



KENYA

SELECTED ISSUES

December 2021

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December 2, 2021

Approved By
AFR Department

Prepared by Mame Astou Diouf, Jehann Jack, James Maina,
Vivian Malta, and Francine Nyankiye

CONTENTS

EVIDENCE ON NON-PRICE COMPETITIVENESS OF THE KENYAN ECONOMY	3
A. Introduction	3
B. Review of Kenya's Trading Environment	3
C. Signs of Eroding Competitiveness	11
D. Potential Drivers of Loss of Competitiveness	24
E. Conclusion	31
BOXES	
1. Push for Industrialization	4
2. Trade Agreements	6
FIGURES	
1. Enabling Trade Index, 2016	8
2. Global Competitiveness Index, 2019	10
3. World Market Shares (Goods)	11
4. World Market Shares (Goods and Services)	12
5. Exports Destination (Millions of U.S.\$) and Regional Market Share	13
6a. Change in Average Market Shares (2015–17 versus 2005–10)	13
6b. Change in Average Export Market Shares (2015–17 versus 2005–10)	14
7. Trade Openness and Per Capita GDP	15
8a. Export Composition, 2005 and 2017	15
8b. Export Composition, 2000–19	16
8c. Export Composition Latest Available*	16
9. Export Diversification Trends (2005, 2010, 2018)	17
10a. World Market Growth Rate and Revealed Comparative Advantage (RCA), 2018	18
10b. World Market Growth Rate and RCA, Various Years	18
11. Exports (Products) Sophistication and Technological Classification	19

12. Revealed Physical and Human Capital Intensity	20
13. Products and Markets	21
14. Trade Complementarity	22
15. Global Value Chain Related Trade	22
16. Foreign Direct Investment (Net Inflows)	23
17. Productive Capacities Index	25
18. Product Market Regulation (PMR) Scores	27
19. Corruption Perceptions Index (Score, 2012–20)	27
20. Private Sector Credit Developments	29
21. Tariff Developments	30

TABLE

1. Enabling Trade Index, 2016	9
References	33

TOWARDS MORE GENDER EQUALITY IN KENYA 36

A. Gender Imbalances in Kenya’s Economic Opportunities	37
B. Possible Factors Driving Gender Inequality in Kenya	39
C. Macroeconomic and Distributional Gains from Gender Equality	43
D. Policy Efforts to Improve Gender Equity	49
E. Fiscal Policy Tools	49
F. Experiences with Other Gender-Responsive Policies in Kenya	50
G. Key Takeaways and Policy Recommendations	53

BOX

1. Model	43
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FIGURES

1. Financial Inclusion	39
2. Gender Inequality and Gap	40
3. EAC and Others—Education Attainment and Labor Force Participation	41
4. Wage Employment by Industry and Sex, 2020	42
5. The Macroeconomic Impact of Gender-Rebalancing Policies	46
6. The Distributional Impact of Gender-Rebalancing Policies	47
7. Labor Market Implications of Gender-Rebalancing Policies	48
8. Proportion of Individuals Whose Time Spent on Unpaid Care and Domestic Work Increased in the Last Two Weeks	49
References	55

EVIDENCE ON NON-PRICE COMPETITIVENESS OF THE KENYAN ECONOMY¹

A. Introduction

1. **The Kenyan authorities' reform agenda, which has targeted improving the business and trade environment, has produced good results in many dimensions identified in the literature as important for supporting competitiveness.** Participation in regional and bilateral trading arrangements and support for exporters via special trading zones have aimed at trade openness and deepening the export orientation of Kenyan firms. Industrialization and export-oriented manufacturing have been central components of Kenya's development plan.
2. **However, Kenya's export performance over the last decade—particularly its manufactured exports to destinations within the East African Community (EAC)² and Sub-Saharan Africa (SSA)—has lagged in comparison to peers.** Overall, Kenya's exports to the rest of the world remain concentrated in products characterized by low market growth and exposed to increasing competition from low-cost producers.
3. **This paper examines evidence on non-price competitiveness in Kenya, bringing attention to structural factors and areas in which competitiveness has been eroded, contributing to weak export performance.**³ It provides a diagnostic on competitiveness indicators, such as trade openness, export composition, export diversification, and focuses on the period since 2010. Along many metrics,⁴ Kenya is compared to its regional peers in the EAC and SSA as well as to Bangladesh, Georgia, and Vietnam, countries sharing some characteristics with Kenya, but which have shown relatively stronger sustained export performance. Improving non-price competitiveness could be facilitated by openness to competition, continuing improvements in access to finance (credit and foreign direct investment), and policies that encourage new, dynamic firms and create an even playing field among existing ones.

B. Review of Kenya's Trading Environment

4. **Kenya has undertaken reforms geared towards improving the business and trade environment over the years.** Key among these are the enactment and modernization of various business-related laws, e.g., the Companies Act, the Insolvency Act, the Special Economic Zones Act, the Business Registration Service Act, and the Companies & Insolvency Legislation (Consequential

¹ Prepared by Jehann Jack and James Maina with research support from Francine Nyankiye and peer guidance from Plamen Iossifov and Gabor Pula.

² The East African Community (EAC) is a regional intergovernmental organization of 6 Partner States: The Republics of Burundi, Kenya, Rwanda, South Sudan, the United Republic of Tanzania, and the Republic of Uganda.

³ This Selected Issues Paper focuses on non-price (structural) factors; price-related factors are discussed in the External Sector Assessment.

⁴ In line with the [Use of Third-Party Indicators in Fund Reports](#), we present scores for several indicators in a cross-country context. Note: the accuracy of perception-based indexes can be biased by experts' views rather than facts.

Amendments) Act. Kenya also established an Ease of Doing Business program to lower the cost of doing business. Reforms have included simplifying company registration (e.g., reducing the number of days to register a business); linking stamp duty collection with Kenya Revenue Authority systems; simplifying the process of land registration; reducing the time taken to connect a business to electricity; and establishing a one-stop shop for investors by Kenya Investment Authority. Owing to these reforms, the cost, time, and number of processes to access government services have reduced significantly.

5. The authorities are also taking trade-specific policy measures primarily to boost productivity in the agriculture and manufacturing sectors, aligned with the Big Four Agenda.⁵

Vision 2030, Kenya's economic blueprint that was launched in 2008, sets the overarching target of transforming Kenya into an industrialized middle-income country by the year 2030. The policy emphasis in support of industrialization has been on creating a conducive operating environment for manufacturing businesses (Box 1). Initiatives have included development of the Kenya Industrial Transformation Program (KITP) in 2015 that focuses on reviving manufacturing and industrial exports through development of region-specific clusters. The aim is to create industrial parks along infrastructure corridors, and support to the agro-processing, textile, and mining sectors, among others. Kenya has also created Special Economic Zones (SEZs) and Export Promotion Zones (EPZs) to promote export-oriented manufacturing. Furthermore, the country's expanding trade agreements (Box 2) within the region and globally—taking advantage of long-standing and new alliances—are designed to support export growth. Kenya ratified in 2018 the African Continental Free Trade Area (AfCFTA) agreement as well as the tripartite free trade agreement among the Common Market for Eastern and Southern Africa (COMESA), the EAC, and the Southern African Development Community (SADC) to advance international and regional integration and boost competitiveness.

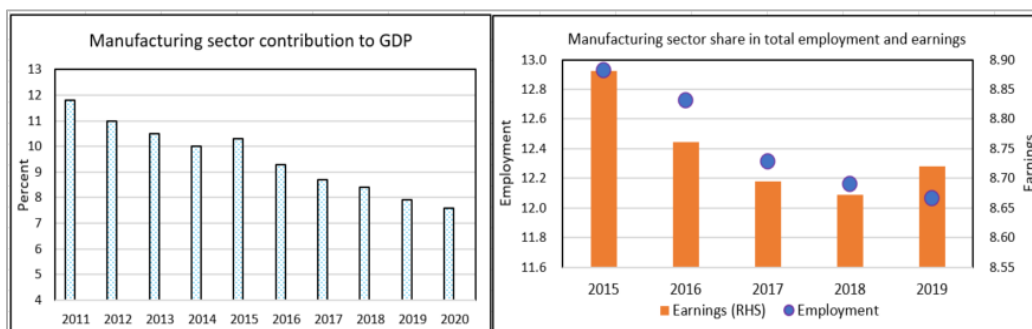
Box 1. Push for Industrialization

Industrialization is a central component of Kenya's development plan. Vision 2030, which was launched in 2008, sets the overarching target of transforming Kenya into an industrialized middle-income country that provides a high quality of life to all its citizens by the year 2030. More recently, expansion of manufacturing was identified (alongside affordable housing, universal health coverage, and food security) as one of the "Big Four" initiatives that were launched in 2018. Manufacturing, and industrialization generally, is in these planning frameworks considered key to employment creation, economic development, and realization of the Sustainable Development Goals (SDGs).

