Viffa Consult

Driving SME growth and competitiveness in Kenya through Agribusiness

SME Policy support for agribusiness value chains

Contents

Acronyms

AFCFTA	African Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
EAC	East Africa Community
KNBS	Kenya National Bureau of statistics
SME	Small Medium Enterprise
MTP	Medium Term Plan

Executive Summary

The paper attempts to evaluated the effectiveness of policy intervention to agribusiness in Kenya through analysis of government of Kenya long term strategy as espoused under Vision 2030 and the subsequent medium term plans against actual performance of agribusiness value chain sectors as enumerated under annual economic performance review

The paper commences by reviewing vision 2030, Kenya's the long-term development blueprint that aims to create "a globally competitive and prosperous country with a high quality of life by 2030". It aims to transform Kenya into "a newly-industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment".

The paper highlights the sector pillars related to agribusiness namely; agriculture, agriculture and rural development, manufacturing and financial services enumerating the strategies under each and tracking their implementation under the medium term plans and finally looks at the performance of respective sector in order to objectively evaluate if the interventions are working or not and finally offer recommendations

Recommendations are underpinned on an assumed cause effect of proposed strategy under Vison 2030 and their implementation espoused under MTP 1 to 3 against impact as measured by agribusiness sub sector performance as enumerated in annual economic review for years 2012 upto 2020.

Further recommendations focus on the unit agribusiness sub sectors cognizant of their correlation within the value chain.

Review of National Agriculture Strategy

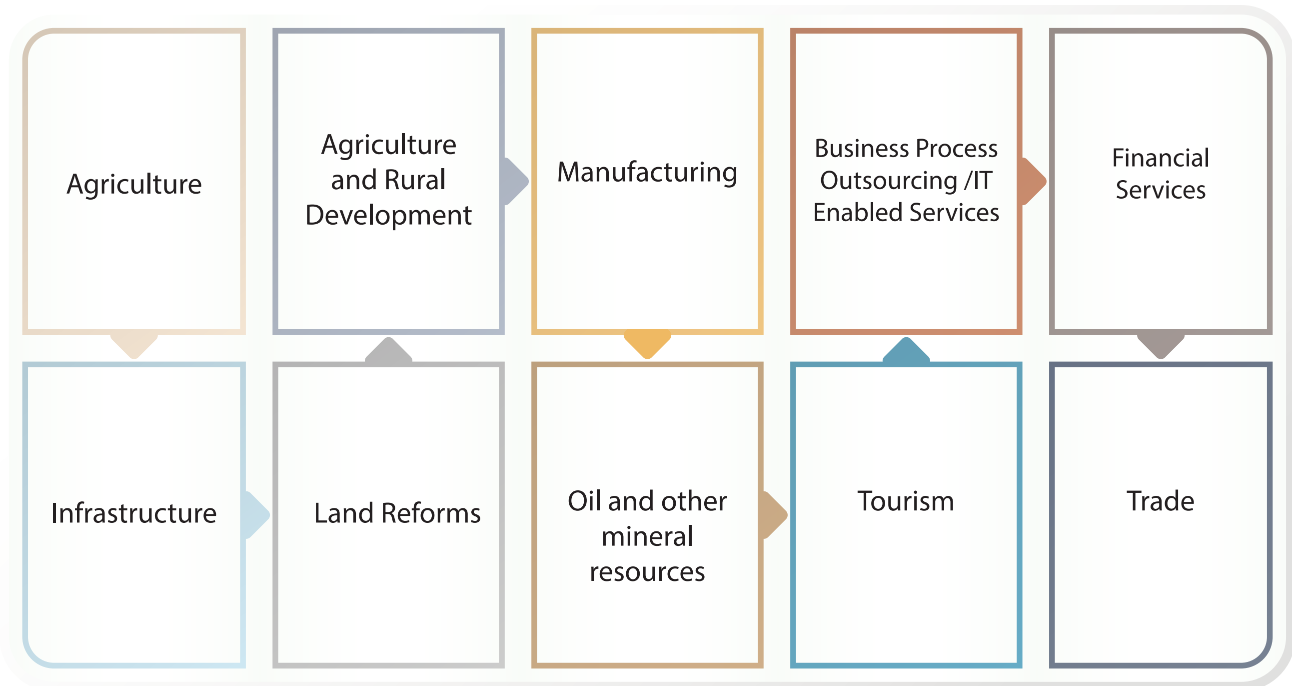
Vision 2030

Kenya Vision 2030 is the long-term development blueprint for the country and is motivated by a collective aspiration for a better society by the year 2030. The aim of Kenya Vision 2030 is to create "a globally competitive and prosperous country with a high quality of life by 2030".

It aims to transform Kenya into "a newly-industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment".

Vision 2030 has three pillars

Under the economic pillar, the following are the priority sectors;



Kenya’s agribusiness value chain comprises the following sectors as per the above priority sectors; Agriculture, Agriculture and Rural Development, Manufacturing and Financial Services

The report will track the strategy under each with a focus on agriculture within manufacturing and financial services

Agriculture

The table below enumerates the strategy under agriculture

Focus	Proposed Plan	Evaluation Criteria
ASAL Development- Irrigation	404,800 hectares will be put under irrigation by 2017 especially in the Arid and Semi-Arid area in Turkana and Tana Delta.	Irrigated land by million acres (Turkana-Tana Delta)
Fisheries Development and Management	This will be achieved through expanding the area of fish farming from the current high potential areas to Arid and Semi Arid Lands (ASALs) and developing fisheries related infrastructure and strengthening of monitoring, control and surveillance systems.	Stock assessment & set reference points Increased fish production from capture and culture fisheries; Reduced fish post-harvest losses per annum; Increased exports of marine products.
Establishment of Disease Free Zones-DFZ	Four DFZ will be established to facilitate access of Kenyan meat, leather and leather products to local, regional and international markets. The first zone will be established at the Coast, covering the counties of Kwale, Mombasa, Kilifi , Tana River, Lamu and parts of Taita-Taveta outside the Tsavo National Park. The other three zones will be established in the Laikipia-Isiolo complex and Uasin Gishu and Garissa Counties.	Volume of beef exports and other animal products increased
Fertilizer Cost Reduction Strategy	This will address issues of access and affordability of fertilizer. Having identified and short-listed potential investors, the process of establishing a local fertilizer plant will be hastened. Similarly, the identification of a private investor for blending will also be undertaken.	Increase in use of fertilizer by smallholder farmers Feasibility study on fertilizer plant implemented Increased output/yield
Implementation of the consolidated Agricultural Reform Legislations	This includes preparation of necessary regulations to actualize implementation of the Acts and setting up institutions such as the Agriculture, Fisheries and Food Authority (AFFA); and the Kenya Agricultural Research Organization (KARO) proposed in the new Acts. Additionally, efforts will be made to fast track passing of the Livestock and Fisheries Bills in Parliament	Agriculture Policy and legal framework consolidated Sector specific policies updated and finalized

Agriculture and Rural Development

Agricultural Priority Programs	Action
Agricultural Development along LAPSSET corridor	This will involve feasibility studies, documenting investment opportunities in the corridor and providing investment incentives to those interested in agricultural enterprises along the corridor.
National Agricultural Sector Extension Programme (NASEP)	The programme aims at improving access to agricultural extension by farmers and further strengthening agricultural research and development.
Agri-Business Development Programme:	The programme is geared towards improving access to markets by all agricultural value chain players as well as improving and modernizing market facilities. It will further transform agricultural marketing functions through value chain development and strengthening producer and marketing systems. Under the programme agricultural product development will be done through value addition programmes. The programme will ensure creation of local, regional and international marketing opportunities for agricultural commodities.
Accelerated Agricultural Inputs Access Programme	The programme aims at improving access of agricultural inputs such as fertilizer, agrochemicals and certified seeds.
Agricultural Credit and Financial Services Access Programme	The programme aims at improving access of agricultural credit and insurance to agricultural value chain players.
Integrated basin based development programme	The sector will undertake the development of multipurpose dams that will support irrigation in ASAL areas and ensure food security
Agricultural Programme for Schools	The programme aims to train pupils in 35,000 primary schools and 7,000 secondary schools in agricultural skills and engaging them in irrigated agriculture.
Revitalizing of the Coconut Industry Programme	The programme aims at revitalizing the coconut industry within the traditional coconut growing areas and other potential parts of Kenya to create wealth and employment.

Financial Services

Approach	**Evaluation Criteria**
The projects and programmes to be pursued in the medium term for the various components of the financial sector will aim at creating a vibrant and competitive financial sector driving high levels of savings and financing the country's investment needs. They will be anchored on the flagship projects for the sector, namely: • Consolidation of the banking sector through enhanced capital base; • Increase financial access through formalisation of microfinance; • Deepen capital markets by raising institutional capital and expanding bond and equity markets; and • Leverage remittance and long term capital inflows.	Objectives under The Medium Term Plan The key objective of the MTP for the financial services sector is to mobilise savings to realise a savings to GDP ratio of 25-28 per cent as envisaged in the macroeconomic framework underpinning the Vision 2030. This level of savings will sustain an increase in the ratio of investment to GDP of around 30-32 per cent, with a growing amount of resources channeled to support the agriculture, manufacturing and other key sectors identified under Vision 2030, including lending to micro, small and medium enterprises (MSMEs)

Manufacturing

Focus	Proposed Plan	Evaluation Criteria
Development of Industrial Clusters	Cluster approach as a development strategy will focus on market-oriented research, value addition and marketing of region specific products through the support of academia, the private sector and related actors. The Sector will pursue the development of three clusters which include: • Meat and leather cluster through establishment of meat processing plants; • Tanneries and other related industries in Isiolo, Garissa and Kajiado; and • Promotion of dairy products processing in Kiganjo (Nyeri).	Land acquired, Mater plan and EIA for3 Industrial clusters developed; Feasibility studies reports; Basic infrastructure developed; Potential investors identified"
Development of SME and Industrial Parks	• A pilot metal SME park will be located in Nairobi due to the proximity to most important markets. • A pilot agro-processing SME park will be located in Eldoret because of the location in high potential agricultural area and access to an airport. • A second agro-processing SME park which targets processing of fruit juices and vegetables oils will be located in Mombasa. • Another SME park will be located in Kisumu for agro-processing of vegetables, horticulture, fish processing, and fruit processing. • The fifth SME Park will be located at Nakuru for meat processing (with tannery).	Land acquisition, Mater plan and EIA for 47 SME and Industrial parks Basic infrastructure developed.
Special Economic Zones	The SEZs will be established in Mombasa (including Dongo Kundu Free Port), Lamu and Kisumu. The specific objectives are: • Attraction of both local and foreign investments; • Expansion and diversification of produce of goods and services for domestic and export Markets; • Promotion of value addition; • Promotion of local entrepreneurship through SMEs; • Enhance technology development and innovation; and • Promotion of rural and regional industrialization by	Special Economic Zones operational

	exploiting comparative advantages of local resources.	
Development of Industrial and Manufacturing Zones	The initial pilot for the Special Economic Cluster (SEC) will be set up in Mombasa to allow for easy importation of necessary raw materials and exporting of finished goods. The project will include an agro-industrial zone incorporating activities such as blending and packaging of fertilisers, teas and coffees, and a consolidated meat and fish processing facility to encourage growth of offshore fishing. The second SEC will be located in Kisumu to allow for access to regional markets and availability of limestone to support cement, chemicals and metals industries; agro-processing through increased horticultural production along the lakeshore.	Increased Agro- Processing Activities
Transformation of KIRDI into a world-class Research Institution	KIRDI will play a critical role in facilitating technology transfer to MSMEs, improving product designs and promoting product innovations. The transformation of KIRDI into a reputable and competitive research institution will be realized through deliberate capacity building initiatives, attracting and retaining high calibre professionals, upgrading quality of Research, Technology and Innovation programmes and activities and modernization of the institute's infrastructure in line with the demands and expectations of industry.	Upgraded equipment, expansion physical infrastructure State-of-the art research facility in place.
Skills Development for Technical HR for the manufacturing sector	A strategy for training engineers, technologies and craftsmen will be developed and operationalized while skills need analysis will also be conducted. To effectively support the manufacturing sector the ratio of engineers to population is proposed to improve from approximately 1:6700 to 1:5000 benchmarked against South Africa's 1:3200.	Needs analysis report Transformation of KITI as centre of excellence; MoUs in place for academia/industry linkages; Packaging resource centre

Source: Vision 2030

Medium Term Plan 2008-2012

The Medium Term Plan (MTP) 2008-2012 was the first in a series of successive 5-year medium term plans which will implement the Kenya Vision 2030.

Medium Term Plan 1 (MTP) identified the key policy actions and reforms as well as programmes and projects that the Grand Coalition Government intended to implement in the period 2008-2012.

The MTP incorporated the activities identified in the Report of the National Accord Implementation Committee on National Reconciliation and Emergency Social and Economic Recovery and the country's One-Year Economic and Social Recovery Plan, all of which target a quick economic and social recovery, following the destructive aftermath of the December 2007 General elections.

Economic Growth Targets: The MTP aimed at increasing real GDP growth from an estimated 7 per cent in 2007 to **7.9-8.7 per cent** by the years **2009-2010;** and to **10 per cent by 2012.**

Agriculture and Livestock

Agriculture was expected to grow at a pace of about 6-8 per cent as a result of various measures to be implemented under the MTP, including a reduction in the cost of farm inputs such as fertiliser; improving farm prices; providing higher value addition; improved marketing and the implementation of policies to revitalise the sector, while increasing overall agricultural productivity. The government planned to irrigate an additional 1.2 million hectares of land for crop production while five disease-free zones were to be established in different parts of the country to improve the health and quality of livestock and to facilitate export of livestock and livestock products into the world market.

Situation analysis

The Implementation of the Economic Recovery Strategy for Wealth and Employment Creation (ERS), and the Strategy for Revitalising Agriculture (SRA), over the preceding years 2002-2006 demonstrated that sustained growth in the sector was possible, as outlined in this section.

Food Crops: Food crops are classified into: cereals, pulses, roots and tubers (Irish potatoes, sweet potatoes recorded increased production in 2002, with maize production for instance increasing from 2.4 million tons in 2002 to 3.2 million tons in 2006. Similarly production of rice increased from 40,498 tonnes in 2003 to 64,840 tonnes in 2006 due to expansion of rice production in Mwea, Yala and Bunyala Irrigation Schemes and revival of Ahero Irrigation Scheme.

Industrial Crops: Main industrial crops are tea, coffee, sugarcane, cotton, sunflower, pyrethrum, barley, tobacco, sisal, coconuts, and bixa. Tea production increased from 287,100 tons in 2002 to 310,578 tons in 2006, while the value of exports increased from Kshs. 34.3 billion to Kshs. 47.3 billion over the same period. Export value of coffee increased by an average of 8 per cent per annum, while that of pyrethrum recorded an average of 13 per cent growth rate.

The value of coffee exports increased from Kshs. 6.5 billion to Kshs. 8.7 billion over the same period. Following government efforts to revitalise the sugar industry, area under cane increased from 122,580 hectares in 2003 to 158,568 hectares in 2007.

Horticulture: The horticulture sub-sector products include cut-flowers, vegetables, fruits, nuts, herbs and spices. Area under horticultural crops increased from just over 350,000 hectares in 2002, to over 380,500 hectares in 2006, while the value of total production increased from Kshs. 32.0 billion to Kshs. 54.4 billion over the same period.

The export target of 16 per cent of total exports was achieved and surpassed. Between 2002 and 2007 revenues from the sub-sector amounted to between Kshs. 26.59 billion in 2002 to Kshs. 65.2 billion in 2007, of which cut flower export value increased from Kshs 14.8 billion in 2002 to 42.3 billion in 2007 and vegetables Kshs 10.2 billion to Kshs 20.8 billion over the same period.

Fish Production: Fisheries production is a major source of livelihood for communities living around Lake Victoria and the coastal regions. It employed over 60,000 fishermen directly, while over 600,000 people depended on the sub sector indirectly for their livelihood through linkages in fish processing and trade. Earnings averaged Kshs. 4 billion annually through fish exports.

The government acquired 13 patrol boats to use in the monitoring and surveillance of the EEZ and inland waters. It also availed 35 out-board engines worth Kshs 10 million to Beach Management Units along the Coast, the Lake Victoria region and in the inland lakes such as Naivasha, and Turkana for monitoring and surveillance. This led to a substantial increase in revenues collected from Kshs 30 million in 2004 to Kshs 117 million in 2005 and Kshs 135 million in 2006.

Dairy: Since 2003, dairy production grew impressively as manifested by an increase in milk production, from 2.8 billion litres in 2002 to 3.8 billion litres in 2006, representing a growth of 36 per cent. The milk intakes by processors also increased from 143 million litres to 362 million litres during the same period representing a growth of 153 per cent, while milk prices increased from a low of Kshs 8 per litre to a high of Kshs 18 per litre.

