State of the Economy:
Inclusive Finance for Economic Transformation

November 2022
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Executive Summary: A Difficult Global Economic Environment

- The global economy is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook.

- In Africa, economic activity bounced back in 2021, lifting GDP growth to between 6.9-4.7%. The rebound was due to a recovery in oil prices and global demand, resurgence in household consumption and investment in most countries after restrictions were eased. Growth was highest in North Africa (11.7%) and East Africa (4.8%).

- Africa’s economic activity is expected to slow to 2.7%-3.6% in 2022 informed by three major global developments: the slowdown in advanced economies and emerging markets, tightening global financial conditions, and volatile commodity prices. Rising food and energy prices are affecting the region, and public debt and inflation are at levels not seen in decades.

- Africa’s public debt is now approaching levels last seen in the early 2000s, and the substitution of low-cost, long-term multilateral debt with higher-cost private funds has resulted in rising debt-service costs.

- 19 of the region’s 35 low-income countries are in debt distress or at high risk of distress, and African countries’ sovereign debt levels are projected to stabilise at around 70% of GDP in 2021/22.

- The effects of the COVID-19 pandemic and the Russia–Ukraine conflict is projected to exacerbate extreme poverty. 29.6 million Africans are projected slide into extreme poverty in 2022-2023 (relative to pre-COVID) and poverty persistence will likely delay reversion to pre-COVID-19 poverty rates.

- The near-term outlook for Africa is tied both to developments in the global economy, while locally, the sociopolitical and security situation for many countries will inform nation-specific dynamics.
Executive Summary: Divergent recovery amidst new shocks

- In Kenya, the economy grew by 7.5% in 2021 from a contraction of -0.3% in 2020. In 2022, the economy grew at 5.2% in Q2 compared to 6.8% in Q1. Growth this year has been broader across sectors, however the agriculture sector is in severe decline, recording 3 consecutive quarters of contractions.

- Poor performance in agriculture is mainly due to dry weather conditions and drought in parts of the country, as well as the pronounced effects of the Russia-Ukraine crisis on the sector.

- The juxtaposition of overall recovery and severe strain in key sectors reflects the overall reality of continued divergent recovery that is leaving many Kenyans behind.

- On one hand, the economy is recovering from the worst of the impact of COVID-19 and there are several bright spots to celebrate. The election process ushered in a peaceful transition, employment has recovered to pre-COVID levels, diaspora remittances remain robust, and financial inclusion has strengthened. The Digital Economy remains a bright spot with significant growth in mobile money and digital payments. Kenya secured record amounts of VC funding in tech in the first half of 2022, and e-commerce is surging.

- On the other hand, agriculture is in severe decline, high inflation and the impacts of the war in Ukraine have increased the cost of living, yet incomes have stagnated. As a result, food insecurity is increasing; one in three adults and almost one in four children have recently gone without food for an entire day. Poverty levels are still well above pre-COVID levels, financial health has deteriorated as has labour force participation (since 2016). Mobile and online betting is growing rapidly, and digital inequality is segregating access to opportunities in the digital economy.
Executive Summary: Divergent recovery amidst new shocks

- The **weakening shilling** is increasing the cost of imports as well as the cost of servicing dollar-denominated debt. While public debt is **balanced** between external (50.1%) and domestic (49.9%) debt, about **68%** of external debt is US dollar-denominated.

- A fundamental source of **fiscal stress** is that the while the **debt to GDP ratio** grew from **43%** in 2011 to about **70%** in 2022, **tax revenue to GDP** declined from **17%** in 2013/14 to **15%** 2021/22 -- well below the EAC target of 25% of GDP.

- It will be important to keep an eye on **aggregate demand** as there are 4 sources that will dampen demand and thus economic recovery. These are: i) increases in commodity prices, ii) weakening Kenya Shilling; iii) high inflation; and iv) high poverty levels.

- These macroeconomic pressures will put **pressure on private sector** activity particularly Micro and Small Enterprise (MSEs) most of whom cite **low customer demand** as their main challenge followed by rising cost of supplies.

- There is a **need to balance** managing debt stress and fostering **fiscal recovery**, with supporting **economic survival and recovery** by addressing the increasingly serious challenges of food insecurity, income strain and poverty.

- There is opportunity to structure discretionary government expenditure to include **expanded cash transfers to households** in partnership with development players in order to boost aggregate demand and foster business and economic recovery.
Key Macroeconomic tensions to manage

- **Macroeconomic Resilience Versus Increased Inequalities**: It will be important to leverage the momentum of bright spots in the economy while ensuring that significant attention, strategy, and resources are directed at addressing the rising costs of living, the impact of the drought, and the lingering ‘austerity’ effect COVID has left on households and the real economy.

- **Fiscal Recovery Versus Economic Recovery**: Fiscal consolidation policies should be deliberately managed with economic recovery policies in mind to ensure an optimal balance between the two.

- **The ‘Informalisation Effect’ Of Covid-19 Versus The Push For Formality**: Larger, more formal firms closed at a faster rate than informal micro firms during COVID-19. The ‘informalisation effect’ of COVID-19 is at tension with government plans to ‘formalise’ the informal sector and bring more into the national government tax net.

- **The Cost Of Spending More Versus The Cost Of Limiting Spending**: There is a cost to spending more and providing deeper support to the real economy, but there is also a cost to limiting spending in the form of raised poverty levels, lower productivity, and reductions in firm and household welfare.

- **Increased Financing Requirements Versus Debt Stress**: Elevated financing is required to recover from COVID, cushion households from rising costs of living, and address the effects of the drought. Yet high debt and debt servicing costs limit government space to increase expenditure and borrowing.

- **Increased Borrowing Versus Muted Revenue Generation Prospects**: Given elevated spending needs, pressure for government spend and borrow is high, yet revenue generation prospects remain muted due to legacy issues in revenue generation, the impacts of the Ukraine crisis, drought, and sluggish private sector recovery.
Global and Africa Macroeconomic Overview

- Global Snapshot
- Africa Snapshot
- GDP Growth and Outlook
- Debt Sustainability
- Poverty Rates
- Firm Performance
Global Snapshot

- **Global economic activity** is experiencing a broad-based and **sharper-than-expected slowdown**, with inflation higher than seen in several decades.
- The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all **weigh heavily on the outlook**.
- **Global growth is forecast** to **slow from 6% in 2021 to 3.2% in 2022** and 2.7% in 2023.
- This is the **weakest growth profile since 2001** except for the global financial crisis and the acute phase of the COVID-19 pandemic.
- **Global inflation is forecast** to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024.
- The 2023 **slowdown will be broad-based**, with countries accounting for about one-third of the global economy poised to contract this year or next.
- The **three largest economies**, the United States, China, and the euro area will continue to stall. Overall, this year’s shocks will **re-open economic wounds** that were only partially healed post-pandemic.

Source: IMF, Oct 2022
Africa Growth 2021

- Economic activity in Africa **bounced back in 2021**, lifting GDP growth to between **6.9 – 4.7%**.
- The **rebound was attributed** to recovery in oil prices and global demand, resurgence in household consumption and investment in most countries after restrictions were eased.
- Growth was highest in **North Africa** (11.7%) and **East Africa** (4.8%).

Southern Africa’s estimated growth of **4.2%** represented the largest recovery, from a contraction of **-6.0%**, underpinned by strong recovery in Botswana (12.5%), Zimbabwe (6.3%), and South Africa (4.9%).
Africa 2022 Growth and Outlook

- Africa’s economic activity is expected to slow to 2.7%-3.6% in 2022 informed by three major global developments: the slowdown in advanced economies and emerging markets, tightening global financial conditions, and volatile commodity prices.
- Rising food and energy prices are striking at the region’s most vulnerable, and public debt and inflation are at levels not seen in decades.
- The near-term outlook is tied both to developments in the global economy, while locally, the sociopolitical and security situation for many countries will inform nation-specific dynamics.
- Africa’s growth projections are highly uncertain, largely reflecting the evolution of the COVID-19 pandemic (emergence of new, more transmissible variants, and low vaccine access and rollout); sovereign debt vulnerabilities and high debt levels in many African countries, limiting the capacity of countries to boost spending and financing after the COVID-19 recovery.
- Other downside factors include the potential spillovers from the tightening of global financial conditions due to elevated inflation risks in advanced economies; the Russia–Ukraine conflict and related sanctions on Russia.
- Climate and environmental concerns could damage to domestic output given the high reliance of African economies on agriculture. Domestic and external sociopolitical and security issues will be additional risks, including a continuation of certain political upheavals in Africa.
- Average inflation is projected to accelerate to 13.5% in 2022, from 13% in 2021, as Russia’s invasion of Ukraine informs a rise in commodity prices, especially for energy and food.
Africa: Debt Sustainability

- Africa’s **public debt** is now approaching levels last seen in the early 2000s, before the impact of the Heavily Indebted Poor Countries Initiative, though with different composition.
- The substitution of low-cost, long-term multilateral debt with **higher-cost private funds** has resulted in rising debt-service costs and higher rollover risks.
- 19 of the region’s 35 low-income countries are in **debt distress or at high risk of distress**.

African countries’ sovereign debt levels, are projected to stabilize at around **70% of GDP** in 2021 and 2022.

AfDB expects Africa’s fiscal deficit to **narrow to 4% of GDP in 2022**, from 5.1% in 2021, reflecting scaling-down of COVID-19-related interventions and strengthening of domestic revenues.
Africa: Poverty Rates

- The combined effect of the COVID-19 pandemic and the Russia–Ukraine conflict is projected to **exacerbate extreme poverty** in Africa.
- An estimated **28.7 million more Africans** slid into extreme poverty in 2021 relative to pre-COVID-19, up from about 26 million in 2020.
- About **29.6 million** are projected to slide into extreme poverty in 2022 and 2023.
- The **outbreak of the Russia–Ukraine conflict** has spilled over to African economies and the projected slower growth, higher projected inflation, shrinking real incomes amid rising prices of food and fuel will be disastrous to vulnerable households already living on the edge of poverty. These realities will **increase Africa’s poverty rate**.
- The **majority of the new poor** due to COVID-19 and the Russia–Ukraine conflict are in **West Africa**, which accounts for an average of around 39% of the total in 2021–23, with Nigeria having the largest poverty increase.

The extreme poverty rate is projected to decline to 32.9% in 2023, from 34.3% in 2021.