Kenya's focus on industrialization stands against a backdrop of a manufacturing sector that has been struggling to maintain its place in the economy for the past decade. The sector's contribution to GDP has fallen from 11.8 percent in 2011 to 7.6 percent in 2020. This weak performance has contributed to low overall export growth, as Kenya's past standing as a manufacturing hub in East Africa has diminished. The manufacturing sector's share in total employment and earnings also declined (figure), though earnings picked up in the latest observation. The declining trend of manufacturing thus stands in contrast to the key goals of Vision 2030.

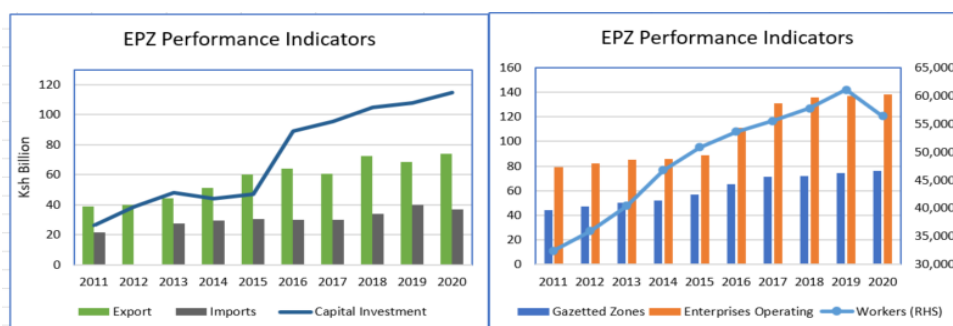
⁵ The pillars of the Big Four Agenda are: (i) food security; (ii) affordable housing; (iii) universal health care; and (iv) manufacturing and job creation.

Box 1. Push for Industrialization (concluded)



Initiatives have included:

- The [National Industrialization Policy](#) from 2012, which focused on addressing challenges facing the sector, including constraints relating to infrastructure, land availability, access to finance, capacity building, and low value addition. The overarching policy objective was to make Kenya more competitive, attract industrial investment, and enable the sector to attain and sustain an annual growth rate of 15 percent.
- The [Kenya Industrial Transformation Program](#) (KITP) from 2015 presented a 10-year blueprint for reviving manufacturing and industrial exports through development of region-specific clusters. The program aimed to create a robust, diversified, and competitive manufacturing sector by boosting local production; expanding to the regional market; and taking advantage of global market niches. The blueprint targeted creation of an industrial development fund, industrial parks along infrastructure corridors, and support to the agro-processing, textile, and mining sectors, among others.
- Enactment of the [Special Economic Zones \(SEZs\) Act](#) in 2015, which paved the way for establishment of the [Special Economic Zones Authority](#) and the creation of eight SEZs. SEZs are designated geographical areas where business-enabling policies are implemented, including favorable tax and regulatory regimes, and where appropriate infrastructure is provided.
- Creation of Export Processing Zones (EPZs) to promote export-oriented manufacturing. The objectives of EPZs are to create jobs, diversify and expand exports, increase productive investments, foster technology transfer, and create backward linkages between the zones and the domestic economy. EPZs were first established in the 1990s and saw strong growth (especially in terms of employment) in the 2010s because of dedicated promotion. Annual investment in EPZs has grown to about KSh115 billion in 2020 and they employ over 50,000 people.



- Establishment of an Ease of Doing Business program to lower the cost of doing business. Reforms have included simplifying company registration; linking stamp duty collection with Kenya Revenue Authority systems; simplifying the process of land registration; reducing the time taken to connect a business to electricity; and establishment by Kenya Investment Authority of a one-stop shop for investors.

Box 2. Trade Agreements

Kenya has over the years ratified and is simultaneously involved in several trade agreements.

Kenya has been a member of the World Trade Organization (WTO) since its inception in January 1995. At the regional level, Kenya is a member of the East African Community (EAC), established in 2000, and the Common Market for Eastern and Southern Africa (COMESA) that was founded in December 1994. Exports and imports within COMESA member countries enjoy preferential tariff rates while the EAC Member States have signed a Protocol to establish a common Customs Union. A single market through the merged Tripartite Free Trade Area—COMESA, EAC, and the Southern African Development Community (SADC)—was launched in mid-2015. Kenya is also among the 54 African Union (AU) nations that have signed a deal to form the African Continental Free Trade Area (AfCFTA). The formation of the free trade area, spanning continental Africa, created a single market of over 1.2 billion people; trading began on January 1, 2021.

Kenya has enjoyed long-standing trade relations with the European Union, under the framework of successive Lomé Conventions and the Cotonou Partnership Agreement. Exports from Kenya entering the European Union are entitled to duty reductions and freedom from all quota restrictions. Trade preferences include duty-free entry of all industrial products as well as a wide range of agricultural products, including beef, fish, dairy products, cereals, fresh and processed fruits, and vegetables. Kenya has also ratified the Economic Partnership Agreement (EPA) between the European Union and the East African Community. The agreement covers trade in goods and development cooperation.

Following the announced withdrawal of the UK from the European Union, discussions began between the UK and Kenya on a bilateral free trade agreement. The ratification of the Kenya–United Kingdom Economic Partnership Agreement by both parties in early 2021 preserves duty-free and quota-free access for Kenyan exports, such as fresh vegetables and flowers, to the UK and aims at boosting trade between the two countries, particularly in financial services. The UK market accounts for 43 percent of total exports of vegetables from Kenya as well as at least 9 percent of cut flowers; therefore, the agreement will support Kenyans working in these sectors by maintaining tariff-free UK market access.

Under the African Growth and Opportunity Act (AGOA), Kenya qualifies (until 2025) for access to the U.S. market that allows for duty-free export of over 6,000 products. Kenya's major products that qualify under the AGOA include textiles, apparel, handicrafts, coffee, and cut flowers. Kenya has developed a National African Growth and Opportunity Act (AGOA) Strategy and Action Plan (2018–23) that provides strategies and actions for increasing exports to the USA. There are also ongoing trade negotiations for a bilateral agreement with the USA.

Kenya has signed bilateral trade agreements with several countries, including Argentina, Bangladesh, Bulgaria, China, Comoros, Congo (DRC), Djibouti, Egypt, Hungary, India, Iraq, Lesotho, Liberia, Netherlands, Nigeria, Pakistan, Poland, Romania, Russia, Rwanda, Somalia, South Korea, Tanzania, Thailand, Zambia, and Zimbabwe. Other agreements are under negotiation with several additional countries.

6. Nonetheless, Kenyan export performance has lagged notably between 2010 and the onset of the pandemic.⁶ Exports of goods and services to GDP have declined steadily from a high of almost 20 percent in 2011 to about 11 percent in 2019. Performance has deteriorated vis-à-vis EAC peers⁷ and other non-resource intensive countries in SSA. Kenya has attracted just 1.3 percent

⁶ The timeframe on performance evaluated is through 2019 (pre-COVID-19) to avoid introducing distortions due to the pandemic.

⁷ Most of diagnostics on the EAC exclude South Sudan; Kenya is also excluded from the EAC group when shown on its own separately. Some EAC diagnostics also exclude Burundi (if its data are not available) and will be flagged as such.

of GDP in foreign direct investment (FDI) on average in 2010–19, whereas other non-resource-rich countries (such as, Ethiopia and Rwanda) have attracted FDI flows around 3 percent of GDP. In addition, the diagnostic in a later section will show that the composition of Kenya's exports is concentrated in products characterized by relatively low technological intensity, low value-added, and low market growth and is exposed to increasing competition from low-cost producers.

7. On the positive side, Kenya has been transforming as an exporter of capital (FDI) and services. Kenyan firms, particularly commercial banks, play a key role in investing in neighboring countries in East Africa (IMF, 2017). The FDI position of Kenya relative to the EAC doubled during 2009-2014, which increased Kenya's relative weight from ¼ that of South Africa to a third. The fact that Kenya is becoming an important exporter of capital to the EAC region may explain why its goods exports lag relative to recipient countries (like Tanzania and Uganda). Kenya is also focusing increasingly on exporting services (e.g., logistics, technology, and digital services), in which it seems to have a comparative advantage.

