth momentum



Source: World Bank computation and World Bank Annual Macro-Poverty Outlook (October 2020)

Figure 4: Services and taxes contracted sharply in Q2 (contributions to change in real GDP y/y, percentage points)



Source: KNBS and World Bank staff calculations

Table 1: Services contribution to GDP growth (in constant 2009 prices) in H1 of 2020

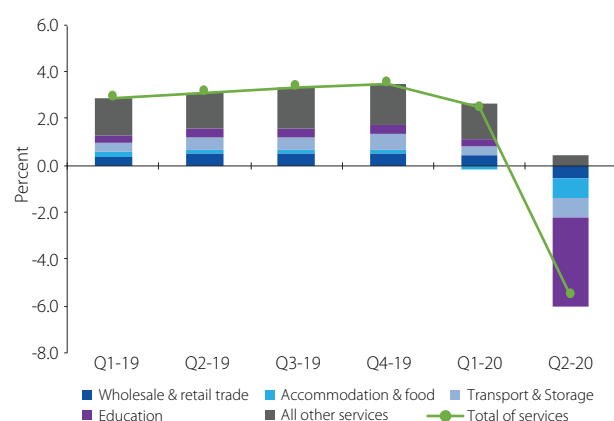
Services	Weight (2016)	2017	2018	2019	2019H1	2020H1
Services sub-sector	50.0	3.0%	3.4%	3.4%	3.1%	-1.4%
Wholesale and retail trade; repairs	7.5	0.4%	0.5%	0.5%	0.5%	0.0%
Transport and storage	6.8	0.5%	0.6%	0.6%	0.4%	-0.2%
Accommodation and food service activities	1.1	0.2%	0.2%	0.1%	0.1%	-0.5%
Information and communication	3.8	0.4%	0.5%	0.4%	0.4%	0.3%
Financial and insurance activities	6.3	0.2%	0.3%	0.4%	0.3%	0.3%
Real estate	8.4	0.5%	0.4%	0.4%	0.4%	0.3%
Professional, Admin and support serv.	2.2	0.1%	0.1%	0.1%	0.1%	-0.1%
Public administration and defence	3.9	0.2%	0.3%	0.3%	0.3%	0.2%
Education	6.9	0.4%	0.4%	0.4%	0.4%	-1.7%
Human health and social work activities	1.8	0.1%	0.1%	0.1%	0.1%	0.1%
Other service activities	1.3	0.1%	0.1%	0.1%	0.1%	0.0%
All industries at basic prices	88.6	4.2%	5.7%	4.9%	4.9%	0.2%
Taxes on products	11.4	0.6%	0.6%	0.5%	0.5%	-0.6%
GDP at market prices	100.0	4.8%	6.3%	5.4%	5.4%	-0.4%

Source: KNBS, economic survey 2020 and World Bank staff calculations

points in H1 of 2020. The cumulative contribution (for the three key sub-sectors) declined to -0.7 percentage points from about 1 percentage points in H1 of 2019 (or approximately 0.3 percentage points of lost output). The associated economic hardships include lost incomes and rising unemployment.

1.2.5. The closure of schools (in March 2020) to contain the spread of infections has led to a collapse in the education sector's contribution to GDP growth. Education output contracted by 25.7 percent in H1 2020 (compared with growth of 5.1 percent in H1 of 2019). This constituted the largest drag on growth of any subsector in the economy, with the sector subtracting 1.7 percentage points from GDP in H1 of 2020, as opposed to contributing 0.4 percentage points to growth in H1 2019 (Table 1).

Figure 5: The services contraction was led by the education subsector (contributions to change in real GDP y/y, percentage points)



Source: KNBS and World Bank staff calculations

Most schools (except for private/international schools that switched to virtual mode) remained closed until the fourth quarter (October 2020), when they were gradually re-opened. This has led to significant lost learning opportunities, with adverse implications on human capital development (Box 1). In the special focus topic, we show that very few children (1 in 10) have had access to their teachers during school closures, and that children in some 30 percent of the households had not engaged in any learning activities.

1.2.6. Growth in financial and insurance activities, information and communication (ICT), and real estate has also weakened. In H1 of 2020, real value added expanded by 5.2 percent, 7.3 percent, and 3.2 percent, respectively, for the financial and insurance, ICT, and real estate sectors. The financial sector which has remained sufficiently liquid, profitable, and well-capitalized, has been able to expand credit to the private sector, likely aided by the timely repeal in late 2019 of interest rate caps (ahead of the crisis). The shift to online and mobile banking has helped the financial sector adjust to COVID-19 with limited frictions, and temporary waivers on loan performance classification (and provisioning) has helped to support banking system liquidity. The ICT sector has benefited from forced automation (with a switch to home-based working and schooling), the increased demand for internet data, and more e-commerce. Combined with health and public administration, these sub-sectors' cumulative contribution to growth slowed to 1.3 percentage points in H1 of 2020 (from about 1.5 percentage points in H1 of 2019).

Box 1: Treatment in the national accounts of education sector output

The measurement of Education is currently central to Kenya's GDP growth projections. This is unprecedented, since the sector accounts for a relatively modest share of nominal GDP (4.2 percent in 2019) and usually displays a relatively stable growth pattern. However, due to COVID-19, this time is different, and the possibility of future methodological changes and data revisions make the estimated final GDP outturn for 2020, and GDP projections, unusually speculative at present.

National accounting methodology for the education sector, including to take into account COVID-19:

To estimate education sector output in nominal terms, the Kenya National Bureau of Statistics (KNBS) uses a measurement-of-cost approach (compensation of employees, consumption of intermediates, and consumption of fixed capital), which captures the cost it takes to render education services and contribute to value added (in current prices). This is in line with the methodology recommended by Eurostat.³

To obtain education output in real (volume) terms, the KNBS uses a number of weighted indicators, such as enrolment in primary schools; trained teachers in primary schools; enrolments in secondary schools; trained teachers in secondary schools; and enrolment numbers in higher education to obtain value added in constant prices. However, to take the complete closure of schools over Q2 and Q3 of 2020 (only reopening in late Q4) into account, the KNBS used a recent household survey on the socioeconomic impact of COVID that asked a question on the percentage of learning that was occurring during the Q2 closure. Approximately 40 percent of households indicated that their children were engaged in learning activity. This percentage was then used to adjust the underlying indicators downwards, to capture forgone value-added as a result of the school lockdown in Q2.

Implications for GDP growth estimates and the outlook: The Q2 national accounts show a 56.2 percent contraction in education output in constant prices, shaving 3.8 percentage points off real GDP growth. This is an unprecedented decline (a six standard deviation move, in terms of quarterly percentage year-on-year changes over the past decade), and is the largest single driver of the Q2 real GDP contraction (followed by the contraction in real taxes on products, which reduced real GDP growth by 1.5 percentage points).

The updated GDP projections in this KEU assume that the Q3 education outturn is similar to that in Q2, given that education institutions remained shut, followed by some recovery in Q4 (schools partially reopened in October), and full normalization in 2021. The shutdown of institutions in Q2 and Q3 of 2020 cuts real GDP growth by 2.2 percentage points in 2020, and when value addition in the sector normalizes in 2021, this is projected to add 2.2 percentage points back to GDP growth (see the outlook section).

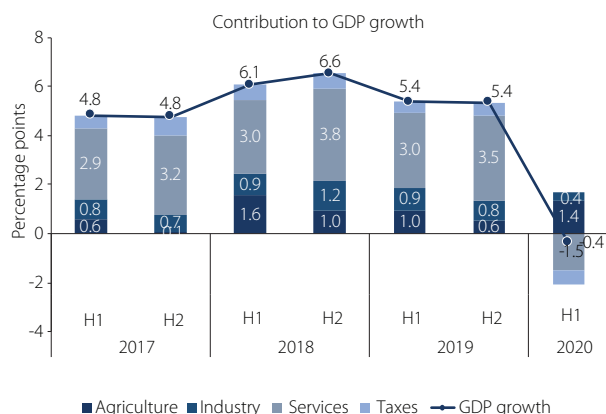
Measurement of education sector output is thus a major driver of the recent volatility in Kenya's headline GDP, and also underpins the unusually strong rebound in real GDP projected for 2021. The measurement complexities summarized above, and possibility of further methodological revisions as national accounting best-practices evolve to take into account the highly unusual economic impacts of the pandemic, constitute an important source of potential historical and forecast GDP revisions moving into 2021.

1.2.7. Favorable rains and improved access to inputs supported agriculture sector output. The sector contributed 1.4 percentage points to GDP growth in H1 of 2020 (from about 1.0 percent in H1 2019) (Figure 6) following broad-based growth in key food and cash crops (Figure 7). Horticulture deliveries fell in H1 due to international transport disruptions to contain the spread of COVID-19, but have recovered to their pre-crisis level, while tea is benefiting from improved prices as a result of low output due to COVID-19 in India, and robust global demand.⁴

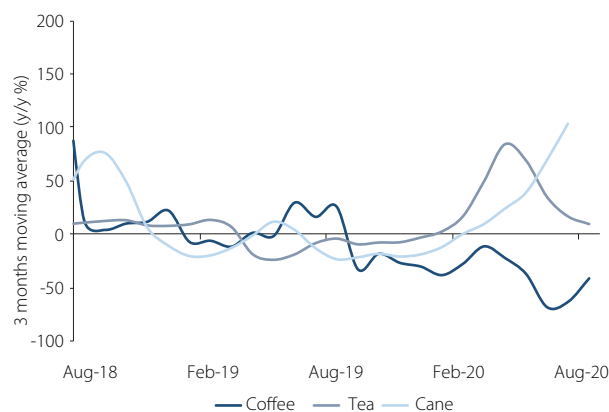
1.2.8. Industrial output declined, owing to major disruptions in supply chains, reduced demand for output, and factory closures (Figure 8), but the sector staged a recovery in Q3. Manufacturing value-added contracted by 0.5 percent in H1 2020, compared to growth of 3.7 percent in H1 2019. High-frequency data in the third quarter of 2020 point to a sizable rebound. The PMI of surveyed firms reports a sequential expansion in activity in July through October (Figure 9). Electricity sales have also rebounded from their low in April and May 2020 (Figure 10). This recovery is supported by increased food production (wheat, maize flour, canned fruits, sugar and soft drinks), and also expansion in non-food manufacturing such as leather, galvanized sheet steel and cement (Figure 11).

³ <https://ec.europa.eu/eurostat/documents/3859598/5936013/KS-GQ-13-004-EN.PDF/3544793c-0bde-4381-a7ad-a5cfe5d8c8d0>

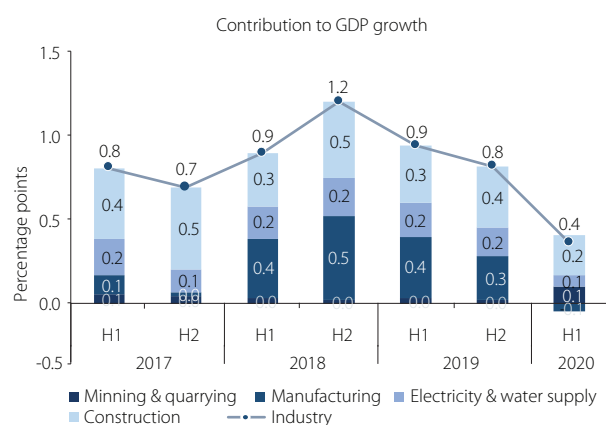
⁴ <https://www.standardmedia.co.ke/business-news/article/2001386053/tea-prices-improve-amidst-low-global-supplies>. Tea prices at the Mombasa auction have improved by 30% from US\$1.87 per kg to US\$2.49 per kg (Sept.2020).

Figure 6: The COVID-19 pandemic took a heavy toll on the Kenyan economy in H1 2020

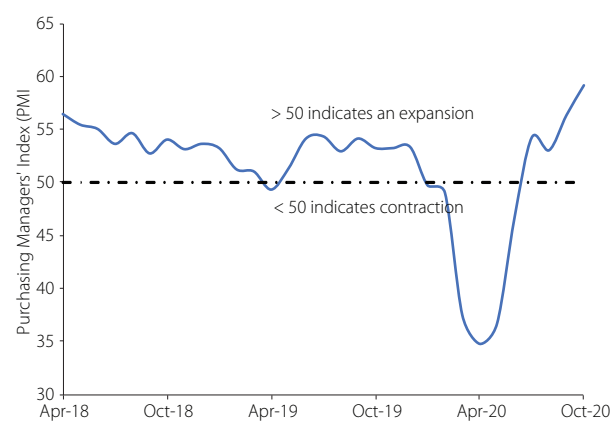
Source: Kenya National Bureau of Statistics

Figure 7: Activity in agriculture remains strong

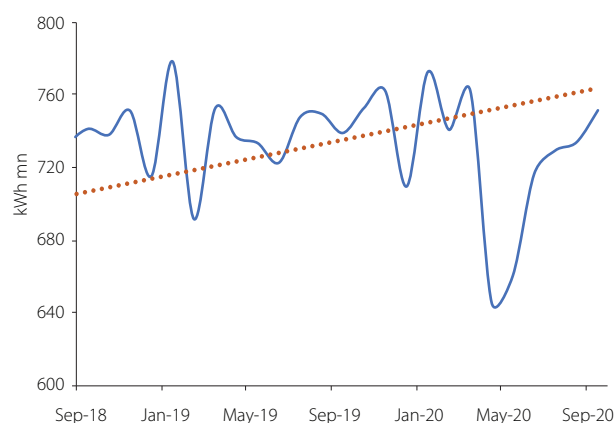
Source: Kenya National Bureau of Statistics

Figure 8: Broad-based slowdown in industrial activity

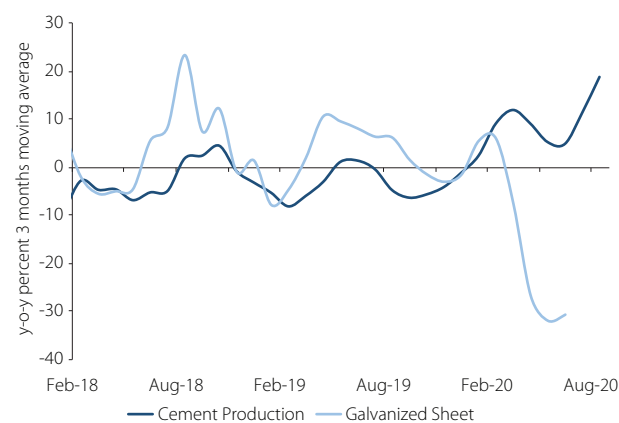
Source: Kenya National Bureau of Statistics

Figure 9: PMI shows a sequential expansion in Q3 2020

Source: CFC Stanbic Bank

Figure 10: Electricity sales have rebounded from their April low, but remain below-trend

Source: Kenya National Bureau of Statistics

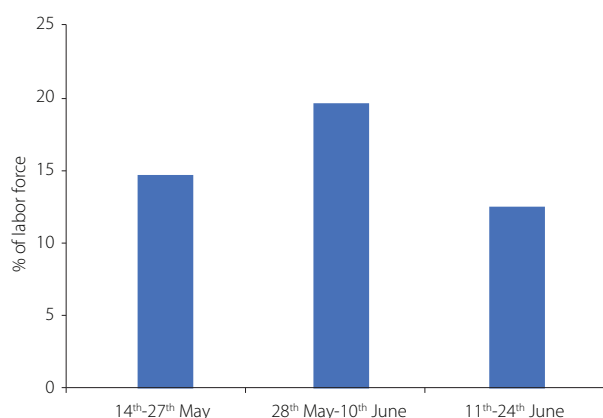
Figure 11: Activity in non-food manufacturing troughed in May

Source: Kenya National Bureau of Statistics

1.2.9. Growth performance in other industrial sub-sectors has also been curtailed by the pandemic. Despite relative support from ongoing government spending on infrastructure projects, growth in the construction sub-sector moderated to 4.6 percent in H1 2020 compared to 6.6 percent in the same period in 2019. Growth in the energy and water sectors slowed down to 2.7 percent in H1 2020 compared to 7.5 percent in H1 2019, as demand was reduced by COVID-19. Power generation has been boosted by adequate precipitation (supporting hydroelectric output) and the ongoing shift towards more clean and renewable sources (with over 90 percent of electricity generated from more sustainable sources such as hydro, geothermal, solar, and wind). As of 2019, Kenya's installed capacity is about 2,819 MW compared to a peak demand of 1,912 MW.⁵

1.2.10. The slowdown in growth is generating unemployment, significant income losses, and widespread hardship that has pushed many below the US\$1.90 per day extreme poverty line. Unemployment has increased dramatically, and despite some recent signs of improvement, the unemployment rate remains more than double its pre-COVID-19 level. According to the latest household rapid response phone survey (RRPS), the unemployment rate rose sharply and peaked at 21 percent at the beginning of June 2020 (Figure 12).⁶ The marked increase in unemployment is also visible in the formal sector administrative data capturing a drop in the number of formal private sector employees filing Pay as You Earn (PAYE) tax returns (Figure 13). Box 2 provides a more disaggregated picture from PAYE data.

Figure 12: Unemployment rate (18-64 years, %)



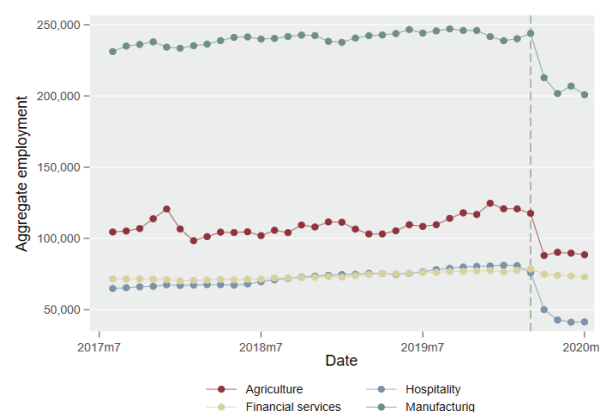
Source: Kenya COVID-19 RRPS

1.2.11. These developments make it imperative to continue providing liquidity support so that the private sector can meet operating costs, adjust to shocks, and eventually be in a better position for the recovery. Targeted liquidity support to firms in sectors with strong links to the informal sector appears especially warranted as the pandemic persists. The latest operationalization of the government's Credit Guarantee Scheme (CGS) is expected to fill this critical need, particularly if it is able to scale-up to meet a likely increase in demand (see Box 3, below). Additional liquidity support to reduce payment risks and supply risks (including trade finance facilities) to Micro, Small and Medium Enterprises (MSMEs) and large-scale businesses through commercial banks could also play a role.

1.3. The recovery in aggregate demand faces continued headwinds from the pandemic

1.3.1. Private consumption is estimated to have declined in H1 2020, as the COVID-19 shock took hold. Given the backdrop of concerns over COVID-19, closure of entertainment spots, social distancing and movement restriction measures, private consumption is likely to slow down significantly in 2020 (data will only be available in May 2021). The increase in unemployment (especially in the informal sector), closure of small businesses, and closure of schools caused a drop in households' disposable income and private consumption (see Part 2). The reduction in VAT from 16 percent to 14 percent, additional cash transfers, quick recovery in diaspora remittances, and favorable agricultural harvests constituted positive offsets to the drop in private consumption. Reflecting a strong rebound

Figure 13: Number of formal employees in the private sector has decreased relative to March 2020



Source: KRA/National Treasury and World Bank staff calculations

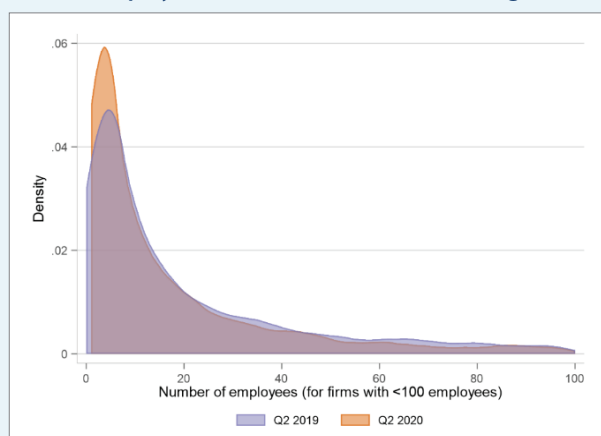
⁵ KNBS-Economic Survey 2020.

⁶ See Part 2 for a more detailed discussion.

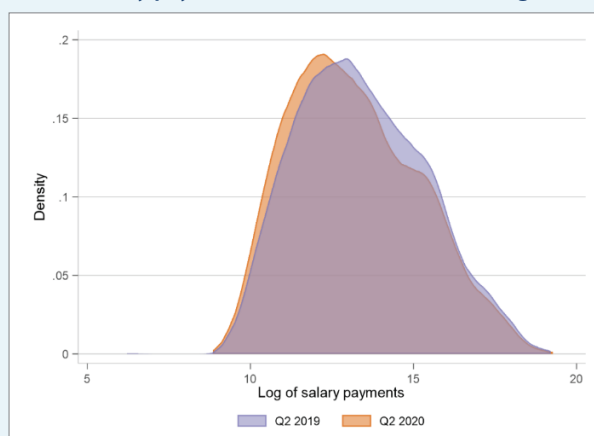
Box 2: Sectoral employment and salary payouts during the height of COVID-19

In response to the peak impact of COVID in Q2, formal firms responded by reducing the number of employees (extensive margin adjustment), which led to a reduction in their overall payroll. The distribution of firm-level average salaries indicates those employees remaining on the payroll did not experience a pay-cut on average (intensive margin). It is possible, however, that specific groups of a firm's workforce experienced cuts, which was balanced by an increase for another group within the same firm. Below, kernel density plots are shown of firm-level employment, the aggregate payroll and average wages for the three key sectors: Manufacturing, Hospitality, and Education. In each of the graphs the height of the curve indicates the mass of firms at a specific value on the x-axis, e.g. the number of employees. The curve for the number of employees, for example is highly skewed to the left, indicating that the majority of the firms are small and have less than 20 employees.

Employment distribution: Manufacturing

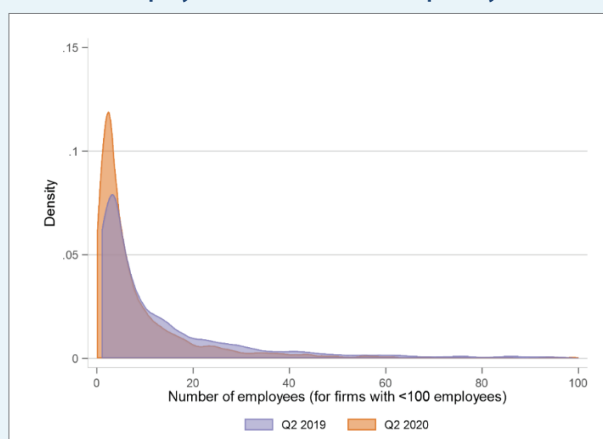


Salary payouts distribution: Manufacturing



There is a leftward shift of employment in the manufacturing sector, with fewer firms in the right tail (of the kernel density) for Q2 of 2020 (April- June) relative to that of Q2 of 2019. This suggests that large firms have scaled back on formal hires. The skewness of the distribution has increased, which suggests the mass of larger firms has decreased. There is also an outright leftward shift in the distribution of firm-level salary payouts. However, there is no leftward shift for average salaries, which suggests that firms are not adjusting intensively through a cut in wages.

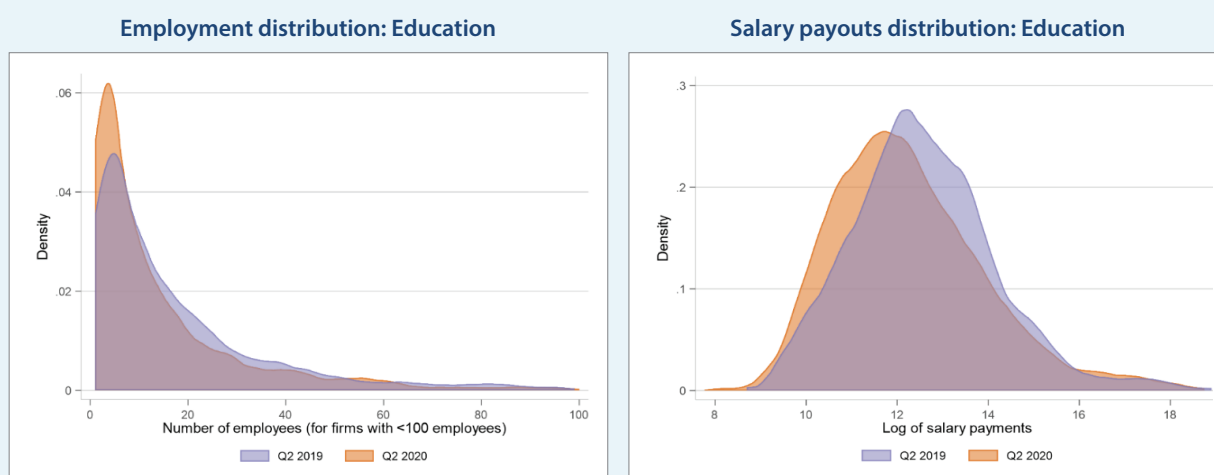
Employment distribution: Hospitality



Salary payouts distribution: Hospitality



The leftward shift of employment and average wage payout for the hospitality sector is evidence of a reduced level of formal jobs. The magnitude of adjustment through the extensive margins is large for the sector - suggesting severe impacts from COVID-19. However, the distribution of average wages of workers still in employment has adjusted only moderately. Plotting the distribution of firm-level average wages suggests that the wage distribution has become more unequal as compared to 2019 with a greater mass for low-paid and high paid workers. The trend is similar for the education sector (below) that suffered the longest lockdown and only re-opened on October 12, 2020 (after closing on March 15, 2020).

Box 2: Sectoral employment and salary payouts during the height of COVID-19 (contd.)

The main message: Firms' adjustment to the crisis has so far mainly taken place on the extensive margin. The magnitude of adjustment varied across sectors. Policy interventions could continue to support firms in meeting their wage obligations and disincentivizing layoffs. Providing assistance to those recently laid off through adjustment packages (including retraining, reskilling and hiring subsidies), appears warranted.

Source: KRA data and World Bank staff

Box3: Kenya's new credit guarantee scheme

MSMEs are the lifeblood of Kenya's economy and employment. However, they face several constraints to growth, a key one being limited access to finance. The lack of adequate collateral is a serious obstacle for MSMEs to access finance. The 2018 World Bank Enterprise Survey identified that banks in Kenya require collateral worth 240 percent of the loan amount for 88 percent of small borrowers. During the interest cap regime, it became more difficult for MSMEs to access finance, and the situation further deteriorated during the COVID-19 pandemic. Most firms have experienced an unforeseen and dramatic fall in revenues and face cashflow constraints due to COVID-19. However, MSMEs have been disproportionately affected, and require immediate life-line interventions. At the same time, the increased risk-aversion of financial institutions (especially toward MSMEs) is making it harder for MSMEs to access finance.

In 2019, the Government of Kenya (GoK) started the process of establishing a credit guarantee company with the objective of **de-risking MSMEs through a partial credit guarantee scheme (PCGS)**. PCGSs are a widely-used policy tool to facilitate access to finance by creditworthy MSMEs, which would have been denied credit in the absence of sufficient collateral. PCGSs are particularly relevant and effective when there is enough liquidity in the financial system, yet it does not flow to some sectors or segments because there exists a high level of (real or perceived) credit risk.

PCGSs have become a prominent component of anti-crisis packages implemented by governments to respond to the **unprecedented threats posed by various crises**, as financial institutions refrain from extending new loans to firms due to **increased risks**. At the onset of the COVID-19 pandemic, the GoK decided to fast track the process of providing relief to MSMEs by setting up an emergency guarantee scheme (i.e. the MSME Stabilization Fund (MSF)), which would later transition into a credit guarantee company. The Parliament of Kenya has approved capital of KSh 10 billion over the course of two years, and KSh 3 billion has already been made available. The GoK intends to work with other partners, including international development finance institutions and the private sector, to mobilize additional capital for both the emergency scheme and the proposed credit guarantee company.

To ensure efficacy, it is critical for PCGs to maintain the appropriate institutional framework of independent legal entities with a focus on safeguards (sound environment and social management practices) and fiduciary arrangements (such as the provision of timely status reports) with participating financial institutions.

in H2 2020, mobility data (that captures the weekly average change in activity in retail and recreation, national parks, bus stops, workplaces, places of residence, and groceries and pharmacy) troughed in April, and are trending up

subsequently (Figure 14). This recovery is also supported by a cautious reopening of the economy, low inflation, and a gradual pickup in credit to households.

Figure 14: Mobility data troughed in April and subsequently have been trending upwards



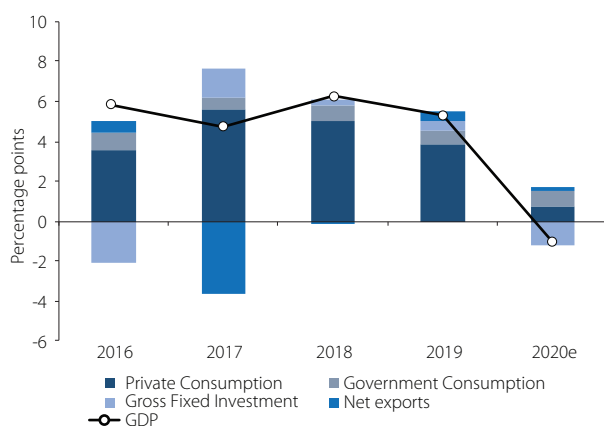
Note: The vertical line indicates the lockdown date: 15/03/2020; Lockdown type: Full
Other SSA countries represents the unweighted average over 25 other countries in Sub-Saharan Africa

Source: Google LLC Google COVID-19 Community Mobility Reports. <https://www.google.com/covid19/mobility>.
Note: Figures reflect weekly average of percentage change compared to baseline

1.3.2. As detailed in the special topic, the majority of Kenyans feel worried about the COVID-19 outbreak, mostly out of fear of getting infected or losing their employment. About 61 percent of Kenyans reported feeling generally nervous or anxious, compared to 80 percent of Kenyans who felt nervous or anxious due to the COVID-19 outbreak specifically. More than one in five Kenyans even reported physical reactions such as sweating, trouble breathing, nausea, or a pounding heart, when thinking about their experience with the pandemic, with almost one in ten experiencing these physical reactions on a daily basis. In urban and rural areas, Kenyans were anxious mainly due to the fear of themselves or their family members getting infected (77 and 82 percent respectively) and the fear of losing their employment or business (35 and 46 percent respectively). COVID-19 not only has affected physical health, but mental health as well, resulting in psychosis, anxiety, trauma, suicidal thoughts, and panic attacks. These feelings have negative impact on the economy through a reduction in socializing, recreational spending, and aggregate demand.

1.3.3. Investment is expected to have contracted in 2020. Private investment likely remained subdued in 2020, due to the decline in demand, interruption in supply chains, and elevated uncertainty about future business prospects. Prior to COVID-19, observers had expected that a combination of fiscal consolidation and the repeal of interest rate caps would stimulate lending to the private sector. Instead, the pandemic has reduced demand, interrupted production networks, and increased uncertainty about the future. As a result, private investment is expected to slow down significantly in 2020 (Figure 15). Public investment growth has also faced headwinds.

Figure 15: Private consumption accounts for most growth, but is expected to have been subdued in 2020



Source: World Bank staff calculations

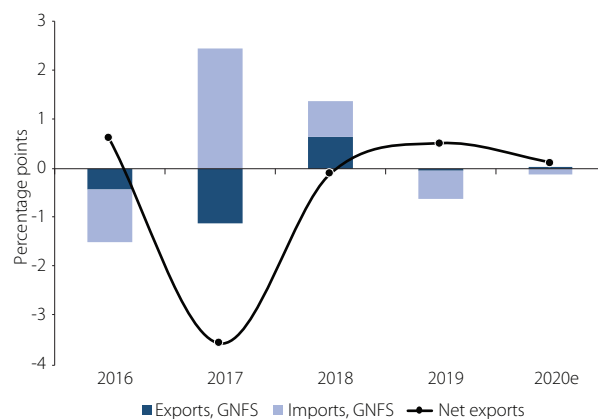
Kenya's public finances were already stretched when the crisis hit, and the crisis has intensified fiscal pressures, leaving little space for the government to increase development spending. Going forward, there is, however, scope to support investment and growth by increasing the efficiency and impact of public investment spending, including by reprioritizing projects in the government's large and fragmented portfolio of public investments.

