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On
Kenya Vision 2030**

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EXECUTIVE SUMMARY

Under the guidance of the *Economic Recovery Strategy for Wealth and Employment Creation (ERS)*, the Kenyan economy has recovered and resumed the path to rapid growth. The economy is expected to grow by more than 6 per cent in 2007 from 0.6 per cent in 2002. The growth has been widely distributed, covering all economic and social sectors and resulting in reduction in poverty levels from 56 per cent in 2002 to 46 per cent in 2006. This growth has not only impacted positively on education, health, gender, and environment, but also provided more resources to meet the Millennium Development Goals (MDGs) across the economy. Currently, more resources have been devolved to the local level through schemes such as the Constituency Development Fund, the Local Authority Transfer Fund, the Constituency Bursary Fund, and the Constituency Aids Fund among others. Despite the development registered under the ERS, the country continues to face constraints including poor infrastructure, inadequate institutional reforms and inefficiency in production at firm and household levels. On the whole, Kenyans have reason to be satisfied by the results even though much remains to be done. ERS expires in December 2007 and Kenya will embark on a new long-term vision to guide her development in the next 25 years.

Kenya Vision 2030 is the new long-term development blueprint for the country. It is motivated by a collective aspiration for a better society by the year 2030. The aim of *Kenya Vision 2030* is to create “a globally competitive and prosperous country with a high quality of life by 2030”. It aims to transform Kenya into “a newly-industrialising, middle-income country providing a high quality of life to all its citizens in a clean and secure environment”. Simultaneously, the Vision aspires to meet the MDGs for Kenyans by 2015. The Vision is a product of a highly participatory, consultative and inclusive stakeholders’ process carried out between October 2006 and May 2007. Specifically, the process involved international and local experts, ordinary Kenyans and stakeholders from all parts of the country. Between July and August 2007, the contents of the Vision 2030 were again subjected to open consultations in all provinces in Kenya, before the document was finalised.

The Vision is anchored on three key pillars: economic; social; and political governance. The economic pillar aims to achieve an average economic growth rate of 10 per cent per annum and sustaining the same till 2030 in order to generate more resources to meet the MDGs and vision goals. The Vision has identified a number of flagship projects in every sector to be implemented over the Vision period and to facilitate the desired growth rate. The identified flagship projects directly address priorities in key sectors such as agriculture, education, health, water and the environment. The social pillar seeks to create a just, cohesive and equitable social development in a clean and secure environment. The political pillar aims to realise an issue-based, people-centered, result-oriented and accountable democratic system.

Foundations for Kenya Vision 2030

The economic, social and political pillars of Kenya Vision 2030 will be anchored on the following foundations: macroeconomic stability; continuity in governance reforms; enhanced equity and wealth creation opportunities for the poor; infrastructure; energy; science, technology and innovation (STI); land reform; human resources development; security; and public sector reforms.

Macroeconomic Stability for Long-Term Development: Kenyans appreciate the key role of macroeconomic stability has played in economic recovery and rapid growth experienced by

the country since 2003. This has resulted in low levels of inflation, strictly limited public sector deficits, a stable exchange rate, and low interest rates. For this reason, Kenya Vision 2030 places the highest premium on the stable macroeconomic environment the country now enjoys, and expects it to continue in the future as a matter of policy. This is the only way in which confidence among Kenyans and investors can be created and sustained. A stable economic environment also works in favour of the poor who stand to lose the most in periods of high inflation. All the projects proposed under Vision 2030 will, therefore, be implemented subject to the parameters set under the macroeconomic stability framework.

Continuity in Governance Reforms: Kenya remains fully committed to continuing governance reforms. These will be deepened and accelerated in order to create a better environment for doing business, and for the full enjoyment of individual rights that Kenyans are entitled to under the constitution. Toward that end, the Government will continue and intensify the anti-corruption programme already in place through: better investigation and prosecution; eliminating discretionary decision-making in a public service that is prone to bribery; public education; and judicial and legal reform. The Government also recognises that in an open, democratic society like Kenya, the people themselves, Parliament, civil society, and a vigilant press are the ultimate defence against abuse of office. These institutions will continue to receive full support from the Government and from the people of Kenya.

Enhanced Equity and Wealth Creation Opportunities for the Poor: No society can gain the social cohesion predicted by Vision 2030 if significant sections of it live in abject poverty. To that extent, Kenya Vision 2030 includes equity as a recurrent principle in all its economic, social and political programmes. Special attention has been given to investment in the arid and semi-arid districts, communities with high incidence of poverty, unemployed youth, women, and all vulnerable groups.

Infrastructure: The 2030 Vision aspires for a country firmly interconnected through a network of roads, railways, ports, airports, and water ways, and telecommunications. It should provide water and modern sanitation facilities to her people. By 2030, it will become impossible to refer to any region of our country as “remote”. To ensure that the main projects under the economic pillar are implemented, investment in the nation’s infrastructure will be given the highest priority.

Energy: Development projects recommended under Vision 2030 and overall economic growth, will increase demand on Kenya’s energy supply. Currently, Kenya’s energy costs are higher than those of her competitors. Kenya must, therefore, generate more energy and increase efficiency in energy consumption. The Government is committed to continued institutional reforms in the energy sector, including a strong regulatory framework, encouraging private generators of power, and separating generation from distribution. New sources of energy will be found through exploitation of geothermal power, coal, renewable energy sources, and connecting Kenya to energy-surplus countries in the region.

Science, Technology and Innovation (STI): Vision 2030 proposes intensified application of science, technology and innovation to raise productivity and efficiency levels across the three pillars. It recognises the critical role played by research and development (R&D) in accelerating economic development in all the newly industrialising countries of the world. The Government will create the STI policy framework to support Vision 2030. More resources will be devoted to scientific research, technical capabilities of the workforce, and in

raising the quality of teaching mathematics, science and technology in schools, polytechnics and universities.

Land Reform: Land is a critical resource for the socio-economic and political developments spelt out in Vision 2030. Respect for property rights to land, whether owned by communities, individuals or companies, is an important driver of rapid economic transformation everywhere. The transformation expected under Vision 2030 is dependent on a national land use policy, which, therefore, must be completed as a matter of urgency. The policy will facilitate the process of land administration, the computerisation of land registries, the establishment of a National Spatial Data Infrastructure in order to track land use patterns, and the introduction of an enhanced legal framework for faster resolution of land disputes.

Human Resource Development: Kenya intends to create a globally competitive and adaptive human resource base to meet the requirements of a rapidly industrialising economy. This will be done through life-long training and education. As a priority, a human resource data base will be established to facilitate better planning of human resources requirements in the country. Furthermore, steps will be taken to raise labour productivity to international levels. Other steps will include the establishment of new technical training institutions, as well as the enhancement of closer collaboration between industry and training institutions.

Security: The overall ambition for the security sector under “Vision 2030” is “a society free from danger and fear”. The Government is determined to improve security in order to attract investment, lower the cost of doing business and to provide Kenyans with a more secure living and working environment. Specific strategies will involve: improving the practice of community policing; reducing the police to population ratio to recommended UN standards; adopting information and communication technology (ICT) in crime detection and prevention; enhancing police training and use of modern equipment in law enforcement. All these measures will be supported by accelerated reforms in the judiciary. The country will also implement reforms in the prison service, starting with reduction of the number of suspects in remand homes, improved training and working conditions for prison staff; and a reorientation of the service to correctional activities.

Public Service: An efficient, motivated and well-trained public service will be one of the major foundations of the vision. Kenya will build a public service that is citizen-focused and results-oriented, a process whose achievements so far have received international recognition and awards. The Government will intensify efforts to bring about an attitudinal change in public service that values transparency and accountability to the citizens of Kenya. Results-based management and performance contracting will be pegged to the implementation of the Vision’s goals, making it easier to reward public servants on merit and performance. Reforms in the public service will further enhance strategic planning in government, continuous improvement, and stakeholder engagement. A Kenya School of Government will be established to provide research and training for transformative leadership to the highest international standards.

Economic Pillar: Moving the Economy up the Value Chain

After a comprehensive analysis of Kenya’s global competitiveness, six key sectors have been identified to deliver the 10 per cent economic growth rate per annum envisaged under the economic pillar: tourism; agriculture; manufacturing; wholesale and retail trade; business process outsourcing (BPO); and financial services.

Tourism: In the tourism sector, Kenya aims to be one of the top ten long-haul tourist destinations in the world, offering a high-end, diverse, and distinctive visitor experience. Specific strategies for realising this aim will include: (i) aggressively developing Kenya's coast by establishing resort cities in two key locations; (ii) achieving higher tourist revenue yield by increasing the quality of service and charges in country's premium safari parks, and by improving facilities in all under-utilised parks; (iii) creating new high value niche products (e.g. cultural, eco-sports and water-based tourism); (iv) attracting high-end international hotel chains; and (v) investing in new conference facilities to boost business tourism.

Agriculture: Kenya aims to promote an innovative, commercially-oriented, and modern agricultural sector. This will be accomplished through: (i) transforming key institutions in agriculture and livestock to promote agricultural growth; (ii) increasing productivity of crops and livestock; (iii) introducing land use policies for better utilisation of high and medium potential lands; (iv) developing more irrigable areas in arid and semi-arid lands for both crops and livestock; and (v) improving market access for our smallholders through better supply chain management. Vision 2030 aims at adding value to our farm and livestock products before they reach local and international markets.

Wholesale and retail trade: The 2030 vision for wholesale and retail trade is to raise earnings by giving our large informal sector opportunities to transform itself into a part of the formal sector that is efficient, multi-tiered, diversified in product range and innovative. This will be realised through: (i) training and credit (ii) improving efficiency by reducing the number of players between the producer and the consumer; (iii) creating formal market outlets for small-scale operators who will then graduate from the informal sector; (iv) encouraging more investment in retail trade; (iv) developing an outreach programme to expand retail trade; and (v) developing training programmes to improve retail skills.

Manufacturing: Kenya aims to have a robust, diversified, and competitive manufacturing sector. This will be achieved through the implementation of the following strategies: (i) restructuring key local industries that use local raw materials but are currently uncompetitive (e.g. sugar and paper manufacturing); (ii) exploiting opportunities in value addition to local agricultural produce; (iii) adding value to intermediate imports and capturing the "last step" of value addition (e.g. in metals and plastics).

Business process outsourcing: Kenya aims to become the top off-shoring destination in Africa. BPO will, therefore, become the sector of choice for employment for youth and young professionals. The country will move quickly to establish the necessary capacity in the sector through: (i) attracting at least five major leading information technology (IT) suppliers, and at least ten large multinational companies and global BPO players to the country; and (ii) strengthening at least five local players to become local champions through stand-alone operations or joint ventures;

Financial Services: The 2030 vision for financial services is to create a vibrant and globally competitive financial sector promoting high-levels of savings and financing for Kenya's investment needs. Kenya also intends to become a regional financial services centre. This will be achieved through: (i) Undertaking legal and institutional reforms to make Kenya more competitive as a financial centre (ii) reforms in the banking sector that will be undertaken to facilitate the consolidation of small banks in Kenya to larger and stronger ones; (ii) introduction of credit referencing in the country; (iii) streamlining informal finance and

Savings and Credit Co-operative Organisations, as well as micro-finance institutions; (iv) deepening financial markets by raising institutional capital through pension funds, expanding bond and equity markets, as well as tapping international sources of capital.

Social Pillar: Investing in the People of Kenya

Kenya's journey towards prosperity also involves the building of a just and cohesive society that enjoys equitable social development in a clean and secure environment. This quest is the basis of transformation in eight key social sectors, namely: Education and Training; Health; Water and Sanitation; the Environment; Housing and Urbanisation; as well as in Gender, Youth, Sports and Culture. It also makes special provisions for Kenyans with various disabilities and previously marginalised communities.

Education and Training: Under education and training, Kenya will provide a globally competitive and quality education, training and research. Kenya aims to be a regional centre of research and development in new technologies. This will be achieved through: (i) integrating early childhood education into primary education; (ii) reforming secondary school curricula; (iii) modernising teacher training; (iv) strengthening partnerships with the private sector; (v) developing key programmes for learners with special needs, (vi) rejuvenating ongoing adult training programmes; (vii) revising the curriculum for university and technical institutes to include more science and technology; and (viii) in partnership with the private sector, the Government will also increase funding to enable all these institutions to support activities envisaged under the economic pillar.

The Health Sector: To improve the overall livelihoods of Kenyans, the country aims to provide an efficient integrated and high quality affordable health care system. Priority will be given to prevented care at community and household level, through a decentralized national health-care system. With devolution of funds and decision-making to district level, the Ministry headquarters will then concentrate on policy and research issues. With the support of the private sector, Kenya also intends to become the regional provider of choice for highly-specialised health care, thus opening Kenya to "health tourism". Improved access to health care for all will come through: (i) provision of a robust health infrastructure network countrywide; (ii) improving the quality of health service delivery to the highest standards (iii) promotion of partnerships with the private sector; (iv) providing access to those excluded from health care for financial or other reasons.

Water and Sanitation: Kenya is a water-scarce country. The economic and social developments anticipated by Vision 2030 will require more high quality water supplies than at present. The country, therefore, aims to conserve water sources and enhance ways of harvesting and using rain and underground water. The 2030 vision for Water and Sanitation is to ensure that improved water and sanitation are available and accessible to all. This will be realised through specific strategies, such as: (i) raising the standards of the country's overall water, resource management, storage and harvesting capability; (ii) rehabilitating the hydro-meteorological data gathering network; (iii) constructing multipurpose dams (e.g., on Nzoia and Nyando); and (iv) constructing water and sanitation facilities to support a growing urban and industrial population.

The Environment: Kenya aims to be a nation that has a clean, secure and sustainable environment by 2030. This will be achieved through: (i) promoting environmental conservation to better support the economic pillar's aspirations; (ii) improving pollution and

waste management through the application of the right economic incentives; (iii) commissioning of public-private partnerships (PPPs) for improved efficiency in water and sanitation delivery; (iv) enhancing disaster preparedness in all disaster-prone areas and improving the capacity for adaptation to global climatic change.

Housing and Urbanisation: Given the current demographic trends, Kenya will be a predominantly urban country by 2030. The country must, therefore, plan for high quality urban livelihoods for most of her people by that date. The 2030 vision for housing and urbanisation is “an adequately and decently-housed nation in a sustainable environment.” This will be attained through: (i) better development of and access to affordable and adequate housing; (ii) enhanced access to adequate finance for developers and buyers; (iii) pursuit of targeted key reforms to unlock the potential of the housing sector; (iv) initiation of a nationwide urban planning and development campaign, starting with Kenya’s major cities and towns.

Gender, Youth and Vulnerable groups: The 2030 vision for gender, youth and vulnerable groups is gender equity in power and resource distribution, improved livelihoods for all vulnerable groups, and responsible, globally competitive and prosperous youth. In addition, Kenya aims to capitalise on her international reputation as an “athletic superpower” by opening up the country for top global sports events, encouraged by corporate sponsorship. The Government will provide stricter enforcement of copyright laws in music and the performance arts, and provide facilities for the most talented musicians and actors. The country aims to be a competitive destination for global film producers. These aims will be realised through the implementation of specific strategies such as: (i) increasing the participation of women in all economic, social and political decision-making processes (e.g. though higher representation in Parliament); (ii) improving access of all disadvantaged groups (e.g., business opportunities, health and education services, housing and justice); and (iii) minimising vulnerabilities through prohibition of retrogressive practices (e.g. female genital mutilation and child labour) and by upscaling training for people with disabilities and special needs.

Political Pillar: Moving to the Future as One Nation

The transformation of the country’s political governance system under Vision 2030 will take place across six strategic areas: rule of law; electoral and political processes; democracy and public service delivery; transparency and accountability;; and security, peace building and conflict management.

Rule of Law: Under rule of law, the 2030 Vision is “adherence to the rule of law as applicable to a modern, market-based economy in a human rights-respecting state”. Specific strategies will involve: (i) aligning the national policy and legal framework with the needs of a market-based economy, national human rights, and gender equity commitments; (ii) increasing access and quality of services available to the public and reducing barriers to justice; (iii) streamlining the functional capability of legal and judicial institutions to enhance inter-agency cooperation; and (iv) inculcating a culture of compliance with laws, cultivating civility and decent human behaviour between Kenyans, and between Kenyans and outsiders. .

Electoral and Political Processes: The 2030 Vision seeks to cultivate “genuinely competitive and issue-based politics”. Specific strategies will involve: (i) introducing laws and regulations covering political parties; (ii) enhancing the legal and regulatory framework

covering the electoral process; and (iii) conducting civic education programmes to widen knowledge and participation among citizens, leading to an informed and active citizenry.

Democracy and Public Service Delivery: The 2030 Vision aims to create “a people-centred and politically-engaged open society”. Specific strategies will involve: (i) pursuing constitutional and legal reforms necessary to devolve to move resources and responsibility to local governance institutions; (ii) encouraging formal and informal civic education and action programmes; and (iii) promoting open engagement between government and civil society, as well as the free flow of information (e.g. through better and continuous engagement with the media).

Transparency and Accountability: Under transparency and accountability, the 2030 Vision is “transparent, accountable, ethical and results-oriented government institutions”. Specific strategies will involve: (i) strengthening the legal framework for anti-corruption, ethics and integrity; (ii) promoting results-based management within the public service; (iii) encouraging public access to information and data; (iv) introducing civilian oversight around the key legal, justice and security institutions; and (v) strengthening Parliament’s legislative oversight capacity.

Security, Peace-Building and Conflict Management: Vision 2030 aims at “security of all persons and property throughout the Republic”. Specific strategies will involve: (i) promoting public-private cooperation and civilian/community involvement for improved safety and security; (ii) deepening policy, legal and institutional reform for improved enforcement of law and order; (iii) promoting national and inter-community dialogue in order to build harmony among ethnic, racial and other interest groups; (iv) promoting peace building and reconciliation to improve conflict management and ensure sustained peace within the country; and (v) inculcating a culture of respect for the sanctity of human life that does not resort to the use of violence as an instrument of resolving personal and community disputes. This should start with the family, schools, the church and all public institutions.

CHAPTER 1: INTRODUCTION: MACRO ECONOMIC STRATEGY FOR LONG -TERM DEVELOPMENT

From ERS to Vision 2030: Overview of Recent Economic Performance

Kenya began to lay a solid foundation upon which to start the journey of building a globally competitive and prosperous economy in 2003. As a response to past economic and social challenges, Kenya implemented bold economic and structural reforms as elaborated in the Economic Recovery Strategy (ERS) covering the 2003-2007 period. The ERS was anchored on three key pillars:

- i. Restoration of economic growth within the context of a stable macroeconomic environment;
- ii. Rehabilitation and expansion of infrastructure
- iii. Equity and poverty reduction;
- iv. Improving governance.

In addition the ERS policy emphasized the role of equity in its overall socio-economic agenda. This was to be achieved through adoption of a growth strategy based in sectors that generated employment most rapidly, and that provide more income generating opportunities for the poor. The sectors identified included agriculture, tourism, trade and industry, ICT forestry, and mining. ERS also gave renewed attention to the needs of arid and semi-arid districts and the need for additional resources to address them.

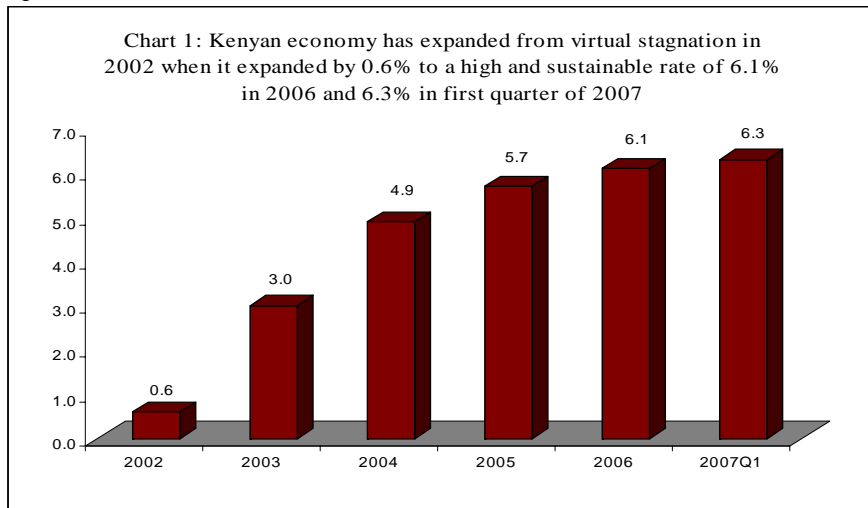
These four pillars and the strategic policy interventions accompanying them were carefully selected to pull the economy out of a recession and to commence the journey toward a broad-based equitable economic recovery underpinned by improved efficiency in public service delivery.

As the period covered by the ERS comes to an end in December 2007, it is useful to take stock of the economic and structural achievements over the past 5 years. In all of the three pillars, significant progress has been registered since Kenya adopted the ERS as a policy guide to economic recovery and rapid growth in 2003.

A: Pillar I: Growth and Macroeconomic Stability

Arising from the implementation of sound fiscal and monetary policies supported by strong structural reforms, Kenya's economy has grown significantly from virtual stagnation in 2002 when it expanded by 0.6% to 6.1% in 2006 and 6.3% in the first quarter of 2007. This was the first time in two decades for Kenya to record four consecutive years of high economic growth. The robust economic growth was evident in all sectors of the economy thus;

Figure 1.1: Economic Growth Rate, 2002 - 2007



- The agriculture sector growth improved markedly from negative 3% in 2002 to a positive 5.4% in 2006. Similarly, the manufacturing sector expanded by 6.9% in 2006, up from 0.1% in 2002;
- The hotel and restaurant sector recovered strongly from a decline of 20.3% in 2003 to a growth of 14.9% in 2006, with an annual growth rate of 37% in hotel occupancy. The transport and communication sector experienced a strong growth from 3.5% in 2003 to 10.8% in 2006;
- The wholesale and retail trade sector rose from negative 2.5% in 2002 to 10.9% in 2006; and with the lower interest rates and increased remittances from Kenyans in the Diaspora, construction has picked up substantially from negative growth of 2% in 2002 to 6.3% in 2006;
- Exports have almost doubled since 2002 driven by strong growth in coffee, tea and horticultural exports. The improved exports, higher tourism receipts and remittances, and increased capital inflows have resulted in more than a doubling of international reserves held by the Central Bank since 2002, from USD1.2 billion in 2002 to USD2.75 billion in 2006.
- The financial services sector has strengthened. After recording a negative growth rate in 2002, the sector grew by 6.5 percent in 2006 with all sub-sector performing strongly:
 - Annual bank credit rose from minus 1.7% of GDP in 2001 to about 7% of GDP in 2006 with new credit supporting the expansion of economic growth particularly in the productive sectors of the economy such as agriculture and tourism.
 - Access to financial services has increased and, importantly, the micro-financial institutions have expanded their activities in the recent past and now account for a sizeable part of the overall financial sector.

- The Insurance industry has expanded strongly over the recent past, recording gross premiums of approximately Ksh 42 billion in 2006, translating to a growth of approximately 16% over the previous year.
- In the pensions sector, the number of occupational schemes have increased from 128 by end-2002 to about 800 by end 2006 with total assets invested rising from KShs.133 billion in 2004 to KShs.220 billion or 16% of GDP.
- Reflecting confidence in the economy, the NSE Index has increased by 314%, reflecting an increase in market capitalization from KShs.112 billion in 2002 to KSh.792 billion in 2006;

Fiscal Developments

With regard to fiscal policy, since 2003, Kenya has demonstrated tremendous improvement in revenue generation. Between 2003 and 2004 alone, revenue collection rose sharply by about 2 percentage points of GDP as a result of improvements in administration and governance. Since then, despite a reduction in the VAT rate from 18 percent to 16 percent and lower EAC customs duties following the implementation of the EAC common external tariff (CET), revenue collection has been kept more or less at 21 percent of GDP, save for FY 2005/06 when teething problems associated with computerization of customs services resulted in lower import duties and VAT on imports. With strong revenue effort, expenditure kept within target while shifting resources allocation to priority development areas of agriculture and rural development, infrastructure, education and health, net domestic borrowing has been largely contained, falling from 3.6 percent of GDP in FY 2002/03 to 1.8 percent of GDP in FY 2006/07.

Monetary Policy, Inflation and Exchange Rate

Monetary policy has been targeted at containing inflation pressures, so as to ensure a stable macroeconomic environment which is necessary to encourage private sector investment. The underlying rate of inflation has generally been within the 5 percent target. The overall rate of inflation has been volatile due to the increases in food and fuel prices occasioned by dry spells and movement in world oil prices. Reflecting prudent fiscal policy, lower inflationary expectation and increased competition among banks, commercial banks' lending rates have declined significantly from over 18 percent in 2002 to about 12-13 percent in 2006. The Kenya shilling exchange rate against the dollar has appreciated due to strong balance of payments position, as well as a weakening of the U.S. dollar against major international currencies.

B: Pillar II: Rehabilitation and Expansion of infrastructure

The ERS identified poor infrastructure as a major obstacle in the country's economic recovery programme. An efficient, modern infrastructure was seen as one of the most critical factors to lowering the costs of doing business and opening up income-generating opportunities for poor households. The ERS aimed at an expanded and well maintained national road network, improved safety in urban and rural public transport, wider access to improved water and sanitation facilities, reliable and affordable energy. In addition, ERS aimed at providing Kenyans with an efficient telecommunications and a competitive ICT sector. To increase efficiency in this sector, the ERS aimed at increasing private sector

participation in investment under a new regulatory framework. To rationalise the institutional framework of road construction and maintenance, the Government has created three new authorities to manage rural, urban and national roads respectively. In addition, a regulatory framework for enforcing road construction standards, axle loads and road safety has been put in place. A national inventory of all Kenya's roads and their condition is in progress to guide future road construction. With the support of her international development partners, the country's road network has undergone considerable rehabilitation and expansion since 2003. The most important of these projects is the "Northern Corridor" linking the Mombasa, Nairobi and Malaba corridor to Uganda and the Great Lakes region. The length of international and national trunk roads under bitumen standards rose by about 10 per cent between 2002 and 2006. In November 2006, the government of Kenya and Uganda concessioned the running of their railways to Rift Valley Railways for 25 years with the goal of making export, import and domestic freight-handling more efficient. ERS goals for water and electricity coverage have largely been met.

C: Pillar III: Equity and Poverty Reduction

In order to ensure that the growth is shared amongst all Kenyans, a number of targeted fiscal interventions, structural reforms and regional development initiatives have been implemented since 2003 to reduce poverty and inequality in Kenya. Among these anti-poverty and inequality interventions implemented include:

- Introduction of Universal Free Primary Education, which has increased enrolment by over 1.5 million pupils since 2003, thereby assuring them of a secured future and relieving their parents of school fees burden.
- Increase in the share of resources allocated towards priority development areas of agriculture and rural development, provision of infrastructure and human development, including core poverty programs to accelerate development and reduce inequality;
- Various structural reforms in the agriculture sector, including the dairy, sugar, coffee, tea, pyrethrum, and the co-operative sectors to improve productivity and income earnings;
- Improvement in public sector efficiency and effectiveness, including by removing administrative barriers to trade, privatizing and restructuring of key public entities, and streamlining of licences in order to reduce cost of doing business to make Kenya competitive;
- Increase in resources targeted at promoting regional development and reducing poverty in rural and urban areas. For instance, Constituency Development Fund allocation increased more than eight-fold from KShs.1.2 billion in 2003/04 to KShs.10.0 billion in 2007/08, while LATF has more than tripled from KShs.3.0 billion in 2002/03 to KShs.9.2 billion in 2007/08; and
- Construction of more than 1,000 dispensaries and deployed personnel and medical supplies to make these facilities operational and improve access to medical care.

Reflecting the impact of recent strong and broad-based economic expansion on welfare, per capita income has increased strongly from USD.408 in 2002 to over USD.630 in 2006, an increase of 55 percent in just four years. In addition, the implementation of various anti-poverty interventions has subsequently resulted in a decline in overall incidence of poverty from 56.8 percent in 2000 to 46 percent in 2006, a remarkable reduction of about 20 percent.

D: Pillar IV: Improving Governance

A number of governance reforms have been implemented since 2003 mainly to: (i) reduce corruption, improve efficiency and ensure effective service delivery in public sector; and (ii) create enabling environment for increased private sector participation in growth and poverty reduction. In particular, several reform measures aimed at deepening improvement of governance in the areas of prevention, investigation and prosecution have been implemented. These include:

- Introduction of several legislative platforms in the areas of fighting corruption, public ethics, public financial management, public procurement and oversight on public finances and making accessible fiscal information to enhance transparency;
- Enforcement of administrative actions to reduce corruption in public sector, including conducting anti-corruption awareness, introduction of performance contracts and reducing administrative barriers to trade;
- Strengthened corruption investigative and prosecutorial capacity; and
- Privatization and /or restructuring of state owned enterprises to enhance accountability and efficiency.

1.1 Challenges and Opportunities: Vision 2030

With the benefit of these historic achievements, Kenya needs to accelerate her development from a low to middle-income country, in an increasingly competitive global environment.

A: Global and Regional Operating Environment

In the past two decades the world has witnessed rapid economic growth and expansion of trade driven primarily by developed countries. These trends are expected to continue in the 2007 - 2030 period. The world population is expected to rise to 8.5 billion from an estimated 6.5 billion currently, with a commensurate increase in the labour force. From a demand side, the growing world population and economy means a widening of the potential market for Kenyan products beyond the traditional developed country markets. However, other global economic trends including the growth of out sourcing, environmental concerns and increased demand for raw materials means that countries like Kenya are likely to face, greater competition in previously non tradeable service sectors, higher quality standards in export markets and higher import prices for their raw materials. Hence, even as the country attempts to exploit the opportunities availed by the growing world trade, it will need to scale up its productivity and quality control regimes to remain relevant.

Kenya's external environment will be significantly influenced by the changing international and regional trading arrangement. In particular, the multilateral trading arrangements under the WTO and the regional trading arrangement under the Economic Partnership Agreement (EPA) between the Eastern and Southern African (ESA) countries and the European Union (EU) will be critical determinants of the opportunities for export led development as well as the potential for adopting certain economic strategies. Both the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) will increasingly become important markets for Kenya's exports, especially of manufactured goods.

The liberalization of global trade that has taken place under the multilateral trading framework has been a major reason for the rapid expansion in world trade. Currently, the multilateral trading arrangements are under review under the auspices of the World Trade Organization (WTO) Doha round. Whether the Doha round benefits non LDC countries such as Kenya will depend on the final design of the 'development package', and in particular, the need for full preferential tariff treatment; limitations of developed countries exclusions of sensitive areas of interest to Kenya; and increased Aid-for-Trade to enable Kenya enhance its competitiveness and take advantage of emerging export opportunities.

Along with other ACP countries Kenya will be entering a WTO compatible EPA with the European Union (EU). The timing of the tariff reductions are already largely agreed and imply that EU producers of raw materials, capital equipment and final manufactured goods will increasingly access the Kenyan market duty and quota free. This reality will place limits on the extent to which Kenya can pursue protectionist policies to promote industrial development and makes an export oriented development strategy an imperative. In addition, with tariff revenues to be forgone on EU imports, the EPA will also limit the extent to which Kenya can rely on trade related taxes for budgetary purposes.

B: Internal Challenges and Opportunities

Whereas Kenya has been able to scale up economic growth to 6.1% per annum in 2006, it is recognized that further up scaling to 10% per annum will be a major challenge. Few countries, other than those endowed with substantial natural resources, have been able to scale up growth to 10% and to sustain for a long period. As a country committed to an export-led private sector-driven growth strategy, Kenya must bear in mind several challenges it is likely to face in raising its growth rate to 10% level. These challenges include:

- Ensuring continued macroeconomic stability;
- Minimizing institutional risks especially related to corruption and security;
- Scaling up the quantity and quality of infrastructure especially the condition of roads, access to and reliability of water, cost of electricity and the quality of port and rail services;
- Promoting efficiency challenges by reversing the declining trend and raising the Total Factor Productivity (TFP) to a minimum growth level of 2.5% needed to achieve the

vision targets through adoption of new technological, improvement in governance and reducing transaction costs to business; and

- Raising the level of investments from the current estimate of 20% of GDP to above 30% of GDP consistent with the levels of growth the country aspires to.

The macroeconomic challenges of shifting Kenya from a long term growth path of below 4% per annum to over 10% are significant. It is, therefore, important that Kenya adopts and follows through on a robust strategy that tackles the challenges enumerated above. This is the basis of the macroeconomic strategy outlined in the rest of this chapter.

1.2 Macroeconomic Framework for Vision 2030

The foundation upon which to build a prosperous Kenya with expanded economic opportunity is firmly in place after the successful implementation of various economic and structural reforms under ERS. In going forward, Vision 2030 will build on the successes under ERS with a pursuit of a macroeconomic framework that will facilitate low and stable inflation and interest rates, a sustainable public sector debt position, and a competitive real exchange rate to support an export-led economic growth and help to deliver high and sustainable levels of growth, employment and poverty reduction.

Economic Growth

The growth objectives underpinning the Vision 2030 require the rate of growth of the economy to rise from 6.1% achieved in 2006 to 10% by 2012/13 and to sustain that growth thereafter.. Such a growth will shift Kenya from the rank of the low-income countries to well within the ranks of the middle-income countries. Achieving these growth targets will require: continued implementation of prudent fiscal, monetary and exchange rate policies; enhanced effort to raise the level of investments and savings, and accelerating structural reforms in order to increase the efficiency of both physical and human capital and raise total factor productivity.

Fiscal Framework

Macroeconomic stability, and the role of fiscal dispensation in sustaining it, is critical for private sector development and growth. The Government will ensure that the bulk of expenditures are met from tax revenue and that overall expenditure is controlled to ensure that the overall government deficit is sustainable and does not lead to a crowding out of private sector investments. Key elements of the fiscal strategy will include the following:

- i. Maintaining a strong revenue effort: Revenues are targeted to rise from 20.7% of GDP in 2006/07 to 22% by 2015 and remain at that level to 2030. This will be achieved despite the reduction in the scope for raising taxes from duties as a result of the ongoing COMESA and EAC trade liberalization and the coming into force during this period of the ESA-EU EPA. The Government will also ensure judicious use of incentives to avoid “a race to the bottom” with our EAC partners and to protect the revenue base;

- ii. Maintaining the overall fiscal deficit at less than 5% of GDP consistent with the need to sustain Kenya's debt sustainability position, and ensure that the growth of domestic debt will be maintained at a level that allows for expansion of credit to the private sector commensurate with the need for investment trade and private sector development;
- iii. Containing growth of total expenditures, while creating fiscal space through expenditure rationalization to shift resources from non-priority to priority areas, including expenditures on the flagship projects critical to achieving Vision 2030. In this context, the wage bill is expected to decline gradually to 6% suggesting the need for civil service reform that would facilitate higher remuneration for a smaller and more efficient civil service. The increasing requirements for operation and maintenance for the expanded infrastructure have been catered for;
- iv. Increasing the share of development expenditures in total outlays will be increased from 18% in 2006/07 to 35% by 2012/13 and thereafter, in line with requirements of Vision 2030. Most of the increase in development expenditure will continue to benefit the priority sectors, such as the infrastructure and agriculture sectors, and social sectors such as health and education, will play an important role towards the realisation of Vision 2030. As a country we will, therefore, need to scale-up resources towards these sectors, while ensuring efficiency and effectiveness in their use and management;
- v. Building capacity for efficiency, effectiveness and accountability in budgetary process, as part of expenditure reforms, among other things: (i) effectively formulate appropriate budgetary policies; (ii) develop and enforce a result-oriented budget management underpinned by clear performance benchmarks and a wide array of input/output indicators; (iii) improve efficiency in public procurement and expenditure management, restructuring of state influenced enterprises, and improving fiscal governance; and (iv) create fiscal space by reducing unproductive expenditures in order to provide adequate funding for priority Vision 2030 development projects;
- vi. Progressively reducing recourse to concessional funding, Kenya graduates from a low-income to lower middle-income and then upper middle-income country. The country will therefore increasingly rely on access to international financial markets for its financing needs as well as on non-debt creating foreign direct investments

Monetary policy

Maintaining low and stable inflation is critical for long-term economic and social prosperity. High and variable inflation leads to inefficient allocation of resources and makes planning for the future much more difficult. Costs are also incurred as people seek to protect themselves from the effects of inflation rather than concentrating on the creation of new wealth. This damages productivity and growth. Moreover, high and variable inflation involves social costs that are likely to fall particularly hard on those people on lower incomes.

Therefore, to avoid the adverse effects of high inflation, the monetary policy to be pursued will aim at maintaining a low rate of inflation of below 5 percent. The Central Bank of

Kenya's pursuit of a monetary policy stance consistent with this inflation target and the envisaged growth makes the best possible contribution to achieving high and stable levels of growth and employment and poverty reduction. The maintenance of low inflation and stable positive real interest rates is expected to facilitate adequate expansion of credit to the private sector to support the envisaged economic activities. Concomitantly, the financial sector will be reformed with a view to enhance efficiency, access and stability of the financial systems in order to make Kenya a regional financial hub.

Exchange Rate Policy

Kenya will continue to maintain a flexible exchange rate system that facilitates the economy's competitiveness in line with an export-led private sector-driven growth strategy. The market-determined exchange rate policy pursued by the Government has served Kenya well in terms of providing a cushion to external shocks and in maintaining external competitiveness. To ensure that external competitiveness is maintained as Kenya becomes a more open economy, the Government will continue to monitor closely developments in the real exchange rate, and will continue to take actions to enhancing productivity.

Investment and Savings

To achieve the Vision 2030 growth objectives, the level of investment is expected to rise to 31.3% of GDP by 2012/2013, i.e., by about 10 percentage points, and then remain above 32% for the 2014-2030 period. Of critical importance will be the required public investment, which will need to rise from 4.3% of GDP achieved in 2006/07 to 9.8% by 2012/2013 and remain above 9% thereafter. This will be achieved by maintaining a strong revenue position, restructuring outlays toward development expenditures, increased project financing from development partners, and judicious recourse to domestic and foreign borrowing to build infrastructure.

The challenge of increasing public investment will be matched by an equivalent challenge of increasing private sector investment. Private sector investments are expected to rise from 15.6% of GDP in 2006/07 to 22.9% in 2012/13, and to over 24% of GDP during the period 2020/21 to 2030. Owing to the improvement in the investment climate and continued good economic performance, we expect foreign direct investment to comprise a significant share of this increase. Achieving this level of private investment will require interventions on several fronts including:

- Restoration and expansion of the infrastructure stock;
- Upgrading financial services to world class levels;
- Strengthening of capital markets;
- Improving the regulatory and licensing framework to reduce bureaucratic costs;
- Strengthening the judiciary;
- Corruption control;
- Ensuring labour markets operate flexibly enough to reflect the true cost of labour; and
- Ensuring human resource quality is upgraded to enable human capital to play a larger role in raising productivity.

These interventions must be underpinned by macroeconomic stability, assurance of the rule of law and protection of property rights including intellectual property rights. To ensure that Kenya does not become overly dependent on foreign financing for its future development, it will be imperative to ensure the bulk of the investment effort is domestically funded. To fund the investment programme, gross national savings will need to rise from 15.6% of GDP in 2006/07 to about 26% by 2012/13 and to 29% of GDP by 2030. This means that the use of external savings will be limited to 4% of GDP in 2006/07 and to 6.5% of GDP in 2012/13 before declining thereafter to a sustainable level of 3% of GDP. The path of external savings reflects the frontloading of public sector development spending with a high import component as well as the expected increase in foreign direct investment.

While public savings are expected to rise from 1.6% of GDP in 2006/07 to about 3% by 2012/13 and to 3.8% by 2030, the bulk of the increased savings will come from the private sector. Private savings are targeted to rise from [14%] of GDP in 2007/08 to 23% in 2012/13 and to 25.5% of GDP in 2030. To achieve the required level of national savings, significant reforms will be undertaken in the financial sector in order to increase mobilization of resources. Key elements of the financial sector strategy include building a stronger industry structure and deeper penetration of banking services through the following measures:

- Creating incentives for consolidation and mergers amongst small banks and laying a platform for modern technology and critical mass of competency required to provide modern and efficient banking services to Kenyans.
- Extending credit referencing system from simply negative information (e.g information on defaulters) system to a positive information system (e.g information on credit worthiness), to increase competition and efficiency (reducing non-performing loans) whilst effectively protecting consumer information and rights.
- Deepening penetration of banking services, especially to rural areas to help drive increased domestic savings. The Government will play a facilitating role in this area to enable the private sector players reach the unbanked but bankable population, especially with the oversight of MFIs by CBK.
- Implementing strategies for streamlining the insurance sector including creating a competitive environment which leads to brand activities, increased investment and better public awareness of the benefits of insurance; attracting capital infusion into the industry for enhanced premium growth and profitability; achieving the necessary economies of scale that will make insurance affordable and accessible; and increasing retention capacity so as to minimise possible outflows arising from low local underwriting capacity.
- Developing a comprehensive pension programme tied to Kenya's investment needs and improved benefits for pensioners. The capital markets will play a critical role in the mobilisation of resources for equity finance and for issuance of long-term bonds, including those for funding infrastructure. Therefore, the legal and regulatory framework will continue to be strengthened in order to enhance confidence and credibility of the capital market.

External Financing

With both public and private sector investment picking up, and imports rising strongly in line with projected economic growth, meeting the projected external financing requirements is expected to be manageable throughout the Vision period. Total donor support is expected to rise steadily to about 4% of GDP by 2012/13 and remain above that level through 2030, as the Government improves the absorption capacity of these funds. It is also expected that donor support will increase significantly under the recently launched Kenya Joint Assistance Strategy (KJAS) signed by the Government and Kenya's international development partners. A significant amount of external financing is also expected to come from direct foreign investment and commercial borrowing, due to Kenya's favourable sovereign credit rating. The introduction of a benchmark sovereign bond is expected to accelerate international private investment into the economy. Although budgetary support has not been factored in Vision 2030, it is expected that additional external resources will become available following the implementation of the wide range of reforms and improved governance. In such a case, the additional resources will be used to scale up programmes in the priority sectors, including MDG related interventions and flagship projects identified under Vision 2030.

Structural reforms

Maintaining macroeconomic stability is in itself necessary but not sufficient to achieve the desired growth under Vision 2030. Improving efficiency and increasing total factor productivity (TFP) is also critical to achieving the Vision 2030 growth targets. Therefore, the Government will continue undertaking structural reforms in various fronts with the aim of improving the efficiency in the allocation and utilization of resources as well as effective public sector service delivery. Priority areas include:

- *Governance:* Deepening governance and anti-corruption reforms in the broad areas of: (i) prevention; (ii) investigation and recovery of corruptly acquired assets; (iii) strengthening the prosecutorial capacity; and (iv) improving governance in priority sectors;
- *Public Expenditure and Financial Management Reforms:* Accelerating reforms in public financial management in order to improve efficiency, enhance transparency and accountability under a coordinated strategy to revitalize Public Finance Management (PFM);
- *Procurement Reforms:* Enhance effectiveness of the Public Procurement Oversight Authority (PPOA) in order to improve efficiency in public procurement and create fiscal space to allow for shifting resources to priority Vision 2030 development projects;
- *Financial Sector Reforms:* Kenya will implement a comprehensive financial sector reform strategy aimed at enhancing access, efficiency and stability in order to facilitate private sector development;
- *Privatization:* Enhancing effectiveness of the Privatization Commission to oversee implementation of privatization strategy aimed at promoting accountability and efficiency and opening opportunities for private sector investment and new technology in the public enterprises; and

- *Private Sector Competitiveness:* Building on recent achievements in business regulatory reforms in which Kenya was ranked amongst the top 10 performing countries in the world, Kenya will undertake additional measures to improve the investment climate and will also implement the comprehensive private sector development strategy.

CHAPTER 2: FOUNDATIONS FOR SOCIO-ECONOMIC TRANSFORMATION

To realise the socio-economic transformation, the Vision will require that the three pillars be firmly anchored on six foundations: infrastructure; science, technology and innovation; land reform; human resource development; security; and public service reform. These foundations will be developed to support the Vision and the country's overall development process.

2.1 Infrastructure

The vision of the infrastructure section is “to provide cost-effective world-class infrastructure facilities and services in support of Vision 2030”.

Poor infrastructure was identified under ERS as a major constraint to doing business. It was repeatedly cited as a necessity to improving the livelihoods of people in consultation held in farming and pastoral districts. Infrastructure is also important in improving our security. Successful transition to Vision 2030 calls for a considerable shift in the manner in which Kenya deploys her resources to acquire the necessary capacity and access to infrastructure services (transport, telecommunications, energy, water, sewerage and sanitation and meteorological services) by firms and citizens in their wealth-creation efforts.

While significant gains in infrastructure development have been realised over the last 5 years, Kenya's global competitiveness is still weak, especially in the following areas:

- Energy cost in Kenya is US\$0.150 per KWh. This compares poorly with Mexico (US\$0.075), Taiwan and China (US\$0.070), Colombia (US\$0.064) and South Africa (US\$0.040);
- Due to over-reliance on hydroelectricity, the frequency of power outages is high (33 per cent compared with the average for Mexico, China and South Africa, which stands at 1 per cent). Production lost due to these outages is approximately ~9.3% (compared with the average for Mexico, China and South Africa, which stands at 1.8 per cent). Also, it takes approximately 66 days to obtain electricity connection in Kenya (compared with an average of 18 days in Mexico, China and South Africa);
- Telecommunications costs in Kenya are US\$15,000 per month for a 2Mbps international leased line. This situation compares unfavourably with key BPO destinations e.g. India (US\$4,800), the Philippines (US\$4,400), Poland (US\$ 2,000) and Morocco (US\$7,000);
- Total water availability in Kenya is currently about ~937 m³/capita, which is far below the average for Africa (~4,500 m³/capita)
- System losses – Unaccounted-for-water losses average 60 per cent while electricity transmission losses average 18.5 per cent;
- The cost of a poor urban transport system in Nairobi is estimated to be 2 per cent of GDP.

Goals for 2012

A number of broad goals will be pursued to deal with these problems. These include:

- Accelerating ongoing infrastructure development, focusing on quality, aesthetics and functionality of the infrastructure services developed ;
- Building infrastructure development to support identified flagship projects to ensure contribution to the economic growth and social equity goals;

- Improving efficiency and effectiveness of the infrastructure development process at all levels planning, contracting, and construction;
- Providing a utility sector (water, sewerage and electricity) that is modern, customer-oriented and technologically-enabled to provide efficient, cost-effective, quality services to all citizens;
- Creating an inter-connected, technologically-advanced society with modern information and communication systems driving innovation, growth and social progress;
- Protecting the environment as a national asset and conserving it for the benefit of future generations and the wider international community; and
- Cultivating a social attitude of respect and care for public infrastructure facilities and services amongst all citizens.

Strategies

A number of strategies will be critical in the effort to improve the infrastructure services available and to maximise the economic and social impact of infrastructure development and management. The strategies to be pursued include the following:

- Strengthening the institutional framework for infrastructure development and accelerating the speed of completion. Raising efficiency and quality of infrastructure projects, and increasing the pace of implementation of infrastructure projects so that they are completed in specified time frames;
- Enhancing local content (materials and services) of identified infrastructure projects i.e minimising import content;
- Developing and maintaining an integrated, safe and efficient transport network;
- Supporting the development of infrastructure initiatives around flagship projects;
- Benchmarking infrastructure facilities and services provision with globally acceptable performance standards targeting enhanced customer satisfaction;
- Integrating information and communication technologies in the processes of infrastructure services provision;
- Implementing infrastructure projects that will stimulate demand in hitherto neglected areas targeting increased connectivity and reduced transport and other infrastructure costs;
- Developing a national spatial plan to optimise the development and utilisation of infrastructure facilities and services;
- Modernising and expanding sea port facilities;
- Identifying, developing and retaining the requisite human resources to support the infrastructure facilities and services; and
- Enhancing private sector participation in the provision of infrastructure facilities and services strategically complemented by public sector interventions.

Flagship projects

The above-mentioned strategies will be implemented through selected flagship projects in transport, energy, ICT, construction, water and sanitation, and sound environmental management. (Water and the environment are dealt with in the social pillar). In order to achieve an integrated infrastructure a planning framework capable of addressing specific

requirements of the Vision, flagship projects will be implemented to complement the core Vision 2030's priorities and growth in the rest of the economy.

The First National Spatial Plan: The need for a national spatial plan is recommended under agriculture, manufacturing, urbanisation, and environmental management, which are priority sectors under Vision 2030. In 2008, work will commence on the preparation of the First National Spatial Plan for Kenya to guide physical development activities over the next 50 years. It will provide a spatial illustration of all national projects and it will also identify a strategy for land development. The Plan will address issues such as settlement, environment, transport and economic development. This National Spatial Plan will form the basis upon which development activities in support of Vision 2030 will take place. Therefore, its development will require extensive consultation between the relevant stakeholders, Ministry of Planning and National Development, the Ministry of Lands, other Ministries and state agencies with a view to incorporating their long-term plans within the national spatial context.

A 50-year Integrated National Transport Master Plan: This project is to be completed within two years of initiation and must be linked to the National Spatial Plan. It will be aimed at ensuring that investment and location of transport infrastructure and services are consistent with other public policies. Also, it will ensure optimal transport infrastructure investment to position Kenya as the most efficient and effective transport hub of the East and Central African region and promote national aspirations for socio-economic reconstruction and development. It will also facilitate improvement and expansion of transport infrastructure in a manner that will reduce transport costs and also open new frontiers for economic development. The policy will provide the Government and the private sector with a systematic decision-making tool for investment in transport infrastructure over the next 50 years. This programme will have as an integral component of institutional capacity building to manage roads, ports and air, sea and land transport systems with a view to improving efficiency and effectiveness of service delivery and enhancing revenue-earning capabilities. The agencies involved in the delivery of transport services will be adequately equipped to deliver quality services through modernisation of their operations, strengthening of their management capability and the introduction of performance-based assessments and competency systems.

Dredging and /deepening of Mombasa Port: The dredging of the port to deepen the channel to 14.5 metres will enable larger post-Panamax vessels to access the port and thereby remove the risk of the port slowly evolving into a feeder facility which larger vessels have no access.

Nairobi metropolitan region bus rapid transit/Systeme: The Government has laid the plans for the development of a rapid bus transport system starting with the following three transport corridors:

- Athi River Town to Kikuyu Town (approximately 38 kms);
- Thika Town to the Central Business District (approximately 50 kms); and
- Jomo Kenyatta International Airport to the Central Business District (approximately 25 kms).

The Nairobi metropolitan region bus rapid transit is expected to be operational on four years time.

Development of light rail for Nairobi and its suburbs: The area expected to be served by the light rail stretches from Nairobi Railway Station, situated in the Central Business District, to Embakasi/Jomo Kenyatta International Airport, a distance of 15.6 kilometers, and borders the heavily populated industrial area, Makongeni, Makadara, Buru Buru, Donholm and Pipeline, Jogoo Road, Outer Ring Road, Airport Roads, Mombasa Road, the Airport Siding and the Nairobi-Makadara. It is projected that the new light rail services will serve at least 150,000 daily passengers, which is 5 per cent of the future public transport demand in the Nairobi metropolitan area.

Development of a new transport corridor to Southern Sudan and Ethiopia: This corridor will link Lamu, Kenya's North Eastern province, Ethiopia and Southern Sudan: The project involves the development of a new transport corridor from the new port at Lamu through Garrisa, Isiolo, Mararal, Lodwar, and Lokichogio to branch at Isiolo to Ethiopia and Southern Sudan. This which will comprise a new road network, railway line, oil refinery at Lamu, oil pipeline, Lamu Airport and free port at Lamu (Manda Bay) in addition to resort cities at the coast and in Isiolo. In addition to raising the scope for this region's tourism, agriculture and industrial potential, the project will open up access to Southern Sudan, which has huge unexploited natural resources, including oil.

National road safety programme: The objective of this programme shall be to fast-track implementation of the National Road Safety Action Plan to achieve the targets of reducing the incidence of road crashes and its impact on the Kenyan Economy.

Computerised information maintenance management systems programme: This will develop three integrated computerised systems to manage our roads, bridges and pavements. The Road Maintenance Management System will be used to monitor the condition of roads, and manage road maintenance works. The Bridge Maintenance Management System will be used to monitor the condition of bridges on the main roads network and manage maintenance works on those bridges. The Pavement Maintenance Management System will be used for the short- and long-term planning of road resurfacing and rehabilitation works.

Rehabilitation and maintenance of airstrips and airport expansion and modernisation: This will involve rehabilitation and expansion of airstrips and airports serving tourist and commercial sites in the country.

Meteorological systems modernisation programme: The objective of this programme is to improve Kenya's disaster preparedness and mitigation and promote public education and awareness among vulnerable communities and decision makers. The programme will involve three components, as follows:

- Tsunami early warning systems;
- Tidal gauge station, marine automatic weather systems and seismic systems; and
- Introduction of dynamic modelling capabilities for prediction of weather and climate.

Weather Modification Programme: This is an integrated programme with six components, as follows:

- Establishment of cloud chamber laboratory for rainfall enhancement;

- Hailstone suppression – The objective of this programme component is to suppress hail over the Kericho-Nandi hills area to prevent damage to tea plantations;
- Snow pack augmentation on Mt. Kenya research – This programme component is expected to increase glaciers over the mountain to ensure perennial flow of streams from the catchments;
- Enhancement of air quality measurement for environmental impact assessment and pollution management;
- Enhancement of flash flood forecasting using doppler weather surveillance technology; and
- Enhancement of research to suppress fog and frost on the high-ground areas of Kenya.