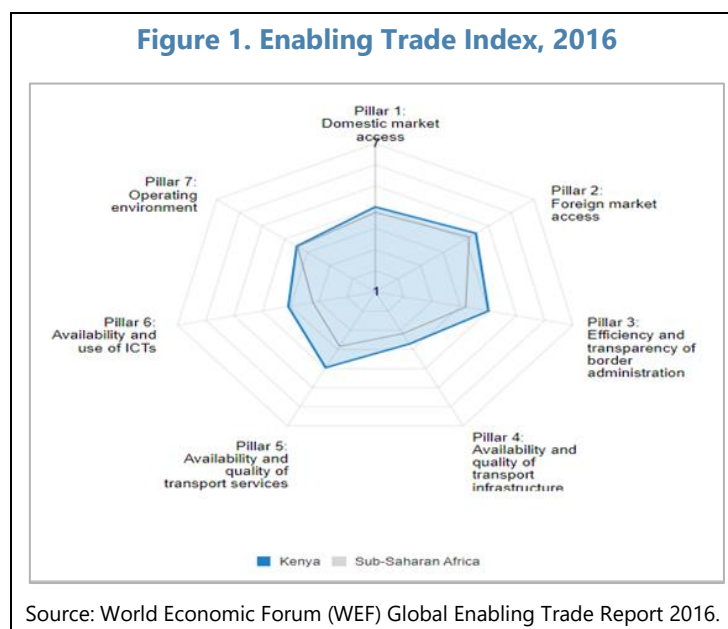
8. In addition, there has been improvement in Kenya's scores across some metrics that support trade. The Enabling Trade Index (ETI) and Global Competitiveness Index (GCI) recognized reform efforts to improve the business and trading environment. Specifically, both indexes point to improvements in the quality and availability of infrastructure and the use of information communications technology (ICT) to facilitate trade.

Enabling Trade Index (ETI)

9. The Global Enabling Trade Report (2016) indicated that Kenya improved its relative ranking based on the Enabling Trade Index (Figure 1).⁸ Kenya's global ranking improved by 9 places since the previous report (2014). Compared to the SSA regional average, Kenya was also closer to the frontier on each of the seven pillars with particularly better scores on the following indicators: availability and quality of transport services (Pillar 5), availability and use of ICT (Pillar 6), efficiency and transparency of border administration (Pillar 3), and availability and quality of transport infrastructure (Pillar 4). Kenya's ranking was driven by a marked improvement in the efficiency of border processes as well as gains in infrastructure. On the border administration subindex, Kenya moved up 20 places, recognizing a significant improvement in the efficiency of its clearance processes and a reduction in the cost of documentary compliance for exports by roughly 25 percent to US\$142.5 in 2016 from US\$190.5 in 2014. Despite these gains, the time required for both documentary and border compliance remained high and irregular payments due to corruption were still a key concern for business executives. Kenya performed well in terms of the availability of transport infrastructure with a well-developed offer of transport and logistics services. The report

⁸ The World Economic Forum's Enabling Trade Index combines both official data and survey responses from business executives, measuring the factors, policies, and services that facilitate the trade in goods across borders and to destination. It is made up of four subindexes: market access; border administration; transport and communications infrastructure; and business environment. Each of these sub-indexes contains two to three pillars that assess different aspects of a country's trade environment.

recommended continued investment at the Port of Mombasa to facilitate both global and intra-regional trade, especially as Kenya's exports enjoy preferential access in several key markets.



10. Across the dimensions of the enabling trade index, Kenya compared well to its regional peers. Table 1 (a, b) shows various enabler to trade subindexes, pillars, and indicators in the first column and then compares selected countries in the East African region—which are chosen as the EAC-4 countries (except South Sudan and Burundi) and Ethiopia—with South Africa, Georgia, and Vietnam in successive blocks.⁹ Kenya is presented first in each block. Table 1a shows that that the common area of strength for the East African region relative to the comparators (South Africa, Georgia, and Vietnam) has been with respect to foreign market access. In particular, the tariffs faced and index of margin of preference have been more favorable in Eastern Africa. By contrast, the common areas of weakness for the East African region relative to the comparators were domestic market access, availability and quality of transport infrastructure,¹⁰ and availability of use of ICTs.

11. However, Kenya had scope to improve further on several areas that serve to enable trade. Compared to Georgia, its share of duty-free imports, irregular payments, and physical security are indicated as areas that were not enabling trade when compared to more successful global exporters (Table 1b). Tariff rates for all (SSA/EAC) peers compared unfavorably to Georgia given Georgia's duty-free access to European Union markets since mid-2014 as part of the

⁹ South Africa (ZAF) is the only upper middle-income level country (UMIC) in sub-Saharan Africa, so it is a natural country for comparison. Georgia (GEO), an UMIC, was chosen because it started off from the same income level as Kenya in the 2000s. It has been pursuing important institutional reforms, including anti-corruption measures, which led to better growth outcomes. Vietnam (VIE), a lower middle-income country (LMIC), is also known for its business-friendly reforms; it launched a reform program in 1986, starting with limited changes in the rural sector and ramped up the scope and pace of reforms in 1989, including liberalizing most prices, encouraging entry of private businesses in many fields, and opening trade and foreign investment. Kenya is the only LMIC in Eastern Africa; the other EAC countries and Ethiopia are all low-income countries (LICs).

¹⁰ Kenya's score on this dimension indicates somewhat stronger relative performance than EAC peers.

multilateral Deep and Comprehensive Free Trade Agreement (DCFTA). In addition, Georgia has several FTAs with key regional trading partners and other special trading arrangements.

Table 1. Kenya: Enabling Trade Index, 2016

a. Difference in Scores Across Sub-Indexes and Pillars, Values

Enable to Trade Indicators	Compared to South Africa					Compared to Georgia					Compared to Vietnam				
	KEN	RWA	TZA	UGA	ETH	KEN	RWA	TZA	UGA	ETH	KEN	RWA	TZA	UGA	ETH
Enabling Trade Index	(22)	5	(60)	(29)	(62)	(36)	(9)	(74)	(43)	(76)	(4)	23	(42)	(11)	(44)
Subindex A: Market access	21	35	69	80	(16)	(51)	(37)	(3)	8	(88)	8	22	56	67	(29)
Pillar 1: Domestic market access	(22)	(8)	(13)	(10)	(52)	(89)	(75)	(80)	(77)	(119)	(21)	(7)	(12)	(9)	(51)
Pillar 2: Foreign market access	76	75	92	97	68	9	8	25	30	1	55	54	71	76	47
Subindex B: Border administration	(15)	2	(73)	(40)	(37)	(37)	(20)	(95)	(62)	(59)	10	27	(48)	(15)	(12)
Pillar 3: Efficiency and transparency of border administration	(15)	2	(73)	(40)	(37)	(37)	(20)	(95)	(62)	(59)	10	27	(48)	(15)	(12)
Subindex C: Infrastructure	(41)	(58)	(69)	(74)	(80)	(6)	(23)	(34)	(39)	(45)	(15)	(32)	(43)	(48)	(54)
Pillar 4: Availability and quality of transport infrastructure	(48)	(50)	(72)	(85)	(51)	(1)	(3)	(25)	(38)	(4)	(11)	(13)	(35)	(48)	(14)
Pillar 5: Availability and quality of transport services	(17)	(22)	(44)	(35)	(75)	46	41	19	28	(12)	8	3	(19)	(10)	(50)
Pillar 6: Availability and use of ICTs	(36)	(54)	(56)	(60)	(69)	(32)	(50)	(52)	(56)	(65)	(31)	(49)	(51)	(55)	(64)
Subindex D: Operating environment	(35)	44	(31)	(23)	(36)	(63)	16	(59)	(51)	(64)	(19)	60	(15)	(7)	(20)
Pillar 7: Operating environment	(35)	44	(31)	(23)	(36)	(63)	16	(59)	(51)	(64)	(19)	60	(15)	(7)	(20)