Source: AfDB, May 2022

North Africa (excluding Libya) and **East Africa**, with the highest real GDP per capita growth in 2021–23 are projected to show the **smallest increases in extreme poverty rates**.
Africa: Firm Performance

- Business closure is still more pronounced in Africa than in other developing regions.
- 91.5% of firms in Africa remained open during the pandemic, against more than 95% in other developing regions.
- In 2021, 4.5% of African firms were permanently closed and 4.1% temporarily closed; this is much higher than in other developing regions where 1.3% of firms closed permanently and 3.4% temporarily closed.
- Firms in the formal sector faced a higher chance of business closure in Africa than in other regions.
- Encouragingly, many temporarily closed firms are reopening.

- However, businesses may be set on a slow path of reopening because employment has not fully recovered to pre-pandemic levels.
- The International Labour Organization estimated, for the first three quarters of 2021, working hours of at least 4.5% below the level in the Q4 of 2019, which is equivalent to 131 million full-time jobs.
- In addition, Africa’s share of the global loss in working hours increased to 16% in 2021, with such divergence due partly to wide variations in vaccination access.

Source: AfDB, May 2022
Kenya Macroeconomic Overview

- Kenya GDP Growth and Outlook
- Focus on Agriculture
- Employment and Jobs
- Inflation, Forex, Exports, Remittances
- Fiscal Update
- Macroeconomic tensions to manage
GDP Growth: 2022 and 2023

- In Kenya, the economy grew by 7.5% in 2021 but growth has slowed in 2022 with growth at 5.2% in Q2 and 6.8% in Q1 2022.
- The slowdown in annual growth is partially due to lingering base effect as the economy grew 11.0% in Q2 2021.
- Growth was broader across sectors and driven by mining & quarrying (33.5%), accommodation & restaurants (22%), financial & insurance (11.6%), transport & storage (7.1%), ICT (6.6%), construction (5.8%), manufacturing (3.6%)-- most sectors grew at a slower pace than Q1.
- Growth in wholesale and retail trade, taxes on products and the accommodation may indicate recovery in household spending. But agriculture has been very weak since Q1 2021, recording a contraction of -2.1%-- seen in a significant decline in horticultural exports and tea production.
- Outlook 2023: Growth is broadly expected to moderate in 2023 informed by the continued impact of the war in Ukraine, the impacts of the drought, decline in aggregate demand, increase in food and fuel import costs, and tepid economic activity across sectors due to cost-push factors.

### GDP GROWTH 2022-23

<table>
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<tr>
<th>Organisation</th>
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Focus on Agriculture: Agricultural decline, exports and the Ukraine crisis

- Weak agriculture sector performance is due to:
  - Dry weather conditions and drought in parts of the country due to the cumulative effects of poor rainfall over the last four rain seasons.
  - The Russia-Ukraine crisis

- Drought conditions appear likely to persist for the rest of the year as the meteorological department expects below-average rainfall in the Oct-Dec 2022 short rains season.

- The persistence of drought conditions will mute agricultural production, lower economic growth and reduce export earnings.

Q2 2022 is the third consecutive quarter of growth contraction indicating the sector is in a recession.

The sector has been in underperforming since Q1 2021.
Focus on Agriculture: **Impact the Ukraine Crisis on the Agriculture Sector**

- The Russia-Ukraine crisis is affecting the agriculture sector in 5 main ways:
  1. Reduced access to fertiliser which **lowers agricultural production**.
  2. The high cost of fertiliser which **increases production costs**.
  3. Increased production costs lead to **rising costs of food** and also make Kenya’s agricultural products **uncompetitive** in the export market.
  4. Agricultural Exports: Kenya exports cut flowers, tea, fruits and vegetables to Russia, Ukraine and the rest of Eastern Europe. Russia is among the top 5 importers of Kenya coffee while Ukraine, Poland and Kazakhstan are emerging new markets. Kenya’s inability to access the Eastern European markets will lead to a significant **loss of export earnings from agriculture**.
  5. Wheat Supply and Prices: Domestic wheat production only meets approximately one-third of demand. The gap in supply is typically met by the Black Sea region (Russia, Ukraine, and Kazakhstan). In 2018, Russia and Ukraine accounted for **59.3% of the total wheat imported** to Kenya (latest data available). Kenya’s over-reliance on wheat imports from Russia and Ukraine will likely prove costly and perhaps necessitate consumption of substitute goods.

- If the situation persists, low production in the agriculture sector may lead to loss of jobs in the agricultural value chains and the underperformance of other **agriculture support sectors** such as agrochemicals and farm equipment.

- The sector’s performance will likely lead to lower-than-expected economic growth, **weaker exports** and **dampened revenue collections**.
Focus on Agriculture: Food Insecurity and Hunger

- Kenya is ranked 94th out of 121 countries in the 2022 Global Hunger Index (GHI). With a score of 23.5, Kenya’s level of hunger is serious.

- Beyond the current drought, Kenya’s food insecurity stems from other persistent factors including:
  - Over 84% of land is classified as arid and semi-arid and exposed to extreme natural events - drought, locust invasion, and floods.
  - Dwindling and unstable agricultural productivity
  - Access to and high cost of farm inputs
  - High cost of animal feeds
  - Erratic and unreliable weather patterns and rainfall; and pest and disease.

Source: 2022 Global Hunger Index
Focus on Agriculture: Environmental Risk, Climate Change and Agriculture

- An average drought in Kenya results in a food deficit of 20–30%, slashes GDP growth by 3–5%, and affects the livelihoods of over 80% of the population.
- FinAccess 2021 found:
  - A slight increase in the number of reports of climate-related shocks from 2019 to 2021.
  - About 3m adults experienced such shocks in 2021 compared to 2.4m in 2019.
  - Farmers report climate and environmental shocks as the top 2 challenges they face—above other challenges such as cost of inputs or lack of capital.
- Deepening food insecurity in Kenya is correlated with the deterioration of the environment and climate change seen through extreme droughts in large parts of the country, soil degradation; and water scarcity.
Focus on Agriculture: **Gross County Product (GCP):** County reliance on and financing of Agriculture

Agriculture, Forestry and Fishing Sector Agriculture is the **dominant economic sector in most counties.**

The sector is the highest contributor of (Gross County Product) GCP in **most counties across years.**

County Financing of Agriculture

- The percentage of total county government budgets actually spent on agriculture is **consistently lower** than the percentage of total budget **allocated** to the sectors over the years.
- These in-year changes in agriculture may have a bearing on the **growth of county economies** as it is the major contributor of GCP in the counties.

| Source: Budget Watch for 2022/2023 and the Medium Term, Parliamentary Budget Office, Oct 2022 | **County Allocations to Health and Agriculture Vs Actual Expenditure** |
| % of total budgets allocated to Agriculture | % of total budgets actually spent on Agriculture |
| 8.2 | 4.9 |
| 6.8 | 4.4 |
| 5.7 | 4.2 |
| 5.6 | 4.0 |
| 6.7 | 4.5 |
| 7.0 | 4.9 |
| 7.7 | 4.7 |
**Employment**

- The share of working-aged individuals in employment has returned to pre-pandemic levels.
- However, the employment share reduced from 80% between July-October 2021 to 71% between November 2021-March 2022.
- This is likely driven by fewer households having to temporarily engage in additional income generating activities to cope with the pandemic.
- The broad reversion towards pre-pandemic employment rates has occurred across educational, geographical and gender groups.
- However, concerns with job quality and income growth remain in the context of rising living costs.

• Between 2006 and 2016, more jobs were added than the number of Kenyans who entered the labour force.
• Thus, the number of unemployed decreased from 9.2 million to 6.8 million adults.
• With the expansion in the adult population since 2016, the number of unemployed has swelled to 11.3 million adults because the pace at which Kenyans are entering the labour force is outstripping the rate of job creation.
• This has informed the decline in the labour participation ratio since 2016.

Source: Financing livelihoods, FSD Kenya and FinMark Trust (forthcoming)
Inflation

- Inflation increased to 9.6% in October 2022, its highest rate since 2017.
- Inflation has largely been driven by:
  - Food & non-alcoholic beverages which have increased by 31% since Jan 2020.
  - Transport which has increased 32% since Jan 2020.
- Some key consumables have increased far more—maize flour increased 49% in the 12 months to September.

Interestingly, costs for information and communication only rose 4% during the same period.

- Food inflation is attributed to seasonal weather changes that resulted in low food and forage production and consequently led to an increase in prices of key food items.
- Further, there was an increase in the prices of cooking oil and wheat flour due to higher import prices, and reduced international supply of palm oil and edible oil from South-East Asia and wheat from Russia and Ukraine.
Inflation Outlook

Inflation is expected to remain elevated in the near term due to:

- The scaling back of the fuel subsidy;
- Increases in electricity costs due to fuel, forex and inflation adjustments;
- Higher transportation costs due to increased fuel prices;
- Below average long-rains that will affect food and livestock production;
- Increased international commodity prices of imports such as wheat and cooking oil;
- Seep-through effects of high fuel prices to prices of food;
- The impact of tax measures in the FY 2022/23 Budget (particularly excise duty);
- Global inflationary pressures

Inflation may be moderated by:

- Reduction in global food prices following the signing of the black sea grain deal which has enabled the resumption of grain shipment from Ukraine and Russia. The first consignment of grains from Ukraine under this deal arrived in Kenya in mid-October 2022.
- As a result, grain and fertiliser may be more readily available which could moderate the rise in food prices in the country going forward.
**Interest rates**

- The Monetary Policy Committee (MPC) has been pursuing a tighter monetary policy stance since May 2022 as signaled in increases in the Central Bank Rate (CBR).
- The MPC has **raised the CBR three times** in 2022—the latest was in November 2022 where the CBR was raised from 8.25% to 8.75%.
- The previous rate raises were in September and May.
- The tightening of the monetary policy stance is informed by the elevated inflationary pressure emanating from both domestic and external sources.
- As a result, short-term interest rates have been on the rise—the interbank rate, the rate at which commercial banks borrow from one another to finance short-term liquidity requirements, increased from 4.36% in January 2022 to 5.6% in October 2022 indicating tightened liquidity in the banking sector.
- The 91-day treasury bill rate has also been on an upward trajectory from 7.32% at the beginning of the year to 8.95% as of September 2022 (although this upsurge may be partly attributed to an increased appetite for domestic borrowing by the Government).
- The continued acceleration of Treasury Bill and Treasury Bond rates will have a bearing on the cost of financing the FY 2022-2023 budget.
Private Sector Credit Growth

- Growth in private sector credit increased to 13.3% in October from 12.5% in August 2022.
- Strong credit growth was observed in manufacturing (17.5%), trade (15.3%), business services (13.2%), and consumer durables (14%).
- Credit growth will be positively informed by continued economic recovery relative to the peak of the COVID-19 pandemic.
- Credit growth will be constrained by upward adjustments in the CBR due to inflation and continued aggressive borrowing by government with elevated interest rates which effectively locks out the proportion of private sector that can take on credit at such high rates.