Nairobi city integrated close circuit television system: This will be a system designed to provide 24-hour close circuit television surveillance of the City of Nairobi. It will be integrated into the Nairobi Metropolitan Region’s Intelligent Transport Information System. The first phase will cover the City of Nairobi and will eventually be extended to cover the business districts of the Nairobi Metropolitan Region and key intersections and other and other urban areas.

Construction industry development policy: In order to enhance the performance of the construction industry as the premier agent for the development and management of infrastructure facilities and services, a Comprehensive Construction Industry Development Policy to be implemented through a dedicated Construction Industry Development Board will be formulated within 12 months and thereafter consistently implemented. One of its objectives will be to strengthen the capacity of Kenya’s construction industry.

Public facilities improvement programme: This programme will target the improvement of the visual appeal and functionality of all public facilities and buildings. In this regard, maintenance and management of public facilities will be enhanced through comprehensive facility management approaches. Citizens will be encouraged to value and respect public facilities through a series of public education and awareness programmes aimed at engendering a sense of civic responsibility and foster nation-building attitudes among all citizens. This programme will be supported by dedicated Computerised Facilities Management Information Systems.

2.2 Energy as a Foundation of Vision 2030

Energy is one of the infrastructural enablers of the three “pillars” of Vision 2030. The level and intensity of commercial energy use in a country is a key indicator of the degree of economic growth and development. Kenya is therefore expected to use more energy in the commercial sector on the road to 2030. As incomes increase and urbanization intensifies, household demand for energy will also rise. Preparations have been made to meet this growth in demand for energy under the Vision.

Commercial energy in Kenya is dominated by petroleum and electricity as the prime movers of the modern sector of the economy, while wood fuel provides energy needs of the traditional sector including rural communities and the urban poor. At the national level, wood fuel and other biomass account for about 68% of the total primary energy consumption, followed by petroleum at 22%, electricity at 9% and others including coal at about less than

1%. Solar energy is also extensively used for drying and, to some extent, for heating and lighting. Electricity remains the most sought after energy source by Kenya society and access to electricity is normally associated with rising or high quality of life. However, its consumption in Kenya is extremely low at 121 kilowatt hours (kwh) per capita (compared to 503kwh in Vietnam or 4,595kwh for South Africa) and national access rate at about 15%. The access rate in the rural areas is estimated at 4%. All that is changing rapidly as the country invests more resources in power generation, in addition to policy and institutional reforms in the sector, bring in new providers.

The current sources of electrical power generation are hydro 3,025 Gwh (51.2%), thermal oil 1,819 Gwh (30.8%), geothermal 1,046 Gwh (17.7%), cogeneration 6 Gwh (0.09%), wind 0.3 Gwh (0.01%) and imports 11 Gwh (0.2%). Petroleum fuels are imported in form of crude oil for domestic processing and also as refined products, and are mainly used in the transport, commercial and industrial sectors. The domestic consumption of petroleum products are as follows: light diesel oil 1,035,600 tonnes (34.1%), fuel oil 664,600 tonnes (21.9%), aviation spirit and jet fuel 595,300 tonnes (19.6%), motor spirit 358,200 tonnes (11.8%), illuminating kerosene 279,200 tonnes (9.2%), liquefied petroleum gas 64,600 tonnes (2.1%) and heavy diesel oil 40,700 tonnes (1.3%).

Coal is mainly used in the industrial sector, particularly in the cement industry for process heat. Coal utilization has remained low in Kenya despite international prices having been reasonable and fairly stable over the years relative to petroleum.

2.3 Challenges

The challenges facing the power sub-sector include a weak power transmission and distribution infrastructure, high cost of power, low per capita power consumption and low countrywide electricity access. The petroleum industry is constrained by limited supply facilities for fuels including LPG, domestic production of motor fuels which do not meet international quality standards, inadequate distribution infrastructure in the remote parts of the country which contribute to high product prices, proliferation of sub-standard fuel dispensing facilities, under-dispensing of products including adulteration of motor fuels and dumping of export products.

2.4 Measures being taken

The government has continued to finance extension of electricity supply in the rural areas as part of the basic infrastructure to stimulate economic growth and employment creation. The current policy provides for the extension of electricity to market centres, public secondary schools, youth polytechnics, health centres, and water systems, among other community projects. This is intended to increase electricity access in rural areas currently at 4% to 12% by the year 2012.

The government is also encouraging the Kenya Power and Lighting Company to adopt affordable connection policies so as to boost the number of customers in the rural areas. This is already happening. The company has come up with attractive customer connection policies that include transformer maximization and *Umeme Pamoja* which have seen the number of connections rising significantly to over 120,000. Further, the company has come

up with a more flexible mode of settling the connection fee where a customer is connected upfront upon payment of a deposit while the balance is settled in installments.

A Rural Electrification Authority charged with the mandate of implementing the Rural Electrification Programme came into operation in July 2007. This is expected to increase the speed of implementation of several projects that are lined up for implementation throughout the country. Currently, the Authority is in the process of developing a comprehensive rural electrification master plan which shall provide crucial information for selecting projects for funding at a given time.

In addition, Ethiopia and Kenya have undertaken a feasibility study financed by several international development partners to facilitate the transfer of electricity to Kenya from a number of large Ethiopian hydropower projects that provide power at lower costs compared to local ones.

The government has already taken steps to modernize the oil refinery at Mombasa. Installation of a Thermal Cracker technology will make its products competitive with imported products.

2.5 Key projects to be implemented from 2008 – 2012

The key projects to be implemented during 2008 – 2012 period are described below:

- i) A total of 215 rural electrification projects, estimated to cost Kshs. 1,483 million, are scheduled to be completed by February 2008. These projects include new isolated power stations being erected at Hola (Tana River district), Elwak (Mandera district), Mpeketoni (Lamu district), Merti (Isiolo district), Habasweni (Wajir district) and Mfangano Island (Suba district) at a cost of Kshs.474 million. All these projects are being funded solely by the Government of Kenya.
- ii) Rural electrification: Kenya is committed to a Rural Electrification Programme in partnership with donors. The Government of France is currently financing a rural electrification project to the tune of KShs. 2.7 billion to cover various parts of the country. Upon completion, the project will facilitate connection of power to 460 trading centres and 110 secondary schools, among other public facilities. The new Rural Electrification Authority will build on these achievements to bring more electric power to rural Kenya.
- iii) Power to Public Institutions: The Government intends to spend KShs. 180 million to provide solar electricity generators to 74 public institutions including boarding primary and secondary schools, health centres and dispensaries in Baringo, Marakwet, Samburu, West Pokot, Turkana, Makueni, Narok, Kajiado, Moyale, Marsabit and Mandera districts. This project will be extended under Vision 2030.
- iv) Energy access scale-up programme: Through this project, one million households will be connected with electricity over the next five years at an estimated cost of

KShs.84 billion. The programme will target connecting all major trading centres, secondary and primary schools, community water supply works and health centres in the country. This programme will be financed by the Government as well as development partners.

- v) Enhanced oil supply capacity: Plans are underway for installation of booster pump stations to double the capacity of the Mombasa to Nairobi oil pipeline from 440m³/hr to 880m³/hr. 4 booster pumps will be installed in Samburu, Manyani, Makindu and Konza.
- vi) Extension of the national oil pipeline: A study has been completed on the projected demand for petroleum products in the country. The Kenya Pipeline Company has selected an Engineering Design and Construction Supervision Consultant for the construction of a 340km parallel oil pipeline from Nairobi to Eldoret.
- vii) Joint ventures: The Government will also partner with the government of Uganda and Tamoil East Africa limited in a Joint Venture Company for the extension of 352km oil pipeline from Eldoret to Kampala.
- viii) Construction of 6,000 tonne common user LPG import handling facility in Mombasa through public – private partnership. This is expected to increase parcel sizes imported thus reducing freight costs and making LPG cheaper to Kenyans.
- ix) Construction of 2,000 tonne common user LPG handling facility in Nairobi. With increased storage space, supply sources will increase thus competitively priced LPG can be obtained.
- x) Local coal supply: following the completion of appraisal drilling in Mui Basin of Kitui and Mwingi district, Kenya will have access to local coal as an every source. Initial exploration activities have indicated existence of coal. Appraisal drilling projects to ascertain the commercial quality and viability of the deposits are in progress.
- xi) Olkaria IV appraisal drilling of 6 wells are expected to produce 70 mw of electricity. The project is expected to prove that commercially exploitable steam is available in the field.
- xii) Wind Power Generation by IPP's at various sites. It is envisaged that wind power will provide total power installed of about 150mw.
- xiii) Co-generation Power: Power will also be obtained in the process of producing sugar. It is envisaged that the potential of about 120 mw will be exploited using sugar factories as a base. This will be done through public-private partnership.
- xiv) The Energy Sector Recovery Project (ESRP), funded by the World Bank and some bilateral donors, has a major component on "Distribution Reinforcement and Upgrade" to be implemented over a period of four years. This is intended to improve quality and reliability of supply, reduce system losses and increase

access to electricity service especially in the urban and peri-urban areas. This is of special interest to the industrial sector where power outages in the past led to losses.

- xv) The Governments of Kenya and Tanzania have obtained funding for implementation of a 330kV transmission line project between Arusha in Tanzania and Nairobi. This will be another source of extra power.

2.6 Science, Technology and Innovation

The Vision recognises the role of science, technology and innovation (STI) in a modern economy, in which new knowledge plays a central role in boosting wealth creation, social welfare and international competitiveness. There are four elements that allow effective exploitation of knowledge: (a) an economic and institutional regime that provides incentives for the efficient use of the existing knowledge, the creation of new knowledge, and the flourishing of entrepreneurship; (b) an educated and skilled population that can create, share and use knowledge well; (c) a dynamic information and communication infrastructure that can facilitate processing, communication, dissemination; and finally (d) an effective innovation system (i.e. a network of research centres, universities, think tanks, private enterprises and community groups) that can tap into the growing stock of global knowledge, assimilate and adapt it to local needs, while creating new knowledge and technologies as appropriate.

Kenya intends to become a knowledge-led economy wherein, the creation, adaptation and use of knowledge will be among the most critical factors for rapid economic growth. Experience from countries such as South Korea, Malaysia, Finland, Ireland, China and Chile illustrates that rapid progress can be made over relatively short periods of time by pursuing coherent strategies build the capabilities to create, access, and use knowledge. Vision 2030 recognises that in the process of the emergence of the knowledge economy is always associated with an increase in science-related and technology-related activities. The World Economic Forum's Global Competitiveness Report of 2006 notes that, alongside the quickening pace of global economic integration, the marked acceleration in the pace of technological and scientific progress has been a major driver of the transformation of the world economy since World War II. This has been accelerated by the removal of international barriers to the flow of goods, services, capital and labour, and by rapid technological and scientific progress. Technological advances have also reduced the cost of transport and communication and created new opportunities for business and employment.

STI has, therefore, become central to the new economic sectors that have given momentum to the upward growth of knowledge-based economies as a whole over the past few decades. In this regard, STI will be critical to the socio-economic transformation of the country. Kenya harnesses science, technology and innovation in all aspect of its social and economic development in order to foster national prosperity and global competitiveness. Science, technology and innovation will be mainstreamed in all the sectors of the economy through carefully-targeted investments. This will create a strong base for enhanced efficiency, sustained growth and promotion of value addition in goods and services. To achieve that objective, additional investment must be made in STI, sectors that lag in the application of STI must be exposed to its benefits, there must be better coordination of Kenya's multiple

institutions dealing with research and development, and Kenya must adopt a better STI dissemination strategy.

Strategies for promoting science, technology and innovation

- *Strengthening technical capabilities:* Kenya will strengthen her overall STI capacity. This will focus on creation of better production processes, with strong emphasis on technological learning. The capacities of STI institutions will be enhanced through advanced training of personnel, improved infrastructure, equipment, and through strengthening linkages with actors in the productive sectors. This will increase the capacity of local firms to identify and assimilate existing knowledge in order to increase competitiveness.
- *High skilled human resources:* Though better than that of many countries in the region, Vision 2030 has in mind Kenya's pool of talent is small and inadequately trained for integration into the job market. Measures will therefore be taken to improve the national pool of skills and talent through training that is relevant to the needs of the economy. The current transition rate from secondary level education to university will be increased and the postgraduate training strengthened, particularly in science and technology.
- *Intensification of innovation in priority sectors:* To intensify innovation, there will be increased funding for basic and applied research at higher institutions of learning and for research and development in collaboration with industries. Furthermore, measures will be taken to coordinate research activities among the various institutions to ensure synergy and to avoid duplication. Proven technical knowledge produced in industries and tertiary institutions, including universities, will be transformed into technologies and protected as intellectual property rights. Indigenous technology, which is part of our national heritage, remains unmapped and has exposed our national heritage to misuse by external interest groups. Measures will be taken to identify and protect this heritage. In order to encourage innovation and scientific endeavours, a system of national recognition will be established to honour innovators.
- *STI awareness:* In view of the importance of STI in society, efforts will be made to promote awareness of new ideas and discoveries to the general public. The Vision will create and deepen STI awareness, particularly in the social sphere and to support initiatives to develop STI solutions to address current and future development problems.

2.7 Land reforms

Land is a vital factor of production in the economy. In addition it has aesthetic, cultural and traditional value that should not be underestimated. The performance of key growth sectors of the economy and the attachment of Kenyan communities to land all affect access and utilisation of land in Kenya. Before and after independence, land has remained a contentious and unresolved issue for those reasons. The absence of a national land use policy has led to the proliferation of informal settlements, inadequate infrastructural services, congestion, environmental degradation, unplanned urban centres, pressure on agricultural land,

environmental degradation and conflicts. In addition, most of the land in the country has not been registered, which hinders people from asserting their rights over land. To date, a only 4.06 million title deeds have been registered countrywide.

Secure access to land contributes to social and economic development and guarantees tenure which builds more confidence in the investors, be they small or large. An improved dispute resolution mechanism has therefore been instituted through the Land Disputes Tribunals to speed up dispute resolution. However, there is a backlog of land dispute cases, some going as far back as 20 years. These require judicious and expeditious settlement, something the Kenyan Judiciary is already working on.

To provide adequate support to the projects and programmes expected under Vision 2030, the following policies will be accorded priority.

Sustainable land use: The current land use practices in the country are incongruent with the ecological zones. For instance, large portions of land in high potential areas have been subdivided into uneconomic parcels, while some parts of land in the medium and low potential areas are rapidly being converted into agriculture, despite the fragile environment they are located in.

Although the country has approved 221 local physical development plans, 12 regional development plans and 1 structure plan in the last four decades, proliferation of informal settlements, urban sprawl and encroachment into protected land remain fundamental challenges.

Unsustainable land use persists even in the 453 planned settlements schemes that have been established over the past 40 years. Nevertheless, these schemes provide an opportunity for rationalised provision of basic infrastructure and facilitate utilisation of land for agriculture. With the rising population and rapid urbanisation projected in Vision 2030, the settlement schemes programme will need to be stepped-up to cope with demand.

Land reform: The legislative framework to handle land-related cases is weak. This has contributed to a backlog of land-related disputes in courts. In addition, land issues are governed by many laws, most of which are incompatible. This has led to complexities in land administration and management. However, progress has been made to develop a national land policy that will principally provide an overarching framework for access to, planning and administration of land in the country. It will also address issues related to restitution of land due to historical injustices and the institutional framework. The reform will also address grabbed public utility plots.

Land and boundary disputes: A large number of pending land and boundary disputes have slowed down the finalisation of adjudication work. This has also contributed to increasing poverty among some communities. Measures proposed in the national land policy as well as those in the political pillar will go a long way in addressing this challenge.

Land information system: The current system of managing land records manually has slowed down land transactions. Although some 3.5 million land records have been digitally scanned, a computerised information management system is yet to be established. To speed up land

transactions, increase land revenue and discourage corruption, a Geographical Information System (GIS)-based Land Information System will be necessary. National Spatial Data Infrastructure will also be needed to facilitate the management of geo-spatial information relating to land.

In general, the land reforms envisaged in Vision 2030 are geared towards a holistic management of this critical resource so as to create a foundation for the implementation of projects identified in the Vision. In the short term, this will require speedy approval of the draft national land policy and relevant legislation.

2.8 Human resource development

Kenya aims to create a globally competitive and adaptive human resource base to meet the requirements of Vision 2030. Kenya's main potential lies in its people – their creativity, work ethic, education their entrepreneurial and other skills. To ensure significant and consistent results, the human resources will be managed, rewarded and steered to develop global competitiveness. To be successful in developing competitiveness, the capacity to utilise knowledge and information in design, production and marketing of traditional exports will be enhanced. This will result in quality human resources in health care, education, and training on improving work performance.

Kenya's global competitiveness will depend on the ability to create a human resource base that will be constantly subjected to re-training and access to technological learning within employment. These specific human resources play a major role in contributing not only to efficiency gains in existing economic activities, but also in diversifying economic sectors and activities in order to realize productivity gains.

Situation Analysis

One of the main characteristics of some of the countries that have achieved major transformations in the last decades, such as Taiwan and Chile, was the high quality of their pool of technical, industrial and entrepreneurial human resources. However, the key to success lies in the proactive measures to ensure training of human resources in order to respond to the changes that are triggered by global economic transformation. Kenya's ability to fully benefit from its existing human assets has been hampered by inadequate management and planning. The current institutional setup and the work ethic must now change in order for Kenya to achieve quality results. Mismatch between demand and supply must be corrected. This has contributed to factors such as the high cost of doing business.

For the country to compete in the global economy as it is likely to be a new policy on development of highly qualified yet flexible human resources will be adopted. The standards of technically qualified personnel and professionals must be raised to international levels. Kenya's pool of technically qualified personnel and professionals must be matched with skills demand in specific sectors, not deployed to the wrong industries or government departments. At the same time, there is an emerging age-gap between the senior and junior technically qualified personnel and professionals in areas such as science, engineering, technology and research. As a consequence, the rapidly growing economy has started showing human resource constraints, particularly in the most specialised scientific areas.

Kenya's business environment is characterised by a large number of Micro and Small Enterprises (MSEs), which account for roughly 75 per cent of total employment and an estimated 18 per cent of GDP. However, human resource development in MSEs is also facing various constraints, including inadequate technical and entrepreneurial skills. A suitable support for human resource development in those sectors will be needed in order to drive competitiveness.

Vision 2030 priorities under Human Resource Development

Human resource data: Accurate data is required to strengthen the management and co-ordination of human resources. The production of human resources has continued to be supply-driven and does not adequately respond to changing employment requirements. This has led to an over-supply in certain areas and a shortage in others, particularly at the cadre level. Kenya will create a national human resources database in order to track trends to supply and thereby adjust them to demand.

- *Productivity:* Although the country's productivity level ranks low by international standards, Vision 2030 provides an opportunity for significant productivity growth. One of the main challenges is the need to carry out an assessment of the productivity level across sectors and monitor productivity growth. In addition, productivity improvement approaches will have to be identified and implemented. This will ensure the objective of attaining competitiveness that will not be hampered by inadequate productivity growth. A national productivity center for that task will be started.
- *Strategic management and co-ordination:* The existing mismatch between skills and job opportunities implies that the existing capacity of human resources is under-utilised. Strategic management and co-ordination of human resources will be required in order to utilize existing capacity much better. This will involve identifying, attracting and retaining talent, particularly in the key sectors. It will also encourage tertiary institutions of education and training to provide a pool of human resources that can be readily absorbed into productive employment.
- *Social security:* The National Social Security Fund (NSSF) established four decades ago has not kept pace with changing socio-economic situation in the country. The Fund's mandate is being reviewed to effectively meet the social security needs of retired, retrenched and self-employed people, among others. Other issues, such as job flexibility in the current context of rapid global transformation, will also be addressed to ensure productivity gains. NSSF could also provide financial support to many of the projected Vision 2030 projects in terms of long-term investment bonds.

Training for Micro and Small Enterprises: Kenya's large number of Micro and Small Enterprises (MSEs) will need human resource development to meet their needs. This will be done through specialized training at different levels: community polytechnics, and the technical, industrial, vocational and entrepreneurship (TIVET) institutions which will be discussed under the education section of Vision 2030.

Human resources development strategies for 2012

For the period 2008-2012,, specific human resource development interventions will be undertaken in the following areas.

- *Human resource development within employment:* Learning within employment will be institutionalized with emphasis on technological learning within local enterprises. Deepening of technological knowledge will be part of that effort. The Government will encourage collaboration with the private sector knowledge-sharing, particularly amongst MSEs. Innovative strategies will be used to foster collaboration between sectors.
- *Identification of talent in the education sector:* A strategy will be put in place to identify talent within the education sector in order to fast-track it for key career, specializations in short supply. That specialised training will be expected to specifically provide special skills demanded by Vision 2030 flagship projects.
- *Identification and attraction of top Kenyan talent from abroad:* Specific measures will be implemented to tap Kenyan expertise abroad, including virtual return, consultancies and permanent returns. In particular the Diaspora policy and Bill will be prepared to facilitate Kenyans in the Diaspora.
- *Harnessing retired high cadre talent:* Kenya’s mandatory retirement age for the public sector is 55 years. Many retirees are capable of making oa contribution to our development. The gaps in high calibre and middle-level technical skills will therefore be partly addressed by tapping retired technical and professional Kenyans.. This will be achieved through specific mentorship programmes.
- *Strengthening linkages:* Linkages between the industry, technical training institutions and research institutions will be strengthened. This will promote training that is demand-driven, and ensure that technical and research institutions are responsive to the requirements of industry, particularly in the priority sectors.
- *Reorientation of human resources:* The government will retrain and redirect human resources in excess supply to areas experiencing shortages in order to meet the requirements of enterprises. In addition, cross-cutting factors that influence the productivity of human resources, including incentive pay, team work, employment security, job flexibility, information sharing and labour relations will be given due consideration.

2.9 Security

The vision for the security sector is a “society free from danger and fear”. One of the foundations of Vision 2030 is security of the individual and of property. Security is vital in achieving and sustaining the economic growth rate that is anticipated in Vision 2030. Freedom from danger (i.e. protection from physical or direct violence), and freedom from fear (i.e. a sense of safety and overall well-being) provide an enabling environment for individuals and businesses to thrive. It is a key incentive for attracting investment both from within and outside the country. Though steadily improving, insecurity continues to impose a huge burden on business in the country, with some firms spending up to 7 per cent of total sales, or 11 per cent of total costs on security infrastructure and personnel. In addition,

business firms spend an average of 4 per cent of sales on insurance against crime. Such spending not only increases the cost of business transactions but it also constrains growth of the private sector. This situation must change.

Situation analysis

The impact of reforms in the security sector, including community-based policing, is being felt. Between 2004 and 2005, the number of reported incidences of crime in the country declined by 10 per cent (i.e. from 83,841 to 75,400). The year 2006 witnessed a further 4 per cent drop to 72,225. In 2006, apart from other forms of offences against persons and other petty offences, stealing was the main type of crime, constituting 15 per cent of reported cases. This was followed by crime related to drugs and robbery, which represented 8 per cent and 7 per cent of all cases, respectively. Although economic crime represented a mere 3 per cent of all crime, such crime has a negative effect on the economy and discourages investment.

Sources of insecurity in the country

Insecurity in the country is attributed to five main factors:

- *Availability of small arms and light weapons:* The presence and proliferation of small arms and light weapons among ordinary offenders, criminals, and quasi-militia pose a dangerous threat to public safety, human security, conflicts and development. Most of the supply can be traced to instability in our neighbouring countries. This overall situation could discourage investment and it is in any case a problem that all Kenyans want resolved. As security improves, Kenya will create a 24-hour business economy as anticipated in Vision 2030.
- *Political violence:* Kenyan political parties tend to have regional following. The Kenyan political landscape constitutes ethnically-based political parties. This often causes tension among political parties and results unnecessary confrontations. Addressing this problem through relevant legislation and programmes, as envisaged in the political pillar, will be key to sustaining Vision 2030.
- *Resource conflicts:* The majority of conflicts witnessed in Kenya are natural resource-based. The general decline in key resources, such as land, water and pasture, due to rising population, increased economic activities and natural factors is the main contributor to conflicts. This is exacerbated by the presence of many lethal firearms within the country and across the borders.
- *Cattle rustling:* Although this practice has traditionally been associated with cultural demands, it has taken a commercial dimension whereby stolen cattle are sold to slaughter houses. Curbing this practice will be necessary for the regularisation and commercialisation of the livestock sector.

The Government intends to reduce current crime levels by 46 per cent in 2012. To achieve that, the Government will pursue the following specific goals:

- Improve the police population ratio from 1:811 to 1:450;
- Double the prison to area ratio;
- Increase police officers trained on forensic investigation by 500;
- Install effective ICT infrastructure in all security agencies;
- Provide a framework for coordination among security stakeholders;

- Collaborate with the judiciary in reducing the number of suspects held in remand homes, as a result of delays in court.

Those goals will be realised through the following strategies:

- *Recruitment of more staff:* This will improve service delivery by improving the police to population ratio;
- *Establish an institutional mechanism:* The aim of this strategy is to check the conduct of police and make them accountable to the people and to the rule of law. Measures will also be developed to depoliticise security institutions;
- *Crime prevention:* There will be a shift in focus from response to prevention of crime through intensified surveillance and improved crime detection skills. Modern crime investigation techniques (e.g. forensic investigation and use of ICT) will be promoted;
- *Capacity building:* This will include intensified training of security staff and provision of the necessary equipment in all security agencies.
- *Improved terms and conditions:* This will require provision of better living and working conditions for staff in Kenya's security services;
- Enhancement of security along the borders to address proliferation of small arms and illicit drugs across the borders;
- Improvement of coordination and communication among the various institutions dealing with security to enhance effective management of crime; and
- Annual customer satisfaction surveys undertaken to appraise the effectiveness of the on-going reforms.

In the short term the following projects will be implemented to bring about changes in security management in the country:

- Establishment of a forensic laboratory;
- Installation of surveillance cameras in Nairobi, Mombasa, Nakuru and Kisumu;
- Construction of six new prisons in Mwingi, Nyamira, Kwale, Rachuonyo, Vihiga and Kaloleni; and
- Establishment of a national security database

2.10 Public service

The Kenyan Vision for public service is “a citizen-focused and results-oriented” institution serving a rapidly growing economy and society.

Kenya recognises that a modern, and results-focused public service is a prerequisite for the country's socio-economic transformation as envisaged under Vision 2030. To this end, various measures have been initiated in 2004 in order to improve public service delivery. These have yielded significant gains. However, further efforts will be necessary to consolidate and up-scale these gains to ensure that Vision 2030 is anchored on a sound public service foundation. Public service reform will in addition ensure that the Government provides an environment that is suitable for the private sector to thrive and thus take the lead in economic development. Public service reform in Kenya will aim at placing citizen satisfaction at the heart of policy making and service delivery. This will require even more efficiency and efficacy in our public service in a corruption-free environment.

So far, efforts under the Economic Recovery Strategy, aimed at improving public service delivery by strengthening the link between planning, budgeting, programme implementation and coordination. Additional efforts have been directed towards improving performance management and human resource management. Nevertheless, accountability in the delivery of services still require a wider sense of ownership, in our country.

Kenya is aware that countries that have achieved significant results in economic performance have also embraced results-based management in the public sector. Kenya will therefore adopt international best practices in her reform programme. The success of this reform will depend upon the institutionalisation of Results-Based Management (RBM), transforming leadership, and developing new competencies for government. All of these must be founded on a strong core of public service values and ethics that aim at improving the welfare of all Kenyans.

Considerable progress has already been made. The public service reforms undertaken so far have improved the quality of service delivery considerably. Kenya was awarded the 2007 UN public service award in recognition of its institutionalisation of reforms in Public Services. Despite this achievement, there some constraints which must be overcome in order to provide the quality of services demanded by Vision 2030, including:

Changes in attitudes: The delivery of public services in Kenya still characterised by a culture rooted in the poor understanding of the fundamental principle of the public service, namely to serve rather than dictate to citizens. By involving the citizens in determining policies and priorities, a change in values and ethics throughout the public service will occur. This will also improve transparency and accountability in our public service, which is critical for achieving Vision 2030's goals.

Service delivery orientation: Currently, public service delivery is process- rather than results-based. As a result, the quality of services offered to ordinary citizens is not commensurate with government spending on service delivery across the sectors. This will change.

Capability and capacity: The capability and capacity within the public service have improved but to deliver the kind of services envisaged in Vision 2030 they need to get better. It will therefore be necessary to align the existing skills inventory to the Vision, and to build extra competencies in areas of shortage as mentioned in the section on Human Resources in this document.

Performance management: The management of the public service has to shift to reward on merit. In the past, it has tended to reward seniority rather than performance. These practices have contributed to inefficient and unethical use of public funds. Performance management will be deepened so that both rewards and sanctions are used to encourage provision of quality services.

Strategic direction: Public service delivery will be guided by clear strategic planning at ministry and departmental level. As a result, the provision of services within the sectors will translate into the overall national development agenda.

To re-structure Kenya's public service so as to provide a sound foundation in support of the economic, social and political pillars, the following five strategies will be adopted:

- *Re-define the purpose of Government institutions:* To develop a fit-for-purpose public service within the context of Vision 2030, the strategy will define the mandate and core business of the public sector institutions. It will also define the appropriate service delivery mechanisms and also arrange for audit and for accountability at all levels.

Capacity building for improved service delivery: The capacity of public servants determines the quality service delivery. Measures will therefore be taken to raise the level of skills in our public service. This will involve fast-tracking the development of competencies, including transformative and executive leadership to ensure professionalism and continuous learning. Strengthening of institutional capacity, by leveraging information technology, (as explained in the Information, Science and Technology section of this document) will be accorded priority.

Public Sector Knowledge management: Knowledge building and management will be a fundamental aspect of growth and competitiveness in the Kenyan economy. In our Public Service, measures will be designed to allow better sharing, and dissemination of knowledge particularly about all public service reforms.

Deeper Stakeholder engagement: A firmer mechanism for structured involvement of stakeholders in the determination of service of delivery priorities will be devised. It will provide opportunities for government and other stakeholders to work together to maximise results bearing the year 2030 in mind.

Performance management: A performance management mechanism for transforming the public service from process to results- orientation will be instituted. The ongoing performance-contracting initiative and the rapid-results approach will be up-scaled and deepened to support the realisation of performance targets outlined in Vision 2030.

Flagship project

As a first step in delivering the above strategies, the Kenya School of Government will provide instruction for improved performance in all aspects of the public service. It will also devise ways to inculcate public service values and ethics, and transformative leadership. The Kenya School of Government will benchmark its performance to the most distinguished institutions in its category.

CHAPTER 3: ECONOMIC PILLAR: MOVING THE ECONOMY UP THE VALUE CHAIN

3.1 Overview

To assess the existing opportunities and challenges for Kenya's economic growth, a diagnostic analysis was conducted by the Vision 2030 research teams, covering over 20 sub-sectors in 2006/2007. The analysis included two additional sectors, business process outsourcing (BPO) and bio fuels which, though currently play a limited role, have significant potential to become important contributors to the country's economy over time.

After considerable consultations with Kenyan experts, stakeholders, policy-makers, and investors, they settled for six priority sectors that promise to raise GDP growth rate to the region of 10 percent in a number of years. These are: tourism; agriculture and livestock; wholesale and retail; trade; manufacturing; finance, and BPO. These sectors make up the bulk of Kenya's GDP (57 per cent) and account for approximately half of the country's total formal employment. The sectors are supported by enabling sectors, such as energy, telecommunications and transport.

3.2 Tourism

Kenya aims to be among the top ten long-haul tourist destinations globally. China, Mexico and Malaysia are the leading destinations for long-haul tourists worldwide, accounting for 47 million, 22 million and 16 million annual visitors, respectively. In Africa, Egypt and South Africa are the leading long-haul tourist destinations. To be ranked among the top ten, Kenya must expand her global and African market share by offering new products, expanding tourist expenditure per capita and by improving her international marketing strategies.

Kenya has shown an impressive performance in the tourism sector since 2002, increasing the total number of annual tourist arrivals (both regional and long haul) from an estimated 1 million in 2002 to 1.6 million in 2006. This improvement occurred despite major global challenges that faced the sector, such as rising oil prices and health scares, (including fears of avian flu) and advisories against international travel to Kenya. Total earnings from tourism rose from KShs. 25.8 billion in 2003 to KShs.56.2 billion in 2006. A significant contribution to this growth has been attributed to strategic international advertising by the Kenya Tourist Board, particularly in the traditional source countries, such as Britain, USA, France, Italy and Germany.

Attaining the top ten long-haul destination status will involve addressing constraints facing the sector and implementing strategic projects to improve the quality and breadth of Kenya's tourist offerings at the coast, in game parks, and in "niche" products (e.g. cultural and eco-tourism), as well as an expansion in conference tourism. Further attention will be paid to creating an environment where tourists spend more per visit. Although the primary focus will be promotion of Kenya as a long haul tourist destination, Vision 2030 will also encourage domestic and regional tourism in order to even out fluctuations occasioned by the decline of visitors during the traditional low seasons.

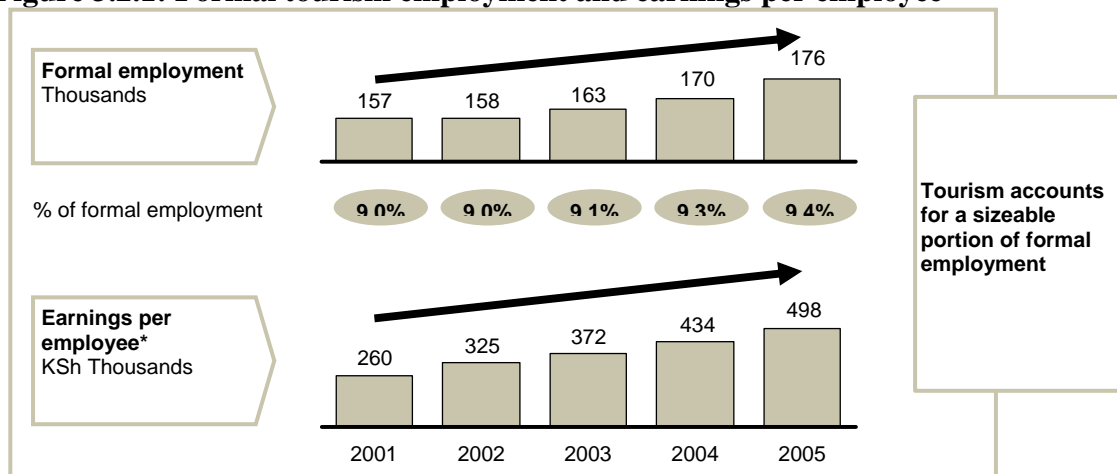
Whereas Kenya stands to gain enormously from tourism by 2030, policies and strategies must be put in place to mitigate unintended adverse outcomes, such as child prostitution, drug abuse and environmental degradation. Measures have already been put in place to ensure that these excesses do not grow. Preservation of moral norms embedded in our cultural traditions and values will be another way of dealing with these problems.

Situation analysis

Tourism accounts for close to 10 per cent of Kenya's GDP and 9 per cent of total formal employment. Over the last three years, tourism has been one of the fastest-growing sectors e.g. between 2004 and 2006, visitor numbers grew by 22 per cent each year. Tourism remains a leading earner of foreign exchange for the country, and brought in US\$800 million in 2006. Due to its many linkages to other sectors (including agriculture, manufacturing, banking and finance, wildlife, entertainment and handicrafts), tourism has great potential to generate employment and wealth.

As shown in figure 3.2.1, the tourism sector expanded significantly over the period 2001 – 2005. Employment in the sector grew by 3 per cent yearly, while earnings per employee grew by 18 per cent per annum.

Figure 3.2.1: Formal tourism employment and earnings per employee



* Calculated as tourism earnings divided by employment; Based on earnings in trade restaurants and hotels due to data availability
Source: Economic Survey 2006; Ministry of Tourism

Kenya can and must do better. While the number of international visitors increased to a record 1.6 million in 2006, other top tourist destinations like South Africa and Egypt attracted four to five times more tourists than Kenya (8.2 million in Egypt and 7.5 million in South Africa). In addition, the average spending per tourist in Kenya is lower than in other destinations (e.g. tourist expenditure per capita is 70 per cent more in Egypt). This shows that Kenya has enormous potential for increasing tourist arrivals and overall earnings. While the number of tourists and length of stay have been increasing over time, average spending by a tourist per day has been low compared to competing destinations.

Kenya's tourism sector offers a varied set of products that respond differently to price changes. Coast tourism, for example, is highly competitive and sensitive to price changes,

while premium parks (e.g. Amboseli, Maasai Mara and Samburu) and niche products (e.g. community and eco-based tourism) are so unique that they can be marketed successfully at higher prices. Consequently, the strategies to be developed for the sector will ensure that these differences are taken into account

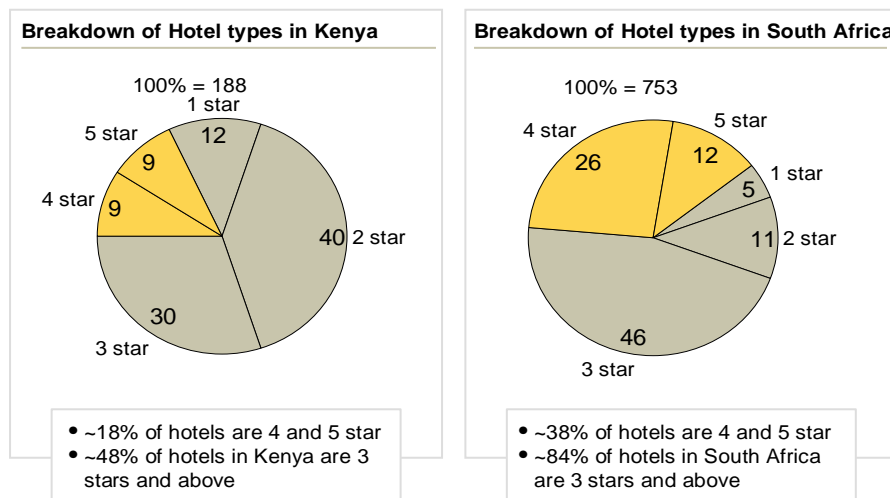
Challenges and opportunities

In order to exploit the growth opportunity in the tourism sector, the following challenges will be addressed:

Increasing hotel/bed capacity: With the recent increase in tourist arrivals, the bed occupancy levels during the peak season are close to full capacity (92 per cent). As a result, hotels and lodges are struggling to cope with the rapid growth in demand, principally due to limited investment in tourist accommodation in the last decade. During the Vision 2030 period, it will be necessary to substantially increase investment in this area, particularly to enhance bed capacity.

Product quality and diversity: Tourism in Kenya is currently concentrated in only 7 parks, which receive 80 per cent of the total number of visitors to the country’s 26 wildlife sanctuaries. There is, therefore, great potential in targeting the remaining 19 parks and reserves. In addition, only 18 per cent of Kenyan hotels are in the 4-5 star categories, which is significantly lower than the average of 40 per cent in competing long-haul destinations such as South Africa (Figure 3.2.2). To increase our competitiveness, there is a need to expand our product choice and the quality of our facilities and services. This will also lead to higher spending by tourists. The Government will work with the private sector to achieve the necessary improvements and expansion, with a focus on “niche” products, resort cities, business and safari tourism.

Figure 3.2.2: Hotel ratings in Kenya and South Africa



Source: Kenya Ministry of Tourism; Euromonitor International;

Improving and extending infrastructure: Despite recent improvements in the state of infrastructure there is need for further investment in the sector, particularly, to improve roads in key resorts and also new parks targeted as destinations of additional tourists. Additional infrastructure will also be required for proposed resort cities together with the new tourist products in high potential areas. This will include upgrading of our international airports in the country and construction of new aerodromes and roads to and within the parks. In addition, there will be a need to secure animal migrations routes and rehabilitate and extend infrastructure, particularly in the coastal region. Efforts will be made to upgrade other support services that have been straining to cope with increased numbers.

Marketing Kenya as a tourist destination: The Government will promote aggressive advertising campaigns to inform potential tourists about Kenya's attractions and facilities in order to increase her global market share. Such advertising will target high spending tourists in traditional and new markets. Specific focus will be given to Kenya's top five sources of tourists (i.e. UK, USA, Germany, Italy and France) as well as other high-potential markets (e.g. Scandinavia, India, South Africa and Japan). In addition, it will be necessary to expand domestic and regional tourism. Substantial resources will be devoted to marketing new tourist's attractions. In the year, 2004 Kenya spent approximately US\$4 million on marketing the country as an attractive tourist destination, while our long-haul competitors, such as Thailand and South Africa, spent US\$214 million and US\$61 million respectively. To add value, national parks and reserves will be branded according to their various attributes. Together with all these efforts, the tourism sector will benefit from the completion of the Brand Kenya initiative, which will market Kenya as an international destination and also create a sense of national pride.

Improvement of security: In the past, Kenya's tourism sector has suffered from negative publicity on insecurity, both real and perceived. One of the major sources of this insecurity has been political instability in the region, which has led to increasing cross-border traffic in small arms. Other sources of insecurity include cattle rustling, income inequalities, and unemployment. Vision 2030 has proposals to deal with these problems under the three pillars. To improve the security situation within the country, the Government is strengthening the overall capacity of the Kenya Police that will include training and new equipment and buildings. Kenya has also been involved in peace-making initiatives in the region which are already paying dividends. The Government will continue to allocate more resources to improve the overall security situation in the country.

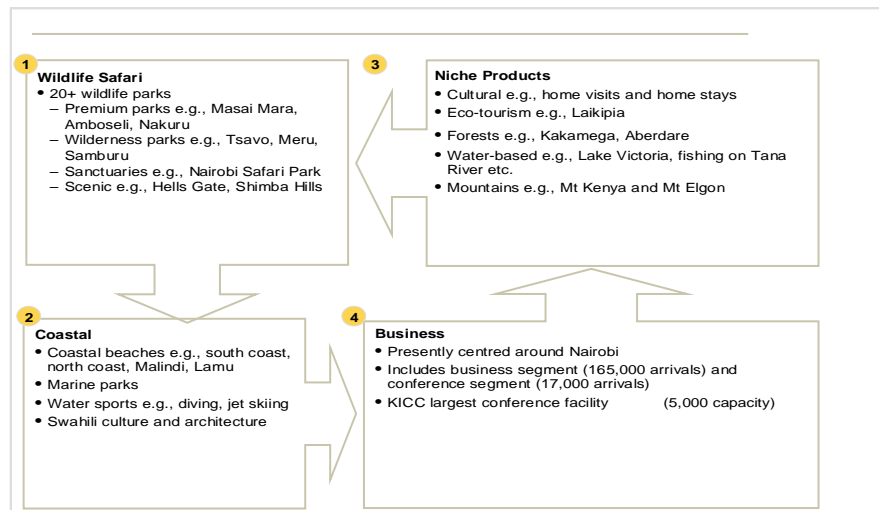
Strategic leadership and coordination: While significant improvements have been achieved in the last four years, there is still room for better coordination and collaboration among public and private sector players. This will avoid unnecessary competition and duplication of marketing efforts. The Government will institute proactive measures to coordinate the various players in the sector and also address strategic initiatives and concerns, especially those related to international tourism.

Goals for 2030

The Vision for the tourism sector is to "become a top ten long-haul tourist destination in the world that offers a high-value, diverse and distinctive visitor experience". To achieve this objective, there will be a critical focus on the quality and the diversity of tourism products in the country (Figure 3.2.3). The Government, in partnership with the private sector and other stakeholders will develop four key tourism products:

- The Coast product: This will include the development of segments along the coast that are currently underutilised, together with expansion and improvement of quality in the existing facilities;
- The Safari product: The aim will be to improve the quality of premium safari parks and open resorts in underutilised parks;
- Niche products: Targeted initiatives will nurture and expand high-value niche products such as cultural tourism, eco-tourism, sports tourism and lake tourism; and
- Conference and business tourism product: The Government and the private sector will work together to increase revenue from this product through investment in new and existing hotel facilities, and through upgrading of air travel facilities.

Figure 3.2.3: Tourism goals for Vision 2030



Source: Interviews with industry specialists;

Goals for 2012

The first horizon will provide the foundation for achieving the goals for 2030, which will include the following two targets:

(i) Increasing international visitors from 1.6 million in 2006 to 3 million in 2012. Achieving this target will require:

- Doubling the number of bed-nights at the coast;
- Exploiting the underutilised parks by increasing safari bed-nights by at least 50 per cent;
- Trebling the number of bed-nights in nascent niche markets; and
- Doubling the number of bed-nights for business and conference tourists.

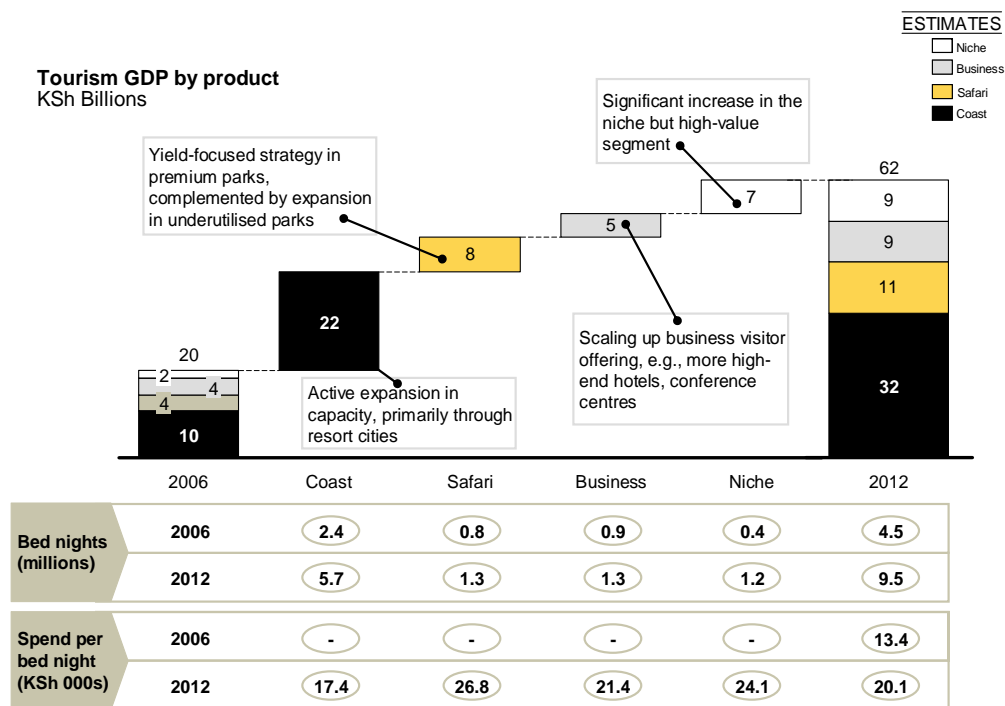
(ii) Attempting to increase average spending per visitor through:

- Improving the up-market Safari and the niche products to double the yields; and
- Improving the quality of tourism facilities and the diversity of the attractions offered to visitors.

Strategies for 2012

The overall strategy for the sector between 2008 and 2012 is to treble national earnings from tourism. This will be achieved through increased bed-night occupation at the coast, safari business and niche products. Figure 3.2.4 provides rough estimates of the expected trends over the period.

Figure 3.2.4: Growth in tourist product contribution to tourism GDP: 2006 – 2012



* Safari is proxied by "Masailand, Nyanza and Central", Business assumed to be high-end "Nairobi" bed night numbers

Source: Vision 2030 Research Teams, 2007

Strategies to achieve the goals for 2012 will include implementation of measures to improve and develop the main tourism products, diversification of tourist sources, human resource development and improving security.

Development of products

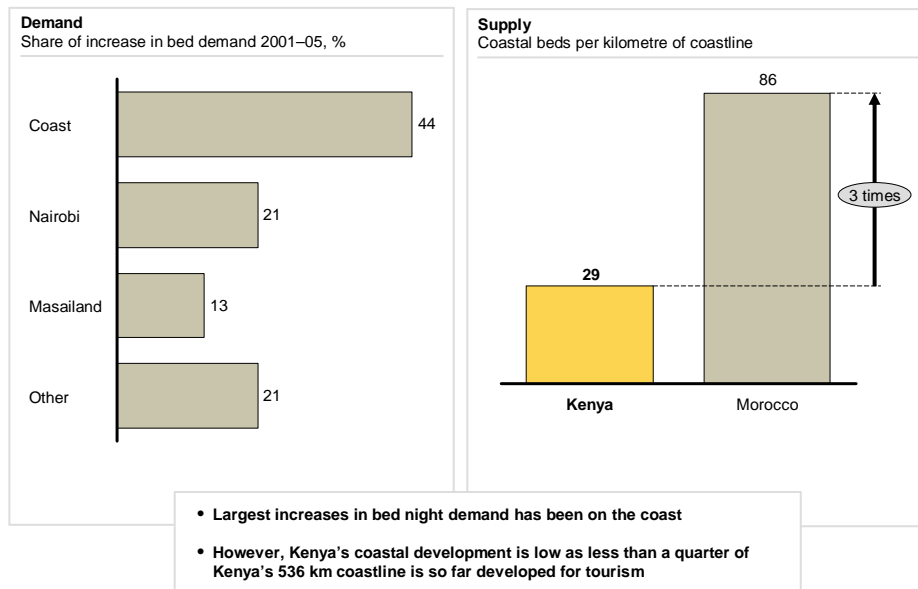
The following four products will be developed:

- i. *The coastal products:* The coastal products will be diversified and improved by:
 - Attracting new investments in existing as well as new hotels with emphasis on 4-5 star hotels;
 - Increasing bed capacity to cope with the projected growth in tourist arrivals;
 - Constructing two resort cities; and
 - Promoting Kenya as an international tourist destination, with a unique coastline.

As figure 3.2.5 demonstrates, increase in bed space is grew fastest at the coast – by 44 per cent between 2001 and 2005. That demand will continue to rise and it will be met in large part by opening more of the Kenyan coast to tourism development. Kenya has 29 beds/km of

coast line, which could be trebled by the provision of more accommodation in existing and new hotels, as has been done in Morocco. A third resort city will also be constructed around Isiolo area to optimise the rich tourism potential presented by Mt Kenya, Meru National Park, the Aberdares and Samburu National Park, among others.

Figure 3.2.5: Growth in demand for bed space (2001-05) and potential of new developments at the Kenyan coast



Source: Kenya Wildlife Service; CIA World Fact Book; Central Bureau of Statistics Economic Survey

Each of the planned resort cities at the coast will have a specific theme (Figure 3.2.6). The one at Kilifi will be a mass family-friendly resort targeting predominantly high-income tourists, while the one in Diani will emphasise wellness and an exposure of tourists to the rich culture of Kenyan communities.

Figure 3.2.6: Features of proposed resort cities on the Coast

Family-friendly resort at Kilifi	Wellness-focused resort at Diani Beach
<p>Theme</p> <ul style="list-style-type: none"> • Mass tourism family-based resort • Predominantly high-income 	<p>Theme</p> <ul style="list-style-type: none"> • Wellness, culturally themed • Exclusive and high quality
<p>Site profile</p> <ul style="list-style-type: none"> • Midway between Mombasa and Malindi • Access to marine parks at Watamu and Malindi, and Gedi ruins • Within 2 hours of Tsavo game park 	<p>Site profile</p> <ul style="list-style-type: none"> • Close to Diani Beach amenities • Access to dolphin watching at Kisite • Access to Tsavo game park • Within 2 hours of Tsavo game park
<p>Facilities</p> <ul style="list-style-type: none"> • ~8 000 beds in land – ~16 hotels (twelve 4/5 star, four 3 star) totalling ~7 000 beds – 5 quality apartment complexes of ~ 1 000 beds total – 100 exclusive villas • Designer golf course on coast • Shopping mall/promenade • Cinema • Wooded park • Coastal cuisine school • Water-based amusement park • Aquarium • Go-cart racing track • Horse riding • Conference centre 	<p>Facilities</p> <ul style="list-style-type: none"> • ~5 000 beds – ~12 hotels (80% 4/5 star) – 100 luxury villas • Premium, signature golf course • Spa • Gyms • Saunas and jacuzzi • Multiple luxury swimming pools • Horse riding • Shopping • Beauty salon • Conference centre

Source: Vision 2030 Research Team, 2007

ii. *Safari products:* Safari tourism constitutes a premium product in Kenya given her game variety, ease of access and favourable climate that allows visits to the reserves and parks throughout the year. However, despite the premium quality the country offers, Safari tourism faces constraints, such as poor infrastructure, many undeveloped parks, lack of tourist facilities within the parks and past incidents of insecurity. As a result, there is relative concentration of visitors in a few parks, such as Nakuru, Maasai Mara and Amboseli. To diversify and increase the value of Safari products, a new strategy will be developed to encourage more tourists to visit under-utilised and un-utilised parks.