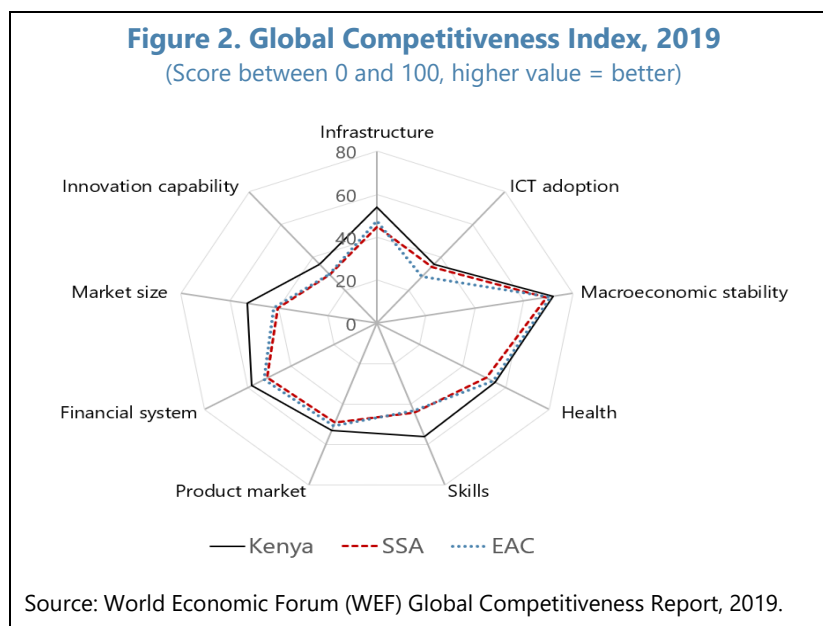
b. Difference in Scores Across Indicators, Heat Map

Enable to Trade Indicators	Compared to South Africa					Compared to Georgia					Compared to Vietnam				
	Kenya	Rwanda	Tanzania	Uganda	Ethiopia	Kenya	Rwanda	Tanzania	Uganda	Ethiopia	Kenya	Rwanda	Tanzania	Uganda	Ethiopia
Enabling Trade Index (1-7)															
Tariff rate (%)															
Complexity of tariffs index (1-7)															
Share of duty-free imports (%)															
Tariffs faced (%)															
Index of margin of preference in destination mtkts (0-100)															
Customs services index (0-1)															
Efficiency of the clearance process (1-5)															
Time to import: Documentary compliance (hours)															
Time to import: Border compliance (hours)															
Cost to import: Documentary compliance (US\$)															
Cost to import: Border compliance (US\$)															
Time to export: Documentary compliance (hours)															
Time to export: Border compliance (hours)															
Cost to export: Documentary compliance (US\$)															
Irregular payments in exports and imports*															
Time predictability of import procedures*															
Customs transparency index (0-1)															
Available intl airline seat km/week, millions															
Quality of air transport infrastructure*															
Quality of railroad infrastructure*															
Liner Shipping Connectivity Index (0-157.1)															
Quality of port infrastructure*															
Road Quality Index (1-7)															
Quality of roads*															
Ease and affordability of shipment (1-5)															
Logistics competence (1-5)															
Tracking and tracing ability (1-5)															
Timeliness of shipments in reaching destination (1-5)															
Postal services efficiency*															
Efficiency of transport mode change*															
Mobile phone subscriptions/100 pop.															
Individuals using Internet (%)															
Fixed broadband Internet subscriptions/100 pop.															
Active mobile broadband Internet subscriptions/100 pop.															
ICT use for business-to-business transactions*															
Internet use for business-to-consumer transactions*															
Government Online Service Index (0-1)															
Protection of property index (1-7)															
Efficiency and accountability of public institutions index (1-7)															
Access to finance index (1-7)															
Openness to foreign participation index (1-7)															
Index of physical security (1-7)															

Sources: World Economic Forum (WEF) Global Enabling Trade Report 2016 and IMF staff calculations.

Global Competitiveness Index (GCI)

12. Kenya also compared favorably with regional peers on several global competitiveness index (GCI) sub-indicators, which identify inputs to productivity (Figure 2).¹¹ Given its latest scores among sub-indexes, Kenya is closer to the frontier than its regional peers in areas such as infrastructure, innovation capacity, market size, financial system, and skills, although it should be noted that by these measures sub-Saharan Africa is considered as the least competitive region. Kenya's strong performance here reflected fairly recent business environment improvements, including a significant simplification of processes to start a business and better provision of electricity.



13. Notwithstanding these favorable relative rankings, there is also evidence that Kenya has recently lost competitiveness. While the authorities made a determined push to undertake reforms to improve the country's scores on some of the most closely watched indicators, other indicators and the performance of exports suggest persistent challenges. The trade policy regime—business environment and trade facilitation—is a necessary but not sufficient factor that determines the strength of a country's competitiveness.

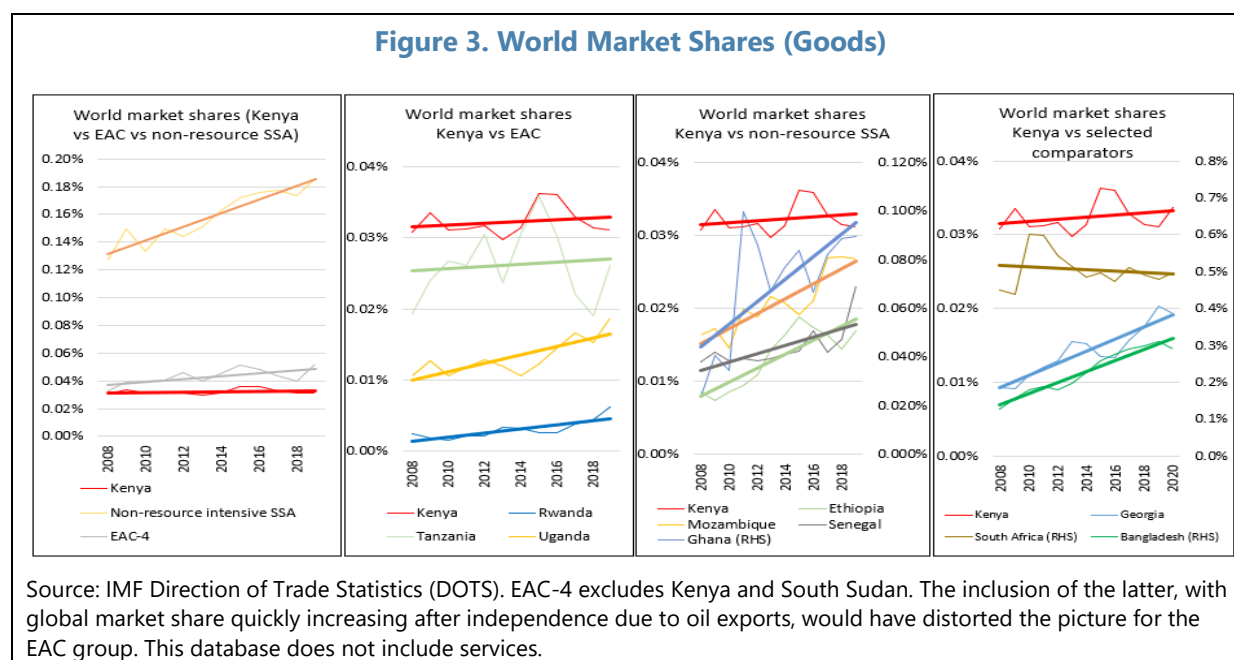
¹¹ The World Economic Forum's Global Competitiveness Index combines both official data and survey responses from business executives on several dimensions of competitiveness. Covering 141 economies, the WEF's GCI 4.0 (2019) measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity. Kenya is classified among factor-driven economies (stage 1), within which there is total of around 35 other similar economies; these economies principally compete based on their factor endowments, primarily unskilled labor, and natural resources. Companies from factor-driven economies compete based on price and sell basic products and commodities with their low productivity reflected in low wages. Besides the transition phases (in between stages), other stages are efficiency-driven (2) and innovation-driven (3). Pillars 1 (institutions), 8 (labor market), and 11 (business dynamism) were removed due to the discontinuation of the World Bank's Doing Business Indicators, upon which they were based, in September 2021.

C. Signs of Eroding Competitiveness

14. This section examines the areas in which Kenya has been underperforming. The diagnostic heavily relies on an online trade outcomes tool, which follows the analytical framework developed by the World Bank Group (WBG) Trade Competitiveness Diagnostic toolkit (World Bank, 2013). The main databases utilized are the World Integrated Trade Solution (WITS), also developed by the WBG, and the IMF's Direction of Trade Statistics (DOTS) and World Economic Outlook (WEO). Other data and information sources include The Growth Lab at Harvard University,¹² the WEF, United Nations (UN) Commodity Trade Statistics database (COMTRADE), and Kenyan country authorities.