Source: Cytonn, November 2022
Non-Performing Loans

- The ratio of gross non-performing loans (NPLs) to gross loans stood at 13.8% in October, down from 14.2% in August and 14.7% in June.
- Analysis of NPL data to August reveals that 2022 has seen increases in the ratio of gross loans to NPLs in key sectors.
- **Building and construction** stands out with the value of non-performing loans being nearly 30% of the value of gross loans. This sector accounts for over 10% of the total value of gross loans.
- Agriculture, Manufacturing, Tourism, Energy & Water have also seen significant growth in NPLs.

- Factors behind the increase could include:
  - **Building/construction and real estate** which is likely to be a result of increased input prices and lower purchasing power.
  - **Manufacturing** which could be a result of increased commodity prices.
  - **Agriculture** which could be a result of increased input prices and poor harvests.
  - **Tourism** which could be the result of the elections and lower demand due to inflation and lower purchasing power both domestically and internationally.
- Interestingly the ratio of NPLs for **personal loans** which is already low, has marginally fallen in 2022. This may indicate strong middle-class resilience.
- Loans for trade have also performed well, another indicator of unexpected retail resilience.

Source: Cytonn, November 2022
Forex

• The Kenyan Shilling further **depreciated against the US Dollar** in Q3’2022 to close at KShs 120.7, from KShs 117.8 at the end of Q2’2022. This is the lowest the Kenyan Shilling has traded against the Dollar.

• **Downward pressure** on the Shilling will **emerge from** a rise in global crude oil prices; increased demand from merchandise traders; a persistent current account deficit; and the servicing of dollar denominated public debt.

• The Shilling will be **supported by** CBK foreign exchange reserves (USD 7,038 million or 3.94 months of import cover in November), diaspora remittances, and USD loan facilities from multilateral organisations.

• The Shilling **strengthened against the British Pound** with the value of the pound reflecting domestic **concerns in the UK** around tax cuts, and a £45b stimulus package that caused concern among investors on implications of increasing future government debt.

• The US Dollar has strengthened since the end of 2021 against a broad index of currencies.

• This broad appreciation is attributed to a tightening of US monetary policy and a shift in the risk appetite of investors towards US dollar assets.

Kenya Shilling foreign exchange rate against key currencies
**Remittances still strong but slowing**

- The value of remittances has fallen for 5 consecutive months (as of August 2022). This has not happened since at least 2011.
- However, cumulatively year-on-year remittances are still up 11% (as of August).
- Remittances totaled USD 3,992 million in the 12 months to August 2022, 14.7% higher than a similar period in 2021.
- Remittances totaled USD 3,996 million in the 12 months to October 2022, 10.9% higher than a similar period in 2021 (indicating a slowing growth rate).
- Declines have been seen from every region (except Saudi) and are likely informed by:
  - Inflation and price increases
  - A withdrawal of stimulus measures particularly in the US and Europe
  - A general dip in spending power
  - Tightening of credit markets in key source markets such as the US

Source: CBK via www.covid19econdatakenya.com
Exports: Overall Trajectory

- The value of Kenya’s goods exports has been growing over the past two decades, except in periods of external shocks.
- By value, exports of goods and services have grown by 28% over the past decade from $8.9 billion in 2010 to $11.5 billion in 2019.
- However, exports of goods and services has been falling as a percentage share of GDP from 22% in 2010 to 10% in 2020.
- Amid the pandemic, Kenyan goods exports remained relatively resilient, recording 3.3% growth from $5.8 billion in 2019 to $6 billion in 2020 (UNCTAD, 2021).
- Services exports contracted by 35% from $5.6 billion in 2019 to $3.7 billion in 2020.
- As a percent of GDP, this translates to 2020 goods exports reaching 6% of GDP (same with 2019 level) and services exports falling from 6% of GDP in 2019 to 3.7% of GDP in 2020.

In 2021, FSD Kenya partnered with the Overseas Development Institute on a deep-dive analysis of Kenya’s exports to 7 export destinations: EU, UK, US, China, India, East African Community, and the Rest of Africa (ROA).
Exports: Trends to Q2 2022

The current account deficit worsened in the first half of 2022 as imports grew faster than exports.

• In H1 2022, imports grew by 24.2% while the exports grew by 16%.
• Imports grew mostly due to an increase in global prices of petroleum products.
• Sources of growth in exports in H1 2022:
  - **Food and beverages** - up 12% y-o-y
  - Non-food **industrial supplies** - up 36% y-o-y
  - **Fuel** - up 59% y-o-y
  - Tea and coffee exports - 23% (with coffee alone up 46%).
  - **Tea and coffee** accounted for 27% of total domestic exports.
• Horticultural exports decreased by 40% during this period.
• The value of exports of machinery and transport equipment both fell.

Source: KNBS via www.covid19econdatakenya.com
Exports: Weather, COVID, Elections and the Ukraine Crisis

The Ukraine Crisis
- Kenya exports cut flowers, tea, fruits and vegetables to Russia, Ukraine and the rest of Eastern Europe.
- Russia is among the top 5 importers of Kenya coffee while Ukraine, Poland and Kazakhstan are emerging new markets.
- As the conflict persists, Kenya’s exports in these markets will be substantially subdued leading to lower export earnings.
- Further, Eastern Europe had been identified as a potential source of tourists with popularisation initiatives undertaken in Russia, Ukraine, Poland, Belarus and Czech among others.
- In recent years, there has been an increase in tourist arrivals from these destinations.
- The Russia-Ukraine conflict could water down these efforts.

Election Season
- 2022 was an election year, which is usually associated with a slowdown in the arrival of tourists until after the elections.

COVID-19
- The tourism sector was the hardest hit by the Covid-19 pandemic with a decline in international visitor arrivals by 71.5% and a decline in export earnings by 43.%.
- The sector has not yet fully recovered.

Dry weather and drought
- The persistence of drought conditions is negatively informing agricultural production leading to reduced export earnings.
Aggregate demand challenges

Weak aggregate demand for goods and services has negative knock-on effects on private sector recovery, income recovery, revenue collection and economic recovery. Key dampeners of aggregate demand are:

- **Increases in commodity prices**: Higher costs of raw material inputs translates to higher production costs. Higher fuel prices increase production costs due to the use of fuel-operated machines, higher electricity prices (due to higher fuel cost adjustment charges) and higher transportation costs. If this price increase is sustained for an extended period, the concurrent increase in food and basic commodity prices result in high consumer prices. Cost increases usually decrease the quantity of goods and services demanded leading to a decline in general economic activity.

- **Weakening of the Kenya Shilling**: Protracted weakening against the US dollar increases the cost of imports, particularly oil imports which are already high due to the rise in global oil prices. This is a significant contributing factor to the inflationary pressures in the economy which may dampen consumer demand and slow down growth.

- **Inflation**: Higher inflation is likely to erode the purchasing power of consumers leading to a slowdown in consumption and overall economic activity. The impact will be disproportionately felt among the lower-income earners who may then be pushed further into poverty.

- **Poverty levels**: Initially the World Bank anticipated extreme poverty in Kenya to fall below pre-COVID levels to 25.9% in 2022 and further to 25.1% in 2023. However, the Bank now acknowledges that a more widespread drought, as well as the global fuel and food price shocks brought on by the Russia-Ukraine will likely increase poverty levels particularly in populations that rely on the agricultural sector for their livelihoods.
Macroeconomic tensions to manage

MACROECONOMIC RESILIENCE VERSUS INCREASED INEQUALITIES: DIVERGENT RECOVERY

• As mentioned, on one hand, the economy is recovering from the worst of the impact of COVID-19. Employment has recovered, diaspora remittances remain robust, and financial inclusion has strengthened. The Digital Economy remains a bright spot with significant growth in mobile money and digital payments. Kenya secured record amounts of VC funding in tech in the first half of 2022, and e-commerce is surging.
• On the other hand, agriculture is in severe decline, high inflation and the impacts of the war in Ukraine have increased the cost of living, yet incomes have stagnated. As a result, food insecurity is increasing; one in three adults and almost one in four children have recently gone without food for an entire day. Poverty levels are still well above pre-COVID levels, financial health has deteriorated as has labour force participation, and digital inequality is segregating access to opportunities in the digital economy.

FISCAL RECOVERY VERSUS ECONOMIC RECOVERY

• Government continues to face sustained fiscal pressure, creating a need for fiscal consolidation (even austerity). Yet this comes at a time when the economy requires deep support from government to foster economic recovery from COVID, cushion households from rising costs of living, and address the effects of the drought. There are tensions between policies that foster fiscal survival and recovery and those that foster economic survival and recovery:
  - Fiscal survival policies include cutting spending and implementing policies to aggressively increase revenues. These measures will likely mute economic recovery by imposing costs on firms and households and failing to address drops in aggregate demand in an environment of elevated inflation, high cost of living and muted firm performance.
  - Economic recovery policies include increasing social security, pulling back on taxes imposed on firms and households, and even a demand-side stimulus through expanded cash transfers. These are clearly at tension with the current fiscal reality.
Macroeconomic tensions to manage

THE ‘INFORMALISATION EFFECT’ OF COVID-19 VERSUS THE PUSH FOR FORMALITY

- FSD Kenya has been tracking the impact of COVID-19 on MSMEs since 2020: ‘larger’ formal businesses were more likely to close in the first 2 years of the pandemic than micro informal firms.

- This finding is corroborated by the AfDB which found that firms in the formal sector faced a higher chance of business closure in Africa than in other regions.

- In Kenya, businesses operating in formal commercial premises pre-Covid were more likely to close compared to informal businesses operating from more informal arrangements (e.g., open markets without a dedicated stalls or hawking) due to the high fixed cost such as the rent and lease costs of commercial premises. In the absence of access to formal finance and liquidity to support recovery and having exhausted their savings and the support provided by social networks, larger businesses had little option but closure.