1.3.4. The pandemic has reduced both exports and imports in 2020. Exports contracted by 0.6 percent in 2019 on the back of weak agricultural output growth, and are expected to remain subdued in 2020, as the pandemic constrains external demand. The volume of imports is expected to contract in 2020, following supply chain disruptions at the peak of the pandemic, low oil imports, and rising uncertainty about prospects in the private sector. With the contraction in imports outweighing the weakness in exports, net exports are expected to add slightly to GDP growth, by 0.1 percentage points in 2020 (Figure 16).

1.4. Kenya's fiscal consolidation has paused due to the pandemic, and public debt is rising rapidly

1.4.1. This section focuses on assessing the effectiveness of fiscal policy responses to COVID-19, considering the FY2019/20 budget (revenue and spending measures) and their effectiveness (including emerging governance and public financial management [PFM] issues); commitment controls and public investment management (PIM) issues. We also examine the FY2020/21 revenue and spending choices and how these are contributing to containing the impact of

Figure 16: Net exports are expected to have contributed slightly to growth in 2020



Source: World Bank staff calculations

COVID-19 and to a resilient recovery. Regarding public debt and COVID-19, the pausing of fiscal consolidation and weakening of economic growth has considerably increased the public debt burden. The section discusses how high debt service costs could constrain the COVID-19 response, ways to create more spending space and related debt optimization strategies; and whether COVID-19 induced stress on global capital markets has reduced the Government of Kenya's (GoK) access to external financing at acceptable costs.

1.4.2. The government's fiscal policy countermeasures against the COVID-19 pandemic in Q4 of FY2019/20, combined with the weaker economy, reversed fiscal consolidation efforts. Tax revenue dropped below target (Figure 17), while expenditures were raised to strengthen the capacity of the healthcare system to manage infections, protect the most vulnerable households, and support businesses. The preliminary out-turn for FY2019/20 shows that the fiscal deficit widened to 8.2 percent of GDP, up from 7.6 percent of GDP in the prior fiscal year, and significantly higher than the original budget deficit target of 6.0 percent (Figure 18).

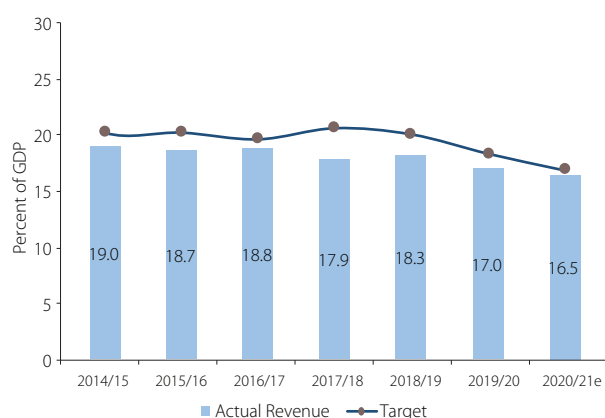
1.4.3. The pandemic and policy responses reduced domestic revenue mobilization. Revenue collection declined partly due to the decrease in economic activities and partly due to discretionary changes to tax policy. The slowdown in economic activity contributed to a drop in revenue collection by about KSh 90 billion (or 0.9 percent of GDP). The greatest contributor to this shortfall was income tax and VAT (Table 2). In addition, discretionary changes to tax policy taken to support business and protect the most vulnerable households resulted in a net revenue loss of about 0.6 percent of GDP (Box 4). This relief has helped

both vulnerable households and firms to cope through the crisis, and may have contributed to the finding reported in Part 2 that 65 percent of Kenyans are satisfied with the government's response in handling the crisis.

1.4.4. The government allocated additional resources towards strengthening the capacity of the healthcare system and to address the associated socio-economic challenges. The GoK allocated more resources to the health sector to help strengthen the capacity of the healthcare system in handling infections. This was expected to fund expansion of hospital infrastructure (increase number of intensive care beds, put up temporary isolation facilities in counties, obtain respiratory machines, supply of testing kits, preventive kits etc.) as well as hire additional medical personnel and payment for extra workload (or over-time) of medical staff. These interventions have, in general, been well-received and, as shown in Part 2, 71 percent of Kenyans believe that the government can provide health care to address the crisis.

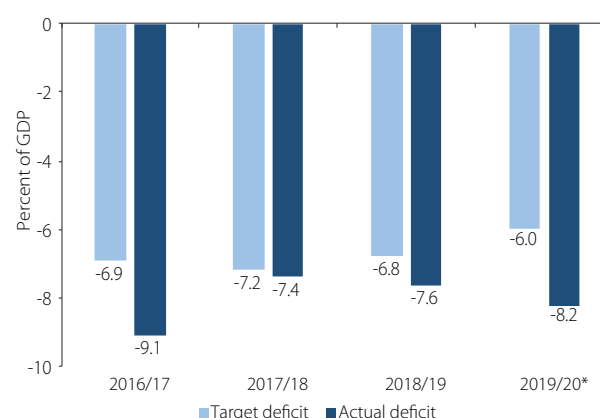
1.4.5. Nonetheless, irregularities have emerged in COVID-19 health sector procurement, likely exacerbated by the need to procure medical supplies very quickly at the height of the pandemic. In addition, healthcare workers bemoan inadequate personal protective equipment, a less conducive work environment, and motivation problems. A number of audits are ongoing, and several senior officials have resigned to allow investigations into COVID-19-related spending. This comes at a time when the government has committed to improving transparency and reducing corruption in public procurement. For example, the public procurement and disposal Act (PPADA) 2015 requires that all procuring entities (PEs), including State Owned Enterprises (SOEs),

Figure 17: Actual revenue vs target (% of GDP)



Source: The National Treasury

Figure 18: The fiscal balance deteriorated in FY2019/20



Source: The National Treasury

publish and publicize all procurement contracts within 14 days of signing contracts. However, most SOEs have stand-alone electronic platforms (e.g., ERP systems) that do not interface with IFMIS or the Public Procurement Information Portal (PIIP) for public disclosure. In the policy discussion below, expediting implementation of an Electronic Government Procurement (e-GP) system, capable of automating all procurement processes is underscored.

1.4.6. The execution of the budget in FY2019/20 reveals room for improvement, including creating space for post COVID-19 recovery projects. Actual government expenditure declined to 25.2 percent of GDP in FY2019/20, which was 2.4 percentage points lower than 27.6 percent of GDP in the budget (including COVID-19 interventions). This is attributed to low budget execution of both recurrent and

development expenditure, as well as low disbursement of funds to counties (the receipt of transfers to counties was delayed at the time the health crisis was peaking, which was further complicated by delays in the adoption of the division of revenue legislation). Recurrent expenditure as a share of GDP stood at 16.1 percent, 1.3 percent lower than the target (Table 2). Nonetheless, expenditure on pensions and interest payments rose marginally as a share of GDP. Development expenditure remained steady at 5.8 percent of GDP in FY2019/20, 0.9 percentage points lower than the budget target of 6.7 percent of GDP. The public investment portfolio (PIP) contains a very large number of ongoing projects (over 3,972), of which 40 percent are either dormant or stalled. Reprioritization of the development budget could help create fiscal space for more impactful and job-creating COVID-19 recovery projects.

Box 4: GoK's response to COVID-19 pandemic

- **Immediate fiscal responses through the supplementary Budget III of FY2019/20:** Additional spending to strengthen the health system, protect vulnerable households and ease firms' liquidity constraints (estimated at KSh 39.8bn - 0.4 percent of GDP). KSh 6.8bn was allocated to the health sector, KSh 13.8bn to clear pending bills, KSh 10bn for VAT refunds, and KSh 10bn to scale up cash transfers to vulnerable households.
- **Fiscal stimulus package in FY2020/21 of KSh. 54bn (0.5 percent of GDP).** These funds were allocated to youth work programs (KSh 10bn), school desks (KSh 6.5bn); environment (KSh 3.8bn); public infrastructure (KSh 5.4bn); agriculture (KSh 5bn); tourism (KSh 6.5bn); VAT refunds/and arrears clearance (KSh 14.3bn); and social protection (KSh 1bn).
- **Tax relief.** From April 2020, full income tax relief for persons earning a gross monthly income of up to KSh 24,000 (or about US\$225); reduction of corporate and the top individual income tax rate (PAYE) from 30 percent to 25 percent; reduction of turnover tax rate from 3 percent to 1 percent; and a VAT rate decrease from 16 to 14 percent. The authorities have also introduced revenue-raising measures and removal of some tax exemptions. The net tax relief since April 2020 is estimated at KSh 65.6bn (or 0.6 percent of GDP).
- **Monetary policy response:** Additional monetary stimulus and liquidity support by the Central Bank of Kenya (CBK), including reduction of the policy rate (CBR) to 7.25 percent from 8.25 percent; reduction of the cash reserve ratio to 4.25 percent from 5.25 percent; and granting of flexibility to banks on provisioning requirements for loans restructured due to the pandemic.
- **Financial sector policies:** Extending flexibility to borrowers on loan terms based on individual circumstances arising from the pandemic; and setting fees for mobile transactions for amount less than KSh1000 at zero to disincentivize use of cash; approval of a CGS to support SME lending, with initial seed capital of KSh 10bn over two years.

Source: World Bank staff

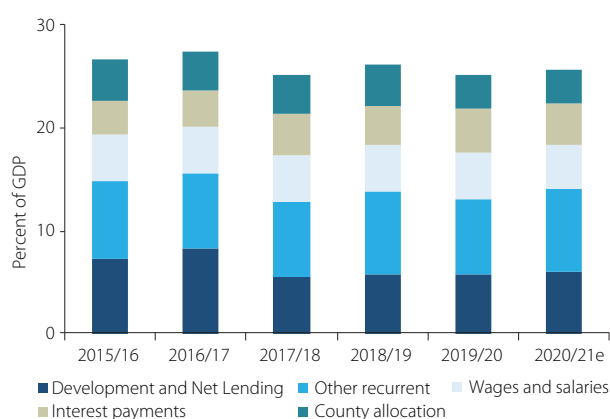
	FY2019/20 - 2020/21	
	KSh bn	% of GDP
Tax Relief	-186.3	-1.7
CIT rate cut	-33.9	-0.3
PIT rate cut	-100.5	-0.9
VAT rate cut	-49.4	-0.4
Turnover rate cut	-2.6	0.0
Revenue raising measures	81.32	0.7
Withholding income tax increase	2	0.0
CIT increase	28.2	0.3
VAT exemption removal	51.1	0.5
IDF exemption removal	0.02	0.0
New revenue raising measures (Jul 2020)	39.4	0.3
PIT exemptions removal	0.3	0.0
Excise duty	1.5	0.0
VAT exemption removal	7.7	0.1
Fees and Levies	5.4	0.0
CIT (MAT) and digital platforms	24.5	0.2
Net tax relief	-65.6	-0.6
Memo		
Nominal GDP	11266.6	

1.4.7. The crisis has further raised the importance of tracking and continuing to work to reduce pending bills, in order to support firm cash flows and business activity.

Pending bills accumulated in the second half of FY2019/20, as a result of delayed payments by the national government, and low disbursements to county governments. Pending bills at the national level stood at KSh 334.2 billion (3.3 percent of GDP) in June 2020, the bulk of which (KSh 285.5 billion) was owing from SAGAs. Reducing this substantial stock of payments owing would support the recovery of the economy, including by boosting firm cashflows, and strengthening the quality of assets in the banking system (by affecting the servicing of commercial loans by suppliers). Accordingly, to strengthen budget execution and improve inefficiency, there is a need for regular reporting on commitments and pending bills, including as part of enhanced overall financial monitoring and oversight of SAGAs, and putting in place a functional system of commitment control, so that commitments are fully captured on the system (IFMIS) and matched against appropriations.⁷

1.4.8. The pandemic continues to shape FY2020/21 revenue and spending choices, as the government focuses on containing the health crisis, without losing sight of its Big-4 development agenda. The government allocated KSh 53.9 billion (equivalent to 0.5 percent of GDP) to an economic stimulus package targeting eight key areas (Box 3). The budget also focused on scaling up reforms to fulfill the Big-4 agenda, which was allocated KSh 128.3 billion (about 1.3 percent of GDP). Modest revenue-raising measures are also built into the current budget, aiming to raise about 0.2 percent of GDP in additional revenue.

Figure 19: Government expenditure has leveled off as a share of GDP



Source: The National Treasury

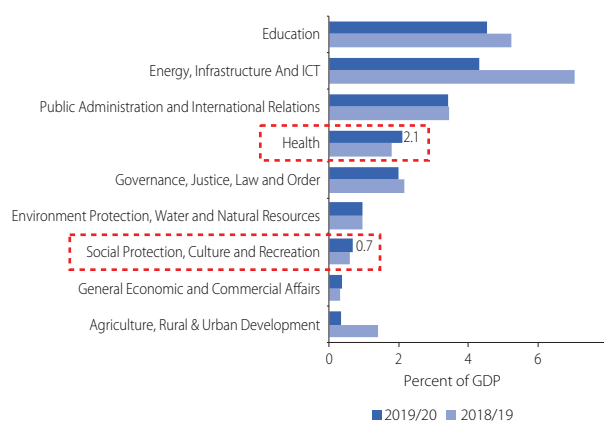
This adds to additional revenue to be realized over the medium term through removal of exemptions and as the economy recovers (of about 0.8 percent of GDP) (Box 3).

1.4.9. The fiscal out-turn in the first quarter of FY2020/21 budget shows revenue and expenditure falling below target.

Tax revenue underperformed by KSh 41.7bn (or 0.4 percent of GDP) to close at KSh 342.5bn (3.0 percent of GDP) for Q1 of FY2020/21 (below the target of KSh 384.3bn). Revenue under-collection arose from shortfalls in PAYE, VAT, and excise duty (Table 2) due to tax relief granted to mitigate the impact of COVID-19 and low economic activity. The GoK has stated that restoring the top PIT tax bracket and reinstating VAT and CIT rates to their previous levels starting January 2021, which could deliver about 0.7 percent of GDP in additional revenues in FY2020/21. Budget execution has also fallen behind target, with total expenditure and net lending underspending by KSh 49.7bn (0.5 percent of GDP) from the target of KSh 565.3bn (5 percent of GDP). The delays in budget execution were especially acute for the county governments, as the passage of the Division of Revenue Bill, across counties was protracted. Consequently, the fiscal deficit at the end of September 2020 was about 1.2 percent of GDP relative to the target of 1.1 percent of GDP. This deficit was funded exclusively through domestic borrowing (of 1.3 percent of GDP), while net external financing recorded a repayment.

1.4.10. The COVID-19 shock and fiscal responses have halted planned fiscal consolidation and led to a rapid accumulation of public debt. Public debt rose to 65.6 percent of GDP in June 2020 (from 62.4 percent of GDP in June 2019) (Figure 21). This is driven by a wider primary

Figure 20: Expenditure allocations to health and social protection have increased



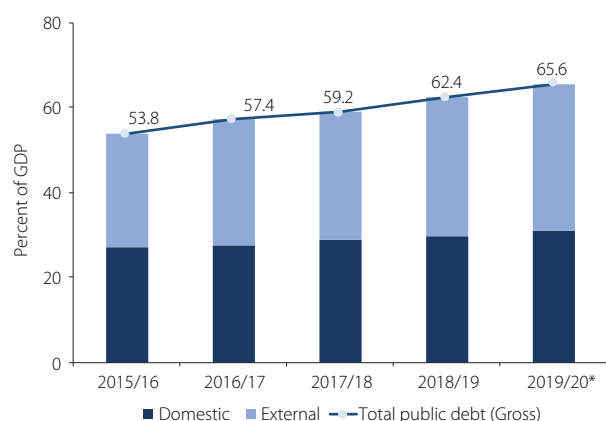
Source: The National Treasury

⁷ See World Bank. (2020). *Public Expenditure Review: Options for Fiscal Consolidation after COVID-19*.

deficit of about 3.6 percent of GDP in FY2019/20, while interest payments continue to add to the burden. With a significant slowdown in GDP growth and nominal exchange rate depreciation, debt vulnerabilities have risen (Figure 22). The latest IMF/WB LIC DSA (May 2020) finds that Kenya's debt position remains sustainable, but that the risk

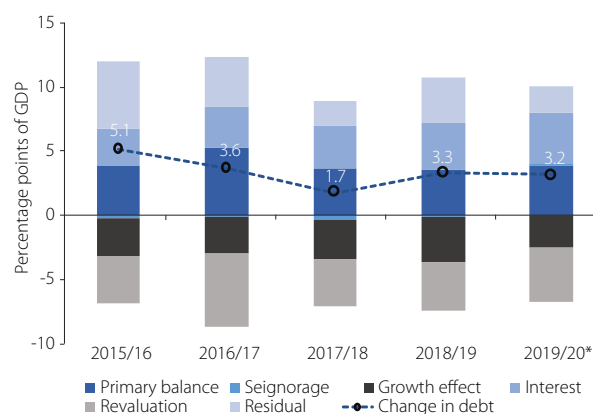
of debt distress has increased to high, due to the COVID-19 crisis weakening exports and real GDP growth and delaying fiscal consolidation. The composition of Kenya's debt remains balanced between external and domestic sources and the share of multilateral debt in external debt remains substantial (Table 3).

Figure 21: The public debt burden is increasing



Source: The National Treasury

Figure 22: The increase in debt is driven by widening primary deficit and interest payments



Source: The National treasury

Table 2: Preliminary fiscal out-turn (% of GDP) for FY19/20 and FY20/21Q1

	FY2019/20 Actual	FY2020/21 Budget	FY19/20 Q1 Actual	FY20/21 Q1	
				Preliminary	Target
Total revenue and grants	17.2	17	4.2	3.4	3.9
Total revenue	17	16.5	4.1	3.3	3.8
Ordinary revenue	15.4	14.2	3.8	3	3.4
Taxes on Intl. Trade & Transactions (Import Duty)	1	0.9	0.3	0.2	0.2
Excise Taxes	1.9	1.9	0.5	0.4	0.5
Taxes on Income, Profits & Capital gains (Income Tax)	6.9	6.5	1.8	1.3	1.5
Taxes on goods and services (VAT)	3.8	3.9	1	0.7	1
Other Revenue	1.9	1.1	0.2	0.3	0.2
Ministerial Appropriation in Aid	1.6	2.3	0.4	0.3	0.4
Grants	0.2	0.5	0	0	0.1
Total expenditure and net lending	25.2	25.9	5.3	4.6	5
Recurrent Expenditure	16.1	16.3	3.8	3.3	3.6
Domestic Interest	3.1	2.7	0.7	0.7	0.6
Foreign Interest due	1.2	1.4	0.3	0.3	0.4
Wages & Salaries	4.4	4.3	1.1	1.1	1.1
Development	5.8	6	0.9	1	0.8
County Transfer	3.2	3.5	0.6	0.3	0.6
Balance including grants (cash basis)	-7.8	-8.9	-0.9	-1.2	-1.1
Total Financing	7.8	8.9	0.9	1.1	1.1
Net foreign financing	3.3	3.6	0.1	-0.2	-0.1
Net domestic financing	4.4	5.3	0.8	1.3	1.2
Primary balance	-3.6	-4.8	0.1	-0.2	-0.1
Memo:					
Nominal GDP (KSh billion)	10,199.9	11,275.8			

Source: The National Treasury

Note: 1- The above fiscal framework has been revised to accommodate the COVID-19 fiscal measures to be formalized in the context of supplementary budget III.

Table 3: The share of multilateral debt in total PPG external debt has increased

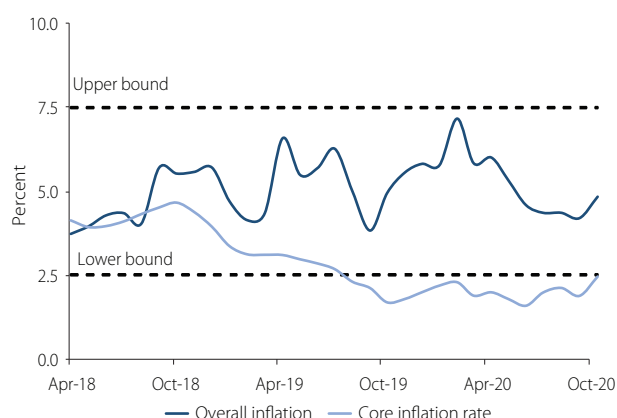
	Jun-18		Jun-19		Jun-20	
	US\$ million	Share (%)	US\$ million	Share (%)	US\$ million	Share (%)
Multilateral	8,031.39	33.5	8,938.51	30.2	12,407.05	37.6
o/w IDA	5,024.05	21	5,953.08	24.9	8,399.27	35.1
Bilateral	7,533.41	31.5	9,736.81	32.9	10,084.80	30.6
Paris Club	1,954.90	8.2	2,271.30	7.7	271.5	0.8
Non-Paris Club	5,626.00	23.5	6,507.10	22	7,165.90	21.7
Commercial	8,219.71	34.3	10,711.36	36.2	10,348.00	31.4
o/w Eurobond						
Export credit	165.51	0.7	165.51	0.6		0
Total	23,950.02	100	29,552.19	100	33,005.37	100

Source: The National Treasury

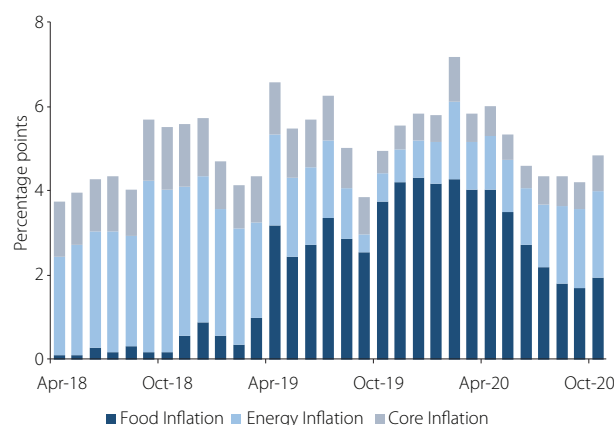
1.4.11. Debt service obligations are large and growing, which constrains fiscal space for COVID-19 related spending and job-creating investments. The rising expenditure on interest payments (currently at 4.3 percent of GDP and accounting for over 25.2 percent of total revenue) leaves limited room for public spending on priority areas and emergency COVID-19 expenditures. Furthermore, Kenya's revenue and exports were on the decline relative to GDP even before the COVID-19 outbreak. Reversing this downward trend would boost Kenya's ability to meet both domestic and external debt service obligations. Making use of available international debt service relief and other debt optimization strategies could contribute to releasing needed fiscal space. Furthermore, since most of Kenya's external debt is denominated in US dollars (67.3 percent),⁸ Kenya's cost of external debt service obligations is vulnerable to US Dollar appreciation.⁹

1.5. Monetary policy has been accommodative to mitigate the impact of the pandemic

1.5.1. Inflation pressures have moderated, as the pandemic has increased slack in the economy. Headline inflation remained within the CBK's target band of ± 2.5 percent, helped by relatively low food and energy prices. Inflation has declined from 5.8 percent y/y in January to 4.8 percent in October, supported by lower food prices, a reduction of VAT, and muted demand pressures (Figure 23). Food inflation slowed, primarily driven by decreases in prices of several food items such as spinach, cabbages, tomatoes, potatoes and loose maize grain (Figure 24). The easing inflation trends in Kenya are similar to EAC peers (Figure 25), reflecting mainly lower food and energy prices. Additionally, core inflation (which excludes energy and food inflation) was 2.5 percent in October 2020, reflecting an economy where underlying demand pressures have eased as the economy has been slowed to well below its potential growth rate by the effects of the pandemic.

Figure 23: There has been significant decline in headline inflation rate during 2020

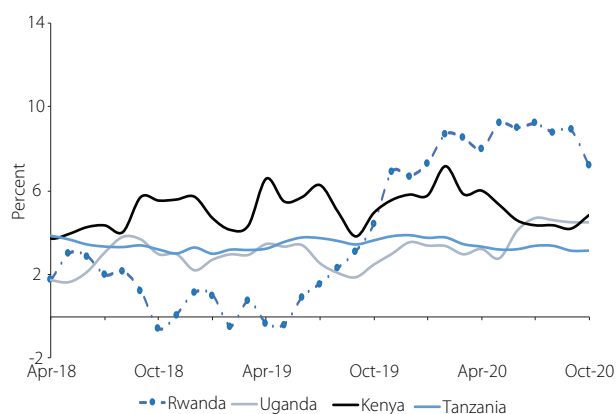
Source: Kenya National Bureau of Statistics

Figure 24: Low food and non-food inflation has resulted in low overall inflation (percent y/y)

Source: Kenya National Bureau of Statistics

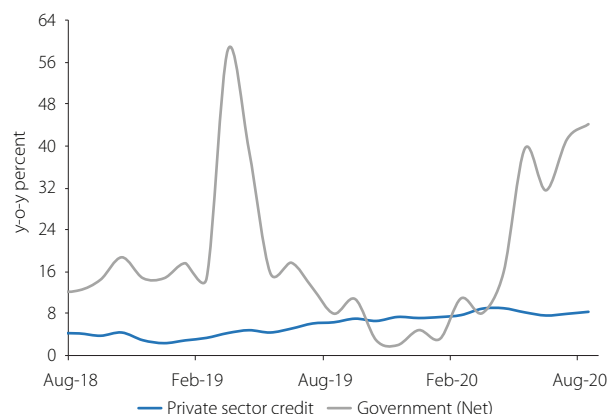
⁸ Provisional data for end-June 2020. National Treasury, "Public Debt Management Report," September 2020.

⁹ The latest Debt Sustainability Analysis by IMF/WB was published in May 2020.

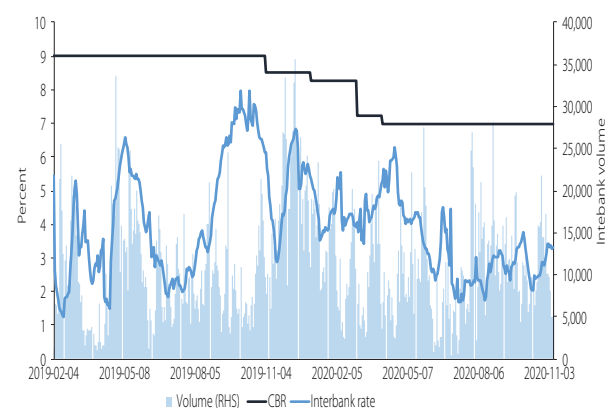
Figure 25: Headline inflation is moderate across the EAC partner states

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

1.5.2. The benign inflation environment over the review period provided space for accommodative monetary policy to help mitigate the impact of COVID-19 pandemic. Accordingly, the CBK reduced its key policy rate in January and March by a total of 100 basis points to 7.25 percent, followed by a 25 basis points off-cycle rate cut in April, bringing the benchmark rate to 7.00 percent. The cash reserve ratio (CRR) requirement was also reduced by 100 basis points to 4.25 percent in March to further support domestic liquidity. The CBK has also adopted other regulatory measures and taken preemptive actions to minimize the economic fallout of the COVID-19 pandemic (Box 4).¹⁰

Figure 26: Private sector credit growth remains modest, while credit to government has accelerated

Source: Central Bank of Kenya

Figure 27: Interbank rate and activity volume reflects ample liquidity

Source: Central Bank of Kenya

Table 4: Financial soundness indicators (FSI) show a decrease in profitability

	Weight	Statutory Requirement	Direction to be stable	Value(%) as at Aug-20
Capital Adequacy				
Total capital/RWA (CAR)	20	15	≥	18.4
Asset quality				
NPLs (gross)/Total loans	5	5	≤	13.6
NPLs (provisional)/capital	10	25	≤	16.9
Profitability				
ROA (after-tax)	15	2	≥	1.8
ROE (after-tax)	15	20	≥	15.5
Liquidity				
Liquid assets/total assets	10	30	≥	42.2
Liquid assets/short-term liabilities	10	50	≥	53.2
Sensitivity to Market Risk				
Net FX exposure/capital (abs)	5	5	≤	15.7

Source: Central Bank of Kenya

Note: Assets Quality category excludes FX loans/Total loans

¹⁰ The CBK has also provided some relief measures to MSMEs by (i) temporary reducing the credit risks assigned to their loans; (ii) assigning a 0 percent risk weight for their guaranteed loans; (iii) SMEs and corporate borrowers can contact their banks for assessment and restructuring of their loans based on their respective circumstances arising from the pandemic; and (iv). Banks meeting all the costs related to the extension and restructuring of loans.

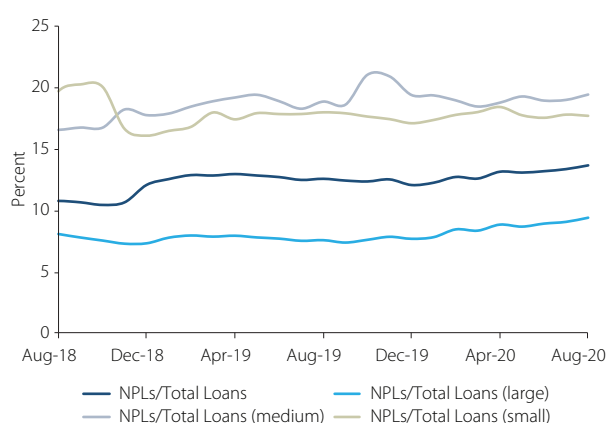
1.5.3. Private sector credit growth has trended higher over the course of 2020 but remains moderate, partly due to rising COVID-19 related uncertainty and increased government borrowing. Credit to the private sector expanded by 8.3 y/y in August 2020 (compared to 6.3 percent y/y in August 2019) (Figure 26). Banks had started lending to the private sector at an increasing pace since the removal of interest rate caps in November 2019, but the momentum was slowed by the COVID-19 pandemic. As a result, commercial banks are taking a cautious approach in extending fresh credit, in an environment where corporates and individuals are increasingly seeking extensions on their loan repayments due to liquidity challenges. At the same time, net credit to government has accelerated as the government switched to domestic sources to fund its widening budget deficit (including COVID-19 related spending). Because increasing credit to the private sector depends crucially on prospects for economic recovery post-COVID-19, progress must be made in terms of fiscal consolidation and de-risking lending by commercial banks, especially for MSMEs. Additionally, the average interbank rate decreased to 2.7 percent in October 2020, from about 5.1 percent in April 2020, consistent with increased liquidity in the money market (Figure 27).

1.5.4. Kenya's banking sector remains generally sound, but the extra pressures generated by the pandemic bear close monitoring. Kenyan banks are well capitalized at the aggregate level, with a total capital adequacy ratio of 18.4 percent as of August 2020, compared to 18.3 percent in August 2019 and above the 15 percent regulatory minimum. The share of non-performing loans (NPLs) slightly increased to an average of 12.9 percent in the first eight-

months of 2020, up from 12.6 percent in the same period in 2019. However, this ratio does point to a significant level of problem loans, and likely understates the strain on loan quality in view of the temporary relaxation of regulatory loan classification requirements in the context of the COVID-19 crisis, a factor that could constrain future lending (Figure 28). The generally subdued business environment has seen NPLs increase across manufacturing, trade and personal sectors. Asset quality for the small and medium banks is especially weak, with average NPLs higher than 15 percent, well above statutory guidelines of 5 percent or less. The country's banking sector was highly profitable pre-COVID-19, with an average return on equity (ROE) and return on assets (ROA) above regulatory thresholds at the end of 2019, but both ROE and ROA have fallen below these thresholds to 15.5 percent and 1.8 percent, respectively as of August 2020 (Table 4). Net exposure to foreign exchange is also high (at 15.7 percent) relative to statutory requirements of 5 percent (Table 4).

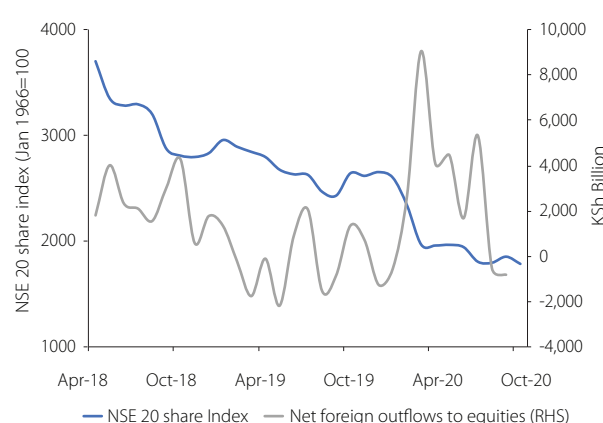
1.5.5. The COVID-19 outbreak and economic slowdown have resulted in considerable financial market volatility. As the COVID-19 outbreak took hold, volatility in the equities market rose markedly. Foreign equity outflows from the Nairobi Securities Exchange (NSE) 20 share index rose by approximately 31 percent between January and October 2020, (Figure 29). The NSE 20 share index was 1,784 points by the end of October 2020, down by 32.5 percent, compared to 2,643 points by end October 2019. Further, the NSE 20 share index has failed to bounce back, in contrast to many other global stock markets (including Emerging Markets indices).