Global and Regional Market Share Developments

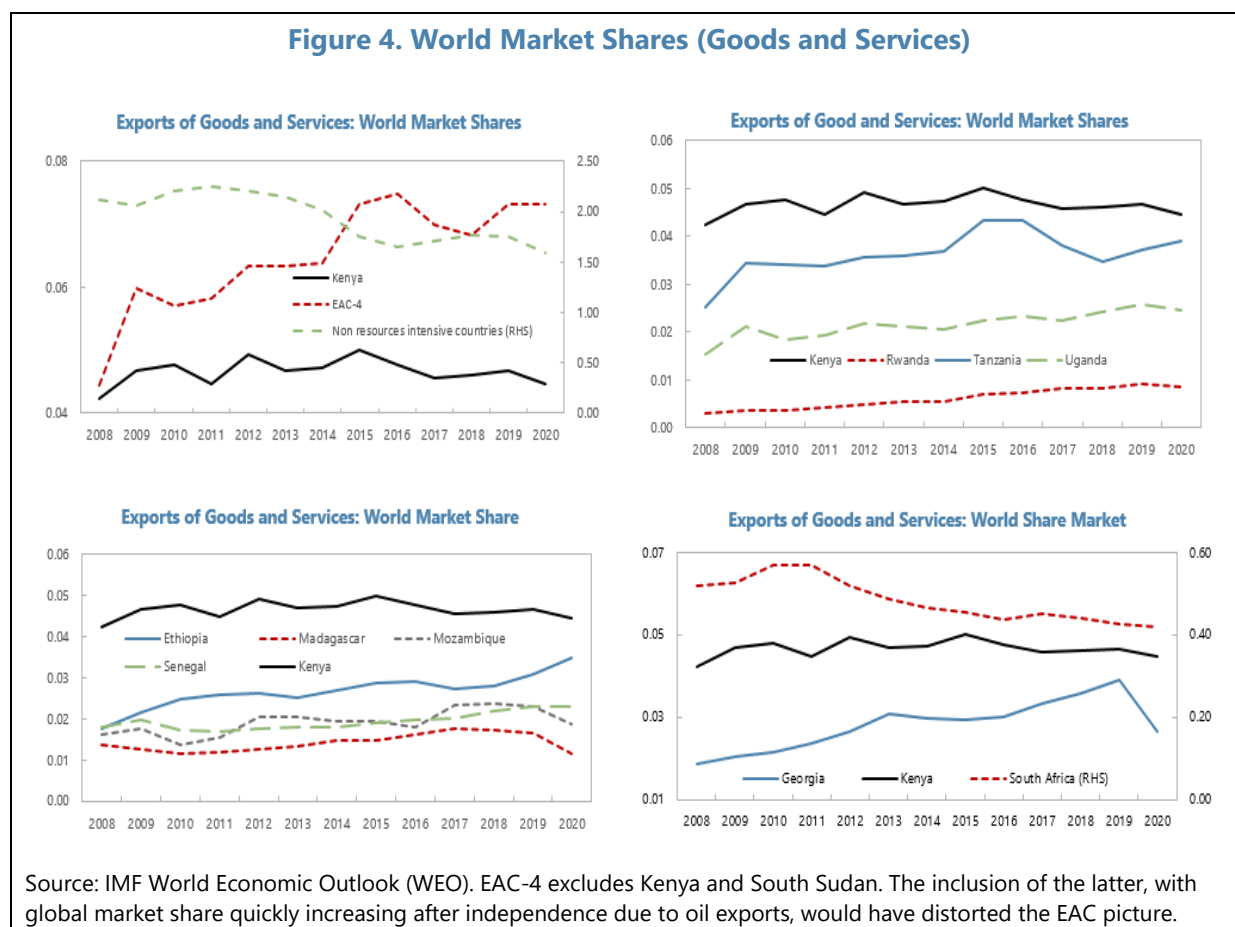
15. Kenya's goods have barely gained global market share since 2008. Kenya's export share in the world market was broadly unchanged at about 0.03 percent from 2008 to 2019 (Figure 3). This is unlike the experience of its regional peers (EAC-4 and particularly among non-resource intensive SSA, considering both the group averages and country trends). South Africa, Bangladesh, and Georgia are also shown as comparators since their economies have been able to grow at a faster clip than Kenya. Bangladesh and Georgia, for instance, have been expanding their global market shares more rapidly than Kenya (coming from a lower level: less than 0.01 percent in 2008), whereas South Africa (beginning at a higher level: 0.53 percent) has been losing its global market share.



16. Adding services does not change the main takeaway, which is that Kenya's world market share is higher than those of individual EAC peers but has been relatively stagnant since 2008. Services share in total exports is quite substantial in non-resource intensive SSA

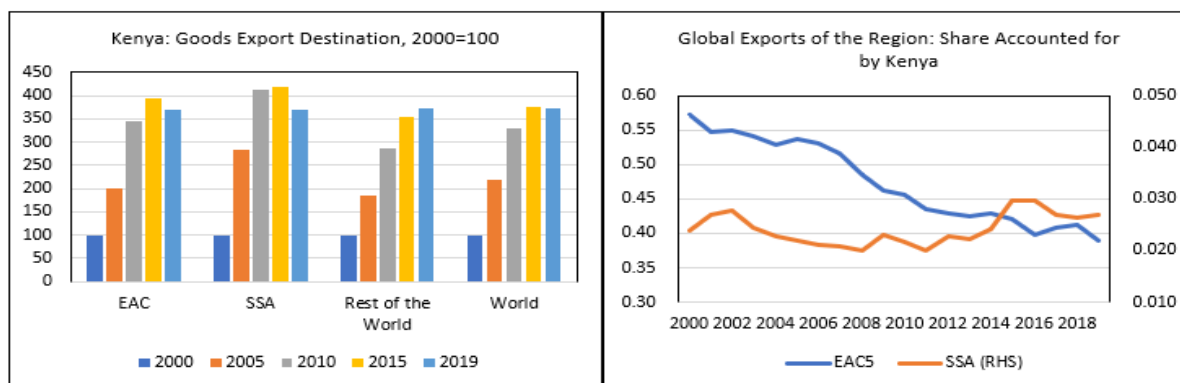
¹² [The Atlas of Economic Complexity](#).

countries; however, the share of global export accounted for by these countries has been modestly declining overall since 2013, as has Kenya's. Other countries (particularly Georgia until the pandemic, but not South Africa) had better success than Kenya in growing their global market shares (Figure 4).



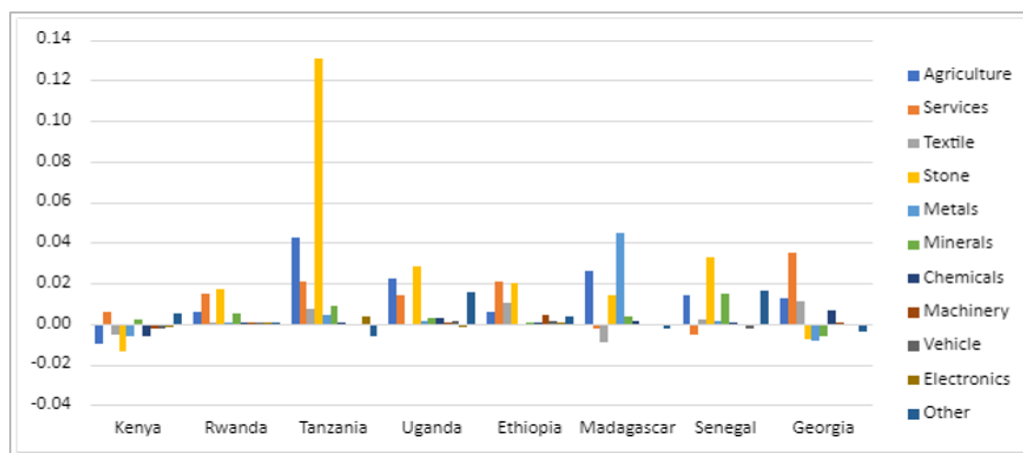
17. Considering the evolution of Kenya's goods exports (in value terms) by destinations in the African region shows that over the past decade its growth overall has been slow—hardly changing in nominal terms (Figure 5, left-hand side). Between the mid-1990s and mid-2010s, the share of SSA regional trade in world markets almost doubled and, by 2013, Kenya had emerged as a hub within the EAC, as sub-regional trade also expanded (IMF, 2015). However, Kenya appears to have lost its position of dominance while other peers (Tanzania, Rwanda) advanced. On the other hand, Kenya's goods exports to the rest of the world markets have increased (which is mostly tea to Pakistan, cut flowers to the UK, and apparel to the USA).

18. Kenya has been losing its share of EAC's global exports while its share of SSA's international exports rose slightly (Figure 5, right-hand side). Its share of the goods and services exports from the EAC has fallen from almost 60 percent in 2000 to below 40 percent in 2019. On the other hand, Uganda and Rwanda improved their respective shares over the same period.