In the year 2006, Kenya exported about 14 million litres of milk worth Kshs 700 million compared to less than one million litres that used to be exported prior to 2003. The main export destinations were neighbouring countries like Tanzania, Uganda, Rwanda, Burundi, Democratic Republic of Congo, Sudan and Ethiopia.

The revival of the dairy industry stimulated growth in related industries that manufacture animal feeds, veterinary drugs, packaging materials and other equipment.

Beef Production and Marketing: Government invested a total of Kshs 840 million into the rehabilitation of the Kenya Meat Commission (KMC) and procurement of livestock from farmers. The revival of the KMC in June 2006, the operationalisation of the Landhies Road Depot in Nairobi and the Kibarani factory in Mombasa in 2007 ensured that livestock keepers are increasingly having a ready market for their livestock.

Agricultural Financial Services: Access to financial services by farmers increased significantly. This is evidenced by the data from financial institutions such banks, the Agricultural Finance Corporation (AFC) and SACCOs which mobilise huge financial resources some of which were directed towards agriculture activities. Following its revival, AFC has increased its loan disbursement to farmers from Kshs 90.7 million in 2002/03 to Kshs 1.79 billion in 2006/07.

Irrigation: The Grand Coalition Government promoted irrigation based farming for both food and cash crops. Funding of irrigation and drainage continued to grow over the period 2003-2007 as a result, most of the districts implemented an average of two projects per year. For example, 87 new schemes were constructed increasing the area under irrigation by 8,200 hectares, 16 irrigation schemes rehabilitated, 131 new irrigation and drainage schemes identified, 12,409 irrigation farmers trained on irrigation water management, and 105 Water User Associations(WUAs) formed.

Delivery of Extension Services: Following the strengthening of agricultural extension service delivery the number of farmers reached per year increased from 1.0 million in 2003 to 2.1 million in 2007.

Agricultural Inputs: The use of inputs such as fertilisers, purchased seeds, and animal feeds increased steadily with the annual fertiliser demand increasing from 329,449 tons in 2002/03 to 410,214 tonnes in 2006/07. Production of certified seeds for various crops increased from 12,998 tons in 2002 to 34,682 tonnes in 2006. The volume of imported seeds increased from 1,217 tons to 4,773 tons over the same period respectively. Prices of inputs increased steadily during the same period negatively affecting the returns to farmers.

Flagship projects for 2008 - 2012

01 Enactment of the Consolidated Agricultural Reform Bill

02 Fertiliser Cost-reduction Investment:

03 Establishment of Disease-Free Zones

04 National Land Use Master Plan

05 ASAL Development Project

Manufacturing, Wholesale and Trade

The sector was targeted to increase from the current 5 per cent to 10 - 12 per cent by 2012. To meet this target, two Special Economic Clusters were to be set up in Mombasa and in Kisumu for manufacturing establishments. Additionally, at least five Small and Medium Enterprises (SMEs), Industrial Parks and Specialised Economic Zones were to be set up.

Situation Analysis

The implementation of the Economic Recovery Strategy (ERS) 2003-2007 resulted in improved performance in the manufacturing sector. The contribution of the sector to GDP has remained at about 10 per cent over the ERS period. The sector grew by an annual average of 5.5 per cent between the period 2003 and 2007.

In 2007, 1.88 million people were employed in both the formal and informal sectors. Employment within the formal manufacturing sector grew by an annual average of 2.6 per cent between 2003 and 2007.
During this period, the investment code was developed, through the Investment Promotion Act of 2004, to improve the investment environment.

Similarly, the Kenya Investment Authority Act was enacted in 2006 to provide a 'one-stop shop' for licensing and registration of businesses. In addition, 8 of the identified 52 sites were established within various local authorities to facilitate development of basic infrastructure for Small, and Medium Enterprises (SMEs) to serve as incubators.

The Private Sector Development Strategy (PSDS) was formulated in 2006 to promote the participation of the private sector. Partnerships with the private sector have been enhanced through formation of Sector Working Groups (SWGs), inter-ministerial/Stakeholders forums and task forces.

Further, the National Exports Strategy (NES) was formulated to improve competitiveness of the sector. NES has assisted in deepening of markets for manufacturers in traditional markets and expansion into new markets. In implementing NES, the government and United Nations Industrial Development Organisation (UNIDO) implemented Phase 1 of the Kenya Integrated Programme (KIP) whose objective was to help increase productivity, develop productive capacities in the Leather, Apiculture and Fish processing with high export potential. The programme that ended in 2006 resulted in a National Study on apiculture; study report on value chain analysis of the Leather and Leather products and strengthening some related institutions; and regulations on quality and safety of fish products as well as capacity building of stakeholders in the sector.

This has increased production, improved earnings and conformity to international standards in the identified sectors. A National Industrial Policy was prepared in line with the Vision 2030 to guide the development of the manufacturing sector which takes over from the Sessional Paper No.2 of 1997 on Industrial Transformation to the Year 2020. Similarly, a Master Plan for Kenya's Industrial Development (MAPSKID) has been developed and will provide the roadmap for development of the industrial sector. The priority sectors identified in the MAPSKID include Agro-processing; Agromachinery; Electrical and Electronics/ICT. In addition the Sessional Paper No. 2 of 2005 on Development of MSEs was prepared to provide a framework to stimulate the growth of MSEs and contribute towards employment creation and poverty alleviation.

Flagship Projects for 2008 - 2012

1. Development of industrial and manufacturing zones.
2. Development of at least five SME industrial parks and specialised Economic Zone in key urban centres

Policy, Legal and Institutional Reforms

The policy and legal reforms to be undertaken during the 2008-2012 period include;

- Legal Institutional Framework
- Counterfeits and Contraband goods
- Appropriate Regulatory Framework
- rationalise Taxation and Eliminate Duty Anomalies
- Competition Law
- Consumer Protection.

Financial Services

The government planned to invest Kshs. 250 billion between 2008-2012 to ensure the implementation of these projects in the six economic sectors. The remaining half was expected to be financed by both local and foreign private investors, and many through PPP arrangements.

In order to facilitate higher savings and investment, government planned to reorganize the National Social Security and Pension system; Insurance and Banking sectors as well as SACCOs and capital markets

Situation Analysis

The Financial Services Sector (FSS) in Kenya comprises of;

1. Banking
2. Insurance
3. Capital Markets
4. Pension Schemes
5. Quasi-banking institutions such as: Savings and Credit Cooperative Societies (SACCOs); Microfinance Institutions (MFIs); Building Societies, Kenya Post Office Savings Bank (KPOSB); Development Finance Institutions; (DFIs) and informal financial services such as Rotating Savings and Credit Associations (ROSCAs).

Banking Sector: The Central Bank of Kenya provides the overall supervisory and regulatory services to financial institutions in the country. The banking sector had a buoyant performance over the ERS period (2003-2007) with assets increasing by 99 per cent from Kshs 457 billion to Kshs 908 billion.

During this period, banking institutions increased their credit extension to the economy by **Kshs 116.1 billion between the end of 2002 and the end of 2007;** banking institutions introduced new financial products that are increasingly relevant to small enterprises and low income households; lending by banks to **agriculture increased by Kshs 8.5 billion** with some Kshs 1.7 billion being extended to medium and long-term borrowers; and interest rate spread has declined from 13.4 per cent in 2002 to 9.1 per cent in 2007.

Quasi-Banking Sector

Microfinance: Microfinance is crucial in financial services in the country. About 27 per cent of Kenyans have access to formal financial services including from banks (19 per cent), SACCOs and MFIs (8 per cent). Another 35 per cent have access to informal financial services ranging from ROSCAs, merry-go-rounds to relatives and friends. Overall, some 38 per cent of Kenyans do not have access to financial products and services.

An estimate of the outreach of the sector as at December 2007, gives a credit portfolio of Kshs 25 billion against collateral savings of approximately Kshs 30 billion. The client outreach is estimated at 2 million savers, and slightly under half a million individuals with loans.

Savings & Credit Cooperative Societies (SACCOs): There are about 4,900 active SACCOs offering savings and credit services to over 2.1 million Kenyans. The bulk of these clients are salaried (almost three quarters) and only a quarter are rural. There are now approximately 155 SACCOs in rural areas. Unfortunately, while much salary-based lending programmes have performed well, other SACCOs and particularly rural and informal sector societies, have considerable Non Performing Loans (NPL) problem.

Kenya Post Office Savings Bank (KPOSB): There is a significant potential role for KPOSB in the provision of access to financial services particularly in poorer, sparsely populated rural areas. By 31st December 2007 KPOSB had 1.2 million active clients with a deposit base of Kshs 11.5 billion. However, the KPOSB has a much greater potential that could be achieved through a synergistic relationship with the Postal Corporation of Kenya (PCK) and expanding its mandate to providing additional financial services.

Programmes and Projects for 2008 - 2012

The projects and programmes to be pursued in the medium term for the various components of the financial sector will aim at creating a vibrant and competitive financial sector driving high levels of savings and financing the country's investment needs. They will be anchored on the flagship projects for the sector, namely:

- Consolidation of the banking sector through enhanced capital base;
- Increase financial access through formalisation of microfinance;
- Deepen capital markets by raising institutional capital and expanding bond and equity markets; and
- Leverage remittance and long term capital inflows. In addition to the flagship projects, the strategies and action plans will be on key initiatives to be undertaken by the various components of the financial services sector, that is, banking and quasi-banking, insurance, capital markets, pensions and legal infrastructure

Policy, Legal and Institutional Reforms

Reforms in the sector will focus on the following:

- Reform the commercial justice system to enable it better support the effective working of market-based financial institutions;
- Improve the registration arrangements for pledges over movable assets to help banks establish sound collateral; improving the land registration system to facilitate land as a viable collateral;
- Review the Insurance Act to empower the newly created Insurance Regulatory Authority (IRA) to pre-empt financial distress or intervene to help resolve financial problems of an insurance company;
- Strengthen management and regulation of the NSSF including bringing it directly under the supervision of the RBA. This will focus more critical attention to the financial viability of the NSSF, the quality of the services it delivers to its members, and its costs and other aspects of its efficiency;
- Development of a National Pensions Policy, enact new legislation for the Public Service Superannuation Scheme (PSSS) and completion of phase I of the Pensions ICT project (the Pensions Management Information System PMIS);
  Review the Capital Markets Act to provide the Capital Market Authority (CMA) with adequate legal protection, access to bank records in an investigation, ability to obtain freeze orders, and authority to visit at will the regulated companies and their auditors;
- Review the ownership structure of the NSE through demutualisation as part of initiatives to strengthen its role;
- Introduce the risk-based capital adequacy framework for providers of financial services and products under CMA regulation and supervision; and
- Increase government participation in capital markets such as leveraging on public private partnerships (PPPs) and specialised bonds to facilitate investment in key areas.

Medium Term Plan 2

The theme of the Second Medium Term Plan of Kenya Vision 2030 was "Transforming Kenya: Pathway To Devolution, Socio-Economic Development, Equity And National Unity" The Plan covers the period 2013-2017 which coincided with the term of the Jubilee Government and hence its emphasised on the full implementation of devolution in the context of a rapidly growing economy, promoting equity, inclusiveness, and employment to meet the needs of our youth

The Second Medium Term Plan outlined the policies, programmes and projects which the Jubilee Coalition Government intended to implement during the five-year period starting 2013 to 2017 in order to deliver accelerated and inclusive economic growth, higher living standards, better education and health care, increased job creation especially for youth, commercialized agriculture providing higher rural incomes and affordable food, improved manufacturing sector and more diversified exports

Agriculture Livestock and Fisheries

The agriculture sector contributes about 24 per cent of the GDP, about 75 per cent of industrial raw materials and 60 per cent of export earnings. The sector accounts for 65 per cent of Kenya's total exports, 18 per cent and 60 per cent of the formal and total employment respectively.

The sector comprises five subsectors –industrial crops, food crops, horticulture, Livestock and fisheries – and employs such factors of production as land, water and farmer institutions (co-operatives, associations).

The government of Kenya proposed to adopt climate-smart agriculture such as harnessing farm waste as source of organic fertilizer, and use of bio-fertilizer that does not contribute to harmful emissions, better weather forecasting/early warning systems, growing resilient food crops, managing post-harvest losses and crop insurance.

Situation analysis

During the First MTP, the sector recorded an average annual growth rate of 4.3 per cent against a target of 7 per cent. This was mainly caused by adverse weather conditions in some years, post-election violence and increasing costs of major inputs such as seeds, fertilizer and fuel. The value of agricultural output increased by KSh. 70,550 million per annum between 2008 and 2011 against a target of KSh. 80,000 million per year as set out in Kenya Vision 2030 and Agricultural Sector Development Strategy (ASDS).

Several flagship projects were implemented as follows:

Enactment of the Consolidated Agricultural Reform Bill: Out of the five (5) Bills set for enactment, three (3) Acts were enacted and assented namely: the Agriculture, Fisheries and Food (AFFA) Act 2012, Crops Act 2012 and National Agricultural Research Act 2012.
Fertilizer Cost Reduction Project: A total of 274,000 MT of fertilizer was procured as a price stabilization mechanism while the feasibility study for viability of a manufacturing plant was completed.

Establishment of Disease Free Zones (DFZ): A road map for implementation of Kenya DFZ was developed focusing on one out of the four DFZ due to financial and other logistical challenges.

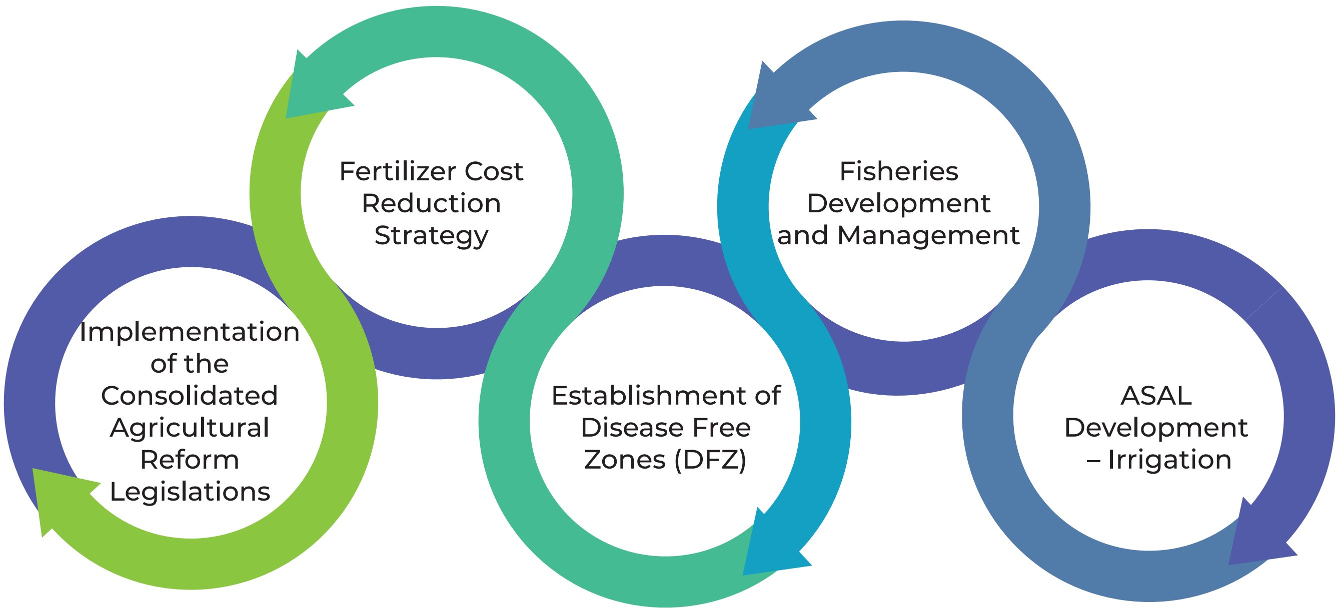
Expansion of Irrigation Coverage: The area under irrigation expanded from 119,000 to 159,000 hectares in small holder as well as large schemes namely; Bura, Hola, Kano, Bunyala, Pekere an Mwea.

Other Programmes and Projects: The sector implemented a number of other priority programmes and projects. These interventions were in research and development; improving delivery of extension services; strengthening producer institutions; intensification and expansion of irrigation; seed improvements; livestock development and fisheries development.