Figure 28: High NPLs constrain lending conditions



Source: Central Bank of Kenya

Figure 29: The flight to safety has led to net foreign outflows (NSE) and a reduction of the NSE 20 Share index

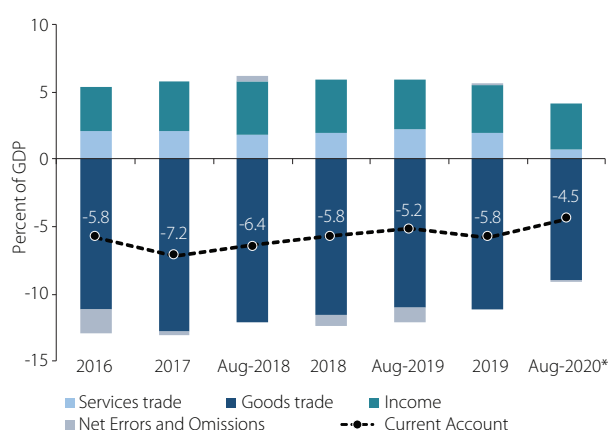


Source: Central Bank of Kenya

1.6. Kenya's external position has been supported by import compression and resilient remittances

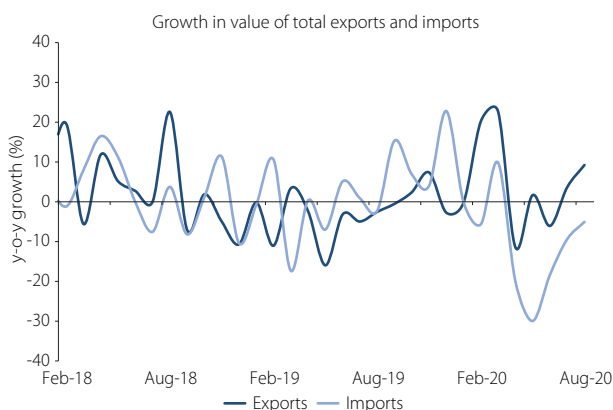
1.6.1. The current account deficit has narrowed slightly, as remittance inflows remained resilient, while the global pandemic compressed both exports and imports. The current account deficit fell to 4.5 percent of GDP in the 12-month to August 2020, from 5.2 percent of GDP over the same period 2019 (Figure 30), driven by resilient diaspora remittance inflows, and lower imports of goods and services which more than outweighed a decline in exports of goods and services. Slowing domestic demand and falling oil prices led to contraction in the value of imports and services in H1 2020. Reflecting a rebound from a very weak performance in 2019, Kenya's export of goods and services have leveled off, despite the collapse in tourism due to COVID-19. The weakness in the trade balance was mitigated by a strong surplus in the secondary income account due to diaspora remittances

Figure 30: The current account deficit has compressed



Source: Central Bank of Kenya

Figure 32: Goods imports declined at faster pace than exports



Source: Kenya National Bureau of Statistics

(Figure 31). Remittances dipped in April and May but have subsequently staged a strong recovery.

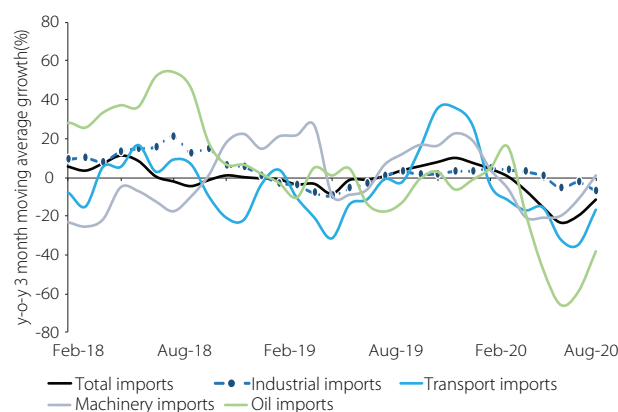
1.6.2. Affected by the rapid global spread of COVID-19 and containment measures in Kenya and its trading partners, both merchandise exports and imports contracted sharply over 2020 to date (Figure 32). The contraction in imports was broad-based (i.e. oil imports, capital, and transportation equipment all declined) in April-May (Figure 33), but have recovered substantially in Q3 and Q4. Similarly, the value of exports (tea, coffee, horticulture, and manufactured exports) contracted in April-May, with the value of horticulture and manufactured exports contracting by 7.8 percent and 0.4 percent. More recently, exports of goods have rebounded, to grow by 1.3 percent in the first eight months of 2020 compared to a contraction of 4.8 percent over a similar period in 2019. Horticulture exports, however, declined by 7.7 percent, largely reflecting the sharp contraction in flower exports

Figure 31: Remittances remain steady, helping to limit the current account deficit



Source: Kenya National Bureau of Statistics

Figure 33: All categories of imports declined over the review period



Source: Kenya National Bureau of Statistics

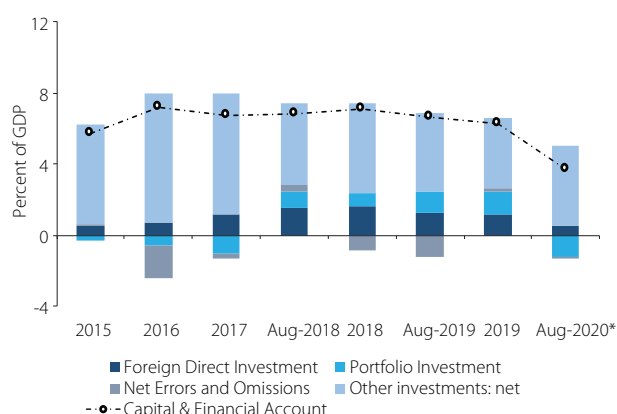
in April, but have recovered, reflecting increasing demand from key export markets with easing of restrictions and containment measures, and increased cargo space. In addition, manufactured goods exports have mostly improved in recent months due to a pickup in demand and easing of supply restrictions in cross border destination markets, and increased cargo capacity.

1.6.3. Official borrowing and private investment inflows dominate the financing of the current account deficit, as external financing pressures increased in the wake of the pandemic. The shock to emerging market and frontier economies' access to international capital markets makes the financing of the current account deficit considerably more challenging. The capital and financial account balance stood at 3.8 percent of GDP in the year to August 2020 compared to 6.7 percent of GDP in the year to August 2019. This represents net foreign direct investment (FDI) equivalent to 0.5 percent of GDP, net portfolio

investment (of -1.2 percent of GDP), and 4.6 percent of GDP of net other investments (official borrowing and corporate borrowing from abroad) (Figure 34). Programmed official borrowing included IMF's Rapid Credit Facility of US\$750 million, a World Bank loan (US\$1,000 million), an AfDB credit (US\$500 million), among others. Consequently, official foreign reserves, which currently stand at US\$9.2 billion as of August 2020, equivalent to 5.7 months of import cover (Figure 35), provide an adequate buffer to the short-term external shocks.

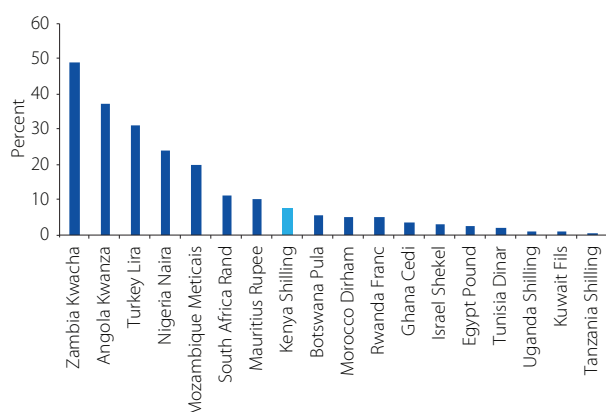
1.6.4. Since the onset of the COVID-19 crisis, the Kenyan Shilling has depreciated against the US dollar. During 2020 through November 13, the Shilling depreciated by 7.7 percent against the US Dollar, to stand at KSh 109.1/US\$. Much of this change occurred in the early part of the COVID-19 crisis, against the backdrop of broad-based US Dollar appreciation against most countries' currencies (the US Dollar appreciated by 6.8 percent on a global

Figure 34: Official borrowing helped finance the current deficit as portfolio flows contracted



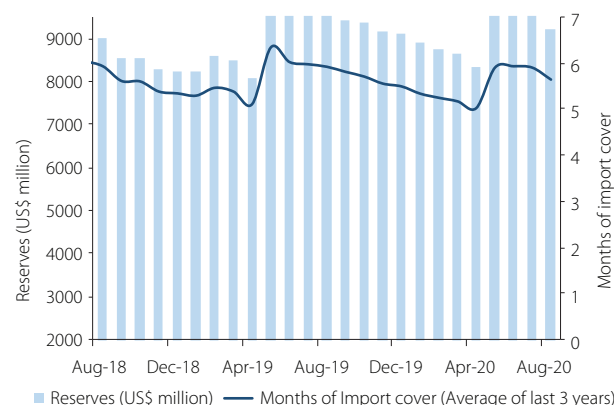
Source: Central Bank of Kenya

Figure 36: Most currencies in Africa and the Middle East, including the Shilling, have depreciated vs. the US Dollar in 2020 (% depreciation through 13 Nov)



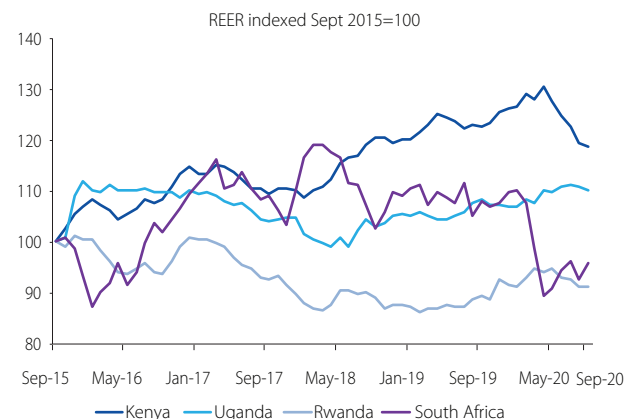
Source: World Bank staff calculations based on data from Haver

Figure 35: Official foreign reserves have been supported by official borrowing inflows



Source: Central Bank of Kenya

Figure 37: The significant real effective appreciation of the Shilling in recent years has only partly been reversed by developments in 2020



Source: World Bank staff calculations based on Real Effective Exchange Rate (REER) Indices provided by Bruegel¹¹

¹¹ <https://www.bruegel.org/publications/datasets/real-effective-exchange-rates-for-178-countries-a-new-database/>

trade-weighted basis in Q1). Although the US Dollar has subsequently retraced many of these gains globally, most emerging and frontier market currencies, notably in the Middle East and Africa, and including the shilling, remain weaker (Figure 36). In real trade-weighted (i.e., effective) terms, however, the developments during 2020 have only partly reversed the significant trend-appreciation of the

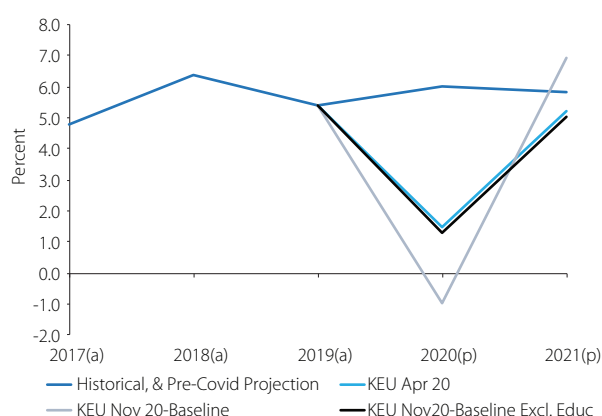
exchange rate in recent years (Figure 37). This adjustment in Kenya's price levels relative to those of its trading partners is expected to be positive in helping the economy adjust to the COVID-19 shock and stage a recovery, including by increasing the international competitiveness of goods and services produced in Kenya.

2. Outlook and Risks

2.1. The economic outlook remains highly uncertain due to the pandemic

2.1.1. The outlook for the economy, both globally and in Kenya, remains highly uncertain, as the COVID-19 pandemic continues to unfold. Under baseline assumptions, Kenya's economic output is projected to contract by 1.0 percent in 2020, and to rebound in 2021, with real GDP increasing by 6.9 percent (Table 5 and Figure 38). Compared to the previous projections, in the April 2020 KEU, this implies a sharper projected fall in GDP in 2020 (similar to projections under the adverse scenario described in April), followed by a stronger rebound in 2021. A major driver of the revised projections is the treatment in the national accounts of education sector output. The shutdown of institutions in Q2 and Q3 of 2020 cuts real GDP growth by 2.2 percentage points in 2020, and when value addition in the sector normalizes in 2021, this is projected to add 2.2 percentage points to GDP growth. Stripping out these unprecedentedly large education effects, GDP growth (ex. education) is projected at 1.3 percent in 2020 and 5.0 percent in 2021.

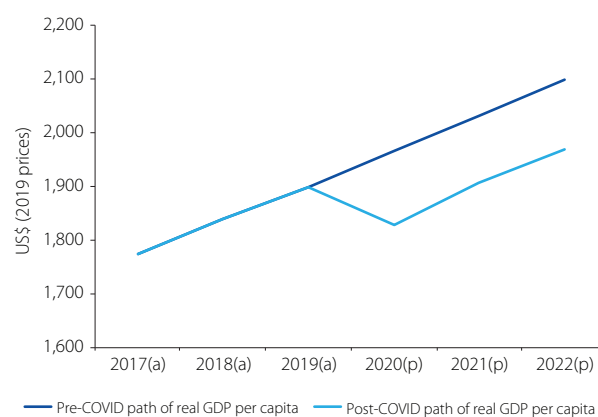
Figure 38: Recent revisions to real GDP growth projections (percent change in real GDP y/y)



Source: KNBS (2017-19 actuals); World Bank staff projections (p) (2020-21)

2.1.2. The economic cost of COVID-19 to Kenya is expected to be very large, in line with the enormous toll of the pandemic globally. At the end of 2019, average income in Kenya was estimated to be US\$1,899, as measured by output per capita. Due to the crisis, this is projected in the base case to decline by 3.3 percent in 2020, to US\$1,826 (in 2019 prices). Such a contraction in real average income is rare; it was last recorded in 2008, when real output per person in Kenya shrank by 2.5 percent as the economy experienced the triple shock of political turbulence, severe drought, and the start of the global financial crisis. Looking further ahead, under the World Bank's baseline projections, real GDP per capita in 2022 will be lower by US\$128 compared to projections before the crisis hit, at US\$1,968 (in 2019 prices). These estimates should be treated as indicative only, in light of the uncertain actual future path of the economy as it emerges from the COVID-19 shock, and because the path the economy would have taken had the pandemic never occurred can never be known. However, they serve to illustrate that the economic costs of the crisis, due to lost output, are certainly very large.

Figure 39: The crisis is expected to have a large impact on real average incomes



Source: KNBS (2017-19 actuals); World Bank staff projections (p) (2020-22)

Table 5: Recent revisions to real GDP growth projections (percent change in real GDP y/y)

	2017(a)	2018(a)	2019(a)	2020(p)	2021(p)
Historical, & Pre-Covid Projection	4.80%	6.40%	5.40%	6.00%	5.80%
KEU Apr 20				1.50%	5.20%
KEU Nov 20 - Baseline				-1.00%	6.90%
KEU Nov 20 - Baseline Excl. Educ				1.30%	5.00%
KEU Nov 20 - Adverse				-1.50%	4.50%
KEU Nov 20 - Adverse Excl. Educ				1.10%	3.50%

Source: KNBS (2019 actual (a)); World Bank staff projections (p) (2020-21)

2.1.3. The base case projections assume that the economic effects of COVID-19 fade by early to mid-2021 (including as vaccines and additional therapeutic treatments become available). This will lead to increased domestic and global demand, following the easing of containment measures, and increased international travel. Furthermore, the baseline assumes that normal weather supports agricultural production and its strong linkage to industrial and services output. However, the baseline projections remain subject to elevated uncertainty due to the pandemic. The scale of the pandemic, and its economic effects so far, have been more severe than anticipated at the time of the previous KEU (in April), and have fallen more in line with the adverse scenario than the base case for the World Bank's economic projections at that time. In a more adverse scenario going forward, where the pandemic causes more prolonged disruption to the economy, GDP growth could be expected to be

somewhat lower in 2020 (-1.5 percent, reflecting mainly a weaker Q4 outturn), and could be considerably lower in 2021 (4.5 percent).

2.1.4. The recovery expected in the base case is broad-based across sectors (Table 6). Agricultural output growth of around 3.9 percent over the medium term (2022) assumes no adverse weather shocks and that recent reforms to improve the use of fertilizers and farm inputs are successful and will continue to be scaled up. Industrial growth of 4.0 percent in the base case will be supported by the supply of raw materials from agriculture, a recovery in domestic consumption, and improved investor confidence. The services sector is projected to grow by 7.1 percent in the medium term as the COVID-19 crisis abates and domestic trade, transport, accommodation, and education activities rebound, supported by accommodative monetary policy and private credit growth.

Table 6: Medium term growth projections

	2017	2018	2019	2020e	2021f	2022f
	<i>(annual percentage change)</i>					
Real GDP growth, at constant market prices	4.8	6.3	5.4	-1.0	6.9	5.7
Private Consumption	7.4	6.5	5.0	1.0	7.6	6.3
Government Consumption	3.9	5.6	4.9	5.7	4.9	3.6
Gross Fixed Capital Investment	8.3	1.3	2.4	-6.2	8.2	7.7
Exports, Goods and Services	-6.2	3.9	-0.2	0.1	7.3	6.4
Imports, Goods and Services	8.6	2.5	-2.0	-0.5	8.8	8.0
Real GDP growth, at constant factor prices	4.4	6.3	5.5	-1.0	6.9	5.7
Agriculture	1.6	6.0	3.6	5.6	4.2	3.9
Industry	3.9	5.5	4.6	2.1	3.6	4.0
Services	5.9	6.7	6.7	-4.8	9.3	7.1
Inflation (Consumer Price Index)	8.0	4.7	5.2	5.1	5.2	5.5
	<i>(shares of GDP)</i>					
Current account balance	-7.2	-5.8	-5.7	-4.5	-4.8	-5.2
Net foreign direct investment	1.3	1.7	1.1	0.3	0.9	1.6
Fiscal balance / ¹	-8.6	-7.4	-7.7	-7.8	-8.9	-7.1
Debt / ¹	57.4	59.2	62.4	65.6	67.8	68.5
Primary Balance / ¹	-5.1	-3.6	-3.6	-3.6	-4.8	-2.7

Source: World Bank, Macroeconomics, Trade & Investment Global Practice and the National Treasury
Notes: e = estimate, f = forecast; /¹ fiscal data are presented on a fiscal rather than calendar year basis, 2017 = fiscal year 2016/17.

2.1.5. Strong growth in consumption will be driven by a recovery in private consumption, complemented by higher government consumption. The reopening of the economy is expected to boost activity, reduce unemployment, and support wage and income growth. As a result, private consumption is projected to grow at 6.3 percent in the medium term. In addition, private consumption growth is predicated on continued growth in remittances, favorable agricultural harvests, moderate inflation (that will safeguard consumer purchasing power), and increased credit to households. The baseline assumes an increase in government consumption in line with the Economic Stimulus Program (of about 0.6 percent of GDP) and the Post COVID-19 Economic Recovery Strategy (ERS).

2.1.6. The investment rebound in the medium term is predicated on restored investor confidence, rising credit to private sector and a gradual return to a sustainable fiscal consolidation path. Private investment has been declining following years of low growth in credit to the private sector and expansionary fiscal deficits, largely funded from domestic sources. Pent-up private sector investment demand and growing access to credit (including through initiatives to support MSMEs using a CGS) are expected to drive growth of private investment, post-COVID-19. Meanwhile growth of government investments will remain modest, reflecting the need to create space for health-related spending and cash transfers to households, while the crisis persists. Government capital projects are expected to be limited to those with high economic impact and supportive of post-COVID-19 recovery (including creating jobs). The resulting investment growth is projected at 7.7 percent in the medium term (or 18.1 percent of GDP).

2.1.7. As Kenya continues to manage COVID-19 infections, the medium-term fiscal consolidation targets have been paused. With lower domestic revenue mobilization and elevated budget expenditures prior to the unwinding of COVID-19 related fiscal stimulus measures, the budget deficit is expected to remain wide and add to the stock of public debt. Total revenue as a share of GDP is projected to decline from 17.0 percent in FY2019/20 to about 16.5 percent in FY2020/21 and 16.2 percent in FY2021/22. However, public spending is expected to grow in line with inflation and real growth escalators. Expenditure is projected to increase from 25.2 percent in 2019/20 to about 26.0 percent in 2020/21 and decline to 23.7 percent

in 2021/22. The resulting fiscal deficit is projected at 9.0 percent in FY2020/21 and 7.1 percent in FY2021/22, while public debt will rise by 2.8 percentage points to about 68.5 of GDP in FY2021/22. The widening of the fiscal deficit in FY20/21 compared with FY19/20 is attributable to the fact that the COVID-19 shock occurred only in the final quarter of FY19/20.

2.1.8. In the base case, the external balance is projected to remain supported by diaspora remittances, which have been remarkably resilient so far. Current account inflows will be supported by continued resilience of remittance inflows and a recovery of exports of Kenya's main products (horticulture and tea) to pre-crisis levels. Meanwhile imports are expected to increase, driven by rising domestic demand to support private consumption and industrial activity, and a modest uptick in oil prices over the medium term. The current account deficit is projected at 5.2 percent of GDP in the medium term.

2.1.9. Inflationary pressures are expected to remain well-contained in the medium term. The moderate projected inflation rate assumes that the supply disruptions associated with COVID-19 ease, and the absence of major weather shocks that could affect food prices. The medium-term growth projection also assumes that oil prices remain below pre-pandemic levels, reducing price pressures since Kenya is a net oil importer. As a result, headline inflation is projected at 5.5 percent in the medium term.

2.2. Risks to the Outlook

2.2.1. The outlook remains subject to unusually high uncertainty, hinging on the progression of the COVID-19 pandemic, globally and in Kenya. The key downside risk is that a further acceleration in community transmission of the virus severely disrupts domestic economic activity for a more prolonged period. The baseline also assumes adequate rains will create favorable conditions for agriculture. Unanticipated drought could reduce agricultural output and rural incomes, as would a worsening and regional spread of the locust infestation (which has so far been confined to the north of the country). With 2020 poised to be an exceptionally strong year for agricultural output (benefiting from a rebound from the 2019 drought), risks to agriculture output projections for 2021 are skewed somewhat to the downside even in the absence of major shocks.



2.2.2. Delayed availability of vaccines, and prolonged social distancing and other needed COVID-19 countermeasures, could undermine the projected recovery in economic activity. Despite the partial reopening of the economy, social distancing measures are expected to remain in place until vaccines or more effective therapeutics are available. Delayed vaccine availability could undermine rapid and full recovery, and if government has to manage any subsequent re-emergence of infections and extend support to vulnerable households and firms, this could lead to fiscal slippages.

2.2.3. Re-occurrence or failure to contain the pandemic globally constitutes an external risk to Kenya's recovery in the medium term. A more prolonged than anticipated pandemic and global economic recession would weigh on Kenya's export earnings, including from the important tourism sector. The baseline assumes containment of the pandemic domestically and globally in the medium term. A re-emergence of the pandemic before vaccines become widely available could be followed by more stringent measures, such as renewed travel restrictions, that would slow the economies of Kenya's key trading partners and tourism markets.

2.2.4. The continuation of large fiscal deficits in the medium term would constitute a risk to Kenya's macroeconomic stability and growth. If the fiscal imbalance is not reduced in the coming years, this

would lead to further accumulation of domestic and external public debt, intensifying Kenya's external debt vulnerabilities, crowding out private sector investment, and elevating the feedback loop between the health of public finances and the financial sector. While government is committed to medium-term fiscal consolidation, this may face challenges, including from the political cycle (with national elections due in 2022), and contingent liabilities which may crystallize, for example due to the negative impact of the COVID-19 crisis on the balance sheets of major state-owned enterprises.

2.2.5. Although risks to the outlook are skewed to the downside (motivating the inclusion of projections under a more adverse scenario), upside risks to the projections can also be identified. If community transmission of the novel coronavirus slows more quickly in Kenya, including because of the earlier application of vaccines, the economy could rebound more rapidly in 2021, and growth could exceed projections. As pandemic-related uncertainty dissipates, household and business confidence may stage a rapid recovery, and drive stronger-than-anticipated growth in consumption and investment expenditure, benefiting from pent-up demand and the initiation of delayed projects. Similarly, a more rapid economic recovery in Kenya's key international trading partners could fuel a more rapid than expected rebound in goods exports and tourism, boosting GDP growth in 2021.

3. Policy Discussion

3.1.1. As Kenya navigates the pandemic and associated uncertainty, the government should remain focused on supporting a resilient economic recovery, creating jobs for the youthful population, and reducing poverty and inequality. Policymakers should take actions to combat the near-term recession and revive the economy's productivity, creating the conditions for a resilient and inclusive recovery. The analysis in Parts I and 2 of this update aim to inform the policymaking process in help containing the crisis, to restore growth by reigniting the private sector's contribution, and to maintain macroeconomic stability. Priority policy messages are synthesized in the summary matrix below.

3.1. Strengthen the capacity of Kenya's healthcare system by advancing critical reforms and promoting access to healthcare

3.1.2. The COVID-19 pandemic has shone a spotlight on the healthcare sector and elevated the agenda to strengthen the quality of and access to health services in Kenya. The crisis has made it more critical and urgent to strengthen the capacity of the healthcare system to handle infections, continue with mass testing, support self-isolation, protect the most vulnerable (those with underlying critical health issues), and meet the rising demand for healthcare (including, critically, the supply

of safe blood). As the crisis abates and focus turns to a sustainable health provision model, Kenya will need to enhance its existing institutional setup for monitoring and responding to communicable disease outbreaks.

3.1.3. In Part 2 of this update, it is shown that access to healthcare has been significantly impeded. Policymakers could ensure access to safe healthcare for non-COVID-19 related health concerns and help reduce the long-term impact of the pandemic on health outcomes. To limit a rise in long-term health problems due to inadequate preventative care and treatment during the pandemic, healthcare facilities not being utilized for COVID-19 should be made available to treat non-communicable diseases like cancer, cardiovascular disease and diabetes (while maintaining anti-coronavirus protocols). Clear information regarding the health facilities that treat COVID-19 as opposed to those that do not can help the population select facilities and seek timely medical attention.

3.1.4. Maintain focus on the goal of achieving Universal Health Coverage (UHC) as part of the “Big 4” agenda. This includes adopting a health financing model whereby all Kenyans would be covered by the National Health Insurance Fund (NHIF). This requires reforms to NHIF to strengthen its systems and capacity, especially in the areas of costing benefit packages and provider payment mechanisms and to address outstanding issues regarding the flow of funds to counties and public facilities, and their earmarking for use in the health sector. Although the 2010 Constitution establishes healthcare services as a devolved function, the legal framework to effectively guide healthcare financing and service delivery at the county level has lagged, leading to a lack of clarity and transparency in the use of funds, inefficiencies, and increasing contestation. The following is a summary of policy actions to deliver the above changes with suggested sequencing:

Recommendation	Comments/Explanation	Sequencing
Strengthen the capacity of the healthcare system to handle COVID-19 infections, continue with mass testing, support self-isolation, and protect the most vulnerable.	The health sector, at the front line of the pandemic, requires continued support: <ul style="list-style-type: none"> Allocate sufficient resources to the health sector (for personnel, medical supplies, hospital beds, and medical equipment). Create the fiscal space by deferring and postponing low-priority spending. Continue with mass testing, supporting self-quarantine (especially for individuals who cannot isolate at home without risk of infecting others), protect the most vulnerable groups (those with underlying medical conditions and the elderly). Ensure access to safe healthcare for non-COVID-19 related health concerns, by assigning adequate resources to these areas (including non-communicable diseases like cancer, cardiovascular disease and diabetes). 	Short-term
Address critical pandemic preparedness gaps and strengthen service delivery, and the equity and efficiency of healthcare financing.	Health reforms supporting resilience recovery post-COVID-19: <ul style="list-style-type: none"> Undertake improvements to legal frameworks for the supply of critical healthcare (including blood) by adopting the blood transfusion bill. Review the legal frameworks and establish institutional reforms that consolidate existing but scattered public health emergency preparedness to strengthen institutional capacity so that it can better anticipate and respond to future communicable disease outbreaks. Put in place a sustainable financing framework for UHC by reviewing the NHIF's operational mandate to align with the UHC agenda (as a social health insurance provider) and address transparency, administrative and governance challenges. 	Short- to medium-term (6 to 12 months)



3.2. Continue to assist the most vulnerable households, and help those who have lost jobs seek new employment by scaling and sustaining available social protection programs

3.1.5. The hardship from the crisis disproportionately befalls the poorest and the most vulnerable groups in Kenya. There is considerable uncertainty around the extent of re-merging spikes in infections and a longer lead time

in reintegrating the jobless into meaningful work. A large segment of the population has been pushed below the poverty line (as discussed in Part 2 of this update) and will require continued support to afford basic items such as food, housing, and general upkeep. Expanding available schemes and reaching these groups through cash transfers remains crucial in the near to medium term. The following are some specific policy reforms to further scale-up support for the most vulnerable households:

Recommendation	Comments/Explanation	Sequencing
Expand available cash transfer schemes to cover more vulnerable households.	<ul style="list-style-type: none"> • Revamped, sizeable, well-targeted, and time-bound cash-transfer programs for the most vulnerable households and those falling out of work. • A review of the existing schemes, such as NSNP, to see if they can be scaled-up to support a greater number of poor households and target more of the urban poor and other counties not in the current scheme. • Fiscal space for these initiatives could be created from reprogramming available donor support and reprioritizing the capital and operations budget. 	Short-term
Retrain and reskill the large pool of recently laid-off workers and job-seeking graduates, and to the extent feasible, enable absorption into new jobs in less impacted sectors, and provide access to entrepreneurship opportunities.	<ul style="list-style-type: none"> • Because workers in hard-hit contact-intensive sectors are susceptible to lay-offs, a retraining and reskilling program would help them plug into other sectors as the economy reopens. • Nonetheless, because the transition could take time, displaced workers will require extended income support as they undergo training and search for new jobs. This also applies to the large pool of recent graduates who are yet to be gainfully employed. 	Short- to medium-term (6 to 12 months)

3.3. Supporting firms' liquidity, reconnecting them to markets, and creating jobs

3.1.6. Firms need support to reconnect to markets, access financing, and repair their cashflows and balance sheets. High-income countries have put forward generous stimulus packages to support firms and protect jobs (through schemes such as employment guarantees, wage subsidies, working capital financing, balance sheet and debt service relief). However, low- and middle-income countries such as Kenya lack the resources to

implement similar solutions, given limited fiscal space and a high degree of informality. Considering the measures already taken by the GoK to support firms' liquidity (tax relief, expediting VAT refunds and accelerated clearance of government arrears), this update identifies broad areas to restore firm productivity, increase access to financing, support integration to regional and Global Value Chains (GVCs), and foster a business environment that encourages innovation and growth to adapt and generate needed jobs.