- However, micro and small businesses that started off with lower pre-Covid business revenues (less than KShs 30,000) were more likely to have recovered (defined as back to at least 75% of their pre-Covid revenues). Their informality fostered a form of resilience as they had lower fixed costs and higher flexibility in managing operational costs (such as relying on family members rather than employees to help them run the business). They also had access to social network finance and low-value digital loans which helped to keep them afloat.

- The ‘informalisation effect’ of COVID-19 is at tension with efforts by government to ‘formalise’ the informal sector and expand the reach of national government tax efforts to this segment.
Macroeconomic tensions to manage

THE COST OF SPENDING MORE VERSUS THE COST OF LIMITING SPENDING

- There is a fiscal cost (and potential multiplier effect) to spending more to provide critical social security and income support to Kenyans (in the form of expanded cash transfers for example).
- Yet there is also a cost to limiting spending in the form of increased economic and welfare costs linked to raised poverty levels, lower productivity, and reductions in firm and household welfare, if more spending is NOT directed to households.

INCREASED FINANCING REQUIREMENTS VERSUS DEBT STRESS

- Above-normal government spending was required to address the health and socio-economic impact of COVID. Yet the government still has elevated financing requirements to foster economic recovery from COVID, cushion households from rising costs of living, and address the effects of the drought.
- However, high levels of debt stress limit government options to increase expenditure and borrowing given already high debt servicing costs and debt to GDP ratios.

INCREASED BORROWING VERSUS POOR REVENUE GENERATION PROSPECTS

- Given elevated spending needs, pressure for government borrow is high, yet revenue as a share of GDP has been declining in sharp contrast to the aggressive rise in the debt to GDP ratio.
- Revenue generation prospects remain muted due to legacy issues in revenue generation, the impacts of the Ukraine crisis, drought, as well as sluggish private sector recovery in the context of high inflation and weak aggregate demand.
- These realities are at tension with the borrowing needs of government to finance core expenditure.
Fiscal Update

- Expenditure
- Revenue
- Fiscal Deficit
- Public Debt
- Debt Composition
- Total Debt Service Costs
- Domestic Debt Service Costs
- External Debt Service Costs
- Risks and Opportunities
Expenditure

- The Parliamentary Budget Office (PBO) points out that total government expenditure as a share of GDP declined marginally from 24.2% in 2020/21 to 23.7% in 2021/22.
- However, recurrent expenditure as a share of GDP has been on an upward trajectory and increased by one percentage point to 16.8% in 2021/22.

- The increase in recurrent expenditure over time may be crowding out development expenditure as a share of GDP, which declined from 7.9% in 2014/15 to 4.2% in 2021/22.
- The total expenditure and net lending to Sept 2022 totaled KShs. 759.5 billion, against a target of KShs. 694.0 billion- this is KShs. 65.5 billion above target.
- The overspend is attributed to high budget absorption in recurrent expenditure by National Government-- yet transfers to County Governments were below target.
- High recurrent expenditure for National Government is attributed to higher than targeted spending in operations and maintenance.

Source: Budget Watch for 2022/2023 Medium Term, Parliamentary Budget Office (PBO), Oct 2022

Source: Quarterly Economic and Budgetary Review, National Treasury, Nov 2022
Spotlight on the Consolidated Fund Service Expenditure

- Consolidated Fund Service (CFS) expenditures comprise of mandatory expenditures and are a first charge on the Consolidated Fund. These expenses primarily consist of public debt servicing expenditures, pension payments, salaries and allowances for constitutional and independent office holders, among other expenditures.

- CFS expenditures for the FY 2022/23 are projected to amount to KShs. 1.57 trillion— an increase of KShs. 262.3 Billion (20%) from the 2021/22 CFS budget of KShs. 1.31 trillion. In FY 2023/24, these expenditures are projected to reach KShs. 1.8 trillion due to debt servicing.

- The ratio of CFS expenditures relative to ordinary revenues presents a worrying trend: For FY 2022/23, CFS expenditures are expected to account for 64% of Ordinary revenue, up from 60% in FY 2020/21. In FY 2023/24, the proportion of CFS expenditure to ordinary revenue is expected to reach 67% limiting the space to freely undertake fiscal policy in the short-term and medium term, without incurring further debt or encountering liquidity constraints.

- The largest components of CFS expenditure include:
  - Public debt servicing expenditures which constitute 89% of the total expenditure. This component has increased by 21% from KShs 1.15 trillion in FY 2021/22 to KShs 1.39 trillion in FY 2022/23.
  - Pensions expenditures account for 11% of total CFS expenditures. In FY 2022/23, this will increase due to an increase in commuted pensions by 11% and an increase in the Public Service Superannuation Scheme by 24%.
  - Kenya Airways guaranteed debt payment of KShs 2.26 billion which will increase to KShs 28.26 billion in FY 2023/24. In total, KShs. 52.7 billion will be spent over the medium term.

Source: Unpacking the Estimates of Revenue and Expenditure Parliamentary Budget Office, May 2022
Poor quality budget absorption and stubbornly high pending bills

- As of Sept 2022, the percentage of total expenditures to the target was 93% with recurrent expenditure exceeding the target. Percentage of total expenditures to the target for recurrent expenditure was 111.4% yet only 57.1% for development expenditure.
- The education sector recorded the highest absorption at 108.9% followed by Governance, Justice, Law and Order at 103.5% and Energy, Infrastructure and ICT at 98.8%. Social protection, Culture and Recreation Sector recorded the lowest absorption of 50.8%
- The total outstanding national government pending bills as September 2022 amounted to KShs 439.2 billion. These comprise of KShs 356.9 billion (81.2%) for the State Corporations (SC) and KShs 82.3 billion (18.7%) for Ministries/State Departments/other government entities.
- The SC pending bills include payment to contractors/projects, suppliers, unremitted statutory and other deductions, pension arrears for Local Authorities Pension Trust, and others.
- The highest percentage of the SCs pending bills (67.6%) belong to Contractor/Projects and Suppliers.
- Ministries/State Departments and other government Agencies pending bills constitutes mainly of historical pending bills.
- The National Government policy on clearance of pending bills continues to be in force and National Treasury expects all MDAs to prioritise payment of the pending bills by settling them first.
- FY 2022/23 continues the concern of poor absorption of development expenditure, yet the aggressive spending in recurrent expenditure still fails to address pending bills to private sector (Contractors, projects and suppliers).
Revenue

- Kenya’s tax revenue collection as a share of economic output is still below the desired EAC target of 25% of GDP.
- Ordinary revenue as a share of GDP recorded an improvement from 13.7% in 2020/21 to 15.1% in 2021/22.
- However, the improved revenue collection as a share of GDP in 2021/22 FY was still below the average of 16% achieved between 2010 and 2017.

- Over the past six years, actual collections have been on average been KShs150 billion below the revenue target set in the budget estimates.
- The National Treasury projected that ordinary revenue as a share of GDP will increase to 16.3% over the medium term. The Parliamentary Budget Office (PBO) expects ordinary revenue as a share of GDP to remain below 15%. True to PBO expectations, as of Sept 2022, ordinary revenue collected was KShs. 485.4 billion against a target of KShs. 495.8 billion, KShs 10.4 billion below the target.
- Total revenue was bolstered by surplus collection of the ministerial Appropriation in Aid (A-I-A) by KShs. 20.8 billion. Thus, total revenue collected by Sept 2022, including A-I-A amounted to KShs. 569.6 billion, above the target of KShs. 559.1 billion.
- Revenue trends indicate that policy options and investments by the Government aimed at expanding the tax base and enhancing tax compliance have not been sufficiently effective.
The fiscal deficit excluding grants (including grants) as a share of GDP contracted from 8.5% (8.2%) in 2020/21 to 6.5% (6.3%).

This contraction is attributed to recovery in revenues as a share of GDP to pre-COVID-19 levels.

Without concrete policies that result in either the expansion of revenue as a share of GDP or contraction of recurrent expenditure over the medium term, the PBO estimates the fiscal deficit as a share of GDP will remain above 5%.

The fiscal deficit inclusive of grants for 2022/23 has been adjusted upwards and is expected to be financed mainly by additional domestic borrowing.

However, it should be noted that in the past, due to the setting of overambitious revenue targets during the budget-making process, the actual deficit has tended to be higher than what is captured in the printed estimates.

Therefore, it is likely that the actual deficit for 2022/23 will exceed estimates and the fiscal deficit target for the medium term will be unattainable due to the lack of a comprehensive strategy by the National Treasury to enhance revenue collection.
Public Debt

- As a proportion of GDP, debt has grown from **43% in 2011** to about **70% in 2022**.
- As of **September 2022**, public debt stood at **KShs 8.749 trillion**.
- Between FY 2011/12 and June 2022, Kenya’s public debt stock grew by **428%** to reach KShs 8.61 trillion.
- Public debt is **50.1% external debt** and **49.9% domestic debt**.
- The stock of **gross domestic debt** increased by KShs 428.5 billion from KShs. 3.938 trillion in September 2021 to KShs. **4.366 trillion** in September 2022.
- In dollar terms, external public debt stock increased by **US$. 432.5 million** to **US$. 36.3 billion** by the end of September 2022. The increase is attributed to increase in external loans disbursements and exchange rate fluctuations during the period.
- Compared to the same period in FY 2021/22, external public debt stock from commercial banks, bilateral sources and from suppliers’ credit decreased while stock from **multilateral institutions increased** by KShs. 964.5 billion.
- This reflects efforts by government to restructure debt to **more affordable sources**. Yet without policies addressing the pace of debt accrual and reducing total debt stock, public debt as share of GDP will continue to rise.