Programmes and Projects for 2013-2017

Flagship Projects

The sector proposed to implement the following flagship programmes / projects:



Other Priority Programmes:

1. Agricultural Development along LAPSSET corridor
2. National Agricultural Sector Extension Programme (NASEP)
3. Agri-Business Development Programme
4. Accelerated Agricultural Inputs Access Programme
5. Agricultural Credit and Financial Services Access Programme
6. Integrated basin based development programme
7. Agricultural Programme for Schools
8. Revitalizing of the Coconut Industry Programme

Policy, Legal and Institutional Reforms

The Sector undertook the following institutional and policy reforms aimed at facilitating the sustainability of agriculture and guide the county governments in developing their policies:

1. Agricultural Policy;
2. The National Oceans and Fisheries policy 2008;
3. National Livestock Policy;
4. National Camel Policy;
5. Urban and Peri-urban Agriculture and Livestock Policy;
6. Agro-chemical Industry Policy;
7. Organic Agriculture Policy;
8. Oil and Nut Crops Policy;
9. Sugar Industry Policy; and
10. Develop Insurance Policies that will cushion producers against vagaries of the weather.

Manufacturing

Situation Analysis

The sector grew at an annual average of 3.2 per cent during the First MTP period. The sector's contribution to the GDP averaged 9.8 percent over the same period.

The growth was affected by inadequate and costly infrastructure, low technology adoption, high cost of doing business, soaring cost of fuel, a weak Kenya shilling, and recurring drought.

The structure of Kenya's manufacturing sector comprises of micro, small, medium and large industries classified mainly by employment levels and capital investment. The medium and large industries constitute less than 5 per cent of the total number of enterprises but contribute over 60 per cent to the manufacturing sector GDP contribution. Similarly, the micro and small enterprises comprise about 95 per cent of total industries but contribute only about 20 per cent to the manufacturing sector GDP contribution.

The sub-sectors which recorded the highest growth changes in 2011 include textile and clothing 18 per cent; petroleum and other chemicals 14.6 per cent; non-metallic minerals14.4 per cent; beverages and tobacco 10.3 per cent; and metal products 10 per cent. In the export sub-sector, locally-manufactured goods comprise 25 per cent of Kenya's exports. However, the share of Kenyan products in the regional market is only 7 per cent of the US $11 billion regional market.

Key achievements in implementation of programmes and projects during the First MTP period included:

1. Development of Small and Medium Enterprises (SME) Parks
2. Development of Special Economic Zones (SEZ)
3. Development of Two Industrial Parks:
4. Development of Industrial and Manufacturing clusters
5. Development of the Iron and Steel Mill
6. Transformation of Kenya Industrial Research and Development Institute (KIRDI)

Legal and institutional reforms: These included enactment of the Anti-Counterfeit Act, 2008, restructuring Kenya Industrial Training Institute and establishment of Kenya Accreditation Services (KENAS).

Programmes and Projects for 2013 – 2017

Flagship projects

1. Establishment of Special Economic Zones (SEZs)
2. Development of SME and Industrial Parks
3. Development of Industrial Clusters
4. Development of Integrated Iron and Mini Steel Mills.
5. Skills development for technical human resource for the manufacturing sector
6. Transformation of KIRDI into a world class research institution
7. Natural Products Initiatives

Policy, Legal and Institutional Reforms

- The development and growth of the sector was propose to be supported by the following:
- Implementation of the Sessional Paper No. 9 of 2012 on National Industrialization Policy framework (2012 2030);
- Implementation of the EAC Industrial Policy and Strategy (2012-2032);
- Enactment of the SEZ Bill;
- Implementation of National Industrialization Policy;
- Development an Anti-counterfeit Policy and strengthen the Anti-counterfeit Agency;
- Fast tracking the development of the National Quality and Standards Policy; and
- Review of the Master Plan for Kenya's Industrial Development.

Financial Services

Situation Analysis

During the First MTP, net assets in the financial system increased from KSh. 951 billion in 2007 to KSh. 2,330 billion in 2012. As a result, the sector's share of GDP increased from 6.6 per cent in 2007 to 7.8 per cent in 2011. The financial sector continues to be dominated by the banking sector. At the end of December 2012, banking sectors assets stood at about 66.2 per cent of GDP.

Credit extended to the private sector amounted to 36.8 per cent of GDP in 2012 compared to 28.3 per cent in 2007. As of December 2012, the banking sector comprised of

a) 44 banking institutions (43 commercial banks, 1 mortgage finance company)
b) 8 Deposit Taking Microfinance (DTM) institutions
c) 5 representative offices of foreign banks
d) 112 foreign exchange bureaus
e) 2 credit reference bureaus.

A number of factors contributed to the sector not meeting the envisioned First MTP targets which include major shocks from the post-election violence of 2007/2008, adverse weather impacting the key agricultural sector, the global financial crisis and subsequent worldwide economic slowdown.

Key Achievements under the First MTP:

Nairobi International Financial Centre (NIFC): A Concept Note on the NIFC has been developed. It has been agreed that the framework should take the form of a hybrid centre compared to either off-shore or on-shore centre. In this regard, relevant legislation and regulations will be drafted for the framework. The initiative is expected to raise jobs, financing for the flagship projects and tap into new investments coming to Africa. Financial incentives will encourage investment groups, stock brokerages, pension funds, banks and insurance companies to set up offices at the NIFC.

Access: According to the FinAccess Survey of 2009, overall financial inclusion increased from 26.4 per cent in 2007 to 40.5 per cent in 2009. Formal financial inclusion also increased from 18.9 per cent to 22.6 per cent. More recent data indicate that this rate of improvement in the headline quantitative measure of access has continued.

Efficiency: Increased efficiency of financial services directly supports improved access by reducing transaction costs. A number of interventions, including payments system, capital markets infrastructure and credit referencing contributed to efficiency gains during the First MTP.

Stability: Attention has been focused on the deposit-taking institutions, which account for the largest proportion of the assets in the system. However, insurers, pension and other investment funds are anticipated to become increasingly significant as the system develops and diversifies. Oversight of these sub-sectors has been strengthened with all the regulators adopting a risk based approach to the supervision of institutions/entities under their regulation.

AML/CFT legislation: The Proceeds of Crime and Anti-Money Laundering Act was enacted in 2009 and the new Anti- Money Laundering Board appointed in June 2011. The Financial Reporting Centre has developed the regulations to make the Proceeds of Crime and Anti-Money Laundering Act fully operational. The regulations are in the process of being gazetted.

Policy, Legal and Institutional Reforms

These include:

- Nairobi International Financial Centre
- EAC Integration
- Architecture of financial sector
- Government Debt Market
- Long-term savings policy
- Leasing environment
- National Credit Guarantee Scheme (CGS)

Medium Term Plan 3

The Third Medium Term Plan (MTP III) of the Kenya Vision 2030 outlines the main policies, legal and institutional reforms as well as programmes and projects that the Government plans to implement during the period 2018-2022. It builds on the achievements of the first and second MTPs and prioritizes implementation of the "Big Four" initiatives. The initiatives are:

1. Increasing the manufacturing share of GDP from 9.2 per cent to 15 per cent and agro-processing to at least 50 per cent of total agricultural output;
2. Providing affordable housing by building 500,000 affordable houses across the country;
3. Enhancing Food and Nutrition Security (FNS) through construction of large-scale multi-purpose and smaller dams for irrigation projects, construction of food storage facilities and implementation of high impact nutritional interventions and other FNS initiatives;
4. Achieving 100 per cent Universal Health Coverage.
5. Improve Kenya's ranking in the Ease of Doing Business Indicator from position 80 to at least 45 out of 189.

Agriculture and Livestock

Transformation of Kenya's agricultural sector to boost food and nutritional security through increased output and agricultural processing is one of the "Big Four" initiatives under this Medium Term Plan. Growth of the Sector will also enhance purchasing power of Kenyans especially that of rural households and contribute to the goal of attainment of food and nutrition security.

The Agriculture and Livestock Sector contributes on average 27 per cent to GDP, accounting for the largest share in GDP. The Sector provides critical supportive linkages to other sectors. It contributes approximately 75 per cent of industrial raw materials, 65 per cent of export earnings and 60 per cent of the total employment. Given its importance, the Sector is expected to play a significant role of ensuring food and nutrition security as well as driving the Manufacturing Sector through the provision of raw materials.

Situation Analysis

During MTP II, the Sector recorded an average growth rate of 4.2 per cent. However, annual growth rates varied primarily due to variable weather. Growth in agriculture Gross Value Added improved from 5.4 per cent in 2013 to 5.5 per cent in 2015 before declining to 4.0 per cent in 2016, and further declined to 1.6 per cent in 2017 due to insufficient rains that affected production of key crops and animal rearing. For this reason, the Government will continue to prioritize irrigation and construction of dams as was the case under MTP II.

Maize production, a key aspect of food security increased from 40.7 million bags in 2013 to 42.5 million bags in 2015 but declined to 35.4 million bags in 2017. Production of rice decreased from 125,256 tonnes in 2013 to 81,200 in 2017. This was due to the prolonged dry spell in 2017 which reduced water availability in irrigation schemes. Wheat production increased from 194,500 tonnes in 2013 to 214,700 tonnes in 2016 and declined to 165,200 tonnes in 2017. Attainment of food and nutrition security demands increased production, safe storage, and availability of these products at affordable prices by the public.

Among exports, tea remained a major foreign exchange earner at Ksh.124.5 billion in 2016, from Ksh. 104.6 billion in 2013, representing 19 per cent increase. Tea production increased by 9.4 per cent from 432,400 tonnes in 2013 to 473,000 tonnes in 2016 before slightly declining to 439,800 tonnes in 2017. Coffee production increased by 15.8 per cent from 39,800 tonnes in 2013 to 46,100 tonnes in 2016, earning the country Ksh. 21.3 billion, up from Ksh. 16.3 billion in 2013. In 2017, coffee production declined to 40,800 tonnes.

The horticulture sub-sector comprising of cut-flowers, vegetables, fruits, nuts, herbs and spices remained pivotal to Kenya's export drive.

The volume of exported horticultural products increased by 42.2 per cent from 213,900 tonnes in 2013 to 304,100 tonnes in 2017. The value of horticultural exports increased by 37.8 per cent to Ksh.115.3 billion in 2017 compared to Ksh. 83.7 billion in 2013.

Milk production increased from 5.23 billion litres in 2013 to 6.48 billion litres in 2016 and declined to 5.35 billion litres in 2017. The annual intake by processors rose from 523 million litres in 2013 to over 648.2 million in 2016 but dropped to 535.7 million litres in 2017 representing a 17.4 per cent decline. The increase is attributed to increased farmer prices from an average of Ksh. 26 per litre in 2013 to Ksh. 35 per litre in 2015, enhanced milk promotion and sectoral reforms. Total beef production increased from 296,765 Metric tonnes (MT) in 2013 to 520,000 MT in 2016 while consumption increased from 414,093 MT in 2013 to 452,000 MT in 2016.

Overall, the food supply situation as monitored through the Food Balance Sheet, reflected in the energy supply, improved from 2,202 kilo calories in 2014 to 2,288 kilo calories in 2015 before declining to 2,123 kilo calories in 2017. The food Self Sufficiency Ratio (SSR) improved from 74.4 per cent in 2014 to 75.2 per cent in 2015 and declined to 60 per cent in 2017.

The Sector implemented the following programmes and projects over the last plan period:

Fertilizer Cost Reduction Strategy: Under this programme, the Sector concentrated on cost reduction activities through bulk purchase of fertilizers and blending. A total of 615,121MT of various fertilizers were purchased as a price stabilization mechanism, bringing down the price of Di-Ammonium Phosphate (DAP) from Ksh.4,500 in 2013 to Ksh.3,100 in 2017 and of Calcium Ammonium Nitrate (CAN) from Ksh.2,800 in 2013 to Ksh.2,600 in 2017.

During the period, the Government also identified Toyota Tsusho Corporation as a strategic partner for fertiliser blending through Public Private Partnership (PPP).

Establishment of Four Livestock Disease Free Zones (DFZ): The Sector initiated establishment of the coastal area DFZ covering Bachuma, Kurawa and Miritini. Survey and design for Bachuma Livestock Export Zone (LEZ) was completed. Phase I of the project was initiated and constructed to 60 per cent while tenders for design of Kurawa and Miritini export quarantine stations were awarded.

Implementation of the Consolidated Agricultural Reform Legislations: Key achievements include: the enactment of the Agriculture and Food Authority Act 2013 (revised 2015), Crops Act (2013), and Kenya Agricultural and Livestock Research Act (2013); development of the Veterinary Medicines Bill and Veterinary Medicines Regulations, operationalization of the Agriculture Food Authority (AFA), the Kenya Agricultural and Livestock Research Organization (KALRO) and the Veterinary Medicines and Drug Council; modernization of Kenya Meat Commission (KMC); development of disease and pest control contingency plans; and development of strategies for management of diseases of economic importance such as Foot and Mouth Disease, Peste des Petits Ruminants (PPR), Rift Valley Fever and Contagious Bovine Pleuropneumonia (CBPP). To support policy reforms, the Sector adopted an evidence-scenario based policy analysis through the use of the T21 model tools.

Livestock Marketing Value Addition and Processing: The Sector purchased 49 milk coolers with an annual capacity of 50 million litres to improve milk marketing and reduce post-harvest losses. It also constructed and handed-over four (4) slaughter houses in Isiolo, Garissa, Wajir and West Pokot and installed poultry processing equipment in Bungoma and Kiambu counties. A total of six (6) tanneries and 17 mini-slaughterhouses were constructed and handed over to counties. In addition, six (6) milk processing facilities and five (5) animal feed manufacturing facilities were inspected and licensed to ensure compliance with required standards.

Semen Production: The production of semen by Kenya Animal Genetics Resource Centre (KAGRC) increased from 500,000 doses in 2013 to 1,200,000 doses in 2017. This was as a result of increased number of breeding bulls, investment in semen production infrastructure and improved efficiency in semen processing. The Sector initiated the establishment of a second bull station at Agricultural Development Corporation (ADC) Sabwani in Trans-Nzoia County with an annual capacity to produce 1.2 million doses of semen and is 95 per cent complete.

Installation of Liquid Nitrogen Plants: Six (6) liquid nitrogen plants were established to increase production, preservation and conservation of animal genetic materials. The plants were established in Eldoret, Bomet, Meru, Nyahururu, Kirinyaga and KAGRC headquarters in Kabete, Nairobi. Plants in Bomet, Kirinyaga and Nairobi are complete while those in Meru, Eldoret, and Nyahururu are 85 per cent complete.
Provision of Breeding Material: Farm infrastructure development was undertaken in 13 livestock farms and stations to improve their capacity to avail quality breeding stock. A total of 600 cattle, 2,680 rabbits and 2,100 sheep and goats were produced and distributed to farmers across the country.

Accelerated Agricultural Inputs Access Programme: A total of 5,781 MT of assorted drought tolerant crop seeds, 18,515,379 sweet potato vines and 18,512,110 cassava cuttings were distributed to 2.5 million farmers in various sub-counties. Further, a total of 70 MT of seed and five (5) rice mills were purchased to promote production among small scale farmers. Under the programme, 150 extension officers were trained and eight (8) rice entrepreneur' training sessions for farmers groups held. In addition, a total of 72 tractors, 16 combine harvesters, 52 reapers and 22 threshers were distributed to rice farmers' organizations to increase mechanization in rice farming.

Kenya Cereal Enhancement Programme: The Sector operationalized the e-voucher scheme to facilitate access to agricultural inputs to vulnerable subsistence cereal farmers. The scheme is operated in partnership with Equity Bank and agro-dealers under PPP arrangement. A total of 23,622 farmers accessed inputs through the e-voucher.

Strategic Food Reserve Trust Fund (SFRTF): The Strategic Food Reserve Trust Fund (SFRTF) was established in 2015 as a successor of the Strategic Grain Reserve (SGR). The shift to a Strategic Food Reserve is meant to facilitate the stocking of critical foodstuffs such as maize, beans, rice, fish, powdered milk and corned beef. During the review period, the SFRTF had 1.5 million bags of maize, 1,289 MT of powder milk and Ksh. 4 billion in cash. Expansion of Irrigation Coverage: A total of 66,538 acres were developed under the National Expanded Irrigation Programme (NEIP). Under the ASAL project on food security, productivity per acreage increased from 15-20 bags in 2013 to 20-25 bags of maize in 2015.