Recommendation	Comments/Explanation	Sequencing
Access to finance (credit) and targeted liquidity support	<ul style="list-style-type: none"> Targeted liquidity support to firms in sectors considered contact-intensive and with strong links to the informal sector. Provision of lines of credit to basic micro finance institutions (MFIs) and Savings and Credit Co-Operative Societies (SACCOs) to support MSMEs. The operationalization of the CGS will fill a critical need and its scale-up to cater for likely increased demand could be considered. Additional liquidity support to reduce payment risks and supply risks (including trade finance facilities) to MSMEs and large-scale businesses through commercial banks could also play a role. 	Short-term
Creating a conducive business environment that encourages private sector innovation and growth to generate needed jobs, and continuing to progress on the medium-term reform agenda to lift productivity	<ul style="list-style-type: none"> Address connectivity and physical infrastructure gaps; ease mobility within cities to support normalization of economic activity. Minimize cash-based transactions, address often large information gaps facing MSMEs that make it hard to graduate to access credit and other business products. Address the problem of delayed payments in both the public and the private sector (where large buyers may delay payment to small suppliers beyond 90 days). Similarly, delays in public payments (including VAT refunds) affect private sector liquidity and profitability. <p>Maintaining line of sight to reform priorities that would support the recovery and help to move the economy to a higher sustainable growth path. For example:</p> <ul style="list-style-type: none"> Land: The review of the National Land Policy 2009 is due after 10 years of implementation. Such review is intended to assess where and how the policy could be revised/updated to unlock some of the bottlenecks to further enhance land management in Kenya, its easement for private sector development and towards lifting investment and achieving the Big-4 priorities. 	Short- to medium-term (6 to 12 months)
Support firms' integration with regional and global value chains	<ul style="list-style-type: none"> Facilitate faster cross-border trading given that, clearance times for import and exports can still be lengthy. Cross-border mobility of persons could also be increased. Support Kenyan firms to plug into regional and global value chains (GVC), notably in agriculture, manufacturing, and ICT. Facilitate access to intermediate inputs and consider measures to attract FDI to sectors. 	Short- to medium-term (6 to 12 months)

3.4. An accommodative monetary policy stance and supportive fiscal interventions

3.1.7. Monetary policy can continue to cushion the economy. Following pronounced disinflation during the course of 2020, and given that a large negative output gap has opened up as economic activity has fallen well below sustainable levels, there is room for continued accommodative monetary policy. Already, cuts in the CBK's policy rate (by 125bps to about 7 percent in April-Oct), a reduction in the cash reserve ratio (by 100bps to 4.25 percent in April 2020) and the tripling of the allowable tenor of liquidity-injecting reverse repo instruments have buoyed liquidity in the financial system. Maintaining accommodation, with adjustments as appropriate

as economic conditions evolve, would provide more liquidity support to banks that are likely to be affected by deterioration of credit quality, while at the same time facing urgent demand for credit from SMEs and other firms, including as the economy re-opens.

3.1.8. Enhanced bank supervision, considering increased loan quality challenges. At the aggregate level, Kenya's banking system is well-capitalized, liquid and relatively profitable. However, the COVID-19 crisis has exacerbated pre-existing asset quality challenges, increasing NPLs. Almost 40 percent of bank wide loans have been restructured to support borrowers (MPC press statement-October).

Recommendation	Comments/Explanation	Sequencing
Monetary policy should continue to help cushion the economy in the face of the COVID-19 shock	<ul style="list-style-type: none"> With core inflation low and a large negative output gap, there is scope for the CBK to maintain an accommodative monetary policy stance, transmitted through the policy rate and other available instruments. 	Short-term
Enhance bank supervision, considering increased complexity and the need for loan restructuring	<ul style="list-style-type: none"> Enhance bank supervision, considering increased complexity and the need for loan restructuring 	Short- to medium-term (6 to 12 months)



3.1.9. Fiscal policy faces the challenge of balancing the need to combat the pandemic and its negative economic effects, with maintaining the focus on achieving fiscal consolidation over the medium-term. With a sharp decline in tax revenues (due to tax

relief and the weakening in economic activity), and an increase in COVID-related spending needs, the fiscal deficit has widened, and debt vulnerabilities have risen. Recommended responses include:

Recommendation	Comments/Explanation	Sequencing
Fiscal policy must balance the need to combat the pandemic and its negative economic effects, with maintaining the focus on achieving fiscal consolidation over the medium-term.	<ul style="list-style-type: none"> In the near term, tax and spending measures should continue to support the healthcare system, protect the most vulnerable households, and support firms' liquidity. Creating fiscal space to fund these critical interventions could be supported through potential quick wins in areas such as: <ol style="list-style-type: none"> Reprioritization of the large ongoing public investment portfolio to create space for new, cleaner, greener, and impactful projects that could help create jobs; Prioritization of other measures to cut wasteful expenditures and increase the efficiency of spending, for example by strengthening public wage bill management. Taking advantage of debt service relief to free up liquidity that would otherwise be absorbed by debt service. Clear pending bills and expedite VAT refunds. These measures can be critical to support firm cashflow by reducing the payment cycle within which vendors who supply government receive their payments. This would also support more efficient business to business transactions, and confidence across the economy. 	Short-term
As conditions allow, policy should progressively prioritize reducing the fiscal imbalance and help reduce debt vulnerabilities and reduce wastages in its procurement processes.	<ul style="list-style-type: none"> Revenues: normalize tax rates (back to their pre-crisis levels). In addition, there remain significant domestic revenue mobilization performance gaps, which could be closed, including through revenue policy reforms such as assessing the appropriateness of tax rates (which maintaining their progressive structure), and strengthening revenue administration (e.g., through measures to tighten compliance). Expenditures: scrutinize the large and fragmented public investment portfolio with a view to prioritizing high-impact projects and unlocking committed development partner funds; strengthen assessment criteria for including new projects in the budget and enhance the monitoring and evaluation processes for ongoing projects. Debt management: actions to reduce cost, such as prioritizing the use of concessional funding, and steps to reduce risks (such as by strengthening the domestic yield curve and lengthening maturities). Debt transparency: maintaining progress to enhance debt transparency and increase the information available to the investor base involved in Kenya's increasingly large and complex debt portfolio. E-procurement: Expedite the approved the e-GP policy framework, which includes e-GP (i) Strategy (ii) implementation Roadmap (iii) e- procurement business model and (iv) e-GP Business processes and specifications. 	Short- to medium-term (6 to 12 months)



SPECIAL FOCUS

THE SOCIOECONOMIC IMPACT OF THE COVID-19 PANDEMIC



4. The Socio-Economic Impact of the COVID-19 Pandemic

4.1. Introduction

4.1.1. The COVID-19 pandemic reached Kenya in March 2020, and until now it has most severely affected Nairobi and Mombasa. Kenya reported its first case of COVID-19 on March 13th, and by September November 2020 the number of reported cases had reached more than 57,000. Of these patients, 37,846 have recovered, while the total number of recorded deaths from COVID-19 is 1,039. Although most counties have reported at least one case, almost three quarters of the reported infections are in Nairobi and Mombasa.¹²

4.1.2. In response to the outbreak, the GoK swiftly introduced a range of containment policies. On March 15th all schools and other educational institutions were mandated to close, public and private sector workers were directed to work from home wherever possible, and social and religious gatherings were banned. Cashless transactions were encouraged, while hospitals and shopping malls were required to provide soap and water as well as hand sanitizers. A nationwide curfew was introduced, followed by restaurants being restricted to takeaway services only and bars being forced to close. Entry into Kenya was limited to citizens and residents, with quarantine required for 14 days. International flights were banned, and although they resumed on August 1st travelers require a negative COVID-19 test to enter the country. Movement in and out of Nairobi Metropolitan Area, Mombasa, Kilifi, Kwale and Mandera was restricted from April until early July. As of September 2020, hotels can sell alcohol, but restaurants are mandated to close by 8 p.m. and must not sell alcohol until the end of the month. Bars remain closed until further notice.

4.1.3. The containment policies as well as a general freeze in international travel heavily affected businesses and households in Kenya. The lockdown led to closures of bars and reduced business for restaurants while hotels suffered from the absence of international and domestic tourism. The heavily reduced business in these sectors as

well as the direct impact of the lockdown on other sectors was felt across Kenya's economy. Households lost work and income deteriorating their livelihoods. Often unprotected by social safety nets, households struggled to compensate for the immediate and heavy losses.

4.1.4. The government's immediate mitigation actions have included a range of measures focused on strengthening the health system and delivering direct assistance to households. Authorities have provided in-kind assistance including soap and food aid, mainly in Nairobi's poorest areas, complemented by assistance from the UN World Food Program.¹³ Similarly, cash transfers have been delivered via mobile payments to households in low-income informal settlements in Kenya's urban centers.¹⁴ While schools remain closed, the Kenya Ministry of Education shared guidelines for enhancing teaching and learning through four main platforms: (i) daily radio programs, (ii) education television broadcasts, (iii) KICD's EduTV Kenya YouTube channel, and (iv) digital learning resources from the Kenya Education Cloud.¹⁵

4.1.5. A series of tax relief measures were enacted to help lessen the immediate financial burden on Kenya's citizens and businesses.¹⁶ The Tax Law (Amendment) Act 2020 went into effect on April 25th. Tax measures include a reduction of the VAT rate from 16 percent to 14 percent, a reduction of the top personal income tax rate from 30 percent to 25 percent, a reduction of the turnover tax rate for micro, small and medium enterprises from 3 percent to 1 percent, and 100 percent tax relief for persons earning up to KSh 24,000 (or US\$ 225) per month. In addition, the government enacted a temporary suspension of the listing of loan defaulters for any person, micro, small and medium enterprises, and corporate entities whose loan account were in arrears as of April 1st.

4.1.6. The GoK also implemented additional economic support measures.¹⁷ A CBK order for banks to waive fees for individuals who move money between their bank account

¹² National Emergency Response Committee on Coronavirus, "Update on COVID-19 in the Country and Response Measures, as at September 6th, 2020."

¹³ World Food Programme, "WFP Supplements Government Support to Poor Families in Kenya Hit by COVID-19." <https://www.wfp.org/news/wfp-supplements-government-support-poor-families-kenya-hit-covid-19>

¹⁴ Capital News, "250,000 Households Identified For Cash Support In The Wake Of COVID-19." <https://www.capitalfm.co.ke/news/2020/05/250000-households-identified-for-cash-support-in-the-wake-of-covid-19/>

¹⁵ World Bank, "How Countries Are Using Edtech (Including Online Learning, Radio, Television, Texting) to Support Access to Remote Learning during the COVID-19 Pandemic," 2020. <https://www.worldbank.org/en/topic/edutech/brief/how-countries-are-using-edtech-to-support-remote-learning-during-the-covid-19-pandemic>.

¹⁶ KPMG, "Kenya: Government and institution measures in response to COVID-19." <https://home.kpmg/xx/en/home/insights/2020/04/kenya-government-and-institution-measures-in-response-to-covid.html>

¹⁷ KPMG, "Kenya: Government and institution measures in response to COVID-19." <https://home.kpmg/xx/en/home/insights/2020/04/kenya-government-and-institution-measures-in-response-to-covid.html>

and mobile wallet came into effect on March 17th. The upper limit for mobile money transfers has been increased. Authorities reached a deal with commercial banks to restructure nonperforming loans caused by COVID-19 layoffs. Additionally, loans and grants are available through government and private funds including the National Business Compact on CoVid19 (NBCC), as well as special loans through Stanbic Bank and Standard Chartered Bank, among others. The GOK also disbursed KSh 1 billion for the health care sector and US\$5 million for the tourism sector. In addition, the International Finance Corporation disbursed a US\$50 million loan to the Equity Bank Kenya to support SMEs.

4.1.7. Having access to timely data on the socioeconomic impacts of COVID-19 is essential for making effective policy decisions. Without the benefit of accurate data, it is very challenging to effectively and efficiently allocate resources to populations with the greatest need. In the context of the COVID-19 pandemic, face-to-face surveys are no longer feasible due to the risk of infection as well as mobility restrictions. However, phone surveys are highly suitable for rapid data collection, especially in quickly-evolving situations with risks of contagion such as the COVID-19 pandemic.

4.2. Impact on the private sector

4.2.1. The economic and social disruptions arising from the COVID-19 pandemic are creating multiple challenges for the private sector. Firstly, firms are facing lower demand due to reduced consumption and demand for inputs. Secondly, supply chains are disrupted, limiting access to intermediate goods, labor and sales channels. Thirdly, access to cash and credit is deteriorating. Lastly, uncertainty is dampening prospects for investment and innovation. Firms in Kenya are facing all of these constraints with its implications for households' livelihoods.

4.2.2. The World Bank's COVID-19 Business Pulse Survey (COV-BPS) provides timely and accurate information to help policymakers monitor the effects of the pandemic on businesses. The COV-BPS was carried out in parallel to the COVID-19 RRPS for households, and phone interviews were conducted with firms between June 10th and August 30th 2020. The questionnaire covered

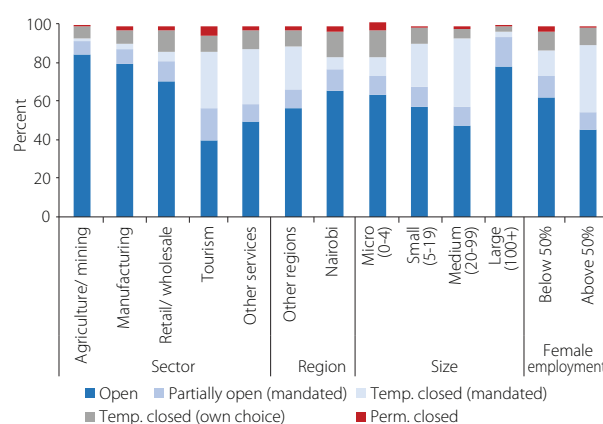
a range of topics including firm operating status, real and predicted sales, employment adjustments, cash flow, operating costs, and government assistance.

(i) Impact of the crisis: operations, sales, and employment

4.2.3. More than one third of all firms surveyed were temporarily closed or only partially open. More than half of the firms were fully open and one in ten was partially open at the time of survey (Figure 40). Firms based in Nairobi are more often fully open as compared to firms in other regions and are less often mandated to close temporarily.¹⁹ Considering firms by size, large firms (100+ employees) were most likely to remain open, whereas micro-sized firms (0-4 employees) are much more often closed by choice. Moreover, the pandemic is disproportionately affecting businesses with a large female employment share. Firms in which more than half of employees are female are 18 percentage points less often open than firms with less female employment.²⁰

4.2.4. The pandemic is affecting some sectors of the economy stronger than others. The majority of agricultural and manufacturing firms have been able to remain open (Figure 40). Within the service sector there are large differences in the operating status of firms. As the government mandated schools to close almost all enterprises in education are closed temporarily.²¹ Furthermore, the pandemic is affecting firms in particular in the accommodation and food service sectors.²² They are much less often fully open and more often closed by

Figure 40: Firm operating status



Source: Kenya COVID-19 BPS (2020)

¹⁸ The sample consists of 2,070 firms, based on the universe of firms observed in the 2017 Census of Establishments from KNBS. The sample was stratified by firm size, sector, and region.

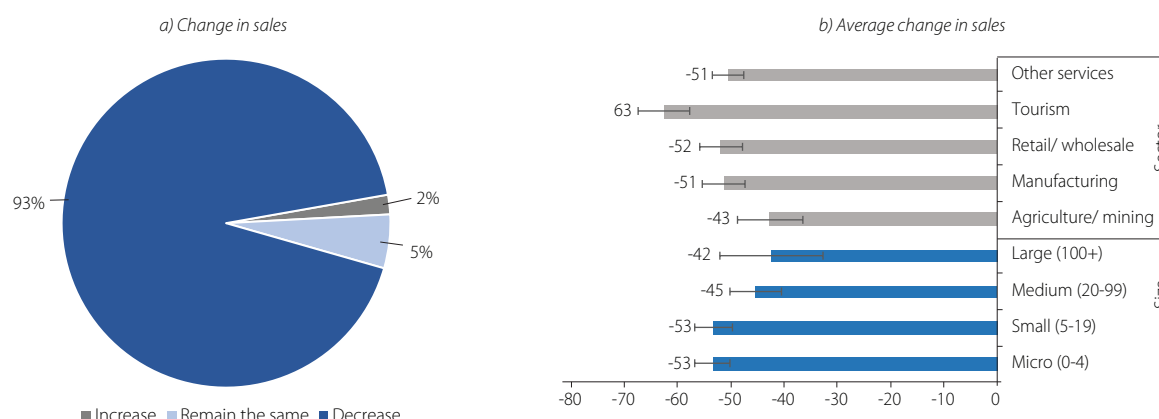
¹⁹ Being closed by mandate refers to government regulations which ordered firms to close temporarily.

²⁰ The median share of female employment is 35 percent. In roughly 20 percent of firms more than half of employees are female.

²¹ See Kenya COVID-19 BPS (2020).

²² The accommodation and food services sectors are combined in the tourism sector.

Figure 41: Change in sales



Source: Kenya COVID-19 BPS (2020)

Note: The figure displays predictive effects of firm size and sector on sales, controlling for observable characteristics

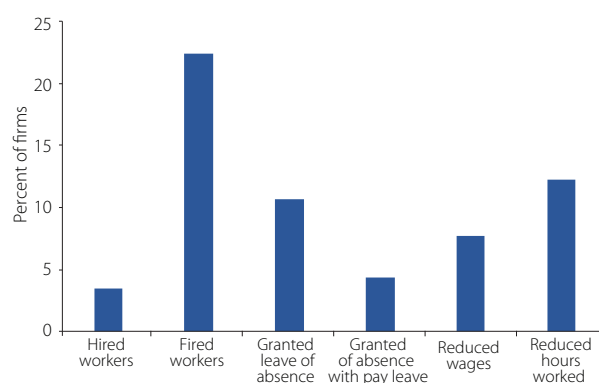
mandate than firms from other sectors. Moreover, the transportation and storage, as well as accommodation and food service sectors have a relatively large share of firms being only partially open by mandate. This reflects curfews and lock-down restrictions primarily affecting firms of these sectors.

4.2.5. Almost all firms experienced a decline in sales, with sales dropping by half on average. 93 percent of firms report a reduction of sales in the last 30 days compared to the same period in 2019, while only 2 percent report an increase (Figure 41). The mean decline in sales is 51 percent, while for the median firm they dropped by 50 percent. A quarter of firms saw sales drop by 70 percent. The decline in sales was highly heterogeneous – sales declined by 90 percent for the bottom 10 percent of firms, while sales declined by just 10 percent for the top 10 percent of firms. Large firms fared better than smaller firms, with no drop in sales reported at the 90th percentile of the large firms. Firms in the accommodation and food sectors experienced the largest decline in sales.

4.2.6. Labor adjustments have taken place at both the extensive (e.g. layoffs) and intensive (e.g. reduced wages and hours) margins, but have so far been relatively modest given the large decreases in revenue for firms. More than one in five businesses in Kenya laid off workers. Labor adjustments on the intensive margin were smaller on average; relatively few firms reduced the working hours of at least one employee (12 percent), reduced wages (8 percent) or granted a leave of absence with or without pay (5 and 11 percent respectively) (Figure 42).

4.2.7. One in three workers are employed by firms facing high levels of vulnerability. Firms are defined as vulnerable if they are partially open or temporarily closed, as they could potentially run into liquidity problems and have to close permanently. 48 percent of workers in small firms and 50 percent of workers in medium-sized firms were employed by vulnerable firms, compared with only 26 percent of those working for large firms. There is also a large variation of vulnerable firms between sectors. More than half of jobs are vulnerable in the tourism sector, compared to 8 percent in manufacturing firms. Moreover, more workers in firms with a larger female workforce are vulnerable than in firms with a larger male workforce. Despite only 1 percent of workers being in permanently closed firms, it is concerning that such a large proportion of workers are employed by vulnerable businesses. In addition, workers in larger, less vulnerable firms still faced increased risks of reduced earnings or being laid off.

Figure 42: Margin of adjustment in employment



Note: Fraction of businesses reporting at least one employee in each category; excludes businesses that are permanently closed.

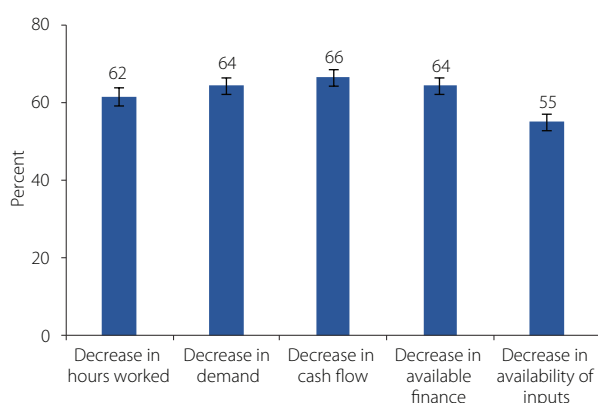
Source: Kenya COVID-19 BPS (2020)

Note: Share of businesses reporting at least one employee in each category; excludes businesses that are permanently closed.

(ii) Transmission channels, liquidity, and survival

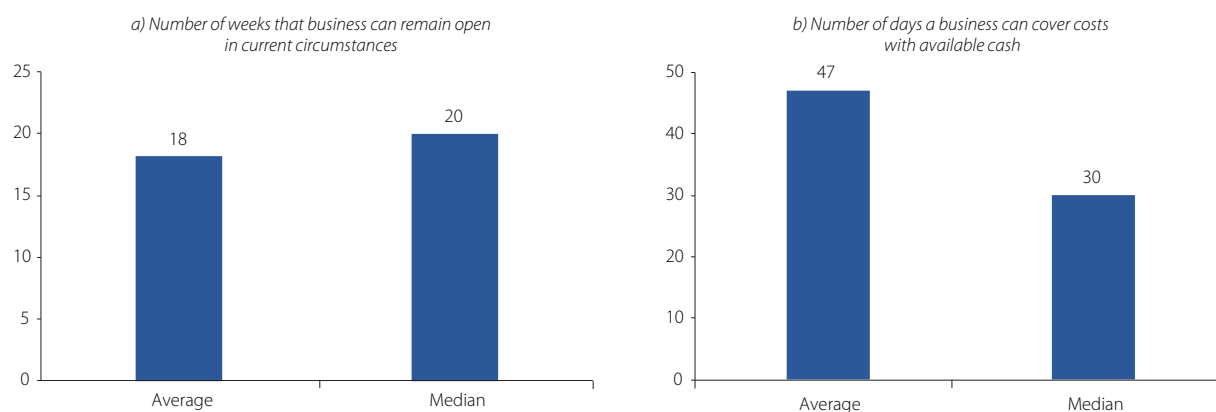
4.2.8. The COVID-19 pandemic has affected firms through a range of transmission channels. Around two-thirds of firms state decreases in demand, cash flow and available finance, while 62 percent of firms lament a decrease in hours worked and 54 percent of firms noted a decrease in the availability of inputs (Figure 43). The different transmission channels are affecting different types of firms in similar proportions. Medium-sized firms are the least often affected by any of the shock transmission channels. The pandemic hits firms in other services and tourism mostly through changes in working hours. Exporting firms are more often affected by a lower availability of inputs. When controlling for observable firm characteristics, a significant effect of the reduction in cash flow on sales becomes evident in the manufacturing sector. Therefore, access to finance might be vital for the survival of manufacturing firms. Decreases in demand have a larger impact on sales of retail firms.

Figure 43: Share of firms affected by different transmission channels



Source: Kenya COVID-19 BPS (2020)

Figure 44: Share of firms affected by different transmission channels



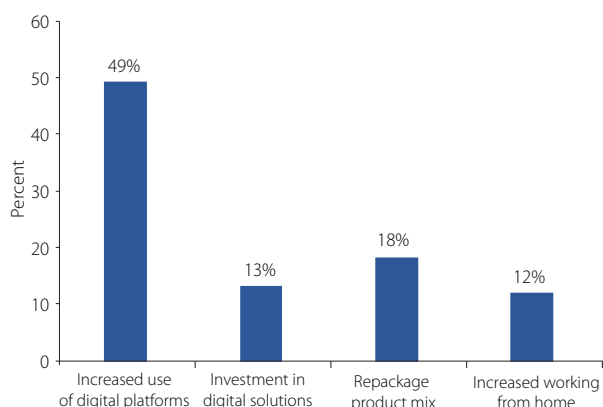
Source: Kenya COVID-19 BPS (2020)

Note: The number of weeks a firm can remain open and the number of days a firm cover costs are winsorized at the 99 percent level, to account for outliers

4.2.9. Under the circumstances prevailing at the time of the COV-BPS, the median firm was able to remain open for five months and could cover costs with available cash for about four weeks. On average, a firm in Kenya can remain open for 18 weeks. The median firm can remain open for 20 weeks, indicating little variation between firms (Figure 44a). Larger, more matured and manufacturing firms, report a larger number of weeks they can remain open under the current circumstances. Larger reserves or better access to credit could make them more resistant than smaller firms. While Kenyan firms are able to continue to cover costs for 47 days on average, the median firm can cover costs only for 30 days (Figure 44b). The large difference suggests a large variability in cash availability. Firms in the tourism sector can cover costs for the shortest time-period.

(iii) Firms' responses

4.2.10. In response to the COVID-19 outbreak, close to half of firms are starting to use or are increasing the use of digital platforms. More firms are investing in digital platforms (49 percent) than they are investing in software or digital equipment (13 percent), changing their product mix (18 percent) or increasing working from home (12 percent) (Figure 45). Larger firms more often increase the use of digital platforms. For firms in the tourism sector digital platforms are less often an opportunity. Exporting firms and firms in agriculture are less likely to repackage their product mix, most likely because they cannot quickly adjust their products to shifts in demand. Large firms are more likely to use digital platforms for supply chain management, marketing, sales, payments or service delivery than smaller firms. In turn, younger firms more often make use of supply chain management, marketing, and payment methods than established firms.

Figure 45: Business responses to the COVID-19 shock

Source: Kenya COVID-19 BPS (2020). Note: Question was not asked to micro-sized firms

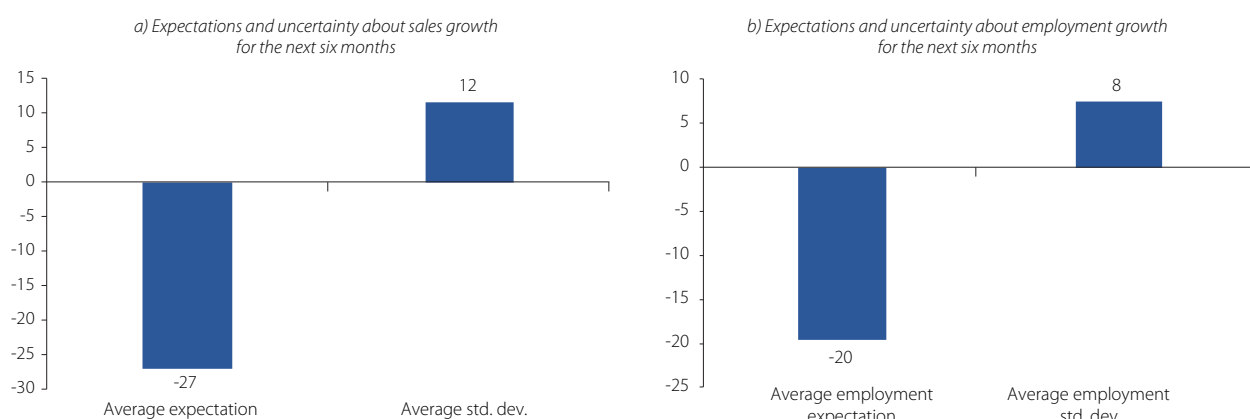
(iv) Expectation and uncertainty

4.2.11. Firms expect sales to continue to contract sharply. On average, Kenyan firms expect sales to decrease by 26 percent in the next six months compared to the previous year. Almost all firms expect sales to decline, while few firms expect an increase in sales. Large firms and firms in agriculture and manufacturing are more optimistic

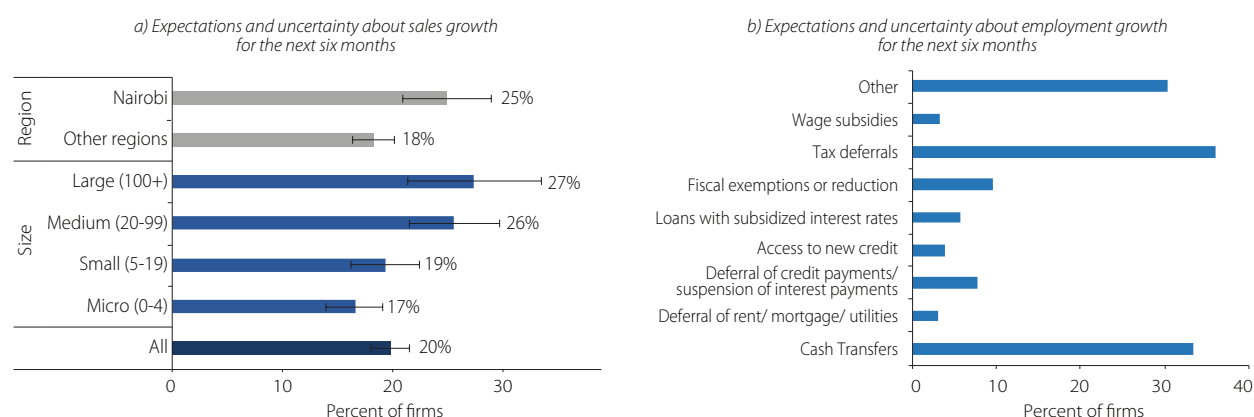
about the next six months. Firms anticipate employment to decline at a slightly lower rate than sales (Figure 46).

(v) Access and need of assistance

4.2.12. One in five firms in Kenya has received public support during the COVID-19 pandemic. Firms based in Nairobi have more often received assistance than firms in other regions (Figure 47a). Compared to larger firms, smaller firms less often report having received government assistance. Firms in agriculture and in social services on average most often received assistance, though the differences are not statistically significant. Of the firms getting assistance, close to 36 percent received cash transfers and one third received tax deferrals (Figure 47b).²³ Information gaps are the main reason for not receiving public support. While 27 percent of large firms got assistance, only 16 percent of micro-sized entities report to have had access to assistance measures. Four out of five firms report not having received assistance because they were not aware of any government programs.

Figure 46: Expectations and uncertainty about sales and employment

Source: Kenya COVID-19 BPS (2020)

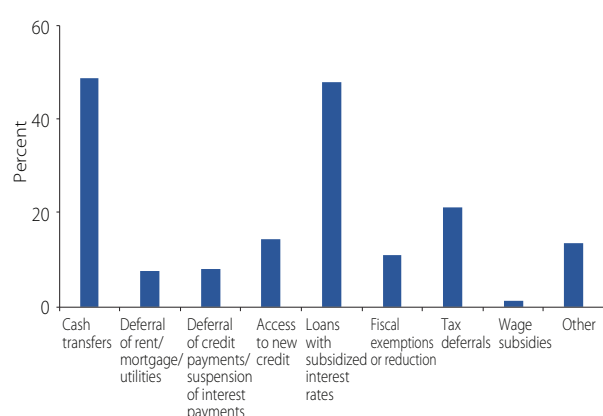
Figure 47: Share of firms that received any assistance and type of assistance received

Source: Kenya COVID-19 BPS (2020)

²³ Within the other assistance measure, firms most often state the provision of sanitizers and masks.

4.2.13. The most needed policy response according to Kenyan firms is loans with subsidized interest rates, but responses showed some heterogeneity across firm size. 42 percent of firms in Kenya call for monetary transfers from the government and one quarter call for tax deferrals, while half of firms refer to loans with subsidized interest rates as one of the three most needed policies (Figure 48). The most-needed type of assistance however varies with firm characteristics. For instance, exporters disproportionately demand tax deferrals. This could either reflect higher tax and custom duties or the fact that exporting firms do not face liquidity constraints or lack of credit, and therefore are calling for other policy measures. Agricultural firms and firms in retail are most likely to request monetary transfers. Firms in the tourism and manufacturing sectors are more likely to call for loans with subsidized rates, indicating liquidity constraints.²⁴

Figure 48: Self-reported most needed public policies to support businesses



Source: Kenya COVID-19 BPS (2020)

4.3. Socioeconomic impacts on households

4.3.1. Households are affected by the challenges reported by the private sector as well as additional channels of impact. The difficulties of firms in the current economic context translate into reduced opportunities and additional risks of livelihoods and food security for households. However, the human capital of households – an essential factor in determining livelihoods – is also directly affected by COVID-19 by affecting health of household members as well as access to education given the closure of schools, for example.