Figure 5. Exports Destination (Millions of U.S.\$) and Regional Market Share

Sources: IMF Direction of Trade Statistics (DOTS), left-hand panel, and WBG World Integrated Trade Solution (WITS), right-hand panel. IMF DOTS database does not include services. EAC5 excludes South Sudan.

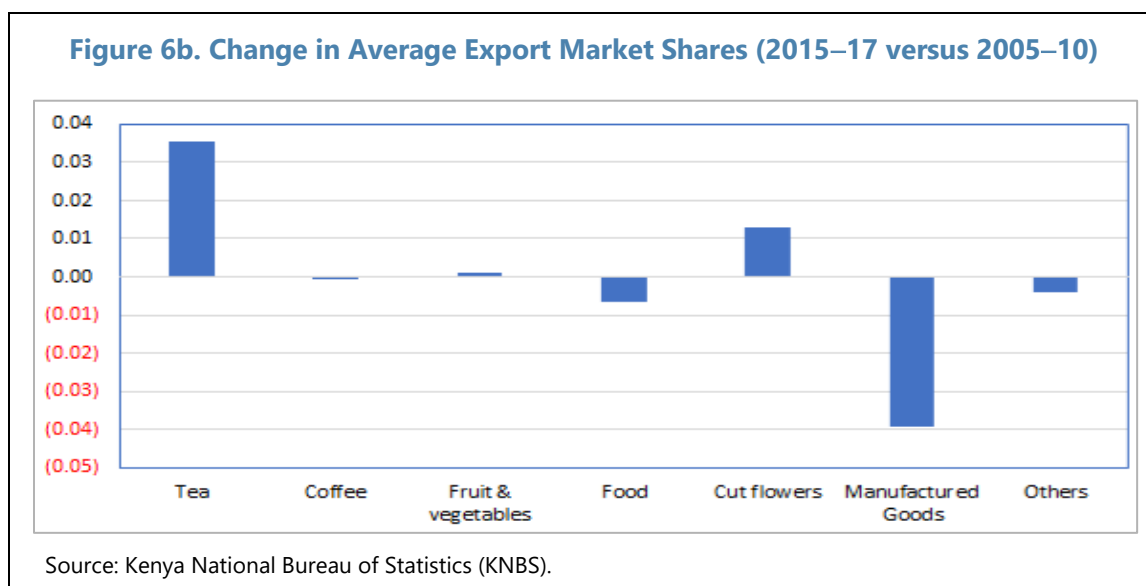
19. An exploration of the trends in Kenyan and peers' world market shares on a sectoral level shows that Kenya's export weakness was broad based across sectors (Figure 6a). The change in average market shares across sectors between the periods of 2015–17 and 2005–10 is measured to pinpoint the sectors that contribute the most to the trends. What is interesting in Kenya's case is that the average market shares for all major sectors were declining or relatively stagnant. This broad-based sectoral decline suggests that there is some fundamental structural problem that was pervasive and negatively impacted the trade environment. The services sector has performed relatively better but other sectors, such as agriculture, textile, and stone, have declined or barely changed.

Figure 6a. Change in Average Market Shares (2015–17 versus 2005–10)

Source: The Growth Lab at Harvard University—[The Atlas of Economic Complexity](#).

20. Looking at Kenya exclusively, the manufacturing sector lost the biggest export market share post-2015 (Figure 6b). Within agriculture, food export market share declined, and coffee and fruits and vegetables' market shares barely moved. On the other hand, tea and cut flowers have

registered relatively strong export market share growth. However, these are low value primary products and could explain the decline in the overall agriculture sector.



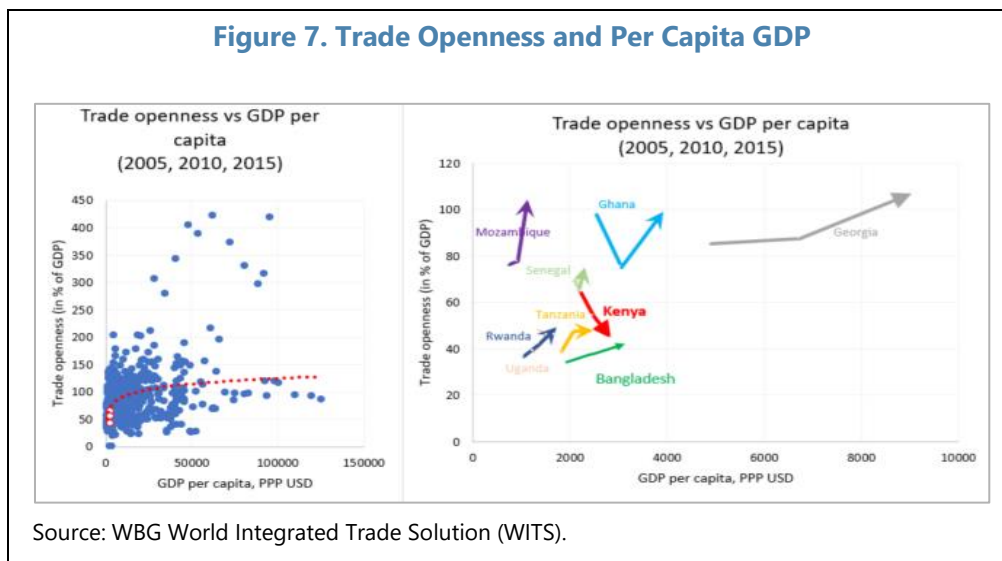
Trade Openness

21. Kenya's observed trade openness relative to its level of development has also declined since 2005 (Figure 7, right-hand side). Trade openness is proxied by the sum of exports and imports, expressed as a percent of gross domestic product (GDP). Theoretically and empirically,¹³ the usual historical pattern of economic development suggests that there is a positive correlation between trade openness and development (from a certain minimum level) (Figure 7, left-hand side). The left panel uses data in 5-year intervals (for 2005, 2010, and 2015) in a scatter plot and indicates that, on average, countries with high trade openness tend to be wealthier. This correlation weakens or tapers off over time as there is a saturation point beyond which it is more difficult to increase the degree of trade openness even as countries develop and grow. Kenya is at the development level where one would still expect to see an increase in trade openness, but the right-hand side chart paints a very different picture. Kenya's pattern is unique, and the degree of observed trade openness has clearly declined across three time periods: 2005, 2010, and 2015, even as GDP per capita increased.¹⁴

¹³ Rodriguez and Rodrik (2001) and Were (2015).

¹⁴ The WITS database is not updated for Kenya's recent GDP rebasing, so the findings are subject to confirmation.

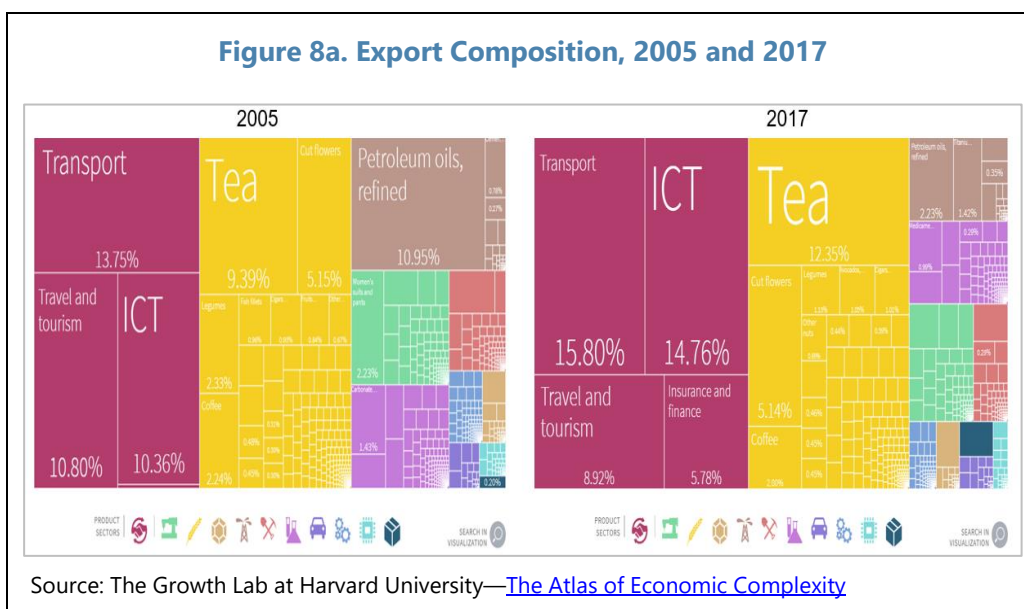
Figure 7. Trade Openness and Per Capita GDP

