UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

Republic of Kenya
Ministry of Industrialization, Trade and Enterprise Development

High-level Policy Dialogue on Fostering Productive Capacities in Kenya for Industrialization, Export Diversification, and Inclusive Growth

16-18 March 2022
Nairobi, Kenya

Concept Note

Background

Kenya is a country in East Africa with a population of 54 million people and a GDP of US$ 98 bn. The country has achieved above-average growth rates in Africa, with growth exceeding 5% for the 15 years preceding the coronavirus pandemic (2.7 % in per capita terms). This growth has enabled Kenya to achieve lower middle-income status in 2014 and reach an estimated Gross Domestic Income per person of US$ 1’836 in 2019. The country also achieved socioeconomic progress in terms of reducing poverty and combating inequality. According to the World Bank, the proportion of the population living in extreme poverty in Kenya decreased from 43.9% in 2005 to 37.1% in 2015. In terms of income inequality, the share of pre-tax income collected by the bottom 50% of earners grew from approximately 11% in 2005 to 13% in 2019, while the share collected by the top 10% of earners fell from 55% to 49% over the same period.[1] However, Kenya continues to face important economic challenges, with two thirds of the population living on less than US$ 3.20 per day.

The majority of the workforce (54%) is employed in the agricultural sector, which in 2019 accounted for 36.5% of GDP. Contrary to the expectations of standard development theory

[1] World Inequality Database, https://wid.world/data.

and Kenya's industrialization objectives, the share of the agriculture sector in Kenya's GDP has increased from a low of 22.7% in 2006. Industry, including mining, construction and manufacturing, accounted for 17% of GDP in 2019 and employed 6% of the workforce, with manufacturing making up 8% of total GDP. Manufacturing's share of GDP in Kenya has seen a steady downward trend from a high of 14% in 2006. Finally, the services sector accounts for the remaining 46% of GDP, and employs about 49% of Kenyans. The share of services in GDP also shrank from a high of 55.8% in 2006. Overall, Kenya has therefore seen "reverse structural transformation" in the last 15 years, with the share of value added in GDP shifting steadily away from services and manufacturing, towards primary sectors, including agriculture.

Concerning trade, Kenya remains dependent on the exports of primary commodities, such as tea and vegetables, as well as some oil and minerals, which together accounted for 70% of its merchandise exports in 2018/19. In 2019, total exports of goods and services were US$ 11,5bn, compared to total imports of US$ 20bn in the same year, continuing the country's accumulation of trade deficits over recent years. Foreign investment in Kenya has increased significantly over the past decade, from less than $116 million in 2009 to $1.3 billion in 2019.

In 2020, the COVID-19 pandemic and the related demand shock adversely affected the Kenyan economy, particularly services subsectors, such as transport, tourism and urban services. The private sector, particularly micro, small and medium sized enterprises, are amongst the hardest hit by the pandemic. Meanwhile, the agricultural sector proved resilient, limiting the overall impact of the COVID-19 pandemic on output to a contraction of 0.3% of GDP in 2020. In 2021, the economy rebounded quickly, due to plentiful agricultural harvests, though the tourism sector remains under pressure. According to the World Bank, Kenya is projected to grow by 5% in 2021, and poverty is expected to fall again after rising during the pandemic.

According to its Vision 2030, Kenya aims to become "a newly-industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment by 2030."[2] To accelerate progress towards this goal, the government of Kenya identified its "Big Four" priorities: food security, affordable housing, manufacturing and affordable healthcare for all.[3]

UNCTAD has long argued that to achieve inclusive and sustained growth, developing countries should build productive capacities and foster structural economic transformation. Conceptually, the notion of productive capacities is defined by UNCTAD as *"the productive resources, entrepreneurial capabilities and production linkages, which together determine the capacity of a country to produce goods and services and enable it to grow and develop"*

[2] https://vision2030.go.ke/
[3] https://www.president.go.ke/

(UNCTAD, 2006). Thus, the definition stresses three distinct, but interrelated dimensions of productive capacities – productive resources, entrepreneurial capabilities and production linkages.

To operationalize the concept of Productive Capacities, UNCTAD recently launched the Productive Capacities Index (PCI). The index measures productive capacities along 8 components: Natural Capital, Human Capital, Structural Transformation, Energy, Transport, ICT, Institutions, and the Private Sector, drawing on 46 indicators. The composite index provides data for 193 economies between 2000 and 2018 and allows countries to benchmark their performance over time and across countries.

An analysis of Kenya's performance on UNCTAD's Productive Capacities Index helps to identify the areas where the country is doing well in building productive capacities, and areas where the country continues to face challenges and binding constraints. Overall, Kenya performed better than many of its regional peers. Kenya scored below the average for sub-Saharan Africa in 2000, but since expanded its productive capacities at a faster rate. By 2018, Kenya's PCI score exceeded the sub-Saharan average. Looking at the PCI components, Kenya performs comparatively well on Human Capital, Institutions, Structural Transformation, ICT and the Private Sector. Kenya's scored well on the Structural Transformation component despite its deteriorating share of manufacturing in value added and the growing share for services. By contrast, Kenya scored below its regional peers in the areas of Transport, Natural Capital and Energy.

This comparison of Kenya's performance on the PCI needs to be carefully interpreted and understood in the regional and subregional contexts. Compared with star performers in Africa, such as Mauritius, South Africa, and Tunisia – and others outside of Africa, Kenya's scores are relatively low. Though encouraging, Kenya's recent progress, is not sufficient to kick-start structural economic transformation and drive inclusive, sustainable growth and development.

Many of the components of the Productive Capacities Index align with the priorities in Kenya's Vision 2030. In this context, UNCTAD and the Ministry of Industrialization, Trade and Enterprise Development will hold a policy level workshop from 16 to 18 March 2022 to analyze Kenya's productive capacities, including key gaps and binding constraints, towards identifying policies to accelerate the expansion of productive capacities and drive the structural transformation of the economy The workshop is preceded by a statistical and methodological capacity-building training for Kenyan statisticians, which will be held from 14 to 15 March 2022.

Objective

Building on the recent socio-economic performance of Kenya, the national workshop will discuss the role of productive capacities and structural economic transformation. It will examine how productive capacities and structural transformation can best be placed at the center of national policies and strategies. The workshop will also present the PCI for Kenya. The discussions with national stakeholders will be based on UNCTAD's work on developing the PCI and Kenya's performance on it.

Specific issues to be addressed during the national workshop include:

a) Levels of productive capacities in Kenya and other developing countries;
b) Challenges of economic diversification and industrialization, and the implications of export concentration for fostering productive capacities and structural economic transformation in Kenya;
c) The role of transport, trade facilitation and trade logistics in improving the export competitiveness of Kenya;
d) Access to energy, ICTs and transport services and the impact of this on building export competitiveness and production transformation in Kenya;
e) Policies and strategies to enhance the role of the private sector, particularly SMEs as part of post-COVID19 environment.
f) Successful experiences and best practices in policy formulation and implementation for productive capacities, industrialization and structural economic transformation with implications for Kenya.

Modality of the national workshop

Participants of the national workshop will include senior government officials, national, regional, and international experts in the field of economic development and representatives of the private sector and civil society, including academic institutions in Kenya.
The workshop will consist of a statistical and methodological training for statisticians on the Productive Capacities Index, on 14-15 March 2022, followed by a policy workshop on 16-18 March.