4.3.2. A rapid response phone survey targeting households in Kenya provides timely data to assess the economic and social impacts of COVID-19 on household. In collaboration with the Kenya National Bureau of Statistics (KNBS), the United Nations High Commissioner for Refugees (UNHCR) and researchers from the University of California, Berkeley, the World Bank has been implementing the Rapid Response Phone Surveys (RRPS). The Kenya COVID-19 RRPS for households is structured as a three-wave bi-monthly panel survey that targets nationals, refugees and stateless people. While the sample was designed to be approximately nationally representative, some limitations remain as the phone surveys could only reach households with a valid phone number (see Technical Annex for more details). The questionnaire covers a range of topics including employment, income, coping strategies, food security, access to education and health services, subjective wellbeing, knowledge of COVID-19, changes in behavior in response to the pandemic, and perceptions of the government's response.²⁵

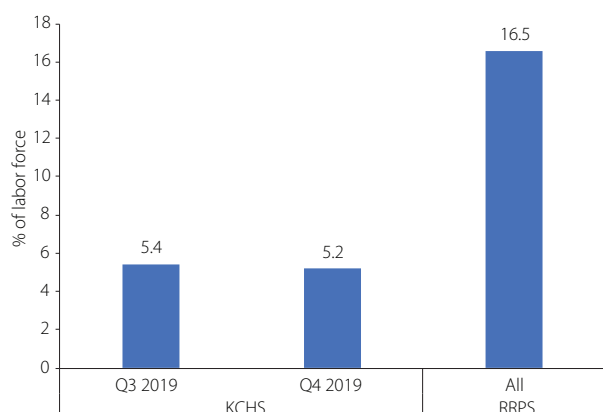
(i) Livelihoods impacts, coping strategies and food insecurity

4.3.3. Unemployment has almost doubled compared to its pre-COVID level. The negative impact of COVID on the private sector has trickled down to household's welfare via reduced jobs opportunities and lower earnings. The unemployment rate increased from 5 percent in the last quarter of 2019 to 21 percent at the beginning of June 2020 (Figure 49).²⁶ The COVID-19 pandemic has also moved many adult Kenyans outside the labor force, with the labor force participation rate decreasing from 75 percent in the last quarter of 2019 to 61 percent from mid-May to early July. This decline is likely due to a subset of workers being discouraged by a lack of available jobs or being unable to actively search for work due to the socioeconomic conditions created by the pandemic. Since January, the largest share of wage workers who lost their job worked in the services sector, followed by the industry and the agricultural sectors. The rise of unemployment and the decrease in labor force participation can have severe and long-term consequences on households' welfare.

²⁴ See Kenya COVID-19 BPS (2020).

²⁵ More detailed information on the RRPS findings and methodology can be found in World Bank (2020), "Socioeconomic Impacts of COVID-19 In Kenya On Households – Rapid Response Phone Survey Round 1" (forthcoming).

²⁶ While the labor indicators in the phone survey were designed to be comparable with the quarterly labor indicators released by the KNBS, the mode of data collection (phones instead of face-to-face interviews) as well as the selection of the respondents can limit comparability. The presented statistics based on the KCHS data also differ from the official labor force statistics published by the KNBS as the latter uses a different age group (15-64).

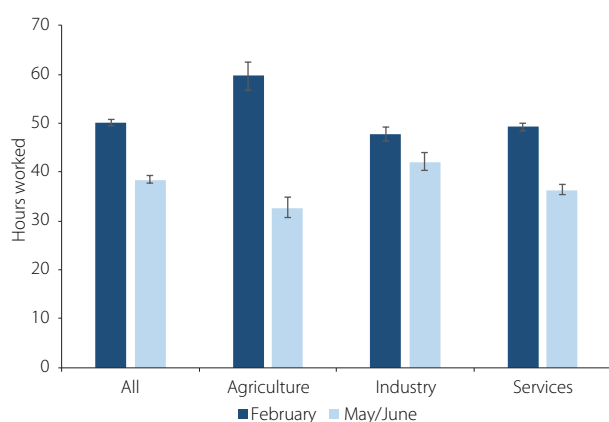
Figure 49: Unemployment rate (18-64 years)

Source: Kenya COVID-19 RRPS

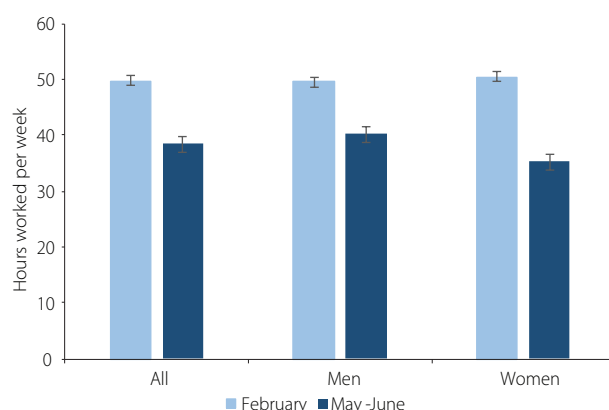
4.3.4. Wage workers – and especially women – who are still employed face a reduction in working hours and earnings. Between February and June, average hours worked fell by 23 percent among wage workers, decreasing from 50 to 38 hours per week. Women saw a greater decline, with hours worked reducing by 30 percent for women compared to 18 percent for men (Figure 52). The average

decline in hours worked is to a large extent driven by the 13 percent of workers temporarily reducing their hours to zero, for instance education workers. Hours worked by wage workers in the agricultural sector were more affected than those in the services and industry sectors (Figure 50). However, average wages fell significantly in the services sectors, by 26 percent (Figure 51). Wages also decreased in the agricultural sector and this may be partly due to seasonal changes, an interpretation that future RRPS rounds will be able to affirm. Wage reductions were less significant for workers who are formally employed compared to those informally employed (3 percent versus 32 percent; Figure 51). The reduction in earnings was much greater for women who saw a 46 percent decline from KSh 11,688 in February to KSh 6,369 in May-June (Figure 53).

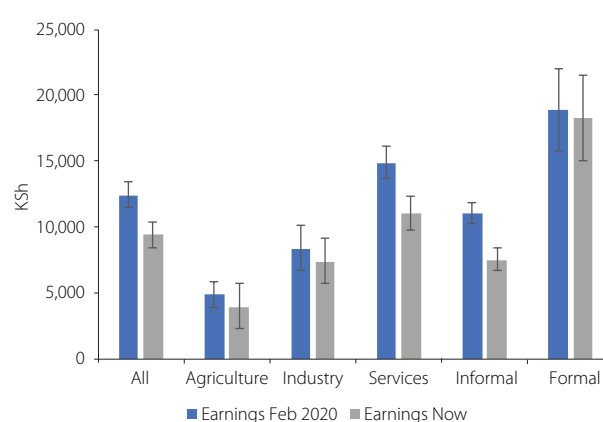
4.3.5. Almost 1 in 3 household-run businesses are not currently operating, with revenues decreasing across all sectors.²⁷ 30 percent of household-run businesses closed, with most expecting to re-open again (26 percent) and relatively few having permanently closed (4 percent).

Figure 50: Hours worked for wage workers

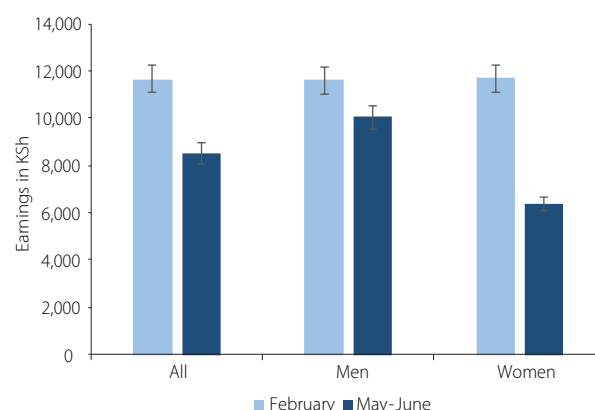
Source: Kenya COVID-19 RRPS

Figure 52: Change in hours worked, by gender

Source: Kenya COVID-19 RRPS

Figure 51: Changes in wage earnings

Source: Kenya COVID-19 RRPS

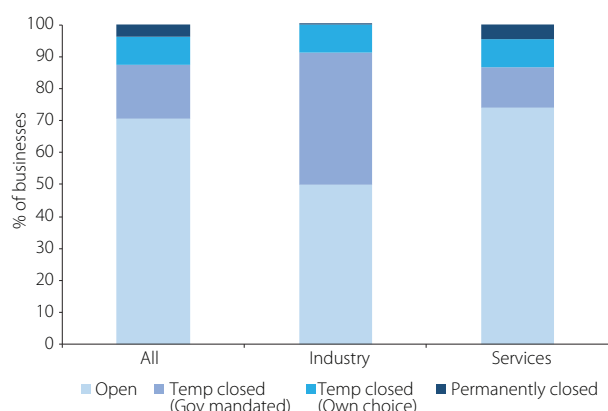
Figure 53: Change in earnings, by gender

Source: Kenya COVID-19 RRPS

²⁷ This includes all non-agricultural household-run enterprises that have been operating since January 2020.

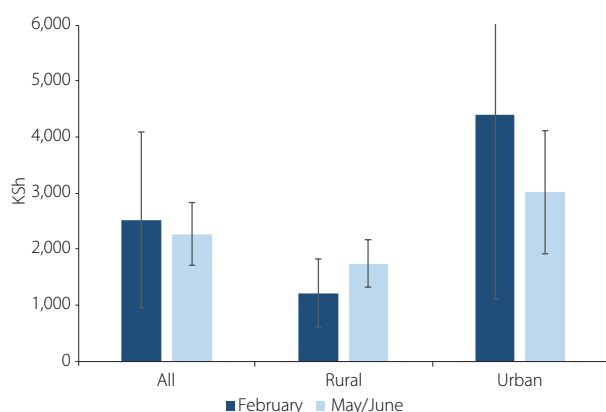
Most businesses that permanently closed are in the wholesale and retail trade sector (38 percent), education (36 percent), and other services (15 percent). In both the industry and service sectors, the majority of closures were due to government mandates (41 percent and 13 percent respectively; Figure 54). Between February and June, average revenue from household-run businesses decreased by over 40 percent, falling from KSh 12,892 to KSh 7,246. At the current scale of operations and without any additional assistance or loans, on average businesses report they will be able to survive just over a month. Longer term restrictions to economic activities could therefore have severe consequences for household-run businesses and take away an important income source for many. Revenue from agricultural activities declined by 23 percent between May 2019 and May 2020, while revenue from pastoral activities declined by more than 50 percent.

Figure 54: Operating status of businesses



Source: Kenya COVID-19 RRPS

Figure 55: Remittance value in 2-week period for February and May/June

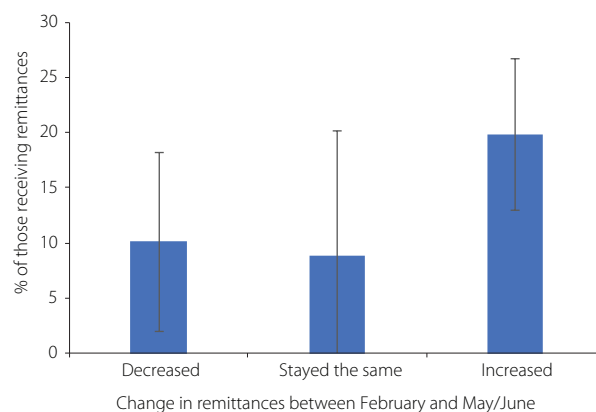


Source: Kenya COVID-19 RRPS
Note: Households that received remittances

4.3.6. Remittances have fallen, and few households have benefitted from direct cash assistance. Between February and June, the amount of domestic and international remittances received by households decreased by 10 percent on average (about KSh 260), although rural households actually experienced an increase (Figure 55). From May to June, only 11 percent of households received remittances or assistance from the government, NGOs or politicians.²⁸ The most important source of non-labor income was remittances (7 percent), followed by government and NGO assistance (3 percent and 2 percent respectively). Remittances from abroad plunged in April and May, but have subsequently rebounded. Only 10 percent of households suffering from a reduction in remittances received assistance from the government or NGOs (Figure 56). Households usually relying on remittances have thus faced an important loss of income.²⁹

4.3.7. Households employed various coping strategies during the crisis, often reducing food consumption. Since the COVID outbreak, a large share of urban and rural households had to reduce their food consumption (40 and 38 percent respectively; Figure 57). Additionally, many households had to rely on savings or reduce non-food consumption. More than half of households used more than one coping strategy. Rural households used credit purchases more intensively (23 percent) compared to urban ones (12 percent) and some sold assets (15 and 11 percent respectively). The latter observation is particularly worrying, as the sale of potentially productive assets can impact a household's welfare in the long term.

Figure 56: Households that received assistance by change in remittances



Source: Kenya COVID-19 RRP.
Note: Assistance from government or NGOs.

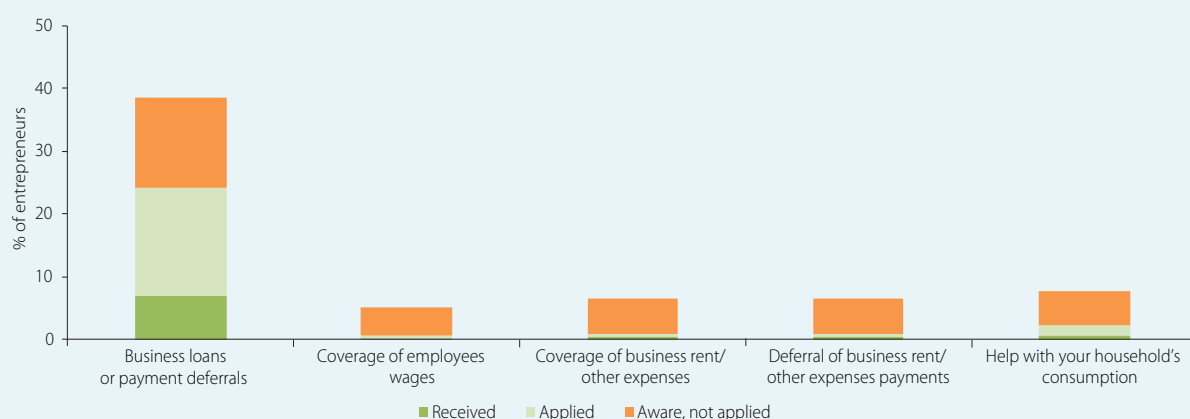
²⁸ In some areas, politicians deliver gifts such as masks, food stuffs (flour, cooking oil, rice), cash money and branded t-shirts.

²⁹ World Bank (2020). "Kenya Economic Update 21. Turbulent Times for Growth in Kenya. Policy Options during the COVID-19 Pandemic."

Box 5: Youth-led micro-enterprise rapid response phone survey³⁰

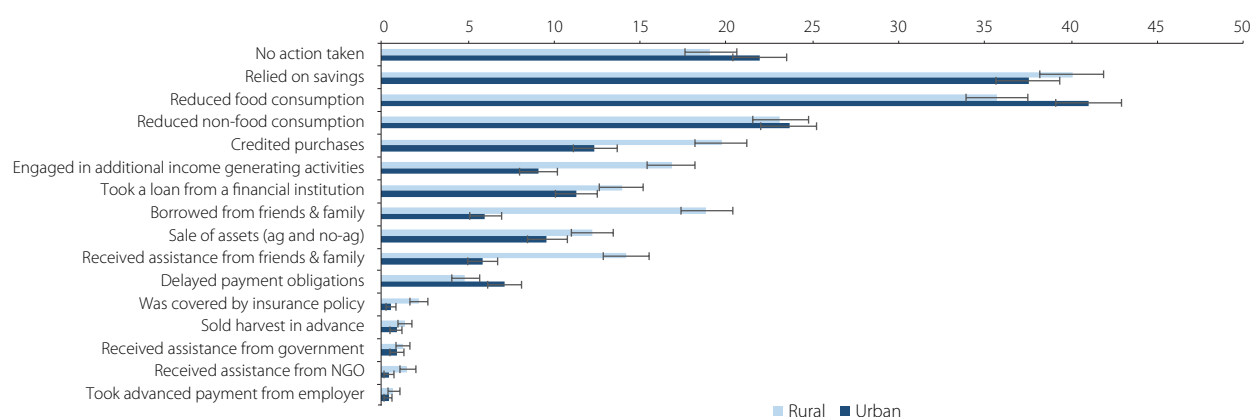
Revenues and profits strongly decreased for micro-enterprises run by young entrepreneurs, with only few of them making use of government and NGO support programs. Between February and July, many micro-enterprises run by young entrepreneurs had to temporarily close, with mean sales decreasing from KSh 63,406 in February to KSh 38,167 in May/June and profits reducing by almost 50 percent. Between May and July, just under 40 percent of micro-entrepreneurs were aware of programs for business loans or payment deferral, but only 30 percent of those who applied received assistance. In addition, only less than 10 percent of the young entrepreneurs were aware of other assistance programs from the government and NGOs and almost no entrepreneur made use of them (Figure B5.1).

Figure B5.1: Awareness of government or NGO assistance programs.



Source: Micro-enterprises Kenya COVID-19 RRPS

Figure 57: Strategies employed to cope with the impact of the crisis (multiple answers possible)



Source: Kenya COVID-19 RRPS

4.3.8. Food insecurity in Kenya has been a long-lasting problem that is likely to be exacerbated by the COVID-19 pandemic, especially for female-headed households.³¹ In February 2020, before being impacted by the COVID-19 pandemic, more than a million Kenyans were assessed as being in crisis with respect to food security (IPC phase 3) and nearly 300,000 as being in an emergency situation

(IPC phase 4).³² Nine percent of those living in Arid and Semi-Arid Lands (ASAL) counties were considered to be facing a situation of crisis (IPC phase 3) or worse. The RRPS findings suggest that COVID has aggravated this situation. During May and June, in 40 percent of households, adults skipped meals at least once a week, and in 25 percent of households, children had to do so. Adults went entire

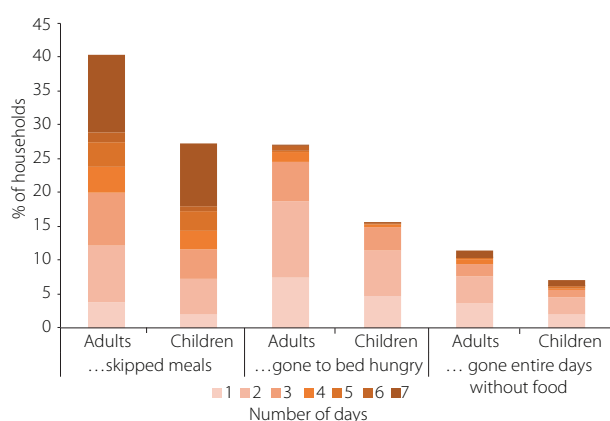
³⁰ A research paper and policy note on the results will be prepared in Q4 2020. The Kenya micro-enterprises RRPS targeted applicants to one of two programs in the Kenya Youth Employment and Opportunities Project of The World Bank. The first program is a Business Plan Competition (BPC) and the second one offers youth a start-up grant and/or Business Development Services (BDS). The programs targeted Kenyans aged 18 to 35 and 18 to 29 respectively, who have or want to start a business, across urban and rural areas. The youth-led microenterprises questionnaire was prepared by Yanina Domenella, Julian Jamison, Abba Safir, and Bilal Zia. The survey was conducted between May 28th and August 4th, 2020.

³¹ WFP, "Comprehensive Food Security and Vulnerability Analysis (CFSVA) Kenya 2016." At least 4 million Kenyans faced severe food insecurity before the COVID-19 pandemic. Food security defines a situation in which all people at all times have physical and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life.

³² Government of Kenya, "IPC Acute Food Insecurity and Acute Malnutrition Analysis, February 2020 – July 2020." https://reliefweb.int/sites/reliefweb.int/files/resources/IPC_Kenya_AcuteFoodInsec_Malnutrition_2020FebJuly.pdf

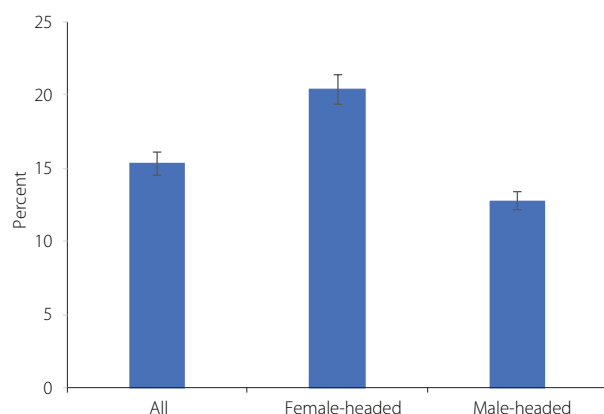
days without food in more than 1 in 10 households, and children did so in almost 1 in 10 households (Figure 58). Female-headed households were more affected. They were more likely to be worried about not having enough food to eat during the pandemic (70 percent) compared to male-headed households (66 percent; Figure 59) and more likely to have children going to be bed hungry (20 percent compared to 13 percent; Figure 60). School closures have affected households whose children rely on school feeding programs, as WFP and the GoK³³ Adults in poor households are the most affected by food shortages, with adults going hungry in 59 percent of poor rural households, compared with 45 percent in non-poor rural households. The lack of food can directly impact the ability of adults and children to undertake a normal, healthy and productive life, thus leading to malnutrition, stunting and human capital losses.

Figure 58: Food shortages. In the past seven days, how many days have...



Source: Kenya COVID-19 RRPS

Figure 60: Children have gone to bed hungry in the past 7 days

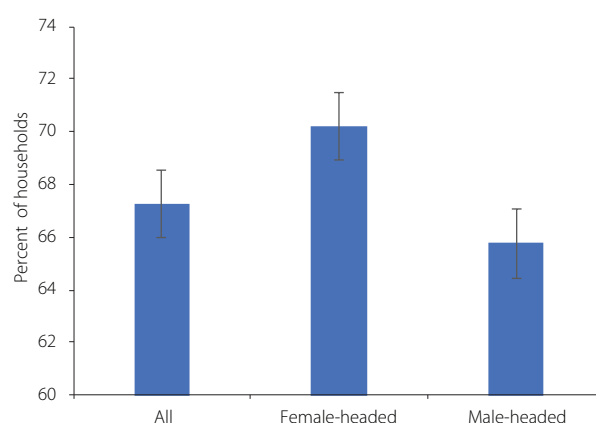


Source: Kenya COVID-19 RRPS

(ii) Human capital: education, health and wellbeing

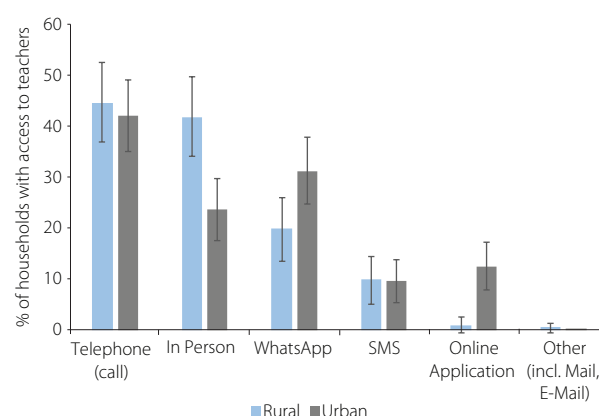
4.3.9. Very few children have had access to their teachers during school closures. Children have had access to their teachers during school closures in only 1 in 10 households, with a higher share in urban households than in rural ones (21 percent versus 7 percent). The most common ways to reach teachers in rural households were telephone calls (44 percent) and in-person contact (42 percent). Urban households mainly used telephone calls (42 percent), the messaging application WhatsApp (31 percent), and less often in-person contact (24 percent; Figure 61). Having limited access to teachers restricts children's ability to continue their education, thus hindering efforts to build and maintain the country's human capital.

Figure 59: Worried about not having enough food to eat in the past 30 days



Source: Kenya COVID-19 RRPS

Figure 61: Channels for reaching teachers (multiple answers possible)



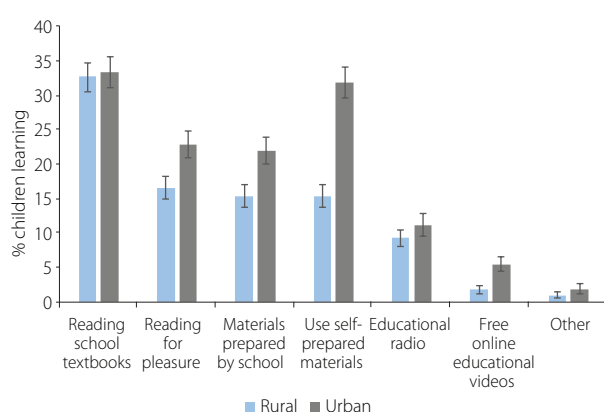
Source: Kenya COVID-19 RRPS

³³ WFP, "Supporting National School Meals Programme in Kenya." <https://www.wfp.org/publications/supporting-national-school-meals-programme-kenya#:~:text=Since%201980%2C%20WFP%20and%20the,Kenya%20and%20in%20the%20informal>.

4.3.10. Children continue to be involved in educational activities in most households, but a substantial share of households report their children were not. Among the multiple learning platforms provided by the Ministry of Education, only radio is being used by a significant number of students (9 percent in rural areas and 10 percent in urban areas). This can be partly explained by a lack of televisions, computers or smartphones that are needed to access certain learning resources. Almost 70 percent of households claim their children have been engaged in some educational activities, with both rural and urban households engaging in learning activities. The leading educational activity was reading school textbooks (33 percent), reading for pleasure (17 and 23 percent respectively) and using self-prepared materials (15 percent and 32 percent respectively; Figure 62). Even though the majority of children are reportedly engaged in at least some learning activities, questions remain about how rigorously these methods are being applied and their effectiveness as compared to formal schooling.

4.3.11. Access to healthcare has been significantly impeded. 3 in 10 households report less access to healthcare than before March 2020. In 27 percent of households, members were not able to go to health facilities for routine and prenatal check-ups as frequently as before (Figure 63). The main reason given for not being able to go for medical check-ups was fear of getting infected with COVID-19. In addition, about 10 percent of households were unable to buy medicine when needed. The lack of access to healthcare can have severe

Figure 62: Learning activities (multiple answers possible)



Source: Kenya COVID-19 RRPS

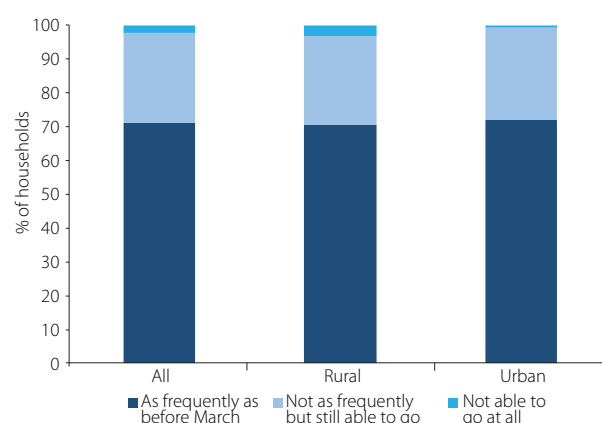
consequences on the general health of the population and its ability to cope with the crisis.

4.3.12. The majority of Kenyans feel worried about the COVID-19 outbreak, mostly out of fear of getting infected or losing their employment. In May and June, 61 percent of Kenyans felt generally nervous or anxious, compared to 80 percent of Kenyans who felt nervous or anxious due to the COVID-19 outbreak specifically. More than 1 in 5 Kenyans even reported physical reactions such as sweating, trouble breathing, nausea, or a pounding heart, when thinking about their experience with the pandemic, with almost 1 in 10 experiencing these physical reactions on a daily basis (Figure 64). In urban and rural areas, Kenyans were anxious mainly due to the fear of themselves or their family members getting infected (77 and 82 percent respectively) and the fear of losing their employment or business (35 and 46 percent respectively). COVID-19 not only has affected physical health, but mental health as well, resulting in psychosis, anxiety, trauma, suicidal thoughts, and panic attacks.³⁴ Moreover, anxiety and fear can lead to aggression and violence and thereby increase levels of domestic violence.³⁵

(iii) Knowledge, behavior and government perceptions

4.3.13. Knowledge has a significant influence on attitudes and behavior. Lessons learnt from past pandemics have shown that well-informed individuals are more likely to adopt precautionary practices to avoid contagion.³⁶ Furthermore, educating the public

Figure 63: Ability to go to routine health check-ups as frequently as before March

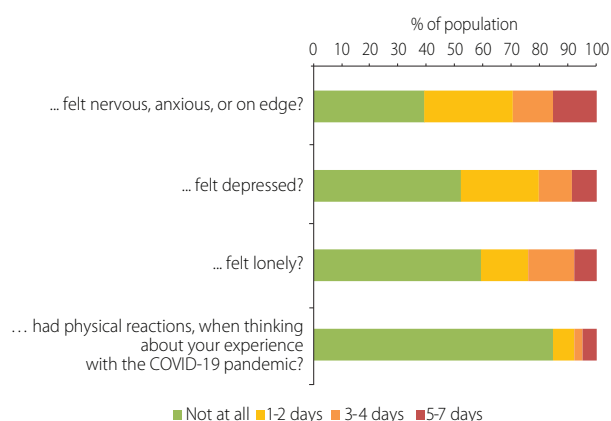


Source: Kenya COVID-19 RRPS

³⁴ Salari et al. (2020). "Prevalence of Stress, Anxiety, Depression among the General Population during the COVID-19 Pandemic: A Systematic Review and Meta-Analysis"; WHO, "Mental Health and Psychosocial Considerations during the COVID-19 Outbreak."

³⁵ National Council on the Administration of Justice, "Statement on Justice Sector Operations in the Wake of the COVID-19 Pandemic." <https://ncaj.go.ke/statement-on-justice-sector-operations-in-the-wake-of-the-covid-19-pandemic/>. Domestic violence has sharply increased after the COVID-19 outbreak, and most offences are committed against women and girls.

³⁶ Yap et al. (2010). "Knowledge, Attitudes and Practices towards Pandemic Influenza among Cases, Close Contacts, and Healthcare Workers in Tropical Singapore: A Cross-Sectional Survey"; Tang and Wong (2003). "An Outbreak of the Severe Acute Respiratory Syndrome: Predictors of Health Behaviours and Effect of Community Prevention Measures in Hong Kong, China."

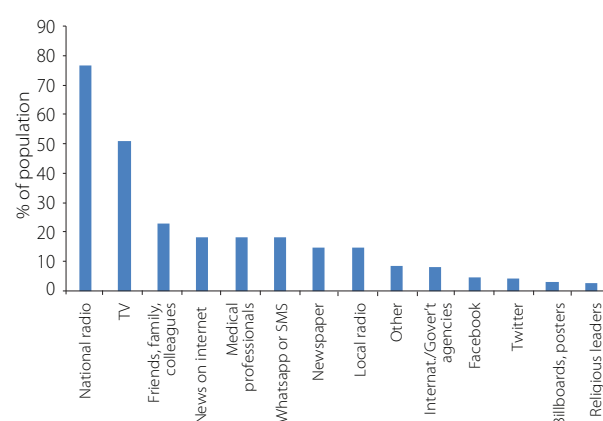
Figure 64: Subjective well-being. In the past seven days, how many days have you...

Source: Kenya COVID-19 RRPS.

about specific actions that can be taken to reduce risk and communicating about the government's plans and resources help to improve compliance with public health directives.³⁷ Thus, knowledge is likely to play a key role in controlling the spread of COVID-19.

4.3.14. Kenyans know about COVID-19 and its symptoms, with the main sources of information being radio and television. Almost the entire population has heard about COVID-19 (99 percent) which is consistent with other countries in the continent.³⁸ Most Kenyans know at least two typical symptoms of COVID-19 (94 percent), with most having been informed about the virus through multiple sources (63 percent). The most common sources are national radio (77 percent) and television (51 percent), but social networks, online and offline, are also common information channels (Figure 65).

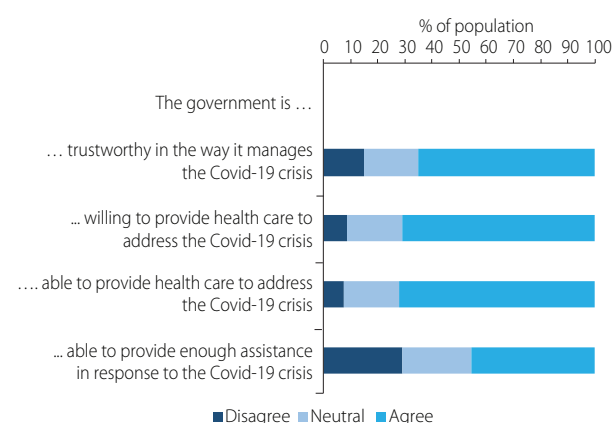
4.3.15. A large share of Kenyans intend to follow government directives, but fewer believe that others are following them. Almost everyone reports applying preventive measures, with 99 percent reporting washing their hands with soap more often than they used to, avoiding gatherings of more than ten people, and avoiding handshakes or physical greetings. While reported compliance with government guidelines seems very high, 19 percent of the population do not follow such guidelines entirely, which can hinder measures to control the spread of the virus. Less than three in ten households would have a place to isolate a household member infected with COVID-19. Importantly, only seven out of ten Kenyans believe that others are following the guidelines, which may impede the adoption of healthy behaviors going

Figure 65: Sources of information on COVID-19 (multiple answers possible)

Source: Kenya COVID-19 RRPS.

forward. Communication regarding the health impacts on the pandemic and provision of updated information about safe behaviors can have a positive impact on adherence to imposed public health measures.