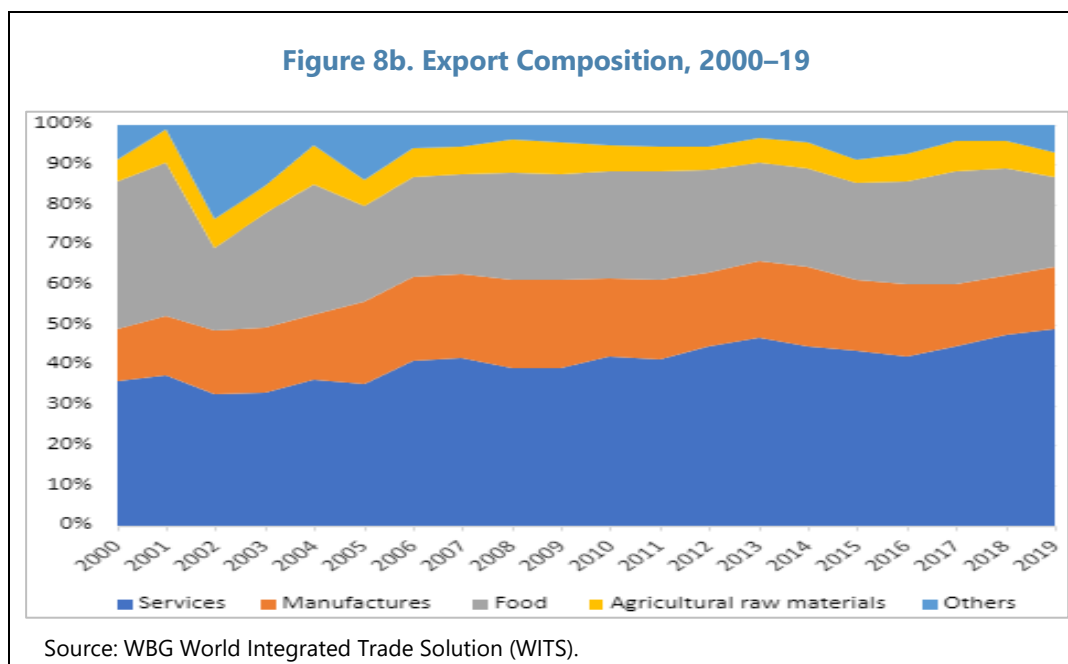


Export Composition

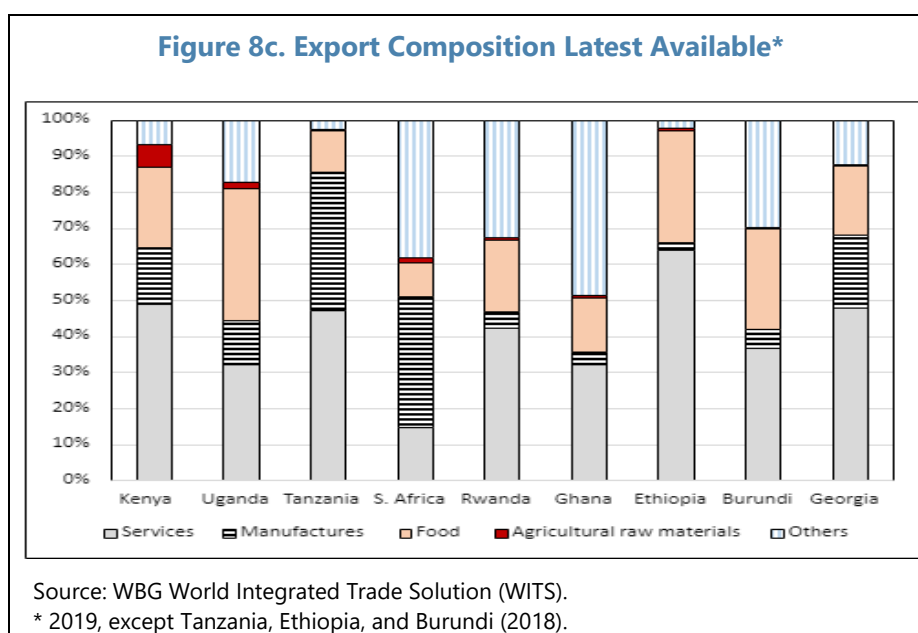
22. Kenya's export composition had tilted more towards services since 2005. Looking at Kenya's export composition across products and sectors in 2005 and 2017 (Figure 8a), two observations are clear: firstly, the shares have tilted more towards services (about 45 percent), within which a new sub-sector (insurance and finance) emerged. Secondly, within the manufacturing segment (which comprises chemicals, textiles, metals, machinery, vehicles, etc.), the sub-sector composition of exports has not changed much. However, the share of manufacturing became smaller—to less than a third by 2017. Figure 8b, showing Kenya's export composition during 2000–19, illustrates the emergence of services as a key export since 2005. The other main sector shares have remained the same after 2005 except for some reduction in manufacturing within the last 5 years.

Figure 8a. Export Composition, 2005 and 2017





23. The economic structure of Kenya is different from those of comparators. Services form a big part of Kenya's exports, as in Tanzania, Rwanda, Ethiopia, and Georgia (Figure 8c). Notably, Kenya has the largest share of agriculture raw materials in its exports relative to the comparators.



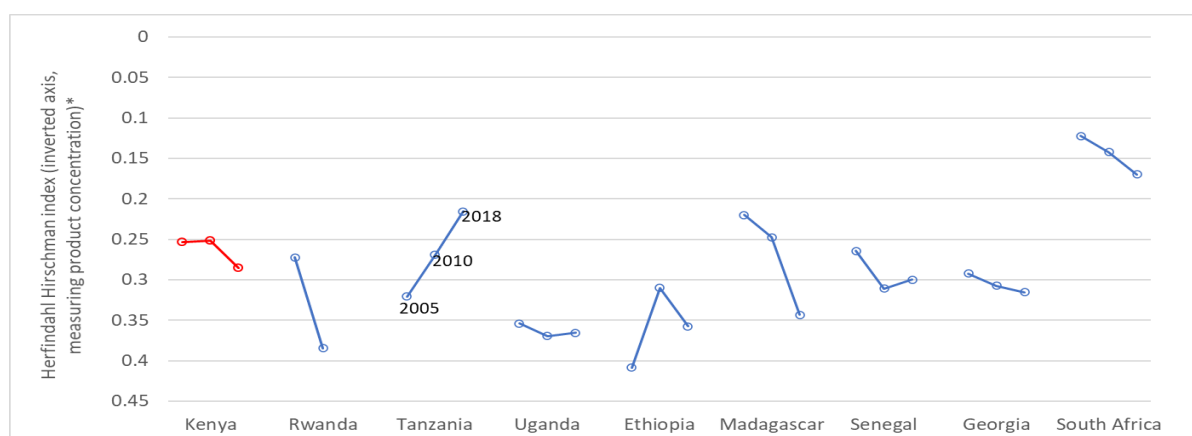
Export Diversification

24. Kenya's exports are more diversified than its peers. However, looking across countries, export diversification trends paint a mixed picture (Figure 9). Although Kenya has relatively higher export diversification, it has somewhat weakened in the recent years. While Tanzania stands

out with a consistent trend to higher export diversification over the period 2005–18, other countries, including Madagascar, Georgia, and South Africa, showed declines in diversification similar to—or more pronounced—than Kenya.

25. While the literature is inconclusive on the role of diversification in supporting economic growth outcomes (e.g., Bahar, 2016, and Imbs and Warcziag, 2003), the relationship is positive for less advanced countries. Export diversification reduces output volatility thus improving long-run growth, especially in developing countries. Horizontal export diversification into new export products and services generate positive externalities on the rest of the economy as export-oriented sectors gain lessons from foreign purchasers and get exposure to international competition. On its part, vertical diversification from primary exports into processed products exports is linked to growth as primary export sectors generally do not have strong spillovers.

Figure 9. Export Diversification Trends (2005, 2010, 2018)



Source: WBG World Integrated Trade Solution (WITS). *Herfindahl Hirschman product concentration indices are calculated for each product market separately; the chart depicts the median of these indices.