Policy, Legal and Institutional Reforms

Policy Reforms

1. Review the Agriculture Sector Development Strategy 2010-2020;
2. Revise the National Agriculture Sector Extension Policy;
3. Develop National Agriculture Insurance Policy;
4. Develop Fibre Crops Policy;
5. Develop Roots and Tubers Crops Strategy;
6. Develop National Agricultural Mechanization Policy and Strategy;
7. Develop National Agricultural Marketing Strategy;
8. Develop National Rice Development Strategy (2018 – 2028);
9. Develop Food Waste Management Policy;
10. Develop Food Safety Policy and Protocols for Food Defence;
11. Develop Beef Industry Development Strategy;
12. Develop Bee Health Regulations and Strategy;
13. Develop Conventional and Emerging Livestock Breeding Strategy;
14. Develop Hides and Skin, Leather and Leather Products Development Strategy;
15. Review National vector control strategies;
16. Develop Zoological Management Strategy;
17. Develop Urban and Peri-Urban Agricultural Policy;
18. Develop Agro Chemical Industry Policy;
19. Develop Organic Agriculture Policy;
20. Develop Sugar Industry Policy;
21. Develop Cereals Policy;
22. Develop National Agricultural Soils Management Policy;
23. Develop Climate Smart Agriculture Strategy;
24. Develop Oil and Nuts Crops Strategy;
25. Develop Agriculture Research Strategy;
26. Develop a strategy to drive adoption of modern Biotechnology in Agriculture; and
27. Develop Agriculture Research Internationalization Strategy.

Legal Reforms

1. Enact legislation to make soil liming mandatory;
2. Enact legislation to cap the cost of leasing land to attract private/foreign investors;
3. Enact legislation to halt further subdivision of arable land;
4. Enact Warehouse Receipt System Bill 2016;
5. Enact Food Security Bill, 2014;
6. Develop legal framework on pests of bees;
7. Develop Regulations on Commodity Levies (sugar);
8. Review the Hides, skins and Leather Trade Act (Cap 359);
9. Amend Meat Control Act (Cap 366);
10. Develop Guidelines on antimicrobials and Management of Acaricide;
11. Review Regulation on food safety traceability; and
12. Review of legal framework on pest control and complete the pending Pest Control Products bill and revision of regulations on pest control products.

Institutional Reforms

1. Enforce the Road legislation to eliminate multiple levies across Counties;
2. Enforce Agriculture regulations – Crops (Tea, sugar, potatoes);
3. Restore commodity levies;
4. Operationalize Veterinary Medicines and Drugs Authority;
5. Establish Miraa Research Institute;
6. Modernize and convert Agricultural Technology Development Centres into Centres of Excellence; and
7. Transform the Agriculture Information and Resource Centre (AIRC).

Manufacturing

Kenya aims to have a robust, diversified and competitive Manufacturing Sector to transform the country into a middle income economy by 2030. In the medium term, the goal of the Sector is to increase its contribution to the GDP from 9.2 per cent in 2016 to 15 per cent by 2022; create additional one million jobs yearly; increase level of Foreign Direct Investments to $2 billion; and improve ease of doing business ranking from 80 in 2017 to 45 by 2022. The Sector is one of the “Big Four” initiatives and will play a key role in the country’s economic growth and development by facilitating employment creation, attraction of investments and wealth creation.

Situational Analysis

Kenya was ranked as the third most improved economy globally and the first in Africa by the World Bank for two consecutive years moving from position 136 in 2015 to position 80 in the World Bank Ease of Doing Business Report, 2018. Similarly, Kenya also improved from position 96 in 2015 to 91 in 2017 in the Global Competitiveness Index.

The Manufacturing Sector contribution to the GDP declined from 10.7 per cent in 2013 to 8.4 per cent in 2017 while its growth declined from 5.6 per cent in 2013 to 2.7 per cent in 2016 and further declined to 0.2 per cent in 2017.

Manufacturing output increased from Ksh. 1,737,699 million in 2013 to Ksh. 2,204,805 million in 2017. The Sector performance was mainly driven by the textiles and apparels, which grew by 15 per cent, pharmaceutical products by 17 per cent, beverages by 13 per cent, wood and wood products by 10 per cent, and basic metals by 11 per cent.

Over the same period, assembling of motor vehicles reduced by 5 per cent, rubber products by 41 per cent, tobacco products by 5 per cent, fish processing by 38 per cent and fabricated metals by 5 per cent. The drop is partly attributed to, among others, high cost of doing business and stiff competition from imports.

Credit to the Manufacturing Sector increased from Ksh.182 billion in 2013 to Ksh.311.8 billion in 2017. The number of manufacturing projects approved by industrial financial institutions increased from 257 in 2013 to 388 in 2016 mainly due to the rise in the number of micro and small enterprises financed by the Kenya Industrial Estates (KIE). This however declined to 293 in 2017.

Total employment in the Manufacturing Sector stood at 1,760,400 persons in 2016 with 300,900 persons being formally employed.

In the period under review, the Sector implemented the following programmes and projects:

Flagship Programmes and Projects

Establishment of Special Economic Zones (SEZs): The Special Economic Zones Act was enacted in 2015 and its regulations developed in 2016. This paved way for establishment of the Special Economic Zones Authority (SEZA), master planning and prefeasibility study for SEZ at Dongo Kundu, Mombasa, while the Special Economic Zones Authority (SEZA) licensed three private SEZs enterprises.

Development of SME and Industrial Parks: Land meant for the establishment of SMEs industrial parks was identified in Eldoret and Taita Taveta. In each, 135 and 20 acres of land were identified respectively. The master plans and structural designs for the SME industrial parks were finalized.

Development of Industrial Clusters: Construction of basic infrastructure facilities for the Leather Park and industrial warehouses for textiles and apparels manufacturing were initiated in Athi River. Value chain studies on leather, textiles, wood, furniture and agroprocessing were also completed.

Development of Integrated Iron and Steel Mill: The Scrap Metal Act 2015 was enacted and a feasibility study on the establishment of the integrated steel mill completed.

Skills Development for Technical Human Resource for the Manufacturing Sector: The Kenya Industrial Training Institute (KITI), Thika Production Centre for Shoe Industry (TPCSI) and Kariakor Common Footwear Centre for SMEs were equipped with modern machines and equipment. In addition, the Industry and Academia Collaboration Forum was established to foster strong linkages between training institutions and the industry.
Transformation of Kenya Industrial Research and Development Institute (KIRDI) into a World Class Research Institution: Construction of Kisumu Industrial Research, Technology and Innovation Laboratory was completed and the leather laboratory equipped. The construction of KIRDI Research, Technology and Innovation Laboratory in South B, Nairobi, is 60 per cent complete.

Development of a Standards Infrastructure: The Sector is upgrading and equipping Kenya Bureau of Standards (KEBS) testing laboratories at Mombasa as part of capacity building in testing of oil and gas products. The number of accredited Conformity Assessment Bodies (CABs) has increased from 13 in 2013 to 84 in 2016 and includes testing laboratories, calibration laboratories, medical testing laboratories, proficiency test service providers in the medical field, inspection bodies and certification bodies.

Branding and Marketing of Kenyan MSME Products: In the period under review, KEBS certified 8,243 products from large firms and 2,333 SMEs products. Similarly, compliance of products to standards in the market improved from 88 per cent in 2013 to 92 per cent in 2016, further improving consumer protection. During the same time, Kenya Industrial Property Institute (KIPI) enhanced intellectual property rights protection through opening of intellectual property desks at Universities and developed benefit sharing framework.

Policy, Legal and Institutional Reforms

Policy Reforms

Finalize the Intellectual Property Rights (IPR) Policy;

1. Develop the Quality and Standards Policy;
2. Review of MSEA Policy;
3. Finalize the development of Kenya Leather Development Policy;
4. Finalize the Kenya Investment Policy;
5. Finalize the Iron and Steel Policy; and
6. Finalize development of the incubation and sub-contracting policies.

Legal Reforms

1. Enact the Kenya Accreditation Services Bill 2017;
2. Develop the Kenya Leather Development Bill ;
3. Enact of the KIRDI Bill 2017; and
4. Review the legal framework for Micro and Small Enterprises Authority (MSEA).

Institutional reforms

1. Transform KIRDI into a world class research institution;
2. Set up Conformity Assessment Bodies; and
3. Transform KITI to a Centre of Excellence.

Financial Services

The Financial Services Sector (FSS) is critical for the achievement of the 10 per cent annual GDP growth rate as envisaged in the Kenya

Vision 2030. A significant increase in investment is needed for mobilizing both domestic and international resources towards achieving the Vision 2030. The FSS will finance the 'Big Four" development initiatives with the goal of raising the share of manufacturing sector to 15 per cent of Gross Domestic Product (GDP); ensuring that all citizens enjoy food and nutrition security by 2022; work towards achieving universal health coverage as well as delivering 500,000 affordable housing units. The goal of the Sector will be achieved by deepening financial markets focusing on enhancing effective access to financial services and improving efficiency while maintaining financial stability.

Situation Analysis

During MTP II, the Sector made significant achievements. Banking remained the largest sub-sector by assets and the most systemically significant. The usage of the Banking System by adults grew from 29 per cent in 2013 to 38 per cent in 2016.

The Saccos sub-sector makes an important contribution to financial access reaching 13 per cent of the population. It is dominated by 176 deposit taking Saccos, and 3,600 non-deposit taking Saccos. In 2016, Saccos accounted for 4.6 per cent of the assets in the financial system.

Access to formal financial services rose from 66.9 per cent of the adult population in 2013 to 75.3 per cent in 2016. The interest rate spread, used as a proxy for efficiency, declined from 11.4 per cent to 8.0 per cent mainly as a result of introduction of legislation to limit bank interest rates in 2016. Financial Sector stability was maintained despite instances of commercial bank failures.

The gross national savings rate increased steadily over the last Plan Period rising from 11.2 per cent at the end of 2013 to an estimated 18.3 per cent of GDP by mid-2017 (Table 4.2). On the other hand, the private and other government investment ratios more than doubled growing from 11 per cent to 24.4 per cent, over the same period. This was accompanied by a significant expansion in the Financial Sector with the share of GDP rising from 6.6 per cent to 7.1 per cent in 2013 and 2017 respectively.

The Sector achieved the following:

1. Established Nairobi International Financial Centre Authority (NIFCA);
2. Developed Capital Market Master Plan 2014-2023 to drive the long-term development of capital markets;
3. Demutualised the Nairobi Securities Exchange (NSE);
4. Established new market segments for Real Estate Investment Trusts and Asset Backed Securities;
5. Introduced a new code of corporate governance for issuers of securities;
6. Developed a framework for Global Depository Receipts (GDR) and Global Depository Notes (GDN) and securities lending and borrowing
7. Reviewed legislation, regulation and guidelines governing the Financial Sector Regulatory Authorities;
8. Implemented National Payments Act, 2011 where over 200 government services were fully digitised;
9. Developed a syllabus for financial education in secondary schools;
10. Amended Insurance Act 2015 to define micro-insurance and developed micro-insurance policy and regulations;
11. Launched the M-Akiba retail savings bond;
12. Launched a Growth Enterprise Market Segment (GEMS) aimed at expanding the reach of the market beyond the large corporates which currently dominate the securities exchange;

13. Launched Kenya's first international sovereign bond and created a hybrid bond market;
14. Signed the East African Monetary Union Protocol;
15. Completed legal and regulatory framework for the EAC Securities Market;
16. Finalized a draft Bill for the proposed East African Monetary Institute (EAMI), the precursor to East Africa Central Bank (EACB);
17. Developed the National Policy on Climate Finance and the National Climate Change Act, 2016.

Policy, Legal and Institutional Reforms

Policy Reforms

1. Develop Kenya digital finance policy paper;
2. Develop a national payments system strategy;
3. Develop a National Insurance Policy, and a National Retirement Benefits Policy;
4. Review the Health Insurance Policy and Regulatory Framework; and
5. Develop a strategy to implement the National Climate Finance Policy.

Legal Reforms

1. Enact Financial Services Authority Bill;
2. Review the National Payments System Act, 2011 and the National Payments System regulations 2013;
3. Develop National Standards on Authentication;
4. Review KYC regulations under current legislation;
5. Enact the Securities, Investments & Derivatives Bill;
6. Review of the Insolvency Act, Companies Act, Capital Markets Act, Central Depositories Act and Kenya Deposit Insurance Act and establishment of a Sukuk framework;
7. Review the legal framework to support infrastructure financing;
8. Develop regulations and guidelines to encourage enhanced market conduct;
9. Develop legislation on leasing;
10. Amend legal/regulatory framework for credit information sharing; and
11. Review of the Banking Act, 2016. Institutional Reforms
12. Merge the existing sub-sector regulators;
13. Consolidate the Development Finance Institutions (DFIs) including Industrial Development Bank (IDB) Capital Limited, Tourism Trust Fund, Industrial and Commercial Development Corporation (ICDC) into Kenya Development Bank; and
14. Consolidate various Government Funds (Uwezo Fund, Youth Enterprise Development Fund, Women Enterprise Fund, and MSEA) into Biashara Kenya Fund.

Impact of strategy on Economic Performance of Agribusiness

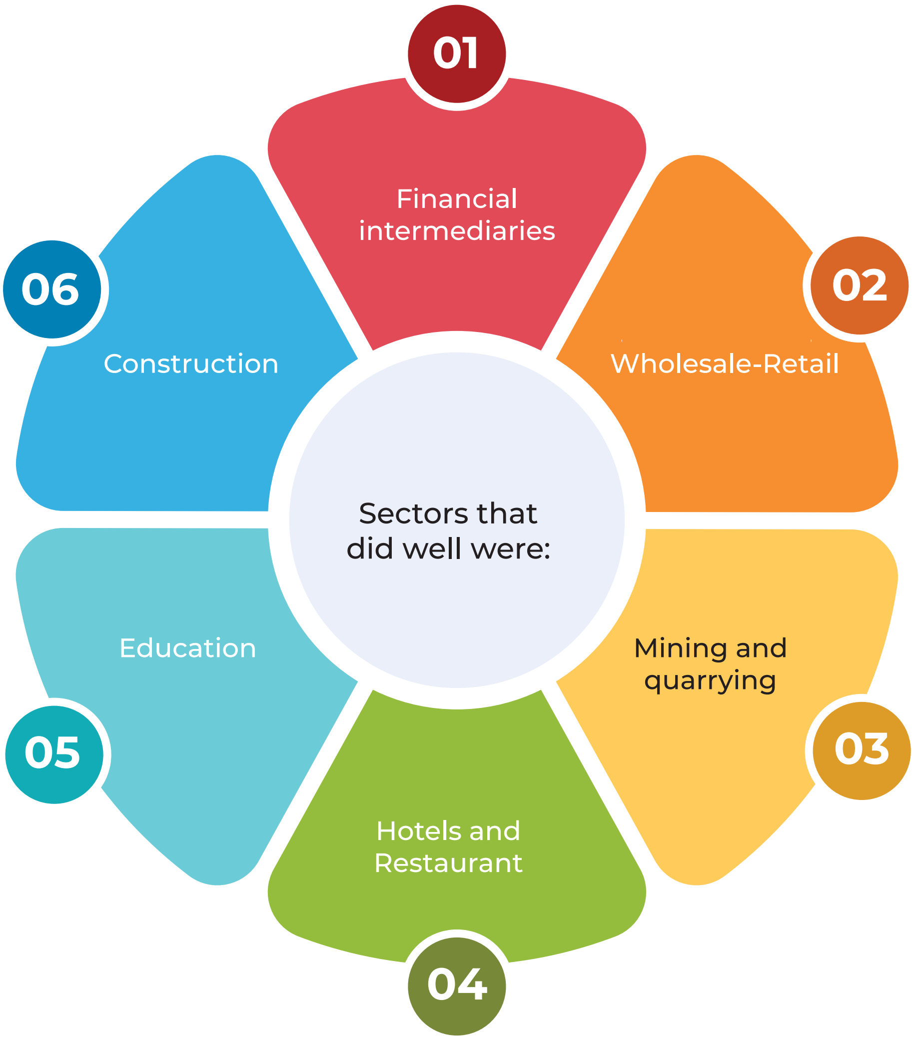
This section evaluates the impact of the strategies implemented under MTP 1-3 by looking at the economic performance of agribusiness subsector as espoused in annual economic review. There is need for further analyse the degree of completion and evaluate cost benefit of proposed strategies under economic pillar under Vision 2030 and agribusiness sub sector.

The section highlights economic performance of agribusiness sub sectors as enumerated by Kenya National Bureau of statistics annual economic review for years 2012 up to 2020

2012 Economic Performance

Kenya's economic performance in 2011 declined compared to 2010 with Real Gross Domestic Product (GDP) estimated to have expanded by 4.4 per cent in 2011 compared to a revised growth of 5.8 per cent in 2010.

The slow growth was mainly associated with high oil and food prices as well as unfavourable weather conditions in some parts of the country during the year under review. Weakening of the Kenya Shilling in the foreign exchange market during the third quarter of 2011 further exacerbated the situation by suppressing domestic demand. Performance of the macroeconomic aggregates varied widely across the sectors with the number of industries that recorded improved growth being as many as those that decelerated.



Sector Analysis

Agriculture

The Agricultural sector recorded a slower growth of 1.5 per cent in 2011 compared to a growth of 6.4 per cent in 2010.This decelerated growth was attributed to the unfavorable weather conditions coupled with high cost of production occasioned by the rising costs of farm inputs. Production of the major crops declined in 2011. Despite the declines in production of tea and coffee in the country, international prices of the two crops were favourable because of supply constraints leading to an increase in total value of marketed production.