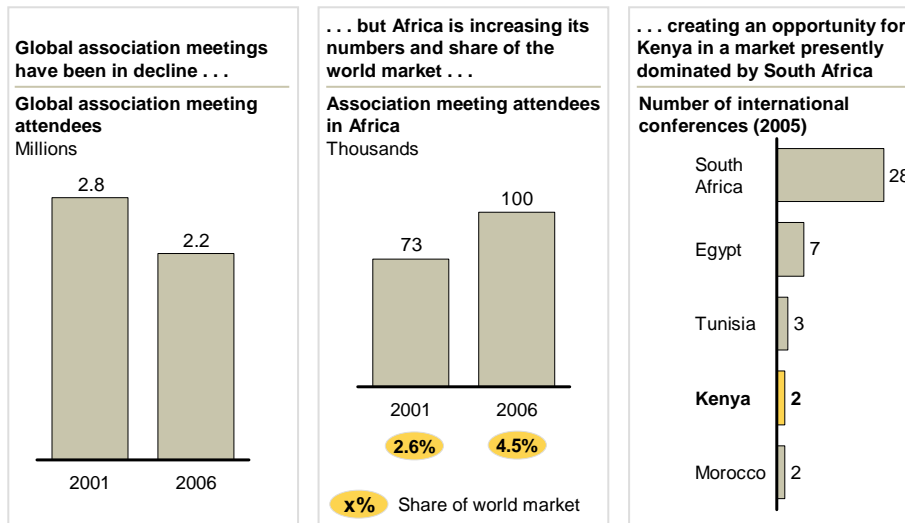
- Premium parks – The over-utilised parks will be branded and the quality of accommodation in these parks will be substantially improved, making it possible for these parks to charge premium prices for all their facilities.
- Under-utilised parks – The existing facilities and infrastructure in these parks will be rehabilitated and expanded. In particular, the current bed capacity will be improved and expanded. Furthermore, measures will be taken to attract new investment to the parks and to advertise tourist attractions at the parks. These parks include Meru, Mt Kenya, Tsavo East, Tsavo West, Mt Elgon and Ruma, among others.

iii. *The Niche Products:* Kenya has traditionally focused on the Coast and Safari tourism products; however, to scale up tourist arrivals, there is need to move to niche products with a target bed capacity of 3,000 beds in regions offering these

products. Niche products will be strategically developed to link up the Coast and Safari products. The specific products to be promoted include the following:

- Eco-tourism – This product has been gaining popularity owing to its environment-friendly aspects, and is particularly popular in European and American markets. Sites for this product will be developed in Kakamega Forest, Ruma National Park, Mt. Elgon and Mt. Kenya regions.
 - Cultural tourism – Kenya has a wide variety of indigenous cultures, which have not previously been explored for tourism purposes. Deliberate efforts will be made to promote authentic cultural experiences. The Government will partner with stakeholders to develop criteria to certify cultural homes.
 - Water-based tourism – Although the country has enormous potential for water-based tourism, this remains largely under-utilised. This is particularly the case in fresh waters such as Tana River and Lake Victoria where products to be developed will include water sports and fishing. To facilitate the development of this product, additional bed capacity will be required in Lake Victoria and Ruma national park.
 - Sports tourism – Kenya enjoys a great international reputation in sports. This potential has not been fully exploited, and provides a good foundation for promotion of various types of sports tourism. Deliberate efforts will be made to promote Kenya as a popular destination for sports tourism.
- iv. *Business and Conference Tourism:* Kenya has a large potential for business and conference tourism as a major product owing to its location and ease of international connections (Figure 3.2.7). This product will be improved by upgrading and building new conference facilities, with possible location in the three new resort cities. To cater for increasing numbers of business tourists, the Government, together with private sector stakeholders, will also promote investment in hotels by international chains in major towns, especially in the cities of Nairobi, Mombasa and Kisumu

Figure 3.2.7: Comparative potential growth for business tourism



Source: International Congress and Conference Association;

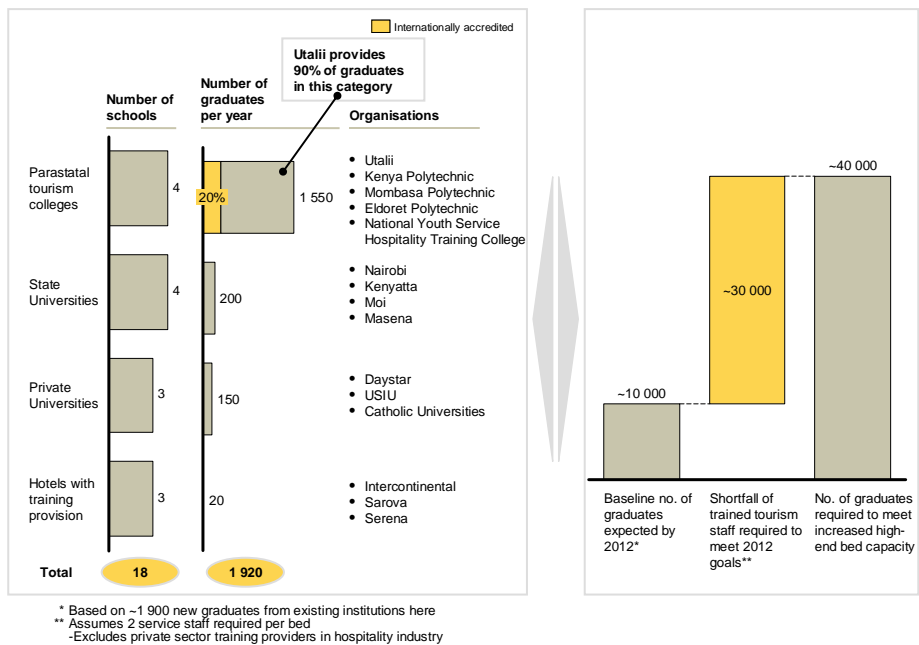
Diversification of tourist sources

As part of the marketing strategy, the Government will work with stakeholders to diversify the tourism market and reduce reliance on a few countries as the main sources of tourists to Kenya. This will reduce supply instability in this market. Potential sources of tourists to Kenya will be identified and strategies developed to attract them to the country.

Development of human resources for the tourism sector

As depicted in Figure 3.2.8, Kenya will experience a shortage in trained staff for the tourism sector between 2008 and 2012 arising from the demand for high level skills that will be required by the projected growth in the tourism sector. As explained in the education and training sector, Kenya will invest in training in high quality skills for the tourism sector. To encourage private sector investment in training for the sector, the Government will develop national training and testing standards targeted to the hospitality industry. To improve the quality of all-round tourism products, the Government, together with all stakeholders, will mount a continuous campaign aimed at changing negative attitudes towards tourism and creating awareness about the importance of providing quality services in the industry.

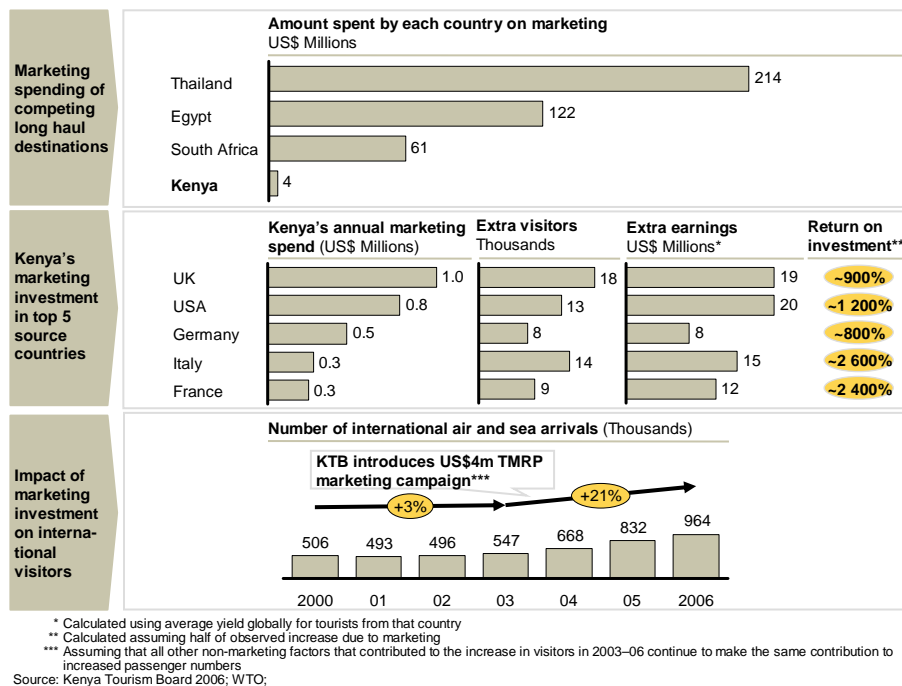
Figure 3.2.8: Estimated shortfalls in trained staff for the hotel industry



Source: NESC, Vision 2030, Research Team, 2006

Kenya managed to expand its expenditure for marketing in key tourist source countries to US\$4 million in 2004. The result has been an unprecedented increase in tourist arrivals in the country from 547,000 in 2003 to 964,000 in 2006, as shown in figure 3.2.9. However, in order to meet the level of tourist arrivals in 2012, Kenya will need to substantially expand its expenditure on advertising the country as a preferred destination, given the amounts allocated to marketing by her international competitions e.g. Thailand, South Africa and Egypt. Using a combination of public, private sector and international sources, Kenya will increase its marketing budget to a level necessary to meet the growth in tourist arrivals projected under Vision 2030.

Figure 3.2.9: Kenya's marketing budget compared to long-haul destinations



Improvement of security

The Government will enhance the ongoing reforms in the law and order sector, including recruitment of additional security personnel. The objective of this initiative is to improve the ratio of police officers to the population. Another initiative will include enhanced training, improved housing, better equipment and enhanced community policing.

Flagship projects and key initiatives in tourism

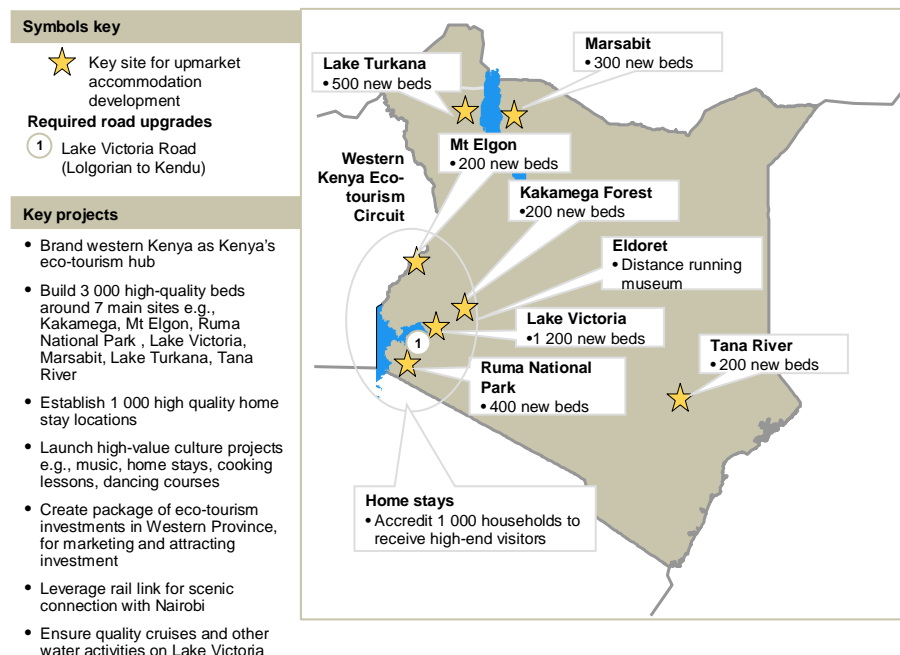
In collaboration with local and international investors, the Government will undertake the following major projects and initiatives to deliver 2012 targets for the tourism sector:

1. *Construction of resort cities:* Three resort cities (two at the coast and one in Isiolo) will be constructed in areas with the greatest potential to attract tourists. The implementation of this project will require:
 - Site selection based on results of a feasibility study, environmental impact assessment and availability of land;
 - Development of initial business plan outlining the strategic location, size and key activities, which may include sporting facilities;
 - Identification of potential investors through road shows and other promotional activities; and
 - Development of the supporting infrastructure
2. *Upgrading of premium parks:* The Government will launch appropriate initiatives to promote premium parks, such as the Maasai Mara, Amboseli, Samburu and Nakuru. The primary objective of the initiative is to ensure sustainability of the parks. The initiative will include:
 - Upgrading of hotel accommodation – The Government will consult with stakeholders and introduce a moratorium on new low value investments (below 4-

star hotels). This will be done in conjunction with upgrading of accommodation and services in the parks.

- Increasing entry fees and accommodation charges – With the additional revenue from higher fees, the Kenya Wildlife Services (KWS), local authorities and communities will target the promotion of security, better infrastructure, conservation efforts and better surveillance of parks to prevent abuse.
3. *Improvement of under-utilised parks:* A programme to develop under-utilised parks will be implemented. The parks to be developed under this project include Meru, Mt. Kenya and Tsavo East and West. In improving these parks, consideration will be given to the carrying capacity of each park, environmental factors, and the maximum number of visitors that can be allowed into each park without compromising its natural characteristics. As already mentioned, improvement of Kenya’s under-utilised parks will also involve attracting investments in high quality accommodation in hotels and lodges. The focus will be in 4–5 star hotels with capacities of 30–50 beds each.
 4. *Development of niche products:* The Government will identify areas suitable for niche products and then market them to the visitors. This will involve investments in targeted low utilised areas, such as the Lake Victoria and forested areas in Kakamega, Mt. Elgon, Ruma, Marsabit, Rift Valley and the Tana River (Figure 3.2.10). With regard to cultural tourism, efforts will be made to certify households in each community in Kenya that can provide tourists with a cultural experience.

Figure 3.2.10: Overview of proposed niche products initiative



Source: NESCA, Vision 2030 Research Team, 2007

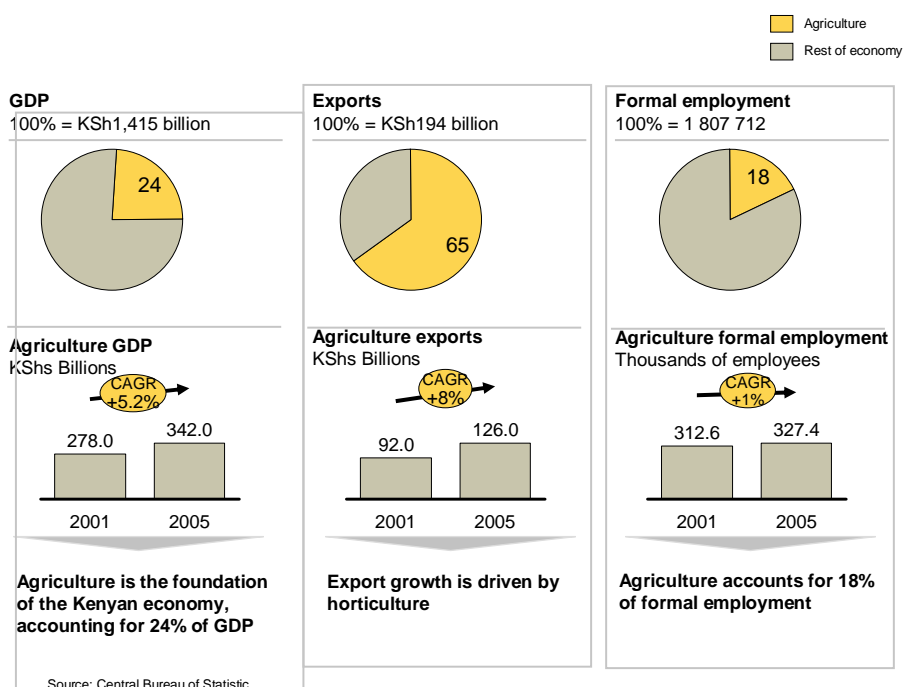
3.3 Agriculture

Overview of the agriculture sector

Agriculture is the mainstay of the Kenyan economy and currently represents 24 per cent of GDP. More than one-third of Kenya's agricultural produce is exported, and this accounts for 65 per cent of Kenya's total exports. The agricultural sector accounts for 18 per cent of total formal employment in the country (Figure 3.3.1).

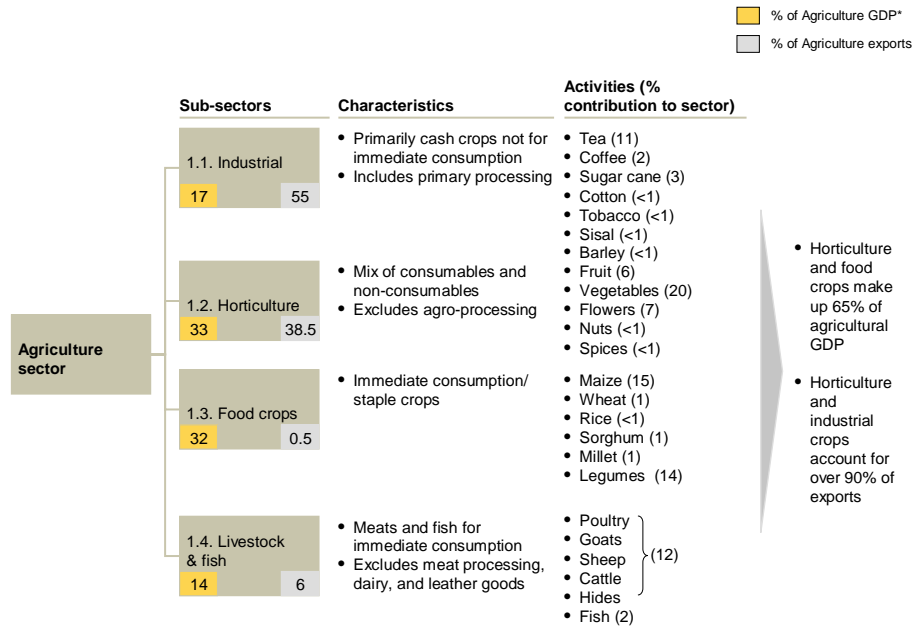
There are more than 5 million smallholders engaged in different types of agricultural activities in the country. Estates and plantation farms of various sizes are fewer in number and make up a smaller part of the sector. The compound average growth rate (CAGR) in agriculture between 2001 and 2005 was 5.2 per cent but the export growth was much higher, at 8 per cent. However, formal employment in the sector grew by a mere 1 per cent.

Figure 3.3.1: Agriculture's contribution to the economy (2001 and 2005)



The agricultural sector is made up of four major sub-sectors, namely, industrial crops, food crops, horticulture, and livestock and fisheries. The relative contributions of these sub-sectors are shown in Figure 3.3.2. For example, industrial crops contribute 55 per cent of agricultural exports. Further, of the total agricultural contribution to GDP, 17 per cent comes from industrial crops. Similarly, horticulture has recorded significant export-driven growth in the past five years and is now the largest sub-sector. Although the livestock and fisheries sub-sector is currently declining, it has high potential for growth. The development of that potential is one of the objectives of the Vision. Food crops make a significant contribution to Kenya's GDP (at 32 per cent of Kenya's agricultural GDP) and are also important for food security.

Figure 3.3.2: Distribution of coffee output and productivity levels by farm size.



Opportunities and challenges

Despite the central role that agriculture plays in the Kenyan economy, the sector continues to face four major challenges that have to do with productivity, land use, markets and value addition.

- **Productivity:** Productivity levels for many crops are below potential and for some agricultural produce, yield and value over a five-year period have either remained constant or are on the decline, as shown in Figure 3.3.3.

Figure 3.3.3: Yield and value per hectare of key crops and livestock (2001-2005)

Sub-sectors		Hectares (1,000s)	Production (1,000 tons)	Yield (Kg/ha)	Value* (\$/ha)	
Agriculture sector	1.1. Industrial	• Tea	↑ 141	↑ 329	↑ 2 325	↓ \$3 848
		• Coffee	↔ 170	↓ 45	↓ 266	↑ \$703
		• Sugar cane	↑ 145	↑ 4 801	↑ 71 460	↑ \$886
		• Cotton	↑ 32	↔ 19	→ 600	↓ \$168
	1.2. Horticulture	• Vegetables	↑ 122	↑ 1 392	↑ 11 392	↑ \$1 997
		• Fruits	↑ 155	↓ 1 905	↓ 12 253	↓ \$1 801
		• Flowers	↑ 2.1	—	—	↑ \$53 173
	1.3. Food crops	• Maize	↑ 1 760	↑ 2 918	→ 1 657	↑ \$365
		• Wheat	↑ 160	↑ 366	↑ 2 293	↑ \$614
		• Rice	↑ 16	↑ 57	→ 3 635	↓ \$790
	1.4. Livestock & fish	• Beef			→ 150 kg CDW per head	

Key
 ↑ Growing
 ↓ Declining
 → >50% below benchmark

Tea is high-value crop while cotton has the lowest value per hectare

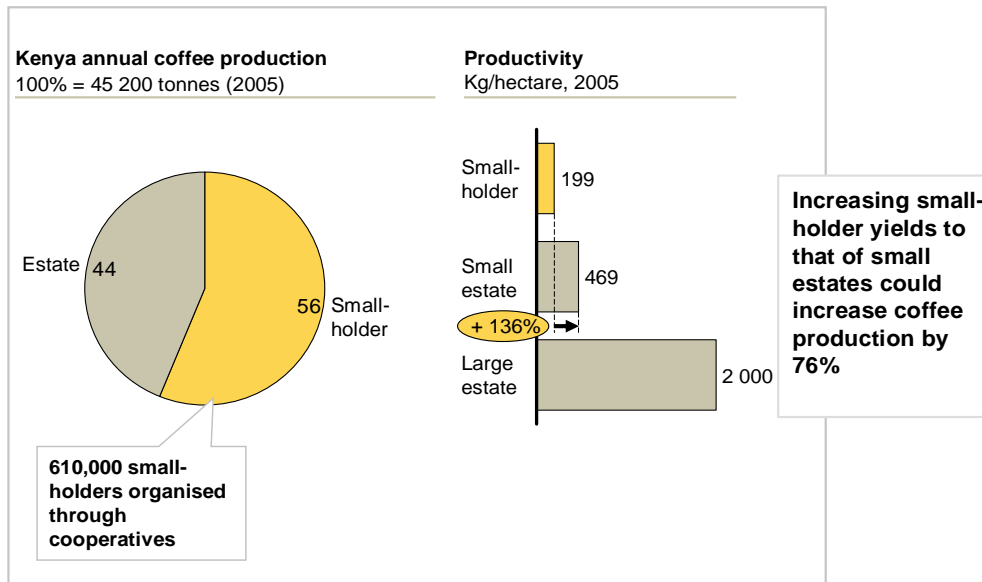
Commercial nature of floraculture achieves high value per hectare

While food crops do not have high values, they are key to Kenya's food security

Note: It is important to note that a 1:1 comparison is not totally possible since, for example, cotton grows on less valuable land than coffee and tea
 * Includes only production value
 Source: Ministry of Agriculture 2006; FAOSTAT;

In 2005, total coffee production was 45,200 tonnes, of which 44 per cent came from coffee estates with the balance (56 per cent) came from smallholder coffee farms noworganised through producer cooperatives. However, as shown in Figure 3.3.4, productivity in large estates was greater than in smallholder farms by a factor of 10. Increasing the volume and value of productivity in the smallholder is pact of Government policy, and new ways must be found to improve efficiency at farm level and to add value to Kenya Coffee prior to marketing.

Figure 3.3.4: Productivity levels of coffee (2005)

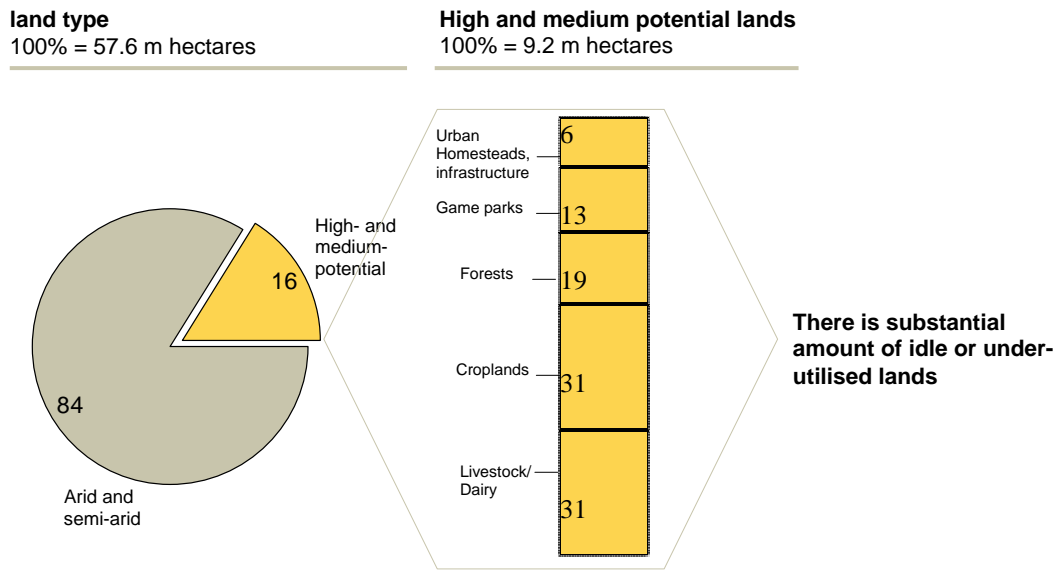


Source: Coffee Board of Kenya; Ministry of Agriculture (2005)

Agricultural productivity is constrained by a number of factors, including high cost of inputs (especially the price of fertilizer and seeds), poor livestock husbandry, limited extension services, over-dependence on rain-fed agriculture, lack of markets, and limited application of agricultural technology and innovation. However, for some crops, the productivity of Kenyan farmers is close to international standards. For example, yields for wheat, which is grown predominantly by estate farmers, are only 20 per cent below those in the US. This indicates that it is possible to substantially raise levels of productivity in agriculture.

- *Land use:* Land remains under-exploited for agricultural production. In the high and medium potential areas, only 31 per cent of the land is under crop production, which represents a mere 5 per cent of the total land in the country (see Figure. 3.3.5).

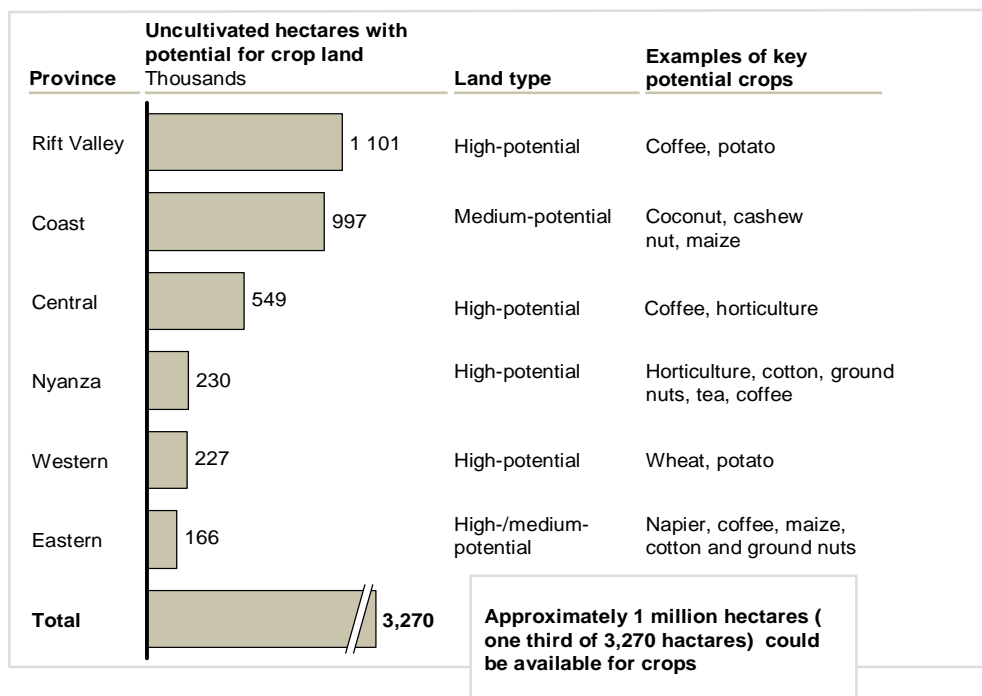
Figure 3.3.5: Land use in Kenya by function: 2006



Source: Ministry of Agriculture, 2007

Moreover, much of the available cropland remains under-utilised. For example, on average, smallholders use 60 per cent of their crop land for agricultural production, suggesting that a substantial amount of high and medium potential land is currently idle (see Figure 3.3.6). If utilised to grow appropriate crops, this land has the potential to generate approximately KShs. 87 billion, annually.

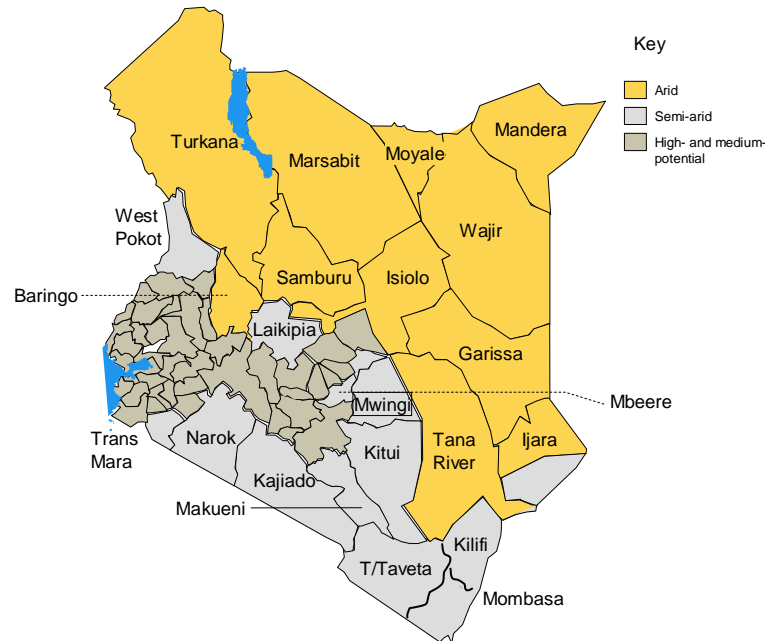
Figure 3.3.6: Potential land for additional crop production



Source: Tegemeo Household Survey 2006; Central Bureau of Statistics; Ministry of Agriculture;

The arid and semi-arid lands (ASAL), representing 84 per cent of the total land mass of the country, remain largely under-exploited (Figures 3.3.6 and 3.3.7). There are 24 million hectares in the ASAL that can be used for livestock production, but only 50 per cent of the carrying capacity of the land is currently being exploited. Additionally, there are 9.2 million hectares in ASAL which have the potential for crop production if irrigated. This irrigable area is equivalent to the total farmland in high and medium potential areas in the country. However, with the collapse of Hola and Bura irrigation schemes, the amount of land under irrigation in the ASALs is now negligible. In the medium and high potential areas, less than one per cent of the land is under irrigation.

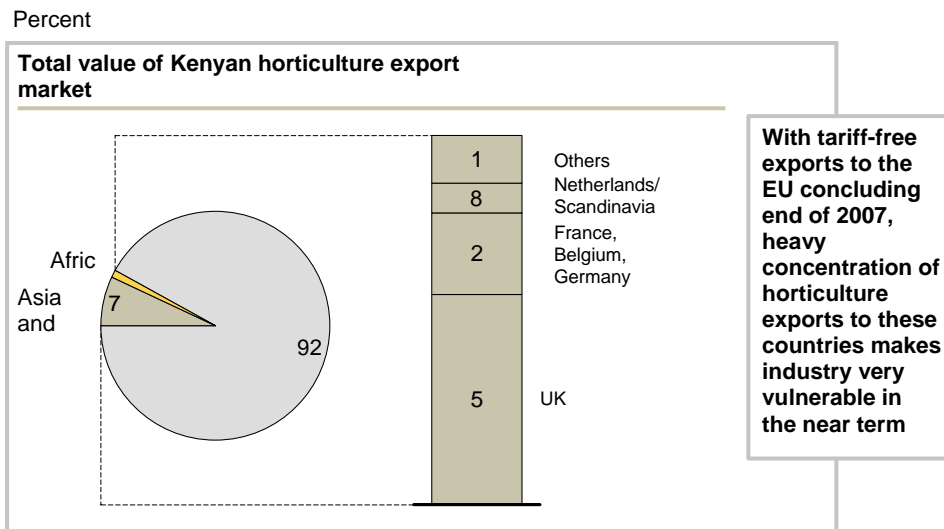
Figure 3.3.7: Broad land classification in Kenya by region



Source: Ministry of Agriculture

- Markets:** Marketing presents another major challenge to the agricultural sector. Productivity of the sector is constrained by inefficiencies in the supply chain. Supply-side inefficiencies result from limited storage capacity, lack of post-harvest services, and poor access to input markets. Exploitation by middlemen also creates distortions in the market. Agricultural exports have relied heavily on a few key markets. There is a need for proactive efforts to maintain existing markets and create new ones and to increase Kenya's bargaining power in global agricultural markets (see Figure 3.3.8 for a horticulture example).

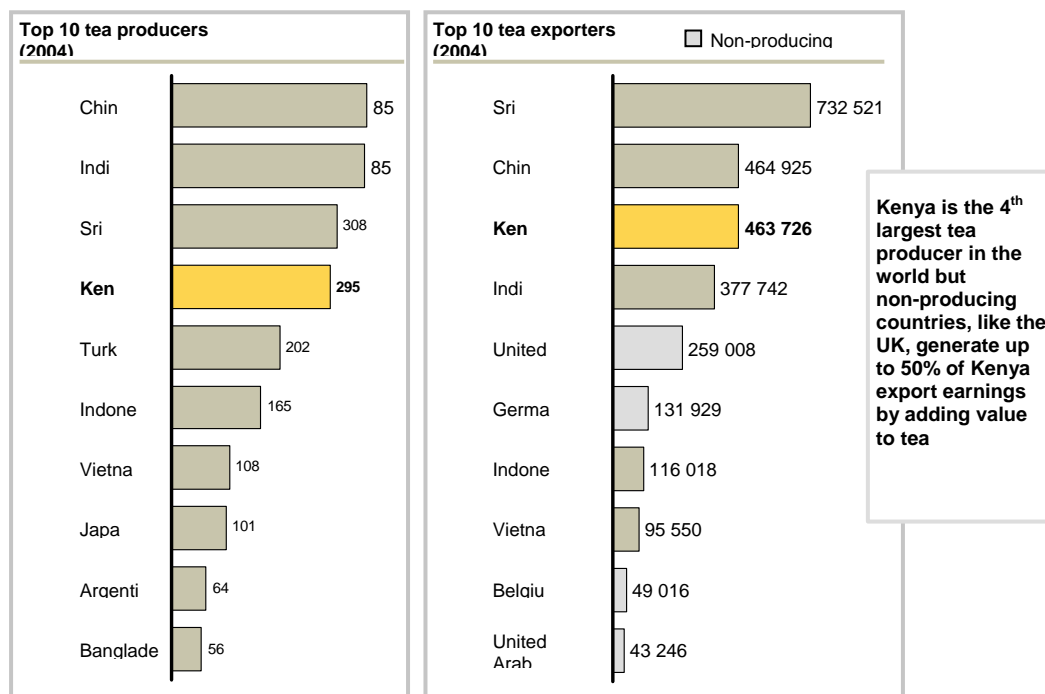
Figure 3.3.8: Kenya's horticultural exports by market destination



Source: Horticulture Crops Development Authority; TechnoServe, 2007

- Value addition:* Value addition in agriculture is important in determining the competitiveness of Kenya's produce on world markets. For example, Figure 3.3.9 shows that though UK and Germany are not among the top ten tea producers in the world, they are still key players in the world tea export market. They earn substantial revenues from re-exporting value added tea. In contrast, Kenyan farmers export semi-processed, low-value produce, which accounts for 91 per cent of total agriculture-related exports. The limited ability to add value to agricultural produce, coupled with high production costs (e.g. the prices of energy and infrastructure), makes Kenyan agricultural exports less competitive in global markets. Kenya will therefore adopt policies that will enable the country to capture a greater percentage of value-added than at present.

Figure 3.3.9: The role of value addition in the world tea market: 2006



Source: FAO: FAOSTAT, 2006

The four challenges discussed above are exacerbated by the unfavourable institutional framework currently governing the agricultural sector. The laws and regulations under which the agricultural sector operates are administered by different departments and ministries of the Government, including those dealing with water, lands, the environment and local authorities, besides the Ministry of Agriculture. This situation overburdens farmers who have to deal with multiple laws and regulations in such matters as land adjudication, water abstraction, and fees related to market access. The handling of related aspects of agricultural activities by multiple agencies poses a potential risk of inter-agency conflict to the detriment of farmers.

Vision for the agricultural sector

The vision for the agricultural sector is to be “innovative, commercially-oriented and modern farm and livestock sector”. The achievement of this vision will require a strong focus across five key strategic thrusts, namely:

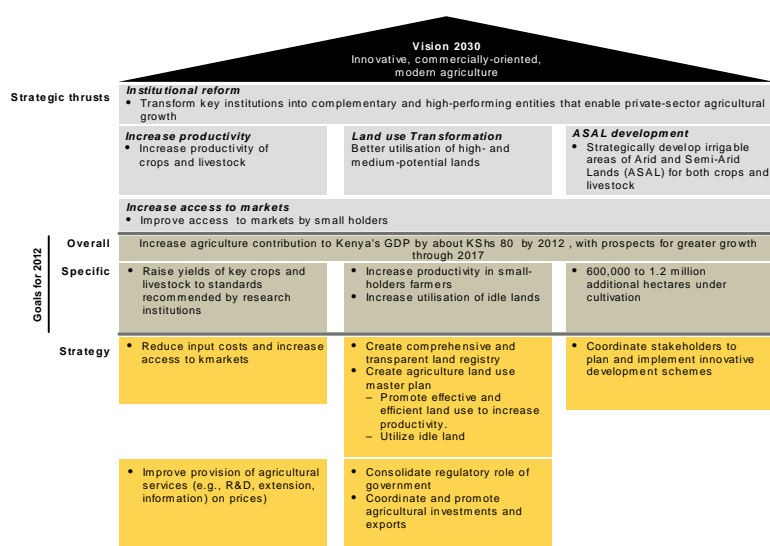
- Reforming institutions by transforming key organisations, such as cooperatives, regulatory bodies and research institutions, into complementary and high-performing entities that facilitate growth in the sector;
- Increasing productivity through provision of widely-accessible inputs and services to farmers and pastoralists;
- Transforming land use to ensure better utilisation of high and medium potential lands;
- Developing arid and semi-arid areas for both crops and livestock; and
- Increasing market access through value addition by processing, packaging and branding the bulk of agricultural produce. This will in part entail proactively exporting value-added goods to regional and global markets.

Goals for 2012

The overall goal is to achieve an average growth rate of 7 per cent per year over the next 5 years. This growth rate translates to an additional income of KShs. 80 billion, which is a significant contribution of agriculture to GDP. The overall growth rate will be achieved by meeting targets within three key strategic thrusts:

- To increase productivity, measures will be taken to raise yields of key crops and livestock towards the realisation of levels recommended by the country's agricultural research institutions;
- The transformation of land use will be done by putting idle land in existing farming areas into productive agricultural use. In this regard, at least 1 million additional hectares will be brought into production;
- In developing ASALs, the target is to put an additional 600,000 –1.2 million hectares under irrigation.

Figure 3.3.10: Agriculture vision and strategies



Source: NESCA, Vision 2030, Research Teams, 2007

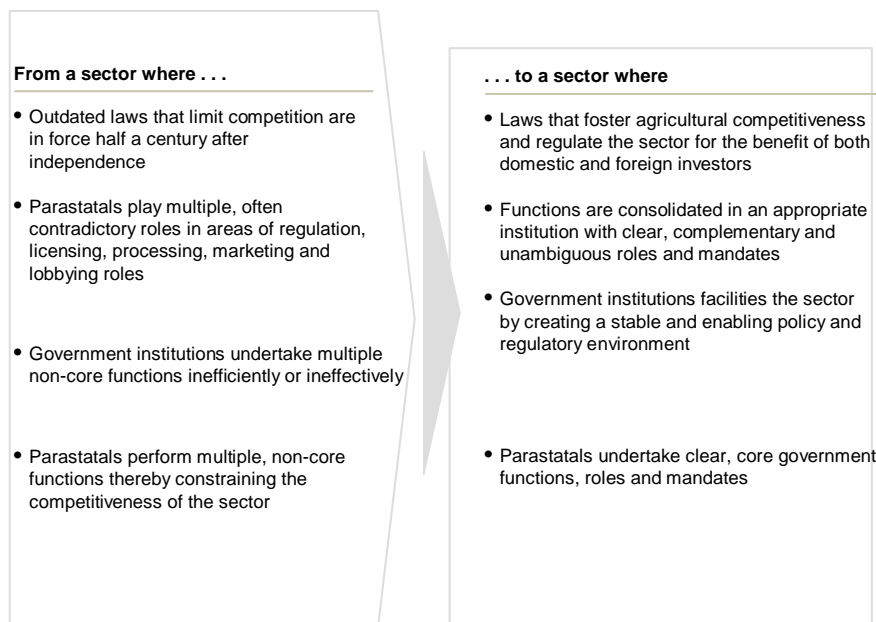
Strategies to deliver on 2012 goals

To realise the goal of increasing the contribution of agriculture to GDP by KShs. 80 billion over the next five years, the following strategies will be pursued:

Institutional reforms

The agricultural sector still operates under some outdated colonial legislation dating back to the 1930s, which is an impediment to the growth of the sector. Reforms will be implemented in the sector to improve productivity, avail more land for cultivation, and enhance access to existing and new markets. Furthermore, mechanisms for overarching coordination of various Government departments that affect agricultural productivity will be implemented to reduce duplication of effort and inter-agency conflicts. The main priority is the enactment of the Consolidated Agricultural Reform Bill to provide the necessary legal framework for the changes shown in Figure 3.3.11.

Figure 3.3.11: Transition in Agricultural Reforms

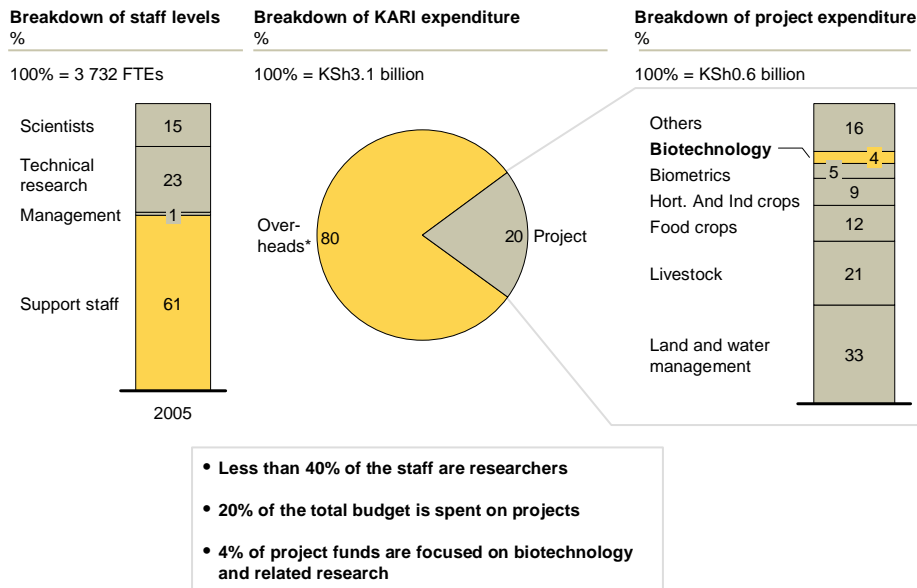


Source: Ministry of Agriculture, 2005

Further to the above institutional changes, other priority areas in the reform process will include:

- *Strengthened research and development:* Agricultural research and development (R&D) will be improved through the strengthening of human and financial capacities of various agricultural research institutions. The coordination of these institutions will be enhanced through better regulation, monitoring and evaluation. There will be increased levels of interaction between the Government, the private sector, academic, research institutions and farmers. This interaction will ensure that resources are better allocated to reduce duplication of research and dissemination activities. Greater collaboration among the stakeholders will be promoted to strengthen the connection between research, policy and the application of research findings. In addition, Government funding on agricultural R&D will be increased from KShs 3.2 billion to the NEPAD recommended level of 2 per cent of agriculture GDP. The structure of funding to agricultural R&D will be reorganised to put more resources into research activities rather than into overheads and salaries of non-research staff. Figure 3.3.12 shows the expenditure pattern for the Kenya Agricultural Research Institute, which is strongly in favour of overheads and salaries of non-research staff.

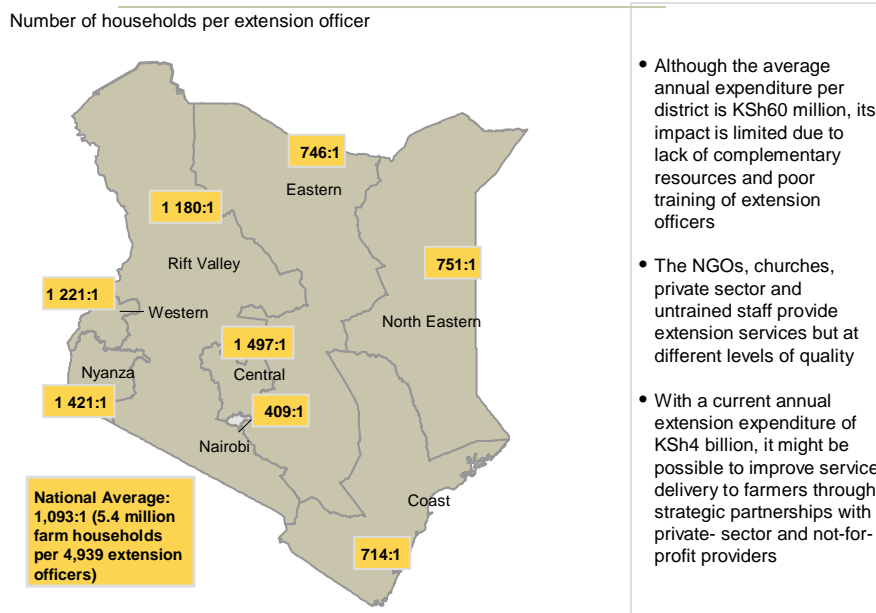
Figure 3.3.12: KARI's expenditure pattern (2005)



* Salaries and benefits represents 68% of total overhead budget
Source: Ministry of Agriculture, 2005.

- *Improved delivery of extension services:* This will be realised by increasing the number of extension officers per farm household. The current national average is one extension officer per 1,093 farm households (Figure 3.3.13). Avenues to outsource extension services outside of Government, particularly from producer organisations, NGOs, universities, and the private sector will be pursued to increase agricultural extension capacity.

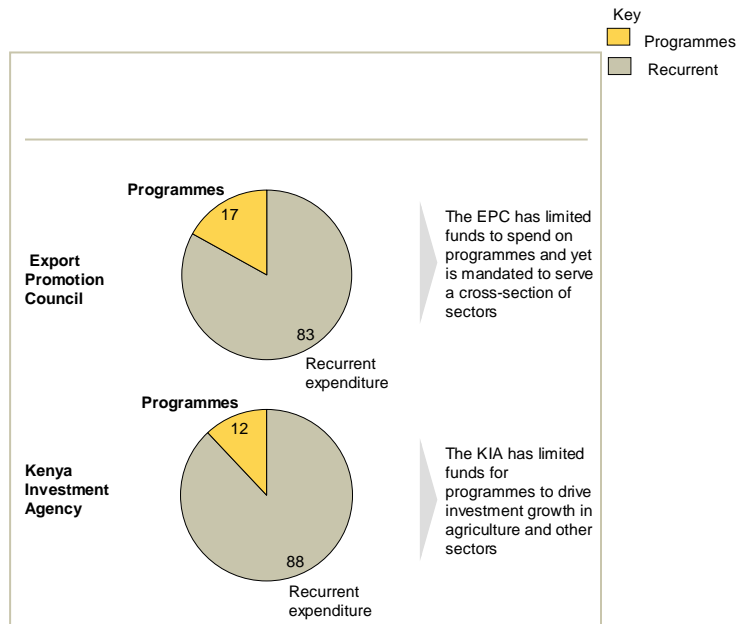
Figure 3.3.13: Farm households per extension officer by province



Source: Ministry of Agriculture

- *Strengthened producer organisations:* Producer organisations will be strengthened to enable them to discharge their mandates effectively. This, in part, will involve making producer organisations more accountable to farmers who fund them through levies on farm produce.
- *Integration of agricultural investment and export promotion into the activities of investment and export promotion authorities:* This integration will facilitate domestic and foreign investment in the sector. Moreover, it will help to increase existing market share as well as create opportunities for new markets. To facilitate greater integration of agricultural promotion activities, more resources will be allocated to development activities. Currently, the share of recurrent expenditure in total budget of the nation's leading export and investment authorities ranges between 80 – 90 per cent (see Figure 3.3.14). This situation limits the funding for programme activities.

Figure 3.3.14: Development versus recurrent expenditures at the KIA and EPC (2006)



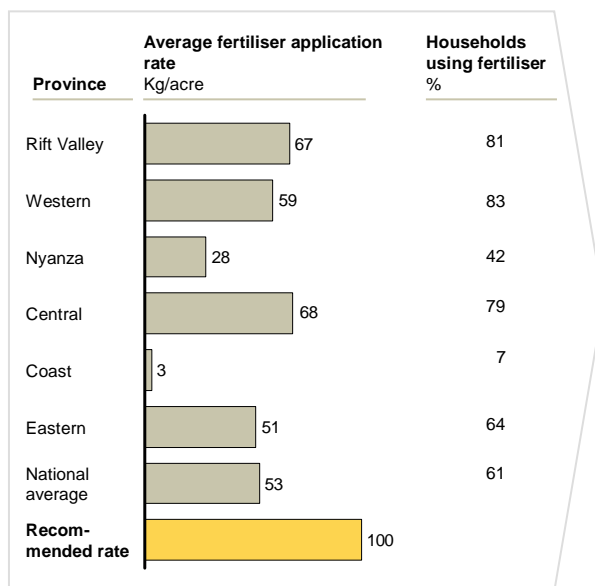
Source: Export Promotion Council; Kenya Investment Authority

Increase productivity

The Government will focus on improving the productivity of key crops and livestock by launching investment initiatives in the following areas:

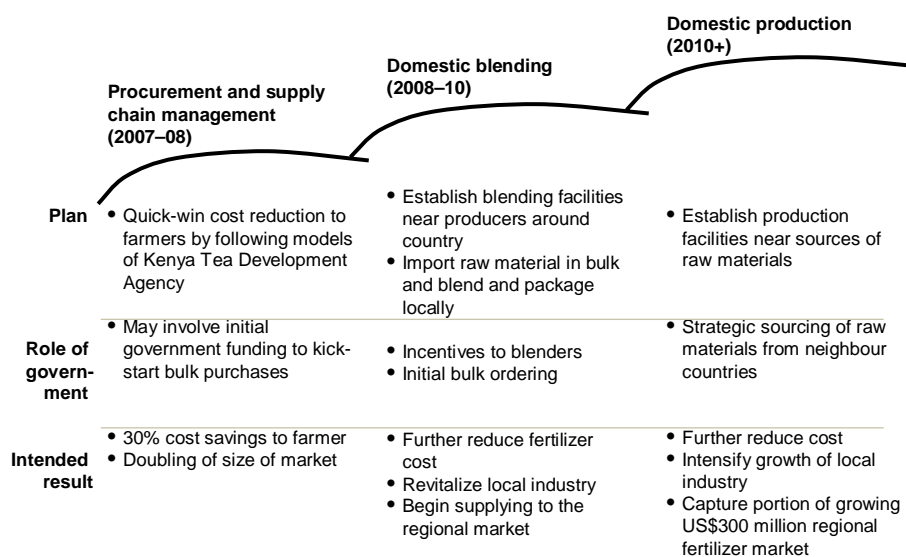
- Fertilizer cost reduction:** On average, 61 per cent of smallholder farmers (excluding those in North Eastern Province) used fertilizer in 2006 as illustrated in Figure 3.3.15. Low use of fertilizer has been associated with the high cost of the product. In order to increase fertilizer usage, a three-phase cost-reduction strategy will be implemented. The strategy will involve improved coordination of bulk purchasing, provision of incentives for local blending of fertilizer, and exploration of long-term opportunities for domestic production of this vital farm input. As shown in Figure 3.3.16, the three-phase fertilizer cost reduction strategy will start with a procurement and supply chain management initiative that could reduce costs to smallholders by up to 30 per cent, resulting in potential saving to the economy of KShs. 1.4 – 1.7 billion.

Figure 3.3.15: Fertilizer application levels in Kenyan smallholder farms



Source: Tegemeo Rural Household Survey 2006

Figure 3.3.16: Three-phase fertilizer cost-reduction strategy



* Natural gas
 ** Phosphates
 Source: Kenya Tea Development Agency; MEA

- Irrigation intensification and expansion:** Improved irrigation is critical to increasing agricultural productivity. In this regard, incentives will be provided for farmers to invest in energy- and water-efficient irrigation systems and technologies. The irrigation issues are covered under the water and irrigation sections of the Social Pillar.

- *Seed improvement:* The quality of seeds available to farmers affects farm yield. Strategies will be implemented to increase seed quality and seed adoption rates by encouraging competition in the sector by intensifying research on new seed varieties, commercialising already improved varieties, and working with farmers to develop farm-level selection methods to improve their own varieties.
- *Livestock development:* Several approaches will be implemented to improve livestock productivity, including increasing the availability of animal feeds through targeted programmes, such as seeding ranches and rangelands and enriched fodder, stemming the decline and re-energising the use of artificial insemination services (currently at 29 per cent of 1981 levels), and purchasing breeding bulls and cows for targeted parts of the country, especially around the proposed Disease-Free Zones.