Source: Cytonn from National Treasury data, July 2022

Debt to GDP Ratio

![Debt to GDP Ratio Chart](chart.png)
# Composition and Holders of Domestic Debt

## Composition of Government Domestic Debt by Instrument (Percent)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Treasury bills (Excluding Repos)</td>
<td>27.93</td>
<td>20.70</td>
<td>17.59</td>
<td>15.01</td>
<td>15.40</td>
<td>15.14</td>
<td>15.23</td>
</tr>
<tr>
<td>Treasury bonds</td>
<td>69.86</td>
<td>77.09</td>
<td>80.41</td>
<td>83.17</td>
<td>83.27</td>
<td>83.17</td>
<td>82.51</td>
</tr>
<tr>
<td>Overdraft at Central Bank</td>
<td>1.48</td>
<td>1.60</td>
<td>1.47</td>
<td>1.05</td>
<td>0.62</td>
<td>0.97</td>
<td>1.53</td>
</tr>
<tr>
<td>Other domestic debt</td>
<td>0.73</td>
<td>0.61</td>
<td>0.54</td>
<td>0.77</td>
<td>0.71</td>
<td>0.73</td>
<td>0.73</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
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Source: CBK Weekly Bulletin, November 18, 2022

- The stock of gross domestic debt stood at KShs. 4.366 trillion, 49.9% of total public debt (Sept 2022)
- It consists mainly of treasury bills (15.23%), treasury bonds (82.51%), and overdrafts (1.53%).
- The ratio of treasury bills has been declining in favour of treasury bonds as government seeks to reduce domestic debt refinancing pressures.
- Such restructuring could affect the projected returns of the primary domestic debt holders who include domestic banking institutions (47.5%) and pension funds (32.6%).
Composition and Holders of External Debt

- External public debt stock stood at **USD 36.3 billion** in Sept 2022 and consists of debt owed to multilateral lenders (45.0%), commercial banks (28.3 %), bilateral sources (26.4%) and Suppliers Credit (0.3%).
- External debt is primarily denominated in US Dollars (68%), the Euro(19%), and Yen(6%).
- Currency depreciation negatively impacts external debt servicing expenditure through foreign exchange translation risk exposure.
- The depreciation of Shilling against the US Dollar has had a particularly significant impact on external debt servicing expenditure since 68% of external debt is US dollar denominated.

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</tr>
</thead>
<tbody>
<tr>
<td>Domestic debt (KSh Bn)</td>
<td>3,488.54</td>
<td>3,697.09</td>
<td>3,937.80</td>
<td>4,032.37</td>
<td>4,191.77</td>
<td>4,283.33</td>
<td>4,335.30</td>
<td>4,366.30</td>
</tr>
<tr>
<td>Public &amp; Publicly Guaranteed External debt (USD Bn)</td>
<td>34.75</td>
<td>37.08</td>
<td>36.73</td>
<td>36.90</td>
<td>36.82</td>
<td>36.58</td>
<td>36.23</td>
<td>36.00</td>
</tr>
<tr>
<td>Public &amp; Publicly Guaranteed External debt (KSh Bn)</td>
<td>3,793.29</td>
<td>3,999.54</td>
<td>4,058.50</td>
<td>4,174.37</td>
<td>4,209.56</td>
<td>4,290.73</td>
<td>4,327.90</td>
<td>4,334.80</td>
</tr>
<tr>
<td>Public Debt (KSh Bn)</td>
<td>7,281.83</td>
<td>7,696.63</td>
<td>7,996.30</td>
<td>8,206.74</td>
<td>8,401.33</td>
<td>8,579.06</td>
<td>8,663.20</td>
<td>8,701.10</td>
</tr>
</tbody>
</table>
Debt Service Costs

- **Debt service expenses** have increased from KShs 850 billion in FY2011/22 to **KShs 1.3 trillion** in the 2022/23.
- It is projected that this will increase to **KShs 1.8 Trillion** in FY 2024/25.
- Public debt expenses currently account for **88% of the Consolidated Fund Expenses**.
- Given total public debt is projected to reach **KShs 11.5 trillion by June 2025**, Public Debt Service expenditures will continue to increase, particularly for domestic debt.
- **Total debt service expense** as a proportion of ordinary revenue has increased from 49% in FY 2019/20 to **65% in FY 2022/23**.
- Revenues are increasingly being directed to pay public debt which is non-productive expenditure.
- The **share of ordinary revenue used to service interest payments** on the public debt increased from 15% in 2013/14 to around **30%** in 2021/22.
- Over the medium-term, expenditure on debt servicing (and other routine recurrent expenditures) will likely continue to **preponderate over** development spending and minimise fiscal space due to the non-discretionary nature of debt repayments.
Domestic Debt Service Costs

- Domestic debt accounts for **49% of total debt stock** but **73% of total debt servicing expenditures**.
- Domestic debt interest expenditure accounts for **80% of total interest expenses** and thus carries the **highest cost and risk** premium in the debt profile.
- Domestic debt service is both the **largest component of public debt service expenditures** but also the **largest CFS expenditure item**.
- The PBO expects total domestic debt service to total KShs 1.015 trillion in FY 2022/23, accounting for **73% of public debt servicing expenditure** and **52% of total CFS Expenditures**.
- **Interest expenditure** will account for **over 50%** of domestic debt servicing over the medium term.
- **Scheduling**: While interest payments accrue monthly, redemption expenditures occur in certain months, leading to in-year repayment shocks.
- **December 2022 and February 2023** will have the **highest debt servicing expenditures**; approximately **51% of domestic debt service will occur between November 2022 and April 2023**.
- This may bring about **liquidity constraints** during this period, thus **cash flow management measures** should be developed in anticipation of this.
External Debt Service Costs

- Total cumulative debt service payments to external creditors amounted to **KShs 103.0 billion**: KShs 67 billion (65%) principal, and KShs 36 billion (35%) interest (Sept 2022).
- The total cumulative debt service payments to external creditors comprised of commercial (31.4%), bilateral (53.6%) and multilateral creditors (14.9%).
- The PBO expects external debt service to increase by 15% and total KShs 378.3 billion in FY 2022/23.

This increase is driven by external debt redemptions (19% increase) and interest payments that account for 9% of the increase and 27% of the total debt service expenditures in FY 2022/23 (a slight decline from 29% in FY 2021/22 due to the DSSI).
- The increase is due to increases in external debt redemptions to Poland, the Nordic Development Fund, Kuwait, Saudi Fund, EIB, China and the China Development Bank.

- External debt redemption is expected to **spike in FY 2023/24** as the payment for the **2018 International Sovereign Bond (USD 2.0 BN)** worth Kshs 241.75 Billion falls due. This will increase debt service expense from KShs 241.06 Billion to KShs 475.6 billion.
- External debt interest payment is expected to increase by 9% to KShs 137.24 Billion in FY 2022/23 mainly due to debt owed to Germany, ADB/ ADF, Austria, and Exim Bank of South Korea.
<table>
<thead>
<tr>
<th>KEY FISCAL RISKS</th>
<th>KEY FISCAL OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPENDITURE</strong></td>
<td><strong>EXPENDITURE</strong></td>
</tr>
<tr>
<td>- Increased expenditure requirements to finance economic recovery from Covid, cushion households from rising costs of living, and address the effects of the drought. Yet there is a need to reduce spending and implement fiscal consolidation plans.</td>
<td>- Ensure payment of all pending bills. This will boost firm cashflows, foster recovery of private sector, and positively inform revenue collections in the medium term.</td>
</tr>
<tr>
<td>- Structure discretionary expenditure to include expanded cash transfers to households which will boost aggregate demand, positively inform business recovery and revenue collections.</td>
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<tr>
<td>- Determine the portion of cash transfers to households that can be financed by GoK, and the scale of aid/concessional finance required to fill the gap.</td>
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<td><strong>REVENUE</strong></td>
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</tr>
<tr>
<td>- Counterproductive revenue generation measures such as increasing taxation on firms already in the tax net and emerging sectors dampen economic recovery and revenue collections in the medium term.</td>
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<tr>
<td>- On the other hand, tax incentives implemented to encourage certain types of economic activity undermine revenue yields.</td>
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<tr>
<td>- Harmonise taxes collected by national government with those collected by county governments to determine the optimal mix for revenue collection, and to avoid dampening collections through over-taxation.</td>
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<tr>
<td>- Assess and determine how to improve non-tax revenues such as through a sovereign wealth fund and government shares in joint ventures with private operators.</td>
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</tr>
<tr>
<td>- Led by the Ministry of Cooperatives and MSMEs, focus on improving the business environment for MSMEs, foster private sector recovery and thus revenue collection (particularly by county governments) in the medium term.</td>
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<td><strong>DEBT</strong></td>
<td><strong>DEBT</strong></td>
</tr>
<tr>
<td>- High debt service expenses through to FY 2024/25 in the context of sub-par export receipts and revenue collections.</td>
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</tr>
<tr>
<td>- Liquidity constraints through to FY 2024/25 linked to repayment scheduling and high debt servicing costs.</td>
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</tr>
<tr>
<td>- High exchange rate volatility exposure to US dollar denominated debt.</td>
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</tr>
<tr>
<td>- Anticipate liquidity constraints and develop a cash flow management strategy to manage liquidity constraints through to FY 2024/25. Create provisions &amp; funding arrangements focused on managing this risk.</td>
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</tr>
<tr>
<td>- Determine the optimal mix of debt relief, rescheduling and/or restructuring, and determine priority creditors for each approach.</td>
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</tr>
<tr>
<td>- Leverage momentum, action and partnerships addressing debt stress and linking it to climate action in developing economies.</td>
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</tbody>
</table>
Financial Health in Kenya

- Status of Financial Health
- Shift in financial priorities
- Worst hit groups
- Why has financial health declined?
Financial Inclusion versus Financial Health

- **Financial inclusion** measures *access* to formal financial services.
- Despite the impact of the COVID-19 pandemic, formal access to financial services rose between 2019 and 2021 from 83% to 84%.
- **Financial health**: Measures the extent to which finance helps people to meet their financial needs—namely meet goals, manage risks and manage day to day.
- While financial inclusion continues to rise, the financial health of Kenya’s adult population has **eroded rapidly** since 2016.

The financial health index

**Manage day to day:**
- Never went without food during the last year
- No trouble making ends meet between income cycles
- Has a plan for allocating income and expenses

**Ability to cope with risks:**
- Could raise lump sum in 3 days
- Regularly kept money aside for emergencies
- Never went without medicine in the last year

**Ability to invest in the future:**
- Using savings or credit to invest in productive assets
- Education or old age; is using/ plans to use savings
- Pension or investment income to make ends meet in old age; has been regularly putting aside money for the future.
State of Financial Health

- In 2021, only 15% of adults demonstrated an ability to secure basic daily needs, cope with the costs of unexpected shocks and invest in their livelihoods and future.
- Greater financial strain is evident across demographic segments: men and women, urban and rural, youth and working age adults.
- In 2016, for every adult that said their financial life had worsened in the past year there was one adult that said it had improved.
- By 2021, this ratio was over 9 to 1.