The marketed production of livestock and its products increased from KSh 55.3 billion in 2010 to KSh 62.2 billion in 2011 with all subsectors recording increases in their marketed production. The quantity of milk delivered to processors increased from 515.7 million litres in 2010 to 549.0 million litres in 2011 due to availability of pasture in the highlands dairy farming regions of the country

Manufacturing

The sector expanded by 3.3 per cent in 2011 compared to 4.5 per cent in 2010. The slowed expansion was attributed to increased prices of primary inputs and high fuel costs.

This is led to a reduction in growth of value added for the manufacture of food, beverages and tobacco, which expanded by 1.6 per cent in 2011 compared to 3.4 per cent in 2010. The decline was also attributed to a reduction in the manufacture of sugar, bakery products, and grain mill products and animal feeds.

Financial Intermediaries

During the year, the financial sector faced a number of challenges among them persistent high inflation and volatility of the Shilling. However, the sector weathered the constraints to post an impressive growth of 7.8 per cent in 2011, a slowdown from a growth of 9.0 per cent achieved in 2010. This performance was mainly attributable to rise in commercial banks credit to the various sectors of the economy, with total credit growing by 31.1 per cent in 2011. Broad money supply (M3) grew by 19.1 per cent in 2011 compared to 28.9 per cent in 2010

Total commercial banks credit to the various sectors of the economy for the period 2007-2011 is presented in Table 1. Total credit expanded by 31.1 per cent to KSh 1,193.8 billion in December 2011 up from KSh 910.6 billion in 2010.

All sectors received increased credit with that to public and private sectors growing by 39.9 and 28.6 per cent, respectively. Sectors that recorded significant growth in credit include mining and quarrying (73.3 per cent), building and construction (55.7 per cent), and transport, storage and communication (45.3 per cent)

Table 1: Commercial Banks-Bills, Loans and Advances 2007-2011

KSh Million

	2007 Dec	2008 Dec	2009 Dec	2010 Dec	2011 Dec
PUBLIC SECTOR:					
Central Government	1,083	332	131	20	240
Local Government	973	1,478	2,107	-116	2,314
Enterprises, Parastatal bodies					
Other Public Entities	12,398	12,335	17,287	22,297	28,494
TOTAL PUBLIC SECTOR	14,454	14,144	19,525	22,201	31,049
PRIVATE ENTERPRISES:					
Agriculture	28,128	31,110	38,182	41,694	53,191
Mining and Quarrying	5,971	10,268	8,193	14,584	25,271
Manufacturing	65,103	90,224	87,876	112,222	146,197
Building and Construction	31,576	29,247	30,414	32,637	50,805
Transport, Storage and Communication ..	47,125	57,100	63,920	60,136	87,359
Wholesale and Retail trade, Hotels and					
Restaurants	63,703	98,038	107,784	211,518	264,227
Financial Institutions	23,649	17,634	23,817	22,807	29,919
Other Business	118,160	164,992	210,218	186,558	220,052
TOTAL PRIVATE ENTERPRISES	383,415	498,613	570,404	682,155	877,022
COMMUNITY AND PERSONAL SERVICES					
(including non-profit making institutions) .	82,957	88,000	87,972	123,586	163,801
Other Activities (Nes)	29,955	41,026	41,905	82,701	121,916
TOTAL BILLS, LOANS AND ADVANCES	510,780	641,783	700,281	910,643	1,193,788

Source: Central Bank of Kenya

The bulk of the credit was mainly advanced to wholesale and retail trade, hotels and restaurants industry, which received a share of 22.1 per cent in 2011. Thee proportions of credits to other business, private households and manufacturing were 18.4, 13.7 and 12.2 percent, further credit to agriculture stood at 4.5 per cent as per Table 2

Table 2: Commercial Banks-Bills, Loans and Advances sector shares 2007-2011

Percentages

	2007 Dec	2008 Dec	2009 Dec	2010 Dec	2011 Dec
PUBLIC SECTOR:					
Central Government	0.2	0.1	0.0	0.0	0.0
Local Government	0.2	0.2	0.3	0.0	0.2
Enterprises, Parastatal bodies and other					
Public entities	2.4	1.9	2.5	2.4	2.4
TOTAL PUBLIC SECTOR	2.8	2.2	2.8	2.4	2.6
PRIVATE ENTERPRISES:					
Agriculture	5.5	4.8	5.5	4.6	4.5
Mining and Quarrying	1.2	1.6	1.2	1.6	2.1
Manufacturing	12.7	14.1	12.5	12.3	12.2
Building and Construction	6.2	4.6	4.3	3.6	4.3
Transport, Storage and Communication ..	9.2	8.9	9.1	6.6	7.3
Wholesale and retail trade, hotels and restaurants	12.5	15.3	15.4	23.2	22.1
Financial Institutions	4.6	2.7	3.4	2.5	2.5
Other Business[2]	23.1	25.7	30.0	20.5	18.4
TOTAL PRIVATE ENTERPRISES	75.1	77.7	81.5	74.9	73.5
COMMUNITY AND PERSONAL SERVICES					
(including non-profit making institutions) .	16.2	13.7	12.6	13.6	13.7
Other Activities (Nes)	5.9	6.4	6.0	9.1	10.2
TOTAL BILLS, LOANS AND ADVANCES	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

2013 Economic Performance

The real gross domestic product was estimated to have grown by 4.6 percent in 2012 compared to 4.4 percent in 2011. Sectors that performed well were; Agriculture, wholesale-retail, transport and communication accounting to 17.6, 15.2 and 10.8 percent respectively to GPD growth.

Sector Analysis

Agriculture

The sector recorded a growth of 3.8 percent in 2012 compared to 1.5 percent in 2012. Performance of unit sub sectors varied due to erratic rains across various ecological zones.

Manufacturing

The sector posted a growth of 3.1 percent in 2012 compared to 3.4 percent in 2011 with food and nonfood sub sectors growing at 3.6 and 2.8 percent respectively

Financial Services

Total credit expanded by 8.4 percent in December 2012 to Ksh 1766.5 Billion compared to Ksh 1628 Billion in 2011. Further there was a 33.6 percent increase in public sector credit and 1.7 percent decline in credit to private sector.

Sectors that recorded significant growth in credit allocation were; Real estate, building and construction, manufacturing, financial institutions and agriculture (See table 3)

Table 3: Commercial Banks-Bills, Loans and Advances 2008-2012

KSh Million

	2008 Dec	2009 Dec	2010 Dec	2011 Dec	2012 Dec
PUBLIC SECTOR:					
Central Government (net)²	159,506	218,544	356,190	322,828	422,551
Local Government (net)	-1,960	-6,730	-116	2,314	2,888
Enterprises, Parastatal bodies and other Other Public entities	13,767	19,212	22,297	28,494	46,926
TOTAL PUBLIC SECTOR	171,313	231,027	378,370	353,636	472,365
PRIVATE ENTERPRISES:					
Agriculture	31,110	38,182	41,694	53,191	57,479
Mining and Quarrying	10,268	8,193	14,584	25,271	25,048
Manufacturing	90,224	87,876	112,222	146,197	169,262
Building and Construction	29,247	30,414	32,637	50,805	69,183
Transport, Storage and Communication ..	57,100	63,920	60,136	87,359	75,776
Wholesale and retail trade, hotels and restaurants	98,038	107,784	211,518	264,227	211,172
Real Estate	22,440	37,712	78,928	111,632	161,940
Financial Institutions	17,634	23,817	22,807	29,919	32,689
Other Business	164,992	210,218	186,558	220,052	169,047
TOTAL PRIVATE ENTERPRISES	521,053	608,116	761,083	988,654	971,597
COMMUNITY AND PERSONAL SERVICES					
(including non-profit making institutions) .	88,000	87,972	123,586	163,801	174,900
Other Activities (Nes)	41,026	41,905	82,701	121,916	146,609
TOTAL BILLS, LOANS AND ADVANCES	821,392	969,019	1,345,741	1,628,008	1,765,471

Source: Central Bank of Kenya

Sectors that received significant credit portions were; wholesale-retail, hotels and restaurants among others see table 4

Table 4: Commercial Banks-Bills, Loans and Advances sector shares 2008-2012

	2008 Dec	2009 Dec	2010 Dec	2011 Dec	2012 Dec
					Percentage
PUBLIC SECTOR:					
Central Government [4]	24.9	31.2	39.1	27.0	24.1
Local Government	-0.3	-1.0	0.0	0.2	0.2
Enterprises, Parastatal bodies and other Public entities	2.1	2.7	2.4	2.4	2.7
TOTAL PUBLIC SECTOR	26.7	33.0	41.5	29.6	26.9
PRIVATE ENTERPRISES:					
Agriculture	4.8	5.5	4.6	4.5	3.3
Mining and Quarrying	1.6	1.2	1.6	2.1	1.4
Manufacturing	14.1	12.5	12.3	12.2	9.6
Building and Construction	4.6	4.3	3.6	4.3	3.9
Transport, Storage and Communication ..	8.9	9.1	6.6	7.3	4.3
Wholesale and retail trade, hotels and restaurants	15.3	15.4	23.2	22.1	12.0
Real Estate	3.5	5.4	8.7	9.4	9.2
Financial Institutions	2.7	3.4	2.5	2.5	1.9
Other Business	25.7	30.0	20.5	18.4	9.6
TOTAL PRIVATE ENTERPRISES	77.7	81.5	74.9	73.5	55.3
COMMUNITY AND PERSONAL SERVICES					
(including non-profit making institutions) .	13.7	12.6	13.6	13.7	10.0
Other Activities (Nes)	6.4	6.0	9.1	10.2	8.3
TOTAL BILLS, LOANS AND ADVANCES	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

2014 Economic Performance

Gross Domestic Product (GDP) is estimated to have expanded by 4.7 per cent in 2013 compared to a growth of 4.6 per cent in 2012.

Sector Analysis

Agriculture

Poor rainfall in some ecological zones during the “short rains” season and unfavorable international prices for key export crops dampened the sector’s growth to 2.9 per cent in 2013 against a growth of 4.2 per cent in 2012. Credit extended to the sector from commercial banks expanded by 3.9 per cent in 2013 albeit at a slower rate compared to 7.4 per cent in 2012.

Overall value of marketed production slowed from KSh 344,612.4 million to KSh 334,739.4 million during the review period partly due to depressed production of certain major crops among them maize, beans, coffee, cut flowers and fruits. However, the sector was boosted by increased production of tea, wheat, vegetables, potatoes and sugarcane on account of good prices paid to farmers in 2013.

The value of marketed maize decreased by 23.1 per cent from KSh 13,153.0 million in 2012 to KSh 10,121.1 million in 2013.

This was mainly attributed to lower volumes and reduction in prices. Unfavourable international prices coupled with lower production of coffee and tea resulted in a contraction of earnings by 29.0 per cent and 5.5 per cent, respectively.

In the horticulture sub-sector, the value of marketed fresh produce declined by 7.9 per cent in 2013, on account of low export volumes and depressed unit prices in the international market. The marketed production of livestock and its products increased with all the subsectors recording growths.

Manufacturing

The sector's gross value added expanded by 4.8 per cent in 2013 compared to a slower growth of 3.2 per cent in 2012. Broadly, the acceleration in growth was experienced in manufacturing of both food and non-food products, which grew by 4.7 per cent and 5.0 per cent, respectively, in 2013.

The commercial banks' credit extended to the manufacturing sector grew by 7.3 per cent in 2013 compared to a 15.8 per cent growth recorded in 2012.

The growth in manufacture of food, beverages and tobacco was primarily driven by enhanced growth in the production of: sugar; and processed and preserved fruits and vegetables, which grew by 21.5 per cent, and 12.1 per cent, respectively.

Financial Intermediaries

Sectors in 2013 that recorded significant growth in credit included, real estate (22.5 per cent), wholesale and retail trade, hotel and restaurants (21.4 per cent), transport, storage and communication (18.1 per cent), mining and quarrying (11.0 per cent) as per table 5

However, financial institutions recorded a reduction of 8.5 per cent in credit during the review period. The increased demand for credit followed the peaceful general elections of March 2013, drop in cost of borrowing and increased investment opportunities owing to the fairly stable macroeconomic environment.

The total credit expanded by 17.1 per cent to KSh 2,046.2 billion in December 2013 up from KSh 1,747.6 billion in December 2012. There was a 9.0 per cent and 18.7 per cent increase in credit in the public and private sector, respectively.

Table 5: Commercial Banks-Bills, Loans and Advances 2009-2013

KSh Million

	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 Dec
PUBLIC SECTOR:					
National Government (net)[2]	245,995	352,557	275,632	413,475	464,961
County Government (net)[3]	6,730	116	2,314	2,888	228
Enterprises, Parastatal bodies and other Public entities	19,212	22,297	28,494	46,926	39,847
TOTAL PUBLIC SECTOR	271,937	374,970	306,440	463,289	505,036
PRIVATE ENTERPRISES:					
Agriculture	38,182	43,045	55,161	59,235	61,549
Mining and Quarrying	8,193	14,584	25,271	25,048	27,804
Manufacturing	87,876	112,222	146,197	169,262	181,687
Building and Construction	45,768	32,637	50,805	69,183	70,770
Transport, Storage and Communication	63,920	60,136	87,359	75,776	89,488
Wholesale and retail trade, hotels and restaurants	107,784	136,010	172,561	191,230	232,179
Real Estate	52,835	98,866	137,409	161,940	198,337
Financial Institutions	23,817	22,807	29,919	32,689	29,924
Other Business	172,505	205,914	247,366	270,443	360,460
TOTAL PRIVATE ENTERPRISES	600,880	726,221	952,049	1,054,807	1,252,199
Community and Personal Services (including Non-Profit Making Institutions)	87,972	120,586	158,147	174,900	226,200
Other Activities (nec)	41,905	41,211	55,211	54,599	62,728
TOTAL BILLS, LOANS AND ADVANCES	1,002,694	1,262,988	1,471,847	1,747,595	2,046,163

Source: Central Bank of Kenya

The share of commercial banks credit to private enterprises increased from 60.4 per cent in December 2012 to 61.2 per cent in December 2013. Private sector enterprises that recorded significant proportions of credit included wholesale and retail trade, hotels and restaurants (11.3 per cent), other business (17.6 per cent), real estate (9.7 per cent), and manufacturing (8.9 per cent). Credit to Agriculture accounted for 3 per cent of the total commercial bank credit as per table 6

Table 6: Commercial Banks-Bills, Loans and Advances sector shares 2009-2013

Percentage

	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 Dec
PUBLIC SECTOR:					
National Government [2]	24.5	27.9	18.7	23.7	22.7
County Government[3]	0.7	0.0	0.2	0.2	0.0
Enterprises, Parastatal bodies and other Public entities	1.9	1.8	1.9	2.7	1.9
TOTAL PUBLIC SECTOR	27.1	29.7	20.8	26.5	24.7
PRIVATE ENTERPRISES:					
Agriculture	3.8	3.4	3.7	3.4	3.0
Mining and Quarrying	0.8	1.2	1.7	1.4	1.4
Manufacturing	8.8	8.9	9.9	9.7	8.9
Building and Construction	4.6	2.6	3.5	4.0	3.5
Transport, Storage and Communication	6.4	4.8	5.9	4.3	4.4
Wholesale and retail trade, hotels and restaurants	10.7	10.8	11.7	10.9	11.3
Real Estate	5.3	7.8	9.3	9.3	9.7
Financial Institutions	2.4	1.8	2.0	1.9	1.5
Other Business	17.2	16.3	16.8	15.5	17.6
TOTAL PRIVATE ENTERPRISES	59.9	57.5	64.7	60.4	61.2
Community and Personal Services (including Non-Profit Making Institutions)	8.8	9.5	10.7	10.0	11.1
Other Activities (nec)	4.2	3.3	3.8	3.1	3.1
TOTAL BILLS, LOANS AND ADVANCES	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

2015 Economic Performance

Kenya's economy is estimated to have expanded by 5.3 per cent in 2014, compared to a growth of 5.7 per cent in 2013. A number of factors influenced the country's economic performance during the review period. From the demand side, government and private final consumption increased by 2.7 per cent and 5.5 per cent, respectively.

The demand side was mainly driven by a resilient private final consumption and a robust growth in fixed assets. Investment in fixed assets expanded rapidly on account of a vibrant growth in real estate sector, the on-going mega infrastructure projects and increased investments in air transport equipment.

There was an increase of 7.0 per cent in exports of goods and services. However, imports of goods and services expanded more rapidly resulting to a widening of the current account deficit.