4.3.16. A high share of the population is satisfied with the government's response to the COVID-19 crisis, but less than half are convinced that the government is able to provide sufficient cash and in-kind assistance. Most Kenyans are satisfied with the government's response (65 percent), with women slightly more satisfied than men (66 percent versus 63 percent). 65 percent of Kenyans believe that the government is trustworthy in the way it is managing the crisis and 71 percent also believe that it can provide health care to address the crisis (Figure 66). Maintaining and increasing the public's trust in the government's capacity can support confidence about the health information provided, thereby helping to reduce risky behavior and decrease contagion.

Figure 66: Trust in the government

Source: Kenya COVID-19 RRPS.

³⁷ Rubin et al. (2009). "Public Perceptions, Anxiety, and Behaviour Change in Relation to the Swine Flu Outbreak: Cross Sectional Telephone Survey."

³⁸ Geopoll. "Report: Coronavirus in Sub-Saharan Africa." <https://www.geopoll.com/blog/coronavirus-africa/>

(iv) Kenya's refugee population

4.3.17. Kenya is the second largest refugee-hosting country in Africa after Ethiopia, with an estimated 494,000 refugees, asylum seekers and other persons of concern.³⁹ Three main locations are hosting refugees in the country: Dadaab, Kakuma camps and Kalobeyei settlement. A significant number of refugees also live elsewhere in the country's urban areas. Dadaab refugees are located in Garissa County (44 percent) whereas those from Kakuma camps and Kalobeyei settlement are located in Turkana County (40 percent). Urban refugees mainly reside in Nairobi (16 percent). The majority of the refugee population originates from neighboring countries including Somalia (55 percent), South Sudan (24 percent), Democratic Republic of Congo (9 percent), and Ethiopia (6 percent), as well as Sudan and Uganda since 2008.⁴⁰

4.3.18. Although the number remains small, COVID-19 infections in refugee camps have increased sharply between July and August 2020. The number of COVID-19 confirmed cases in refugee camps and settlements rose from 23 cases on July 21st to 115 on August 31st, including four deaths and at least 20 recoveries. Dadaab refugee camps have recorded a total of 19 cases with two deaths and 64 people reportedly in quarantine. The number of infections in Kakuma has reached 26 cases, and Garissa accounted for 9 of the new cases reported in September.

4.3.19. The impact of the COVID-19 pandemic on employment has been severe among the refugee population. Prior to the pandemic, almost four in ten refugees in Kalobeyei and two in ten refugees in Kakuma

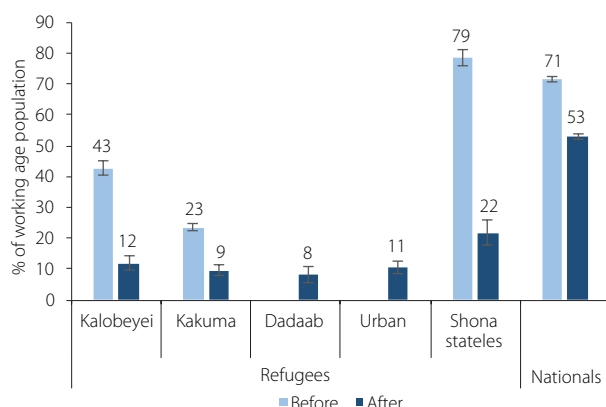
were working (64), considerably lower than the national employment rate, with seven in ten persons working during the second half of 2019. After March 2020, while more than half of the working age population have been working at the national level, the employment rate is only one in ten persons among the refugee working population (Figure 67).

4.3.20. While inflows of remittances decreased drastically among nationals compared to pre-COVID-19 levels, they increased massively among refugee households. Throughout the second quarter of the year, refugees of different settlements saw at least a fivefold increase in average remittances. For example, remittances for urban refugees grew from KSh 357 to KSh 3,286 and for Kakuma refugees grew from KSh 108 to KSh 2,566. Post COVID, refugee households headed by men received more than double the value of remittances received by households headed by women. Assistance from NGOs is higher among camp-based refugees, with at least 15 percent of households benefitting from this assistance in Kalobeyei, Kakuma and Dadaab.

4.3.21. Reducing food consumption is the most common coping mechanism for urban, camp-based refugees, as is the case with nationals. More than half (57 percent) of camp-based refugees took at least one action to cope with the spread of the virus. Almost half of all refugees reduced their food consumption, while one in five of them reduced non-food consumption. Taking out loans is more common among refugees while selling assets is higher among nationals.

4.3.22. High food insecurity, already a concern in refugee communities, persists following the COVID-19 pandemic. Several contributing factors, including the 2008 post-election violence and regular droughts in Turkana County since 2016, mean that a high proportion of the refugee population do not have access to sufficient amounts of quality food. During the seven days prior to the survey, more than half (six in ten adults on average) of camp-based and urban adult refugees skipped meals compared to four in ten adults on average at the national level (Figure 68).

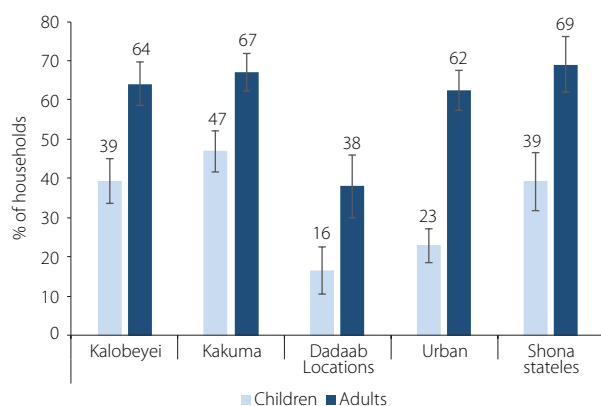
Figure 67: Refugee employment rates before and after COVID-19



Source: Kalobeyei SES (2018); Kakuma SES (2019); Shona SES (2019); Kenya COVID-19 RRPS (2020)

³⁹ UNHCR and World Bank. "Understanding the Socioeconomic Conditions of Refugees in Turkana West, Kenya" (forthcoming).

⁴⁰ UNHCR and World Bank (2020). "Understanding the Socioeconomic Conditions of Refugees in Kalobeyei, Kenya: Results from the 2018 Kalobeyei Socioeconomic Profiling Survey."

Figure 68: Refugee who skipped meals during the past 7 days

Source: Kenya COVID-19 RRPS (2020)

4.3.23. Most refugee children aged between 5 and 17 are still involved in educational activities. Learning activities through which refugee school-age children continue to pursue their education mainly include school textbooks, reading for pleasure, and prepared materials (between 20 and 40 percent of children for each activity). The free online teaching material or mobile education videos are, however, used less (almost 5 percent) and those involved in this type of activity are mostly located in urban areas. In urban areas, WhatsApp was the main channel by which refugees accessed teachers (four in ten households on average, among both refugees and nationals).



The hospitality sector has been hit hard by public health response measures, but activity is resuming gradually

Photo: © Festo Lang | World Bank

4.4. Policy recommendations

4.4.1. To help mitigate the adverse impacts of COVID-19 on firms, the COV-BPS suggests policy response options divided into four areas: liquidity, firm capabilities, access to information and targeting. As the crisis continues to evolve, policies must find a balance between short-term interventions to help businesses “keep the lights on” and a sustainable recovery plan that facilitates the selection of the most productive firms. In the recovery phase, policies should be geared towards supporting growth-oriented enterprises, promoting the reallocation of resources to more efficient companies, and avoiding measures that risk propping up “zombie” firms (i.e., inefficient firms that can survive only thanks to the artificial support provided to them).⁴¹

4.4.2. Ensure the liquidity of viable firms: A key priority in the short term is to alleviate the restriction of cash flows due to lower demand. Direct measures the government can take to address liquidity pressures may encompass continued efforts to accelerate VAT refunds, and ensure prompt payment of pending bills.

Recommendation	Comments/Explanation
FinTech solutions should be promoted.	Kenya is known for its innovative solutions regarding digital financial services. Digital technology offers an unprecedented opportunity to mitigate the impact of the COVID-19 crisis on MSME financing. Simplified loan application processes and the use of alternative data for credit scoring could be leveraged by banks to reduce turnaround times for MSME loans.
The efficacy of the emergency tax reduction and deferral measures should be assessed.	The GoK has implemented a package of tax measures, which include reduction of the base corporate income tax rate from 30 to 25 percent, cutting the turnover tax rate on small business from 3 to 1 percent, and a decrease of the standard VAT rate from 16 to 14 percent. ⁴² It will be critical to assess the impact of these measures on the robustness of firms as well as on tax revenue, so that evidence-based decisions can be made on when they can be retired.
Conditions must be established to prevent the insolvency of healthy firms due to temporary illiquidity.	For micro and small businesses, this could mean increasing the debt threshold required for a creditor to initiate bankruptcy proceedings against a debtor or limiting access in modern personal bankruptcy systems to a debtor's petitions alone. Enacting these measures for a fixed time period would prevent the system from becoming one of debt collection during a pandemic, as well as help control the number of cases entering the overburdened court system. The CBK suspended for six months the listing of negative credit information for borrowers whose loans became non-performing after April 1 st . ⁴³ These measures need to be reassessed and potentially expanded based on the extent and duration of the COVID-19 crisis, while keeping in mind the risks they present for financial sector sustainability.
De-risking financial institutions will be important for increasing access to finance for healthy firms.	Risk aversion is an important factor limiting the willingness of financial intermediaries to increase lending, particularly to MSMEs. The National Treasury is setting-up a CGS to issue partial credit guarantees on commercial bank loans to MSMEs.
The liquidity constraints of micro-enterprises should be alleviated.	Providing liquidity channeled through micro-finance institutions, SACCOS and digital platforms can help address the liquidity constraints faced by these institutions and their ability to extend credit to micro and small firms.
Government arrears on payments to MSMEs must be addressed. ⁴⁴	This can be accomplished by setting-up a receivables financing platform that would allow financial institutions to refinance these receivables through an invoice and receivables discounting scheme. To give comfort to financial institutions, the scheme will be supported by the guarantee product.
Early-stage companies should not be left out of safety net provisions.	Public policies to help vulnerable but viable firms stay in business and maintain employment should also include startups. The provision of a cash lump sum for firms to stay afloat could help overcome the immediate challenges brought on by the pandemic. Keeping this sum reasonably small would make it feasible from a fiscal perspective while ensuring that it is still relevant for startups. If employment retention is crucial to keep the business alive, then an immediate cash injection either through grant or loan or guarantee could be explored. If markets failures are clearly identified, support for publicly funded venture capital companies and funds to inject equity could be explored. ⁴⁵ Loan or equity injections into venture funds can help them survive through the period when they cannot realize any returns and ease the pressure on them to liquidate companies in which they have invested in the short term.

⁴¹ This section is based on the COV-BPS results and the overall policy guidance described in World Bank (2020). Assessing the impact and policy responses in support of private-sector firms in the context of the COVID-19 pandemic.

⁴² IMF policy tracker. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.

⁴³ IMF policy tracker. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.

⁴⁴ The government has significant arrears to suppliers and contractors, estimated at 0.7 percent of GDP (~KSh 65 billion) in FY2018/19. Paying arrears will be critical to enhancing firms' liquidity during the crisis. The GoK has already taken steps and allocated KSh 13.8 billion to clear arrears and KSh 10 billion for VAT refunds as part of its policy responses to the pandemic (World Bank Kenya Economic Update April 2020).

⁴⁵ For example, France and Germany have a long tradition of using these instruments through state development banks to provide risk capital to MSMEs.

4.4.3. Enhance firms' digital capabilities: The pressure to react to the crisis may offer an opportunity to improve overall managerial and digital capabilities throughout firms in Kenya. The COV-BPS results suggest that firms are responding to the crisis with the adoption of digital technologies, which can be useful for improving their overall capabilities.

Recommendation	Comments/Explanation
Facilitating access to digital technologies can help increase firm efficiency.	Evidence across countries suggests that a large proportion of firms are starting to use or increase the use of digital technologies for business purposes. In the case of Kenya almost half of formal firms have not adopted digital technologies in response to the COVID-19 shock yet. Facilitating the adoption of digital technologies that can be applied to general business functions such as business planning, marketing, payments, and sales, will be critical for helping firms cope with the COVID-19 crisis and for improving their capabilities going forward. Among the functions with a higher potential for easy adoption are technologies related to supply chain management and sales.

4.4.4. Improve access to information: Evidence for Kenya and other countries suggests that firms are expecting large declines in sales in the coming six months, with a high degree of uncertainty. Information can help firms to access new markets to compensate for loss of sales. In addition, improving access to information about available support for businesses can increase the likelihood of reaching the firms most in need and could help improve expectations overall.

Recommendation	Comments/Explanation
Providing information to firms can support them in prospecting new markets.	The variation in the development of the COVID-19 crisis in different countries can generate significant variation in how global value chains are disrupted, which can in turn create business opportunities. ⁴⁶ Providing information to local producers regarding opportunities in international markets, particularly in exporting sectors such as agricultural commodities (e.g. coffee, tea, fruits), processed food, and apparel, could help boost export potential during a period of global crisis. Such activities could be conducted by the Kenya Export Promotion Agency.
Providing guidance on health protocols could help reduce risk.	Widely disseminating information on protocols to minimize the risk of transmission of COVID-19 among customers could increase confidence and business activity. This could also help reduce the risk of outbreaks within a business, a situation that could seriously exacerbate the operational challenges already being faced by firms. In tandem with such information campaigns, some financial support to help firms adopt the required sanitary measures could improve compliance.
Stronger communication is needed about policy interventions already available to support businesses.	A common challenge across many developing countries, including Kenya, is that a very large share of businesses are not aware of the public programs available to support them. In Kenya, about 80 percent of businesses that did not receive support reported they were not aware of the options available to them. Evidence from a similar survey across countries suggests that firms that are more likely to receive assistance also have better expectations regarding the future of their business.
Targeted channels should be used to reach different types of firms with information regarding government programs.	Kenya has more than 20 national programs in place to support entrepreneurship activities. An ongoing assessment conducted by the World Bank suggests that many of those programs provide services related to access to finance. However, information about those policy instruments is not easily available. The GoK could consolidate information about all public programs to support businesses, including the expansion of activities specifically related to COVID-19, and facilitate access to this information for businesses. This could be converted into a sustained practice as a way to optimize public resources.

4.4.5. Targeting firms: Results of the COV-BPS suggest the impact of COVID-19 on businesses in Kenya is widespread across firms of different size, sector, region, and age. This creates significant challenges for policymakers when defining a specific group of firms to target. MSMEs seem to be the most vulnerable in general. They are disproportionately more impacted in terms of reductions in sales and they face a higher likelihood that they will close, partially because they tend to have less access to credit. At the same time, the number of layoffs is significantly higher among large firms. Given the ubiquity of the shock across the whole economy, the challenge of targeting specific groups of firms is not much different than it was prior to COVID-19. The cautions that were applicable before the pandemic regarding targeting criteria for interventions to support businesses are still valid – the large heterogeneity between firms belonging to same sector and of similar size must be taken into account.

⁴⁶ <https://www.wsj.com/articles/high-food-prices-drive-consumers-to-hunt-for-value-11591700401>

Recommendation	Comments/Explanation
A “funnel approach” to assistance can help ensure that the firms with the greatest potential for improvement get the most support.	This approach might be particularly relevant for interventions that aim to provide business training and financing support through grants, but are looking to identify businesses with a high level of commitment and need. The program can provide very basic assistance services for a large number of firms (e.g. some online courses, simple benchmarking information, or a short one-hour firm visit). Firms that demonstrate interest and undertake some improvement actions following this first engagement can then be filtered into receiving a second, more intermediate level of business training support or a specific grant. This approach has the political advantage of offering some assistance to a large number of firms while restricting the most costly and time-consuming parts of the program to firms that demonstrate engagement and immediate improvement. ⁴⁷
Mobile phones can be used to reach women-owned businesses.	MSMEs run by women can be disproportionately affected by the COVID-19 shock, and specific targeted interventions already conducted in Kenya suggest that they can lead to effective results. ⁴⁸ Policies could include: (i) providing mobile phones to women to facilitate access to financing, and (ii) using customer data on mobile phone and mobile banking transactions to identify women more likely to be vulnerable during this crisis to more effectively target relief payments.
The targeting of solutions can leverage big data analytics from digital platforms.	Mobile Network Operator (MNO) data that captures financial transactions such as credit, remittance, and payment data for firms, can be especially useful. Some of the simple metrics to identify these enterprises could be: (i) reduced volume and number of mobile money transactions, (ii) increased uptake of overdraft facilities in the last few months, and (iii) vulnerable informal MSMEs in hard-hit sectors by the COVID-19 pandemic such as the retail, agribusiness and manufacturing sectors.
Complementary measures should be considered to offer support for solvency problems among SMEs or strategically large firms. ⁴⁹	Given the extent of the COVID-19 crisis, providing liquidity may be an insufficient remedy, as liquidity does not compensate businesses for their losses. Should the crisis threaten the solvency of MSMEs, governments would have to consider additional measures to complement the emergency actions discussed above. Some options may include: direct compensation through grants for viable firms/sectors that have been significantly impacted; ⁵⁰ support for publicly funded venture capital companies and funds to inject equity if markets failures are clearly identified; ⁵¹ indirect support through loss-sharing mechanisms and other forms of leverage funding; and stimulating private equity investment. ⁵² The implementation of any of these options should address specific market failures, be reassessed regularly, and remain temporary in nature. These schemes can be controversial if they lead to large scale nationalizations and can be expensive in terms of fiscal resources. Therefore, they would have to be designed in a transparent way with clear sunset clauses and exit strategies.

4.4.6. To help mitigate the adverse economic and social impacts of COVID-19 on households, the Kenya COVID-19 RRRPS findings suggest three policy response options in the area of food security and livelihoods, human capital, and awareness and communication. While the policy suggestions on the side of firms will help to alleviate pressures on livelihoods of households by supporting employment, additional direct measures targeting households are needed. Given the negative impact of COVID-19 on livelihoods, it is crucial for households to be supported to sustain livelihoods and food security. Risks to human capital must be reduced especially for children and youth given the significant role of human capital in future opportunities and livelihoods. Finally, awareness and communication are key to ensure that citizens are aware of risks and know about support programs.

4.4.7. Food security and livelihoods: Securing access to food and supporting livelihoods through social protection programs can help reduce the use of negative coping strategies compromising assets or food consumption. Despite the urgency of making such support available in larger scale, a well-targeted approach is essential also given the fiscal resources required.

⁴⁷ See more details on McKenzie, D. (2020) *Small Business Training to Improve Management Practices in Developing Countries*. Policy Research Working Paper, 9408. World Bank.

⁴⁸ McKenzie, David and Susana Puerto (2017) “Growing Markets through Business Training for Female Entrepreneurs: A Market-Level Randomized Experiment in Kenya”, *American Economic Journal: Applied Economics*.

⁴⁹ More details are provided by World Bank (2020). *Assessing the impact and policy responses in support of private-sector firms in the context of the COVID-19 pandemic*.

⁵⁰ For example, the European Commission indicated that direct compensation for damages suffered due to the COVID-19 outbreak for companies active in sectors that have been particularly hit (e.g. transport, tourism and hospitality or organizers of cancelled events) would be authorized even though they are state aids, which are typically prohibited in the EU.

⁵¹ For example, France and Germany have a long tradition of using these instruments through state development banks to provide risk capital to MSMEs.

⁵² As with lending, guarantees have the potential to provide large-scale effects and subsidy leverage if they are well designed and implemented. The US Small Business Administration's leverage program for Small Business Investment Companies has a long history and provides a number of lessons.

Recommendation	Comments/Explanation
Access to food must be secured.	Reducing food consumption is the most widely used coping strategy to mitigate the COVID-19 shock. Food security needs to be ensured by providing assistance that is well targeted to the poor and rural households in which people otherwise face inadequate nutrition. Resources saved with the suspension of school feeding programs could be used to provide food for households with children.
Targeted cash transfers to mitigate negative coping strategies.	Expanding cash transfer programs targeted to the poorest and most affected households in both rural and urban settings. Effective targeting will be essential to ensure that cash transfer programs reach the households most in need and have the strongest impact (Box 6) while taking into account tight fiscal resources.
Targeted cash transfers to mitigate negative coping strategies.	Scaling up input support through the e-voucher program and leveraging existing programs to enhance agriculture production.

4.4.8. Human capital: The closure of schools has affected learning by children especially for households without appropriate access to remote learning. COVID-19 has also created fear of infection at health facilities. Thus, specific interventions are needed to enhance access to education and health services to reduce human capital losses.

Recommendation	Comments/Explanation
Educational radio, television broadcasts as well as digital technology should be continued during the phased reopening of schools.	The first school openings began on 12 October 2020, with strict COVID-19 containment protocols and guidelines to be imposed. In parallel, access to learning resources, radio and television programs should be continued and made available through a larger variety of channels. Increasing internet coverage, access to EdTech and communicating the availability of digital learning platforms accessible through smartphones can help increase the use of learning resources.
Ensuring access to safe healthcare for non-COVID-19 related health concerns can help reduce the long-term impact of the pandemic on health outcomes.	Health care facilities not used for treating COVID-19 should be made available to treat non-communicable diseases like cancer, cardiovascular disease and diabetes (while maintaining anti-coronavirus protocols), to help limit a rise in long-term health problems due to inadequate preventative care and treatment during the pandemic. Clear information regarding the health facilities that treat COVID-19 as opposed to those that do not can help the population select facilities and seek timely medical attention.
Providing free of charge quarantine centers to isolate individuals who cannot be isolated at home can help lessen the risk of contagion.	Especially in urban areas with higher population density as well as more COVID-19 cases, access to quarantine centers can contribute to decreasing the spread of the virus. Importantly, such centers can incorporate awareness and sensitization programs to help reduce stigma around people infected with COVID-19.
Improve access to mental health services to lessen the psychological impacts of COVID-19.	Mental health services should be continued by phone and - where possible - on a face-to-face basis.



4.4.9. Awareness and communication: Improving communication strategies can help enhance the adoption of preventive behaviors and build trust in the capacity of the government.

Recommendation	Comments/Explanation
National radio and television can be further exploited as key channels to provide updated information and promote preventive behaviors.	As the provision of updated information can help improve preparedness practices, ongoing radio and television communication campaigns should be maintained and strengthened. Similarly, such campaigns can be used to combat myths about the disease while contributing to reduce stigmatization of those infected.
Communicating about governmental actions to help the population cope with the socioeconomic impacts of the pandemic can strengthen citizens' trust in the capacity of the government.	Reinforcing communication campaigns on actions taken by the government and existing support programs could be helpful to build trust and ultimately boost the effectiveness of public health measures.

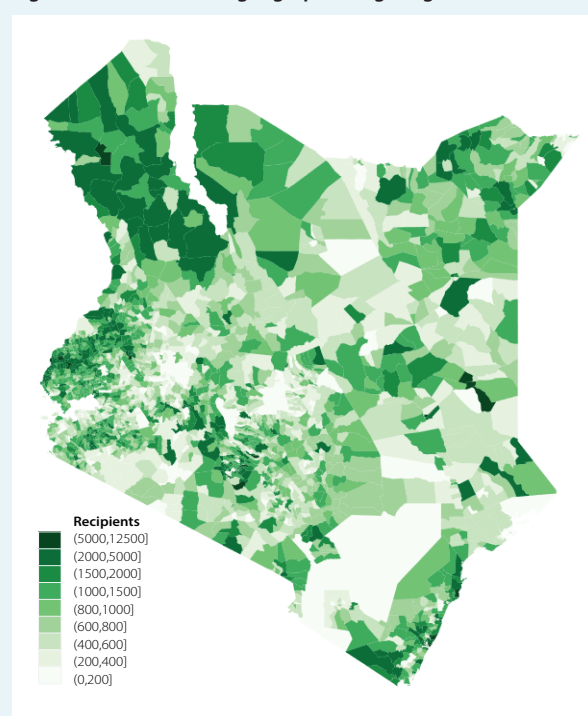
4.4.10. In addition to these direct responses, ready-to-use sampling frames for phone surveys need to be prepared and maintained by the Kenya National Bureau of Statistics. Phone surveys are generally highly suited for swift data collection especially in the context of large shocks, as demonstrated by the current COVID-19 pandemic. To quickly implement timely and representative phone surveys to effectively inform responses, KNBS should maintain reliable and up-to-date national sampling frames, including phone numbers stratified by geographic area. Ideally these sampling frames would also include vulnerable populations such as refugees and stateless people.

Box 6: Well-targeted cash transfers can be a powerful tool to mitigate shocks

COVID-19 is estimated to increase poverty in Kenya by about **4 percentage points** or **2 million 'newly' poor Kenyans**. Kenya's poor population was predominantly rural and less well education pre-COVID-19. However, the shock of COVID-19 created a new group of 'newly' poor Kenyans with different demographic characteristics. They tend to be urban with household heads who are younger and more educated. Newly-poor households also tend to be smaller and have a larger share of working-aged individuals. Properly differentiating between these populations and understanding their characteristics can help improve the effectiveness of a given intervention in lessening the impacts of a specific shock.

Targeted cash transfers are more efficient at offsetting the poverty increases caused by COVID-19, while also saving fiscal space. Cash transfers can provide relief to households, thereby reducing the use of detrimental coping strategies like having to reduce food intake or sell productive assets. Such cash transfers can be more effective in reducing poverty compared to relief measures as implemented for VAT. With a budget of KSh 50 billion equal to the cost of the VAT relief implemented by the government, a targeted cash transfers of KSh 20,000 could reach 2.5 million poor households more than offsetting the increase of

Figure B6.1: Area-based geographic targeting



Source: Authors calculation based on KIHBS 15/16

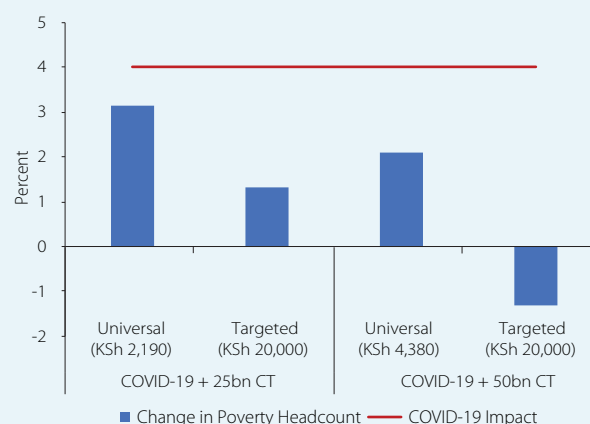
Box 6: Well-targeted cash transfers can be a powerful tool to mitigate shocks (contd.)

poverty by COVID-19 leading to an overall reduction of poverty by more than 1 percentage point compared to pre-COVID-19 levels. In contrast, a universal transfer of KSh 4,380 requiring the same budget of KSh 50 billion would only partially offset the increase in poverty leaving poverty levels about 2 percentage points higher than pre-COVID-19.

Additional cash transfers should use existing programs and delivery systems, focusing on expanding coverage given the difference in the ‘existing’ and ‘newly’ poor. Any additional cash transfer should use the existing social protection infrastructure, including registries, administrative structures and implementation mechanisms, which will in turn help increase preparedness for future crises. Due to the differences in the ‘existing’ and ‘newly’ poor, cash transfers should be expanded beyond existing beneficiaries to also cover the ‘newly’ poor. Finally, adequate budget support is required to ensure current National Safety Net Program (NSNP) beneficiaries continue to be supported with timely cash transfer payments.

[1] In this simulation administrative costs are not considered, although they would be larger for a targeted transfer than a universal transfer.

Figure B6.2: COVID-19 and cash-transfer impacts on poverty headcount rate



Source: Authors calculation based on KIHBS 15/16

REFERENCES

- Beaman, Lori, Jeremy Magruder, and Jonathan Robinson. "Minding small change among small firms in Kenya." *Journal of Development Economics* 108 (2014): 69-86. GeoPoll.
- Brooks, Wyatt, Kevin Donovan, and Terence R. Johnson. "Mentors or teachers? Microenterprise training in Kenya." *American Economic Journal: Applied Economics* 10, no. 4 (2018): 196-221.
- "Coronavirus In Sub-Saharan Africa." 2020.
- Government of Kenya. "IPC Acute Food Insecurity and Acute Malnutrition Analysis, February 2020 – July 2020." Nairobi, 2020.
- International Monetary Fund. 2020. *World Economic Outlook: A Crisis Like No Other, An Uncertain Recovery*. June 2020: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>
- Kenya National Bureau of Statistics. (2020). *Economic Survey 2020*. Nairobi.
- KPMG. "Kenya: Government and institution measures in response to COVID-19." 2020.
- McKenzie, D., & Puerto, S. 2017. "Growing markets through business training for female entrepreneurs: a market-level randomized experiment in Kenya." Policy Research Working Paper No.7993. World Bank, Washington, DC.
- National Council on the Administration of Justice. "Statement on Justice Sector Operations in the Wake of the COVID-19 Pandemic." 2020.
- National Emergency Response Committee on Coronavirus. "Update on COVID-19 in the Country and Response Measures, as at September 6th 2020." 2020.
- Rubin, GJ, R Amlot, L Page, and S Wessely. "Public Perceptions, Anxiety, and Behaviour Change in Relation to the Swine Flu Outbreak: Cross Sectional Telephone Survey." *BMJ* 339 (2009).
- Salari, Nadir, Amin Hosseinian-Far, Rostam Jalali, Aliakbar Vaisi-Raygani, Shna Rasoulpoor, Masoud Mohammadi, Shabnam Rasoulpoor, and Behnam Khaledi-Paveh. "Prevalence of Stress, Anxiety, Depression among the General Population during the COVID-19 Pandemic: A Systematic Review and Meta-Analysis." *Globalization and Health* 16, no. 57 (2020).
- Tang, CSK, and CY Wong. "An Outbreak of the Severe Acute Respiratory Syndrome: Predictors of Health Behaviours and Effect of Community Prevention Measures in Hong Kong, China." *Am J Public Health* 93 (2003): 1887–88.
- The National Treasury and Planning. 2020. "Medium Term Budget Policy Statement". February 2020. Nairobi.
- The National Treasury and Planning. 2020. "Budget Statement. Theme: Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery". June 2020. Nairobi.
- The National Treasury and Planning. 2020. "Budget Review and Outlook Paper (BROP)". September 2020. Nairobi.
- The National Treasury and Planning. 2020. "Public Debt Management Report". September 2020. Nairobi.
- The National Treasury and Planning. 2020. "Quarterly Economic and Budgetary Review". First Quarter, Financial Year 2020/21. November 2020. Nairobi.
- UNHCR and World Bank. "Understanding the Socioeconomic Conditions of Refugees in Kalobeyei, Kenya: Results from the 2018 Kalobeyei Socioeconomic Profiling Survey." Nairobi, 2020.
- World Food Programme. "Comprehensive Food Security and Vulnerability Analysis (CFSVA) Kenya 2016." Nairobi, 2016.
- World Bank. "Africa's Pulse: Assessing the Economic Impact Of Covid-19 and Policy Responses in Sub-Saharan Africa" Washington, D.C., 2020.
- World Bank. "How Countries Are Using Edtech (Including Online Learning, Radio, Television, Texting) to Support Access to Remote Learning during the COVID-19 Pandemic." Washington, D.C., 2020.



- World Bank. "Kenya Economic Update April 2020. Turbulent Times for Growth in Kenya. Policy Options during the COVID-19 Pandemic." Washington, D.C., 2020.
- World Bank. "Socioeconomic Impacts Of Covid-19 In Kenya On Households – Rapid Response Phone Survey Round 1" (forthcoming).
- World Bank. (2020). "Kenya Economic Update. Turbulent Times for Growth in Kenya. Policy Options during the COVID-19 Pandemic." Edition 21.
- World Bank. (2020). "Africa's Pulse: Charting the road to recovery", October 2020: <https://openknowledge.worldbank.org/handle/10986/34587>
- World Bank. (2020). "Global Economic Prospects: Pandemic, Recession: The Global Economy in Crisis", June 2020: <https://openknowledge.worldbank.org/handle/10986/33748>
- Yap, Jonathan, Vernon Lee, Teng Yan Yau, Tze Pin, and Phern-Chern Tor. "Knowledge, Attitudes and Practices towards Pandemic Influenza among Cases, Close Contacts, and Healthcare Workers in Tropical Singapore: A Cross-Sectional Survey." BMC Public Health 2010; 10: 442.