Challenges faced by adults

- Trouble making income last between payments
- Gone without food in the last one year

Shocks faced by adults (% 18+) in the past year

<table>
<thead>
<tr>
<th>Shock Type</th>
<th>2016</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of living</td>
<td>58</td>
<td>72</td>
<td>71</td>
</tr>
<tr>
<td>Job or income loss</td>
<td>42</td>
<td>33</td>
<td>53</td>
</tr>
<tr>
<td>Climate</td>
<td>16</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Death of family member</td>
<td>16</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Illness or accident</td>
<td>22</td>
<td>21</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: State of Financial Health in Kenya, FSD Kenya, November 2022
Why has financial health declined?

- **Inflation**: Food prices increased by 74% between December 2014 and December 2021. The cost of food has major implications for household finances since food spending comprises over half of typical monthly household spending in Kenya, and even more for low-income households.

- **Demographics and dependency**: For every adult of working age (25-64) there are nearly 2 other people either under the age of 25 or over 64.

- In a context of limited government spending on social security and education, the finances of working adults with children or elderly parents will be sensitive to: (1) decisions on how much *education* children pursue, (2) the *cost* of education & (3) the availability of *jobs/livelihoods* for youth and older individuals.

- During the pandemic, the share of youth and retirement age individuals receiving transfers from family or friends increased substantially, squeezing the finances of working age adults that provide funds.

- Further, the macroeconomic and sectoral effects of the pandemic (formal job attrition etc.) and global events such as the war in Ukraine, income earning opportunities (e.g., higher paying work, side hustles etc.) remain limited and highly competitive, causing incomes to stagnate or decline.

Cumulative changes in consumer prices by commodity groups
(Price index, Dec 2014=100)

Source: FSD Kenya, November 2022
Why has financial health declined?

- **Income**: Nominal personal monthly income reported by adults in FinAccess **did not increase over time**, even though nominal GDP per capita increased by 40% from KShs 12,000 to KShs 16,600 between 2015 and 2021.

- In FinAccess, the share of adults earning at the higher end of the income spectrum (KShs 15,000 or higher) fell by 9 percentage points between the 2016 and 2021 survey rounds while the share earning in the mid to lower end of the income spectrum (earning less than KShs 10,000) increased.

- **Median self-reported income fell** from KShs 6,700 in 2016 to KShs 5,000 in 2019 and remained at that level through 2021. This suggests that personal monthly income has not kept up with rising consumer prices.

- In this context, for households to avoid a decline in material living standards (via reductions in consumption), more members of the family must either enter the labor market or initiate cash-earning activities (such as starting a business or investing in income-earning assets); or a main earner must either switch to a higher paying livelihood (perhaps involving a change in residence) or take on “side-hustles”; or some combination of the above.
Why has financial health declined?

- **Economic Opportunity**: Formal employment and business ownership, two important pathways for upward mobility, became less common since 2016 and the pandemic further narrowed these avenues for income growth.
- The share of adults drawing at least some income from **formal employment** fell from **16% to 13%** between 2016 and 2021.
- Men bore the brunt of formal job losses - the share of men in employment **declined by 30%** between 2019 and 2021.
- Around 18% of adults relied on business revenues for most of their income in 2016 and 2019, but that share declined to **14% in 2021**. The **drop in business earnings** as a source of income between 2019 and 2021 was most pronounced in Nairobi and adults in households ranking in the richest 20%.
- During the pandemic **casual work and transfers** displaced farming and business ownership as the top two most important income sources for adults. In 2021, casual work and transfers represent the largest source of income for 30% and 25% of adults, respectively. Transfer income has made up for losses in employment and business income – most notably among men. The share of **men dependent on transfers** for most of their income more than doubled between 2019 and 2021.
- In contrast, **women** with livelihood transitions during the pandemic, disproportionately shifted their main livelihoods from farming and running a business to casual work. In most cases, these occupational shifts represent **changes from higher paying activities to lower paying ones**.
Micro and Small Enterprise (MSE) Overview

Insights from FinAccess 2021

- Scale and Size
- Sectoral Breakdown
- County Representation
- MSE Business Owner Profile
- Technology capabilities
- Business Formalisation
- Taxes paid by informal firms
- The Value of (In)formality
- Payments and Marketing
- Credit

- How MSEs are financed
- Key Challenges
MSE: Scale and size

- **16% of adults** (4.71 million) earned some form of income from business activities / self-employment. (FinAccess 2021)
- For **13%** (3.97 million) own business / self-employment is their main source of income.

**SOURCES OF INCOME IN PAST 12 MONTHS**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family / friends / spouse</td>
<td>36%</td>
</tr>
<tr>
<td>Casual work</td>
<td>34%</td>
</tr>
<tr>
<td>Farming</td>
<td>24%</td>
</tr>
<tr>
<td>Own business / self-employed</td>
<td>16%</td>
</tr>
<tr>
<td>Employment</td>
<td>11%</td>
</tr>
<tr>
<td>NGO / Government / Social...</td>
<td>2%</td>
</tr>
<tr>
<td>Pension / annuity</td>
<td>1%</td>
</tr>
<tr>
<td>Renting land / property</td>
<td>1%</td>
</tr>
<tr>
<td>Investment income</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: FinAccess 2021

Size of business includes all paid and unpaid staff members and includes the business owner

**SIZE OF BUSINESS**

(4,71 million business owners)

- Almost all business owners captured in the FinAccess survey are either micro or small enterprises
- The number of adults engaged in business activity has **decreased** from 5.15 million (19% of adults) in 2018 to 4.71 million (16%) in 2021.
The wholesale and retail trade sector still dominates business activity, but there were noticeable shifts in other sectors between FinAccess 2018 and 2021.

- The agriculture sector accounted for 10% of all business activity in 2021, up from 3% in 2018.
- The transport and accommodation/food service sectors decreased from 2018. The Covid-19 related lockdown and restrictions on trade is likely to have played a role in this.

**MSE: Sectoral Breakdown**

<table>
<thead>
<tr>
<th>MAIN BUSINESS ACTIVITY</th>
<th>(4.71 million business owners)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and retail trade</td>
<td>61%</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>10%</td>
</tr>
<tr>
<td>Other community, social and personal services</td>
<td>9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9%</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>3%</td>
</tr>
<tr>
<td>Arts and entertainment</td>
<td>2%</td>
</tr>
<tr>
<td>Private household services</td>
<td>1%</td>
</tr>
<tr>
<td>Accommodation and Food service Activities</td>
<td>1%</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1%</td>
</tr>
<tr>
<td>Education</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: FinAccess 2021
Most businesses are operating in an open market setting or have no fixed location (38%) and 25% are operating from a home-based setting.

The proportion of home-based businesses doesn’t appear to have increased since the start of the pandemic.

**MSE County Representation**

**Top 10 Counties**

- **Nairobi City**: 15%
- Kiambu: 6%
- Turkana: 5%
- Nakuru: 4%
- Mombasa: 4%
- Kilifi: 3%
- Kakamega: 3%
- Bungoma: 3%
- Machakos: 3%
- Kajiado: 3%

**BUSINESS DETAILS**

*(4,71 million business owners)*

- **Business premises (2021)**
  - Open market/mobile (hawking): 38%
  - Home / residence: 25%
  - Commercial / industrial: 20%
  - Market stall / Kiosk / Jua Kali: 16%

- **Year business was started**
  - 2019 - 2021: 43%
  - 2011 - 2018: 39%
  - 2000 - 2010: 14%
  - Pre-2000: 4%

Source: FinAccess 2021

**Nairobi City** has the largest concentration of business owners—700,000 adults or 15% of all businesses.
• Business ownership is skewed towards **females** and adults between the ages of **26 – 45 years old** (60%).
• Nearly 20% of businesses are owned by **youth** (16 – 25 years).

**MSE Business Owner Profile**

**Gender**
- Female: 57%
- Male: 43%

**Age Group**
- 56+: 9%
- 46 - 55: 13%
- 36 - 45: 23%
- 26 - 35: 37%
- 16 - 25: 19%

**Relation to Household Head**
- Head of household: 64%
- Spouse: 25%
- Son: 4%
- Daughter: 4%
- Other relative: 2%

**Education Level**
- Tertiary: 17%
- Secondary: 34%
- Primary: 39%
- None: 9%

**Marital Status**
- Married/Living with partner: 63%
- Single/Never Married: 22%
- Divorced/separated: 8%
- Widowed: 7%

Source: FinAccess 2021
MSE technology access and capabilities

93% of business owners (4.37 million) own a mobile phone, but less than half are smartphones with access to the internet and mobile phone applications.

ACCESS TO TECHNOLOGY
(4.71 million business owners)

- I own a mobile that only I use: 91%
- I don't own a mobile phone but am able to use someone else’s: 4%
- I don't own or use a mobile phone: 3%
- I own a mobile phone that me and others use: 2%

MOBILE PHONE CAPABILITIES

- Access to internet: 48%
- Touch screen: 48%
- Download and install applications on phone: 49%

INTERNET USAGE

- 45% of business owners access the internet at least monthly, up from 39% in 2018*
- 43% of business owners report using the internet for business activities (e.g. online marketing, sourcing inputs)

Source: FinAccess 2021
Business Formalisation

- Registration with local county governments is higher than that with national government, at 18%. However, this declined from 35% in 2018.
- Covid-19 and the related Government restrictions on trade is likely to have played a role in the informalisation of businesses.

Business registration is low with only 2% of business owners reporting that they were registered with the Companies Registrar in 2021. This is down from 9% in 2018.

BUSINESS FORMALISATION
(4.71 million business owners)

- Business is registered: 2% YES, 9% in 2018
- Business has a permit: 18% YES, 35% in 2018
- Business keeps any records: 39% YES
- Business keeps digital records: 2% YES

There has been little change in the usage of various business services, such as payment devices, since 2018.

Source: FinAccess 2021
Taxes paid by informal firms: County permits, fees and licenses

Case Study of Nairobi

Business requirements as per Nairobi City County Trade Licensing Act 2019:

• Annual business permit and various licenses (e.g. fire clearance certificate, food/health related permits, etc.).
• Businesses operating in County markets: daily market fees and Cess levied.

The county permit only helps me when I am taking a loan. I have not seen any other benefit. Whenever you go to apply for a loan they ask to see the business permit.

Having all the permits and documents needed to operate for me is like throwing money away but I am forced to pay for my peace of mind and because then I am sure my workers are free to work and will not be harassed by anyone.

• The County is efficient at ensuring compliance from business owners who comply to avoid harassment.
• Harsh consequences for non-compliance - confiscating stock or arresting business owners
• Permits and fees paid to County viewed as extractive, costly and there are concerns around fraud.
• Some business owners are told to pay in cash and no receipts are given; some business owners also admitted to bribing officials.