From the supply side, the major drivers of the economy were agriculture, forestry and fishing; construction; wholesale and retail trade; education; and finance and insurance with respective contributions of 14.5, 11.1, 9.8, 9.7 and 9.1 per cent to the growth. The accommodation and food services (hotels and restaurants) sector contracted for the second year in a row while all the other sectors recorded positive growths but of varying magnitudes during the review period

Sector Analysis

Agriculture

The agriculture, forestry and fishing sector recorded a decelerated growth of 3.5 per cent in 2014 compared to 5.2 per cent in 2013. Activities of growing of crops and animal production suffered from the impacts of poor long rains in some parts of the country, especially in the North Rift but the short rains were near normal in most parts of the country.

As a result, maize production decreased in 2014 to 39.0 million bags from 40.7 million bags harvested in 2013. However, production of some food commodities like Irish potatoes and pulses improved and somehow offset the negative effects of the declined maize production. Other increases were notable in key crops like coffee, tea, cut flowers and fruits while sugar cane and pyrethrum production declined. The total marketed production increased slightly to KSh 336.5 billion in 2014 from KSh 334.8 billion in 2013.
During the review period, marketing of key cash crops was negatively impacted on by suppressed external demand and a glut in global supply of tea. Quantity of exported tea increased by 2.3 per cent but its price generally remained suppressed due to the increased supply in the international market.

The value of coffee exports rose by 22.0 per cent, despite a decline of 3.0 per cent in export quantities, due to improved international prices. The improvement in prices was attributed to high quality beans and increased demand for Kenyan coffee for blending other variaties.

The marketed production of livestock and its products increased in the year under review due to an increase in milk delivery to processors and sheep and goats sold to abattoirs. However, the number of cattle slaughtered declined during the year.

Manufacturing

The sector benefited from an improved economic environment during the review period. Some of the factors that positively influenced growth of the industry include slightly cheaper and stable electricity supply, restrained inflation and resilient domestic demand. Modest decrease in energy prices during the last quarter of the year also contributed to reduction in input prices.

Despite the improved environment, the industry recorded a slowed growth of 3.4 per cent in 2014 compared to 5.6 per cent in 2013, with the food and non-food subsectors growing by 4.0 per cent and 3.1 per cent, respectively.

The expansion in non-food manufacturing was mainly driven by increased production of cement, pharmaceutical products, fabricated metal products, and manufacture of furniture. Processing of animal feed, tobacco, grain mill and animal and vegetable fats and oil products registered significant growths during the review period.

On the other hand, the manufacturing industry experienced some limitations in 2014 among them suppressed external demand of industrial non-food and processed fruits and vegetable products. Output of beverages, printing and production of recorded media contracted partly on account of reduced domestic demand while manufacture of sugar declined due a reduction in cane delivery. Production of leather and related products declined partly due to increased competition from imports.

Financial Intermediaries

Credit to the private sector grew by 17.1 per cent to KSh 1,466.1 billion while that to community and personal services rose by 39.8 per cent to KSh 316.2 billion during the same period. Within the private sector, significant increases were recorded for loans and advances to financial institutions (68.4 per cent), transport, storage and communication (45.6 per cent), real estate (32.4 per cent) and manufacturing (30.7 per cent) see table 7

Table 7: Commercial Banks-Bills, Loans and Advances 2010-2014

KSh Million

	2010 Dec	2011 Dec	2012 Dec	2013 Dec	2014 Dec
PUBLIC SECTOR:					
National Government (net)[2]	352,557	275,632	413,475	464,961	204,310
County Government (net)[3]	116	2,314	2,888	228	48,402
Enterprises[4], Parastatal bodies and other Public entities	22,297	28,494	46,926	39,847	25,437
TOTAL PUBLIC SECTOR	**374,970**	**306,440**	**463,289**	**505,036**	**278,149**
PRIVATE ENTERPRISES:					
Agriculture	43,045	55,161	59,235	61,549	77,384
Mining and Quarrying	14,584	25,271	25,048	27,804	23,421
Manufacturing	112,222	146,197	169,262	181,687	237,422
Building and Construction	32,637	50,805	69,183	70,770	80,406
Transport, Storage and Communication	60,136	87,359	75,776	89,488	130,304
Wholesale and retail trade, hotels and restaurants	136,010	172,561	191,230	232,179	286,371
Real Estate	98,866	137,409	161,940	198,337	262,691
Financial Institutions	22,807	29,919	32,689	29,924	50,384
Other Business	205,914	247,366	270,443	360,460	317,690
TOTAL PRIVATE ENTERPRISES	**726,221**	**952,049**	**1,054,807**	**1,252,199**	**1,466,073**
Community and Personal Services (including Non-Profit Making Institutions)	120,586	158,147	174,900	226,200	316,187
Other Activities (nec)	41,211	55,211	54,599	62,728	44,834
TOTAL BILLS, LOANS AND ADVANCES	**1,262,988**	**1,471,847**	**1,747,595**	**2,046,163**	**2,105,243**

Source: Central Bank of Kenya

The proportion of loans to the private sector increased from 61.2 per cent to 69.6 per cent. Sectors that recorded significant rise in proportions include: wholesale and retail trade (15.7 per cent); real estate (14.4 per cent); manufacturing (13.0 per cent) and; transport, storage and communication (7.1 per cent) of the total loans to the private sector. Agriculture accounted for 3.7 percent of total loans.

Table 8: Commercial Banks-Bills, Loans and Advances sector shares 2010-2014

Percentage

	2010 Dec	2011 Dec	2012 Dec	2013 Dec	2014 Dec
PUBLIC SECTOR:					
National Government[2]	27.9	18.7	23.7	22.7	9.7
County Government[3]	0.0	0.2	0.2	0.0	2.3
Enterprises[4], Parastatal bodies and other Public entities	1.8	1.9	2.7	1.9	1.2
TOTAL PUBLIC SECTOR	29.7	20.8	26.5	24.7	13.2
PRIVATE ENTERPRISES:					
Agriculture	3.4	3.7	3.4	3.0	3.7
Mining and Quarrying	1.2	1.7	1.4	1.4	1.1
Manufacturing	8.9	9.9	9.7	8.9	11.3
Building and Construction	2.6	3.5	4.0	3.5	3.8
Transport, Storage and Communication	4.8	5.9	4.3	4.4	6.2
Wholesale and retail trade, hotels and restaurants	10.8	11.7	10.9	11.3	13.6
Real Estate	7.8	9.3	9.3	9.7	12.5
Financial Institutions	1.8	2.0	1.9	1.5	2.4
Other Business	16.3	16.8	15.5	17.6	15.1
TOTAL PRIVATE ENTERPRISES	57.5	64.7	60.4	61.2	69.6
Community and Personal Services (including Non-Profit Making Institutions)	9.5	10.7	10.0	11.1	15.0
Other Activities (nec)	3.3	3.8	3.1	3.1	2.1
TOTAL BILLS, LOANS AND ADVANCES	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

2016 Economic Performance

The Gross Domestic Product (GDP) is estimated to have expanded by 5.6 per cent in 2015 which was a slight improvement compared to a 5.3 per cent growth in 2014.
This growth was mainly supported by a stable macroeconomic environment and improvement in outputs of agriculture; construction; finance and insurance and real estate.

However, growth slowed in a number of sectors including; information and communication, mining and quarrying, and wholesale and retail trade. Similarly, growth in taxes on products slowed during the review period. The growth of accommodation and food services contracted by 1.3 per cent,a less severe performance compared to a revised decline of 16.7 per cent in 2014.

Sector Analysis

Agriculture

The sector's performance was largely influenced by weather patterns in 2015 with heavy and well spread long rains experienced in most parts of the country. The short rains period was characterized by the El Niño weather phenomenon that started in November 2015. In the end, output of livestock and most crops was boosted by the weather but a few crops were negatively affected, resulting to a decline in their production. Consequently, the sector recorded an accelerated growth of 5.6 per cent in 2015 compared to 3.5 per cent in 2014. The agriculture sub-sector grew by 6.2 per cent in 2015 and considerably influenced the performance of the whole sector.

Production of tea and coffee contracted by 10.3 per cent and 16.0 per cent, respectively in 2015. The value of horticultural exports rose by 7.5 per cent in 2015 on account of increased exports of cut flower and fruit.

In the livestock sub-sector, the volume of marketed milk increased by 10.9 per cent from 541.3 million litres in 2014 to 600.4 million litres in 2015. The number of cattle and calves sold to abattoirs rose by 9.5 per in 2015 to stand at 2,274.5 thousand head. Similarly, sheep and goats slaughtered in 2015 increased from 6,138.5 thousand head in 2014 to 6,560.8 thousand head in 2015.

Manufacturing

The macroeconomic environment in 2015 was favourable for the performance of the manufacturing sector except for the cost of borrowing that somewhat curtailed the availability of cheap credit to fund the sector's activities.

In addition, key sectors that heavily influence the performance of the sector namely agriculture and electricity posted impressive performance in the year under review. There was a significant decline in fuel prices, especially light diesel that is used in an array of manufacturing processes, which consequently resulted in a drop in the cost of production.

The robust growth in agriculture also influenced the sector's performance especially in food processing. Against this backdrop, the manufacturing sector expanded by 3.5 per cent in 2015 compared to 3.2 per cent in 2014.

Manufacturing of food products in all categories increased in 2015 except processing and preservation of fish that registered a decline of 21.8 per cent. Growth in the sector was mainly driven by a 22.0 per cent growth in manufacture of beverages. Manufacture of nonfood products registered an impressive performance in 2015 buoyed by production of wearing apparel, pharmaceutical products and furniture that grew by 10.8, 23.9, and 20.6 per cent, respectively. Production of cement increased from 5,882.5 thousand tonnes in 2014 to 6,352.9 thousand tonnes in 2015

Financial Services

Overall commercial banks credit grew significantly by 19.3 per cent to KSh 2,799.5 billion in December 2015 compared to an increase of 16.9 per cent recorded in December 2014. The sector which recorded the highest percentage increase in uptake of credit was building and construction recording 32.2 per cent increase in December 2015 compared to 13.6 per cent increase in a similar period in 2014. Credit to the mining and quarrying sector declined for the second consecutive year to stand at KSh 20.8 billion. Credit to public sector increased by 24.5 per cent in 2015 with county governments uptake increasing significantly from KSh 278 million in 2014 to KSh 1,149 million in December 2015.

Table 9: Commercial Banks-Bills, Loans and Advances 2011-2015

KSh Million

	2011 Dec	2012 Dec	2013 Dec	2014 Dec	2015 Dec
PUBLIC SECTOR:					
National Government (net)[1]	322,828	422,536	411,957	396,159	507,031
County Government (net)[2]	2,314	2,888	-228	278	1,149
Enterprises[3], Parastatal bodies and other Public entities	28,494	46,926	39,847	48,125	45,173
TOTAL PUBLIC SECTOR	**353,636**	**472,351**	**451,577**	**444,561**	**553,353**
PRIVATE ENTERPRISES:					
Agriculture	53,191	57,479	58,656	75,001	85,925
Mining and Quarrying	25,271	25,048	27,804	23,421	20,776
Manufacturing	146,197	169,262	181,687	237,422	290,069
Building and Construction	50,805	69,183	70,770	80,406	106,307
Transport, Storage and Communication	87,359	75,776	89,488	130,304	171,643
Wholesale and retail trade, hotels and restaurants	190,889	211,172	253,198	306,927	378,043
Real Estate	137,409	161,940	198,337	262,691	282,586
Financial Institutions	29,919	32,689	29,924	50,384	61,042
Other Business	155,981	169,047	231,631	306,165	402,179
TOTAL PRIVATE ENTERPRISES	**877,022**	**971,597**	**1,141,496**	**1,472,721**	**1,798,569**
Community and Personal Services (including Non-Profit Making Institutions)	158,147	174,900	226,200	316,187	360,292
Other Activities (nec)	137,969	148,897	187,890	113,126	87,252

Source: Central Bank of Kenya

The National Government was a key gainer with share of credit extended to it increasing from 16.9 per cent to 18.1 per cent of the total credit. This was occasioned by the effort to finance Government fiscal deficit. The share of credit to private sector increased from 62.8 per cent in 2014 to 64.2 per cent in 2015. Credit share of agricultural and manufacturing sector was 3.1 and 10.4 percent respectively.

Table 10: Commercial Banks-Bills, Loans and Advances sector shares 2011-2015

Per cent

	2011 Dec	2012 Dec	2013 Dec	2014 Dec	2015 Dec
PUBLIC SECTOR:					
National Government [1]	21.1	23.9	20.5	16.9	18.1
County Government [2]	0.2	0.2	0.0	0.0	0.0
Enterprises [3], Parastatal bodies and other Public entities	1.9	2.7	2.0	2.1	1.6
TOTAL PUBLIC SECTOR	23.2	26.7	22.5	18.9	19.8
PRIVATE ENTERPRISES:					
Agriculture	3.5	3.3	2.9	3.2	3.1
Mining and Quarrying	1.7	1.4	1.4	1.0	0.7
Manufacturing	9.6	9.6	9.1	10.1	10.4
Building and Construction	3.3	3.9	3.5	3.4	3.8
Transport, Storage and Communication	5.7	4.3	4.5	5.6	6.1
Wholesale and retail trade, hotels and restaurants	12.5	11.9	12.6	13.1	13.5
Real Estate	9.0	9.2	9.9	11.2	10.1
Financial Institutions	2.0	1.8	1.5	2.1	2.2
Other Business	10.2	9.6	11.5	13.0	14.4
TOTAL PRIVATE ENTERPRISES	57.4	55.0	56.9	62.8	64.2
Community and Personal Services (including Non-Profit Making Institutions)	10.4	9.9	11.3	13.5	12.9
Other Activities (nec)	9.0	8.4	9.4	4.8	3.1
TOTAL BILLS, LOANS AND ADVANCES	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

2017 Economic Performance

The economy experienced a relatively conducive environment for growth during the first three quarters of 2016. However, the last quarter's growth was undermined by a persistent drought that impacted negatively on the agriculture sector and a slower growth of the electricity supply industry, though to a smaller extent.

The country's real Gross Domestic Product (GDP) is estimated to have maintained growth momentum for the third consecutive year to expand at 5.8 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015. Generally, the growth was well spread and robust in most sectors but subdued in a few. Accommodation and food services registered the most improved growth of 13.3 per cent in 2016 from a contraction of 1.3 per cent in 2015.

Sectoral Analysis

Agriculture

Activity in the Agriculture, Forestry and Fishing sector in 2016 were depressed compared to the performance recorded in 2015. The sector is estimated to have expanded by 4.0 per cent in 2016 down from a revised growth of 5.5 per cent in 2016.

The decelerated performance was attributed to unfavourable weather conditions especially during the second part of the year when the country experienced a near failure of short rains. Though there were notable growths in production of coffee and tea, the sector's growth was dampened by considerable declines in production of food crops.

Production of tea and coffee increased by 18.5 and 10.8 per cent, in 2016, respectively. On the other hand, production of cereals and leguminous crops went down significantly in 2016. Specifically, production of maize declined from 42.5 million bags in 2015 to 37.1 million bags in 2016 while that of beans dropped from 8.5 million bags in 2015 to 8.1 million bags in 2016. Production of potatoes and drought resistant crops such as sorghum and millet recorded significant declines.

The volume of exports of cut flowers, fruits and vegetables rose by 8.9, 5.4 and 13.1 per cent, respectively, in 2016. This led to a 12.3 per cent growth in the value of fresh horticultural exports from KSh 90.4 billion in 2015 to KSh 101.5 billion in 2016. Performance of the sugarcane sub-sector was subdued by the dry weather conditions. As a result, the volume of cane deliveries declined from 7.2 million tonnes in 2015 to 7.1 million tonnes in 2016.

The livestock sub-sector showed mixed performance during the period under review. The volume of milk production increased from 615.9 in 2015 to 650.3 million litres in 2016. The number of animals slaughtered increased markedly in all categories of livestock

Manufacturing

The manufacturing sector recorded a decelerated growth of 3.5 per cent in 2016 from a revised growth of 3.6 per cent in 2015. The sector's growth remained stifled in the period under review mainly attributable to underperformance of other sectors such as agriculture and electricity that provide inputs for manufacturing activities. The near stagnation in the growth of manufacturing was also manifest in the slow uptake of credit from KSh 290.1 billion in 2015 to KSh 276.7 billion in 2016.

The sector's growth was mainly driven by processing of food products that recorded improved performance in 2016 though with evidently low magnitudes. The bulk of the growth was primarily accounted for by the value of output of processing and preservation of meat, and processing of dairy products in 2016. The expansion of the sub-sector was largely attributable to increased off take of livestock in 2016 occasioned by dry weather conditions. The growth was also supported by an increment of 45.4 per cent in the output of processed coffee in 2016.