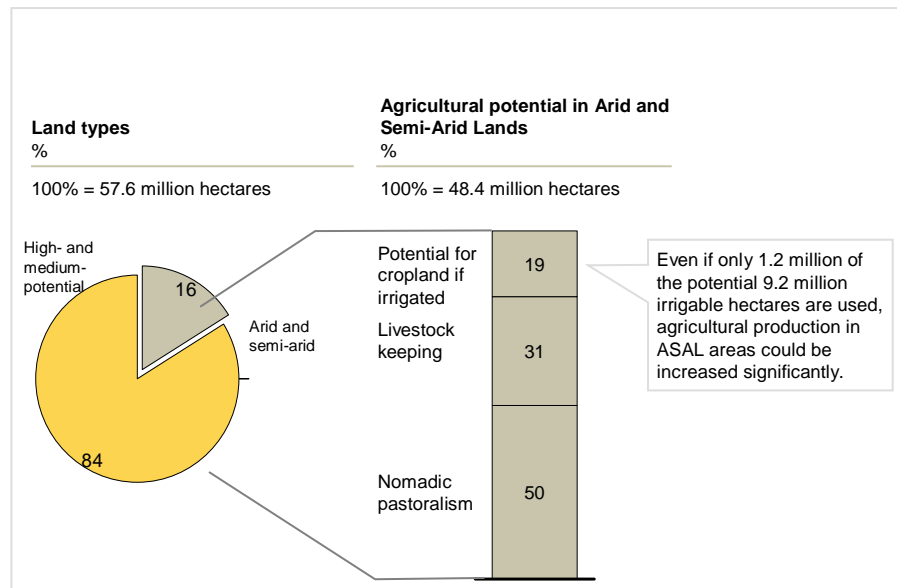
Transform land use structure

Several factors affect the way land is used in Kenya. In some parts of the country, high population densities, cultural practices of dividing land for inheritance, and the fact that most Kenyans live on their own plots in the rural areas have resulted in highly fragmented and often uneconomical plots. There are also some parts of the country with low population density, and in which certain cultural practices and other factors lead to idle or under-utilised land. These institutional and cultural constraints to efficient land utilisation will be addressed through several policy interventions and programmes including: (i) Creating a consolidated land registry that allows for idle and under-used lands to be utilised; (ii) Developing an agricultural land use master plan for more efficient utilisation of all forms of land; and (iii) Investing in institutions and infrastructure that will link farmers to credit and markets (also addressed in the Wholesale and Retail section).

In order to realise the full potential of ASAL, the following four specific strategies will be implemented:

- i. Investing in targeted rangeland developments, such as water provision, infrastructure, pasture, fodder and veterinary services;
- ii. Establishing strategically-located Disease-Free Zones to increase livestock productivity and quality;
- iii. Unifying the efforts of different ministries and other stakeholders (e.g. Regional Development Authorities, The Ministry of Water, and the Office of the President) for coordinated development of the region; and
- iv. Putting more land under cultivation, especially in Tana and Athi basins (Figure 3.3.17).

Figure 3.3.17: Agriculture in ASAL areas



Source: Ministry of Agriculture;

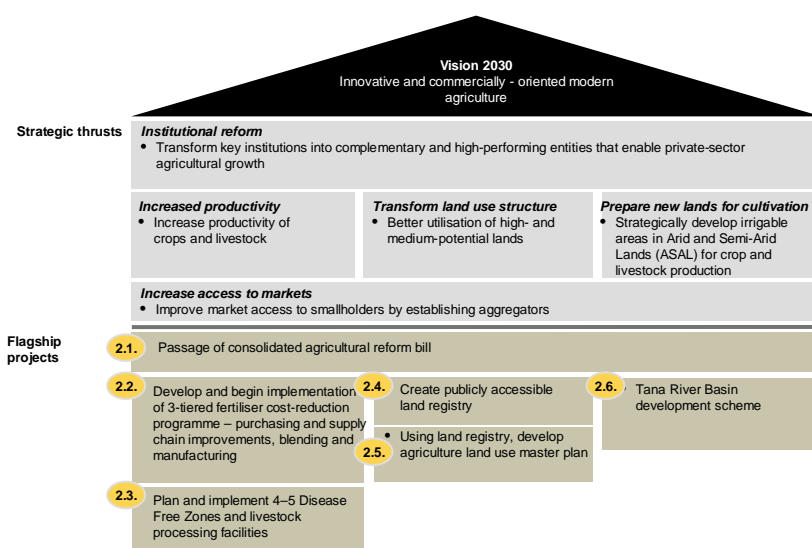
Flagship projects and key initiatives

In order to realise the five-year goals for agriculture, six flagship projects and nine key initiatives will be implemented across four of the five key strategic thrusts of the sector (productivity, land use, ASALs and institutional reform). The fifth strategic thrust, involving improving access to markets, is addressed in the wholesale and retail section of the report. The six flagship projects to be implemented in the agricultural sector are:

1. *Enactment of the Consolidated Agricultural Reform Bill:* As discussed earlier, significant changes will be effected in the institutional framework that governs the agriculture sector. The first step in the reform process will involve the passage of a bill that will consolidate the various laws governing the sector. This bill will provide the necessary legal framework to enable the other transformations in agriculture to take place.
2. *Fertilizer cost-reduction investment:* This project will be implemented through a three-tiered fertilizer cost-reduction programme involving purchasing and supply chain improvements in the market for this input and the blending and local manufacturing of fertilizer. Due to the high cost of fertilizer, its adoption rate by smallholders is quite low, leading to poor yields. To reduce fertilizer costs, measures will be implemented to strengthen the negotiating and purchasing capacity of farmers and to improve the fertilizer supply chain throughout the country. Producer organizations will be encouraged to pool their resources and purchase fertilizer in bulk in order to benefit from economies of scale. In the longer term, the aim is to increase the mix of fertilizer blended locally as a means of not only providing employment, but also of reducing costs further. In addition, this capacity building effort will enable the country to begin exporting blended fertilizers. Eventually, the country will acquire the capacity to produce sufficient fertilizers locally to serve domestic and regional markets.

3. *Disease-Free Zones*: The Government will establish at least four Disease-Free Zones including in the ASAL regions. The performance of the livestock sector has been below potential because of limited investments in past decades. To revive the sector and turn Kenya into an exporter of high-quality beef and other livestock products, targeted livestock development programmes will be implemented revolving around a series of strategically-placed Disease-Free Zones. A nationwide livestock census will be undertaken to facilitate the selection and location of the Disease-Free Zones. Within the zones, abattoirs and storage facilities will be established. The facilities will include a tannery to begin the process of formalisation and of the leather sector, and to stimulate its growth.
4. *Land registry*: A land registry, which is easily accessible to the general public, will be established. This flagship project will make land registration easier and will involve updating the existing registration database.
5. *Land use master plan*: The land registry will be used to develop an agricultural land use master plan.
6. *ASAL development project*: This flagship project will initially be implemented in the Tana River Basin scheme.

Figure 3.3.18: Flagship projects for the agriculture sector over the next 5 years



Source: Vision 2030, Research Teams

Key initiatives will be undertaken in the following areas to support the flagship projects:

1. *Agricultural R&D*: There is need for enhanced collaboration and coordination among the existing agricultural research institutions in the country to improve their effectiveness. An initiative to coordinate and promote this greater collaboration will be implemented. The initiative will involve enhancing human, technological and financial capacities of the

institutions, creating better oversight of their research activities, and establishing stronger linkages between the research institutions and farmers.

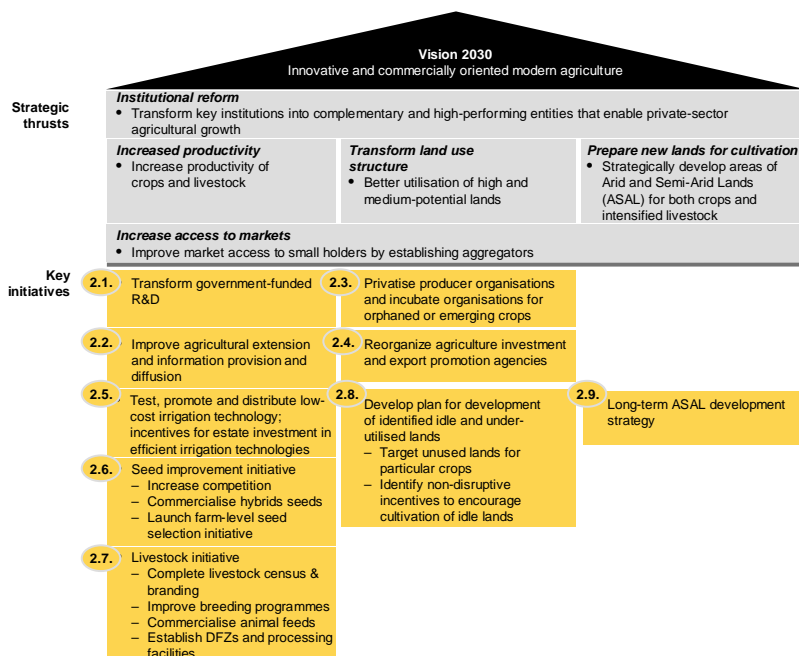
2. *Extension services*: A new agricultural extension policy will be implemented. The policy will provide a holistic approach that will encourage the involvement of the private sector, NGOs, CBOs, farmers’ associations and other stakeholders in the provision of extension services.

3. *Parastatals and producer organisations*: Initiatives in this area will upgrade performance of agricultural parastatals and make them more accountable to farmers. Where appropriate, these parastatals will be prepared for privatisation with the participation of farmers. Measures will be implemented to increase farmers’ voice and participation in the management of producer organisations. The Government will continue to play a regulatory role in the sector, including incubating producer organisations involved in emerging agricultural commodities until they are ready to be spun off as independent organisations.

4. *The cooperative sector*: Institutions in the cooperative movement will continue to play a vital role in the upgrading of the performance of the agricultural sector. Action will be taken to improve their technical and management capacity for better performance.

Other initiatives will involve strengthening the performance of the agricultural sector in the areas of strategic investments, export and marketing promotion, irrigation technologies, seed quality improvement, livestock development, and utilisation of idle land, particularly in ASAL areas.

Figure 3.3.19: Key initiatives for the agriculture sector over the next 5 years



Source: Vision 2030, Research Teams

3.4 Wholesale and Retail Trade

Introduction

Wholesale and retail trade will be one of the key sectors in the economic development of Kenya. This is because the sector is the link between production and consumption, both of which are expected to expand substantially as the economy heads to a 10 per cent growth rate. Informal and formal trade in Kenya accounts for approximately 10 per cent of GDP and 10 per cent of formal employment. It has been among the most rapidly-expanding sectors of the economy since the introduction of trade liberalization in the 1990s and after. Most of the employment in trade is found in the informal sector. However, formal wholesale and retail trade tends to be more efficient and to provide more permanent high quality jobs, which is what most Kenyan job seekers require. Kenya's challenge in future therefore to mainstream the informal sector into the formal sector by providing it with the support it currently lacks: secure business location, credit, training, and access to markets. All that will bring it closer to the formal sector and ultimately into regional and global markets. , However, the trade sector in Kenya as a whole is characterised by inefficiencies along the supply chain from producer to consumer, and from the importer to the final buyer. With improved efficiency and rising productivity, wholesale and retail trade has great potential to benefit both producers and consumers and to improve the distribution of local and imported goods. Provided it is streamlined, wholesale and retail trade has the potential to lower the cost to consumers and to intermediate producers.

For all these reasons, the Government will pay special attention to the development of more efficient wholesale and retail trade by streamlining the supply chain and by improving the quality of goods coming into the Kenyan market. This could also provide incentives for entrepreneurs to invest in storage facilities and processing, especially for perishable farm products, thereby eliminating price fluctuations resulting from surpluses or shortages of farm goods due to seasonal factors. This will also provide a solution to the problem facing many small-scale farmers, who take their goods to the market in periods of excess production but are unable to dispose of them, thereby incurring heavy losses. For consumers, organised markets will provide substantial benefits, which include better quality products and stable prices. Organised wholesale trade will also make it possible for producers in one locality to establish market linkages outside their local areas.

Situation Analysis

The wholesale and retail sector in Kenya is predominantly informal. It is characterised by many informal players, a large number of medium-scale retailers, and a few large supermarket chains located mainly in urban areas. As shown on Figure 3.4.1, the informal retail sub-sector is dominated by trade of agricultural perishable goods, which are primarily produced by smallholders throughout the country. By and large, the retailers and informal operators do not pay income taxes, other than the unavoidable local authority licence fees, mainly because they do not meet the threshold income level required for payment of income tax. Such tax is also difficult to collect from widely dispersed informal traders.

Figure 3.4.1: Structure of Kenya’s wholesale and retail sector

	Key players	Industry characteristics
Formal wholesalers and retailers	<ul style="list-style-type: none"> • 3 large national retailers (Nakumatt, Uchumi, Tusksys); • Many small to medium regional/city wholesalers and retailers with a few stores each • Many individual wholesalers and retailers in each town/city 	<ul style="list-style-type: none"> • A few large domestic retailers with approx. 30% market share and streamlined supply chains • Majority of market is fragmented across many suppliers • Prices are slightly higher at large stores, but consumers are willing to pay for quality and the experience
Micro small enterprises – informal	<ul style="list-style-type: none"> • Millions of micro enterprises either operating in markets or in make-shift kiosks • About 30 markets in Nairobi with approx. 9,000 stalls 	<ul style="list-style-type: none"> • Similar as hawkers segment (see below), however MSEs in markets pay certain fees and receive some benefits such as infrastructure and security • Typically low price, but better quality than hawkers
Hawkers – informal	<ul style="list-style-type: none"> • Millions of individuals who sell goods on the street 	<ul style="list-style-type: none"> • Large number of hawkers all selling the same product resulting in very low profits • Prices are usually negotiable typically resulting in low prices overall, but quality tends to be low • No taxes provides a buffer for hawkers to under-price

Source: National MSE Baseline Survey 2006; interviews

As shown in figure 3.4.2, the high level of informality in Kenya’s wholesale and retail sector has the potential to result in several kinds of market distortions, particularly those relating to taxation, labour employment and produce marketing. Informality also leads to lower tax revenues to Government from a sector that uses public services and facilities. Moreover, although the informal sector is the source of livelihood for many people who cannot access the formal employment market, the sector, when unregulated, comes with other social and environmental costs, such as environmental degradation, non-enforcement of health standards and infringement of copyright laws (e.g. in music and film industries). All these costs are bound to have a negative impact on Kenya’s international competitiveness, which is a major goal of Vision 2030.

Figure 3.4.2: Informality distortions in wholesale and retail trade

	Description	Negative impact on economy
Tax related	<ul style="list-style-type: none"> Difficulties in tax collection of VAT, import duties, excise and income taxes 	<ul style="list-style-type: none"> Allows informal and less productive players to gain abnormal share of the market, and limits government revenue Discourages investment from large players given the uneven playfield, and informal players due to fear of being detected
Labour-market related	<ul style="list-style-type: none"> Difficulties in enforcement of social security obligations and minimum wage payments 	<ul style="list-style-type: none"> Evasion of social security obligations allows informal construction companies to enjoy cost advantages and grow more than formal companies Discourages investment from more productive formal companies
Product-market related	<ul style="list-style-type: none"> Difficulties in enforcement of minimum product quality requirements, property rights and security/ environment standards 	<ul style="list-style-type: none"> Presence of substandard goods in the market Violation of property rights (e.g. copyright violations) Environmental degradation (e.g. poor disposal of plastic bags)

Source: Vision 2030, Research Teams, 2007

Figure 3.4.3 provides an illustration of potential inefficiencies in the supply chain of Kenya's wholesale and retail trade sector, particularly in the food category. Although relatively well-organised in some categories (e.g. beverages), major distribution problems exist for many other major categories (e.g. fruits and vegetables) arising from the structural problems throughout the supply chain. Typically, these supply chains are highly fragmented and involve millions of small producers and arbitrage traders. The chain is characterised by poor forward and backward linkages, and significant wastage (between 30-40 per cent) arising from spoiled goods, as well as from low productivity activities.

Figure 3.4.3: Selected supply chain constraints in the informal retail trade

Category	Supply chain structure
Fruits and vegetables	<ul style="list-style-type: none"> • Very fragmented supplier base • Many retailers get supply directly from farmers causing significant transportation and coordination problems
Meat and poultry	<ul style="list-style-type: none"> • Few suppliers for packaged meats with regional/national reach; In the case of poultry, most retailers get supply directly from farmers or small wholesalers
Milk and dairy	<ul style="list-style-type: none"> • About 5 major suppliers with regional/national reach; most local distributors obtain milk directly from farmers
Beverages	<ul style="list-style-type: none"> • Branded beverages (e.g., soft drinks) have relatively well organized distribution systems
Consumer goods	<ul style="list-style-type: none"> • Organized, tiered distribution structure, especially for brands; mostly managed by producers
Apparel	<ul style="list-style-type: none"> • Import large amounts of new and second-hand garments • Many small suppliers
Electronics	<ul style="list-style-type: none"> • Predominantly imported goods with about 2 intermediaries (importer and wholesaler) between producer and retailer; well organized

- Too many small food suppliers that operate at sub-scale levels resulting in significant wastages and low productivity
- Beverages and consumer goods, especially brands have well organized distribution systems
- Not enough large wholesalers with regional or large reach

Source: *Source: Vision 2030, Research Teams, 2007*

One of the problems facing consumers in the sector is that prices in formal retail outlets tend to be higher than those in the informal sector. Supermarkets currently control approximately 5 per cent of the retail sector business. In addition to supply-side challenges contributing to low formal market shares, the demand side is also a major driver of the sector, given low income levels in the country. Lower prices in informal markets make it much more attractive for consumers to purchase their products there. Even the highest income earners spend a larger portion of their household expenditure budget in the informal sector. As incomes rise under Vision 2030, it is anticipated that consumers will spend more of their income in the formal retail sector, thereby bringing down unit costs and forcing retailers to set more competitive prices.

Challenges and opportunities

In order to ensure the competitiveness of Kenya’s wholesale and retail sector, a number of challenges must be addressed. However, there are also many opportunities that could be exploited in the current system. This will be necessary in order to achieve the goals specified for this sector under Vision 2030.

- *Improvement in supply chain:* There will be a need to address the current fragmentation from producers to distributor and consumer outlets. The Government will enhance the forward and backward linkages in the sector to reduce wastage, particularly of agricultural perishable goods between the farm gate and the consumer. In addition, measures will be implemented to enhance the predictability of output

delivery by the producer to the trader and ultimately to the consumer. This strengthening of the chain between the producer and the trader, and between the trader and the consumer, will have an effect on improving efficiency in the entire chain. It will also assist in improving the standards of the products delivered to the market, and thus increase the competitiveness of the country.

- *Promotion of producer-based groups or associations:* In order to address the problems of fragmentation and informality that currently exist in the sector, the Government will encourage linkages between the formal market operators e.g. supermarkets and formal associations of primary producers. These producer groups will be organised to comprise individual producers in a given locality, with their membership being based solely on the capability to deliver the agreed products to buyers. While these groups could be based on the existing producer cooperatives, it may be necessary to form groups that bring farmers who are not necessarily involved in the production of cash crops that form the basis of the existing cooperatives. This integration is necessary to avoid the problem of exclusion that currently exists with cash crop cooperative societies.

It will further be necessary for the central Government, in conjunction with local authorities, to identify areas of high potential in retailing and wholesaling and to identify trade partners. The main objective of this initiative will be to integrate small traders while creating possibilities of economies of scale. The initiative will be designed in such a way as not to disrupt current retail operations, but to support them by avoiding price fluctuations, product wastage and distribution bottlenecks.

- *Improving the business environment:* The Government will accelerate the ongoing efforts to remove barriers to trade in order to lower the cost of doing business in the country. This initiative will reduce multiple licences, curb insecurity, address entry barriers to wholesaling and retailing, and improve economic infrastructure. With reliable and efficient infrastructure, it will be possible to attract domestic and foreign investments into these sectors.

Goals for 2030

Kenya's 2030 vision for the wholesale and retail sectors is to "move towards a formal sector that is efficient, multi-tiered, diversified in product range, and innovative". This vision will be realised by:

- Strengthening the capacity of informal retail sector operators (including *jua kali* operators) so that they can gradually become integrated into the formal sector and can grow into sustainable small- and medium-sized size businesses. This will be done through security of tenure, training, research and development programmes, credit extensions and linkages with local and international markets;
- Strengthening wholesale and retail activities through an improved business environment, provision of quality infrastructure, and certification of products; and
- Establishing a duty-free zone to create a business hub for the Eastern Africa region and to take advantage of Kenya's geographical position; "to bring Dubai to Kenya".

Strategies to deliver on 2012 goals

As part of the implementation of Vision 2030, the following strategies have been set for the period 2008-2012:

Supply chain

The key objective is to improve efficiency by reducing the number of players between the producer and the consumer. The Government will encourage the development of formal linkages between consumer outlets and local producers groups. As part of this effort, the Government will assist producers to improve their products. This will involve different forms of aggregation of individual producers (including existing cooperatives), but also formation of new producer groups. These groups will, in turn, supply goods to market outlets either directly or indirectly through intermediaries contracted by supermarkets or other retailers. In addition to improving the quality of the products by reducing the informal handling of goods, and by enforcing quality control standards, this initiative will enable primary producers to increase their earnings because it will reduce the number of intermediaries. The initiative will further enable consumers to benefit from lower prices and higher product quality.

Small-operator retail markets

The objective of this strategy is to create organised market outlets for small scale operators who will graduate from the informal sector. For the lower category of market outlets, the Government will, in conjunction with local authorities, identify appropriate market locations suitable for development by the private sector. These market facilities will be based in areas of high population density.

Expanding formal market outreach

The overall strategy is to increase formal market share in the country by encouraging more investment in retail trade. This will be done through the following measures:

- *Creating a duty free port:* To take advantage of the large market in Kenya and in the region, in which consumer needs have in the past been met by traders who had to travel to duty-free ports in the Middle East and East Asia to purchase goods, Kenya will build a duty-free port in the most suitable location in partnership with private investors. The construction and operation of the facility will be guided by international best practices;
- *Developing an outreach programme to expand retail trade:* There is considerable potential for expanding formal retail trade in the country, particularly at our airports and in planned resort cities. The Government will encourage local and foreign entrepreneurs to invest in areas with the highest potential for wholesaling and retailing; and
- *Developing training programmes to improve retail skills:* Kenya has made significant progress in training and providing extension services to producers of agricultural commodities. However, little attention has been given to developing marketing capacity, particularly among retail traders. As a result, many operators in the country have had no formal training in management and marketing strategies. To address this imbalance, training programmes will be developed and implemented through the school education system to inculcate skills in the area of retail trade, as well as in post- school business colleges.

To achieve the goals set for 2012, the following two initiatives will be put in place:

- Extending access to information on markets trends through enhanced use of electronic communication media, particularly the Internet and mobile phones. This will require expediting of the ongoing efforts to build digital villages, and investments in telecommunication infrastructure, including fibre optic cables, and creating awareness about the use of these facilities; and
- Creating an enabling environment along the lines of the ongoing reform efforts.

3.5 Manufacturing

Introduction

The manufacturing sector in Kenya dates back to the end of World War II. The sector is expected to play a critical role in propelling the economy a 10 per cent growth rate, in line with the aspirations of Vision 2030 and in supporting the country's social development agenda through the creation of jobs, the generation of foreign exchange, and by attracting foreign direct investment. To meet those goals, the sector has to become more efficiency-driven, raising productivity per unit of input (especially of labour and capital) closer to those of Kenya's external competitors. In turn, the Government will continue its reform programme to give the country an internationally competitive business environment. This sector will therefore be expected to use state-of-the-art technology that is both efficient and environmentally-friendly in an effort to make Kenya a dynamic industrial nation.

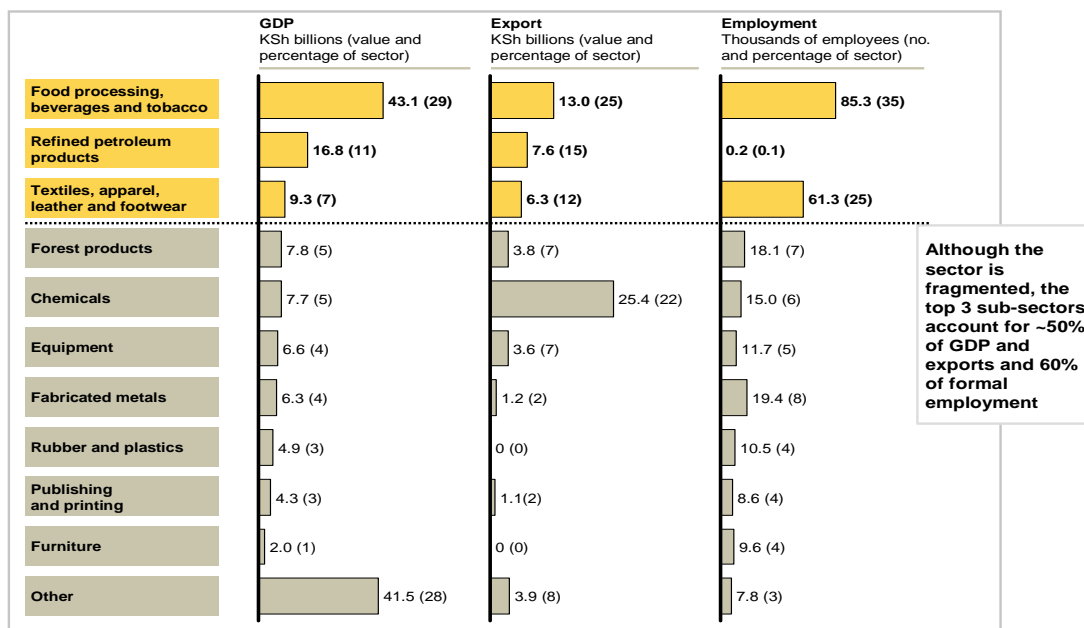
The sector, whose current contribution to GDP is 10 per cent and which recorded a growth of 6.9 per cent in value addition, is expected to register a growth of 10 by selling to per cent that is driven by local, regional and global markets. The sector must, however, surmount some challenges, including high fuel prices, exchange rate risks and inadequate and unreliable power supply. Vision 2030 envisages that special economic clusters and small- and medium-enterprise parks will serve as "seed beds" of Kenya's industrial take-off. In the long run, the nation is expected to skip the "smoke stacks" associated with rapid industrialisation and move up the value chain once the more basic industrial infrastructure has been developed. The manufacturing sector will play a vital role in boosting growth in agriculture by stimulating agro-processing activities. The barriers that have hampered the expansion and modernisation of this sector will be addressed to make the manufacturing industry more competitive both at the regional and global levels.

Situation Analysis

Manufacturing makes an important contribution to the Kenyan economy and currently employs 254,000 people, which represents 13 per cent of total employment. An additional 1.4 million people are employed in the informal side of the industry. The sector is highly fragmented with more than 2,000 manufacturing units. The manufacturing sector is divided into several broad sub-sectors, as shown in figure 3.5.1. The top three manufacturing sub-sectors account for 50 per cent of the sector GDP, 50 per cent of exports, and 60 per cent of formal employment. Nearly 50 per cent of manufacturing firms in Kenya employ 50 workers or less. Most manufacturing firms are family-owned and operated. In addition, the bulk of Kenya's manufactured goods (95 per cent) are basic products such as food, beverages, building materials and basic chemicals. Only 5 per cent of manufactured items, such as pharmaceuticals, are in skill-intensive activities.

Locally-manufactured goods comprise 25 percent of Kenya's exports. However, the share of Kenyan products in the regional market is only seven per cent of the US \$11 billion regional market. The Eastern African market is dominated by imports from outside the region. This is an indication that there is a large potential to improve Kenya's competitiveness in the region by replacing external suppliers gradually. However, even within the country, manufacturing has been on the decline for a considerable period of time and its contribution to the GDP has remained stagnant at about 10 per cent since the 1960s.

Figure 3.5.1: Kenya: Manufacturing sub-sectors in 2005



Source: Central Bureau of Statistics 2006

Opportunities and challenges

Despite a long tradition of manufacturing in Kenya dating back to World War II, continued decline in investment and overall lack of competitiveness have made it difficult for the sector to play a larger role in the economy. As a result, many manufacturing companies in Kenya have struggled to thrive and some key players have moved their operations to other countries. The following four factors have contributed to the lack of competitiveness in the sector:

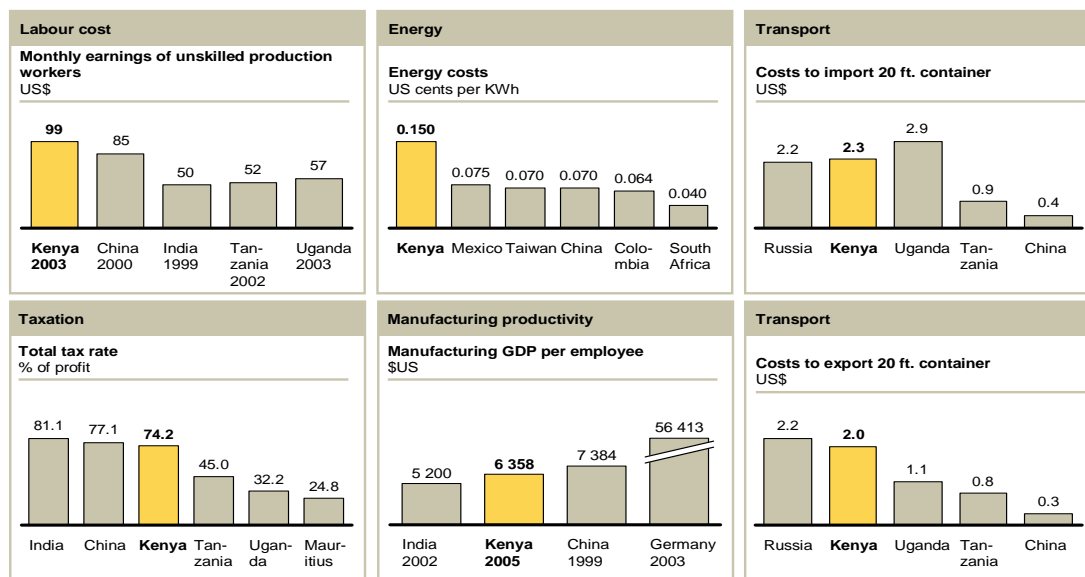
- *High input costs:* Expensive and often low-quality raw materials, rising labour costs, unreliable and expensive energy (e.g. US\$0.15c/Kwh in Kenya versus US\$ 0.07c/Kwh in China and US\$0.04c/Kwh in South Africa) have led to high costs of production. Poor infrastructure and inadequate services, such as water and other input supplies, have also contributed to the high cost of local manufacturing.
- *Low productivity levels:* Capital productivity in the Kenyan manufacturing sector is particularly low, compared to regional and global productivity levels. For example, productivity is up to 3–4 times lower than that of comparable Indian firms. This has been occasioned by declining capital investment levels from 30 per cent of GDP in the 1980s to below 15 per cent in the late 1990s. Over the past 15 years, gross investment in plants and equipment as a proportion of replacement value has been less than 5 per cent for 70 per cent of the manufacturers. Low investment levels have resulted from high levels of uncertainty in the business climate, diminished expected returns on investment due to high costs, and lack of long-term financing. Although Kenya's labour productivity is comparable to that of India and China, there is

significant room for improvement, particularly among small- and medium-sized enterprises.

- *Inefficient flows of goods and services:* Inefficiency in the local transport and logistics sector (e.g. port, rail and road transport services), greatly hampers the ability of local manufacturers to access and be competitive in regional and global markets.
- *Unfavourable business environment:* The unfavourable business environment arises from heavy regulation, weak trade agreements, lack of rigorous legal enforcement, incidences of insecurity, as well as limited access to capital.

In addition, heavy regulation has led to complex and sometimes overlapping business and investment registration, affecting both the ease and the cost of doing business in the sector (e.g. Kenya issues hundreds of business-related licences). Weak negotiating capability impedes the country’s ability to negotiate for favourable trade agreements and therefore creates barriers against Kenyan companies. Weak enforcement of standards and of tax laws has led to dumping of sub-standard imports and counterfeit goods into the domestic market, making it unfavourable for local manufacturers to compete.

Figure 3.5.2: Competitiveness indicators of manufacturing in selected countries



Source: KIPPRA; World Bank Investment Climate Assessment for Kenya 2003; Kenya competitiveness 2006; Central Bureau of Statistics; ILO

Vision for the manufacturing sector

The vision for the manufacturing sector is the development of “robust, diversified and competitive manufacturing”. This will be achieved by focusing on three strategic thrusts: (i) Local production; (ii) Regional market expansion; and (iii) Global market niche.

Goals for 2012

The overall goal for the sector over the next five years will be to increase its contribution to GDP by at least 10 per cent per annum. To realise this growth rate, the following specific goals will be pursued:

- Strengthening local production capacity to increase domestically-manufactured goods by focusing on improving the sector's productivity;
- Raising the share of Kenyan products in the regional market from 7 to 15 per cent; and
- Developing niche products through which Kenya can achieve a global competitive advantage.

Strategies to deliver on 2012 goals

To achieve the five-year goal of increasing the manufacturing sector growth rate by 10 per cent, the following specific strategies will be implemented.

Strengthening local production capacity

Efforts will be taken to scale up operations of Kenyan firms by encouraging consolidation and by establishing special zones and parks for better targeting of services to export-oriented firms within the parks. In addition, development of various industrial clusters will be promoted. The target is to increase productivity and competitiveness in the entire manufacturing sector.

Raising the share of Kenyan products in the regional market

Kenya currently claims only 7 per cent of the market share of the regional market for manufactured goods. The aim is to raise the Kenyan market share to 15 per cent by 2012 through increased capacity utilisation and elimination of impediments to Kenya's competitiveness in the region.

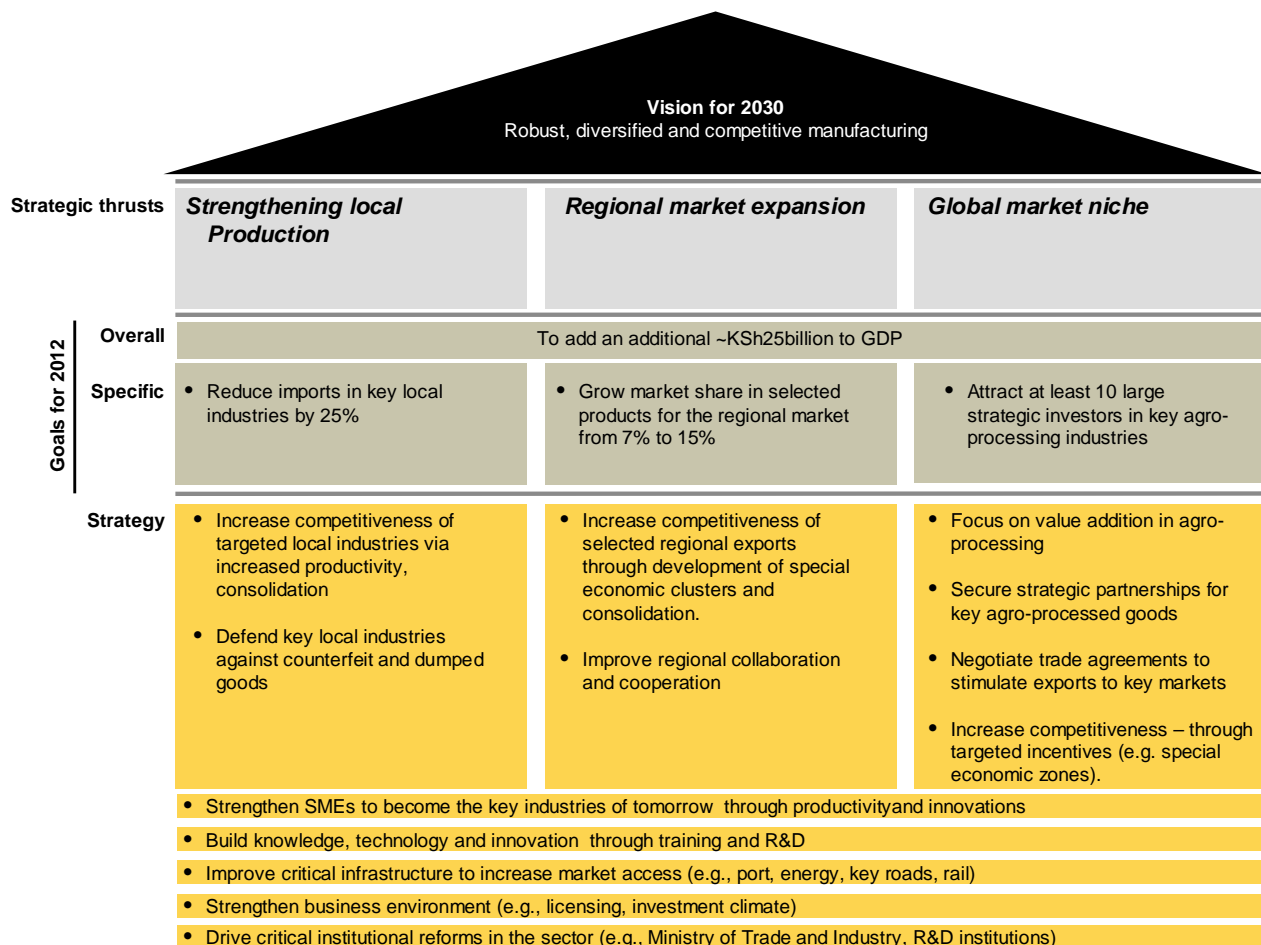
Developing niche products

Kenya's potential competitive advantage in manufacturing lies in agro-industrial exports. To compete globally in this sector, the country will increase the capacity of value addition in agro-based industries. This will be done by attracting strategic investors to boost agro-based industries and increased exports, especially in new markets. The investors will be offered attractive incentives and will be expected to bring new skills and technologies to the domestic economy.

In addition, five cross-cutting strategies will be critical for superior performance of the manufacturing sector as a whole, including:

- Strengthening SMEs to become the key industries of tomorrow by improving their productivity and innovation;
- Boosting science, technology and innovation in the sector by increasing investment in R&D;
- Improving critical infrastructure, such as ports, energy distribution systems, rail and major highways;
- Improving the business environment in critical areas, such as licensing and security; and
- Implementing efficiency-enhancing institutional reforms in the sector (Figure 3.5.3).

Figure 3.5.3: The vision for the manufacturing sector and strategic thrusts

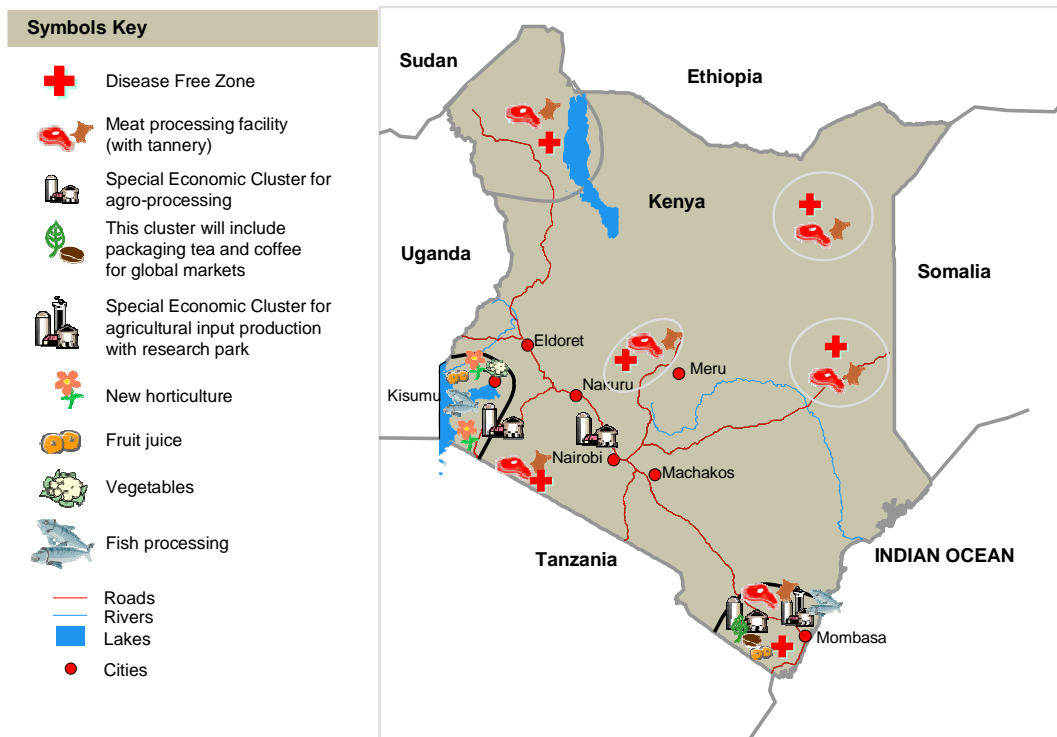


Flagship projects and key initiatives

To realise the goals of the manufacturing sector, two flagship projects and eight initiatives will be implemented. The two flagship projects are:

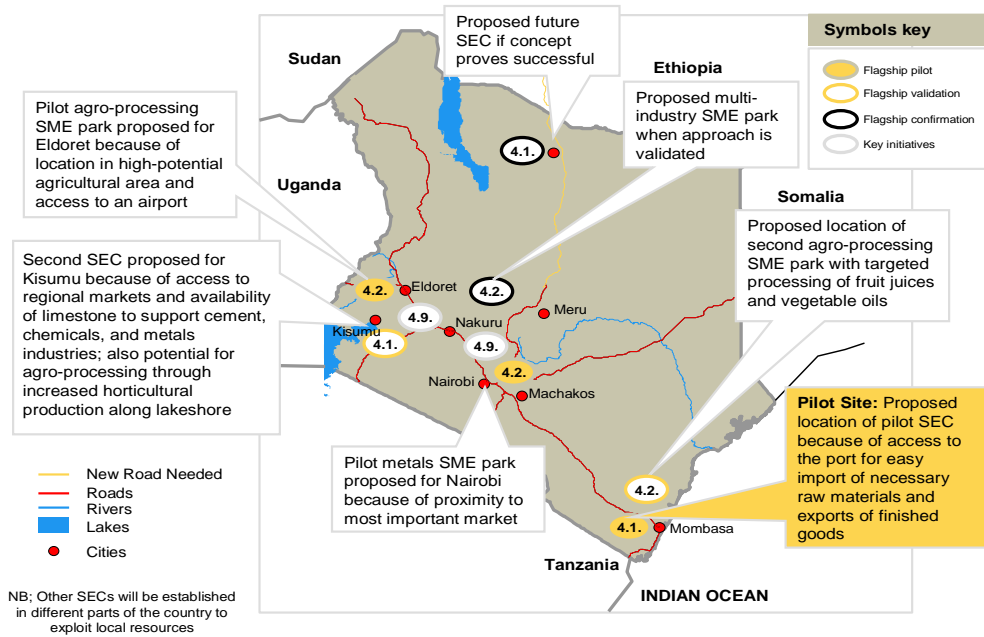
1. *Development of industrial and manufacturing zones:* Different regions of the country are suitable for different types of industrial and manufacturing activities. In order to harness the resources available in different parts of the country, region-specific industrial and manufacturing clusters will be promoted. Necessary infrastructure and services will be provided to stimulate the development of these clusters (Figure 3.5.4). An initial pilot site will be set up in Mombasa to allow for easy importation of necessary raw materials and exporting of finished goods. The project could include an agro-industrial zone incorporating activities such as blending and packaging of fertilizers, teas and coffees, and a consolidated meat and fish processing facility to encourage growth of offshore fishing. Similar industrial and manufacturing clusters will be established across the country based on regional resource endowments.

Figure 3.5.4: Suggested regional industrial and manufacturing clusters



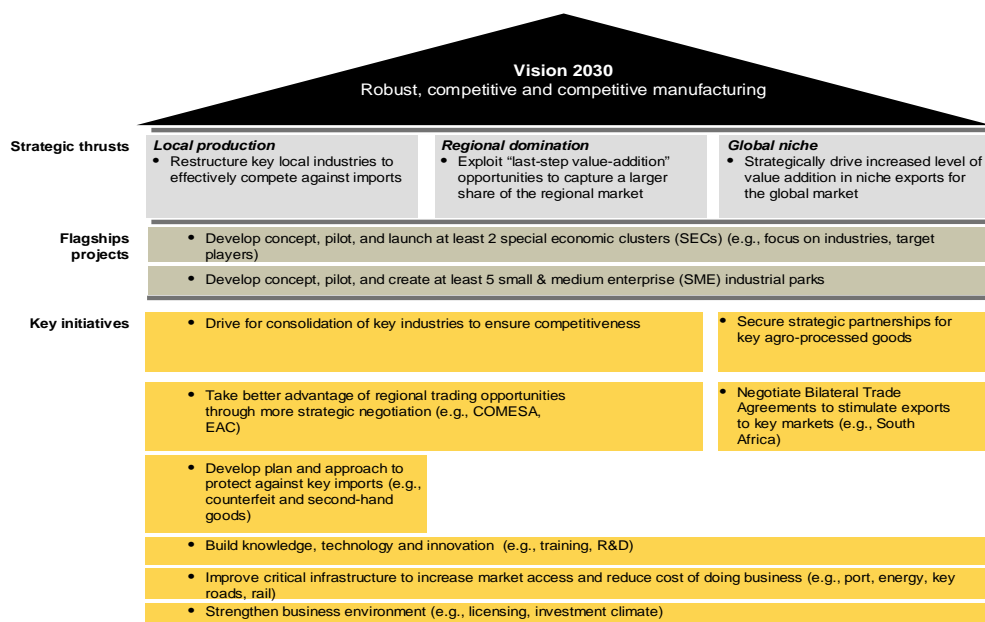
2. *Development of SME parks:* At least five small- and medium-enterprise (SME) industrial parks in key urban centres will be developed. Local authorities will play a critical role in developing these parks. This will include provision of relevant infrastructure and services to make them attractive. Figure 3.5.5 shows the proposed locations for the SME parks and special economic zones (SEZs).

Figure 3.5.5: Expected location of SME parks and Special Economic Zones



In addition to the two flagship projects, a number of initiatives will be implemented including: reform of industry structure; strengthening negotiation capacity and the building of strong trade agreements; strengthening import regulations; encouraging domestic and foreign investors in clusters; promotion of science, technology and innovation; improvement of critical infrastructure; and improvement of the business environment.

Figure 3.5.6: Flagship projects and key initiatives for the period 2008-2012

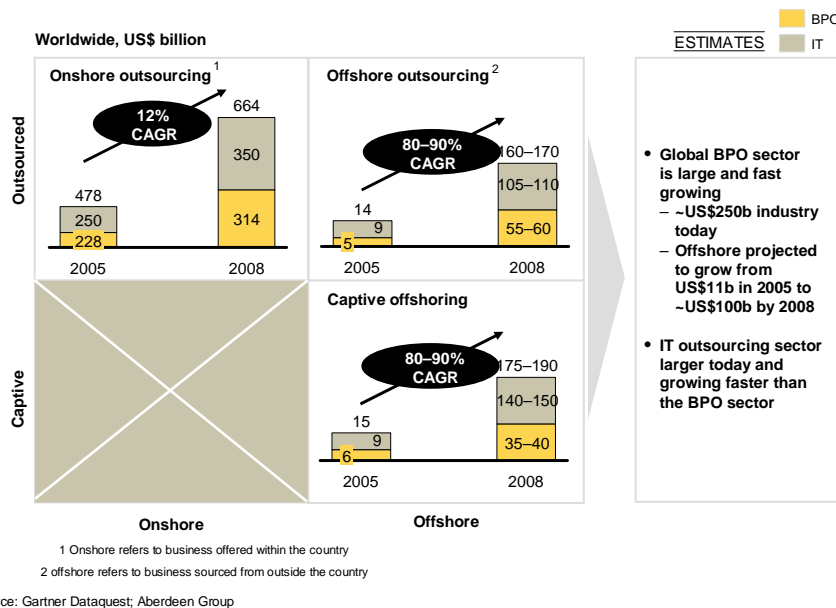


3.6 Business Process Outsourcing/Offshoring

Overview of the BPO sector

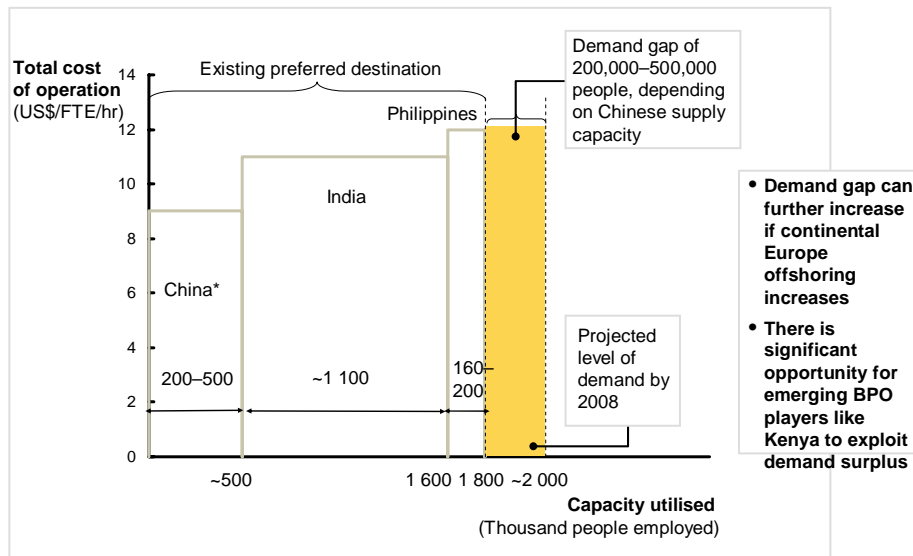
The Business Process Outsourcing and Offshoring (BPO) sector in Kenya is a small and new part of the economy, accounting for less than 0.01 per cent of GDP, with 500 seats and 1,000 employees. In the BPO sector, the term “seat” refers to a dedicated “seat” within a BPO facility. In a day, one seat can support more than one worker depending on the number of shifts per day. The global BPO sector however is large and growing rapidly. The US\$478 billion income generated in the sector in 2005 is projected to increase to US\$664 billion in 2008, reflecting a Compound Average Growth Rate of 12 per cent per annum (Figure 3.6.1). Kenya intends to take a share of that business in the next five years.

Figure 3.6.1: Size and trend of the global BPO market



The global offshore market is expected to grow from US\$11 billion in 2005 to US\$100 billion by 2008. Kenya will make efforts to gain a large share of this growing global BPO market. Africa as a whole has managed to capture a mere 1–2 per cent of the BPO market (approximately 500,000 seats) so far. In the next few years, the major competitors in this market, namely India, China and the Philippines, will be unable to meet the expanding global demand for labour required to produce BPO services and products. An estimated two million workers will be needed to meet this demand by 2008. A shortage of 200,000–500,000 workers is likely to be experienced by that time, presenting business opportunities for countries like Kenya, which are new players in this field. Local onshore outsourcing by multinational company subsidiaries (captive firms) in Kenya is non-existent. This form of outsourcing will be nurtured and encouraged as a source of income and employment and as a means of technology transfer.