Cost burden is uneven:
- Businesses in permanent locations pay between KShs 9,500 and KShs 22,500 per premises per year (permit plus license)
- Agri-trade businesses operating in a temporary structure can pay up to KShs 65,000 per year (Ksh13,000 annual market fees and KShs 52,000 in Cess)
- Businesses typically also pay separately for garbage collection, security and sanitation.

Source: FSDK Value of Informality Study, 2021
Taxes paid by informal firms

**Case study: Banana trader in Muthurwa market**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (KSh)</th>
<th>Annual Cost (KSh)</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market fee: KSh 50 per day</td>
<td></td>
<td>KSh 13,000</td>
<td>Works 5 days a week</td>
</tr>
<tr>
<td><strong>Cess</strong> charged on delivery of agri-produce</td>
<td>40sh per bunch of bananas or KSh 200 per sack (holds 8 bunches)</td>
<td>KSh 52,000</td>
<td>Sells one sack per day</td>
</tr>
<tr>
<td><strong>Other costs</strong></td>
<td>KSh 10 to access toilet facility per use</td>
<td>KSh 5,200</td>
<td>Accesses toilet facility twice a day</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>KSh 300 for garbage collection per month</td>
<td>KSh 3,600</td>
<td>Pays for garbage collection for 12 months</td>
</tr>
</tbody>
</table>

Source: FSDK Value of Informality Study, 2021
MSEs rank their relationships in terms of value:
- Highly valued relationships were classified as ‘green’
- Relationships that add some value to the business as ‘orange’
- Those that have not added any value to the business as ‘red’.

Largely informal relationships with customers and suppliers were ranked the highest, while relationships with government were ranked the lowest.

Source: FSDK Value of Informality Study, 2021
### BUSINESS PAYMENTS

(4.71 million business owners)

**All payment channels used***

- **Cash**: 36%
- **Mobile money account**: 5%
- **Pay bill/Till number** (Lipa na Mpesa, Pay Bill): 1%
- **Mobile banking account**: 1%
- **Bank transfer** (includes internet banking): 1%

Payments from mobile money up from 11% in 2018

Business payments refer to the payment of salaries and bills etc.

Source: FinAccess 2021

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### MARKETING CHANNELS USED

(4.71 million business owners)

- **SMS/phone calls**: 23%
- **Social media**: 9%
- **Online stores/market place/catalogues**: 2%
- **Own websites**: 2%

Of the business owners using social media, 22% are youth (16-25) while those who are slightly older (26-35) account for 43%

- **35% of business owners** use at least one marketing channel to reach their customers
- **SMS/phone calls** being the most common channel used.
- **Only 9% of business owners** are currently using **social media** in their business
While nearly half of all businesses offer their customers credit, only 16% receive goods on credit from their suppliers.
Main source of start-up capital is often sought through personal networks and savings. 24% of business owners relied on their social network (assistance from family, friends, and community) as their main source of start-up capital. Savings accumulated in mobile money is another important source of start-up capital at 11%.
How MSEs are Financed: Day-to-Day Operations

**MAIN SOURCE OF FINANCE FOR DAY-TO-DAY OPERATIONS**

(4,71 million business owners)

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>From a group/chama</td>
<td>4%</td>
</tr>
<tr>
<td>From family/friend/ neighbour</td>
<td>3%</td>
</tr>
<tr>
<td>From mobile banking</td>
<td>2%</td>
</tr>
<tr>
<td>Personal loan/business loan from a bank</td>
<td>1%</td>
</tr>
<tr>
<td>At a Sacco/Savings and Credit Cooperative Society</td>
<td>1%</td>
</tr>
<tr>
<td>Through mobile money provider</td>
<td>10%</td>
</tr>
<tr>
<td>Kept in a secret hiding place</td>
<td>5%</td>
</tr>
<tr>
<td>At a group or chama</td>
<td>5%</td>
</tr>
<tr>
<td>Through mobile banking</td>
<td>2%</td>
</tr>
<tr>
<td>From other sources of income investments</td>
<td>1%</td>
</tr>
<tr>
<td>Given to a family or friend to keep</td>
<td>1%</td>
</tr>
<tr>
<td>At a Sacco/Savings and Credit Cooperative society</td>
<td>1%</td>
</tr>
<tr>
<td>Taking goods and services on credit from a...</td>
<td>0.44%</td>
</tr>
<tr>
<td>Profits/income/capital from the business reinvested</td>
<td>49%</td>
</tr>
<tr>
<td>Generated from another business</td>
<td>2%</td>
</tr>
<tr>
<td>Income from salary</td>
<td>2%</td>
</tr>
<tr>
<td>Assistance /gift from family/friends /community, with...</td>
<td>7%</td>
</tr>
</tbody>
</table>

- **Almost 50%** of all business owners use **profits, income, or capital** from their business as their main source of financing for day-to-day operations.
- **Less than 5%** of business owners access **loans** to fund their daily operations.

Source: FinAccess 2021
Why certain types of finance are preferred

**Reason for using main source of finance**

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>Proportion of Business Owners</th>
<th>Reasons for Preference</th>
</tr>
</thead>
</table>
| **Profits/income/capital from the business reinvested**  
(49%, 2,302,072 business owners) |  |  
Convenient | 52% |
Suited to my needs | 16% |
Only option | 14% |
Charges and fees are affordable | 7% |
Easy to use | 6% |
I trust it | 4% |
| **Savings through mobile money provider**  
(10%, 463,022 million business owners) |  |  
Convenient | 65% |
Charges and fees are affordable | 9% |
Easy to use | 9% |
Suited to my needs | 6% |
I trust it | 6% |
Only option | 3% |
Long term repayment period | 1% |
Less paperwork required | 1% |
| **Assistance/gift from family/friends/community**  
(7%, 339,894 business owners) |  |  
Convenient | 52% |
Charges and fees are affordable | 21% |
Only option | 10% |
Suited to my needs | 6% |
I trust it | 6% |
Easy to use | 3% |
No one can know | 2% |
| **Savings you keep in a secret hiding place**  
(5%, 228,435 business owners) |  |  
Suit to my needs | 42% |
Convenient | 38% |
Easy to use | 9% |
No one can know | 4% |
Only option | 3% |
I trust it | 3% |
Charges and fees are affordable | 1% |

*Source: FinAccess 2021*
Challenges faced by MSEs

**MAIN CHALLENGES FACED BY BUSINESS OWNER** *(4.71 million business owners)*

- Limited access to market/Fewer customers: 56%
- High/increased cost of supplies: 33%
- Limited access to credit/capital: 30%
- Customers not paying on time: 27%
- Increased competition due to selling similar products: 21%
- Difficulty getting license/permit: 17%
- High costs of licensing: 7%
- Insecurity: 7%
- Difficulty paying business expenses: 5%
- Suppliers closed down/reduced operating hours/no stock: 5%
- Difficulty finding premises location/high cost: 3%
- Uncertainty regarding business premises: 2%
- Unreliable employees/staff issues: 1%
- Business closed/no challenges: 1%
- Other: 1%

- More than half of the business owners cite **low customer demand** and limited access to markets as their main challenge.
- **High cost of supplies** and limited access to credit were also top concerns.

Source: FinAccess 2021
Household update

- Incomes
- Rural-Urban Dynamics
- Coping Mechanisms
- Food Insecurity
- Impact of Cost of Living
- Meeting Basic Needs
Income

- **Jobs and income** appear *fairly stable* between August 2021 and July 2022.
- The percentage of the population earning income has remained stable between August 2021 and July 2022.

**Percent of the population earning income (August 2021-July 2022)**

Source: [FSD Kenya Household Tracker 2022](#) Quarter 3

- **Median monthly income** across the population registered a *slight decline* between Dec 2021 and July 2022.
Income and remittances: Urban-Rural Dynamics

Despite overall stable earnings year-on-year urban income earners are under pressure.

The percent of urban earners and their median earnings have declined, but urban earnings remain well above rural earnings.

Pressure on urban earners has led to:
- A decline in the percent of adults remitting money
- The average amount being remitted declined by 25% from KShs 3,306 (August 2021) to KShs 2,458 (June 2022).

Source: FSD Kenya Household Tracker 2022 Quarter 3
**Needs, health and coping strategies**

- **Food insecurity is rising:** 66% of households claim to have eaten fewer meals in the previous week.
- **One in three adults and almost one in four children have gone without food for an entire day.**

**In July 2022, 44% of the population** could not access medicine/medical care when needed, mainly because they could not afford it.

- **Concerns over the health impacts of Coronavirus** have reduced significantly—only 25% of adults reporting ‘extreme concern’ in July 2022 compared with 52% in August 2021.

*Source: FSD Kenya Household Tracker 2022 Quarter 3 (October 2022)*
Rise in Food Insecurity

- The rise in food insecurity is corroborated by the World Bank which reports, one-third of households in Kenya continue to go hungry due to a lack of food.
- The share of households unable to access staple food has increased to 36% with higher hunger rates in rural households (38%) versus urban (33%).
- There has been a 50% increase in households unable to access staple food due to increases in prices.

Household Coping Mechanisms

- A large share of Kenyans continue to use coping mechanisms with just under 90% of households using one or more coping strategy (November 2021-March 2022).
- The most common coping mechanisms are reducing non-food consumption, dipping into savings, seeking additional income generating activities and purchasing items on credit.
- While fewer households reduced their food and non-food consumption compared to July-October 2021, yet the strategy remains among one of the most frequently used ones, pointing towards food insecurity.
- The continued reliance on coping mechanisms suggests households still lack disposable income, for instance, the use of credit remains at its highest level since the start of the pandemic (27%).
- 11% of households relied on government assistance, nearly twice as many as in July-October 2021, following an increase in government assistance in 23 counties affected by drought.

Meeting Basic needs

Meeting basic needs is an increasing concern for Kenyans.

- The *rising cost of living* constitutes a *major financial shock* for a large majority of households. And a growing percentage mention the *financial impacts of drought*.
- In *FSD Kenya surveys*, fewer people reported relying on borrowing and saving to cope with liquidity shortfalls, possibly because these sources are drying up-- 9 out of 10 say *their savings have declined* since this time last year.
- But more people are *cutting expenses* and *looking for work* to survive.
- Good news is that *health and fatality shocks* have declined.