ANNEX TABLES

Table A1: Selected economic indicators, 2016- 2023

	2016	2017	2018	2019	2020	2021	2022
	Act.	Act.	Act.	Act.	Est.	Proj.	Proj.
Output and prices	(Annual percentage change, unless otherwise indicated)						
Real GDP	5.9	4.4	6.3	5.5	-1.0	6.9	5.7
Agriculture	4.7	1.6	6.0	3.6	5.6	4.2	3.9
Industry	5.9	3.9	5.5	4.6	2.1	3.6	4.0
Services	6.4	5.9	6.7	6.7	-4.8	9.3	7.1
Private consumption	4.8	7.4	6.5	5.0	1.0	7.6	6.3
Government consumption	5.6	3.9	5.6	4.9	5.7	4.9	3.6
Gross fixed capital investment	-9.2	8.3	1.3	2.4	-6.2	8.2	7.7
Exports, goods and services	-2.2	-6.2	3.9	-0.2	0.1	7.3	6.4
Imports, good and services	-3.4	8.6	2.5	-2.0	-0.5	8.8	8.0
GDP deflator	5.6	10.9	2.4	4.0	9.2	6.1	6.4
CPI (period average)	6.3	8.0	4.7	5.2	5.1	5.2	5.5
Money and credit	(Annual percentage change, unless otherwise indicated)						
Broad money (M3)	3.0	7.9	9.8	5.6	..	..	..
Credit to non-government sector	4.4	3.1	4.8	7.1	..	..	..
Policy rate (CBR)	10.0	10.0	9.0	8.9	..	..	..
NPLs (percent of total loans)	7.8	8.9	10.0	12.0	..	..	..
Central government (fiscal year i.e 2016 = 2016/17)	(Percent of GDP, unless otherwise indicated)						
Total revenue & grants	19.2	18.2	18.5	17.3	17.0	16.6	16.7
Tax revenues	17.0	16.0	16.1	15.4	14.2	14.5	14.7
Non-tax revenues	2.9	3.1	3.3	3.5	3.4	1.7	1.7
Grants	0.4	0.3	0.2	0.2	0.5	0.4	0.3
Expenditure	27.5	25.2	26.2	25.2	26.0	23.7	22.5
Current	15.2	15.8	16.5	16.1	16.4	15.5	14.9
Capital	8.4	5.5	5.8	5.8	6.0	5.1	4.9
Primary balance	-5.5	-3.6	-3.6	-3.9	-4.9	-2.7	-1.5
Overall balance including grants	-9.1	-7.4	-7.6	-8.2	-9.0	-7.1	-5.8
Financing	9.1	7.4	7.8	7.8	9.0	7.1	5.8
Net domestic borrowing	4.1	3.2	3.3	4.4	5.4	3.8	3.8
Foreign financing	5.0	4.2	4.5	3.3	3.6	3.3	2.1
Public debt stock (fiscal year i.e 2015 = 2016/17)	(Percent of GDP, unless otherwise indicated)						
Public gross nominal debt	57.4	59.2	62.4	65.6	63.2	68.6	67.6
External debt	29.9	30.1	32.5	34.5	32.5	34.6	33.2
Domestic debt	27.5	29.1	29.9	31.2	30.7	34.0	34.4
External sector	(Percent of GDP, unless otherwise indicated)						
Exports (goods and services)	14.3	13.2	13.2	12.0	11.3	11.4	11.5
Imports (goods and services)	-23.4	-24.2	-23.0	-21.4	-19.7	-20.1	-20.7
Current account balance (including grants)	-5.8	-7.2	-5.8	-5.8	-4.5	-4.8	-5.2
Gross international reserves (in billions of US\$)	9.60	8.75	9.20	9.35	..	..	..
In months of next year imports	5.0	5.4	5.7	5.8	..	..	..
Exchange rate (Kenyan shilling/US\$)	101.5	103.4	101.3	102.0	..	..	..
Memo:							
GDP at current market prices (KSh billion)	7,023	8,166	8,892	9,741	10,536	11,956	13,439

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

Table A2: GDP growth rates for Kenya and EAC (2015-2020)

	2015	2016	2017	2018	2019	2020e
Kenya	5.7	5.9	4.8	6.3	5.4	-1.0
Uganda	5.2	4.8	3.8	6.2	6.8	3.1
Tanzania	6.2	6.9	6.8	5.4	5.8	2.5
Rwanda	8.8	5.9	4.0	8.6	9.4	2.0
Burundi	-3.9	-0.6	0.5	1.6	1.8	0.3
EAC	5.8	5.9	5.1	6.1	6.0	1.2

Source: World Bank
 Note: 'e' denotes an estimate
 EAC Average excludes South Sudan

Table A3: Kenya annual GDP (2012-2019)

Years	GDP, current prices	GDP, 2009 constant prices	GDP/capita, current prices	GDP growth
	KSh Millions	KSh Millions	US\$	Percent
2008	2,483,058	2,772,019	917	0.2
2009	2,863,688	2,863,688	920	3.3
2010	3,169,301	3,104,303	967	8.4
2011	3,725,918	3,294,026	972	6.1
2012	4,261,370	3,444,339	1,137	4.6
2013	4,745,090	3,646,821	1,210	5.9
2014	5,402,647	3,842,186	1,316	5.4
2015	6,284,185	4,061,901	1,337	5.7
2016	7,022,963	4,300,699	1,411	5.9
2017	8,165,842	4,509,822	1,568	4.8
2018	8,892,111	4,792,174	1,711	6.3
2019	9,740,360	5,050,184	1,943	5.4

Source: Kenya National Bureau of Statistics and World Development Indicators

Table A4: Broad sector growth (y-o-y, Percent)

Year	Quarterly	Agriculture	Industry	Services	GDP
2013	Q1	5.3	9.4	5.4	6.1
	Q2	6.8	6.9	8.0	7.5
	Q3	5.8	6.2	6.7	6.4
	Q4	3.6	-0.6	4.8	3.5
2014	Q1	4.2	5.8	5.5	5.2
	Q2	4.4	9.9	5.5	6.0
	Q3	7.1	3.5	4.2	4.6
	Q4	1.8	5.3	6.9	5.6
2015	Q1	7.8	6.4	4.6	5.7
	Q2	4.4	7.0	5.6	5.6
	Q3	4.0	9.1	5.8	6.1
	Q4	4.5	6.6	5.5	5.5
2016	Q1	3.6	4.7	5.9	5.0
	Q2	7.6	6.6	5.4	6.1
	Q3	2.1	6.2	5.8	5.2
	Q4	5.2	6.2	8.1	7.2
2017	Q1	4.0	4.5	6.1	5.2
	Q2	0.5	4.0	6.3	4.4
	Q3	2.3	2.7	5.6	4.4
	Q4	-1.3	4.3	7.2	5.1
2018	Q1	6.7	4.5	6.6	6.2
	Q2	5.9	5.0	6.3	6.0
	Q3	6.8	6.0	6.7	6.6
	Q4	3.9	6.4	7.3	6.5
2019	Q1	4.7	4.7	6.1	5.5
	Q2	2.9	5.4	6.2	5.3
	Q3	2.4	4.7	6.3	5.2
	Q4	4.0	3.8	6.4	5.5
2020	Q1	4.9	4.4	5.1	4.9
	Q2	6.4	-0.5	-12.2	-5.7

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

Note: Agriculture = Agriculture, forestry and fishing

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

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

Table A5: Contribution by Broad sub-sectors (percentage points)

Year	Quarterly	Agriculture contribution to GDP	Industry by sub sector contribution				Industries	Service by sub sector contribution						Services
			Mining and quarrying	Manufacturing	Electricity and water supply	Construction		Accommodation and restaurant	Transport and storage	Real estate	Information and communication	Financial and insurance	Other	
2015	Q1	2.0	0.1	0.3	0.2	0.6	1.2	-0.1	0.5	0.5	0.3	0.6	0.6	2.3
	Q2	1.1	0.1	0.3	0.3	0.6	1.3	0.0	0.6	0.5	0.2	0.5	1.0	2.9
	Q3	0.8	0.2	0.5	0.2	0.8	1.7	0.0	0.7	0.6	0.2	0.7	1.1	3.4
	Q4	0.8	0.1	0.4	0.1	0.7	1.3	0.1	0.4	0.7	0.3	0.4	0.8	2.7
2016	Q1	1.0	0.1	0.2	0.2	0.4	0.9	0.1	0.5	0.7	0.4	0.5	0.8	3.0
	Q2	1.8	0.1	0.5	0.3	0.4	1.3	0.1	0.4	0.7	0.2	0.4	1.0	2.9
	Q3	0.4	0.1	0.4	0.2	0.5	1.2	0.1	0.3	0.7	0.3	0.4	1.3	3.1
	Q4	1.0	0.2	0.2	0.1	0.7	1.2	0.2	0.6	0.7	0.5	0.4	1.4	3.8
2017	Q1	1.1	0.1	0.2	0.2	0.4	0.8	0.3	0.5	0.5	0.5	0.2	0.9	2.9
	Q2	0.1	0.0	0.0	0.2	0.5	0.8	0.1	0.5	0.5	0.3	0.2	1.2	2.9
	Q3	0.4	0.0	0.0	0.2	0.3	0.5	0.1	0.4	0.5	0.4	0.1	1.3	2.9
	Q4	-0.2	0.0	0.0	0.1	0.7	0.8	0.1	0.7	0.5	0.5	0.1	1.8	3.6
2018	Q1	1.8	0.0	0.3	0.2	0.3	0.8	0.2	0.4	0.4	0.5	0.2	1.2	3.0
	Q2	1.4	0.0	0.4	0.2	0.3	1.0	0.1	0.4	0.4	0.4	0.2	1.4	3.0
	Q3	1.2	0.0	0.5	0.2	0.4	1.2	0.2	0.6	0.3	0.4	0.3	1.6	3.4
	Q4	0.7	0.0	0.5	0.2	0.5	1.2	0.3	0.9	0.3	0.6	0.5	1.5	4.1
2019	Q1	1.2	0.0	0.3	0.2	0.3	0.9	0.2	0.4	0.4	0.4	0.4	1.2	2.9
	Q2	0.7	0.0	0.4	0.2	0.4	1.0	0.1	0.5	0.5	0.3	0.3	1.5	3.2
	Q3	0.4	0.0	0.3	0.2	0.4	0.9	0.1	0.6	0.5	0.3	0.5	1.4	3.4
	Q4	0.7	0.0	0.2	0.2	0.4	0.7	0.2	0.8	0.4	0.5	0.4	1.3	3.5
2020	Q1	1.3	0.1	0.3	0.2	0.3	0.8	-0.1	0.4	0.3	0.4	0.4	1.1	2.5
	Q2	1.5	0.1	-0.4	0.0	0.2	-0.1	-0.9	-0.8	0.2	0.2	0.2	-4.4	-5.5

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

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

Table A6: Quarterly growth rates (percent)

Year	Quarter	Agriculture			Industry			Services			GDP		
		Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average	Quarter-on-Quarter	Year-on-Year	Four Quarter Moving Average
2015	Q1	59.6	7.8	7.8	7.0	6.4	6.4	-3.4	4.6	4.6	10.3	5.7	5.7
	Q2	-11.5	4.4	6.2	1.4	7.0	6.7	2.9	5.6	5.1	-1.2	5.6	5.7
	Q3	-21.1	4.0	5.6	-0.4	9.1	7.5	4.7	5.8	5.3	-2.5	6.1	5.8
	Q4	-6.2	4.5	5.3	-1.4	6.6	7.3	1.2	5.5	5.4	-0.7	5.5	5.7
2016	Q1	58.3	3.6	3.6	5.2	4.7	4.7	-3.0	5.9	5.9	9.8	5.0	5.0
	Q2	-8.1	7.6	5.5	3.3	6.6	5.7	2.5	5.4	5.6	-0.2	6.1	5.6
	Q3	-25.1	2.1	4.5	-0.8	6.2	5.9	5.1	5.8	5.7	-3.4	5.2	5.4
	Q4	-3.3	5.2	4.7	-1.4	6.2	5.9	3.4	8.1	6.3	1.2	7.2	5.9
2017	Q1	56.4	4.0	4.0	3.5	4.5	4.5	-4.8	6.1	6.1	7.8	5.2	5.2
	Q2	-11.2	0.5	2.3	2.9	4.0	4.3	2.7	6.3	6.2	-0.9	4.4	4.8
	Q3	-23.8	2.3	2.3	-2.1	2.7	3.8	4.5	5.6	6.0	-3.4	4.4	4.7
	Q4	-6.8	-1.3	1.6	0.1	4.3	3.9	5.0	7.2	6.3	1.9	5.1	4.8
2018	Q1	69.2	6.7	6.7	3.6	4.5	4.5	-5.4	6.6	6.6	8.9	6.2	6.2
	Q2	-11.9	5.9	6.3	3.4	5.0	4.7	2.4	6.3	6.4	-1.2	6.0	6.1
	Q3	-23.2	6.8	6.5	-1.1	6.0	5.2	4.9	6.7	6.5	-2.8	6.6	6.3
	Q4	-9.3	3.9	6.0	0.4	6.4	5.5	5.5	7.3	6.7	1.8	6.5	6.3
2019	Q1	70.5	4.7	4.7	2.0	4.7	4.7	-6.4	6.1	6.1	7.9	5.5	5.5
	Q2	-13.5	2.9	3.9	4.1	5.4	5.1	2.5	6.2	6.2	-1.3	5.3	5.4
	Q3	-23.5	2.4	3.5	-1.8	4.7	4.9	4.9	6.3	6.2	-2.9	5.2	5.3
	Q4	-7.9	4.0	3.6	-0.4	3.8	4.7	5.7	6.4	6.3	2.1	5.5	5.4
2020	Q1	72.1	4.9	4.9	2.6	4.4	4.4	-7.5	5.1	5.1	7.3	4.9	4.9
	Q2	-12.3	6.4	5.6	-0.8	-0.5	1.9	-14.3	-12.2	-3.7	-11.3	-5.7	-0.4

Source: World Bank and Kenya National Bureau of Statistics

Table A7: National Fiscal position

Actual (percent of GDP)	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20*	2020/21**
Revenue and Grants	19.7	19.7	19.5	19.1	19.2	18.2	18.5	17.3	17.0
Total Revenue	19.2	19.2	19.0	18.7	18.8	17.9	18.3	17.1	16.5
Tax revenue	17.2	18.1	17.7	17.2	17.0	16.0	16.1	15.4	14.2
Income tax	8.3	8.9	8.7	8.4	8.1	7.5	7.4	6.9	6.5
VAT	4.1	4.6	4.5	4.3	4.4	4.2	4.5	3.8	3.9
Import Duty	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.0	0.9
Excise Duty	1.9	2.0	2.0	2.1	2.2	2.0	2.1	1.9	1.9
Other Revenues	1.7	1.3	1.3	1.2	1.1	1.2	1.1	1.9	1.1
Railway Levy									
Appropriation in Aid									
Grants									
Expenditure and Net Lending	25.1	25.6	28.1	26.9	27.5	25.2	26.2	25.2	26.0
Recurrent	18.1	14.8	15.4	15.4	15.2	15.8	16.5	16.1	16.4
Wages and salaries	6.1	5.5	5.1	4.6	4.4	4.6	4.5	4.4	4.3
Interest Payments	2.7	2.7	2.9	3.2	3.5	3.8	4.0	4.3	4.1
Other recurrent	9.3	6.6	7.3	7.7	7.3	7.5	8.0	7.4	8.0
Development and net lending	6.8	6.3	8.8	7.3	8.4	5.5	5.8	5.8	6.0
County allocation	0.2	3.8	3.9	4.1	4.0	3.8	3.9	3.2	3.5
Contingencies	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Parliamentary Service		0.4	0.4	0.3	0.0	0.0	0.0	0.0	0.0
Judicial Service		0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Fiscal balance									
Deficit including grants (cash basis)	-5.7	-6.1	-8.1	-7.1	-9.1	-7.4	-7.6	-8.2	-9.0
Financing	5.7	6.1	8.1	7.1	9.1	7.4	7.8	7.8	9.0
Foreign Financing	3.8	4.0	3.7	4.0	5.0	4.2	4.5	3.3	3.6
Domestic Financing	1.9	2.1	4.4	3.1	4.1	3.2	3.3	4.4	5.4
Total Public Debt (gross)	42.1	47.8	48.8	53.8	57.4	59.2	62.4	65.6	63.2
External Debt	18.7	22.4	24.4	26.8	29.9	30.1	32.5	34.5	32.5
Domestic Debt	23.3	25.3	24.4	27.1	27.5	29.1	29.9	31.2	30.7
Memo:									
GDP (Fiscal year current market prices, KSh bn)	4,503	5,074	5,832	6,710	7,675	8,518	9,303	10,197	11,267

Source: September 2020 Budget Review and Outlook Paper (BROP) and Quarterly Budgetary Economic Review (first quarter, Financial Year 2020/2021), National Treasury
Note: *Indicate Preliminary results

Table A8: Kenya's Public and Publicly Guaranteed Debt, 2017 to Dec 2019

KSh Millions	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sept-20*
TOTAL PUBLIC DEBT (Net)	3,972,526	4,048,978	4,217,515	4,304,497	4,488,204	4,638,932	4,834,754	5,016,206	5,301,192	5,441,523	5,518,474	5,819,499	6,190,026	6,500,544
Lending	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
Government Deposits	(428,774)	(432,113)	(350,924)	(573,884)	(545,075)	(501,404)	(432,049)	(398,223)	(501,728)	-516,182	-524,752	(457,623)	(497,609)	(614,353)
Total Public Debt (Gross)	4,407,001	4,486,793	4,574,140	4,884,082.0	5,038,981.0	5,146,037	5,272,504	5,420,130	5,808,621	5,963,406	6,048,927	6,282,823	6,693,336	7,120,578
External Debt	2,294,736	2,310,198	2,353,795	2,512,431	2,560,199	2,605,333	2,723,734	2,721,598	3,023,138	3,111,767	3,106,823	3,212,634	3,515,810	3,663,491
Bilateral	724,823	742,064	782,588	800,912	816,119	812,545	894,046	916,572	996,059	1,024,092	1,037,538	1,060,609	1,074,257	1,102,890
Multilateral	841,899	842,814	841,847	836,766	820,966	877,730	874,680	846,587	914,394	1,001,817	1,023,821	1,075,901	1,321,629	1,421,840
Commercial Banks	712,100	708,231	712,274	858,062	906,389	898,349	938,151	941,763	1,095,753	1,068,664	1,028,691	1,058,796	1,102,294	1,120,803
Suppliers Credit	15,914	17,089	17,086	16,691	16,725	16,709	16,857	16,676	16,932	17,194	16,773	17,328	17,630	17,958
Domestic Debt	2,112,265	2,176,595	2,220,345	2,371,651	2,478,782	2,540,704	2,548,770	2,698,532	2,785,483	2,851,639	2,942,104	3,070,189	3,177,526	3,457,107
Central Bank	55,061	79,201	96,797	93,583	110,782	90,210	118,196	89,709	109,607	120,494	115,972	106,433	98,878	107,356
Commercial Banks	1,141,889	1,148,296	1,124,950	1,226,866	1,266,404	1,315,333	1,289,558	1,397,771	1,414,275	1,417,997	1,491,438	1,570,594	1,653,194	1,808,043
Non Banks & Nonresidents	915,316	949,098	998,598	1,051,202	1,101,596	1,135,161	1,141,015	1,211,052	1,261,601	1,313,148	1,334,694	1,393,162	1,425,454	1,541,707
(%) of Total public debt (gross)														
External Debt	52.1	51.5	51.5	51.4	50.8	50.6	51.7	50.2	52.0	52.2	51.4	51.1	52.5	51.4
Domestic Debt	47.9	48.5	48.5	48.6	49.2	49.4	48.3	49.8	48.0	47.8	48.6	48.9	47.5	48.6
% of External debt														
Bilateral	31.6	32.1	33.2	31.9	31.9	31.2	32.8	33.7	32.9	32.9	33.4	33.0	30.6	30.1
Multilateral	36.7	36.5	35.8	33.3	32.1	33.7	32.1	31.1	30.2	32.2	33.0	33.5	37.6	38.8
Commercial Banks	31.0	30.7	30.3	34.2	35.4	34.5	34.4	34.6	36.2	34.3	33.1	33.0	31.4	30.6
Suppliers Credit	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
% of Domestic debt														
Central Bank	2.6	3.6	4.4	3.9	4.5	3.6	4.6	3.3	3.9	4.2	3.9	3.5	3.1	3.1
Commercial Banks	54.1	52.8	50.7	51.7	51.1	51.8	50.6	51.8	50.8	49.7	50.7	51.2	52.0	52.3
Non Banks & Nonresidents	43.3	43.6	45.0	44.3	44.4	44.7	44.8	44.9	45.3	46.0	45.4	45.4	44.9	44.6

Source: National Treasury (Quarterly Economic Budgetary Review, September 2020)

Note: *Provisional

Table A9: 12-months cumulative balance of payments
BPM6 Concept (US\$ million)

	2013	2014	2015	2016	2017	2018	2019	Sep-20
A. Current Account, n.i.e.	(5,427)	(6,442)	(4,303)	(3,387)	(5,685)	(5,048)	(5,541)	(4,921)
Merchandise A/C	(10,220)	(10,775)	(8,388)	(7,666)	(10,186)	(10,201)	(10,679)	(8,947)
Goods: exports f.o.b.	5,870	6,155	5,970	5,745	5,801	6,088	5,872	6,014
Goods: imports f.o.b.	16,089	16,929	14,358	13,411	15,987	16,289	16,551	14,962
Oil	3,838	4,026	2,500	2,087	2,728	3,386	3,310	2,444
Services	2,318	1,676	1,317	1,432	1,556	1,596	1,767	509
Services: credit	5,130	5,023	4,636	4,164	4,648	5,477	5,621	4,190
Services: debit	2,813	3,347	3,319	2,732	3,092	3,881	3,854	3,681
Income	2,475	2,657	2,769	2,847	2,945	3,557	3,371	3,517
B. Capital Account, n.i.e.	158	275	262	206	184	263	208	158
C. Financial Account, n.i.e.	(5,204)	(7,398)	(3,914)	(4,424)	(5,563)	(6,547)	(6,233)	(3,713)
Direct investment: net	(920)	(746)	(382)	(523)	(1,010)	(1,463)	(1,132)	(482)
Portfolio investment: net	(273)	(3,716)	156	350	789	(627)	(1,312)	1,190
Financial derivatives: net	-	-	-	5	4	11	(5)	
Other investment: net	(4,011)	(2,936)	(3,688)	(4,255)	(5,342)	(4,457)	(3,789)	(4,420)
D. Net Errors and Omissions	434	221	(128)	(1,112)	(166)	(720)	154	(156)
E. Overall Balance	(369)	(1,453)	255	(131)	108	(1,030)	(1,059)	1,217
F. Reserves and Related Items	369	1,453	(255)	131	(108)	1,030	1,059	(1,217)
Reserve assets	859	1,333	(361)	40	(228)	885	905	(606)
Credit and loans from the IMF	177	(119)	(107)	(91)	(120)	(145)	(154)	612
Exceptional financing	312	-	-	-	-	-	-	
Gross Reserves (USD Million)	8,483	9,738	9,794	9,588	9,646	11,516	12,851	
Official	6,560	7,895	7,534	7,573	7,332	8,231	9,116	
Commercial Banks	1,923	1,843	2,259	2,015	2,314	3,286	3,735	
Imports cover (36 months import)	4.5	5.1	4.8	5.0	5	5	6	
Memo:								
Annual GDP at Current prices (USD Million)	54,978	59,735	41,372	42,370	43,587	47,306	49,536	

Source: Central Bank of Kenya

Table A10: Inflation

Year	Month	Overall Inflation	Food Inflation	Energy Inflation	Core Inflation
2017	January	7.0	12.5	0.7	3.3
	February	9.2	16.7	3.0	3.3
	March	10.3	18.8	3.3	3.3
	April	11.5	21.0	3.7	3.5
	May	11.7	21.5	3.5	3.6
	June	9.2	15.8	3.4	3.5
	July	7.5	12.2	2.9	3.5
	August	8.0	13.6	3.1	3.4
	September	7.1	11.5	3.3	3.2
	October	5.7	8.5	3.0	3.2
	November	4.7	5.8	4.8	3.4
	December	4.5	4.7	5.4	3.6
2018	January	4.8	4.7	6.1	4.0
	February	4.5	3.8	6.2	4.2
	March	4.2	2.2	8.2	4.1
	April	3.7	0.3	10.2	4.1
	May	4.0	0.3	11.4	3.9
	June	4.3	0.9	11.9	4.0
	July	4.4	0.5	12.4	4.1
	August	4.0	1.2	14.2	4.3
	September	5.7	0.5	17.4	4.5
	October	5.5	0.5	16.5	4.7
	November	5.6	1.7	14.3	4.4
	December	5.7	2.5	13.8	4.0
2019	January	4.7	1.6	12.1	3.4
	February	4.1	1.1	11.4	3.1
	March	4.4	2.8	8.8	3.1
	April	6.6	8.2	7.5	3.1
	May	5.5	6.3	6.7	3.0
	June	5.7	7.0	6.3	2.9
	July	6.3	8.5	6.2	2.7
	August	5.0	7.1	4.0	2.3
	September	3.8	6.3	1.3	2.1
	October	5.0	8.7	1.5	1.9
	November	5.6	9.6	2.3	1.9
	December	5.8	10.0	2.5	1.8
2020	January	5.8	14.9	4.7	2.2
	February	7.2	9.6	5.5	2.3
	March	5.8	11.9	4.5	1.9
	April	6.0	11.6	4.9	2.0
	May	5.3	10.6	5.0	1.8
	June	4.6	8.2	5.4	1.6
	July	4.4	6.6	6.1	2.0
	August	4.4	5.4	7.6	2.1
	September	4.2	5.2	7.6	1.9
	October	4.8	5.8	8.2	2.5

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

Table A11: Credit to Private Sector Growth (%)

Year	Month	Total Private sector annual growth rates	Agriculture	Manufacturing	Trade	Building and construction	Transport and communication	Finance and insurance	Real estate	Mining and quarrying	Private house-holds	Consumer durables	Business services	Other activities
2017	January	3.9	-2.6	-6.8	13.4	-0.8	10.2	-0.6	10.3	-17.5	14.7	11.1	-13.0	-31.3
	February	3.5	1.4	-8.6	10.1	8.3	8.0	-4.6	9.7	-25.5	15.6	11.1	-13.7	-29.2
	March	3.0	-7.7	-7.8	11.6	0.6	9.6	-9.2	12.4	-34.0	13.3	10.1	-15.5	-23.5
	April	2.2	-8.8	-6.8	8.0	-2.3	7.6	-11.9	13.2	-34.2	10.4	11.9	-15.1	-19.8
	May	1.9	-12.6	-5.2	8.8	2.5	5.6	-2.8	11.8	-39.5	9.8	11.3	-21.8	-20.0
	June	1.5	-12.3	-7.1	10.7	-0.7	3.2	-4.4	10.1	-37.8	10.9	7.5	-15.8	-25.0
	July	1.4	-11.6	-6.6	9.0	0.5	0.6	-8.5	11.8	-41.0	12.1	3.3	-10.8	-28.1
	August	1.6	-7.6	3.3	4.3	-1.5	-2.3	5.4	9.7	-7.6	6.2	-1.6	-6.5	-27.4
	September	1.7	-2.0	6.1	6.9	1.8	-4.9	-1.4	8.9	-0.8	1.9	-0.5	-6.4	-28.6
	October	2.0	-1.1	10.2	11.5	4.0	-8.2	-1.3	10.0	9.2	2.9	0.1	-19.2	-35.0
	November	2.7	-7.7	10.6	10.0	3.1	-8.0	1.5	9.3	-3.2	2.7	-0.4	-7.6	-23.1
	December	2.4	-7.9	13.0	9.0	4.8	-7.2	-4.3	8.6	-5.5	-1.5	-1.6	-6.4	-7.5
2018	January	1.9	-7.6	12.0	5.1	5.4	-10.9	-1.3	8.2	-6.7	-1.4	1.4	0.0	-10.6
	February	2.2	-12.9	13.1	6.8	4.8	-13.9	4.9	8.4	-6.7	-2.7	2.3	-0.3	-2.2
	March	2.1	-6.2	11.2	5.4	12.6	-18.4	11.6	4.5	-2.7	-0.7	4.7	-0.5	-6.3
	April	2.9	-4.4	10.1	5.0	14.3	-17.8	10.1	3.6	-4.4	2.6	5.0	2.8	-2.2
	May	3.9	-3.3	12.1	6.8	9.2	-14.9	2.6	3.7	-3.5	3.8	5.5	11.0	-7.5
	June	4.3	-4.7	12.2	8.5	13.3	-12.7	3.8	3.8	-9.1	2.9	7.8	6.7	-7.9
	July	4.3	-6.5	11.5	6.5	13.5	-10.7	8.5	4.3	0.2	2.9	9.1	3.3	-5.8
	August	4.3	-4.3	13.2	6.9	14.7	-11.0	3.5	0.9	-9.1	2.7	11.5	6.5	-4.6
	September	3.8	-6.0	11.9	3.2	11.1	-9.1	6.6	1.7	-15.5	5.1	7.8	4.3	2.7
	October	4.4	-5.6	14.8	4.0	7.1	-7.7	9.1	1.2	-11.6	5.1	7.6	12.1	-12.4
	November	3.0	-0.1	10.6	3.2	8.9	-10.7	5.3	-1.1	-10.6	5.4	8.9	9.5	-23.4
	December	2.4	-2.0	6.5	2.9	1.8	-9.4	17.5	-0.5	-10.7	6.8	11.0	8.0	-34.8
2019	January	3.0	-0.2	6.5	6.6	1.4	-6.5	15.4	-2.6	-14.5	5.6	15.4	0.0	-27.2
	February	3.4	-2.6	7.7	6.4	2.6	-0.7	13.1	-2.9	-13.4	6.6	16.1	0.3	-33.1
	March	4.3	0.2	7.2	8.7	-7.0	5.7	10.2	-0.1	-11.4	8.0	13.9	-0.4	-31.7
	April	4.9	2.5	7.9	8.4	-6.5	6.4	13.3	-0.7	-12.5	7.9	16.4	1.1	-29.6
	May	4.4	2.7	6.5	7.6	-4.1	6.2	6.7	-0.5	-7.9	7.8	18.0	-1.2	-32.0
	June	5.2	3.9	11.4	5.5	-6.3	5.8	4.7	1.0	-4.3	7.6	21.3	-3.2	-22.6
	July	6.1	7.6	10.3	8.0	-5.4	6.4	5.3	0.5	-13.5	7.1	23.6	1.6	-17.2
	August	6.3	6.6	7.5	8.4	-6.0	5.8	8.2	2.4	-10.8	8.6	23.0	-0.1	-14.4
	September	7.0	5.5	7.5	7.6	-5.3	5.0	14.5	2.2	-5.1	8.8	28.4	3.2	-13.6
	October	6.6	-5.2	6.4	10.2	-5.5	4.8	15.1	0.4	0.1	5.3	28.6	-0.4	12.7
	November	7.3	-6.1	7.5	8.8	-6.1	9.8	15.8	1.9	-3.2	6.1	25.9	-0.3	30.9
	December	7.1	-2.4	9.2	8.9	1.6	8.1	0.4	1.5	-5.8	5.6	26.0	2.4	16.0
2020	January	7.3	-4.8	12.7	6.0	4.0	9.9	-1.1	3.5	-9.4	5.6	21.4	1.5	24.4
	February	7.7	0.2	10.4	9.5	-0.5	7.4	1.9	3.4	-14.6	5.9	20.6	2.4	33.4
	March	8.9	1.4	15.3	9.4	9.5	7.1	6.6	2.2	3.9	3.4	24.1	3.3	36.8
	April	9.0	2.8	20.1	10.3	7.7	9.1	3.1	4.8	11.0	2.2	19.6	1.2	14.3
	May	8.2	2.6	18.2	8.0	5.7	5.7	8.4	4.4	5.8	3.2	16.7	2.7	16.9
	June	7.6	1.3	12.3	8.4	4.6	14.9	3.2	4.9	10.0	3.2	15.2	5.8	-3.7