Figure 3.6.2: Global demand for BPO services



* Assuming China is successful in its initiatives to undo talent supply constraints

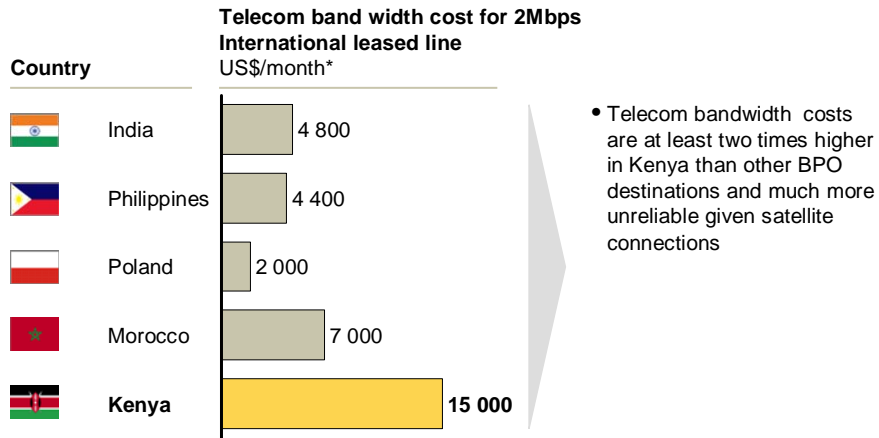
Source: Vision 2030 Research Team, 2007

Opportunities and challenges

There are four major factors hindering the growth of the BPO sector in Kenya:

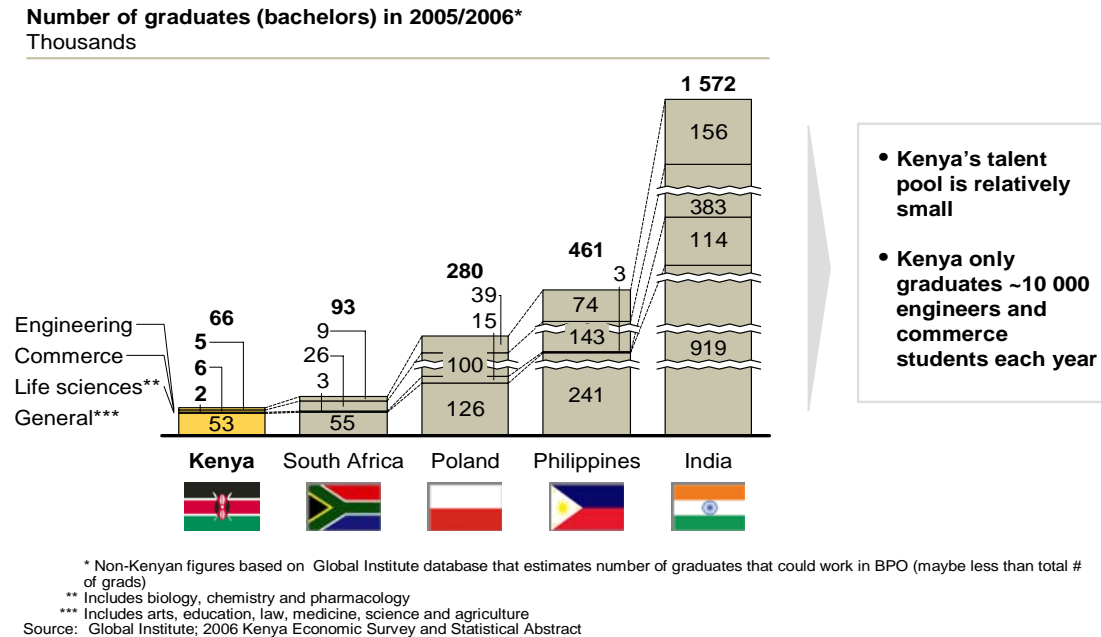
- **Basic infrastructure:** The high cost and unreliability of telecommunication and energy supply, in addition to lack of dedicated BPO facilities, weaken the attractiveness of Kenya as a primary BPO destination. Currently, data transmission costs in Kenya are three times more expensive than those of its competitors. Concurrently, energy costs are twice as expensive as for other BPO destinations, such as India and the Philippines (Figure 3.6.3). The cost of communication bandwidth is expected to be significantly reduced once the Government-sponsored under-sea fibre optic cable (TEAMS) is completed by 2008. The costs should drop even further once more players enter the telecommunications market.

Figure 3.6. 3: Telecommunications band-width costs for selected countries







- Talent pool:* The size of Kenya’s talent pool is small compared to its competitors in the BPO market (66,000 graduates in Kenya versus 461,000 in the Philippines) and becomes even smaller for specific skills. For example, there are only 10,000 engineering and commerce graduates in Kenya versus 210,000 in the Philippines. More importantly, Kenyan BPO operators find that all new employees require additional training, ranging from basic BPO skills to specific functional and industry-specific skills (Figure 3.6.4).

Figure 3.6.4: BPO talent pool for selected countries



- *Local supplier base:* International ICT and telecommunications firms, suppliers and system integrators have not set up offices locally as they operate through intermediaries. This situation leads to higher scalability and service costs. The presence of international ICT suppliers would assure potential clients of the BPO capacity in the country.
- *Incentive framework:* There are currently no BPO-specific incentives in Kenya apart from the standard Export Processing Zone (EPZ) locations. In contrast, other globally competitive destinations offer specific BPO-related benefits such as training cost reimbursements, and land and building incentives.

Figure 3.6.5: BPO-specific incentives in selected countries

				
Financial incentives	Kenya	South Africa	Philippines	India
1 Tax incentives	<ul style="list-style-type: none"> No specific tax incentives for BPO companies Receive 10-year tax holiday if in EPZ and 25% tax rate for next 10 years 	<ul style="list-style-type: none"> 15% tax rate if income is less than R150k 20% straight depreciation for refurbishments and 20% in Year 1 + 5% thereafter for buildings 	<ul style="list-style-type: none"> 4–8-year tax holiday 5% income tax rate after holiday 	<ul style="list-style-type: none"> Income tax holiday till 2010 10-year tax holiday if located in dedicated zones
2 Cash grants and subsidies	<ul style="list-style-type: none"> World Bank subsidies on telecom costs to begin summer 2007 (60–70% of current) 	<ul style="list-style-type: none"> 2–3 cash grants of up to R3.05m p.a. Up to max. 50% of the costs, capped at €200 000 for EU firms 		<ul style="list-style-type: none"> US\$500 per job in Andhra Pradesh
3 Training reimbursements	<ul style="list-style-type: none"> Reimbursements available if in EPZ, but difficult to receive since BPO training is not yet recognised by Directorate of Industrial Training 	<ul style="list-style-type: none"> Up to 50% of eligible training costs Learning grant of up to R3m Capital grant for investments in training facilities 		<ul style="list-style-type: none"> Reimbursement for all training costs for first 6–12 months
4 Land and building incentives	<ul style="list-style-type: none"> Discounts on rent only if in EPZ 			<ul style="list-style-type: none"> Discounts on land prices on a case-by-case basis (above 100% in some cases)
5 Duty exemptions and rebates	<ul style="list-style-type: none"> No tax on inputs (e.g., machinery, equipment), but on some goods must pay first and wait long time for reimbursement 		<ul style="list-style-type: none"> VAT exemption for local purchases Tax and duty exemptions on imported capital equipment 	<ul style="list-style-type: none"> VAT exemptions Total custom duty exemption

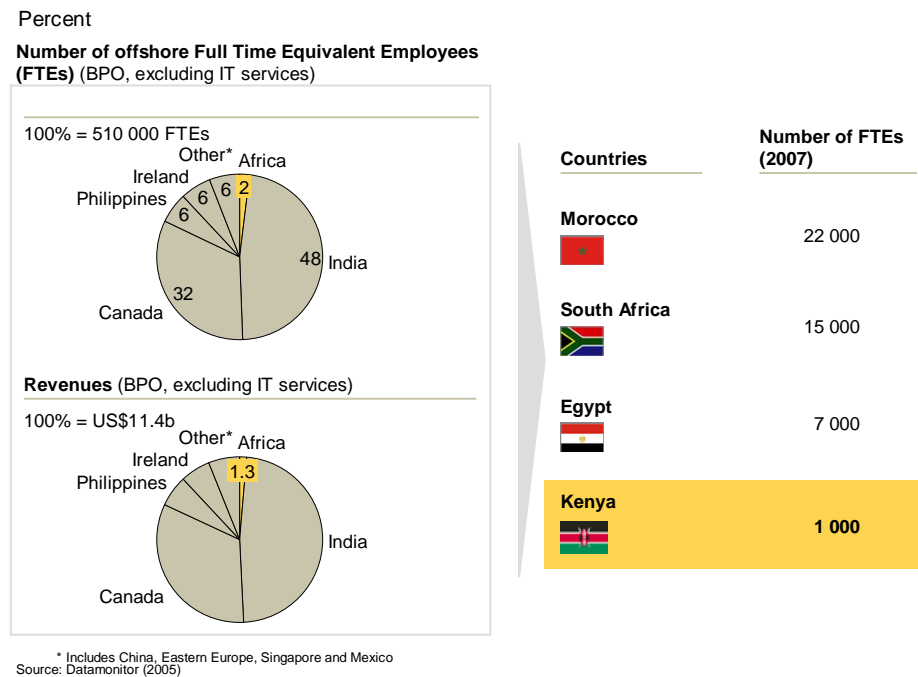
Source: Incentives 2005/2006

Vision, goals and strategies

Vision for the BPO sector

The vision for the BPO sector in Kenya is to be “the top offshoring destination in Africa”. The BPO sector is also expected to become the sector of choice for employment among youth and young professionals. In this regard, Kenya will move quickly to establish the necessary capacity in this sector, as a number of African countries have already built up sizeable BPO capacities (Figure 3.6.6).

Figure 3.6.6: Major global BPO players



To achieve the vision for the BPO sector, Kenya will pursue four major strategies:

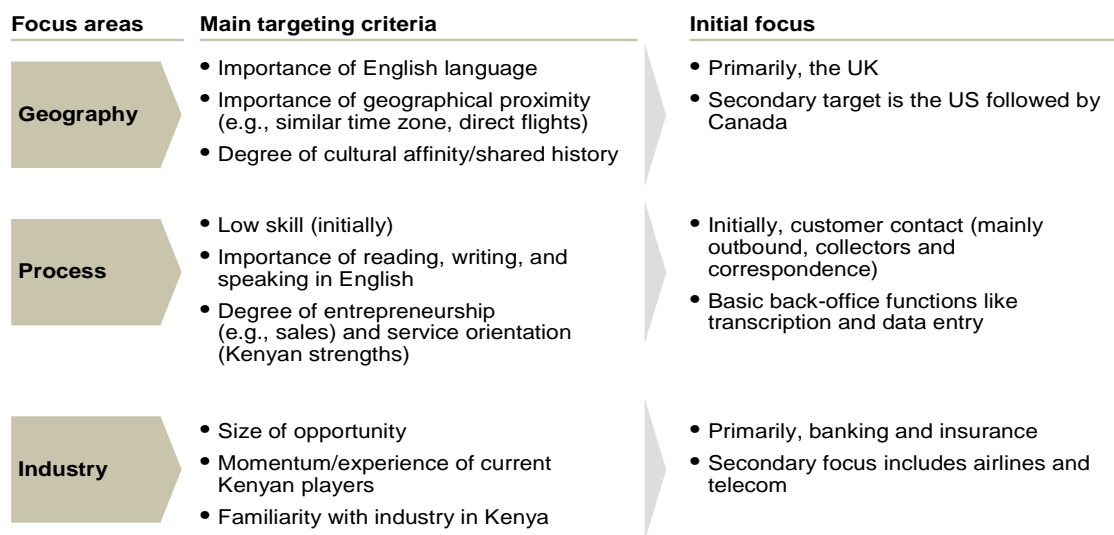
- Focusing BPO services along geographic areas, industrial processes and different industry segments;
- Building an IT supplier base of international repute by encouraging world-class IT suppliers to establish offices locally;
- Attracting multinational company subsidiaries (captive firms) and foreign BPO players to Kenya; and
- Building the capacity of local players by supporting entrepreneurs who invest in the industry.

Goals for 2012

The overall goal for the sector over the next five years will be to create at least 7,500 direct BPO jobs with an additional GDP contribution of KShs. 10 billion. This goal will be realised through the creation of a BPO park that accommodates 5,000 workers and indirectly creates at least an additional 2,500 jobs outside the park. Achieving this goal will require delivering on specific targets within each strategic thrust:

- Focused targeting of BPO services to capture markets in English-speaking countries with emphasis on the UK, USA and Canada. Another way of targeting will be to focus on key processes within customer-contact and back-office operations. Once the country is established as a major BPO player, it will pursue and compete in higher value-added processes. A third way of targeting is investing in specific industries and services, beginning with banking and insurance, as the two account for 50 per cent of the market share (Figure 3.6.7).

Figure 3.6.7: Suggested ways of segmenting BPO services



- Building an international IT supplier base to gain an international reputation by attracting at least five major leading IT suppliers to establish offices locally. This will ensure high quality services as well as give the local industry an opportunity to acquire new technology and become globally competitive.
- Attracting at least ten large multinational company captives and global BPO players. This will be critical to developing a robust BPO industry.
- Building at least five large indigenous BPO firms to act as local champions and help stimulate greater interest in the sector. This can be realised through setting up BPO firms from scratch or by establishing joint ventures with foreign BPO partners.

Strategies

To realise the five-year goal of creating at least an additional 7,500 direct BPO jobs and of increasing its contribution to GDP by KShs10 billion, the following specific strategies will be pursued:

Establishment of a BPO Park

The BPO sector faces major infrastructural constraints, such as weak telecommunications infrastructure, and high cost of energy. Superior telecommunications infrastructure, easy access to international transport facilities, and affordable and readily available energy are critical for a competitive BPO industry. Since it will take a considerable amount of time to provide these facilities across the entire country, there is a need to start by establishing a state-of-the-art BPO Park where these facilities can be guaranteed.

Marketing campaigns

Proactive promotion of BPO in the targeted geographical markets will be pursued. This will be done through developing and launching a focused marketing programme in the UK, USA and Canada. Further, road shows will be organised to meet with potential customers and present the advantages of doing business with Kenya.

Training programmes

Targeted training programmes around primary processes (e.g. customer contact) and industry specifics (e.g. back-office data entry within financial services) will be conducted to build the required quality and size of the talent pool. The training programmes will be specific to the level and type of skill required. To ensure the highest quality of training, mechanisms will be developed in collaboration with public and private institutions. Education and training strategies for Vision 2030 are covered in more detail in the section on the Social Pillar.

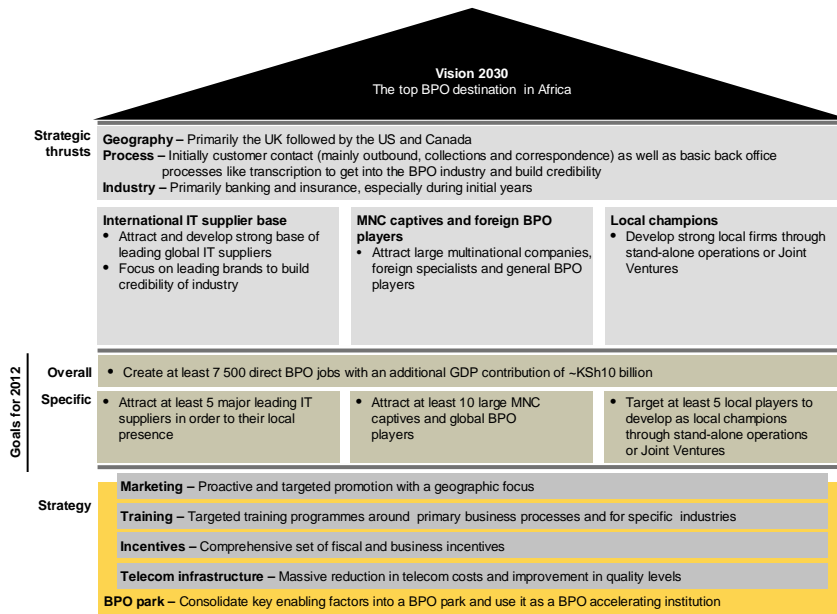
Incentives

A comprehensive set of incentives will be designed and implemented to improve the attractiveness of Kenya as a BPO destination. This will be accomplished by developing tailored incentive packages for target companies. Incentive levels will be competitive to those offered by other countries. Furthermore, the environment of doing business will be improved (e.g. ease of obtaining licences, filing tax returns and obtaining economic justice) to lower transaction costs. A “one-stop shop” for all investor needs (e.g. licensing and recruiting) will be housed within the BPO Park.

Telecommunications infrastructure

Telecommunications services and quality levels inside and outside the BPO Park will be improved through completion of the under-sea fibre optic cable and the national fibre optic network. This initiative will close the existing gap in telecommunications infrastructure and costs between Kenya and her competitors. The BPO Park will provide state-of-the-art telecommunications facilities and services.

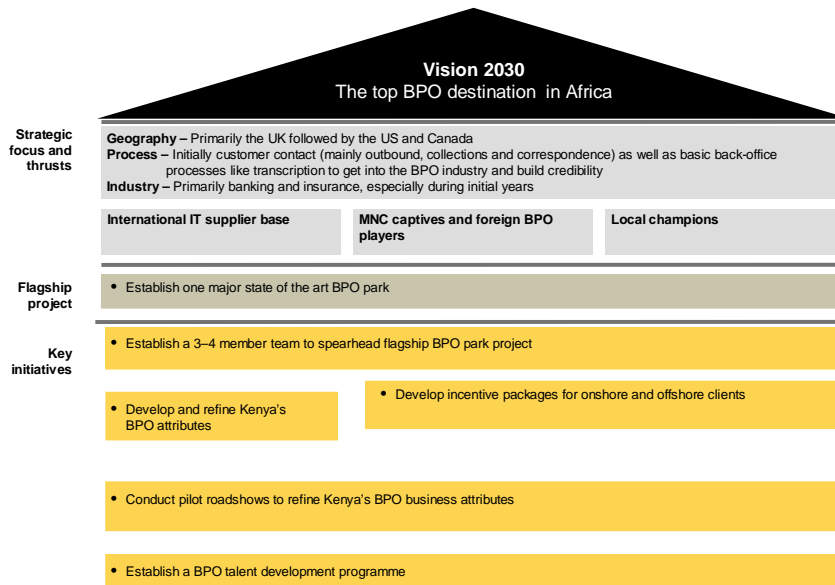
Figure 3.6.8: BPO vision and strategy



Flagship projects and key initiatives

In order to realise the five-year goals for BPO, one flagship project and several initiatives will be implemented. The flagship project entails the design and implementation of a major BPO Park. The BPO Park will be established in or around Nairobi. In addition to this flagship project, several initiatives will be undertaken to support the BPO Park in the areas of marketing and promotion of Kenya’s BPO services, the design and incentive framework of the industry, and the development of the BPO talent pool.

Figure 3.6.9: Flagship projects and key initiatives for the BPO sector



3.7 Financial Services

Overview

Financial services will play a critical role in the next phase of the development of our country by providing better intermediation between savings and investments than at present. This will assist the mobilisation of investment funds that are required to implement the projects of Vision 2030. Kenya also intends to become the leading financial centre in Eastern and Southern Africa, in competition with similar centres in the Western Indian Ocean rim.

The financial sector in Kenya comprises banking, insurance, capital markets and pension funds. Other parts of the sector include quasi-banking institutions and services provided by savings and credit cooperative organisations (SACCOs), micro-finance services, building societies, development finance institutions (DFIs) and informal financial services. Currently, the sector contributes about 4 per cent to GDP and provides assets equivalent to about 40 per cent of GDP. On the whole, the sector is characterised by low penetration and limited supply of long-term finance. However, there is considerable potential to improve the depth and breadth of the sector to make Kenya a globally competitive financial hub, serving a large part of the Africa region of Africa. This will involve developing a vibrant and stable financial system to mobilise savings, and to allocate these resources more efficiently in the economy.

Situation Analysis

By international standards, the percentage of Kenyans owning bank accounts remains low. As of 30th June 2005, there were only 2,204,000 bank accounts in Kenya from a total population of more than 30 million. Despite remarkable progress in the last three years, access to financial services outside the main cities still remains limited. Besides more coverage by regular banks, addressing the issue of access will require strengthening of the alternative financial service providers, namely: micro-finance institutions, SACCOs and DFIs, in addition to improving investors' access to term finance. Kenya will also take action to enhance the use of pensions, insurance, capital and securities markets in realising the investment goals set for Vision 2030.

One of the constraints that will have to be overcome is to lower the present interest rate spread between lending and deposit rates. At 8.6 per cent, the spread is too high for the purposes of mobilising savings and credit expansion. An acceptable range for interest rate spread would be between 5 per cent and 6 per cent. Institutional reforms are needed in several related segments, including: the commercial justice system; transparency and efficiency in the registration of collateral; improvements in land registration and the companies registry; and expansion of private credit reference bureaus. Completing these reforms will make the financial system capable of competing with others in the region.

Another problem is the high level of non-performing loans (NPLs) in the overall banking sector, even though this has fallen considerably since 2003. As of mid-2005, NPLs were at 19.3 per cent down from 46 per cent in the late 1990s. While the supervision of banks by the Central Bank of Kenya broadly follows international norms, there are other challenges that need to be addressed. These include inadequate provision against losses incurred from bad loans, weak internal controls, insufficient auditing and lack of adequate anti-money laundering legislation and enforcement. In addition, the Government's supervisory capacity in other financial sub-sectors (such as insurance, rural finance and microfinance institutions)

will have to be strengthened. This also applies to SACCOs, village finance services, hire purchase companies and DFIs. Considerable progress has already been made in this direction. In general, the stability of the financial system needs to be enhanced through consolidation of the oversight function of financial intermediaries, increased autonomy of supervisory agencies, better self-regulation, staff capacity building, and improved information technology (IT) systems for virtually all of the sector's regulators.

Within Eastern and Central Africa, Kenya's financial institutions have continued to offer services, a process that is set to increase as the economies of this region grow. There is already some cross-listing of shares, for instance, between the Nairobi, Dar es Salaam and Kampala stock exchanges. Some Kenyan banks have also opened branches in Tanzania, Uganda and Sudan. This is an emerging development that has much potential.

Challenges and Opportunities

Banking: Kenya has 40 banks, a number of which are considered too large for the size of the economy: The banking sector is dominated by four or five large banks which account for the bulk of deposits. The remaining banks are small and have limited outreach. This has reduced competition and resulted in high credit costs. In view of this, there will be enormous opportunities in the economy to expand banking services to parts of the population that do not hold bank accounts, particularly in rural areas. This will provide a greater pool of savings to finance the productive investments of the Vision. To realise that goal, it will be necessary to address the following specific challenges:

- Establish branches in rural areas in order to reach the large section of the population that does not currently enjoy banking services;
- Introduce a more rapid adoption of banking technology;
- Overcome administrative barriers, such as high minimum balances, which discourage small savers; and
- Lower the high spread between interests on deposits and lending rates.

With more investment in modern electronic technology, it will be possible to considerably reduce transaction costs and therefore eliminate the need for minimum balance requirements, thereby expanding access. Widespread access will promote savings, lower the cost of capital and increase the supply of investible funds. This will increase investment rates and growth necessary to realise the goals of Vision 2030. In order to increase the capacity and efficiency of Kenya's banks and to reduce costs and high interest rates spreads, the Government will encourage mergers and consolidation in the sector.

- **Insurance:** In 2006, the sector comprised 45 insurance companies, 199 brokers and some 2,569 insurance agents, 209 insurance surveyors, 29 medical insurance providers, 8 insurance loss adjusters and 1 insurance claim-settling agent. This is considered too large a number for the size of the Kenyan economy. The industry has a total asset value of about KSh.100 billion. This implies that the economy is under-served, and its assets under-insured. This means that insurance services have an even narrower penetration than banking. As the economy expands, the amount of insurable assets will also grow; and as personal incomes rise, Kenyans will demand more insurance. The small size of the sector, however, is facing significant institutional handicaps in extending outreach and coverage of life and property insurance. There will, therefore, be significant potential to strengthen the insurance industry in the

interest of long-term savings and better coverage of risk. The challenge is to improve the efficiency and outreach of insurance service providers. This can be achieved through consolidation, a public education campaign and investment in new technology.

- *Pension funds*: Following the introduction of the Retirement Benefits Act in the 1990s, Kenya has experienced significant growth in remittances paid to pension funds. However, there is great potential for even more growth in this area. Pension funds could play a particularly important role in funding long-term investment in infrastructure and housing, as indicated elsewhere in this document. The Government will, therefore, consult with stakeholders to develop a programme that will facilitate further development of pension funds to finance long-term capital projects.
- *Capital markets*: The capital market has grown rapidly in recent years to reach the current value of approximately 50 per cent of the GDP. However, there is still enormous potential for further development. Among the limiting factors is the small number of companies listed on the stock exchange, numbering 57 in 2007. This figure has barely changed in the last five years. The market also suffers from limited long-term financial instruments, namely Government and corporate bonds, which currently stand at US\$400 million and US\$25 million, respectively. This means that there is limited access to long-term financial instruments, which the economy will require if the large capital projects in Vision 2030 are to be realised. There is a potential for using capital markets to mobilise the resources to finance long-term investments in key infrastructure (such as roads, water and energy) that will be put in action in the 2008 – 2012 period.

To promote long-term investments, particularly in infrastructure, the Government will promote long-term marketable securities, which will be listed on the Nairobi Stock Exchange (NSE) e.g. in the areas of infrastructure and housing bonds. It will encourage secondary trading of such instrument to make them liquid and therefore attractive to investors. Additional efforts will be made to encourage more companies to be listed on the NSE and to use capital markets to raise long-term finance. Similarly, the Government will continue to lengthen the maturity period of treasury bonds. The law is already in place to encourage long-term securities through the annual budget; incentives have been provided in order to encourage more listings. The Government will consult with stakeholders and develop a strategy for facilitating the overall deepening of capital markets.

- *Quasi-banking institutions*: These include micro-finance institutions, rotating savings and credit associations (ROSCAs), SACCOs, and other informal financial services. Given the low penetration of formal financial services, these institutions have enormous potential to mobilise additional savings and to provide credit, especially to sections of the population that do not use banking services and the low-income groups. The major constraint to the growth of this sub-sector is the lack of an effective regulatory framework, which gives rise to some incidences of poor governance, thus lowering public confidence in these institutions. The Government will expedite the implementation of the market finance law in order to improve the regulatory environment.

- *Establishing Kenya as a regional financial hub:* Kenya plans to become a regional financial centre and thus position herself in competition with similar institutions in Africa and cities in the western half of the Indian Ocean. According to the City of London's *Global Financial Centres Index (2007)*, no African city makes it to the top 46 global finance centres. But there is increasing interest in creating financial centres in many emerging economies. Three paramount factors are cited as prerequisites of success in establishing successful financial markets: (i) adequate human resource skills and a flexible labour market; (ii) a transparent and effective regulatory framework; and (iii) a critical mass of financial institutions in one location operating in a conducive business environment. Financial markets tend to specialise in niche markets e.g. commodities in Chicago, Islamic banking in Kuala Lumpur, or cross-border investments (Hong Kong). To exploit her full potential, Kenya will decide on the product combination that suits her best, and also put in place the institutions in a widely-trusted and effective governance and regulatory framework.

Goals for 2030

Kenya will put in place a more efficient and competitive financial system to drive savings and investments for sustainable broad-based economic growth. In addition to enhancing efficiency, there is need to: increase access to financial services and products to a wider section of Kenyans, particularly the poor, low-income households and micro- and small-scale enterprises; strengthen the stability of the financial system; and, create an enabling environment for different players in the financial system. This will include reviewing the legal, regulatory and supervisory frameworks and consolidating the oversight function of the financial system. The central policy objectives of the long-term strategy for the financial sector include:

- Improved access and deepening of financial services and products for a much larger number of Kenyan households and small businesses;
- Mobilising additional savings to support higher investment rates;
- Greater efficiency in the delivery of financial services to ensure that the cost of mobilising resources and allocating these resources becomes increasingly affordable and that the range and quality of services better caters to the needs of both savers and investors;
- Enhanced stability in the system to ensure that all banks and other deposit-taking financial institutions can safely handle the public's savings and ensure that the chances of a financial crisis – with all the costs that this would imply – are kept to a minimum;
- Creating a better financial environment that will encourage stakeholder involvement in ways that allow for an attractive return on investment and protection of depositors' interest;
- To make Kenya one of the ranked financial centres in “emerging markets” by 2030.

Goals for 2012

With the objective of expanding access to more affordable financial services and products, the Government will focus on reforms in the following five areas:

- *Institutional Reforms:* Accelerate reforms in the commercial justice system and improve the system of collateral registration for better access to justice and also encourage credit rating for financial institutions. Pending legislation affecting the financial sector (e.g. anti-money laundering legislation) will need to be completed and implemented.
- *Long-term finance:* Initiatives will be put in place to enhance availability of medium- to long-term finance in the productive sectors, particularly those supporting rural activities. There is consensus that Kenya's economy suffers from a shortage of medium- and longer-term finance for its productive sectors, and especially for supporting rural activities. The strategy in this area is to enhance the lending environment. Given the success of functioning banks and the potential for far more term finance from the capital markets, the Government will, in the future, play a more indirect role in the development of these institutions.
- *An enabling environment:* In order to encourage longer-term lending and borrowing and fiscal discipline and to minimise pressure on interest rates, the Government will continue to maintain a stable macro-economic environment characterised by low inflation. Other structural reforms envisaged include the creation of an enabling environment for private sector activities. This will involve strengthening governance and improving infrastructure to reduce the cost of doing business.
- *Capital markets:* The Government will enhance the capacity of the Capital Markets Authority (CMA) and the Nairobi Stock Exchange (NSE) to enable the two institutions to play their respective regulatory roles. In order to encourage more stock exchange listings, the Government will eliminate existing obstacles and encourage collective savings institutions (mainly collective investment schemes, pension funds and insurance companies) that have the potential to increase funds for investment. Progress has already been made as far as improving the management of public debt is concerned.
- Promote Nairobi as a regional financial centre.

The Government will also undertake the following initiatives aimed at improving the efficiency of the financial system:

- Reform of the commercial justice system to expedite the settlement of commercial disputes;
- Improve the registration of movable and immovable assets as collateral in order to increase their tangibility;
- Encourage more use of ICT in the financial sector;

- Effect necessary legal reforms to encourage use of non-conventional collateral (e.g. warehousing and social capital) and strengthen the legal framework for effective functioning of credit reference bureaux;
- Strengthen actions to ensure that banks provide transparent and understandable information on charges made to clients;
- Remove barriers to effective competition in the system and encourage entrance and exit; and
- Expedite the Companies Registry reforms to expand them to the districts.

Finally, in order to enhance stability in the financial sector and enhance the quality and supervision of banking and other financial institutions, the Government will strengthen supervisory bodies such as the Retirement Benefits Authority (RBA), CMA and the insurance authority. The Government will also prepare a targeted supervisory regime for quasi-banking institutions, including SACCOs and MFIs.

CHAPTER 4: SOCIAL PILLAR: INVESTING IN THE PEOPLE OF KENYA

4.1 Overview

Kenya's journey towards widespread prosperity also involves the building of a just and cohesive society that enjoys equitable social development in a clean and secure environment. This quest is the basis of transformation in eight key social sectors, namely: Education and Training; Health; Water and Sanitation; the Environment; Housing and Urbanisation; as well as in Gender, Youth, Sports and Culture. It also makes special provisions for Kenyans with various disabilities and previously marginalised communities. These policies (and those in the economic pillar) will be based on a strong Science, Technology and Innovation (STI) foundation.

4.2 Education and Training

Kenya recognises that the education and training of all Kenyans is fundamental to the success of the Vision. Education equips citizens with understanding and knowledge that enables them to make informed choices about their lives and those facing Kenyan society. The education sector will, therefore, provide the skills that will be required to steer Kenyans to the economic and social goals of Vision 2030. The first immediate challenge facing the sector in Kenya's transformation to 2030 is how to meet the human resource requirements for a rapidly changing and more diverse economy. The next challenge is to ensure that the education provided meets high quality standards, and that its contents are relevant to the needs of the economy and society. The third challenge is to move rapidly in raising the standards of the regions that lag behind in enrolment to bring them to par with other areas. This is another way of reinstating the goal of universal school enrolment to which Kenya is committed. A fourth challenge lies in improving the overall transition rates, particularly from secondary to tertiary levels. The fifth, and perhaps the most daunting challenge, is to create a cohesive society imbued with a culture of hard work and efficiency and one that values transparency and accountability, respects the rule of law, and is concerned about the environment. Education and training sector will be charged with the responsibility of creating a knowledge-based society that upholds justice, democracy, accountability and encourages issue-based and results-oriented political engagements. Various interventions will be undertaken to inculcate a culture that upholds the supremacy and respect for the rule of law, one which promotes national pride, positive behaviour, a strong work ethic and a culture of saving, and which promotes attitudes favourable to environmental conservation.

The education sector will therefore be reformed in order to respond to these challenges. Indeed, some of the reforms had already been initiated by the Government since 2002. Kenya's education sector will require substantial investment to produce the required human resources for the priority growth sectors. As shown in figure 4.2.1, investments in education will make significant contributions to other social sectors of the Vision, particularly health, water and sanitation, the environment and housing. It will also help the country to address gender imbalances, youth-related problems and obstacles facing other vulnerable groups by equipping them with the skills that will enable them to live more productive and satisfying lives in an expanding and diverse economy.

Figure 4.2.1: Linkages between education and other social sub-sectors

Sector	Linkages
Health	<ul style="list-style-type: none"> • Incorporating basic (i.e. preventive & promotive) health in the school curriculum; • Continued capacity development in human resources for health (HRH)
Water & sanitation	<ul style="list-style-type: none"> • Inculcating a national culture of basic hygiene and responsible water usage; • Applying modern technologies to water extraction and delivery
Environment	<ul style="list-style-type: none"> • Providing appropriate manpower training on environmental management; • Providing a basis for shifting mindsets towards positive environmental behavior
Gender	<ul style="list-style-type: none"> • Mainstreaming gender issues in the education and training as a step towards securing parity in key sectors
Housing	<ul style="list-style-type: none"> • Developing relevant human resource capacities to transform the construction industry, and thus benefiting local housing sector entrepreneurs
The youth	<ul style="list-style-type: none"> • Empowering the youth with relevant knowledge, skills and attitudes (e.g. responsibility, hard work, honesty, accountability)

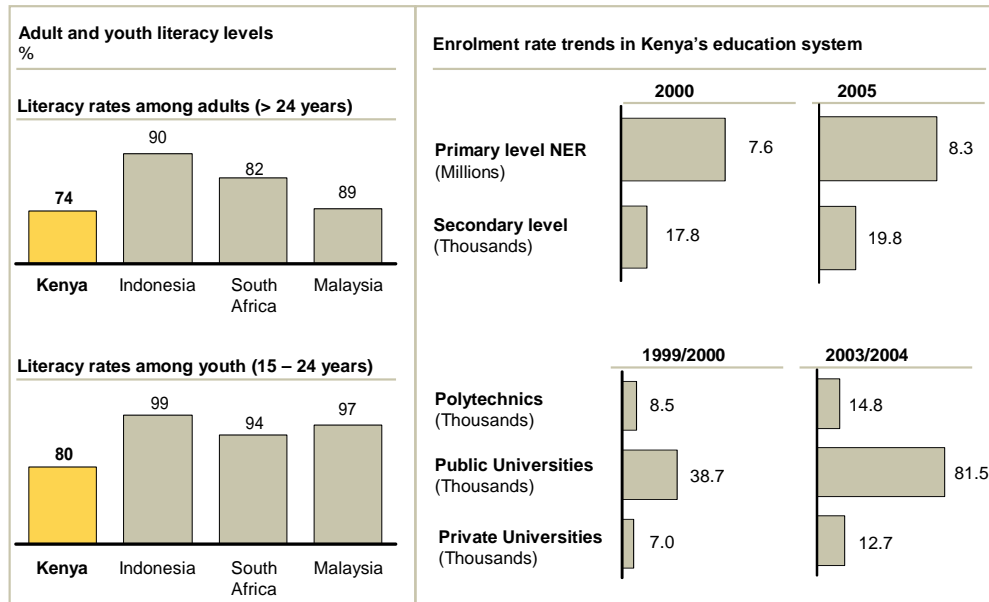
- Imparting knowledge and skills to improve management of social systems
- Nurturing a cohesive and knowledgeable society with core national values (e.g. tolerance, patriotism, respect for life and basic human rights)

Source: Team analysis

Situation analysis

At independence, the Government of Kenya recognised that education was the basic tool for human resources development, improving the quality of life and cultivating nationalistic values. Although the education sector has faced serious challenges over the years (particularly those relating to access, equity, quality and relevance), significant achievements have been made over the years. Today, Kenya has one of the strongest and most diverse human resources pools in the region. As shown in Figure 4.2.2, enrolment throughout the country's education system has improved markedly, though notably at the primary and public university levels. The rate of transition from primary to secondary has registered particularly impressive growth – from 41.7 per cent in 2002 to 60.0 per cent in 2005. In order to meet training requirements, as well as standards of a rapidly industrialising country, these positive trends will have to be sustained.

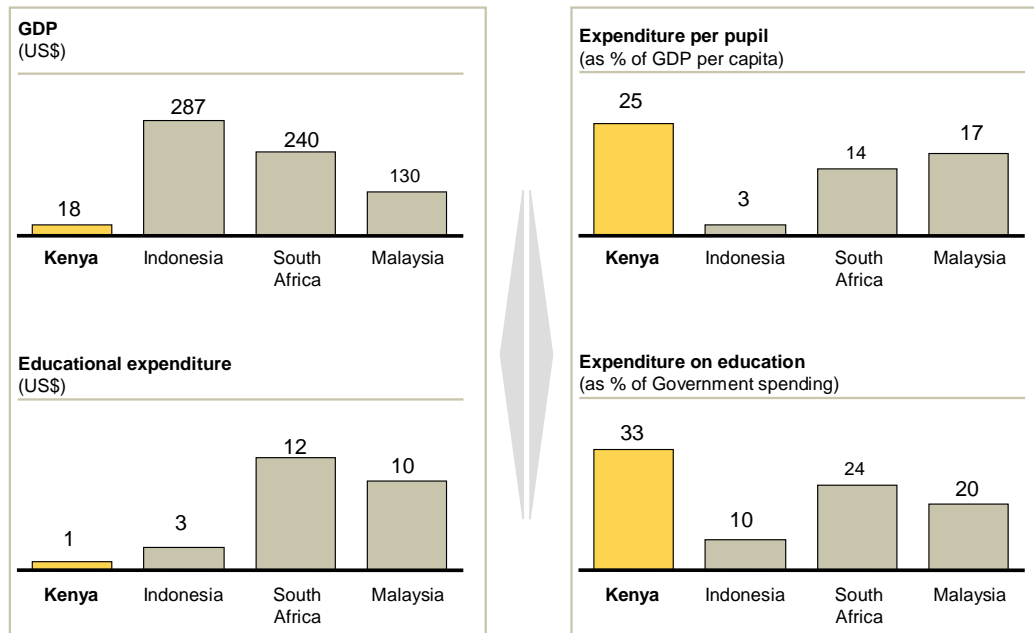
Figure 4.2.2: Adult and youth literacy gaps and enrolment trends



Source: Ministry of Education (2005); Statistical Abstract (2006); UNESCO; Team analysis

The Government's expenditure on education is equivalent to 7.0 per cent of the country's GDP. This translates into one of the highest expenditure levels per student out of the education GDP in Africa (Figure 4.2.3). The share of education out of the Government budget and commitment to education reflected in the percentage GDP dedicated to education is comparable to that of a middle income country. As GDP grows, total expenditure for education will rise, bringing other problems facing the system into sharper focus. Among these challenges, improving the overall efficiency of the system ranks high as an education policy priority, followed crossly by the need to bridge disparities between the country's regions, income levels and sexes. With regard to enrolment rates, there has been steady increase from 2002 at different levels. However, transition rates have remained relatively low over the same period.

Figure 4.2.3: Comparative education expenditures



Source: Ministry of Education (2005); Statistical Abstract (2006); UNESCO; Team analysis

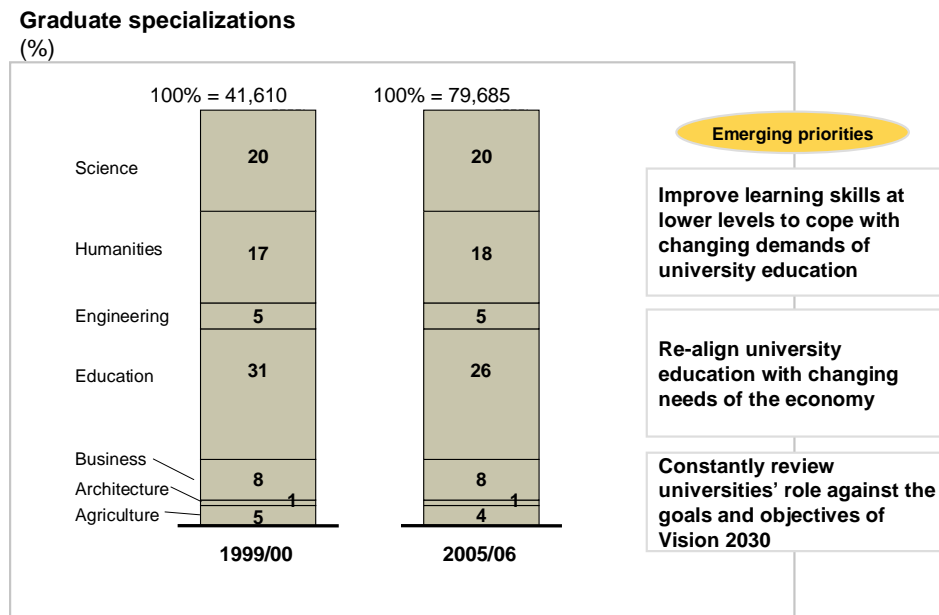
Although the primary school enrolment rate increased from 70.4 per cent in 2002 to 83.7 per cent in 2005, there exist great gender and regional disparities, with the ASAL areas being the worst affected. Specific and targeted initiatives will continue to be implemented to correct these disparities. At secondary school level, transition went up from 42 per cent in 2002 to 60 per cent in 2006. However, the limiting factor to enrolment at this level is the availability of facilities. Currently there are 4,215 schools to cater for about 3.2 million school-age children. It will, therefore, be necessary to build additional schools and provide support to children from vulnerable households.

At the university level, there is a serious shortage of capacity, both in public and private institutions, as only about 30 per cent of those with minimum entry requirements can be admitted. Although enrolment in public universities has increased over time, the high cost continues to limit access for a large number of qualified students. As for private universities, enrolment remains low at 12.7 per cent of total admissions.

The country also faces constraints in terms of physical facilities to cater for children with special needs. Similarly, there are no programmes for children with special talents. This is an area that will require targeted initiatives and collaboration with stakeholders. Despite the rapid changes in domestic labour markets, the global environment, and advances in technology, university graduate specialisation has remained relatively unchanged over the past decade (Figure 4.2.4). There is, therefore, a need to re-orient education to focus on the

changing economic and technological trends, in line with the national aspirations as expressed in Vision 2030.

Figure 4.2.4: Distribution of training in public universities



Source: Statistical Abstract (2006); Team analysis

Challenges and opportunities

In order to meet the education and training requirements of the Vision, it will be necessary to address the following challenges within the sector:

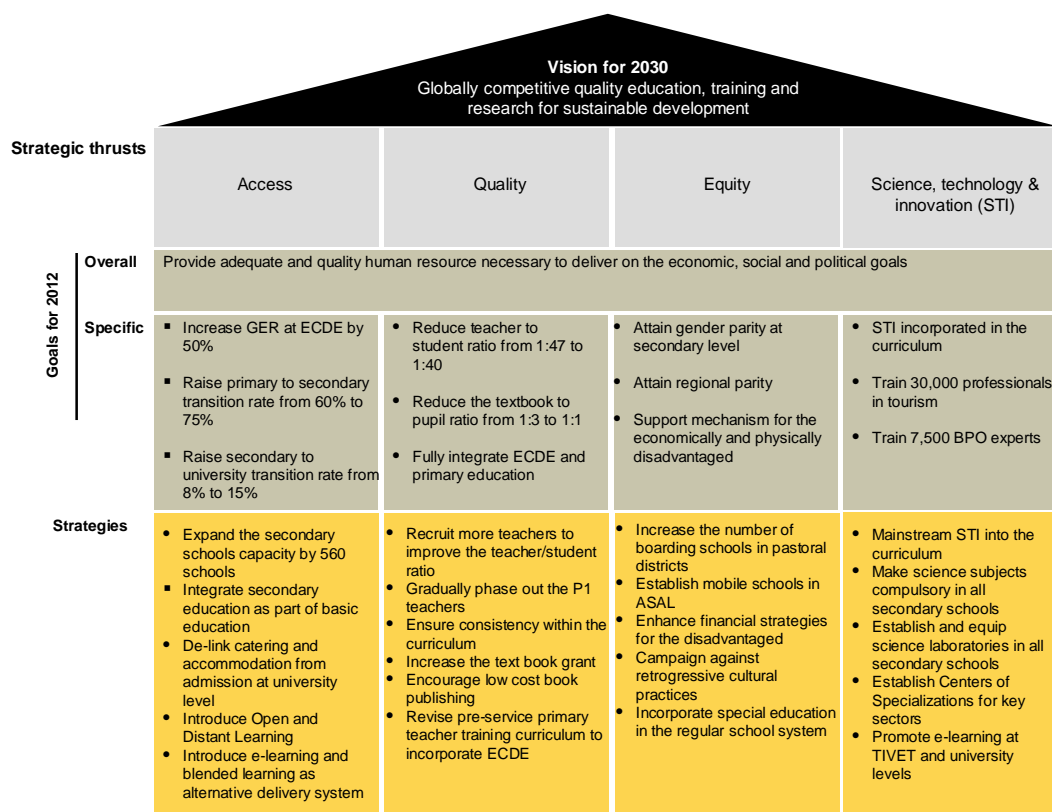
- *Improving quality at primary school level:* Introduction of free primary education in 2003 resulted in increased enrolment without commensurate increase in either infrastructure or personnel. This has led to overstretched facilities, overcrowding in schools, inefficient teacher utilisation, and high teacher to pupil ratios, all of which have affected the quality of education at this level.
- *Raising levels of transition rates:* Though rising, the transition rate from primary to secondary school, at 60 per cent, is still below that of developing countries on the road to industrialisation and those with middle income status. Further, increase in high school enrolment is hindered by the high cost of secondary education, and the low participation of private providers of post-primary education. In recognition of the problem, the Government in 2007 announced tuition fee relief for the initial years of secondary education. With the imminent rise in the number of students completing primary and secondary education as a result of state-provided education at those levels, preparations will have to be made to also expand tertiary and higher education enrolment.

- *Expanding access and equity:* Despite recent improvements, high disparities in access to education at all levels remain a challenge. Though present at primary and secondary levels, the problem is most acute in technical, industrial, vocational and entrepreneurship training (TIVET) institutions and at university level. Considerable investments will, therefore, have to be made by both the public and private sectors to correct these disparities.
- *Relevance:* Matching skills to market demand. This is a challenge at all levels. Many primary and secondary students who cannot proceed with formal education are absorbed by TIVET institutions. However, the training at this level has been hindered by inadequate facilities as well as institutions; hence most young people end up in the informal or *Jua Kali* sector. That problems and the mismatch between the level of skills imparted by the education system as whole and the requirements of the labour market, must be corrected in order to meet the demands of the new economy.

In anticipation of the expected increase in primary and secondary school output, institutions will play a critical role in the production of skills that are required to achieve the goals and objectives of this Vision. The Government will upgrade TIVET institutions to enable them to provide training in skills consistent with emerging technologies and also introduce a national system of certification. The Government will also introduce a system of accrediting private sector institutions involved in TIVET. This will equip the informal sector with the technical capability required to transform into small- and medium-enterprises, thus enabling them to integrate into the modern economy. The training at this level will also be linked to higher institutions of learning and should be recognised as a bridging course for higher skills certification.

- *Building a Skills Inventory for Kenya:* A major challenge facing the Government and the labour market is the absence of a skills inventory that would indicate the distribution of well-trained Kenyans. This applies especially to Kenyans possessing TIVET and university level education. Such a database is an indispensable tool for planning the country's future training programmes. It will also identify the existing gap in human resource requirements in all the sectors and thus guide priorities in where to train. To ensure that the training at both the TIVET and university level remains relevant, there will be regular updating of the national skills inventory.

Figure 4.2.5: Medium-term strategies for achieving 2012 goals



Vision for education

The vision for the education sector for 2030 is “to have globally competitive quality education, training and research for sustainable development”. To achieve this vision, four strategic areas, namely, access, quality, equity, science, technology and innovation have been identified for support based on their impacts on the economic, social and political pillars.

Goals for 2012

Raising the transition rates: Kenya’s gross enrolment rate (GER) at the primary level in 2001 was 100 per cent, indicating that many pupils above primary school age are enrolled. The net primary enrolment must now be raised closer to 100 per cent. The transition from primary to secondary, which is at 60 per cent, must also rise. The key challenge is transition from secondary level to university level, as only 3 per cent of secondary school students currently enter university, a proportion that does not compare favourably with that of middle income countries. To address the issue of access and to improve overall literacy levels, three strategic objectives will be pursued:

- Increase GER in Early Childhood Development Education (ECDE) by 50 per cent;
- Raise the transition rate from primary to secondary level from 60 per cent to 75 per cent; and
- Raise the transition rate from secondary level to university from 8 per cent to 15 per cent.

Raising the quality of education: In order to improve the productivity and competitiveness of Kenya's human resource pool, all students will be provided with a better learning environment, including improved teaching skills and more textbooks. This will provide learners with opportunities to exploit their potential to the fullest. The targets under this goal will be to: reduce the teacher to student ratio from 1:47 to 1:40; reduce the textbook to pupil ratio from 1:3 to 1:1; and integrate ECDE into primary education.

Addressing inequalities: To address disparities between male and female students and between different, socio-economic groups and regions, measures will be undertaken to:

- attain gender parity at secondary school level;
- address the needs of learners with special needs;
- attain regional equity in school enrolment; and
- introduce a national support mechanism for physically disadvantaged learners.

This Vision is based on the creative talents capable of raising Kenya's international competitiveness through enhanced productivity at the microeconomic (industry) and national levels. Throughout the education system, learning will inculcate the use of knowledge in science, technology and innovation (STI) to create wealth, improve social welfare and promote democratic governance. Appreciation of the critical role of STI to the Vision is based on the understanding of today's knowledge-based economies (KBEs) and the role that innovation plays in such economies. A knowledge economy creates, adopts, and adapts information on production and distribution of goods and services, making it the focal point and the engine of rapid economic growth. That is where Kenya wishes to position itself. Effective use of knowledge is becoming the most important factor for creating wealth and improving social welfare and for international competitiveness. Implementing Vision 2030 will require more knowledge-based skills. This calls for more training in science-related and technology-related courses. Kenya's road to become a KBE will therefore not be restricted to the realm of high technology, but will extend to the application of science and technology in the economy, targeting areas such as pharmaceuticals, scientific instrumentation, and information and communication technologies. These are expected to increase the growth momentum in the priority factors thereby giving a boost to the economy as a whole.

By 2012 the country expects to have laid the foundation towards becoming a nation that harnesses science, technology and innovation to foster national prosperity, global competitiveness to provide a high quality of life to its people.

Meeting the Human Resource Needs of Vision 2030: With the anticipated pace of economic growth, more of the existing skills and many others that Kenya does not have will be required. The intention of this policy is to guarantee supply of overall required skill with an emphasis on tourism and BPO sectors. To that extent Kenya will:

- *Incorporate STI in education curricula:* The education and training curricula in the country will be reformed at length to ensure that the creation, adoption, adaptation and usage of STI will become an integral part of the country's education. This will in turn drive the economic, rural and political transformation that the Vision aims at;
- *Change the incentive structure:* The country will adopt a new incentive structure to recognise and reward innovators to support the use of STI in specialised research centres, universities, business firms and agriculture;

- *Accelerate Teacher training* : The Government will accelerate the pace of training for school heads and other teachers, particularly to improve their STI skills; and
- Scale up examination and certification in various sectors (tourism, BPO, etc.) in consultation with respective industry players, to encourage private investment in training of professionals.

Strategies to deliver on 2012 education goals

In order to deliver the goals for 2012, specific strategies will be implemented to improve access, quality and equity.

Access: In order to improve access to education, the following specific strategies will be adopted:

- i. Construction of new secondary schools – 560 new secondary schools will be constructed to improve transition from primary schools and ensure increased and equitable access to secondary education. In addition, financial support to secondary school students will be enhanced (e.g. tuition waivers and bursaries for vulnerable groups);
- ii. Increasing enrolment in public universities – Having de-linked admissions from the availability of bed-spaces in each campus, the Government will continue to support the development of private (and faith-based) universities that meet the requirements of the Commission for Higher Education. This is expected to raise the transition rate from secondary school to universities to 8 per cent;
- iii. Introducing open and distant learning – This will enhance access to university education, especially to the financially disadvantaged; and
- iv. Introducing e-learning and blended learning as an alternative delivery system – E-learning will be introduced as an alternative mode of delivery of education. This will improve both access and quality of the education.

Improving the Quality of Education: Specific strategies to improve quality will include:

- i. Recruitment of more teachers to improve the teacher to student ratio – to attain the required national standard of 1:40 teacher to student ratio, a major teacher recruitment programme aiming to employ 28,000 more teachers by 2012 will be implemented;
- ii. Gradual phasing out the training of P1 teachers – Non-diploma teaching will be phased out to pave the way for more diploma-level teachers at primary level in public schools. This would ensure that teachers with higher level of training and knowledge of modern teaching technologies are hired to enhance the quality of education in Kenyan schools. Future training of teachers in these institutions will focus on building STI skills;
- iii. Building consistency within the curriculum – This initiative will streamline pre-primary , primary and secondary curricula to ensure consistency and continuity, while avoiding changes that are not internal and demand-driven;
- iv. Improving the text book to pupil ratio – This will be done by increasing the text book grant to schools; and
- v. Integrating early child education into primary school learning – The Government will introduce a pre-primary teacher training curriculum and link early child education to primary education. This will strengthen early childhood education and thereby lay a solid foundation for the country’s overall education and training.

Promoting Equity in Access to Education: Specific strategies to improve equity will include:

- i. Increasing the number of boarding schools in pastoral districts – In order to improve equity and access, more boarding schools will be constructed in pastoral and ASAL areas;
- ii. Establishing mobile schools in ASAL – Mobile schools will be established where appropriate in ASAL areas to ensure that children from pastoral communities have access to education, even as their families migrate in search of pasture;
- iii. Enhancing financial strategies for the disadvantaged – In order to assist financially disadvantaged students, financial support programmes to vulnerable groups will be increased and made beneficiary-friendly, for instance by the use of voucher schemes and special grants to the neediest families;
- iv. A Public Education Campaign against Retrogressive Cultural Practices – Collaboration between the Government, communities and non-governmental organisations will be enhanced to ensure effective observation of The Children’s Act. Kenya will encourage community education to discourage retrogressive cultural practices that are associated with low education indicators; and
- v. To strengthen special education by integrating it into the regular school system – Schools will be required to incorporate facilities for use by children with special needs. Schools will also be encouraged to pay special attention to the needs of these children both during learning and examination times.