Source: FSD Kenya Household Tracker 2022 Quarter 3 (October 2022)
Digital Economy Update

- Readiness and Investment
- Uptake and usage of data services
- Access and Inequality
- E-commerce
- Digital Credit
- Digital Payments
- Mobile Money
- Digital Gambling
Readiness and Investment: VC funding surging post Covid

The first 2 quarters of 2022 saw significant growth in Venture Capital Funding

- Kenya saw an estimated $820 million in VC funding in the first half of 2022.
- This is significantly more than the estimated 571 million USD secured over the whole of 2021 and higher than the GDP contribution of mining during the same period.
- The increase in funding is fuelled by large deals worth over $100 million, including $260 million raised by Sun King.
- This puts Kenya as the current second favourite African home for VC capital (so far in 2022) after Nigeria with $864 million.
- In 2020, female headed start-ups accounted for 20% of the VC equity funded deals in Kenya, this is substantially more than the African average of 13%.

Source: The Big Deal / African Startup Database; Partech Africa VC Report
Uptake and Usage: Growth of Data Services

- **High speed fiber and 5G connections** will be crucial to support businesses creating digital content and services leveraging digitisation.
- The number of fibre to home or office connections increased by **25%** with over 100,000 additional subscriptions between the end of June 2021 and June 2022.
- The volume of mobile data being consumed has risen steadily since the start of the pandemic.
- Without more data it is impossible to tell if this is a result of new users getting online or from affluent users consuming more data heavy services such as video streaming.
- The median speed of mobile data is faster than the median speed of fixed internet connections.
- Median **mobile internet** connection speed via cellular networks: **13.19 Mbps**; median **fixed internet** connection speed: **8.58 Mbps**.
- Ookla’s data reveals that the median mobile internet connection speed in Kenya increased by **0.82 Mbps (+6.6%)** in the twelve months to the start of 2022.
- Meanwhile, fixed internet connection speeds in Kenya decreased by **1.55 Mbps (-15.3%)** during the same period.

Source: Ookla reported by [www.datareportal.com](http://www.datareportal.com) and Kenya Communications Authority
Mobile Broadband

- In June 2022, 45% (29.2 million) of mobile subscribers (64.7 million) had a mobile broadband subscription compared to 40% at the end of 2019.
- Between Dec 2019 and June 2022:
  - The number of mobile broadband subscribers increased by 35%
  - The number of 4G connections increased by 160%
- Service levels and speeds are increasing much faster than increases in access.
- The number of broadband subscriptions fell by 0.7% (over 200,000 users) between March and June 2022 – this is the most significant Q on Q drop recorded and could indicate a reduction in disposable income.
- This drop may be driven by high end users reducing the number of devices they are using or it could be a reflection of the increased cost of living and reduction in disposable income.

Source: CAK/ www.covid19econdatakenya.com
Access and Inequality: More data, more devices, but fewer users

- Service levels are increasing for users, but increased access is not keeping pace.
- Safaricom reported that between the year ending May 2021 and the year ending May 2022 the number of 4G handsets using more than 1GB of data fell from 6.1 million to 5.6 million.
- This is a decline of 8% or about 500,000 Kenyans.

 whilst handset ownership and total data usage is continuing to increase, usage is being driven by a decreasing and more concentrated number of users.
- This implies a practical decline in access to mobile data for the general population.

Source: CAK/ www.covid19econdatakenya.com
Internet usage and mobile phone ownership: Census data

Internet Usage
• Only 23% of the population aged 3 and above used the internet.
• Users are highly concentrated: In only 4% of Sub Counties was internet usage greater than 50% of the population (aged 3 years and above).
• At the national level 25% of males are internet users compared to 20% of females.
• The percentage internet users by sub-county ranged from 3% to 66%.

Mobile Phone Ownership
• In 2019, only 47% of the population aged 3 and above owned a mobile phone (feature or smartphone).
• In only 32% of Sub Counties was mobile phone ownership greater than 50% of the population (aged 3 years and above).
• Ownership based on gender is balanced at the national level.

Source: KNBS/ 2019 Population and Housing Census
Access and Equality: Mobile phone gender balance

- There appears to be a broadly equitable distribution of mobile phone ownership between females and males.
- In **20 of 47 counties** female ownership of mobile phones was at parity or above male ownership.
- In only 7 counties did female mobile phone ownership fall below 90% of male ownership.
- Interestingly, according to the Comprehensive Poverty Report, Narok and Lamu had the 3rd and 12th lowest rates of monetary poverty but rank the 7th and 3rd least equitable in terms of gendered mobile phone ownership respectively.
- This suggests that access to mobile phones is **not determined purely by monetary considerations**.
- However, a look at the access to internet shows much larger gender gaps.

**Number of female mobile phone owners for every male mobile phone owner**

<table>
<thead>
<tr>
<th>County</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>VIHIGA</td>
<td>1.12</td>
</tr>
<tr>
<td>SIAYA</td>
<td>1.06</td>
</tr>
<tr>
<td>NYAMIRA</td>
<td>1.06</td>
</tr>
<tr>
<td>KITUI</td>
<td>1.06</td>
</tr>
<tr>
<td>GARISGA</td>
<td>1.06</td>
</tr>
<tr>
<td>MURANG'A</td>
<td>1.06</td>
</tr>
<tr>
<td>MAKENI</td>
<td>1.04</td>
</tr>
<tr>
<td>MACHAKOS</td>
<td>1.03</td>
</tr>
<tr>
<td>KISII</td>
<td>1.03</td>
</tr>
<tr>
<td>NYERI</td>
<td>1.02</td>
</tr>
<tr>
<td>NYANDARUA</td>
<td>1.02</td>
</tr>
<tr>
<td>MANDERA</td>
<td>1.02</td>
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Access and Equality: Inequality in internet access

- Internet usage is highly gendered and the extent of gendered usage varies widely between counties.
- Interestingly, the 5 counties with the lowest incidence of multidimensional poverty have vastly different levels of inequality: **Nairobi is the 3rd most unequal nationally** and Kiambu is the most equal.
  - **Nairobi** – female usage 60% of male usage
  - **Kirinyaga** – female usage 62% of male usage
  - **Nyeri** – female usage 74% of male usage
  - **Mombasa** – female usage 86% of male usage
  - **Kiambu** – female usage 92% of male usage
- Similarly **West Pokot**, which has the 7th highest rate of multidimensional poverty has the second most gender balanced profile of users.
- Understanding these inequalities and their drivers will be key to increasing the digitally connected population and closing the digital divide.

Source: KNBS/ 2019 Population and Housing Census
E-commerce: Huge consumer goods growth

- 49% of internet users purchase goods or services online every week.
- 10% of internet users have used a ‘buy now pay later’ service.

Consumer goods dominate the e-commerce sector and is worth over $3.3 billion. This is the equivalent of 3.9% of GDP in 2021 and increased 67% year on year between 2020 and 2021. Over 80% of this value is spent on electronics or fashion.
Digital Credit: Digital loans in decline, digital overdrafts increase rapidly

Digital overdrafts becoming very popular

- In the year to May 2022, the Fuliza overdraft product supplied credit of over KShs 500 billion.

- This was up over 40% from the previous year and was more than double the value of credit in the year to May 2020.

- In comparison more traditional digital loans products KCB M-Pesa and M-Shwari both saw significant contractions in the credit they were supplying, falling 60% and 34% respectively from the credit offered in the year to May 2020.

- This shift to lower value credit products is likely due to a high level of risk aversion from the traditional credit providers, the low barrier to entry for overdraft products and the increasing cost of living and stagnating income levels.

Source: Safaricom Financial Reports
www.covid19econdatakenya.com
Mobile Money: Growth now driven by more integrated financial system

- Since 2020 growth in mobile money transfers has been driven by transfers between mobile wallets and banks, for which fees were removed during the start of the pandemic.
- The value moved between business wallets and bank accounts increased by 150% and now accounts for 40% of the total value moving through mobile money networks.
- The value transferred between individual mobile wallets and bank accounts has increased at an even greater rate 262% over the same period.
- This suggests that the removal of fees encouraged significantly deeper integration of the financial system between mobile money and bank accounts.
- Transfers to between individuals has been rising steadily but at a much slower rate of 59% over the same period.

Source: Safaricom Financial Reports
www.covid19econdatakenya.com
Digital Payments: Exponential Growth Since Covid

- In the year to end May 2022, mobile payments passing through Safaricom's Lipa na M-Pesa platform totaled over **KShs 1.4 trillion**.
- To put this in context, the total value of currency outside of banks in May 2022 was KShs 248 billion.
- This is the equivalent of every shilling in the country passing through Lipa na M-Pesa at over 5 times during the preceding year.
- These payments **values increased by almost 50%** between May 2021 and May 2022 and have more than doubled since May 2020 (the beginning of the Covid-19 pandemic).
- The volume of transactions has grown even quicker with the number of payments almost doubling between May 2021 and May 2022 and having increased more than threefold since May 2020.
- This indicates that not only is more money flowing through digital payments but also that it is being **used more regularly** to pay for lower value goods.
- This is a positive indicator for Kenya's digital payments strategy.

Source: Safaricom Financial Reports
www.covid19econdatakenya.com
Mobile Betting: Growing fast

- In the year to end May 2022, mobile betting passing through Safaricom’s platform totaled over **KShs 169 billion**.
- This is equivalent to over **1.3% of total GDP** over a similar period and this only includes mobile gambling which uses the Safaricom platform. The true total could be significantly higher.
- This is also more than the GDP generated by either accommodation and restaurants or mining during a similar time.
- The value increased by **24%** year on year in 2021–22 and the volume of bets increased by nearly **40%** during the same period indicating a drop in average value of bets.
- This trend is worrying as it suggests that as the cost-of-living increases and opportunities decline that desperate individuals are turning to gambling perhaps event to generate income.

Source: Safaricom Financial Reports
www.covid19econdatakenya.com

*Note – Public data on digital gambling is only available for products using Safaricom’s platforms this does not reflect the total market as other platforms are available.*
Online Betting: Growing fast

- Analysis of web traffic results reveals that in November 2021 two gambling sites Betika.com and Odibets.com were the second and thirteenth most visited sites in Kenya.
- Combined these sites had more than 3 million unique users and over 29 million visits.
- 20% of the top twenty most Googled searches in Kenya are for betting products.
- Considering mobile and online gambling figured do not take betting activity in betting shops into consideration, total betting activity levels are likely significantly higher.

Source: Semrush and www.datareportal.com
Creating Value through Financial Inclusion
FSD Kenya

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