However, growth in the manufacture of food products was curtailed by poor performance in processing and preservation of fish as well as processing of fruits and vegetables that posted declines in the period under review.

Performance of the non-food sub-sector was varied in 2016. The sub-sector's growth in output was mainly supported by manufacture of pharmaceutical products and preparations that rose by 25.7 per cent and manufacture of textiles and apparels that grew by 13.4 per cent in the period under review. Nevertheless, the growth was dampened by a significant drop in the output of manufacture of transport equipment at 27.4 per cent in 2016.

Financial Intermediaries

Overall, commercial banks' credit grew by 4.9 per cent to KSh 3,015.9 billion in December 2016 from KSh 2,873.8 billion in December 2015. The most notable change in absolute terms in credit to the private sector was in real estate. In the public sector, commercial banks advanced more credit to the National Government amounting to KSh 593.6 billion, 1.7 per cent increase above the December 2015 level. Credit to the County governments increased in 2016 to KSh 4.6 billion from KSh 1.1 billion advanced in 2015.

Table 11: Commercial Banks-Bills, Loans and Advances 2012-2016

KSh Million

	2012 Dec	2013 Dec	2014 Dec	2015 Dec	2016 Dec
PUBLIC SECTOR:					
National Government (net)[2]	413,496	464,475	518,729	583,727	593,635
County Government (net)[3]	2,888	-228	278	1,149	4,598
Enterprises, Parastatal bodies and other Public entities	46,926	39,847	48,125	45,173	76,852
TOTAL PUBLIC SECTOR	**463,311**	**504,095**	**567,131**	**630,049**	**675,085**
PRIVATE ENTERPRISES:					
Agriculture	57,479	58,656	75,001	85,925	90,184
Mining and Quarrying	25,048	27,804	23,421	20,776	16,802
Manufacturing	169,262	181,687	237,422	290,069	276,407
Building and Construction	69,183	70,770	80,406	106,307	104,826
Transport, Storage and Communication	75,776	89,488	130,304	171,643	204,618
Wholesale and retail trade, hotels and restaurants	211,172	253,198	306,927	378,043	379,612
Real Estate	161,940	198,337	262,691	282,586	337,352
Financial Institutions	32,689	29,924	50,384	61,042	84,866
Other Business	169,047	231,631	306,165	402,179	359,648
TOTAL PRIVATE ENTERPRISES	**971,597**	**1,141,496**	**1,472,721**	**1,798,569**	**1,854,315**

Source: Central Bank of Kenya

The share of loans and advances to the public sector rose to 22.4 per cent in December 2016 from 21.9 per cent in December 2015.

The share of credit to public enterprises, parastatal bodies and other public entities rose from 1.6 per cent in 2015 to 2.5 per cent in 2016. Sectors with notable reduction in shares of loans and advances in 2016 include manufacturing and wholesale and retail trade and other businesses (see table 12)

Table 12: Commercial Banks-Bills, Loans and Advances sector shares 2012-2016

					Percentage
	2012 Dec	2013 Dec	2014 Dec	2015 Dec	2016 Dec
PUBLIC SECTOR					
National Government[1]	23.5	22.6	21.0	20.3	19.7
County Government[2]	0.2	0.0	0.0	0.0	0.2
Enterprises, Parastatal bodies and other Public entities	2.7	1.9	2.0	1.6	2.5
TOTAL PUBLIC SECTOR	26.4	24.5	23.0	21.9	22.4
PRIVATE ENTERPRISES	0.0	0.0	0.0	0.0	0.0
Agriculture	3.3	2.9	3.0	3.0	3.0
Mining and Quarrying	1.4	1.4	1.0	0.7	0.6
Manufacturing	9.6	8.8	9.6	10.1	9.2
Building and Construction	3.9	3.4	3.3	3.7	3.5
Transport, Storage and Communication	4.3	4.4	5.3	6.0	6.8
Wholesale and retail trade, hotels and restaurants	12.0	12.3	12.5	13.2	12.6
Real Estate	9.2	9.6	10.7	9.8	11.2
Financial Institutions	1.9	1.5	2.0	2.1	2.8
Other Business	9.6	11.3	12.4	14.0	11.9
TOTAL PRIVATE ENTERPRISES	55.3	55.5	59.8	62.6	61.5
Community and Personal Services (including Non-Profit Making Institutions)	10.0	11.0	12.8	12.5	12.6
Other Activities (nec)	8.3	8.9	4.4	3.0	3.5
TOTAL BILLS, LOANS AND ADVANCES	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

2018 Economic Performance

Provisional estimates of Gross Domestic Product (GDP) showed that Kenya's economy expanded by 4.9 per cent in 2017 compared to a revised growth of 5.9 per cent in 2016. The slowdown in the performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with effects of adverse weather conditions. A widespread drought experienced during the fourth quarter of 2016 and somewhat suppressed long rains in 2017, negatively impacted on crop production and rearing of animals as well as generation of hydro-electric power.

A slowdown in credit uptake to the private sector also contributed to the deceleration in growth during the period under review.

Performance across the various sectors of the economy varied widely, with Accommodation and Food services; Information and Communication Technology; Education; Wholesale and Retail trade; and Public Administration registering accelerated growths in 2017 compared to 2016. On the other hand, growths in Manufacturing; Agriculture, Forestry and Fishing; and Financial and Insurance decelerated significantly over the same period and therefore dampened the overall growth in 2017.

Sector Analysis

Agriculture, Forestry and Fishing

Agriculture, Forestry and Fishing sector posted a decelerated growth of 1.6 per cent in 2017 compared to a revised growth of 4.7 per cent in 2016. The period under review was characterised by depressed long rains and early cessation of short rains. Consequently, the unfavourable weather conditions considerably suppressed production of key crops and adversely affected production in the livestock sub-sector.

Scarcity of key food crops and in particular maize and some vegetables was experienced in 2017 as evidenced by significant increases in their respective prices. The poor performance of the sector was exacerbated by marked decline in production of tea and coffee by 7.0 per cent and 11.5 per cent, respectively. Similarly, activity of sugarcane farming and growing of sisal were notably lower than the 2016 levels, further curtailing potential growth in the sector. In the dairy sub-sector, the quantity of milk delivered to processors declined from 648.2 million litres in 2016 to 535.7 million litres in 2017.

However, despite the general underperformance of the sector, production of food crops such as potatoes, beans and some cereals posted relatively improved performance and somehow mitigated the impact of the decline in the production of the other crops, thereby anchoring the growth in 2017. Similarly, growth in the sector was supported by notable increases in production of cut flowers, fruits and vegetables whose exports grew by 19.7, 16.8 and 10.7, per cent, respectively, in 2017. This translated to a significant increase in the value of export of horticultural produce from KSh 101.5 billion in 2016 to KSh 115.3 billion in 2017.

Manufacturing

The manufacturing sector posted a marginal growth of 0.2 per cent in 2017 compared to a revised growth of 2.7 per cent in 2016. The slowed growth was partly attributable to uncertainties related to the 2017 general elections, high cost of inputs and stiff competition from cheap imports. Generally, most activities in the sector recorded significant decline leading to the slowdown experienced in 2017. The volume of food products manufactured declined by 10.8 per cent in 2017 compared to 1.9 per cent growth in 2016.

The sector's performance in 2017 was negatively affected by reduced activity in agro-processing that emanated from constrained domestic supply of agricultural raw materials. This was particularly so in the processing of tea and coffee that recorded significant decline during the period under review. Nevertheless, there was improved performance in some activities that somewhat supported growth during the period under review.

In the food sub-sector, notable growths were realised in the manufacture of grain mill products (8.3%), bakery products (8.1%) and animal feeds (8.6%). Similarly, some activities in the manufacture of non-food products recorded marginal gains during the review period though their proportionate contribution to the sector was significantly low. The quantities of apparels, basic metals, and paper and paper products manufactured in 2017 grew by 5.6, 4.0 and 4.2 per cent, respectively.

Financial Services

Commercial banks' credit grew by 6.0 per cent from KSh 3,127.9 billion in December 2016 to KSh 3,316.6 billion in December 2017. Credit advanced to manufacturing sector increased by 13.0 per cent to KSh 310.6 billion in 2017. In the public sector, commercial banks credit to the National Government rose by 16.5 per cent to KSh 826.9 billion in December 2017. Credit advanced to the county governments declined by 52.8 per cent to KSh 1.8 billion while credit to enterprises, parastatal bodies and other public entities grew by 7.4 percent to KSh 108.4 billion in December 2017 (See table 13)

Table 13: Commercial Banks-Bills, Loans and Advances 2013-2017

KSh Million

	2013 Dec	2014 Dec	2015 Dec	2016 Dec	2017* Dec
PUBLIC SECTOR:					
National Government (net)[2]	464,475	518,729	583,727	709,866	826,900
County Government (net)	-228	278	1,149	3,807	1,797
Enterprises, Parastatal bodies and other Public entities	39,847	48,125	45,173	100,912	108,424
TOTAL PUBLIC SECTOR	**504,095**	**567,131**	**630,049**	**814,585**	**937,122**
PRIVATE ENTERPRISES:					
Agriculture	58,656	75,001	85,925	90,081	83,008
Mining and Quarrying	27,804	23,421	20,776	16,802	15,877
Manufacturing	181,687	237,422	290,069	275,018	310,633
Building and Construction	70,770	80,406	106,307	104,826	109,883
Transport, Storage and Communication	89,488	130,304	171,643	201,270	186,744
Wholesale and retail trade, hotels and restaurants	253,198	306,927	378,043	380,683	414,908
Real Estate	198,337	262,691	282,586	337,352	366,486
Financial Institutions	29,924	50,384	61,042	85,212	81,586
Other Business	231,631	306,165	402,179	356,304	345,757
TOTAL PRIVATE ENTERPRISES	**1,141,496**	**1,472,721**	**1,798,569**	**1,847,548**	**1,914,883**
Community and Personal Services (including Non-Profit Making Institutions)	226,200	316,187	360,292	389,591	383,598
Other Activities (nec)	183,594	108,696	84,890	79,886	83,304
TOTAL BILLS, LOANS AND ADVANCES	**2,055,385**	**2,464,736**	**2,873,800**	**3,127,888**	**3,316,619**

Source: Central Bank of Kenya

The sectoral shares of commercial banks credit for the period 2013 to 2017 are shown in Table 4.9b. The share of loans and advances to the public sector rose from 26.0 per cent in December 2016 to 28.3 per cent in December 2017. The share of credit to public enterprises, parastatal bodies and other public entities increased to 3.3 per cent in 2017 from 3.2 per cent in 2016. In 2017, transport, storage and communication, agriculture and other business sectors recorded marginal declines in credit. During the same period, manufacturing sector recorded a marginal increase in credit (see table 14)

Table 14: Commercial Banks-Bills, Loans and Advances sector shares 2013-2017

Per cent

	2013 Dec	2014 Dec	2015 Dec	2016 Dec	2017* Dec
PUBLIC SECTOR					
National Government [1]	22.6	21.0	20.3	22.7	24.9
County Government	0.0	0.0	0.0	0.1	0.1
Enterprises, Parastatal bodies and other Public entities	1.9	2.0	1.6	3.2	3.3
TOTAL PUBLIC SECTOR	**24.5**	**23.0**	**21.9**	**26.0**	**28.3**
PRIVATE ENTERPRISES					
Agriculture	2.9	3.0	3.0	2.9	2.5
Mining and Quarrying	1.4	1.0	0.7	0.5	0.5
Manufacturing	8.8	9.6	10.1	8.8	9.4
Building and Construction	3.4	3.3	3.7	3.4	3.3
Transport, Storage and Communication	4.4	5.3	6.0	6.4	5.6
Wholesale and retail trade, hotels and restaurants	12.3	12.5	13.2	12.2	12.5
Real Estate	9.6	10.7	9.8	10.8	11.0
Financial Institutions	1.5	2.0	2.1	2.7	2.5
Other Business	11.3	12.4	14.0	11.4	10.4
TOTAL PRIVATE ENTERPRISES	**55.5**	**59.8**	**62.6**	**59.1**	**57.7**
Community and Personal Services (including Non-Profit Making Institutions)	11.0	12.8	12.5	12.5	11.6
Other Activities (nec)	8.9	4.4	3.0	2.6	2.5
TOTAL BILLS, LOANS AND ADVANCES	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Kenya

2019 Economic Performance

Kenya's economy recovered from the effects of the persistent drought experienced in 2017 coupled with uncertainties associated with general elections held in the same period. Real Gross Domestic Product (GDP) is estimated to have expanded by 6.3 per cent in 2018 compared to 4.9 per cent in 2017.

The growth was principally attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. Agricultural activities benefited from sufficient rains that were well spread throughout the country. Similarly, the increased precipitation was a significant boost to electricity generation and consequently favourable to growth during the review period.

Sector Analysis

Agriculture and Forestry

Activities of Agriculture, Forestry and Fishing were vibrant in 2018 mainly on account of favourable weather conditions that characterized the year under review. The sector's growth accelerated from a revised growth of 1.9 per cent in 2017 to 6.4 per cent in 2018. The growth was mainly driven by marked improvement in crops and animal production that benefited

significantly from the sufficient rains during the period under review. Increased supply of food crops was mirrored in significant drop in prices of key food crops during the review period.

The quantities of key food crops such as maize, irish potatoes and vegetables increased notably

in 2018 compared to depressed performances reported in 2017. Performance of the sector was further supported by significantly improved performances in other agricultural subsectors. Production of tea grew by 12.1 per cent to stand at 493.0 thousand tonnes in 2018 compared to a 7.0 per cent decline recorded in 2017. Similarly, the sector's performance was buoyed by increased production of coffee from 38.6 thousand tonnes in 2017 to 41.4 thousand tonnes in 2018. In the sugar cane sub-sector, improved performance was reflected in the quantity of cane delivered to millers which rose by 7.0 per cent to stand at 5.3 million tonnes in 2018.

Horticultural activities remained robust in 2018, though growths in output of the respective crops were relatively slower than in 2017. Specifically, the volume of cut flowers exported rose marginally while that of fruits grew by 32.7 per cent in 2018.
However, the quantity of vegetables exported decreased by 1.6 per cent in the period under review.
During the review period, there was a rebound in dairy activities after the contraction registered in 2017.

The volume of milk deliveries to processors increased by 18.4 per cent from 535.7 million litres in 2017 to 634.3 million litres in 2018 mainly supported by sufficiency in fodder and pastures owing to adequate and well spread long rains throughout the country.

Manufacturing

Activities in the manufacturing sector were robust in 2018 compared to the constrained performance in 2017. During the review period, the sector grew by 4.2 per cent compared to a revised growth of 0.5 per cent in 2017. In contrast with 2017, strong performances were recorded in most activities in the sector in 2018. The sector's performance was largely supported by agro-processing activities and production of beverages that recovered from considerable declines in 2017 to grow remarkably in the period under review. Under manufacture of food and beverages, improved growths were recorded in manufacture of sugar (30.3 per cent); processing of liquid milk (18.5 per cent); processing of black tea (12.1 per cent); manufacture of beer and stout (6.3 per cent); manufacture of bread (5.8 per cent) and soft drinks (4.2 per cent). Other sub-sectors that showed better performance in 2018 albeit in smaller magnitudes included manufacture of maize meal products (0.4 per cent); edible oils (2.1 per cent) and manufacture of wheat flour (1.1 per cent).

Similarly, the sector's performance was enhanced by increased manufacture of non-food products, although some declines in production of some products were reported in 2018. Within this category, activities that steered growth included assembly of motor vehicles (15.7 per cent); manufacture of drugs (14.1 per cent) and laundry soap (11.8 per cent). However, manufacture of cement and that of clinker declined by 2.6 and 2.5 per cent, respectively, in the period under review. Credit to manufacturing activities increased from KSh 315.5 billion in 2017 to KSh 336.0 billion in 2018.

Finance

Commercial banks credit grew by 5.9 per cent from KSh 3,344.9 billion as at end of 2017 to KSh 3,543.9 billion as at end of 2018. Credit advanced to manufacturing sector increased by 6.5 per cent from KSh 314.2 billion as at end of 2017 to KSh 334.6 billion as at end of 2018 while credit advanced to Wholesale and retail trade, hotels and restaurants increased by 2.9 per cent to KSh 429.3 billion as at end of 2018.