Policy strategies for science and technology in education

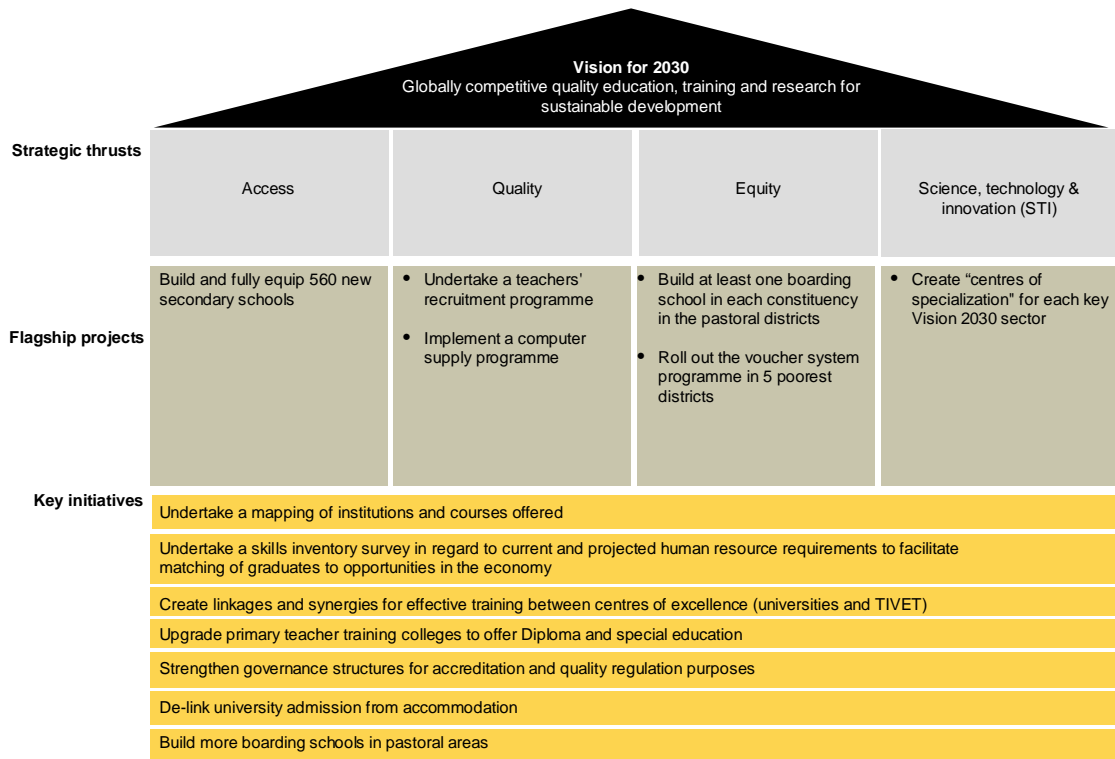
Training in STI will be enhanced through four strategies, namely:

- Mainstreaming STI into the curriculum – The strategy will integrate instructional technology into content and delivery at all levels;
- Establishing and equipping science laboratories in all secondary schools – This will encourage all schools to give prominence to science subjects;
- Establishing centres of specialisation for key sectors – This will entail designating various institutions to offer specialised training for all the sectors; and
- Promote e-learning at TIVET and university levels – This will encourage research through access of information from advanced institutes in the developed world.

Flagship projects and initiatives

To realise the goals and implement the strategies, six flagship projects have been identified alongside a number of key initiatives as outlined in Figure. 4.2.6.

Figure 4.2.6: Flagship projects and initiatives



4.3 Health Care Delivery

Kenya's vision for health is to provide "equitable and affordable health care at the highest affordable standard" to her citizens.

Good health is expected to play an important role in boosting economic growth, poverty reduction and the realisation of social goals. But it is also important in achieving one's personal ambitions, and exercising one's political rights. However, the majority of Kenyans still do not have access to affordable health care. Preventable diseases, such as HIV/AIDS, malaria and tuberculosis, as well as road carnage, continue to exact a heavy toll on the population. In the last five years, Kenya's health system has improved significantly as a result of increased financial resources, better governance and better management of health delivery systems. The toll inflicted by the most deadly diseases has therefore been falling, and Kenya's overall health is better today than it was some years ago. The country must now build on these achievements to achieve Vision 2030, starting with the planned priority projects for the period 2008-2012.

Under the Vision, Kenya *will restructure the health delivery system and also shift the emphasis to "promotive" care in order to lower the nations' disease burden.* This will improve access and equity in the availability of essential health care and result in a healthy population that will effectively participate in the development of the nation. This improvement will be achieved by a shift from curative care in large hospitals to lowering the incidence of preventable diseases, control of environmental threats to health, and research that targets the medical needs of communities in their specific circumstances. In the process, a majority of Kenyans will be able to escape the heavy disease burden using existing knowledge and resources. The vision strategy is also to undertake public education programmes to encourage Kenyans to change their lifestyles in ways that will improve the health status of individuals, families and communities. Increased attention will be given to improving the nation's health infrastructure, particularly in rural and severely deprived areas and communities. This approach will achieve major gains through the involvement of local communities in the management of health services, allowing the Ministry's headquarters to focus on policy and research. The vision recognises the role of the private sector in improving the delivery of health care in partnership with the public sector. Through such partnerships, Kenya will position herself as a competitive provider of specialised health care. The overall goal is a paradigm shift that will bring fundamental changes to the way health services are delivered in Kenya.

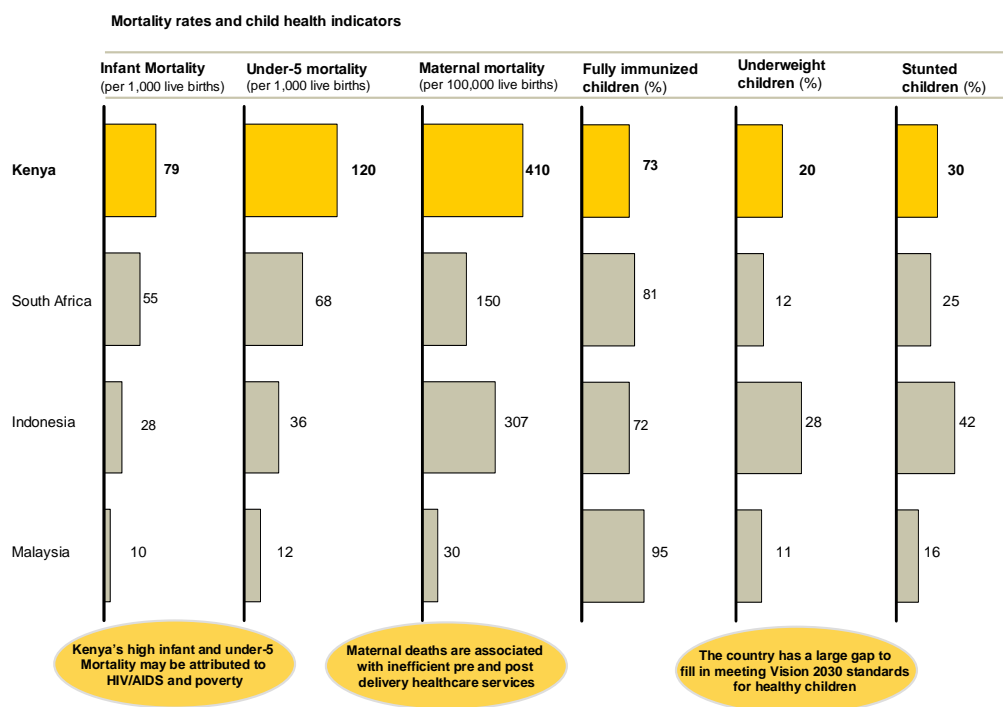
Despite an unprecedented rise in the Government's financial allocation to the health sector, the need for health services has escalated beyond the financing capacity of the Ministry of Health. Institutional reforms have therefore been introduced to improve the country's health care delivery systems. Although the overall national incidence of leading killer diseases, such as HIV/AIDS and malaria, has fallen, the impact of these diseases has negatively affected life expectancy, which fell from 54 years in 1975 to 47 years in 2005. However, the maternal mortality ratio dropped from 590 per 100,000 live births in 1998 to 414 per 100,000 live births in 2003, a factor that can be attributed to improved access. But in general, despite recent improvements, Kenya has a considerable way to go before it meets the MDG health goals and standards of a middle income, rapidly industrialising state, particularly in maternal and child mortality and longevity.

Kenya has therefore defined a “devolution” approach that will allocate funds and responsibility for delivery of health care to district hospitals, and clinics, thereby empowering Kenyan households and social groups to take charge in improving their own health. A similar model has worked quite efficiently in the Ministry of Education. This will be achieved through introduction of community-level care units to serve the local population and by creating a cadre of well-trained Community-Owned Resource Persons and Community Health Extension Workers (CHEWs). This strategy is based on the realisation that communities benefit from affordable, equitable and effective health care most when they participate in policy making on local health care delivery. As a result of this participation, communities become more compliant and motivated.

Situation analysis

As demonstrated in Figure 4.3.1, Kenya lags behind countries such as South Africa, Malaysia and Indonesia in basic health indicators, including infant mortality, under-five mortality and maternal mortality. Kenya also has a large gap to fill in meeting the standards the Vision calls for in child immunization, weight and decline in stunting. Further, there are only 14 physicians for every 100,000 Kenyans, a situation that needs to be improved.

Figure 4.3.1: Mortality rates and child health indicators



The process to reform Kenya’s system of Government-provided health care has already begun. The distribution of quality health care between the country’s income groups, regions, rural-versus-urban areas, is inequitable. A summary of the key focus areas in the health sector is provided in Figure 4.3.2. The focus areas mainly address the issues of: geographical and financial access to health care services; regional and gender disparities; efficiency; financing; health care policy; and public private partnerships.

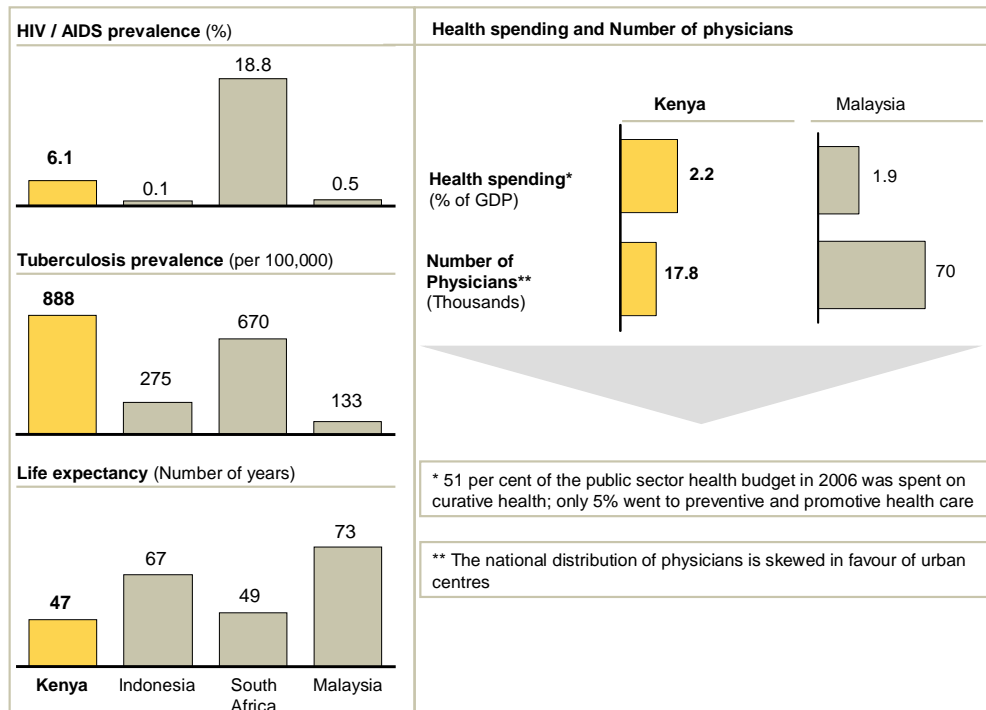
Figure 4.3.2: Key focus areas in the health sector

Focus areas	Issues	Indicators
Access	<ul style="list-style-type: none"> • Geographical access • Financial access • Socio-cultural barriers 	<ul style="list-style-type: none"> • Affordability • Availability • Accessibility (distance to facility)
Equity	<ul style="list-style-type: none"> • Regional disparities • Socio-economic factors • Gender and vulnerable groups • Physically challenged 	<ul style="list-style-type: none"> • Access by gender • Access indicators across regions • Specific information on the vulnerable and physically challenged
Quality	<ul style="list-style-type: none"> • Service delivery • Research • Efficiency 	<ul style="list-style-type: none"> • Appropriateness • Level of delivery • Service range • Quality and quantity of personnel • Continuity • Effectiveness • Efficiency
Capacity	<ul style="list-style-type: none"> • Service delivery systems • Healthcare inputs • Partnerships • Healthcare financing • Research 	<ul style="list-style-type: none"> • Procedure (safety) • Capacity development (healthcare personnel) • Resources • Health system (curative vs. preventive) • Utilization of healthcare systems • Equitable allocation of resources
Institutional framework	<ul style="list-style-type: none"> • Healthcare policy • Level and type of autonomy / integration • Incentive structure • Stakeholder involvement / collaboration 	<ul style="list-style-type: none"> • Level and type of integration • Stakeholder involvement in policy formulation

Kenya's high infant and under-five mortality rates could be attributed to the HIV/AIDS pandemic, poverty and the general decline in economic well-being. Maternal deaths are strongly associated with sub-standard health care delivery services, a poor work ethic among health care personnel and lack of the necessary medical supplies at the time of labour, delivery and immediately after birth. There is an urgent need to address these issues. For the country to achieve the Vision aspirations there is a need, firstly, to put in place effective and efficient management of basic and specialised health care.

In addition, the country needs to become more efficient in the overall use of health resources. One way of doing this is to restructure health care spending towards preventive rather than curative services. In 2006, 51 per cent of public sector expenditures in health went towards curative health with only 5 per cent dedicated to preventive and promotive health care. This is the pattern the Vision aims to reverse. That change will be reinforced by an increase in the number of health care providers. The country's number of health personnel to the population is still inadequate e.g. there are only 14 physicians for every 100,000 people, which is too low. The number of health personnel will be increased and re-oriented towards provision of preventive health care.

Figure 4.3.3: The levels of health sector expenditure and disease burden

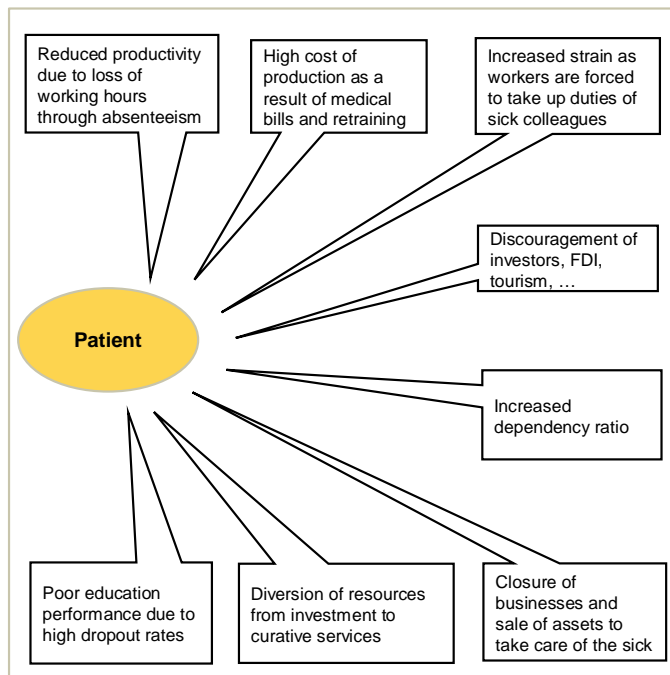


Source: Ministry of Education (2005); Statistical Abstract (2006); UNESCO; Team analysis

The burden of disease

Poor health imposes a heavy burden on society and slows down economic growth. Illness in the family is one of the major causes in the reduction of incomes and assets of poor Kenyans. HIV/AIDS, for instance, has had a demonstrated negative impact on households, their education, as well as in their workforce productivity. Figure 4.3.4 illustrates various dimensions of the impact of the disease burden.

Figure 4.3.4: The burden of ill health on the nation



Source: Team analysis

4.4 Health and the economy

To accomplish the economic goals anticipated in Vision 2030, the health sector will play a critical supportive role in maintaining a healthy, working population, which is necessary for the increased labour production that Kenya requires in order to match its global competitors. This is illustrated in Figure 4.4.1. Beyond that, enjoyment of a healthy life by Kenyans has other benefits. To enjoy political rights, and to benefit from education and the other social goods that our growing economy will provide, individual well-being is crucial.

Figure 4.4.1: Linkages of health to the economic pillar

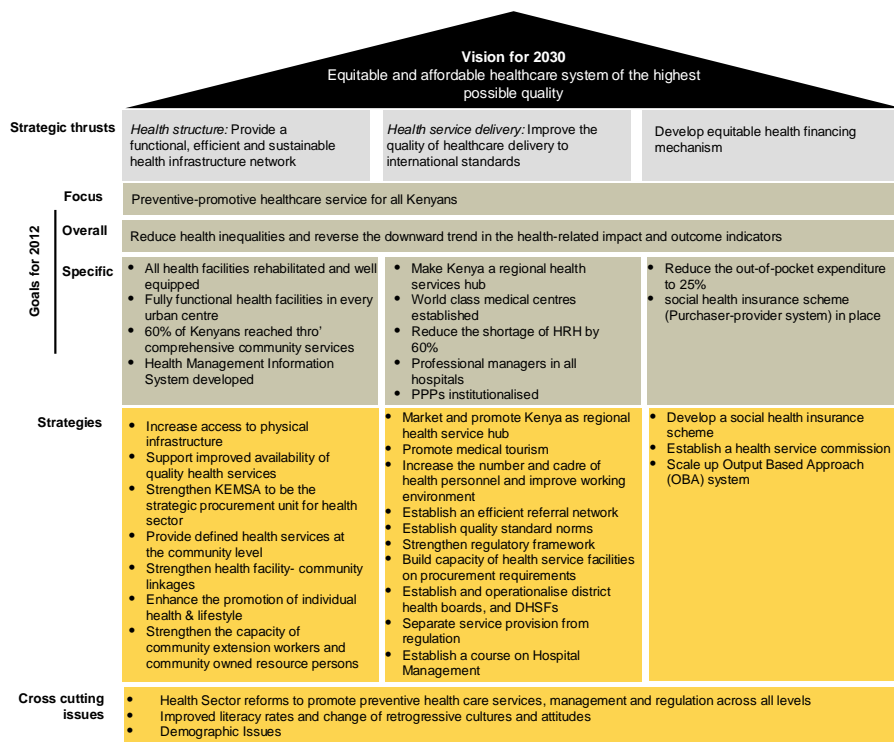
Sector	Linkages
Tourism	<ul style="list-style-type: none"> • Quality and range of health services aimed at enhancing medical tourism
Agriculture	<ul style="list-style-type: none"> • Health communities lead to increased production thus food security • If not well managed, increased irrigation and use of chemicals could lead to high water-borne disease incidence
Wholesale and retail trade	<ul style="list-style-type: none"> • Need to address environmental health particularly in relation to toxic waste management
Manufacturing	<ul style="list-style-type: none"> • Need to adopt environmentally friendly manufacturing processes geared towards reducing air and water pollution
BPO	<ul style="list-style-type: none"> • Without adequate regulation, developments in the sector could lead to production of e-waste and other hazardous materials
Financial services	<ul style="list-style-type: none"> • Reducing the healthcare (expenditure) burden can lead to higher (household, corporate and national) savings • Ill health is closely related to high levels of poverty
Enablers	<ul style="list-style-type: none"> • Need to develop infrastructure for better health (e.g. improving the road and transport networks leads to lower crashes, less emissions and hence reduced bronchial infections)

Source: Team analysis

Strategies to improve health care

One of the basic strategies for achieving the health care goals of Vision 2030 is structural change. This will be achieved through an enhanced regulatory regime and the creation of an enabling environment to ensure increased private sector participation, and greater community involvement in service management. This will be followed by increasing finances available to the health sector and ensuring that they are utilised more efficiently. The health sector will thus be reformed through improved governance, decentralisation of health facility management, emphasis on preventive services, enhanced collaboration with stakeholders, as well as by giving operational autonomy to district and provincial hospitals. The Government will involve communities in these reform efforts. The Government will also initiate strategies to promote affordable and equitable health care financing, which will reduce Kenyans’ out-of-pocket expenditure on medical care. A summary of the strategies to be pursued in the sector are shown in Figure 4.4.2.

Figure 4.4.2: Goals and strategies for health care



Revitalisation of health infrastructure

To enable Kenya to provide efficient, equitable, affordable and high quality health care, a functional health delivery infrastructure will be put in place. This will be achieved through the implementation of the following strategies: (a) Increase access to health facilities; (b) Strengthen the Kenya Medical Supplies Agency (KEMSA) to be the strategic procurement unit for the sector; (c) Establish and strengthen health facility-community linkages; and (d) Build the capacity of community extension workers and community-owned resource persons.

Strengthening health service delivery

The strengthening of health service delivery will be achieved through: (a) Decentralisation and operationalisation of health care management to the facility level; (b) Introduction of qualified health facility managers; (c) Separation of the regulatory function from health service delivery; (d) Development of a policy on Public-Private Partnerships (PPPs). The implementation of these strategies will consolidate Kenya's position as the regional hub for health care services.

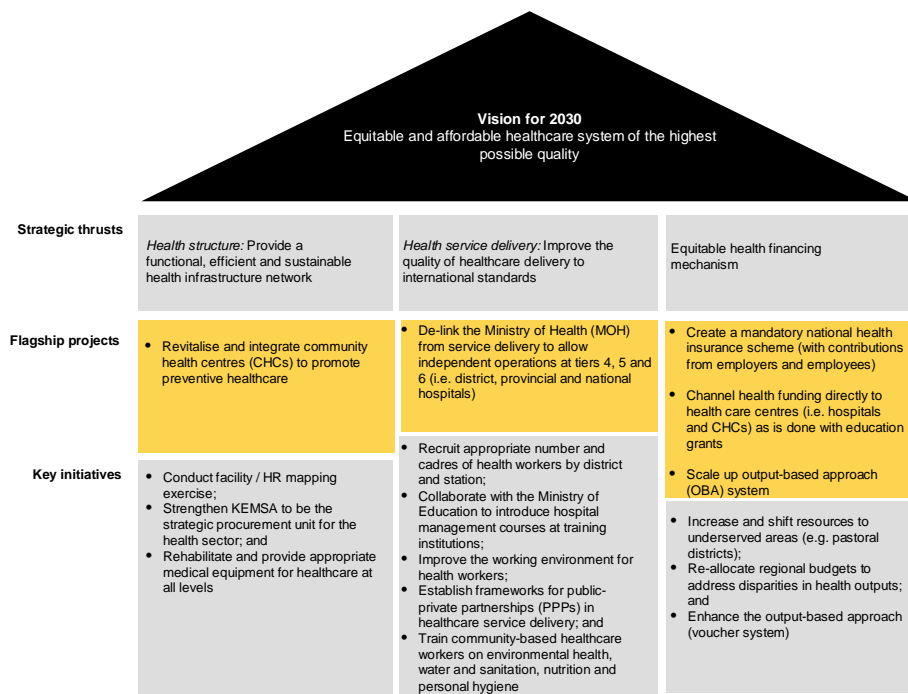
Developing equitable financing mechanisms

Equitable health financing will be attained through the following strategies: (a) emphasising preventive health financing; (b) creating fiscal space through efficient use of resources; (c) expansion of health insurance schemes. A mix of health care financing mechanisms will be developed to make health care accessible to all.

Flagships projects and key initiatives

Flagships projects and initiatives that will be implemented to deliver on the 2012 goals are shown in Figure 4.4.3.

Figure 4.4.3: Flagship projects for the health sector



Under revitalisation of health infrastructure, two specific initiatives will be undertaken:

- Rehabilitation of health facilities, primarily community health centres and dispensaries, to promote preventive health care and to treat diseases at the community level;
- Establishing strong community-based information systems to facilitate access to health-related information and outreach.

Under strengthening of health service delivery, the major flagship projects will be:

- De-linking the Ministry of Health from service delivery to focus on regulation and supervision;
- Providing operational autonomy to tiers 4, 5 and 6 (district, provincial and national) hospitals – initiatives under this thrust will be to establish functional referral systems at all levels;
- Integration of local communities in health care management – legislation enabling public private partnerships (PPPs) will be enacted to ensure a well-coordinated approach to healthcare delivery. Community health workers and community resource persons will be trained to implementing these partnerships.

Development of equitable financing mechanisms will be done through introduction of a system to channel funds directly to health care facilities to ensure that funds allocated are utilised for the intended purpose. An important initiative under this thrust will be to explore

alternative health financing options, including national health insurance scheme. Another initiative will involve the development of targeted health programmes for those members of society in difficult circumstances.

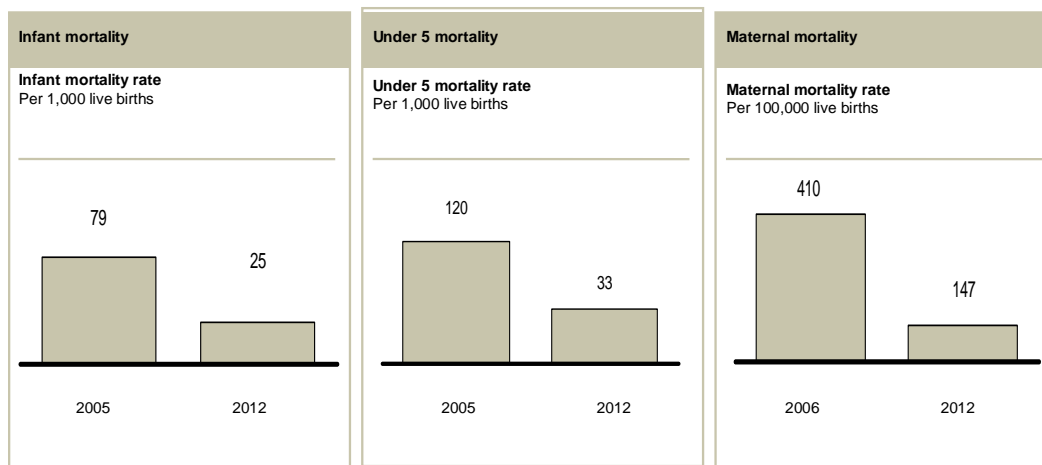
Cross-Cutting Issues

It is recognised that literacy rates, some cultural practices and attitudes, and population growth have an impact on health service delivery. Therefore, there will be a need for enhanced cooperation and collaboration between ministries, Government agencies and other stakeholders. Further, there will be a need to develop collaboration between agencies involved in service delivery and devolved funds. These initiatives will be undertaken through PPP arrangements wherever possible.

Impact of the Interventions in the Health Sector

It is expected that implementation of the identified interventions will lead to a significant improvement in critical health indicators, as shown in Figure 4.4.4 and Figure 4.4.5.

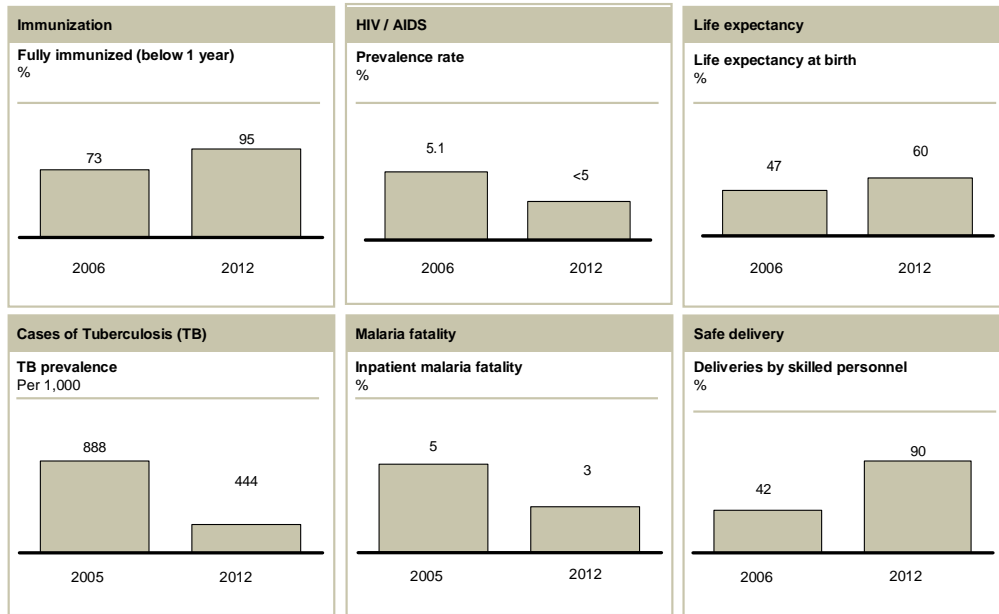
Figure 4.4.4: Target indicators for the health sector (mortality)



Source: Ministry of Health; Team analysis

The sector envisages reducing infant and child mortality rates by 68 per cent and 73 per cent respectively by 2012.

Figure 4.4.5: Target indicators for the health sector



Source: Ministry of Health; Team analysis

4.5 Water and Sanitation

Introduction

The Vision for the water and sanitation sector is “to ensure water and improved sanitation availability and access to all by 2030”. Kenya is a water-scarce country with renewable fresh water per capita at 647 m³ against the United Nations recommended minimum of 1,000 m³. This compares unfavourably with the neighbouring countries of Uganda and Tanzania, which have per capita levels of 2,940 m³ and 2,696 m³ respectively. Kenyans’ access to water and sanitation is relatively poor compared to countries such as Malaysia. (Figure 4.5.1) It is critical to note that Kenya’s fresh water per capita has been declining and is projected to reach 235 m³ by 2025 unless effective measures to address the challenges are implemented. Additional supply and more efficient management of Kenya’s scarce water resources, for household and commercial enterprises, will therefore be necessary to achieve the economic, social and political priority projects suggested by Vision 2030. Thus, all the flagship projects - tourism, agriculture, industry etc. – will consume additional water. So will the measures envisioned under education, health, urban development and housing in the social sector. Better conflict resolution under the political pillar also has a water dimension since many conflicts in rural Kenya tend to be resource-based with a bias towards shared water sources. Efficient water management will, therefore, not only contribute to sustainable long-term economic growth, but also to poverty reduction, health and security. The poor will gain directly from improved access to water and sanitation through improved health, reduced health costs and time saved. An improved water source together with better sanitation (which includes disposal of effluents and excreta) is one of the most important contributors to better human health. It is estimated that 80 per cent of all communicable diseases are water-related and hence constitute a major portion of health care expenditure. Benefits of improved water services and sanitation therefore include averted health related costs, which is a gain to the economy as a whole.

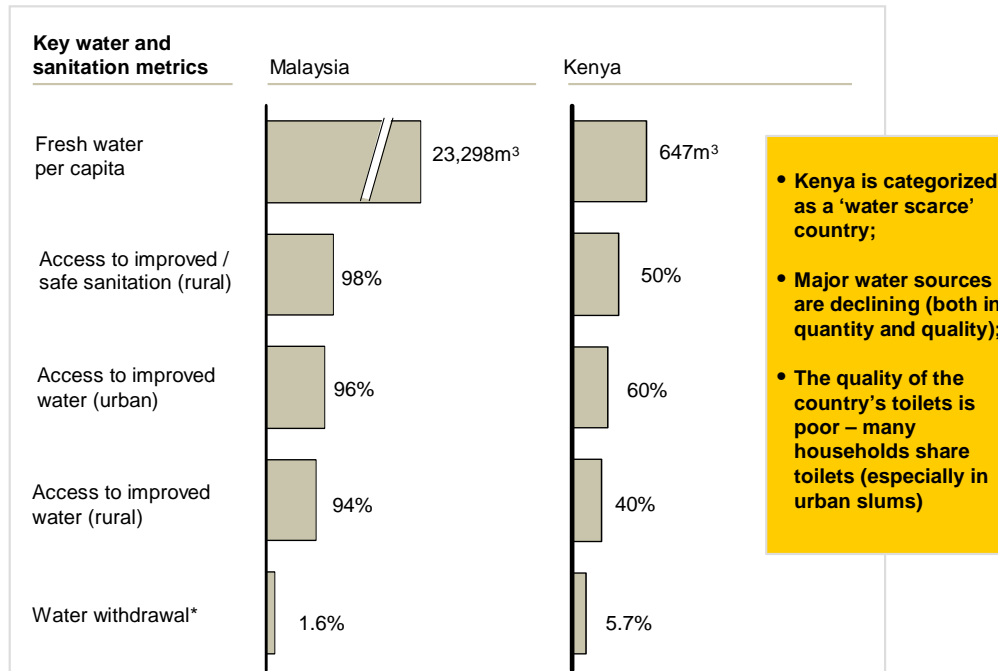
The main consumers of water in Kenya have been industries, agriculture (horticulture and livestock), energy production and domestic consumption, in that order. It is projected that the use and demand for water will increase at an unprecedented level with the expected 10 per cent annual growth rate, high levels of urbanisation and population growth. In the water sector, Kenya has considerable ground to cover in order to meet these future demands. Figure 4.5.1 demonstrates that for Kenya to meet the Vision 2030 goals, the country would have to increase fresh water per capita by at least three-fold, and considerably boost access to improved sanitation, in particular, which is one area where the gap is widest. It is also clear that the biggest growth in demand for water will be in agriculture, particularly due to migration.

Situation analysis

The water abstraction rate (i.e. percentage of all available water taken) in Kenya stands at 5.5 per cent; of this, surface water constitutes 84.7 per cent of all water used in the country, the rest being underground. The amount of water abstracted is below the country’s potential. There is also an imbalance in water abstraction rates across the five drainages. Although Lake Victoria has the highest water endowment in the country, it is the least abstracted from as only 2.2 per cent of its water is taken for use. This is mainly due to limitations of the Nile Treaty, which has now lapsed. Provided the right policies are implemented, it should be

possible to increase the surface water abstraction six-fold and ground water abstraction seven- fold by 2015.

Figure 4.5.1: Kenya water and sanitation indicators



* Amount of water removed from some type of source, (e.g. groundwater) for human use. The water is subsequently returned some period of time later after its is used, but the quality of the returned water may not be the same as when it was originally removed.
Source: World Bank (2006); Ministry of Water & Irrigation

A promising start has already been made. Kenya's water sector underwent significant reforms in the last five years after Water Act 2002 was enacted by Parliament. The main objective of the reforms was to manage water services and resources efficiently by separating responsibilities of providing water to consumers from water production and management. Kenya will build on that progress. A critical look at the flagship projects proposed under Vision 2030 indicates the high priority given to water in the country's projected economic and social transformation. Figure 4.5.2 shows specific linkages between water and the Vision's economic and social pillars.

Figure 4.5.2: Linkages between water and other economic and social sectors

Sector	Linkages
Tourism	<ul style="list-style-type: none"> Resort cities, premium parks, niche products – These will require additional water and expansion of water and sanitation infrastructure Wildlife – Kenya’s wildlife, a key attraction to tourists, requires water for survival
Agriculture	<ul style="list-style-type: none"> Irrigation – Development of irrigation will increase demand for water as more land is brought under cultivation Livestock – Water demand in ASALs will be met by constructing water conservation structures (dams and water pans) and drilling of more boreholes
Wholesale and retail trade	<ul style="list-style-type: none"> Modernization of new retail markets – District-based retail markets require water and sanitation services, as will new supermarket chains
Manufacturing	<ul style="list-style-type: none"> Special Economic Zones – Manufacturing processes require water supply and waste water disposal systems. Agro-processing is one of the highest consumers of water SMEs – SME parks will also consume additional water and require sanitation services.
Health	<ul style="list-style-type: none"> Improved Health – Since about 80% of all communicable diseases are water-related, access to safe water and sanitation to households will be required to improve health standards.
Environment	<ul style="list-style-type: none"> Degraded catchment areas – Degraded water resources will be reclaimed to boost supply Pollution – Industrial effluents and agricultural chemicals affect water quality, increase cost of treatment and endanger lives
Governance	<ul style="list-style-type: none"> Cohesive society – Equitable distribution of water resources will help establish a more cohesive society since lack of water has been a source of conflict in the past

Source: Team analysis

Challenges and opportunities

The focus of Vision 2030 in the water sector involves addressing the following eight challenges:

- Addressing water scarcity:** Addressing Kenya’s limited and uneven water sources is a priority challenge. Presently, our renewable fresh water capita stands at 647 m³ and is projected to fall to 235 m³ by 2025 if supply does not keep up with population increase. There are also regional imbalances in water availability and utilisation that must also be addressed. Highland areas, the Coast and the Lake Region have better water access than the ASAL districts.
- Improving water security:** Kenya needs a consistent and reliable supply of water regardless of changes in climate. Inadequate water harvesting has resulted in parts of the country having a lot of water during rainy seasons and little or no water during dry periods. Extreme climatic changes that cause flooding have an immense negative impact on both the social and economic fronts. Improved storage infrastructure will therefore be undertaken in exploiting the proposed irrigation potential in the country and in providing more water supplies to businesses and households. Improved water harvesting will also provide opportunities for the ASAL communities to achieve food security. Construction of dams in parts of the country that have continually experienced disasters caused by drought and floods (e.g. in Kano Plains, Budalangi and ASAL areas) will therefore be undertaken to reduce water insecurity and vulnerability of families inhabiting those areas. This challenge is dealt with under the environment.

- *Catchments management:* Although this is already being addressed by the Government, degradation of water sources has been caused by poor land management (mostly destruction of natural vegetation in the catchment areas through activities such as farming, encroachment and illegal logging of forests). Deforestation in the past was also caused by forest excision for farm settlement and illegal tree felling for fuel use and timber. This caused increased runoff, flash flooding, reduced infiltration, soil erosion, and siltation in the dams and other water reservoirs.
- *Increased demand as a result of population growth and economic development:* The growing population (expected to reach more than 60 million by 2030) and increasing economic activities will increase demand for water for domestic use, food security, and industrial development. It will, therefore, be necessary to have a corresponding increase in the development of water resources to meet the demands of an increasing population and a growing economy.
- *Better water quality:* Improvement of quantity must be matched by that of quality. Increased commercial farming activities, coupled with rapid industrialisation and laxity in law enforcement, have led to increased effluent discharge into water bodies and disposal of farm chemicals and waste into rivers. All these have resulted in the degradation of our water resources.
- *Increasing the amount of irrigated land:* The level of development of irrigation in Kenya is low compared to its potential. Kenya's irrigation potential in 2006 was estimated at 539,000 hectares, but only 105,800 hectares (about 20 per cent of irrigable land) have been exploited for agricultural production. However, with the construction of water storage facilities, the available irrigated land could be increased to 1.3 million hectares. This could be achieved through enhanced water storage capacity, thereby increasing agricultural production. This would also help control floods, which mainly affect poor communities, Under Vision 2030, productivity in the proposed irrigated areas will therefore have benefits on the future of Kenya's economy and society that go beyond increasing agricultural production and value addition, as proposed in the economic pillar.
- *Low level of infrastructure development:* Kenya's water and sewerage infrastructure coverage will have to rise in order to meet standards associated with middle income countries. In 2005, clean water sources were available to an estimated 60 per cent of the urban population and 40 per cent of rural homes, while improved sanitation coverage was 55 per cent for urban areas and 50 per cent in the countryside. As stated earlier, water coverage will be increased through investment in infrastructure, rehabilitation and construction of new water supplies and more efficient management of available water. This will result in the reduction in levels of unaccounted-for-water, which is currently estimated to be 60 per cent. Poor physical planning in our urban areas, coupled with the proliferation of unplanned settlements, is also a major challenge to the provision of clean water to all urban homes. This problem will be addressed under the urbanisation and housing strategies of this document.
- *Water resources monitoring:* In order to increase water supply and to use water resources more efficiently, Kenya needs to upgrade its capacity for monitoring trends

in water flows and abstraction. Currently water resource monitoring covers only 30 per cent of total estimated available supply through various sources. This is primarily due to inadequate staff and insufficient hydro-meteorological stations. This challenge will need to be addressed as a priority since to be really effective, all new planning and distribution of water and sanitation services will need to be based on reliable data.

Vision for the water sector

The Vision in this sector is to “ensure water and sanitation availability and access for all”. By 2030, no Kenyan should be without access to an improved water source and sanitation. Like in other sections of this Vision, this objective will be realised in blocks of five-year development plans. The outline for the first five-year block will be the following:

Goals for 2012

Over the next five years, the water sector aims to improve access to safe water and sanitation with the goal of attaining 90 per cent access to safe and reliable water for urban areas and 70 per cent for rural areas and reducing levels of unaccounted-for-water to below 30 per cent. It will aim to achieve 70 per cent and 65 per cent access to safe sanitation for urban and rural households, respectively. It will also aim to attain 40 per cent and 10 per cent sewerage access for urban and rural areas, respectively.

Increasing national capacity for water storage and harvesting: Kenya also aims to increase water storage per capita to 16 m³ up from the current 8 m³ by raising the capacity of the new water services boards. Increased water resources will also be combined with an efficient distribution of water resources. The adoption of market principles should also bring down the cost of water in unplanned settlements, where the cost of water is extremely high. This approach will also make it possible for the boards to acquire additional financial resources for rehabilitation of the systems as well as new investments. In addition to achieving the goal for irrigation, (which is to increase the area under irrigation to 1.2 million hectares and increase area under drainage to 90,000 hectares by 2012) expanded water supply will have met other economic and social goals of the vision.

In the area of water resource management, the sector is setting a goal to increase regular monitoring of water resources from the current 30-40 per cent to 70 per cent in order to identify areas that need attention before serious deterioration. Implementation of the two water catchment management strategies (in Tana and Lake Victoria north) will also be finalised by 2012, while preparation of the remaining four catchment management strategies are being completed. Another goal in the management of resources will be to ensure that 90 per cent of the rivers have reserve flow at all times.

Strategies to deliver on the 2012 Goals for Water

Better management of water resources

Effective management of water resources will be achieved through: enforcing regulations by the Water Resources Management Authority (WRMA); encouraging formation of water resource users' associations by communities to assist in self regulation; and promoting fair allocation of water among users for sustainability. The Government will also rehabilitate 600 hydrometric stations and develop 2 international standard status hydrometric stations for the purpose of monitoring the status of water resources. Consolidation of water sector reforms arising from enactment of the Water Act 2002 provides an opportunity for improving water

service provision and resource management. Taking advantage of the enabling environment for public-private sector collaboration, especially in the development and management of water projects, and accelerating the trend, will avail more funds for scaling up service provision and management. Appropriate use of the Sector-Wide Approach to Planning (SWAP) as a tool for coordinated approach to planning will also promote prioritisation of the various programmes and ensure that resources are provided to deserving areas. To enhance water storage capacity, the strategy will increase investment in the storage infrastructure and develop innovative community-based methods and technologies for water harvesting. In rural areas, specific focus will be placed on capturing and storing run-off water from tin roofs. In addition, the country will intensify catchment methods for ground run-off water.

Upgrading water supply and sanitation systems

The water strategy aims to intensify Kenya's access to safe water and better sanitation using the national network of water services boards, and the private sector, where necessary. The water programmes will integrate both water and sanitation components, thereby ensuring simultaneous development of water and sanitation with the right pricing. This is expected to bring individual and social benefits that will outweigh the investment costs. With the expected increase in urban population and development of the 15 medium towns and the new resort cities at the Coast, Isiolo and Lodwar, water and sanitation systems in those sites will be accorded priority. Public-private partnerships, in particular, will be encouraged in the development and management of water supply and clustering of viable water supplies and sewerage systems, as the Government and its international development partners may not have all the financial resources this will require.

Irrigation

To achieve the goal of increasing the area under irrigation to 1.2 million hectares and to improve efficiency over the next five years, it will be necessary to finalise the policy, legal and institutional framework for irrigation and also develop a national irrigation master plan. This will indicate priority areas and also promote coordination of irrigation projects in the country in a manner that will empower communities and also allow private sector participation, where necessary. The existing schemes will, therefore, need to be rehabilitated and expanded while new ones are put in place. Increasing the sustainability of irrigated and drained areas will be achieved by empowering communities to manage their schemes and thereby increase productivity to optimum levels. Investment in human resource capacity development will be important to achieving this end.

Water sector reforms

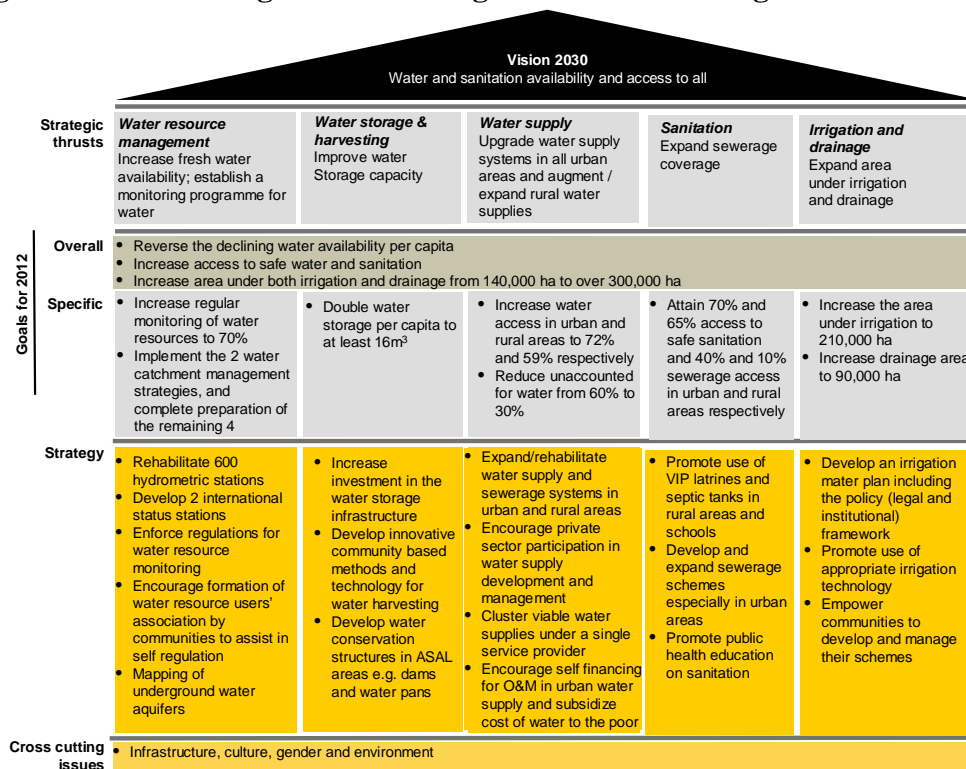
Reforms in the water sector will be consolidated to make all new institutions operational, thereby decentralising sectoral management and development. This will result in efficient delivery of water services and sustainable water resources management.

Cross cutting issues

In order to achieve the goals set for water and sanitation, it will be necessary for the country to pay attention to cross-cutting issues that affect all sectors of the economy. One of these is the problem of environmental degradation, which continues to have a negative impact on the availability of water. Another concern is the lack of a gender focus in water policy and management; water scarcity affects women and girls more than it does men and boys because women and girls – in both rural and urban areas – are often charged with the responsibility of ensuring that household needs for water are met. Women and girls who

spend a large portion of their day fetching water are denied the opportunity to engage in other economic activities and schooling. Integrated land use planning will take account of water sources and its infrastructure. A well-planned settlement makes supply and servicing more manageable. Cultural practices in certain communities in the country have continued to negate progress in improving rural sanitation, and will have to be addressed through education and more effective interventions by local leaders and community experts.

Figure 4.5.3: Overall goals and strategies to achieve these goals



Flagship projects and initiatives

To execute the water strategies, the following four flagship projects have been identified to ensure achievement of the 2012 goals:

1. **Improved water resource information and management:** This will entail rehabilitation of the hydro metrological network to reactivate 600 stations that are not functioning currently. In order to provide water to the ASAL areas, ground water hydro-geological mapping will be undertaken in Turkana and Marsabit. Formulation of the four remaining water catchment strategies will be another area of focus as implementation of Tana and Lake Victoria catchment strategies is completed.
2. **Increase water storage and harvesting:** Given the importance of water storage and harvesting in increasing the area under irrigation and in flood control and water supply, the Government will develop two multi-purpose dams with storage capacity of 2.4 billion m³ along Rivers Nzoia and Nyando. Construction of 22 medium-sized multi-purpose dams with a total capacity of 2 billion m³ will be undertaken to supply water for domestic, livestock and irrigation use in the ASAL areas.

3. *Increase national coverage of water supply and sanitation:* A key flagship project will be the rehabilitation and expansion of the Mzima pipeline, which will be able to supply water to all the coastal towns. Rehabilitation and expansion of urban water supply and sanitation in the satellite towns around Nairobi, Mombasa, Kisumu, Nakuru and Kisii will also be undertaken alongside 15 medium-size towns that have the potential to support manufacturing and tourism activities proposed in the economic pillar. These are Narok, Machakos, Maralal, Wajir, Wote, Hola, Chuka, Ruiru, Athi River, Siaya, Ol Kalou, Matuu, Maua, Moi's Bridge and Limuru. To improve infrastructure, the following strategies will be pursued: innovations in rural waste disposal combined with relevant incentives; encourage transition from traditional pit latrines to (adoption of) improved versions; cross-reference to health sector with regard to public health; and increased coverage of improved sanitation in Kenya's rural areas. Under Vision 2030, a research and development project will be commissioned on improvement and application of improved toilets and community sanitation. Promotion of the use of ventilated and improved pit (VIP) latrines and septic tanks in rural areas will target schools adhering to the ratio of one toilet for every 35 boys and one toilet for every 25 girls. This initiative will boost the achievement of improved access to safe sanitation. In addition, the Government will encourage planned rural and informal urban settlements, as indicated under the agricultural sector of Vision 2030.

Expansion of water supply and sanitation in the proposed resort cities in Isiolo, Lodwar and the Coast will also be undertaken to support the development envisaged in the economic pillar. To increase national coverage of water supply, Kenya will explore practical modalities for organised/planned settlements. In addition to other measures to boost the supply of water to urban and rural areas, efforts will be made to explore possibilities of trans-border sources of water.

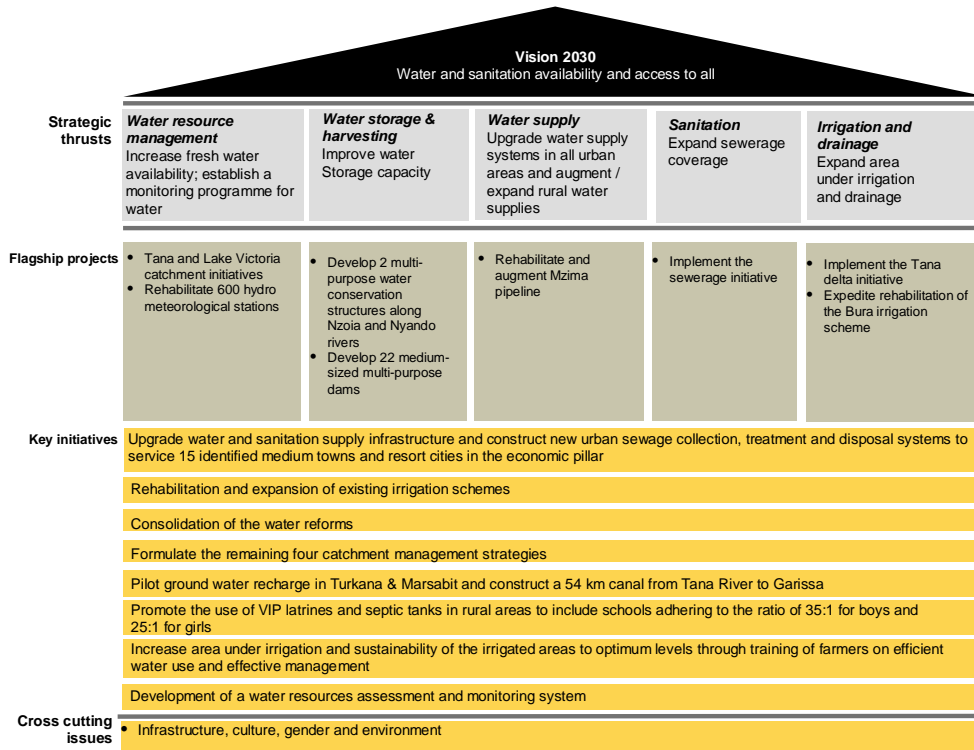
4. *Irrigation and drainage:* The main flagship project in irrigation will be the construction of the Tana delta project. The other areas of focus in irrigation will include rehabilitation and expansion of the schemes in Bura, Hola, Kano Plains, Nzoia (Upper, Middle and Lower), Perkera, Kerio Valley, Mwea, Taita Taveta, Ewaso Nyiro North and Ngurumani (Kajiado) irrigation schemes. This will increase cropland substantially and boost agriculture that was previously dependent on rainfall. Drainage areas will also be expanded in provinces of western (Busia, Kakamega, Butere, Mumias, Bungoma, Teso) and Central (Thika and Nyandarua - North and South).