Source: Central Bank of Kenya

Table A12: Mobile payments

Year	Month	Number of Agents	Number of customers (Millions)	Number of transactions (Millions)	Value of transactions (Billions)
2017	January	152,547	33.3	122.0	299.5
	February	154,908	33.3	117.5	279.4
	March	157,855	33.9	133.3	320.2
	April	160,076	34.3	128.9	297.4
	May	164,674	34.2	132.5	315.4
	June	165,109	34.2	125.9	299.8
	July	169,480	34.6	128.1	308.9
	August	167,353	35.3	120.6	286.3
	September	167,775	35.5	128.5	300.9
	October	170,389	36.0	134.2	299.0
	November	176,986	36.4	131.7	299.0
	December	182,472	37.4	139.9	332.6
2018	January	188,029	37.8	136.7	323.0
	February	192,117	38.4	132.3	300.9
	March	196,002	39.3	147.5	337.1
	April	201,795	40.3	142.1	313.0
	May	202,387	41.7	141.0	329.0
	June	197,286	42.6	137.4	317.7
	July	200,227	42.6	143.1	332.4
	August	202,627	43.6	149.5	348.9
	September	203,359	44.3	146.0	327.7
	October	211,961	45.4	155.2	343.2
	November	206,312	46.2	153.2	343.9
	December	205,745	47.7	155.8	367.8
2019	January	201,336	40.3	154.2	368.0
	February	212,252	50.0	144.5	328.2
	March	226,957	50.4	161.4	368.4
	April	230,220	52.0	155.8	360.2
	May	224,825	52.2	153.3	364.3
	June	222,484	46.8	149.7	346.8
	July	222,087	53.9	153.0	366.4
	August	222,479	54.8	151.8	368.5
	September	224,959	55.7	151.2	365.9
	October	223,176	56.3	156.1	366.9
	November	222,211	58.0	153.1	359.3
	December	224,108	58.4	155.0	382.9
2020	January	231,292	59.2	150.2	371.9
	February	235,543	58.7	148.5	350.5
	March	240,261	58.7	150.7	364.5
	April	242,275	59.4	125.0	308.0
	May	243,118	60.2	135.9	357.4
	June	237,637	61.7	143.1	392.2
	July	234,747	62.1	157.8	451.0
	August	252,703	62.8	163.2	473.5
	September	263,200	64.0	163.3	483.2

Source: Central Bank of Kenya

Table A13: Exchange rate

Year	Month	USD	UK Pound	Euro
2017	January	103.7	128.0	110.2
	February	103.6	129.5	130.4
	March	102.9	126.9	109.9
	April	103.3	130.4	110.7
	May	103.3	133.5	114.8
	June	103.5	132.5	116.2
	July	103.9	134.9	119.4
	August	103.6	134.2	122.2
	September	103.1	137.1	122.9
	October	103.4	136.4	121.6
	November	103.6	136.8	121.4
	December	103.1	138.2	122.0
2018	January	102.9	141.9	125.4
	February	101.4	141.7	125.3
	March	101.2	141.2	124.7
	April	100.6	141.9	123.7
	May	100.7	135.7	119.0
	June	101.0	134.2	118.0
	July	100.7	132.6	117.5
	August	100.6	129.7	116.2
	September	100.8	131.7	117.7
	October	101.1	131.6	116.2
	November	102.4	132.1	116.4
	December	102.3	129.7	116.4
2019	January	101.6	130.8	116.0
	February	100.2	130.3	113.8
	March	100.4	132.3	113.5
	April	101.1	131.8	113.6
	May	101.2	130.1	113.2
	June	101.7	128.8	114.7
	July	103.2	128.8	115.8
	August	103.3	125.6	115.0
	September	103.8	128.2	114.4
	October	103.7	133.7	114.4
	November	102.4	132.0	113.2
	December	101.0	132.9	112.7
2020	January	101.1	132.1	112.3
	February	100.8	130.8	109.9
	March	103.7	128.5	114.7
	April	106.4	131.9	115.6
	May	106.7	131.3	116.1
	June	106.4	133.4	119.8
	July	107.3	135.3	122.5
	August	108.1	141.9	127.8
	September	108.4	140.9	128.0
	October	108.6	140.9	127.9

Source: Central Bank of Kenya

Table A14: Nairobi Securities Exchange
(NSE 20 Share Index, Jan 1966=100, End - month)

Year	Month	NSE 20 Share Index
2017	January	2,794
	February	2,995
	March	3,113
	April	3,158
	May	3,441
	June	3,607
	July	3,798
	August	4,027
	September	3,751
	October	3,730
	November	3,805
	December	3,712
2018	January	3,737
	February	3,751
	March	3,845
	April	3,705
	May	3,353
	June	3,286
	July	3,297
	August	3,203
	September	2,876
	October	2,810
	November	2,797
	December	2,834
2019	January	2,958
	February	2,894
	March	2,846
	April	2,797
	May	2,677
	June	2,633
	July	2,628
	August	2,468
	September	2,432
	October	2,643
	November	2,619
	December	2,654
2020	January	2,600
	February	2,338
	March	1,966
	April	1,958
	May	1,964
	June	1,942
	July	1,804
	August	1,795
	September	1,852
	October	1,784

Source: Central Bank of Kenya

Table A15: Central Bank Rate and Treasury Bills

Year	Month	Central Bank Rate	91-Treasury Bill	182-Treasury Bill	364-Treasury Bill
2017	January	10.0	8.6	10.5	11.0
	February	10.0	8.6	10.5	10.9
	March	10.0	8.6	10.5	10.9
	April	10.0	8.8	10.5	10.9
	May	10.0	8.7	10.4	10.9
	June	10.0	8.4	10.3	10.9
	July	10.0	8.2	10.3	10.9
	August	10.0	8.2	10.4	10.9
	September	10.0	8.1	10.4	10.9
	October	10.0	8.1	10.3	11.0
	November	10.0	8.0	10.5	11.0
	December	10.0	8.0	10.5	11.1
2018	January	10.0	8.0	10.6	11.2
	February	10.0	8.0	10.4	11.2
	March	9.5	8.0	10.4	11.1
	April	9.5	8.0	10.3	11.1
	May	9.5	8.0	10.3	11.1
	June	9.5	7.8	9.9	10.8
	July	9.0	7.7	9.3	10.3
	August	9.0	7.6	9.0	10.0
	September	9.0	7.6	8.8	9.8
	October	9.0	7.6	8.5	9.6
	November	9.0	7.4	8.3	9.5
	December	9.0	7.3	8.4	9.7
2019	January	9.0	7.6	8.9	10.0
	February	9.0	7.0	8.6	9.6
	March	9.0	7.1	8.3	9.4
	April	9.0	7.4	8.1	9.4
	May	9.0	7.2	7.9	9.3
	June	9.0	6.9	7.6	9.2
	July	9.0	6.6	7.4	8.8
	August	9.0	6.4	7.1	9.2
	September	9.0	6.4	7.1	9.6
	October	9.0	6.4	7.2	9.8
	November	8.5	6.6	7.6	9.8
	December	8.5	7.2	8.2	9.8
2020	January	8.3	7.2	8.2	9.8
	February	8.3	7.3	8.2	9.9
	March	7.3	7.3	8.1	9.2
	April	7.0	7.2	8.1	9.1
	May	7.0	7.3	8.2	9.2
	June	7.0	7.1	7.9	8.9
	July	7.0	6.2	6.7	7.6
	August	7.0	6.2	6.6	7.5
	September	7.0	6.3	6.7	7.6
	October	7.0	6.5	6.9	7.8

Source: Central Bank of Kenya

Table A16: Interest rates

Year	Month	Short-term			Long-term			
		Interbank	91-Treasury Bill	Central Bank Rate	Average deposit rate	Savings	Overall weighted lending rate	Interest Rate Spread
2017	January	7.7	8.6	10.0	7.2	6.1	13.7	6.5
	February	6.4	8.6	10.0	7.7	6.8	13.7	6.0
	March	4.5	8.6	10.0	7.1	5.9	13.6	6.5
	April	5.3	8.8	10.0	7.0	5.7	13.6	6.6
	May	4.9	8.7	10.0	7.1	5.9	13.7	6.6
	June	4.0	8.4	10.0	7.2	5.6	13.7	6.5
	July	6.8	8.2	10.0	7.4	6.4	13.7	6.3
	August	8.1	8.2	10.0	7.7	5.9	13.7	6.0
	September	5.5	8.1	10.0	7.7	6.4	13.7	6.0
	October	7.8	8.1	10.0	8.0	6.9	13.7	5.7
	November	8.9	8.0	10.0	8.1	6.9	13.7	5.6
	December	7.3	8.0	10.0	8.2	6.9	13.6	5.4
2018	January	6.2	8.0	10.0	8.3	7.0	13.7	5.4
	February	5.1	8.0	10.0	8.3	7.0	13.7	5.4
	March	4.9	8.0	9.5	8.2	6.8	13.5	5.3
	April	5.4	8.0	9.5	8.2	6.7	13.2	5.1
	May	4.9	8.0	9.5	8.1	6.6	13.2	5.2
	June	5.0	7.8	9.5	8.0	6.6	13.2	5.2
	July	4.8	7.7	9.0	8.0	6.5	13.1	5.1
	August	6.6	7.6	9.0	7.8	6.5	12.8	5.0
	September	4.5	7.6	9.0	7.8	6.3	12.7	4.9
	October	3.5	7.6	9.0	7.6	5.7	12.6	5.0
	November	4.1	7.4	9.0	7.4	5.4	12.6	5.1
	December	8.0	7.3	9.0	7.4	5.1	12.5	5.1
2019	January	3.3	7.6	9.0	7.3	5.1	12.5	5.2
	February	2.5	7.0	9.0	7.3	5.2	12.5	5.2
	March	3.7	7.1	9.0	7.2	5.1	12.5	5.3
	April	4.2	7.4	9.0	7.2	4.7	12.5	5.3
	May	5.6	7.2	9.0	7.2	4.7	12.5	5.3
	June	3.0	6.9	9.0	7.2	4.8	12.5	5.3
	July	2.3	6.6	9.0	7.0	4.8	12.4	5.4
	August	3.7	6.4	9.0	6.9	4.5	12.5	5.6
	September	6.9	6.4	9.0	7.0	4.6	12.5	5.5
	October	6.9	6.4	9.0	7.0	4.4	12.4	5.5
	November	4.2	6.6	8.5	6.6	4.5	12.4	5.8
	December	6.0	7.2	8.5	7.1	4.0	12.2	5.1
2020	January	4.4	7.2	8.3	7.1	4.3	12.3	5.2
	February	4.3	7.3	8.3	7.1	4.2	12.2	5.1
	March	4.4	7.3	7.3	7.1	4.2	12.1	5.0
	April	5.1	7.2	7.0	7.0	4.2	11.9	4.9
	May	3.9	7.3	7.0	7.0	4.2	11.9	5.0
	June	3.3	7.1	7.0	6.9	4.2	11.9	5.0
	July	2.1	6.2	7.0	6.8	4.1	11.9	5.2
	August	2.6	6.2	7.0	6.6	3.8	12.0	5.4
	September	2.9	6.3	7.0				
	October	2.7	6.5	7.0				

Source: Central Bank of Kenya

Table A17: Money aggregate (Growth rate y-o-y)

Year	Growth rates (yoy)	Money supply, M1	Money supply, M2	Money supply, M3	Reserve money
2017	January	21.9	5.3	5.2	5.1
	February	23.7	4.5	5.4	2.9
	March	22.1	5.7	6.4	3.2
	April	23.6	6.3	7.1	9.0
	May	21.8	6.2	6.7	5.2
	June	22.5	5.4	6.0	2.9
	July	24.6	7.5	8.3	5.0
	August	22.5	7.5	7.7	7.7
	September	11.6	7.5	7.7	8.1
	October	9.5	7.0	7.9	3.8
	November	7.8	7.4	7.8	6.2
	December	6.7	7.5	8.9	6.7
2018	January	7.2	8.9	8.8	8.3
	February	7.6	9.0	7.9	6.3
	March	3.5	6.2	5.9	0.8
	April	3.2	6.0	5.5	2.7
	May	3.1	6.5	7.5	5.5
	June	2.5	8.1	10.4	7.4
	July	3.9	8.4	10.1	2.1
	August	3.0	7.2	9.1	6.6
	September	0.6	6.2	8.5	6.0
	October	3.8	7.6	9.1	7.4
	November	2.4	6.5	8.4	9.0
	December	6.6	8.0	10.1	12.1
2019	January	7.4	8.4	10.5	5.4
	February	5.6	7.3	10.3	4.7
	March	11.7	10.8	12.5	9.1
	April	6.8	8.7	10.7	8.3
	May	6.7	8.3	8.7	12.1
	June	10.5	9.8	9.2	2.5
	July	5.3	6.9	7.0	-1.2
	August	6.0	6.1	6.3	-6.5
	September	5.8	6.7	6.5	-9.4
	October	3.0	6.3	7.5	-7.8
	November	3.6	5.6	5.9	-6.1
	December	3.2	5.4	5.6	-6.3
2020	January	4.1	5.7	5.5	-3.6
	February	7.3	8.1	7.9	2.3
	March	4.9	6.4	7.2	-2.4
	April	6.2	7.5	8.6	-4.0
	May	7.1	8.6	9.9	-11.0
	June	5.8	8.7	8.4	-2.9
	July	11.4	11.9	11.3	9.1
	August	12.7	11.4	11.0	13.2
	September	14.1	11.0	10.7	

Source: Central Bank of Kenya and World Bank

Table A18: Coffee production and exports

Year	Month	Production MT	Price KSh/Kg	Exports MT	Exports value KSh Million
2017	January	5,190	590	3,214	1,553
	February	6,081	606	3,868	2,094
	March	5,460	507	5,447	3,231
	April	4,563	299	4,201	2,698
	May	1,639	276	5,424	3,117
	June	-	-	4,443	2,501
	July	762	420	3,598	1,971
	August	2,319	443	2,649	1,311
	September	2,465	457	3,134	1,516
	October	1,619	409	2,335	1,121
	November	2,310	419	3,196	1,566
	December	1,320	453	1,955	775
2018	January	5,112	527	2,509	1,286
	February	5,832	577	2,834	1,612
	March	4,913	478	3,936	2,237
	April	4,194	305	4,550	2,822
	May	4,620	217	5,573	3,209
	June	-	-	4,649	2,664
	July	1,221	357	4,683	2,457
	August	2,235	337	2,973	1,547
	September	2,299	289	2,520	1,141
	October	2,493	321	3,521	1,467
	November	2,334	368	4,619	1,730
	December	1,577	404	2,312	921
2019	January	4,167	453	3,469	1,499
	February	5,724	449	4,567	1,903
	March	4,057	298	4,351	2,256
	April	5,307	203	4,552	2,501
	May	4,084	201	5,490	2,700
	June	2,021	192	4,549	1,964
	July	672	197	5,115	1,713
	August	1,647	217	3,932	1,462
	September	1,522	233	3,145	1,113
	October	2,541	260	3,986	1,390
	November	1,117	332	3,664	1,176
	December	771	435	1,906	634
2020	January	3,049	439	2,639	985
	February	4,410	427	3,169	1,687
	March	4,845	422	4,604	2,410
	April	2,244	295	4,396	2,590
	May	1,125	276	4,313	2,279
	June	-	-	5,414	2,956
	July	1,310	358	3,546	1,799
	August	1,209	525	3,182	1,484

Source: Kenya National Bureau of Statistics

Table A19: Tea production and exports

Year	Month	Production MT	Price KSh/Kg	Exports MT	Exports value KSh Million
2017	January	32,991	316	46,434	14,072
	February	22,605	317	33,898	10,880
	March	34,498	300	33,662	10,693
	April	31,458	297	32,091	9,991
	May	38,822	304	39,329	12,354
	June	40,538	325	42,370	13,485
	July	31,565	310	41,437	13,442
	August	32,693	300	29,628	9,269
	September	38,386	305	43,469	13,570
	October	43,420	316	41,173	13,147
	November	45,374	309	39,128	12,713
	December	47,507	285	44,413	13,634
2018	January	40,834	304	48,447	14,964
	February	27,939	302	47,357	14,657
	March	30,987	284	34,488	10,471
	April	44,580	268	33,565	9,830
	May	43,356	263	42,533	11,703
	June	43,299	257	45,182	12,463
	July	35,278	251	45,242	12,226
	August	37,433	241	38,023	9,919
	September	42,531	243	40,268	10,479
	October	49,284	244	43,894	11,327
	November	45,649	242	44,108	11,015
	December	51,830	236	38,681	9,781
2019	January	48,386	234	48,623	11,831
	February	31,445	216	41,027	9,638
	March	26,462	214	42,457	9,910
	April	26,131	228	36,884	8,631
	May	37,759	242	36,994	9,293
	June	42,425	219	29,355	7,154
	July	31,458	205	33,657	7,788
	August	37,200	218	41,276	9,458
	September	35,533	229	36,325	8,463
	October	46,305	242	45,374	11,065
	November	45,087	235	43,650	10,735
	December	50,660	225	39,312	9,484
2020	January	53,636	232	48,770	11,452
	February	49,201	214	47,570	11,022
	March	55,733	207	51,441	11,665
	April	49,656	225	57,722	13,193
	May	47,004	210	48,594	11,289
	June	46,378	198	46,399	10,293
	July	36,554	194	46,851	10,014
	August			47,035	10,269

Source: Kenya National Bureau of Statistics

Table A20: Local Electricity Generation by Source

Year	Month	Hydro KWh Million	Geo-thermal KWh Million	Thermal KWh Million	Wind KWh Million	Total KWh Million
2017	January	252	380	197	7.0	837
	February	214	354	182	7.5	758
	March	234	388	230	6.3	858
	April	212	381	223	6.6	822
	May	229	394	224	3.5	849
	June	180	376	274	3.1	834
	July	193	402	271	1.5	867
	August	251	415	159	3.3	829
	September	239	403	213	3.6	859
	October	217	416	224	4.3	861
	November	305	411	153	7.1	877
	December	250	436	184	7.3	879
2018	January	223	430	242	3	900
	February	193	387	249	7	837
	March	248	448	202	4	903
	April	317	428	139	3	887
	May	386	447	83	2	918
	June	401	430	82	1	914
	July	420	438	87	2	947
	August	417	427	117	3	964
	September	392	440	85	7	925
	October	365	432	87	77	962
	November	340	398	80	133	957
	December	283	423	92	133	939
2019	January	279	417	114	148	966
	February	254	374	99	146	880
	March	283	445	99	144	979
	April	192	398	181	142	921
	May	243	427	110	164	952
	June	272	413	146	92	932
	July	269	440	133	125	975
	August	251	425	132	151	968
	September	234	454	105	153	953
	October	268	494	70	137	977
	November	299	482	62	114	965
	December	361	464	62	46	940
2020	January	358	477	55	90	986
	February	342	431	54	100	934
	March	359	460	56	86	969
	April	298	412	36	88	841
	May	319	392	56	106	881
	June	334	421	62	88	913
	July	358	433	61	110	969
	August	358	424	71	119	977

Source: Kenya National Bureau of Statistics

Table A21: Soft drinks, Sugar, Galvanized sheets and Cement production

Year	Month	Soft drinks litres (thousands)	Sugar MT	Galvanized sheets MT	Cement MT
2017	January	50,409	53,071	26,230	565,440
	February	43,353	49,094	22,994	491,307
	March	50,623	42,238	22,574	570,522
	April	46,399	26,230	23,225	535,061
	May	40,742	15,246	23,081	482,762
	June	45,875	16,113	15,424	513,313
	July	41,980	17,882	22,640	553,631
	August	41,217	10,892	15,296	451,651
	September	40,221	21,649	24,188	498,167
	October	45,275	32,296	21,312	498,374
	November	45,073	43,175	24,357	483,956
	December	66,378	49,240	21,438	518,410
2018	January	52,062	62,819	23,919	494,709
	February	49,685	53,833	21,890	490,020
	March	52,580	49,148	22,048	476,730
	April	45,690	36,682	21,434	474,740
	May	41,482	28,933	22,271	452,034
	June	44,827	28,320	21,434	454,322
	July	43,725	30,105	23,252	465,575
	August	48,795	35,646	22,630	473,861
	September	45,956	37,652	23,509	460,546
	October	46,546	45,324	23,906	470,524
	November	50,201	38,768	22,877	460,967
	December	54,021	38,268	21,266	461,922
2019	January	53,585	53,060	20,124	485,178
	February	55,218	46,139	22,749	470,146
	March	61,413	45,463	26,313	507,037
	April	58,230	35,312	23,214	501,921
	May	53,086	36,307	22,501	486,301
	June	46,074	28,545	24,667	477,432
	July	47,149	25,097	23,260	527,115
	August	49,248	32,835	21,918	512,470
	September	53,234	33,356	22,641	519,370
	October	47,586	35,259	22,619	504,615
	November	50,715	30,898	21,871	479,085
	December	55,398	38,325	22,547	496,517
2020	January	52,654	53,155	23,397	530,404
	February	49,406	51,083	21,989	548,818
	March	49,494	52,897	18,527	559,424
	April	47,354	45,458	12,469	509,197
	May	46,364	46,350	18,076	511,961
	June	48,126	49,681	18,307	527,619
	July		53,131		600,571
	August				628,496

Source: Kenya National Bureau of Statistics

Table A22: Tourism arrivals

Year	Month	JKIA	MIA	TOTAL
2017	January	67,876	11,482	79,358
	February	62,659	7,809	70,468
	March	65,095	8,406	73,501
	April	63,842	4,128	67,970
	May	65,711	2,678	68,389
	June	75,049	5,072	80,121
	July	97,955	7,284	105,239
	August	79,053	10,729	89,782
	September	78,329	9,111	87,440
	October	56,034	7,557	63,591
	November	61,617	10,956	72,573
	December	90,745	15,117	105,862
2018	January	105,262	14,533	119,795
	February	98,532	12,792	111,324
	March	100,441	11,024	111,465
	April	94,236	5,205	99,441
	May	93,730	4,735	98,465
	June	114,097	5,157	119,254
	July	141,763	9,025	150,788
	August	145,231	9,589	154,820
	September	114,539	9,916	124,455
	October	115,597	9,343	124,940
	November	103,229	8,391	111,620
	December	115,856	18,403	134,259
2019	January	113,362	15,727	129,089
	February	107,058	12,864	119,922
	March	106,001	9,732	115,733
	April	104,418	5,096	109,514
	May	98,788	3,689	102,477
	June	126,822	2,454	129,276
	July	150,286	8,663	158,949
	August	150,723	11,000	161,723
	September	124,001	9,208	133,209
	October	115,828	10,940	126,768
	November	111,548	12,339	123,887
	December	121,912	12,391	134,303
2020	January	114,873	12,214	127,087
	February	108,578	11,092	119,670
	March	43,346	3,950	47,296
	April	12	-	12
	May	1,229	-	1,229
	June	534	2	536
	July	617	1	618
	August	13,371	548	13,919

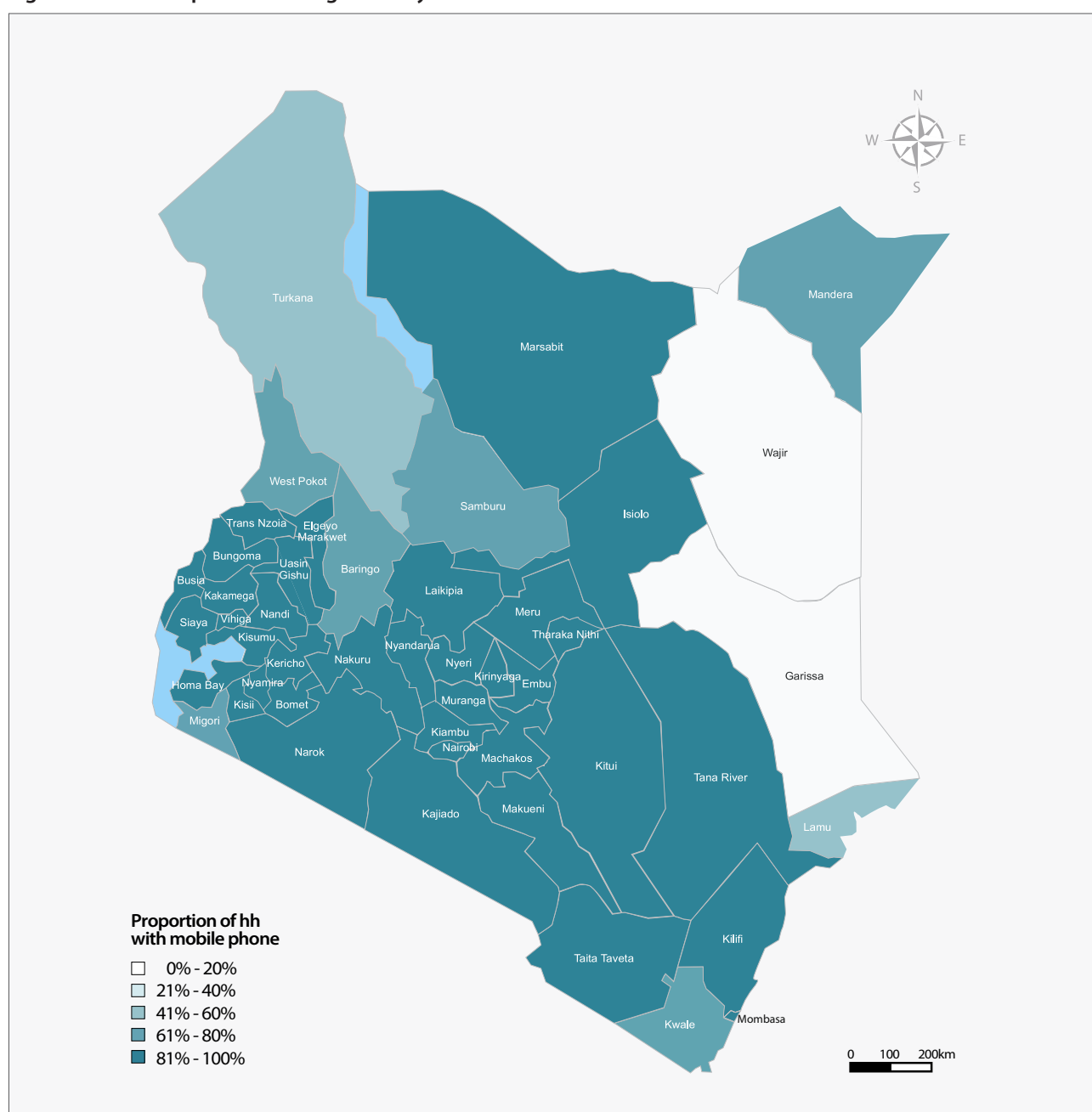
Source: Kenya National Bureau of Statistics
 Note: JKIA (Jomo Kenyatta International Airport, MIA (Moi International Airport)

Technical Annex for Special Focus

Representativeness of the Kenya COVID-19 RRPS household sample

The COVID-19 RRPS household survey was not able to include households without valid phone numbers. As phone surveys can only reach respondents who use a phone with an active subscription in an area with network coverage, statistics are only representative for this part of the population. Nationally, 80 percent of Kenyan households report owning a mobile phone (Figure X.1). Although cellphone penetration and coverage are high, it is not universal. The sample, therefore, is not representative for households without a valid phone number, potentially excluding vulnerable households who cannot afford a phone subscription and/or are living in areas without network coverage. The North-East of Kenya have lowest mobile phone penetration and are amongst the most vulnerable counties in Kenya. Conversely, most of the central and southern regions display a much higher mobile phone penetration. The Kenya COVID-19 Rapid Response Phone Survey uses re-weighting techniques to enhance representativeness of the overall sample.

Figure X.1: Mobile phone coverage in Kenya



Households that were included in the sample have better social-economic conditions than those that were excluded. Using the 2015/16 KIHBS CAPI and the 2019 KCHS, it is possible to identify differences between households that provided a phone number and were reached by the RRPS as opposed to those that did not (Table B1). Households providing a phone number have better living conditions. They are also more likely to have better housing materials, have more rooms available and are more likely to own assets like a refrigerator, radio or mattress. Additionally, the households that were reached by the Kenya COVID-19 RRPS were found to have better socioeconomic conditions when compared to the ones who could not be reached (regardless of whether they provided a phone number). Comparing the socio-economic characteristics of the interviewed households to the ones of the nationally representative 2019 Kenya Continuous Household Survey (KHCS) shows similar, statistically significant differences.

Table B1: Indicators by registration of phones and participation in the RRPS

Variable	(I) All	(II) Provided phone number	(III) Provided no phone number	(IV) reached in RRPS	(V) Not reached in RRPS	(VI) P-Value comparing (II) and (III)	(VII) P-Value comparing (IV) and (V)
Floor material rudimentary or absent	44%	38%	60%	37%	46%	<0.001	<0.001
Floor material improved (cement, asphalt)	48%	54%	33%	54%	46%	<0.001	<0.001
Wall material rudimentary or absent	3%	1%	7%	1%	3%	<0.001	<0.001
Wall material refined (bricks, stone, cement)	60%	66%	46%	67%	58%	<0.001	<0.001
Number of habitable rooms	2.8	2.8	2.5	2.9	2.7	<0.001	0.01
Main source of lighting is electric power	56%	61%	43%	63%	54%	<0.001	<0.001
Owens: refrigerator	7%	8%	5%	9%	6%	<0.001	0.03
Owens: mattress	91%	95%	79%	95%	89%	<0.001	<0.001
Owens: radio	64%	70%	47%	71%	61%	<0.001	<0.001
Household size	4.1	4.2	4.0	4.2	4.1	<0.001	0.14

Table B2: Socioeconomic indicators by phone registry in the 2019 KCHS

Indicator	(I) Provided phone number	(II) Provided no phone number	(III) P-Value of comparison (I) VS (II) <0.001
Floor material rudimentary or absent	44%	71%	<0.001
Floor material improved (cement, asphalt)	46%	27%	<0.001
Floor material refined (tiles, parquet)	10%	2%	<0.001
Wall material rudimentary or absent	2%	18%	<0.001
Wall material improved (mud, stones, iron)	56%	59%	<0.001
Wall material refined (bricks, stone, cement)	42%	24%	<0.001
Has electricity	47%	21%	<0.001
Owens: charcoal stove	41%	18%	<0.001
Owens: refrigerator	8%	1%	<0.001
Owens: mattress	96%	78%	<0.001
Owens: radio	45%	19%	<0.001
Household size	5.2	5.6	<0.001
Household size	46	48	<0.001
Women headed households	27%	36%	<0.001

Navigating the Pandemic

The COVID-19 pandemic continues to unfold globally and in Kenya, threatening both lives and livelihoods. The pandemic is inflicting tragic loss of life and direct human suffering from illness, in addition to eroding progress in poverty reduction (with an additional 2 million new poor) through serious impacts on incomes and jobs. Against this challenging backdrop, the twenty-second edition of the World Bank's Kenya Economic Update (KEU 22) provides a detailed update of recent economic developments and the outlook and discusses policy options as Kenya continues to navigate through the pandemic. There are three key policy messages.

First, authorities should continue to allocate sufficient resources to the health sector to combat the pandemic, continue with mass testing, support self-quarantine, social distancing, and protect the most vulnerable groups. There is a need also to ensure continued access to safe healthcare for non-COVID-19 related health concerns, by assigning adequate resources to these areas (including non-communicable diseases). Given fiscal constraints, this will require redirecting expenditures to the highest priority areas, whilst maintaining a focus on raising the efficiency of spending and ensuring the transparent use of funds. As the crisis abates, Kenya will need to enhance its existing institutional setup for monitoring and responding to future communicable disease outbreaks, and further the still-critical "Big 4" agenda for medium-term inclusive growth, including realizing the government's vision of sustainably providing universal healthcare.

Second, supporting firms' liquidity and digital capabilities remains important to safeguard healthy firms from permanent closure. Furthermore, following the job- and income-losses precipitated by the crisis, support is needed for the "new poor" who have lost livelihoods. This could be achieved through a horizontal scale-up of social protection programs, appropriately targeted, timely, and temporary while the crisis persists. It is critical to ensure continued support to vulnerable households, while safeguarding human capital through expanded access to digital technology, combined with better access to information to mitigate usage of negative coping strategies (i.e. asset liquidation) and combat food insecurity while offsetting the increase in poverty.

Third, and critically, authorities should pursue an appropriate and balanced fiscal consolidation over the medium term to reduce mounting debt vulnerabilities and safeguard macroeconomic stability. In the near term, tax and spending measures should continue to support the healthcare system and protect the most vulnerable households. Creating fiscal space to fund these critical interventions could be supported through potential quick wins in areas such as: (i) streamlining of the large ongoing public investment portfolio to create space for new and impactful projects that could help create jobs; (ii) cutting wasteful expenditures and increasing the efficiency of spending (including by leveraging digitalization to cut operational costs); and (iii) taking advantage of debt service relief to free up liquidity that would otherwise be absorbed by debt service.

World Bank Group

Delta Center

Menengai Road, Upper Hill

P. O. Box 30577 – 00100

Nairobi, Kenya

Telephone: +254 20 2936000

Fax: +254 20 2936382

<http://www.worldbank.org/en/country/kenya>

KENYA ECONOMIC UPDATE

Join the conversation:

Facebook and Twitter

@Worldbankkenya

#KenyaEconomicUpdate



WORLD BANK GROUP

Produced by

Macroeconomics, Trade and Investment Global Practice
Poverty and Equity Global Practice