Credit advanced to real estate decreased marginally by 0.5 per cent from KSh 370.7 billion as at end of 2017 to KSh 368.7 billion as at end of 2018. (see table 15)

Table 15: Commercial Banks-Bills, Loans and Advances 2014-2018

	2014 Dec	2015 Dec	2016 Dec	2017 Dec	2018* Dec
PUBLIC SECTOR:					
National Government (net)[2]	518,729	583,727	709,866	817,775	956,267
County Government (net)	278	1,149	3,807	3,975	4,342
Enterprises, Parastatal bodies and other Public entities	48,125	45,173	100,912	108,424	96,608
Total Public Sector	**567,131**	**630,049**	**814,585**	**930,174**	**1,057,217**
PRIVATE ENTERPRISES:					
Agriculture	75,001	85,925	90,081	84,697	83,005
Mining and Quarrying	23,421	20,776	16,802	16,470	14,700
Manufacturing	237,422	290,069	275,018	314,176	334,618
Building and Construction	80,406	106,307	104,826	111,985	114,015
Transport, Storage and Communication	130,304	171,643	201,270	190,531	172,695
Wholesale and retail trade, hotels and restaurants	306,927	378,043	380,683	417,376	429,314
Real Estate	262,691	282,586	337,352	370,732	368,710
Financial Institutions	50,384	61,042	85,212	82,082	96,482
Other Business	306,165	402,179	356,304	315,720	346,249
Total Private Enterprises	**1,472,721**	**1,798,569**	**1,847,548**	**1,903,769**	**1,959,787**
Community and Personal Services (including Non-Profit Making Institutions)	316,187	360,292	389,591	385,078	411,738
Other Activities (nec)	108,696	84,890	79,886	125,878	115,190
Total Bills, Loans and Advances	**2,464,736**	**2,873,800**	**3,127,888**	**3,344,899**	**3,543,932**

The share of loans and advances to the public sector increased to 29.8 per cent as at December 2018 from 27.8 per cent as at December 2017. The share of credit to the National Government increased from 24.4 per cent as at December 2017 to 27.0 per cent as at December 2018. The share of loans and advances to the private sector decreased from 56.9 per cent as at December 2017 to 55.3 per cent as at December 2018 with marginal changes across various activities (See table 16)

Table 16: Commercial Banks-Bills, Loans and Advances sector shares 2014-2018

	2014 Dec	2015 Dec	2016 Dec	2017 Dec	2018* Dec
PUBLIC SECTOR					
National Government [1]	21.0	20.3	22.7	24.4	27.0
County Government	0.0	0.0	0.1	0.1	0.1
Enterprises, Parastatal bodies and other Public entities	2.0	1.6	3.2	3.2	2.7
Total Public Sector	23.0	21.9	26.0	27.8	29.8
PRIVATE ENTERPRISES					
Agriculture	3.0	3.0	2.9	2.5	2.3
Mining and Quarrying	1.0	0.7	0.5	0.5	0.4
Manufacturing	9.6	10.1	8.8	9.4	9.4
Building and Construction	3.3	3.7	3.4	3.3	3.2
Transport, Storage and Communication	5.3	6.0	6.4	5.7	4.9
Wholesale and retail trade, hotels and restaurants	12.5	13.2	12.2	12.5	12.1
Real Estate	10.7	9.8	10.8	11.1	10.4
Financial Institutions	2.0	2.1	2.7	2.5	2.7
Other Business	12.4	14.0	11.4	9.4	9.8
Total Private Enterprises	59.8	62.6	59.1	56.9	55.3
Community and Personal Services (including Non-Profit Making Institutions)	12.8	12.5	12.5	11.5	11.6
Other Activities (nec)	4.4	3.0	2.6	3.8	3.3
Total Bills, Loans and Advances	100.0	100.0	100.0	100.0	100.0

2020 Economic Performance

Economic activity remained vibrant in 2019 though the performance was slower relative to 2018. The real Gross Domestic Product (GDP) is estimated to have expanded by 5.4 per cent in 2019 compared to a growth of 6.3 per cent in 2018. The growth was spread across all sectors of the economy but was more pronounced in service-oriented sectors. Agriculture, Forestry and Fishing sector accounted for a sizeable proportion of the slowdown, from 6.0 per cent growth in 2018 to 3.6 per cent in 2019. This was mainly on account of suppressed long rains that disrupted the normal planting season in key agricultural zones. Similarly, the manufacturing sector grew by 3.2 per cent in 2019 compared to 4.3 per cent growth in 2018, partly owing to constrained supply of raw materials from agricultural activities. Performance in service activities was boosted by accelerated growths in Financial and Insurance (6.6 per cent) and Real Estate activities (5.3 per cent).

Sector Analysis

decelerated growth was occasioned by insufficient rainfall that led to constrained agricultural production in 2019. Relatively lower supply of key .food crops in 2019 was manifest in moderate increases in their prices compared to 2018. However, the sector benefitted from modest increase in production of potatoes, rice, wheat and significantly improved production of drought resistant crops such as sorghum and millet in 2019.

During the year under review, production of cash crops showed mixed performances. Production of coffee rose from 41.4 thousand tonnes in 2018 to 45.0 thousand tonnes in 2019 and somewhat cushioned the sector from a steeper decline.

On the other hand, the volume of tea produced declined from 493.0 thousand tonnes in 2018 to 458.8 thousand tonnes during the period under review. Similarly, total cane production declined by 12.5 per cent to 4.6 million tonnes in 2019, further exacerbating the underperformance in the cash crops sub-sector.

Horticultural activities were mainly supported by growths in output of exported fruits (8.3 per cent) and cut flowers (7.8 per cent) in 2019. However, the volume of vegetables exported declined by 15.2 per cent during the same period owing to unfavourable weather conditions that characterized the first half of 2019, resulting to lower production.

In addition, the sector's growth was supported by improved performance in the dairy sub-sector. The volume of milk deliveries to processors increased by 5.3 per cent from 634.3 million litres in 2018 to 668.2 million litres in 2019.

Manufacturing

The manufacturing sector slowed to 3.2 per cent in 2019 compared to a growth of 4.3 per cent in 2018. The overall growth was curtailed by notable decline in production in some key sub-sectors. Some of the sub-sectors that recorded significantly high declines include production of tea (6.9 per cent), sugar (10.2 per cent), processed and preserved fish (5.8 per cent) and, processed and preserved fruits and vegetables (3.7 per cent). Nonetheless, there was notable increase in activities for a number of manufacturing subsectors in 2019.

In the manufacture of food products, some of the activities that posted enhanced production include manufacture of cooking fat (10.6 per cent); processing of dairy products (5.4 per cent); manufacture of bread (3.9 per cent); processing of meat and meat products (5.3 per cent); manufacture of beverages (8.2 per cent) and manufacture of grain mill products (3.6 per cent).

Finance

Commercial banks' credit grew by 8.3 per cent from KSh 3,543.9 billion as at December 2018 to KSh 3,838.8 billion as at December 2019. Credit advanced to manufacturing sector increased by 9.2 per cent from KSh 334.6 billion in 2018 to KSh 365.4 billion in 2019 while credit advanced to Wholesale and retail trade, hotels and restaurants increased by 8.9 per cent to KSh 467.4 billion in 2019. Credit advanced to agriculture decreased from KSh 83.0 billion as at December 2018 to KSh 81.0 billion as at December 2019. In the public sector, commercial banks credit to the National Government increased by 13.4 per cent to KSh 1,084.8 billion while credit advanced to Enterprises, Parastatal bodies and other Public entities decreased by 8.9 per cent to KSh 88.0 billion as at December 2019.

Table 17: Commercial Banks-Bills, Loans and Advances 2015-2019

KSh million

	2015 Dec	2016 Dec	2017 Dec	2018 Dec	2019* Dec
PUBLIC SECTOR:					
National Government (net)[2]	583,727	709,866	817,775	956,267	1,084,808
County Government (net)	1,149	3,807	3,975	4,342	4,299
Enterprises, Parastatal bodies and other Public entiti	45,173	100,912	108,424	96,608	87,985
TOTAL PUBLIC SECTOR	630,049	814,585	930,174	1,057,217	1,177,091
PRIVATE ENTERPRISES:					
Agriculture	85,925	90,081	84,697	83,005	80,990
Mining and Quarrying	20,776	16,802	16,470	14,700	13,852
Manufacturing	290,069	275,018	314,176	334,618	365,351
Building and Construction	106,307	104,826	111,985	114,015	115,800
Transport, Storage and Communication	171,643	201,270	190,531	172,695	186,665
Wholesale and retail trade, hotels and restaurants	378,043	380,683	417,376	429,314	467,420
Real Estate	282,586	337,352	370,732	368,710	374,089
Financial Institutions	61,042	85,212	82,082	96,482	96,877
Other Business	402,179	356,304	315,720	346,249	400,709
TOTAL PRIVATE ENTERPRISES	1,798,569	1,847,548	1,903,769	1,959,787	2,101,754
Community and Personal Services (including Non-Profit Making Institutions)	360,292	389,591	385,078	411,738	434,761
Other Activities (nec)	84,890	79,886	127,076	115,190	127,867
TOTAL BILLS, LOANS AND ADVANCES	2,873,800	3,127,888	3,318,907	3,543,932	3,838,797

Source: Central Bank of Kenya

The share of loans and advances to the private sector was the highest and increased from 55.3 per cent as at December 2018 to 64.1 per cent as at December 2019. Similarly, the share of loans and advances to the public sector increased to 35.9 per cent as at December 2019 from 29.8 per as at December 2018. The share of credit to the National Government increased from 27.0 per cent in 2018 to 33.1 per cent in 2019.

Table 18: Commercial Banks-Bills, Loans and Advances sector shares 2015-2019

	2015 Dec	2016 Dec	2017 Dec	2018 Dec	2019 Dec
PUBLIC SECTOR					
National Government [2]	20.3	22.7	24.4	27.0	33.1
County Government	0.0	0.1	0.1	0.1	0.1
Enterprises, Parastatal bodies and other Public entities	1.6	3.2	3.2	2.7	2.7
TOTAL PUBLIC SECTOR	21.9	26.0	27.8	29.8	35.9
PRIVATE ENTERPRISES					
Agriculture	3.0	2.9	2.5	2.3	2.5
Mining and Quarrying	0.7	0.5	0.5	0.4	0.4
Manufacturing	10.1	8.8	9.4	9.4	11.1
Building and Construction	3.7	3.4	3.3	3.2	3.5
Transport, Storage and Communication	6.0	6.4	5.7	4.9	5.7
Wholesale and retail trade, hotels and restaurants	13.2	12.2	12.5	12.1	14.3
Real Estate	9.8	10.8	11.1	10.4	11.4
Financial Institutions	2.1	2.7	2.5	2.7	3.0
Other Business	14.0	11.4	9.4	9.8	12.2
TOTAL PRIVATE ENTERPRISES	62.6	59.1	56.9	55.3	64.1
Community and Personal Services (including Non-Profit Making Institutions)	12.5	12.5	11.5	11.6	13.3
Other Activities (nec)	3.0	2.6	3.8	3.3	3.9
TOTAL BILLS, LOANS AND ADVANCES	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Kenya

Recommendation

This section offers recommendations underpinned on an assumed cause effect of proposed strategy under Vison 2030 and their implementation espoused under MTP 1 to 3 against impact as measured by agribusiness sub sector performance as enumerated in annual economic review for years 2012 upto 2020.

Further recommendations focus on the unit agribusiness sub sectors cogniznt of their correlation within the value chain.

Agriculture

The agriculture sector contributes about 24 per cent of the GDP, about 75 per cent of industrial raw materials and 60 per cent of export earnings. The sector accounts for 65 per cent of Kenya's total exports, 18 per cent and 60 per cent of the formal and total employment respectively.

The agricultural sector comprises five subsectors

1. Industrial crops
2. Food crops
3. Horticulture
4. Livestock and fisheries

Proposed Interventions Under Agriculture

1. There is need for audit of the completion level of proposed strategies under Vision 2030 in relation to the sector and an evaluation of effectiveness of the proposed strategy ensuring the country pivots if necessary to align with current realities

2. There is need for diversification of agricultural exports away from traditional horticulture as well as new product through value addition (increasing product value) and market development. Market development can focus in growing regional market share which is less than 20 percent as well as Africa leveraging on both COMESA and AFCFTA

3. There is need for a relook at current approach of managing weather related risk to the sector cognizant that throughout MTP 1 to 3 risk posed by weather was sighted as a contributor to under performance of the sector and a knock on effect to manufacturing as well as financial sector among other sectors.

4. There is need for review of input reduction strategy cognizant that high input cost has persisted despite reports under the MPTs that the challenges is being addressed.

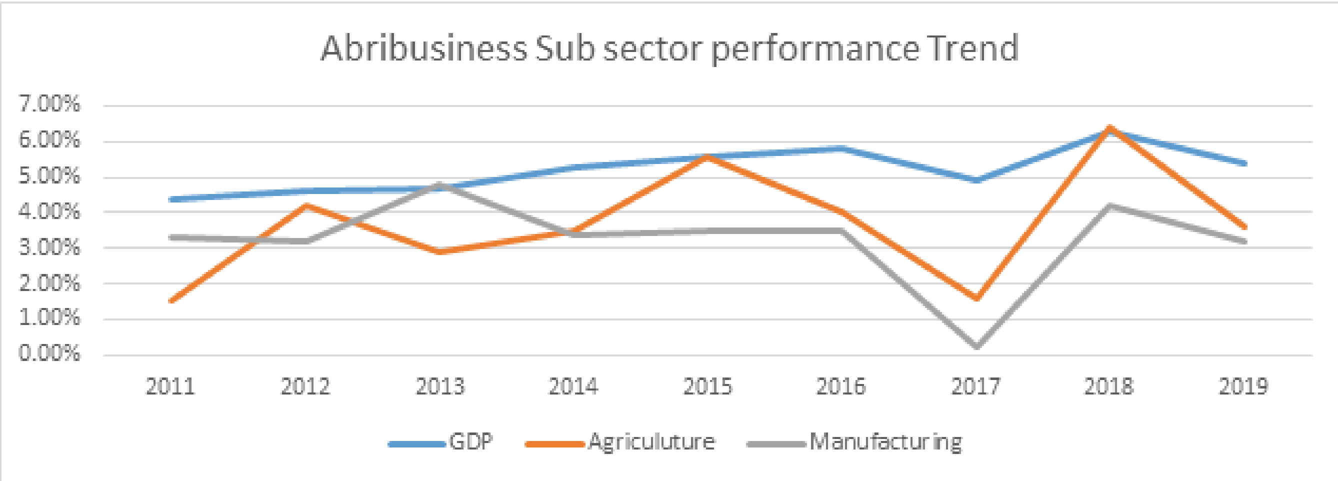
5. There is an acute need for derisking of the sector in order to improve financial inclusion with the sector currently averaging 3 percent of national credit despite its significant contribution to the economy hence direct correlation between the sector performance with manufacturing as well as GDP performance (see tables 19 and 20)

Table 19: Agribusiness sub sector Performance

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP	4.4%	4.6%	4.7%	5.3%	5.6%	5.8%	4.9%	6.3%	5.4%
Agriculture									
Share of Total Credit	4.5%	3.3%	3%	3.7%	3.1%	3%	2.5%	2.5%	2.3%
Growth Rate	1.5%	4.2%	2.9%	3.5%	5.6%	4%	1.6%	6.4%	3.6%
Manufacturing									
Share of Total Credit	12.2%	9.6%	8.9%	13%	10.4%	9.2%	9.4%	9.4%	11.1%
Growth Rate	3.3%	3.2%	4.8%	3.4%	3.5%	3.5%	0.2%	4.2%	3.2%

Source: Central Bank   Analysis: Author

Table 20: Agribusiness Sub Sector Performance Trend



Source: KNBS Economic Review 2012-2020   Analysis: Author

Manufacturing

Manufacturing in Kenya is structured as follows

1. Micro
2. Small
3. Medium
4. Large

Medium to large manufactures constitute 5 percent of total population but contribute 60 percent of the sectors GDP contribution with micro and small constituting 95 percent of population while contributing 40 percent of the sectors GDP contribution.
On average top manufacturing sectors over the last decade are;

1. Textile and Clothing
2. Petroleum
3. Nonmetallic minerals
4. Beverage and Tobacco

Further as of 2013 locally manufactured goods comprised 25 percent of Kenya's export with Kenya's products commanding a paltry 7 percent of the regional market

Proposed Interventions under Manufacturing

1. There is need to address wholesale challenges of the micro and small manufactures who are the majority (constituting 95 percent of aggregate manufactures) in order to unlock their value to GDP contribution from the current sector GDP contribution of 40 percent. Some of the challenges contributing to their underperformance to be addressed include; Inadequate and costly infrastructure, capacity building, cost of doing business, adoption of new technology, access to market (they lack route to market evaluation and exploitation due to their small size and lack of resources)

2. There is a need for comprehensive collaboration framework between micro and small with medium to large manufactures at a sub national level and forward linkage to global value chains

3. There is need for prioritization and further exploitation of proven performing sub sectors such as textile and clothing targeting EAC, COMESA and AFCFTA

References

Kenya National Bureau of Statistics Economic Review 2012-2020

Kenya Vision 2030. First, Second and Third Medium Term Plans

Central Bank of Kenya

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