Supporting initiatives

A number of initiatives will be undertaken alongside the above flagship projects with the aim of achieving the overall goals set for the water vision. These will include construction of a 54 km inter-basin water-transfer canal from Tana River to Garissa district (the Rahole canal). The canal will be modelled on the Yatta and Njoro Kubwa canals. Consolidation of the water reforms to strengthen the water sector to better service the needs of all users and development of 2,000 hectares small-scale irrigation schemes in each of the 70 districts in order to attain the overall goal of increasing the area under irrigation will also be undertaken. To enhance water security, increased water supply through more effective harvesting techniques and water storage will be promoted. Currently, 74 per cent of rural households have corrugated iron sheets as the roofing materials for their dwelling units. Measures will be

undertaken to promote rainwater harvesting to guarantee an improved water source for a majority of these households.

Figure 4.5.4: Flagship projects for 2012



4.6 Environmental Management

Introduction

As already indicated, our country is planning to grow at an average rate of 10 per cent per annum. Growth will be dependent on agriculture, tourism, manufacturing and the energy sector, which heavily rely on exploitation of natural resources and the environment. Major developments anticipated by Vision 2030 will affect pollution levels and generate larger quantities of solid waste than at present. Anticipated growth in manufacturing activities will also give rise to an increase in effluents discharged, which will require effective disposal management. The Arid and Semi-Arid Lands (ASALs), which constitute approximately 80 per cent of the total land mass and support some 10 million people and more than 70 per cent livestock, will also undergo major changes as a result of new towns, better infrastructure and livestock based industries. Urbanisation will also occur at a rapid rate; by 2030, it is estimated that more than 60 per cent of Kenyans will be living in cities and towns. These changes are likely to impact adversely on the environment, which will require effective management to ensure sustainability. All these changes will exert immense pressure on the already declining natural resources base and on the country's fragile environment. This necessitates a strong policy on the environment in order to sustain economic growth while mitigating the impacts of rapid industrialisation.

Kenya's current institutional framework to manage the environment, however, is characterised by fragmentation. Various aspects of the environment policy cut across different institutions. Although the Environment Management and Coordination Act (EMCA 1999) was enacted with the primary objective of improving the coordination and management of the environment, legislation of relevant laws and regulations has not yet been completed. Policy and institutional reform for stricter enforcement, therefore, poses a big challenge that must be overcome by Vision 2030.

Situation Analysis

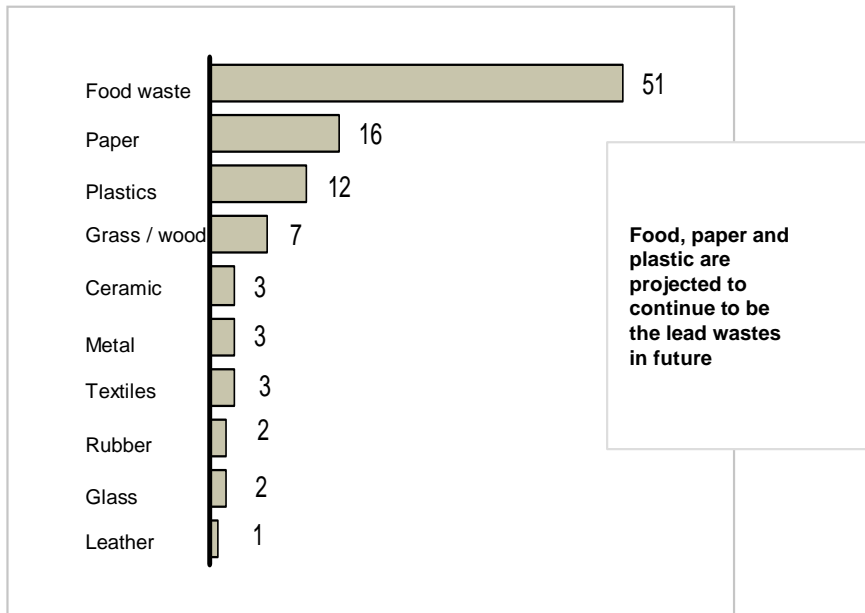
Kenya has in the past made considerable efforts, domestically and internationally, to promote sound environmental policies. This effort is demonstrated by the country's hosting of the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat) headquarters, the only UN headquarters in a developing country. Kenya cannot, therefore, afford to lag behind the rest of the world in environmental management policy. The country is a signatory to a number of Multilateral Environment Agreements (MEAs), including Agenda 21, the Montreal Protocol, the Basel Protocol, the Stockholm Convention, the Kyoto Protocol and CITES. Most of these conventions have financial mechanisms for addressing various environmental challenges for member states. Kenya will strengthen her capacity to meet international best practices contained in these documents. The country faces the following challenges:

- *Sustainable management of natural resources:* Kenya's main forests constitute five water towers (Mt. Kenya, Aberdares Range, Mau Escarpment, Cherangany Hills and Mt. Elgon), which cover more than 1 million hectares and form the upper catchments of all main rivers in the country. In the past two decades, Kenya's forests have experienced severe destruction as a result several factors, the main one being increased demand for agricultural land. This has, in turn, affected the hydrological cycles in the water towers and resulted in water shortages across the country. Current

forest cover is less than 3 per cent compared to the internationally recommended 10 per cent. Degradation of Mt Elgon and Cherangany catchment areas has resulted in flooding in the regions around River Nzoia (Budalangi). Further, continued degradation of the Mau escarpment, which supports the Mara reserve, will have adverse effects on the tourism sector in the future.

- *Demand for farmland and forest products:* In addition, Kenya has a wide range of ecosystems, including marine, coastal and freshwater lakes rich in biodiversity. These ecosystems are important sources of livelihood (providing food, beverages, medicines and oil production etc) and have a big contribution to make in the economic development process projected in this Vision. However, at the moment, they remain largely undeveloped due to lack of a comprehensive policy. Invasive alien species remain a major threat to biodiversity. The most notorious species are *prosopis Juliflora* and water hyacinth. Lack of a biodiversity inventory and inadequate procedures for access and benefit-sharing for biodiversity resources remain key challenges for the country. With expected growth in tourism and trade, measures to curb these threats and other unexpected ones, must be put in place.
- *Wild animals in their natural habitat:* Wildlife accounts for 90 per cent of safari tourism and 75 per cent of total tourism earnings. The main challenges in wildlife conservation are: poaching; human-wildlife conflicts; habitat destruction; and, changes in land use patterns. The challenges are further compounded by incomplete information on wildlife census and species dynamics. These factors are aggravated by reduction in dispersal areas and blockage of migration corridors for areas bordering parks. Continued reduction in wildlife and critical habitats can undermine sustained growth in the tourism sector and reduce competitiveness with other countries. Coastal marine resources offer a great potential to sustain a number of economic activities, especially along the Coast, such as tourism, agriculture, fishing, mining and water sports. However these resources are currently largely untapped. The low capacity in the country to harness these resources poses a great challenge. To unlock the potential, an integrated policy on the management of coastal marine resources will be developed.

Figure 4.6.1: Composition (in %) of Kenya's solid waste



Source: UNEP (2005)

- *Medical/Hazardous Waste:* Due to lack of appropriate disposal facilities, medical and hazardous wastes continue to pose a challenge in environmental management. This waste is disposed together with general municipal waste i.e. without segregation. Currently, there are only two incinerators in the country (both located in Nairobi) for destroying medical and hazardous waste. With Nairobi expected to become a regional hub, there is a need to build necessary capacities, especially within the country's medical facilities, to handle all types of wastes. This will also call for the use of market-based instruments to improve waste management, as well as public awareness measures to promote sound waste disposal practice.
- *Climate change and desertification:* Although Kenya has contributed little to the causes of global warming, it is one of the countries most affected by the disasters of climate change. The effects are likely to be more severe in the future, unless the international community demonstrates greater resolve. This could slow down Kenya's projected economic growth for two main reasons. First, the economy is heavily dependent on climate-sensitive sectors, such as agriculture, tourism and coastal zones. Second, the means to cope with climate hazards is weak. Already, changing climate conditions are responsible for the melting of glaciers on Mt. Kenya, which in 1900 had 18 glaciers but now has only 7. This explains the decline in water levels in Athi and Tana Rivers and subsequent interruption in electricity generation. Over 70 per cent of natural disasters affecting the country are weather-related. In the recent past, there has been an increase in frequency, magnitude and severity of disasters. The impacts include loss of life and property and destruction of infrastructure. The current approaches to disaster management are towards disaster response as opposed to disaster risk reduction.

- *Harnessing of strategic natural resources:* There exists great potential for Kenya to develop bio-resources for medicinal, industrial and other products. There is a need to develop capacity to undertake research and to regulate and develop products from these resources. Low innovation in utilisation of natural resources coupled with inadequate capacity to commercialise scientific research and inability to adopt new technologies have had a negative impact on the development of natural resources for the benefit of Kenya. Kenya will need to strengthen her institutional capacity to collect data on land use, not just for urban and physical planning as stated elsewhere in this document, but also for environmental analysis and policy making. Inadequate capacity to adopt new technologies to detect the impact of resource exploitation has contributed to lack of information for planning. Only 30 per cent of the country's land cover is planned and only three urban centres (50 per cent of Nairobi, Kisumu and Kitale) have land use data. Lack of appropriate urban planning partially explains the mushrooming of informal settlements in major towns, and poses a major challenge to the provision of utilities. The capacity to undertake land cover mapping is weak and therefore assessment and monitoring of strategic environmental resources remains a challenge. With the expected urbanisation by 2030, there is a need to build data bases and analytical capacity for resource use and management.

The vision for environment

The vision for the environmental sector is “a nation living in a clean, secure and sustainable environment”. The vision is inspired by the principle of sustainable development and by the need for equity in access to the benefits of a clean environment. To realise this vision, the focus will be on four strategic thrusts:

Conservation

The country will intensify conservation of strategic natural resources (forests, water towers, wildlife sanctuaries and marine ecosystems) in a sustainable manner without compromising economic growth. Kenya intends to have achieved 10 per cent forest cover by 2030. In addition, specific measures will be adopted to promote bio-prospecting activities e.g. research and development of commercial products such as drugs, cosmetics and detergents.

Pollution and waste management

The extent of pollution and waste is correlated to GDP; in general, countries with high GDP levels tend to generate more pollution and waste than those countries with low GDP levels. (This trend, however, is currently being reversed in many highly developed economies, such as Singapore, through environmentally-friendly policies and practices.) Despite the high rates of growth envisaged by Vision 2030, Kenya will progressively apply measures to guard against the adverse effects of increased pollution and waste experienced elsewhere.

ASALs and high-risk disaster zones

Although Kenya is not the most disaster-prone country, recent events like the El Niño phenomena have indicated that natural disasters can erode the gains made on the economy. Insulating development from natural hazards is therefore a priority under the Vision.

Environmental planning and governance

Building institutional capacity in environmental planning, and improving the impact of environmental governance will be undertaken in order to improve the overall management of the environment.

Goals for 2012

In order to deliver on the vision, four strategic thrusts were identified for the environment sector based on their relationship to the economic and political pillar. Concrete goals based on the current status and identified benchmarks were set for 2012.

- *Conservation:* The overall goal in forest conservation is to increase current forest cover by 50 per cent. This will include significantly improving the contribution of forest services to the economy and providing a base for the growth of the forestry sector. Regarding wildlife conservation, the goal is to fully protect all wildlife ecosystems. This will sustain the anticipated high growth rate of the tourism sector. The country will also develop an environmentally-friendly mining policy.
- *Pollution and waste management:* Reducing hazards related to an unhealthy environment is the main goal under this thrust. Development of solid waste management systems in at least five municipalities and in the proposed economic zones will ensure a clean, healthy and secure environment. Regulations on the use of plastic bags and other hazardous products will form another goal under this strategic thrust.
- *ASALs and high-risk disaster zones:* There are three goals in this thrust, which are aimed at reducing the effects of desertification and disasters. The specific goals are:
 - Substantially reduce losses due to floods and droughts;
 - Establish national trends and impacts of climate change on sensitive sectors; and
 - Pilot 5 adaptation programmes on climate change and desertification.
- *Environmental planning and governance:* The goals in this thrust aim to integrate planning approaches and improve overall governance of the environment. Specific goals include:
 - Increase coverage of spatial data from the current 30 per cent to 50 per cent for land use and 30 per cent to 70 per cent for land cover;
 - Enforce all environmental regulations and standards; and
 - Attract at least 5 Clean Development Mechanisms (CDM) projects per year in the next five years.

Strategies to deliver on 2012 goals

In order to deliver the goals for 2012, specific strategies need to be implemented in each of the four identified strategic thrusts.

Under Conservation, the main strategies to achieve the goals on conservation include:

- Rehabilitation of degraded water catchments areas while promoting on-farm forestry;
- Implementation of compensation for environmental services to include carbon markets;
- Promote use of biotechnology in forest conservation;

- Secure wildlife corridors and migratory routes and reverse wildlife loss;
- Brand premium parks in line with the tourism sector;
- Intensify conservation of coastal, mangrove and marine wildlife resources; and
- Develop a sustainable land use policy for common grazing areas.

Under Pollution and Solid Waste Management, three strategies have been identified to deliver on 2012 goals:

- Develop and enforce mechanisms targeting pollution and solid waste management regulations;
- Establish a national air quality monitoring system; and
- Apply market-oriented instruments to regulate the use of plastic bags.

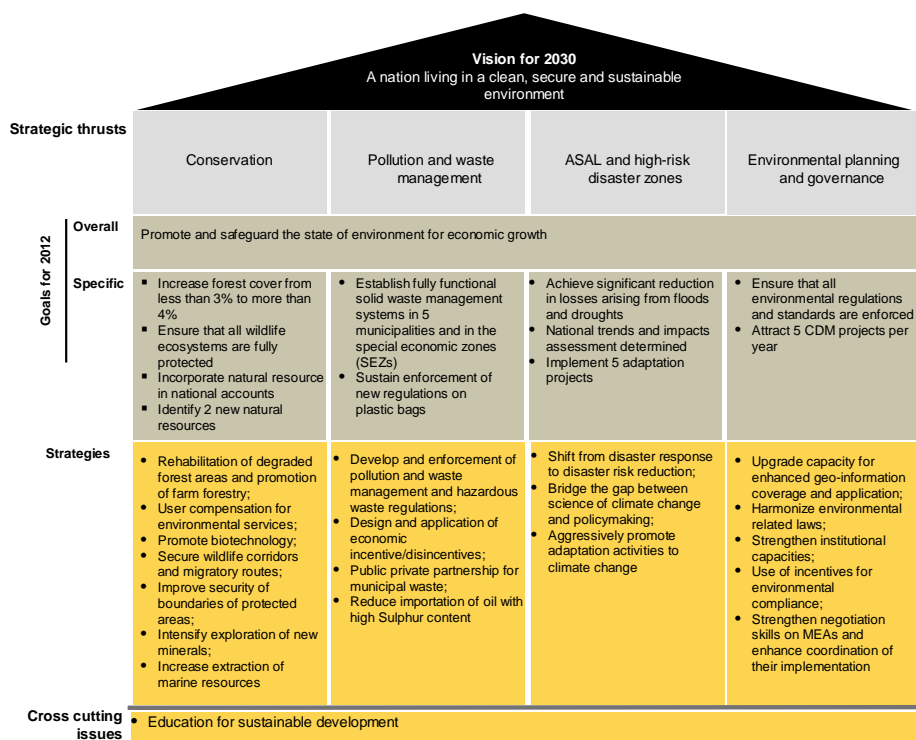
Under Reforms in Environmental Disaster Policy, the following four specific strategies have been identified to realise the goals in this thrust

- Shift policy from disaster response to disaster-risk education;
- Intensify research on impact of climatic changes in Kenya and develop appropriate policy responses for each geographic zone;
- Aggressively promote adaptation activities in high-risk disaster zones;
- Formulate a national disaster strategy for seismic events and pestilences affecting human and animal habitation; and
- Undertake measures to integrate climate change into development planning.

Under Environmental Planning and Governance, the following strategies will be pursued:

- Upgrade the capacity of institutions for enhanced environmental data and information coverage and application;
- Develop a policy framework to harmonise environment-related laws and institutions, and promote the capacity for collective enforcement of environmental standards;
- Strengthen institutional capacities of multi-sectoral planning and strengthen linkages between institutions of planning and environmental management;
- Establish a baseline on the state of the environment for future environmental planning; and
- Strengthen negotiating capabilities through top talent development and compliance with Multilateral Environment Agreements (MEAs).

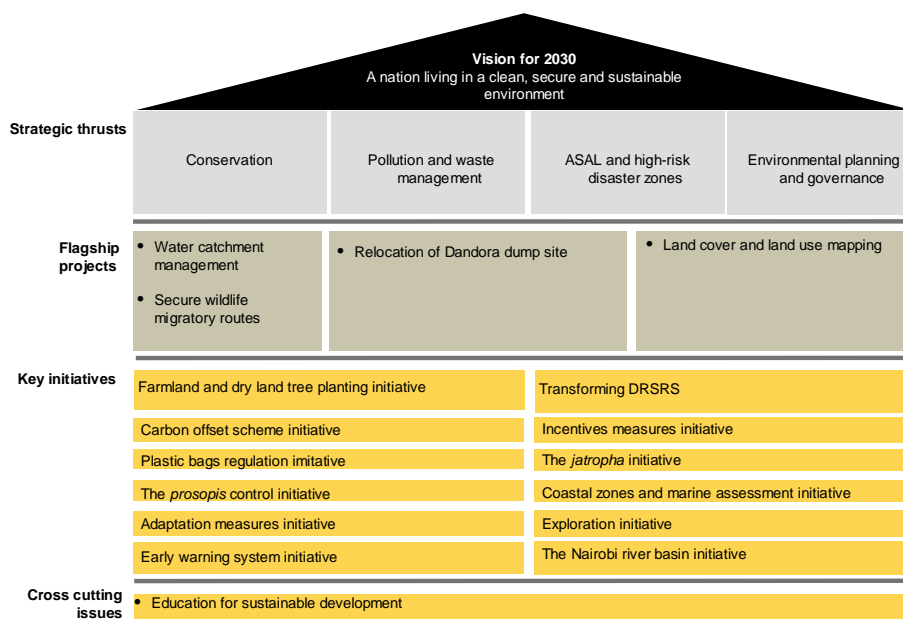
Figure 4.6.2: Overall goals and strategies to achieve environmental goals



Flagship projects

1. *Water catchment management*: This project entails full rehabilitation of the five water towers of Mau Escarpment, Mt. Kenya, Aberdare Ranges, Cherangany Hills and Mt. Elgon.
2. *Secure wildlife corridors and migratory routes*: Most wildlife corridors and migratory routes have been interfered with by human activities. It will be necessary to reclaim them if wildlife is to continue providing the base for the tourism sector.
3. *Develop a national waste management system*: This will include relocation of the Dandora dump site in Nairobi and the establishment of a solid waste management system for the City of Nairobi on a public-private partnership basis. This will set a trend to be followed by other municipalities.
4. *Land cover and land use mapping*: This initiative calls for accurate and continuously updated mapping of land use patterns in Kenya, and of tracking developments. This project will also entail undertaking both livestock and wildlife censuses. It cuts across the economic and social projects envisaged under Vision 2030.

Figure 4.6.3: Flagship projects and initiatives



Initiatives

The following ten initiatives will be undertaken to support implementation of the above flagship projects:

1. *Farmland and dryland tree-planting initiative*: This initiative will seek to introduce high-value tree species at farm level in order to contribute to the targeted forest cover of 4 per cent by 2012. The initiative will introduce commercial tree species in ASALs in order to control desertification and improve livelihoods.
2. *Carbon offset scheme*: The initiative will exploit opportunities within the Kyoto Protocol on the establishment of voluntary carbon markets in order to promote conservation and compensation for environmental services.
3. *The prosopis initiative*: This initiative seeks to combat the threats posed by the *prosopis* (mathenge) tree species.
4. *Disaster preparedness*: Securing funding from global funding mechanisms to implement adaptation programmes in ASALs and high-risk zones. This will be accompanied by an improved disaster-preparedness strategy, including an early warning system covering climatic events (e.g. droughts, floods, pestilences, seismic occurrences, etc.), as well as initiation of a public awareness, avoidance and preparedness campaign.
5. *Capacity for environmental and natural resource information management*: Systems for managing data and information related to the environment and natural resources in the country are generally weak. This hampers proper planning for the environment sector. Vision 2030 seeks to build necessary capacity to facilitate planning for the environmental sector and facilitate mainstreaming of the environment into the national planning process.
6. *Use of market-based environmental instruments*: Design and implement selective incentives/disincentives that will reward good practices in environmental

- management and penalise those that harm the environment. Both economic and non-economic measures will be considered.
7. *Sustainable development indicators*: Development of a framework to enable the country assesses progress in the realisation of suitable development.
 8. *Coastal zone and marine assessment*: The initiative involves assessing the potential opportunities provided by Kenya's coastal ecosystem and to produce a databank to be used by investors and regulatory agencies.
 9. *Exploration initiative*: Undertake an accurate and detailed geological mapping of the country. This will provide information that may lead to the discovery of new natural minerals of commercial value. This initiative will, therefore, involve intensifying ongoing exploration for minerals and crude oil in the country.
 10. *The Nairobi River Basin Initiative*: Clean the Nairobi River and establish water-front business and recreation spots. This initiative will be replicated in other towns, including Kisumu, Mombasa and Nakuru.

4.7 Gender, Youth and Vulnerable Groups

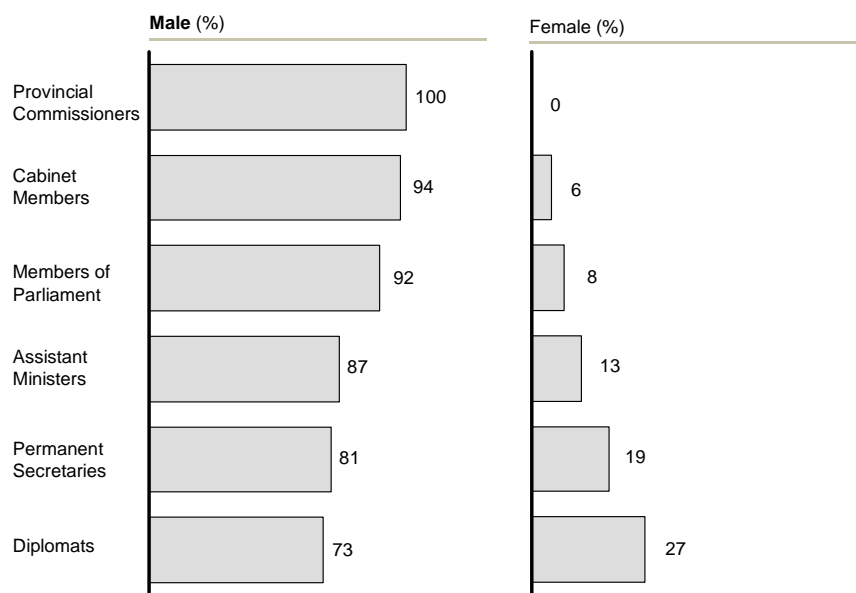
Gender Equity

Vision 2030 mainstreams gender equity in all aspects of society. In this regard, gender equity will be addressed by making fundamental changes in four key areas, namely: opportunity; empowerment; capabilities; and vulnerabilities. Women are disadvantaged in accessing labour markets and productive resources. Women have been disempowered at the household, community and national levels. They are also under-represented in social and political leadership. The capabilities of women have also not been developed to full potential due to limited access to capital, education, training and health care. Many Kenyans (particularly women) are exposed to vulnerabilities from civil and domestic violence, economic shocks and environmental hazards. Although some progress has been made in addressing gender disparities, a lot of effort still needs to be made. Furthermore, given that women play a critical role in the socio-economic development of any nation, there is an urgent need to remove all obstacles that hinder their contribution to national development. Under this Vision, specific policy measures will be taken to correct the glaring gender gaps in access to and control of resources, economic opportunities, and in power and political voice.

Situation analysis

As discussed above, women still face significant challenges as shown in Figure 4.7.1. It is recognised that women are under-represented at all major decision-making levels within Government. There are also large wage gaps to the disadvantage of women and only a small portion can be explained by gender differences in education, work experience or job characteristics. For instance, women hold a mere 16 per cent of top positions in Government (job groups Q, R, S, T, U). On the other hand, women are confined to the bottom of the public service with 74 per cent representation in job groups A, B, C, E, and F.

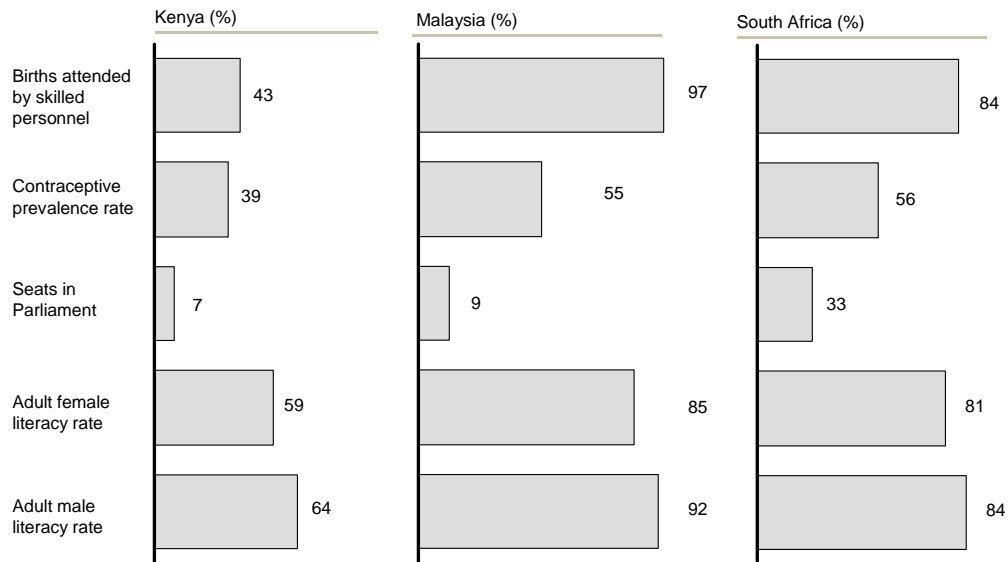
Figure 4.7.1: Representation of Kenyan women in decision making



Source: Ministry of Gender

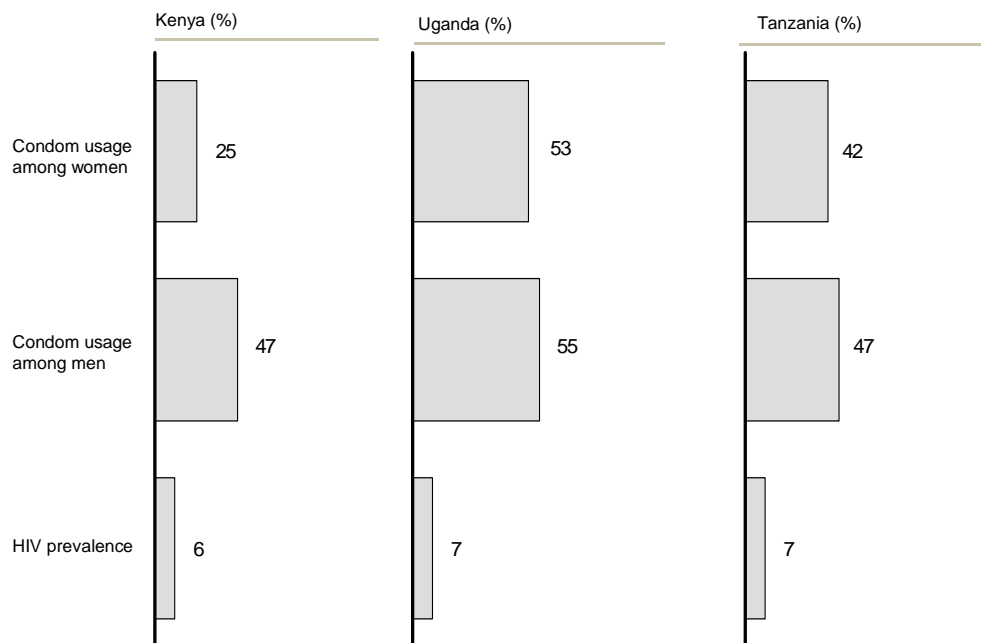
Income levels of Kenyans are far lower than those of comparable countries, while poverty is also an area of concern. In urban areas, for example, the poverty rate among women stands at 46 per cent compared to 30 per cent among men. Kenyan women also lag behind their male counterparts in the area of empowerment. For example, Kenya has the lowest representation of women in Parliament compared to countries such as South Africa and Malaysia (Figure 4.7.2). Furthermore, the contraceptive usage rate among Kenyan women is lower than that of comparable countries. In addition, the country also lags behind in the number of births attended by skilled health personnel. As indicated in the discussion on the health sector, the Vision seeks to address these challenges. While crime in general has been falling, reported cases of assault and battery, as well as rape and/or attempted rape, have been on the increase – an issue that the Government is addressing in collaboration with concerned civic groups and other stakeholders.

Figure 4.7.2: Key gender indicators for selected countries (2005)



Source: Ministry of Gender; HDI Report; Team analysis

Figure 4.7.3: Condom usage and HIV prevalence



Source: HDI Report; Team analysis

Strategies to reduce gender disparities and address vulnerabilities

In order to reduce gender disparities, a number of strategies will be implemented under the Vision. Key among them will be:

- Providing financial support to women to raise their incomes and reduce the gap in estimated earned incomes between men and women;
- Increasing the number of women in Parliament;
- Giving priority to female employees in the public sector in order to attain at least 30 per cent representation in recruitment, promotion and appointment of women to all decision making levels;
- Increasing the proportion of women using family planning methods from 39 per cent to 70 per cent;
- Doubling the number of births attended by skilled health personnel from 42 per cent to 84 per cent;
- Increasing adult literacy rates of men and women from 64 per cent and 59 per cent respectively to 70 per cent;
- Reducing gender-based violence;
- Reducing the rate of high-risk sex through increased access to safe sex methods e.g. use of condoms for men and women from 47 per cent and 25 per cent respectively to 70 per cent; and
- Reducing the male and female population below the poverty line to 25 per cent.

Flagship projects

- Increase funds and training available to women entrepreneurs; and
- Increase women representation at the executive level in all branches of Government and the private sector close to that of the best practices in the middle income countries.

Initiatives

To support the implementation of the above-mentioned flagship projects, the Government will pursue the following two initiatives:

- Gender mainstreaming in Government policies, plans, budgets and programmes; and
- Affirmative action for 30 per cent representation of women at all decision making levels.

Figure 4.7.4: Goals and strategies for 2012

Vision for 2030 Men and women enjoying a high quality of life and equal opportunities			
Strategic thrusts	Opportunity and empowerment	Capabilities	Vulnerabilities
Goals for 2012	<ul style="list-style-type: none"> Increase estimated earned incomes (purchasing power parity) of Kenyan men & women from \$1,242 and \$1,037 respectively to \$3,000 for both men and women; Increase proportion of women in Parliament from 7% to 30% and implement 30% representation in recruitment, promotion & appointment of women at all decision-making levels; Decrease from 50% - 38% the proportion of people traveling more than 5Km to the nearest social amenities 	<ul style="list-style-type: none"> Reduce infant mortality rates and under five mortality rates as per the targets identified in the health sector; Increase level of access to family planning methods from 39% - 70%; Double number of births attended by skilled health personnel from 42% - 84%; Increase adult literacy rates of men and women as per the targets identified in the education sector, and employ additional 	<ul style="list-style-type: none"> Reduce gender-based violence; Reduce the rate of high-risk sex through increased access to safe sex methods (e.g. use of condoms for men and women from 47% and 25% respectively to 70%); Reduce the population below poverty line for men and women from 48% and 50% respectively in rural areas and from 30% and 46% respectively in urban areas to 25% for all
Strategies	<ul style="list-style-type: none"> Increase employment opportunities Implement affirmative action Increase social amenities and improve quality of services 	<ul style="list-style-type: none"> Improve access to healthcare Train more nurses, doctors and community health workers Expand adult literacy programmes 	<ul style="list-style-type: none"> Increase the capacity of the Police to handle cases of violence against women Eliminate retrogressive cultural practices (e.g. FGM)
Cross cutting issues	<ul style="list-style-type: none"> Operationalise gender divisions in all ministries Domesticate, implement and enforce all international resolutions related to women, the youth and vulnerable groups Generate gender disaggregated data for all socio-economic indicators and conduct a national baseline survey Build capacity of government technocrats on gender mainstreaming Affirmative action to achieve 30% representation in all decision-making processes 		

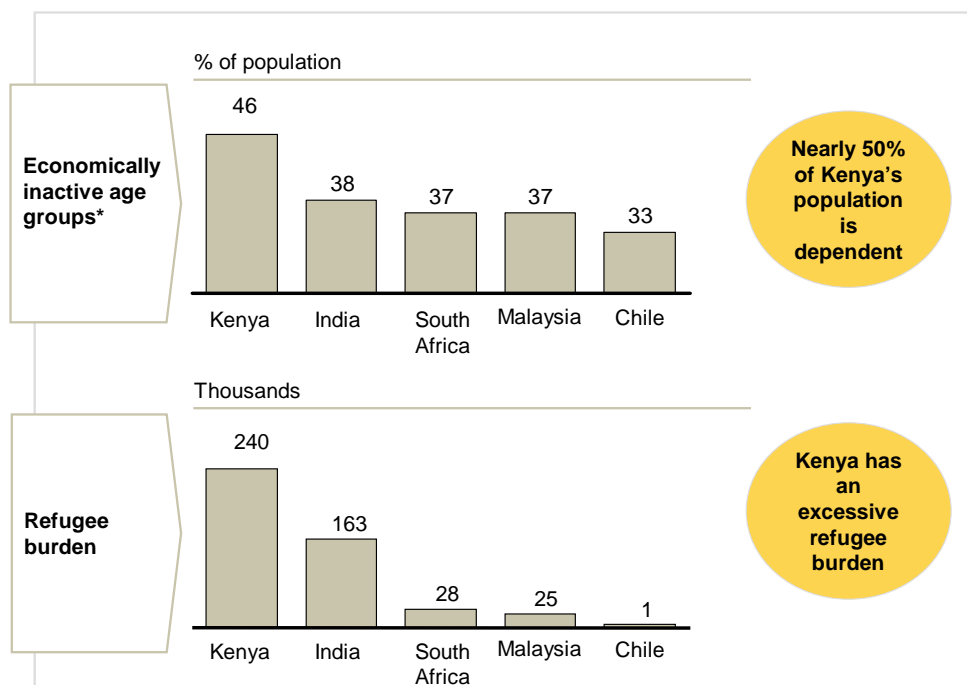
Vulnerable Groups

Vulnerable groups include widows and widowers, orphans and children at risk, persons with disabilities, under-age mothers, the poor of the poorest, internally and externally displaced persons and the elderly. All these groups are faced with multiple challenges in their daily life, such as high levels of poverty and various forms of deprivation. The majority of orphans in the country, for instance, are under the care of elderly grandparents or relatives, who themselves are struggling to get by,

Situation analysis

Savings for old age in Kenya is relatively low at about 18 per cent compared to over 45 per cent for comparable countries. As Figure 4.7.5 shows, the country also has a relatively high dependency rate, with economically-inactive age groups (i.e. 0-14 and 65+) comprising a large percentage of the population.

Figure 4.7.5: Kenya's dependency and refugee burden



* Includes those below age 14 and those over 65 years
 Source: Ministry of Gender, Sports, Culture & Social Services; UNHCR

As illustrated in Figure 4.7.5, Kenya hosts nearly 240,000 refugees, which is more than the number of refugees hosted by countries such as India, South Africa, Malaysia and Chile. In addition to being exposed to health, environmental and security risks, most of these refugees cannot feed or clothe themselves. In some cases, they are, perceived as a major source of risk to the local population.

Strategies to reduce vulnerabilities

The Government will use the following strategies to address challenges facing various categories of vulnerable groups:

- Restructure pension schemes to increase savings for the old and reduce dependency;
- Encourage savings and other investments among economically-active Kenyans to reduce the burden of economic dependency among the under-14 and over-65 age groups;
- Expand pro-poor financial services e.g. through microfinance institutions and village financial associations;
- Encourage the remittance of more money from Kenyans living abroad, in order to reach a target of 5 per cent of the GDP;
- Intervene for peace in the region and resolve land issues so as to reduce both the influx of refugees from neighbouring countries and the number of internally displaced persons within the country;
- Enforce the Children's Act to eliminate child labour as well as other retrogressive practices causing vulnerabilities among children;
- Initiate programmes geared towards reducing deaths caused by HIV and AIDS, road carnage and other killer diseases to bring down the number of orphans;

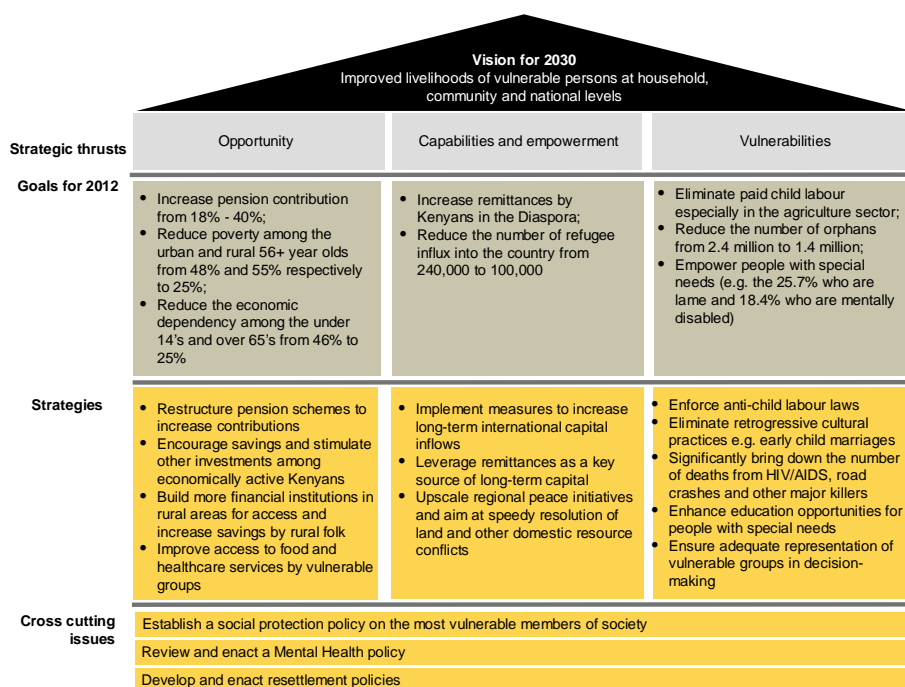
- Empower people with special needs to make them self-supporting; and
- Enhance support to orphans and vulnerable children (OVCs) to reduce dependency.

Flagship projects

The two flagship projects to be implemented alongside the above strategies are:

- Establishment of a consolidated social protection fund for cash transfers to OVCs and the elderly; and
- Full implementation (including appropriate budgetary allocations) of the Disability Fund.

Figure 4.7.6: Goals and strategies for 2012



Youth

Kenya's population is predominantly young with the age group 15-35 years accounting for approximately 38 per cent of the total population. It is at this age that much of the human capital is formed. Consequently, human development strategies implemented during this transitional period have long-term impacts on the structure and quality of human capital. Young people, today and in the future, will be the principal stakeholders and beneficiaries of the Vision. Therefore, issues affecting young people will be fully integrated and harmonised into every aspect of public policy and across all ministries and Government agencies. Under the Vision, specific policies and interventions will be implemented to fully develop their potential as well as prepare and engage them in the socio-economic development of the country. The interventions will cover the following fundamental areas: (i) Building capacity and empowerment to equip youth to engage in productive activities; (ii) Creating employment opportunities; (iii) Providing the youth with the necessary support (e.g., financial and market linkages) and; (iv) Supporting initiatives that mould character; (v)

Strengthening programmes to advance youth health and well-being and; (vi) Giving the youth a voice to articulate their issues as well as participate in decision making.

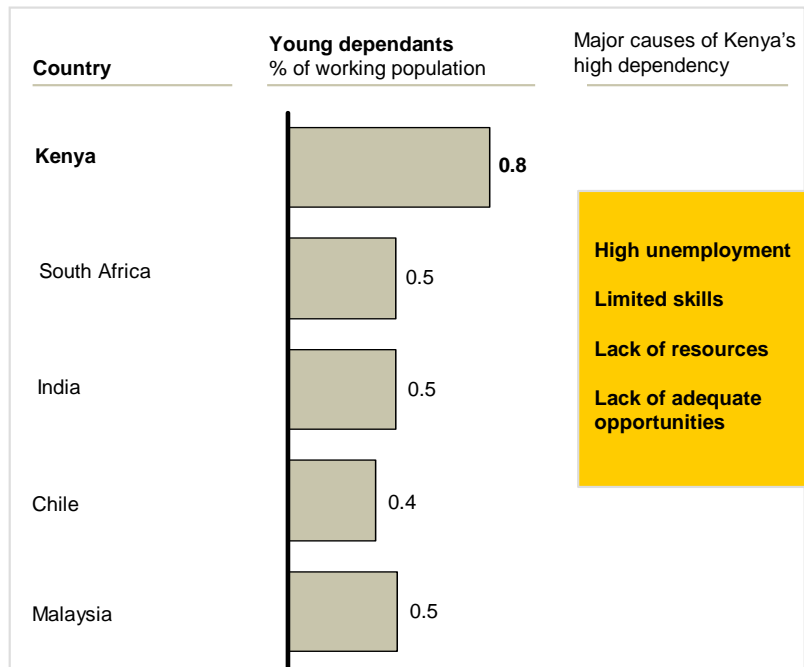
Challenges

Kenyan youth face many challenges. These include limited opportunities for educational advancement and technical training, limited opportunities for employment, high levels of poverty, lack of finance or access to credit, disproportionate exposure to high health and social risk (e.g. HIV/AIDS, drug and substance abuse, and crime), and lack of opportunities and mechanisms to participate in decisions that affect their lives.

Situation Analysis

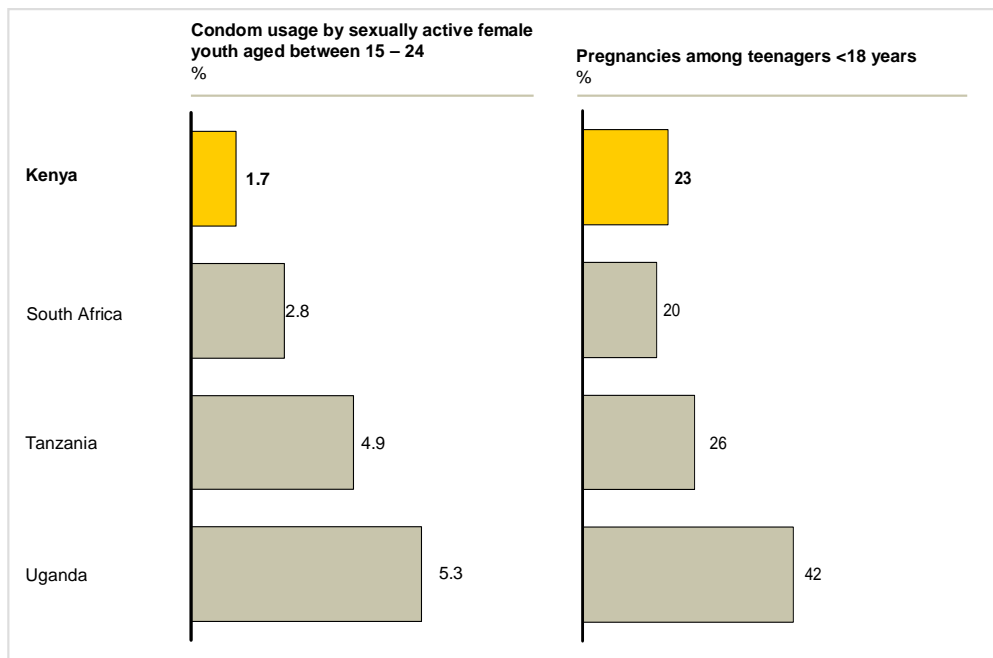
Kenyan youth have a higher dependency rate compared to comparable countries, which is attributed to unemployment, limited skills, and lack of resources and opportunities. As a consequence, many youth are tempted to engage in crime, drug abuse and prostitution, among other vices, and are also likely to enter into early marriage. Lack of resources and opportunities also increase the vulnerability of youth.

Figure 4.7.7: Dependency ratio



Source: Team analysis

Figure 4.7.8: Youth health and social risks



Source: Team analysis

Strategies to address challenges of the youth

1. Targeted programmes to prepare the youth : These will include:
 - Training the youth in technical, vocational and entrepreneurial skills to increase their productivity and enable them to participate fully in productive activities;
 - Creative skills to deal with advances in technology; and
 - Behavioural and life skills to mould their character and help them make appropriate choices in life.
2. Revision of education and training curriculum at all levels to enable the production of skills that are demand-driven and to mould character and appropriate behaviour.
3. Rehabilitation of youth polytechnics to raise the levels of technical and entrepreneurial skills produced to support economic development.
4. Development of education programmes to upgrade skills of non-formal and out-of-school operators;
5. Development of targeted programmes to:
 - Reduce youth unemployment (thus reducing their engagement in criminal activities);
 - Increase space for youth to participate in positions of leadership;
 - Reduce new HIV/AIDS infections, as well as teenage pregnancies and drug abuse among the youth;
 - Promote sports, music and the film industries so as to enable the youth develop their talents in these areas, thus expanding their income opportunities.
6. A national programme will be introduced to recognise and reward talent and create role models.

Flagship projects for 2012

In order to give the youth a chance to excel in various aspects of life, the following key flagship projects will be implemented:

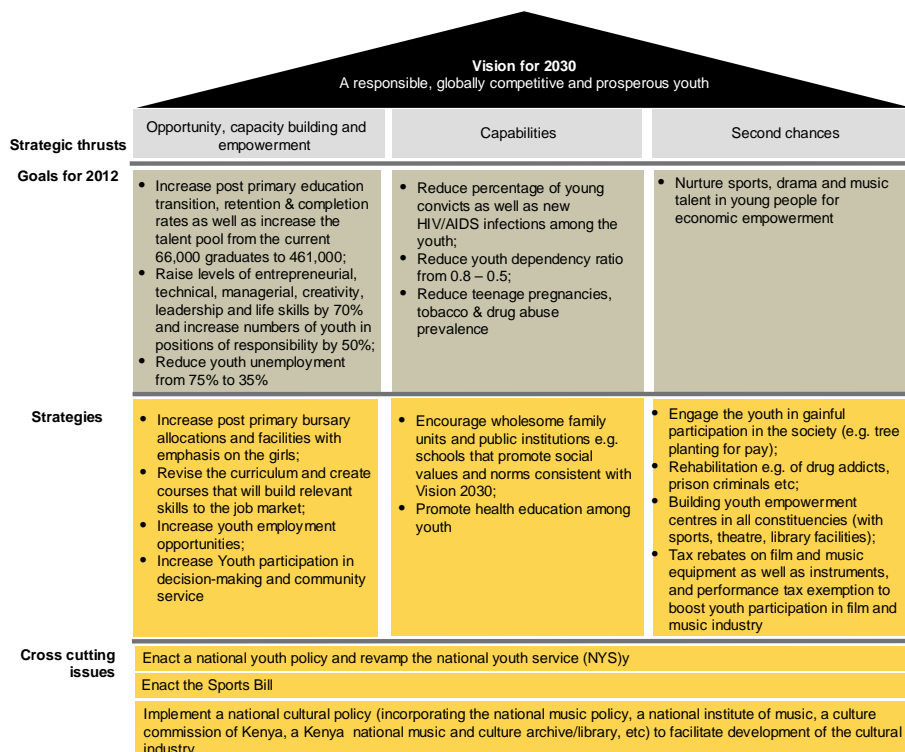
1. **Youth empowerment centres:** Rehabilitation or construction of at least one youth empowerment centre in each constituency based on local conditions;
2. **Sports:** Establishment of a sports lottery fund and an international academy of sports to develop and nurture sporting talent; and
3. **Music:** Establishment of a programme to identify, nurture and develop music and performing arts talent. In addition, a “National Hall of Fame” will be established to honour contributions in sports, film, culture, the arts and innovation, and to recognise special talent. This applies to all age brackets.

Initiatives

The following initiatives will be implemented alongside the flagship projects:

1. Development and/or rehabilitation of standard stadiums in every province to encourage youth participation in sports;
2. Encouragement of youth to participate in environmental conservation (e.g. by planting trees) to increase afforestation and to engage youth in productive activities;
3. Increase of allocations to secondary and tertiary level bursary programmes to provide more opportunities to youth (under education sector); and
4. Integration of youth empowerment programmes with other community development activities at the constituency level to leverage their skills and provide opportunities for their full participation in nation building.

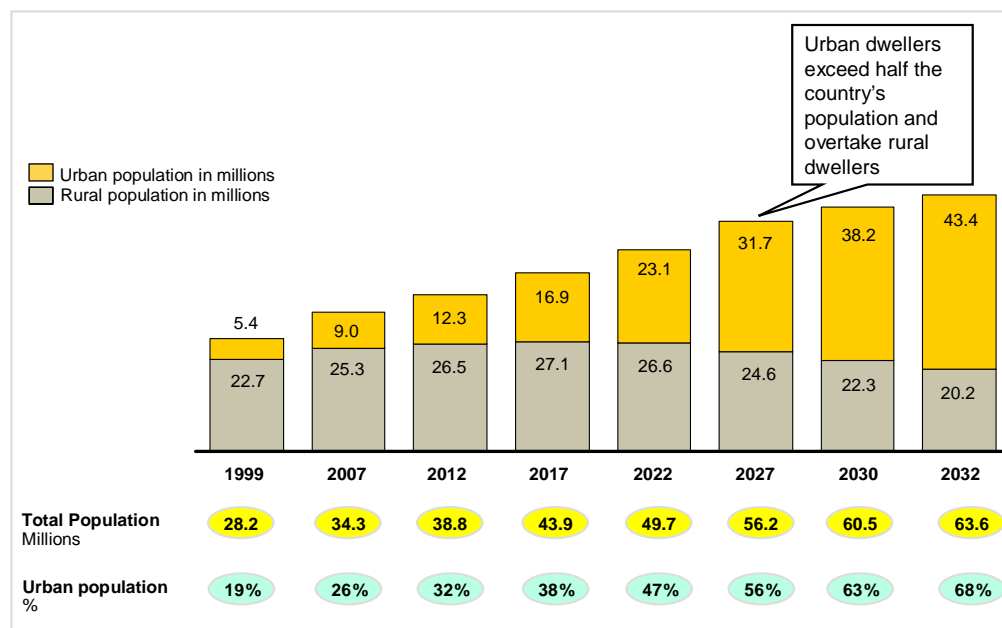
Figure 4.7.9: Goals and strategies for 2012



4.8 Housing and Urbanisation

Kenya Vision 2030 aims to provide the country's population with adequate and decent housing in a sustainable environment. Improvement in the quality of life of all Kenyans – the supreme goal of Vision 2030 – cannot come about if large sections of the rural and urban population are inadequately housed. According to Government surveys, the quality and adequacy of low-income housing is better in rural areas than in urban areas; rural houses are less crowded and are more likely to have better access to sanitation facilities than houses located in dense urban slums, (See Table 4.8.4) Overcrowding, lack of adequate sanitation and pollution in urban slums pose serious health risks to residents. Unplanned informal settlements, on the other hand, pose a serious challenge to the socio-economic development of the country. Kenya's urban areas have over the years suffered from poor planning, which has resulted in the proliferation of informal settlements with poor housing and little or no infrastructure services. Like most African countries, Kenya has been urbanising rapidly; while an estimated 20.4 per cent of her population resided in urban areas by 2005, by 2030 the proportion of the Kenyan population living in urban areas is estimated to reach 60 per cent as shown in Figure 4.8.. This rapid urbanisation will henceforth be guided by a planned programme in urbanisation and housing that is also consistent with the path of economic and social investments anticipated by Vision 2030. It is based on the belief that with the right urban-planning strategy, it will be possible to change the lives of millions of Kenyans for the better.

Figure 4.8.1: Population projections, 1999-2030



* Based on projections from 1999 National Census
Source: CBS

Nairobi alone accounts for between 40 and 50 per cent of Kenya's GDP. There is a positive correlation between levels of urbanisation and national economic development. Countries

that are highly urbanised tend to have higher incomes, more stable economies and stronger institutions. Urban-based economic activities account for more than 85 per cent of GNP in high income countries and more than 70 per cent of GNP in middle income countries. Urbanisation relieves pressure on available agricultural land by creating non-agricultural employment and business opportunities. But if not managed properly, urbanisation could bring about serious social and economic problems, including increased congestion, unemployment, environmental degradation, high crime rates, poor infrastructure services, and proliferation of informal settlements with extremely poor living standards. Kenya has so far been unable to plan adequately in order to accommodate her increasing urban population. It must now do so under the Vision 2030. One of the challenges the country faces in this regard is that the rate of urbanisation has been much faster than the rate at which affordable quality housing has been provided.

The Kenyan housing sector is characterised by inadequacy of affordable and decent housing, low-level of urban home ownership, extensive and inappropriate dwelling units, including slums and squatter settlements. It is estimated that out of a total 150,000 housing units required annually in urban areas, only an estimated 35,000 are produced. The shortage of housing for low-income households is particularly acute in urban areas, since only an estimated 6,000 units, or 20 per cent of the total number of all houses produced, cater for this group. This is attributed to under-investment in low- and middle-cost housing by both the public and private sectors. Other constraints to the availability of quality housing include an outdated legal and regulatory framework, which affects the amount of serviced land available to private and public sector developers, poor governance, and inadequate financing to buyers and developers. The housing shortage affects both the owner-occupier and the supply of adequate rental housing by the market. This scenario, coupled with an increasing urban population, demands that the twin problems of housing and urbanisation be urgently addressed so that Kenya can realise her vision of becoming “a globally competitive and prosperous nation with a high quality of life by 2030”.

The housing sector has a critical role to play in the achievement of the goals envisaged by Vision 2030. Housing construction is a labour-intensive activity that will create jobs for youth and the unemployed. Construction also has strong linkages with other sectors of the economy. Proper planning and effective management of and increased investment in our urban areas are critical for the realisation of this objective. The housing sector is one of the principal levers for creating jobs among the youth, driving economic growth, and tapping the opportunities in linkages with other sectors. The housing sector has a local content of more than 90 per cent, implying that investment in housing and integrated planning will have direct positive effects on the national income by triggering forward and backward linkages through additional investments in manufacturing of building materials, transport, marketing and infrastructure development.

Situation analysis

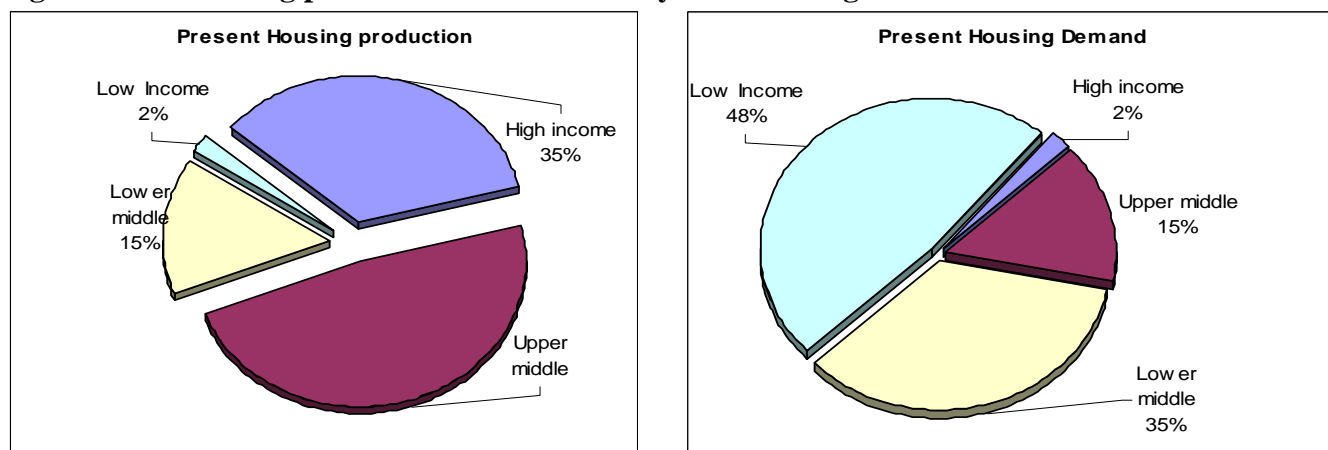
Despite the fact that Kenya’s urban centres have been growing rapidly, – and are expected to continue growing at the annual rate of 3.9 per cent in the 2005-2010 period – inadequate capacity combined with difficult economic circumstances in the past have hindered the design of solutions to challenges brought about by rapid urbanisation. Urban areas have grown haphazardly, most without physical development plans, which have caused economic inefficiency and environmental degradation and led to poor living conditions. Planning, when done, has tended to react to urban development, rather direct it. Only 30 per cent of Kenya’s

urban towns are planned, partly due to inadequate planning capacity and rapid population growth. Of the total 175 local authorities in the country, only 4, namely Nairobi, Mombasa, Kisumu and Eldoret, have planning units within their establishments. As a result, Kenyan towns have been grappling with unplanned settlements, traffic congestion, pollution, and inefficient and costly public transport systems. The challenge is to come up with realistic strategies that promote sustainable urbanisation by creating functional, vibrant and efficient urban centres that support the unlocking of Kenya’s development potential.

The state of housing

With the demand for new housing units in urban areas currently standing at 150,000 units annually and only 23 per cent of this demand being met, the national gap is big and requires an urgent solution. As shown in figure 4.8.2, the shortfall is more acute among low-income households whose present demand is about 48 per cent of total new houses required in Kenya.

Figure 4.8.2: Housing production and demand by income categories



Source: Department of Housing, 2006

Currently, more than 80 per cent of new houses produced are for high and upper middle-income earners. Because more than 60 per cent of the Kenyan population is younger than 25 years, it is clear that the demand for adequate housing will rise steadily as those aged 20 and below reach adulthood and start family life.

At present, however, the Kenyan urban housing sector is characterised by large urban slums without proper sanitation. Informal settlements house 60 per cent of urban population. In rural areas, the quality of housing is inadequate and access to clean drinking water and energy is low.

Table 4.8.1: Distribution by roofing material in rural and urban areas

	Corrugated iron sheets	Tiles	Concrete	Asbestos sheet	Grass	Makuti	Tin	Others
KENYA	73.6	2.4	3.4	0.6	14.8	3.2	0.3	1.7
RURAL	74.0	0.5	0.2	0.1	19.5	3.3	0.3	2.2
URBAN	72.0	8.1	13.3	2.1	0.8	2.8	0.4	0.2

Source: Kenya Integrated Household Budget Survey (2006)

Table 4.8.2: Distribution by walling material in rural and urban areas

	Stone	Brick / Block	Mud / Wood	Wood only	Corrugated iron sheet	Grass	Tin	Others
KENYA	14.3	16.7	45.4	10.2	3.5	2.9	0.3	1.6
RURAL	6.5	14.5	54.0	12.1	2.3	3.7	0.2	2.0
URBAN	37.9	23.3	19.4	4.7	7.0	0.4	0.4	0.2

Source: Kenya Integrated Household Budget Survey (2006)

Approximately 35 per cent of Kenyan households live in one-room housing units. The situation is worse in urban areas where 59 per cent of households live in one roomed dwelling units.

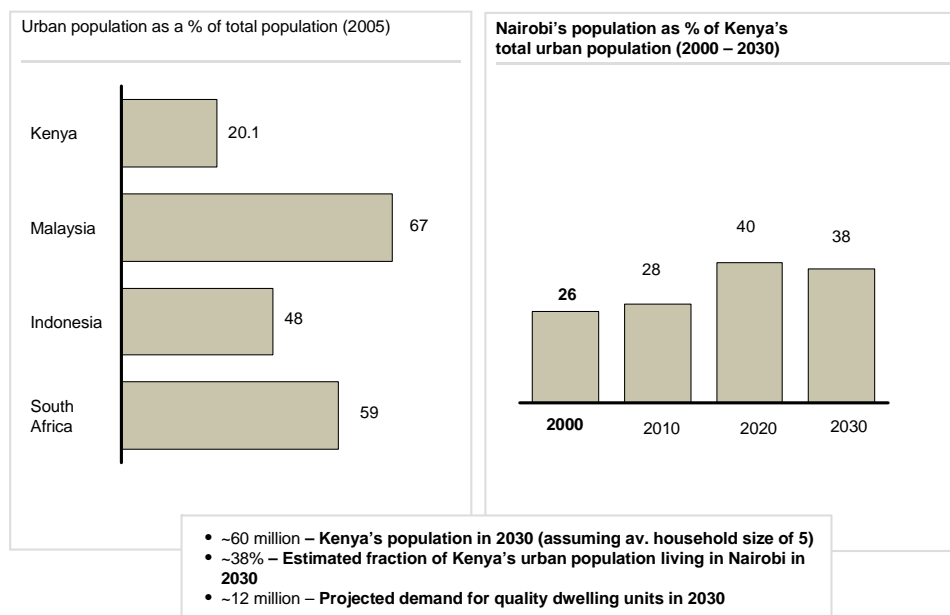
Table 4.8.3: Percentage of persons accommodated and the number of rooms

	One room	2 rooms	3 rooms	4 – 5 rooms
KENYA	35.1	27.6	22.4	12.8
RURAL	27.2	31.0	25.6	14.1
URBAN	59.0	17.2	12.9	8.9

Source: Kenya Integrated Household Budget Survey (2006)

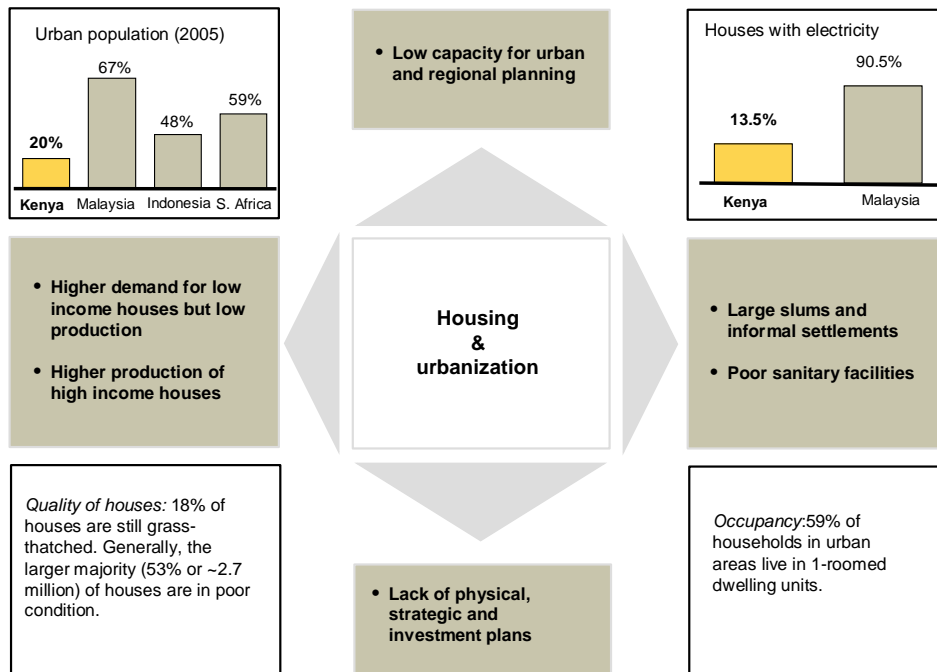
To adequately provide shelter for the projected population of 60 million by 2030, and assuming the household size of 5 members per household, the projected housing demand for the country would be more than 12 million quality dwelling units by the year 2030. Furthermore, more than 60 per cent of Kenyans will be living in urban areas by the year 2030. Kenya's urban population is currently only 20 per cent of total population compared with 48 per cent in Indonesia, 59 per cent in South Africa and 67 per cent in Malaysia (Figure 4.8.3). This is the trend Kenya's urban population is expected to take by 2030.

Figure 4.8.3: Urban population trends



Source: Team analysis

Figure 4.8.4: Housing and urbanisation situation in Kenya (2005)



Source: Team analysis

Challenges and opportunities

As already indicated, Kenya's housing sector is grappling with several challenges. These include a huge gap between demand and supply of residential houses, inadequate investment in the housing sector, low access to finance by buyers and developers and lack of a supportive legal and regulatory framework. The key challenges in urban development and housing facing Kenyans as the country develops to 2030 include the following:

- *Inadequate capacity for urban and regional planning:* The growth in unplanned settlements in our urban areas, and property development in excess of the carrying capacity of available infrastructure (e.g. roads, water and sanitation) are the most obvious evidence of failure to plan urban development and enforce the designated laws and standards. The problem has been compounded by a highly centralised framework of urban and regional planning that does not give sufficient authority to county and municipal governments. Local authorities also lack an adequate capacity to plan and manage urban development. Adequate recruitment and deployment of urban and regional planners to local authorities, which authorise most building construction done in Kenya, is, therefore, a major challenge to achieving the goal of a well-housed population living in an environmental- secure urban environment as set out in Vision 2030.
- *Insufficient serviced land:* One of the reasons behind overcrowded urban development and a steady rise in property values and rents can be traced to insufficient supply of serviced land. The pace at which land with the necessary infrastructure (e.g. roads, water and electricity) has been made available lags behind the demand of property developers, including individual households. Some of that demand can be met by the

provision of serviced land by the central government or by local authorities. But private investment also has a vital role to play in that process. Investment based on private-public partnership is one way of overcoming this handicap, as private capital can be applied to develop infrastructure in support of housing.

- *Concentration of property development in the high-income category:* Although the demand for housing is most acute in the middle- and low-income categories, the property market in Kenya has responded most to the needs of high-income homeowners. Some of the reasons behind this include availability of mortgage finance to Kenyans at the higher income end and insufficient serviced land that could be set aside for low-income housing. In addition, the cost of building materials has been prohibitive given the rigid building codes which insist on the use of permanent materials (stones, concrete etc.) that have been used in the past, leaving out the new technologies that use less-costly construction inputs. Outdated building codes and standards therefore represent a handicap in the rapid provision of housing for homeownership or for rent (at the middle- and low-income end) that Kenyans will increasingly require as incomes rise under the economic and social development programmes of the Vision.
- *Legal and administrative reforms:* Changes in the building code, however, are just one aspect of the legal and administrative reforms that the country needs in order to meet the demands of housing and urbanisation in future. Others reforms include a comprehensive housing sector legal framework and reduction in the multiple approval procedures in property development which investors face today. The process is far too cumbersome for developers who are required to have multiple approval permits from local authorities, land offices, and public utility bodies (e.g. Kenya Power and Lighting Company). The Government has undertaken measures to simplify the multiple permits and licensing system that traders and business investors face. This should be now applied to the housing sector too. None of the legal and administrative problems facing property developers, however, have been as challenging as the inaccuracies in our land registries and fraudulent behaviour in the registration and issuance of title deeds. The Government has already taken measures to streamline and computerise land registries and to minimise fraud. This process now needs to be accelerated and scaled down to the local authorities.
- *Supply of affordable finance for mortgages and property development:* Under the ERS, interest rates in Kenya have fallen considerably, settling at the prime rate of approximately 6 per cent in 2007. However, the cost of long-term capital for construction of rental property is still prohibitive. The same applies to mortgage finance, especially for middle- and low-income housing. Secure mortgage instruments need to be developed.
- *Lack of adequate construction capacity:* Firms and individuals in the informal sector construct the vast majority of property developed in Kenya, even though the number of companies in the formal construction sector has not increased significantly since the 1970s. The withdrawal of many (large foreign) construction companies from Kenya in the 1990s has aggravated the situation. Weak capacity in high quality construction is, therefore, yet another constraint in urban development and the supply

of necessary housing that Kenya will need; it needs to be addressed. There is an urgent need to support the emergence of competitive national construction companies through training, research and development, and start-up finance. Kenyans should aim to build companies that can compete for the largest construction projects in our region. This should go hand-in-hand with the re-entry of construction companies from outside Kenya, as this is one way of raising standards and lowering overall building costs.

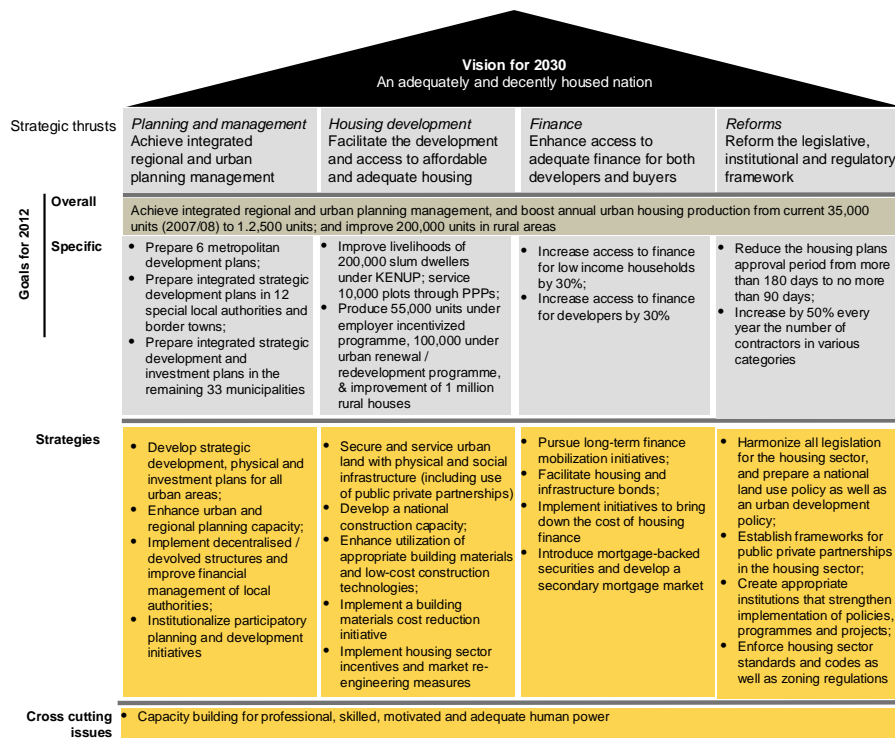
Despite the numerous challenges facing housing and urbanisation, the sector presents tremendous opportunities, and will play a complementary role to the development projects proposed by Vision 2030. Housing is one of the principal sectors that can revitalise economic growth in Kenya. Investment in housing and related infrastructure and services has multiple direct and indirect effects. It triggers forward and backward linkages through additional investments in manufacturing of building materials, transport and marketing. According to the Economic Survey (2007), Kenya's informal sector accounted for 94.3 per cent of all new jobs created outside small-scale agriculture. A large proportion of this investment was in the production of materials and services for the housing sector. Building and construction contributed about 20.4 per cent of the non-monetary GDP and approximately 5 per cent of the monetary GDP in 2003. In the same year, dwellings (including owner-occupied and rented units) accounted for 4.7 per cent of the GDP. In 2003, the sector accounted for 11.7 per cent of the gross fixed capital formation compared to 8.3 per cent in 2002, hence affirming that the sector has the potential to drive increases in economic growth in the country. Based on this analysis, it is expected that housing and construction will support the Vision by:

- Enabling the production of building materials to meet the huge demand for the country and the entire Eastern and Central Africa region. This will be enhanced through the sector's direct linkages and hence, contribution to manufacturing, and transport, as well as regional trade in goods and services;
- Generating opportunities for direct and indirect employment and wealth creation;
- Contributing to gross fixed capital formation as well as mobilisation of savings;
- Improving the urban environment (which is expected to cause higher productivity, better safety conditions, enhanced revenue collection, both for central and local governments, and reduction in health problems and hence expenditure due to better living conditions); and increased vibrancy of capital and equity markets.

Strategies and goals for housing and urbanization

Planning and management of both rural and urban development is critical to the overall vision of the housing and urbanisation requirements for the realisation of Vision 2030. For this reason, it will be important to prepare comprehensive metropolitan and investment plans covering six principle urban regions. To complement this, strategic development and investment plans will be developed for special and border towns and all other municipal councils. As mentioned in other sections of this document, a land use plan and policy covering the entire country will also be prepared (Figure 4.7.4).

Figure 4.8.5: Housing goals and strategies



Flagship projects

The following projects will be the principle vehicles for achieving housing and urbanisation targets by 2012:

1. Prepare and implement strategic development and investment plans in six metropolitan regions (Nairobi, Mombasa, Kisumu-Kakamega; Nakuru-Eldoret, Wajir-Garissa-Mandera, Kitui-Mwingi-Meru). Similar plans will also be developed for special border towns and all other municipalities;
2. Position the City of Nairobi as an all-round globally competitive city in business and in tourism, and provide a high quality of life to all its residents. Turn Nairobi into a 24-hour business city.
3. Prepare a national land-use plan (as recommended under agriculture) in order to facilitate better urban planning;
4. Install physical and social infrastructure in slums in 20 urban areas to formalise slums, permit construction of permanent houses and attract private investment;
5. Produce 200,000 housing units annually by 2012 through a mixture of initiatives in order to fill the huge housing gap in the country (e.g. build/enhance capacity in local authorities to provide serviced land; and/or to produce low-cost housing);

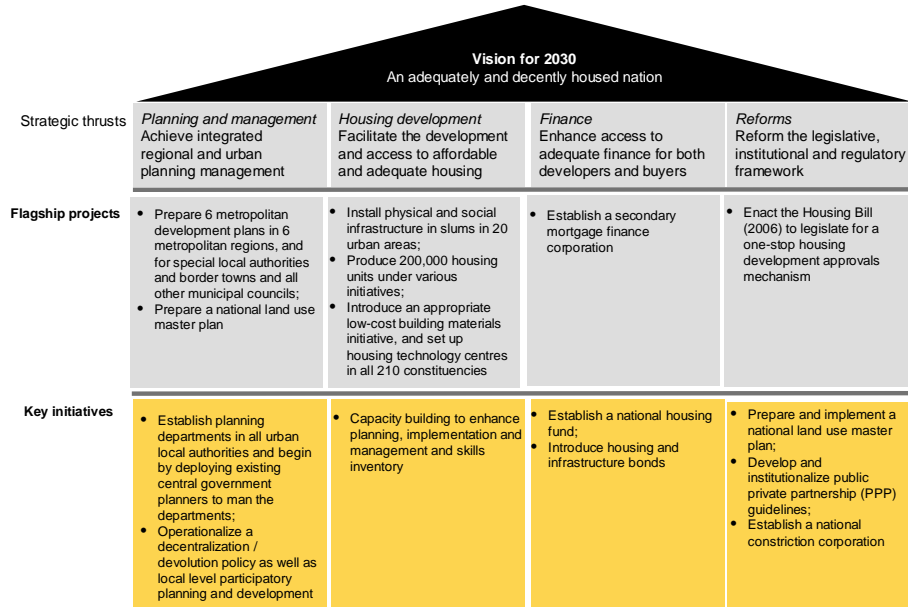
6. Establish housing technology centres in each constituency to increase access to decent housing by promoting location-specific building materials and low-cost housing;
7. Establish a secondary mortgage finance corporation to increase access to housing finance; and
8. Enact the Housing Bill, 2006 to legislate for a one-stop housing development approvals mechanism to fast-track approval of housing plans and reduce the time cost of construction.

Key initiatives

In addition to the flagship projects, a number of initiatives as shown in Figure 4.7.5 will also be carried out in the next five years.

1. *Build capacity in Kenya's urban planning departments:* Planning departments will be established in all urban local authorities. Existing central government planners will be re-deployed to man the newly-established departments; this will alleviate the current shortage of urban planning capacity at both technical and managerial levels in most local authorities. Install user-friendly approval systems in local authorities.
2. *Operationalise a national decentralisation and devolution policy:* In order to ensure that urban planning is properly integrated and all inclusive, a national decentralisation/devolution policy will be operationalised to entrench local level participatory planning and development.
3. *Capacity building for the building industry:* Capacity building will be supported to enhance planning, implementation and management in the housing sector. Skills inventory will be undertaken in order to focus on priority areas for capacity development. To provide skills and local capacity in this sector, Kenyan companies will compete in local and regional building markets development and a national construction corporation will be established.
4. *Access to finance:* In order to increase access to finance among low-income households and among developers, a secondary mortgage finance corporation, a national housing fund and housing and infrastructure bonds will be established. Mechanisms to support group or cooperative housing schemes will be instituted.
5. *Legislative, institutional and regulatory reforms:* To support Vision 2030 aspirations, key legislative, institutional and regulatory reforms will be implemented. The objective of the reforms will be to reduce the housing plans approval period (from more than 180 days to no more than 90 days) and increase by 50 per cent every year the number of contractors in various categories. Further, detailed guidelines will be developed to promote public-private partnerships in the development of the housing sector.
6. *Low-cost housing:* Enhance efforts to design and implement truly low-cost housing models/prototypes/pre-approved building plans. This can be promoted through rural technical institutes.

Figure 4.8.6: Housing flagship projects and initiatives



4.9 Social Equity and Poverty Reduction

At independence in 1963, Kenya inherited a highly unequal society on many fronts. There was inequity in entitlement to political, civil and human rights, and large disparities in incomes and access to education, health and land, as well as to basic needs, including clean water, adequate housing and sanitation. Since then, considerable progress has been made towards resolving these problems, particularly in education and, more recently, in access to improved health services and clean water sources. But much remains to be done to provide Kenyans with equal opportunities so that every Kenyan has an equal chance to realise his or her potential in life. There should be special programmes to benefit individuals and communities who, through no fault of their own, cannot take advantage of such opportunities. This is the key objective of the social equity component of the social pillar. Apart from equity in access to opportunities on many fronts – geographical units, income status, sex and age – it also emphasises equal political liberties and entitlement to human rights for all. The political pillar is also dedicated to the realisation of equal citizenship rights regardless of one's origin, sex or age, and to equality of participation in the making of major policy decisions. All these aspects are relevant to the creation of social equity and wealth creation opportunities for the poor.

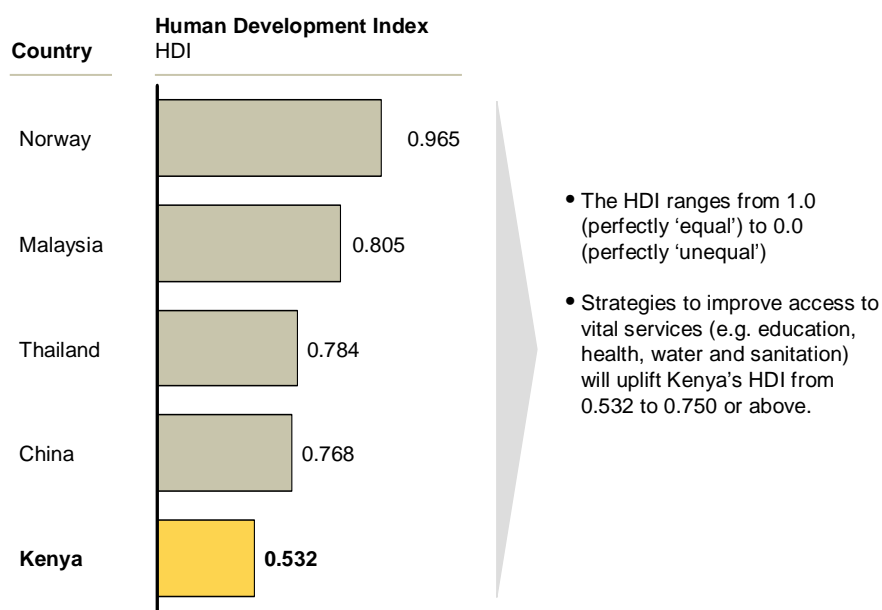
Some of the initiatives to reduce inequalities by 2030 have already been outlined in the sectoral strategies discussed above. These are summed up in this section as the major strategic thrust towards achieving a socially-just and equitable society, which constitutes the overall policy objective of the Social Pillar. But there are other strategic policies towards achieving a socially equitable and just society that will deserve continuous attention under Vision 2030. These included the following:

1. Raising average annual incomes per person from an estimated KShs.45,447 (approximately US\$650) in 2006 to above US\$3,000 (at 2006 prices). This projection is consistent with that of a rapidly-industrialising country;
2. Avoiding gross disparities while rewarding talent and investment risks in a manner that is deemed socially just and therefore not politically destabilising;
3. Reducing poverty from the current level (46 per cent of total population) by between 3 and 9 per cent, which is where most industrialising countries in South East Asia currently are;
4. Implementing policies that minimise the differences in income opportunities and access to social services across Kenya's geographical regions, paying special attention to the most disadvantaged communities in the Arid and Semi-Arid Districts, urban slums and pockets of extreme poverty in the high potential agricultural areas; and
5. Increasing community empowerment through "devolved" public funds, weighted in favour of the most disadvantaged communities, to be allocated in accordance with locally-determined priorities through transparent and participatory procedures (i.e. use of devolved funds to prioritise local needs). As GDP grows at the anticipated level of 10 per cent annually under Vision 2030, the size of public revenue is expected to rise and with it, the proportion allocated to funding devolved to local communities. The strategy of increased empowerment for poverty reduction at community level will, therefore, be highly dependent on the realisation of the overall growth objectives projected in the Economic Pillar of Kenya Vision 2030.

Situation analysis

As a measure of overall human welfare, the UNDP's Human Development Index (HDI) provides one of the best summaries of a country's overall achievements in providing its citizens with quality education, health care, longevity, and basic necessities to lead a decent life along the lines spelt out by sectoral objectives of the social pillars in this document. The HDI ranges from one (perfect equality in access) to zero (totally unequal). In practical terms, it ranges from Norway (the best in 2004) which is 0.965 to Niger at 0.311. Figure 4.9.1 shows that Kenya's HDI in 2006 was estimated at 0.532. While this is below Norway's index of 0.965, it represents an improvement from the 1990s. But this average also hides disparities within the country, between urban and rural areas, between income groups, and between geographical regions. The 2006 UNDP Human Development Report Kenya indicates that Nairobi's HDI is 0.773, Central Province's is 0.637, Rift Valley's is 0.528, Eastern Province's is 0.531, Coast Province's is 0.518, Western Province's is 0.516, Nyanza Province's is 0.468 and North Eastern Province's is 0.285. As we move towards 2030, there is need for Kenya to develop its own welfare indicators, which are more consistent with our aspirations.

Figure 4.9.1: HDI for selected countries



Source: UNDP, Human Development Report (2006)

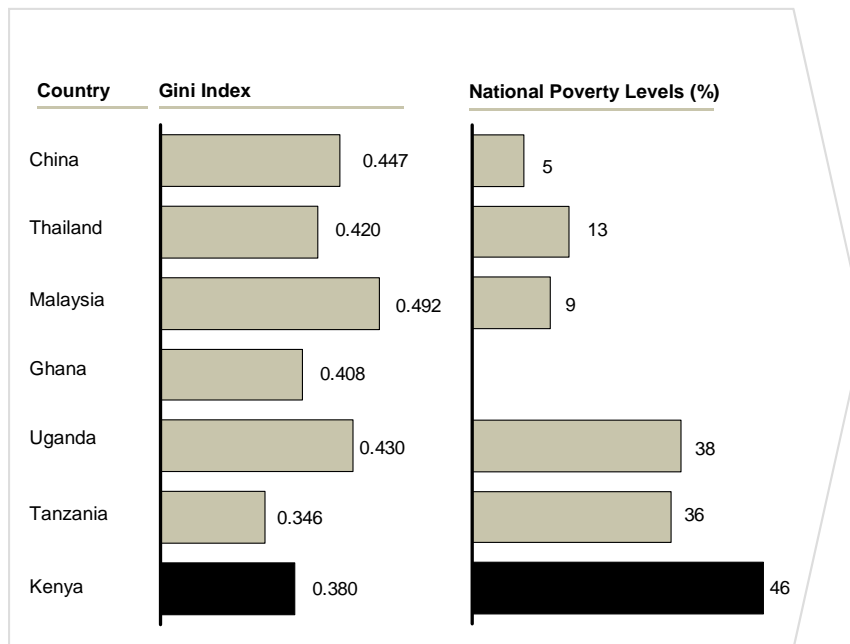
Source: UNDP, Human Development Report, 2006

To achieve that target, Kenya will consolidate the gains made under the ERS that targeted improved education, health, water and sanitation, among other human resource investments, to the most disadvantaged communities and geographical areas. The strategy for raising the national HDI will therefore give priority to communities left behind, and thereby upgrade them to national levels. This should raise the HDI from 0.532 to 0.750 or above.

As measured by the Gini Index, which rates income distribution from zero (perfect equality) to one (absolute inequality), Kenya's Gini Index was estimated at 0.425 in 1997 and declined to 0.380 in 2006, according to data resulting from the 2005/06 Kenya Integrated Household

Budget Survey. But while rural income disparities fell, those in the urban areas increased. Yet, income distribution in Kenya compares favourably with that of her neighbours and other developing countries. Through Vision 2030, Kenya aims to achieve an HDI of between 0.750 and 0.805, which is the range of rapidly industrialising countries in South East Asia.

Figure 4.9.2: Gini Indices and National Poverty Levels of selected countries (2006)



Source: UNDP, Human Development Report (2006); KIHBS

At an annual per capita income of US\$650, Kenya's top priority, therefore, is to raise national incomes, particularly those of its poorest citizens, while ensuring that income distribution improves, not worsens. To realise this objective, Vision 2030 intends to raise overall incomes while reducing national poverty levels, now estimated at 46 per cent, to single digits by 2030. This will eradicate core poverty, while increasing incomes and opportunities for practically all of the population.

Strategies

One strategic intervention is to address poverty and equity issues through distributing growth more evenly among income groups and strengthening social and political programmes targeting the poor. This will be complemented by increased use of devolved funds, whose absolute amounts are expected to rise as the economy expands. In 2006, funds disbursed through such funds amounted to KShs. 32.54 billion covering the Constituency Development Fund (CDF), the Local Authority Transfer Fund (LATF), the District Roads Fund, the Constituency Aids Fund, the Constituency Educational Bursary Fund and free primary education. To upscale the ground-level impact of these funds, Vision 2030 expects an increase in funding to be matched by more transparent and participatory expenditure, combined with enhanced efficiency in resource utilisation. In addition to direct intervention through a devolved expenditure policy, all the economic, social and political strategies proposed in this Vision have a strong equity component.

Vision and strategies for achieving equity

Vision 2030 aims to “*create a socially just and equitable society without extreme poverty*”. The ultimate objective will be to improve the livelihoods of the poor e.g. through better technologies, better livestock management, better ASAL technologies etc.

Flagship projects

1. In order to better target and reach the poor than hitherto before, data collection will be improved to map out the spread of the poor throughout the country and to create profiles of the poor and their pressing needs;
2. Targeted programmes and projects will be formulated in light of the data profiles established; and
3. An integrated national strategy will be developed to promote good governance and effectiveness of devolution of funds.

Flagship projects and Initiatives

1. *Gender and regional parity in access to education, health, and social services:* The objective under this thrust is to raise the levels of income, education, individual health, longevity and access to basic needs of all Kenyans. This will raise the Human Development Index for Kenya from about 0.5 in 2007 to between 0.6 and 0.7 by 2012. That achievement will reduce the social inequalities the country faces today in access to income-generating opportunities and public services across gender, regions and income groups. In addition, special welfare programmes will be provided to meet the needs of the most disadvantaged individuals and communities in the country in order to raise their overall welfare levels. The education and health sectors will play a particularly unique role in the attainment of gender and regional parity. Achievement of a net enrolment ratio of 95 per cent in primary schools, and a transition rate of 80 per cent into secondary schools, as well as integration of pre-schooling and primary education, will offer increased opportunities for currently disadvantaged groups. Revamping the national health infrastructure, targeting of preventive health care, reduction of child and maternal mortality ratios, reduction of out-of pocket-expenditure to 25 per cent nationally (and to less than 25 per cent in the poorest districts) will all prolong the lives of those currently under threat, thus presenting them with better opportunities. In addition, the Ministry of Health will complete ongoing institutional reforms to delegate health care delivery to local hospitals and clinics with the full participation of communities in decision making. This will allow the Ministry to focus on policy issues. Overall, health expenditure will emphasise preventive and promotive care, which has the highest potential in lowering the national disease burden.
2. *Poverty reduction, and reduced income disparities:* The objective under this thrust is to reduce inequality in access to public services and income opportunities across gender, social status and regions. The specific goal will be to reduce the national poverty ratio from the current 46 per cent to a range of between 30 and 35 per cent by 2012. A key strategy to attaining this goal is to target more income-earning opportunities for disadvantaged groups and regions (as identified above) in the six growth sectors of tourism, agriculture, wholesale and retail trade, manufacturing, BPO and financial services. There will also be increased infrastructure spending in the sub-sectors of roads, water, sewerage, communications, electricity and lighting targeting poor communities and regions. These measures will be aimed at creating an

enabling environment for poor communities to take part in wealth creation for themselves and their country.

3. *Community empowerment through increased efficiency and impact of devolved funds:*
The objective of this initiative is to increase the efficiency and developmental impact of devolved funds. The goal for 2012 is to increase the amount of devolved funds by the percentage growth in annual revenue. This goal will be achieved by increasing the amount, efficiency and impact of devolved funds and by increasing public participation and voice of the poorest members of local communities so that development issues of concern to such members can be channelled into public policy.

CHATER 5: POLITICAL PILLAR: MOVING TO THE FUTURE AS ONE NATION

5.1 Overview

Since 2002, the people of Kenya have made remarkable gains in building a democratic society that respects individual liberties, freedom of speech, association and worship, and the rule of law. Through their elected representatives, they have introduced legislation to improve national governance, to promote the effectiveness and efficiency of public services, and to make the judiciary more transparent and accountable. Along that process, the Government has adopted a legislative and institutional framework to fight corrupt practices, whether these occurred in the previous or in the current administration. Kenya has also introduced policy measures to promote efficient spending of public expenditure and to seal loopholes in the tendering process that had previously led to abuses and loss of funds. By tightening tax collection, Kenya has doubled annual Government revenue.

All these reforms have been underpinned by a public service reform programme implemented in partnership with Kenya's international development partners, which has greatly improved the delivery of public services. An opinion survey conducted under the African Peer Review Mechanism (APRM) in 2005 found that most Kenyans acknowledged improvement in the Government's performance particularly in the education and health sectors. As a result, Kenya was awarded the United Nation's public service award in 2007 in recognition of these efforts. Kenya has better democratic governance indicators than most of her neighbours and comparable countries. But this should not be a reason for complacency. Under Vision 2030, Kenyans intend to achieve even higher standards in democratic rule and the capacity of Government institutions to serve the public efficiently and with dignity.

Vision 2030 envisions a country with a democratic system reflecting the aspirations and expectations of its people. Kenya will be a state in which equality is entrenched, irrespective of one's race, ethnicity, religion, gender or socio-economic status; a nation that not only respects but also harnesses the diversity of its peoples' values, traditions and aspirations for the benefit of all. The Vision aims to move all Kenyans to the future as one nation.

The political pillar of Vision 2030 is "*a democratic political system that is issue-based, people-centred, result-oriented and accountable to the public*". An issue-based system is one that meets the widest public interest. "People-centred" refers to responsiveness to the needs and rights of citizens, whose participation in all public policies and resource allocation processes is both fully appreciated and enabled. A result-oriented system is stable, predictable and based on measurable outcomes (including performance). An accountable system is open, transparent and permits the free flow of information, and is one in which the leaders are accountable to citizens. Such a vision will guarantee Kenya's attainment of specific goals, strategies and flagship projects outlined under Vision 2030's economic and social pillars.

To meet the objectives outlined in the economic and social pillars, Kenya's national governance system will be reformed to acquire high-level capability consistent with a rapidly industrialising country. Priority will be given to the enactment of all legislation and administrative reforms suggested in Vision 2030. Kenya will adopt a democratic

decentralisation process with substantial devolution in policy making, public resource management and revenue sharing through selected devolved funds.

5.2 Guiding principles

In order to ensure that economic, social and political governance gains made under the Vision are neither reversed nor lost as a result of regime changes over the different horizons, the following nine governance principles shall be adhered to:

1. *Constitutional reform*: Kenyans will deliberate once again on the structure and contents of their constitution in order to arrive at a nationally-endorsed document.
2. *Sovereignty of the people*: The constitution will be guaranteed by an acknowledgement that Government derives its power from the people.
3. *Gender equality*: Kenya shall be a nation that treats its women and men equally.
4. *National values, goals and ideology*: In the pursuit of economic, social and political aspirations, Kenyans shall formulate and adopt a core set of national values, goals and a forward-looking political ideology. These will include acknowledgement of the significance of God to the Kenyan people and an affirmation of the religious, cultural and ethnic diversity of Kenyans. It will also affirm the indivisibility of Kenya as a nation committed to democracy and the rule of law
5. *A Bill of Rights*: Under Vision 2030, the Bill of Rights will be secured and extended to cover “second generation” rights covering the economic, social and, cultural fields, the rights and needs of women and children, persons with disabilities, the elderly and refugees.
6. *A viable political party system*: Kenya aims to have a strong and viable political party system that will be guided by policy and ideological orientation. Under Vision 2030, the founding of political parties to promote partisan religious, linguistic, racial, ethnic, gender, corporate or regional agendas will be prohibited. All political parties will be obliged to subscribe to a legally-binding Code of Conduct. Political parties will be required to publish their manifestos before participating in elections.
7. *Public participation in governance*: The success of Vision 2030 depends on an open and participatory political process. The political system shall provide that wananchi have the right to participate – directly or indirectly – in all development policies through representatives chosen in free and fair elections. It shall make it the duty of public authorities to promote individual and community participation in social activities and to influence decision making. Appropriate mechanisms to ensure accountability of Government at all levels shall be provided. Kenyans will reserve the right to individually or jointly petition or address complaints to public institutions and authorities, including Parliament, and to insist that these be acted on.
8. *Separation of powers*: Implementation of Vision 2030 depends on the enhancement of checks and balances between the three arms of Government: Legislature, the Executive and the Judiciary.
9. *Decentralisation*: Vision 2030 envisages a democratic decentralisation of decision making and resource distribution. This will be done through a devolved system that takes account of local needs and priorities.

Political pillar strategies

Transformation within Kenya's political governance system under Vision 2030 will take place across six strategic thrusts, whose overarching visions, goals for 2012 and specific strategies are outlined below:

Rule of law

The 2030 vision is “adherence to the rule of law applicable to a modern, market-based economy in a human rights-respecting state”. The goal for 2012 is to enact and implement a legal and institutional framework that vital to promoting and sustaining fair, affordable and equitable access to justice. Specific strategies will involve:

- Aligning the national policy and legal framework with the needs of a market-based economy, human rights and gender equity commitments;
- Increasing service availability and access (or reducing barriers) to justice;
- Streamlining the functional organisation (including professionalisation) of legal and judicial institutions to enhance inter-agency cooperation; and
- Inculcating a culture of compliance with laws and decent human behaviour.

Electoral and political processes

The 2030 vision is “genuinely competitive and issue-based politics”. The goal for 2012 is to enact and put into operation the necessary legal and institutional frameworks to support issue-based political processes. Specific strategies will involve:

- Introducing laws and regulations covering political parties;
- Enhancing the legal and regulatory framework covering the electoral process;
- Conducting civic education programmes to widen knowledge and participation among citizens, leading to an informed and active citizenry;
- Strengthening laws on non-discrimination to promote inclusion of women and disadvantaged groups in electoral and political processes; and
- Enriching the quality of Parliamentary debate by providing Members of Parliament with relevant information on proposed laws and policies.

Democracy and public participation

The 2030 vision is “a people-centred and politically-engaged open society”. The goal for 2012 is to enact and operationalise necessary policy, legal and institutional frameworks to enhance democratic participation. Specific strategies will involve:

- Pursuing constitutional and legal reforms necessary to devolve power and support local governance;
- Encouraging formal and informal civic education and action programmes; and
- Promoting open engagement between Government and civil society, as well as the free flow of information (e.g. through better and continuous engagement with the media).

Transparency and accountability

The 2030 vision is “transparent, accountable, ethical and results-oriented Government institutions”. The goal for 2012 is to enact and operationalise necessary policy, legal and institutional frameworks needed to strengthen public transparency and accountability. Specific strategies will involve:

- Strengthening the legal framework for ethics and integrity;
- Promoting results-based management within the public service;
- Encouraging public access to information and data;

- Introducing civilian oversight around the key legal, justice and security institutions; and
- Strengthening Parliament’s legislative oversight capacity.

Public administration and service delivery

The 2030 vision is “policy-driven and service-focused Government institutions”. The goal for 2012 is to enact and operationalise necessary policy, legal and institutional frameworks needed to strengthen public administration and service delivery. Specific strategies will involve:

- Strengthening rules and processes around the policy cycle;
- Deepening the use of citizen and service charters as accountability tools;
- Strengthening economic governance for better macroeconomic management; and
- Inculcating a performance culture in the public service.

Security, peace-building and conflict management

The 2030 vision is “security of all persons and property throughout the Republic”. The goal for 2012 is to enact and operationalise necessary policy, legal and institutional frameworks around security, peace building and conflict management. Specific strategies will involve:

- Promoting public-private cooperation and civilian/community involvement for improved safety and security;
- Deepening policy, legal and institutional reforms for improved enforcement of law and order;
- Promoting processes for national and inter-community dialogue in order to build harmony among ethnic, racial and other interest groups;
- Promoting peace building and reconciliation to improve conflict management and ensure sustained peace within the country; and
- Inculcating a culture of respect for the sanctity of human life that restrains people from resorting to violence as a means to resolving personal and community disputes. This should start with the family, schools, the church and all public institutions.

Political pillar flagship projects

The flagship projects for 2012 are:

1. Constitutional initiative –completion of the national Constitution together with its enabling legislation;
2. Judicial and legal reforms initiative – this will involve reforms pertaining to the rule of law and enhancement of the Bill of Rights, as well as reforming Government institutions, especially those involving public participation in governance, and those connected to transparency and accountability within the public sect;
3. Security and policing reform initiative;
4. Building a non-partisan professional research centre to enrich Parliamentary law-making; and
5. Begin a national programme on attitudinal and value change to inculcate a culture of voluntary compliance with the efficiency norms required by Vision 2030.

CHAPTER 6: DELIVERING THE KENYAN VISION: IMPLEMENTATION

Our first national vision was to be a free nation. We attained that vision in 1963 when the British Union Jack was lowered and replaced by our national flag. We must now build on our achievements and the determination shown by the Kenyans who sacrificed their lives so that we could enjoy the freedom we now enjoy. Our post- independence leaders pledged to work for a better Kenya devoid of “poverty, ignorance and disease”. That vision is yet to be fully realized.. Vision 2030 intends to make that dream a reality by bringing Kenya into the league of middle-income countries, where citizens enjoy widespread prosperity under which incidents of extreme poverty are few.. Vision 2030 intends to build on our strengths, our determination and our mutual destiny as Kenyans. Dissemination forums held in all provinces left no doubt that Kenyans not only welcome the promises of Vision 2030, but are ready and willing to do their part to realise it.

Kenyans have no illusions that the journey we are about to embark on will not be easy. Vision 2030 will be accomplished by our collective efforts; each Kenyan has a role to play. Kenyans have expressed the wish for a vision that is insulated from political competition among parties. They also want a vision that will improve livelihoods in their local communities. They also want to see results that will directly improve their lives. The government and the experts had these objectives in mind when preparing the vision. The projects proposed in Vision 2030 cover all the regions of the country and aim to ensure that everyone community stands gain from it. Vision 2030 stresses equitable development and modernisation through institutional changes and flagship projects distributed throughout the country to take advantage of each region’s uniqueness. The projects will be implemented through five-year plans. The first five-year plan runs from 2008 to 2012 and replaces the Economic Recovery Strategy that expires this year.

In the implementation of Vision 2030, the issue of primacy of infrastructure, particularly roads, will be addressed. Provincial and district forums frequently raised this issue. Recent government budgets have allocated unprecedented amounts of money to roads and infrastructure generally. Although considerable gains have been made in improving infrastructure since 2003, so bad was the situation prior to that date, that the importance of rehabilitating, building or expanding infrastructure is still a priority issue for most Kenyans. Other priority areas include science, technology and innovations, land reforms, human resources development, security and public sector reforms.

The long-term perspective in this document comes after economic recovery has been completed under the ERS. Vision 2030 therefore comes at a time when Kenyans feel more optimistic about the future of their country than they did previously. They have all, regardless of party affiliation, observed the progress the country has made since 2003 and are willing to build on that, in order to build a better Kenya for themselves and for future generations.

Building on our common determination, our common heritage and our hopes for a more prosperous nation offering a high quality of life to all its citizens, we can realise Vision 2030 and join the ranks of the newly-industrializing economies. From our struggle for

independence to winning gold medals in sports, we have shown determination that has we must capitalize on.

Vision 2030 comes at a time in the history of Kenya when the Government, the opposition and the people have agreed on the need to move “from business as usual to business unusual” Vision is designed to provide practical solutions to problems that the country faces at this juncture of our history, it cannot afford to be rigid in its approach. The international economy is in constant flux. New technologies products and markets will appear before 2030 that Kenya can ill-afford to ignore. Besides our traditional markets, the Vision must take stock of the unprecedented developments that we see in Asia. Kenyan economic sectors and our investors may strike out in directions we cannot fully predict today. Such is the essence of globally competitive markets. This calls for a pragmatic approach to development by Kenya, constant monitoring of both internal and external developments and a political will to make changes rapidly so that our economy does not lose any ground. A Vision that responds to the dynamic needs of the people must be flexible enough to respond to changing local and international realities. Vision 2030 is, therefore, expected to be a “living document” that will respond to within and outside of the country changes but still remain focused on the goals.

In the implementation of Vision 2030, we intend to draw lessons from our past experiences and from our peer nations that have successfully implemented similar projects. Through Vision 2030, the current generation intends to bequeath future generations with a much better Kenya. Kenyans have decided to take this opportunity to make history by being the generation that will fulfill the prophesy of the founding fathers, of our independence – a proud country, made of hard-working people that will conquer the ills of illiteracy, poverty and disease.

To deliver on this ambitious process of national transformation will require a fundamental shift from business as usual to business unusual (from multiple and often uncoordinated levels of decision making to centralised implementation process); a new management philosophy (from a limited sense of urgency to relentless follow up); legislation (from slow, reactive to fast, proactive legislating); special budgeting (from low and dispersed to high and ‘ring-fenced’ investments) as well as management of top talent (from shortage of skills to a war for talent). To this end, a Semi Autonomous Government Agency (SAGA) with the requisite capacity is being established to oversee the implementation of all Vision 2030 projects. In doing so, the agency will work in close collaboration with government ministries and departments as well as the private sector, civil society and other relevant stakeholder groups.

The Vision Delivery Secretariat

In order to successfully realize Vision 2030 and to particularly ensure the timely implementation of the flagship projects, the Government of Kenya intends to create a Vision Delivery Secretariat (VDS) to be housed in the Office of the President. The Secretariat will be managed by a Director-General of the Vision 2030 Office, under the overall guidance of the Vision 2030 Delivery Board, which shall play a policy-making and advisory role. The VDS shall be organized into eight departments. The Departments will correspond to the main project clusters or sectors of the Vision covering the three pillars.

Among other things, the VDS shall provide strategic leadership and direction in the realization of Vision 2030 goals, and closely collaborate with line ministries in developing the Five-year Medium Term plans for the realization of the Vision. The VDS will also have clear institutional linkages with other existing institutions, structures and organizations both in the Public as well as the Private Sector.

Addendum

Diagnostic analyses conducted during the preparatory phase of Kenya Vision 2030 by research teams, experts, and consultants identified six priority sectors that have significant potential to contribute to the 10 percent average real GDP growth targeted by the Vision. Consequently, the six priority sectors were identified, namely: tourism; agriculture and livestock; wholesale and retail trade; manufacturing; financial services; and business process outsourcing (BPO) on the basis of their potential capacity to drive rapid growth with equity, that also addresses poverty. The recent discovery of oil and other mineral resources in the country has necessitated the inclusion of the “oil and other mineral resources” sector, with the potential to significantly raise Kenya’s GDP growth, as the Seventh priority sector under the Vision’s Economic Pillar. At the same time, the shocks emanating from climate change will in future require planned mitigation. For that reason containing climatic adversities will be a cross-cutting theme of the second MTP.

Going forward, the Second Medium Term Plan (2013-2017) for implementing Kenya Vision 2030 and the Medium Term Plans that are to follow it will include the oil, gas and other mineral resources sector as a seventh sector under the Economic pillar. In this regard therefore, under Vision 2030, plans for efficient management of the recent discovery of oil and mineral resources will be included. This will require investment in the requisite infrastructure to facilitate their exploitation, as well as measures and incentives to prospect for oil, gas and other mineral resources in the country. Safeguards will also be put in place to ensure that exploration of oil and other mineral resources takes place in a sustainable manner under best practice legal, regulatory, and institutional framework and protection of the environment. Measures will also be taken to put in place to deal with the sudden increase in foreign earnings to forestall macro-economic distortions like the “Dutch Disease” phenomenon where the resources from exploitation of natural resources such as oil induce serious falls in domestic production of food and tradable goods due to an over-valued currency. Finally, the agreements and proceeds from exploitation of oil and other mineral resources will be managed to ensure that maximum benefits accrue to the nation including equitable sharing of the accruing benefits to all Kenyans.

In light of the promulgation of Constitution of Kenya (2010), the implementation of Vision 2030 will also take into account the devolved structure of government at the national and country level. This entails taking due cognizance of the constitutionally specified distribution of functions between the two levels of government, as per the Fourth Schedule of the Constitution. It will also ensure that the County Integrated Development Plans are well linked to the national Medium Terms for implementing Vision 2030 to facilitate effective implementation of the Vision and its Flagship projects. Similarly, the monitoring and evaluation system for implementing the County Integrated Development Plans will also be linked to the National Integrated Monitoring and Evaluation System (NIMES), which will be strengthened to track progress in implementing Vision 2030 in the context of the devolved structure of government. Additionally, in conformity with the Kenya Constitution, 2010, the implementation of Article 10 on “National Values and Principle of Governance” will be incorporated in the second MTP under the foundations. Annual performance reports tracking progress at national and county levels will be published and distributed to policymakers and the Kenya public.