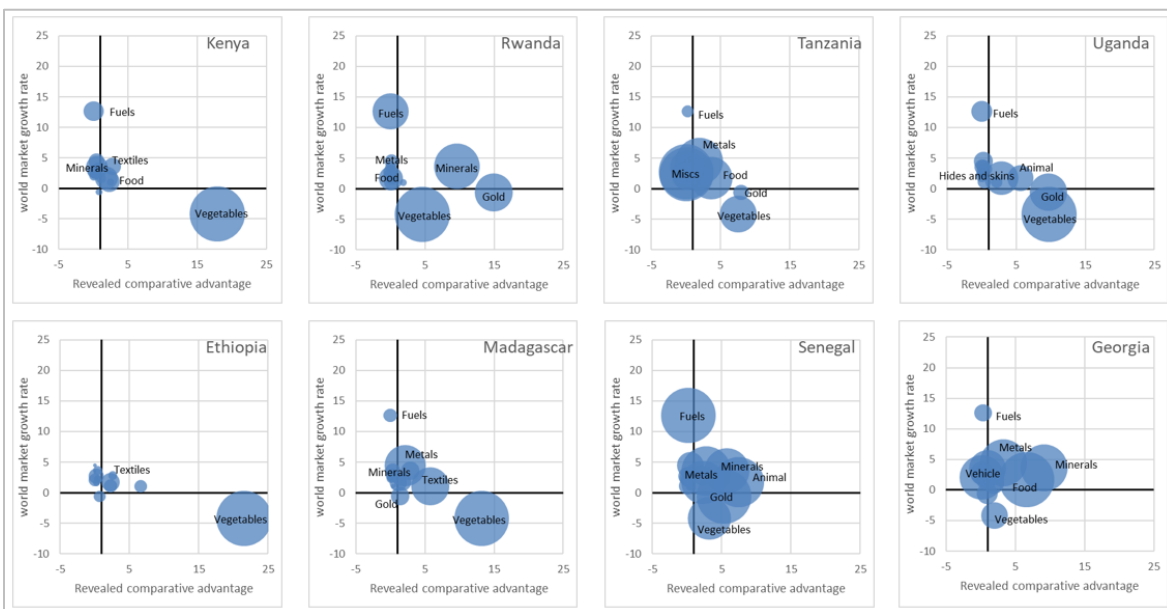
Export Specialization (or Concentration)

26. Kenya's revealed comparative advantage, a measure of export potential, is in export products with slower growth in world markets. Its largest export product share is for vegetables (45 percent in 2019)—a sector in which the global market was shrinking in 2018 (Figure 10a, top left-hand side chart). High specialization (concentration) in vegetables suggests that Kenya's factor endowments are such that it can produce those products cheaper than others. The database uses vegetables to match vegetable products in the Harmonized System (HS) product nomenclature; it covers all raw agricultural products (including coffee, tea, and flowers).¹⁵ Kenya's revealed comparative advantage in vegetables has persisted over time (Figure 10b). However, the fact that the last observation of the world market growth rate is declining for vegetables indicates that potential for growth in this product category's export may be limited. While several comparator countries in the region, such as Uganda, Tanzania, Rwanda, and Madagascar, also export vegetables,

¹⁵ The product group classification in the WITS database is largely based on World Custom Organization (WCO) sector classification for the Harmonized System (HS) product nomenclature with a minor difference; fuel is separate.

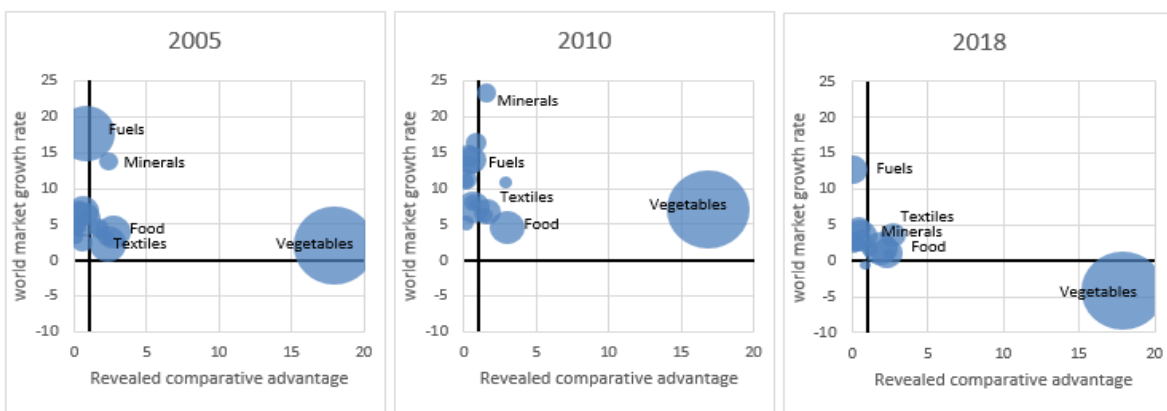
they also have large export shares in other products (such as fuels, minerals, metals, textiles, and processed food) with growing global markets. Other countries with specialty in products with growing markets include Senegal (minerals and animals) and Georgia (minerals, metals, and food).¹⁶

Figure 10a. World Market Growth Rate and Revealed Comparative Advantage (RCA), 2018



Source: WBG World Integrated Trade Solution (WITS).

Figure 10b. World Market Growth Rate and RCA, Various Years

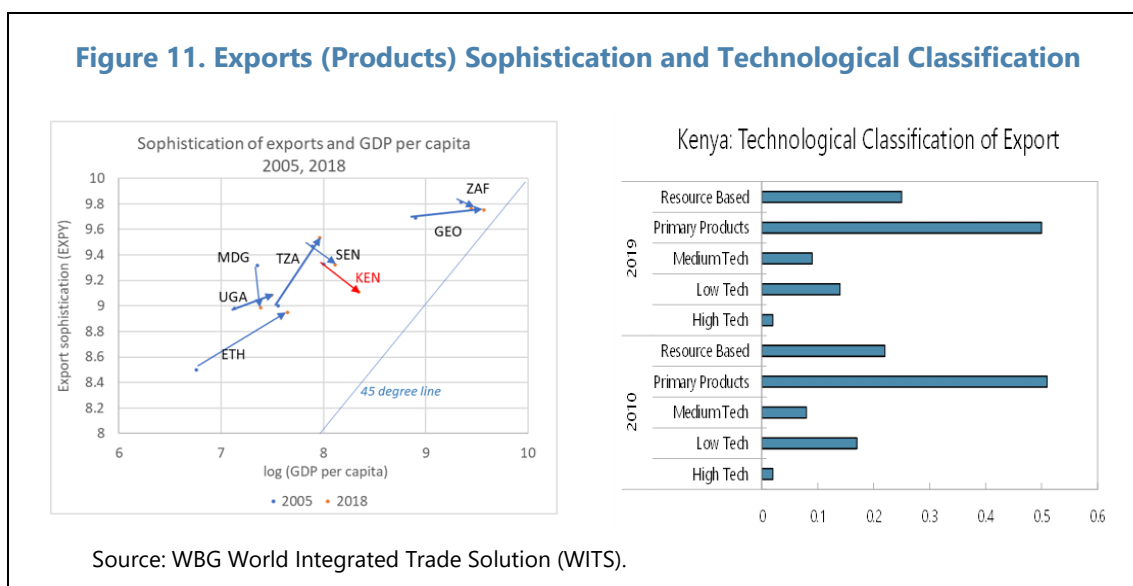


Source: WBG World Integrated Trade Solution (WITS).

¹⁶ Balassa (1965) stated that a country is an effective exporter of a product if it exports more than its “fair share,” or a share that is equal to or more than the share of total world trade that the product represents. When a country has a revealed comparative advantage for a given product (RCA > 1), the share of that product in its exports is higher than the share of that product in the world average. While the RCA index is a measure of a country’s relative dis/advantage in a specific industry as evidenced by trade flows, the ideal is for a country to export products in which the global market share is growing.

Export Sophistication

27. The products that Kenya exports are increasingly produced by countries at relatively lower income levels and have seen little meaningful improvement in technological content (Figure 11). Export sophistication, EXPY, employs methodology introduced by Hausmann et al. (2007) to estimate the level of technological sophistication embodied in a country's export portfolio. It is measured by the average development level of countries exporting the same products and calculated as per capita GDP weighted by the share of the country's exports in the total world exports of that product. The World Bank (2013) explains that sophistication of a country's export products provides insight into its level of economic development and its location in the global production chain. If a product is mostly produced by rich countries, then it is revealed to be a "rich," or sophisticated, product. On the other hand, if a product is primarily produced by low-income countries, then it is classified to be a "poor," or unsophisticated, product. What may be driving the outcome between 2005 and 2018 for Kenya appears to be the result of increasing competition in its established export products from countries at relatively low levels of development (Figure 11, left-hand side). Hausmann et al. (2007) find that regions grow faster when they specialize in more sophisticated goods, which is the case for Georgia and South Africa.



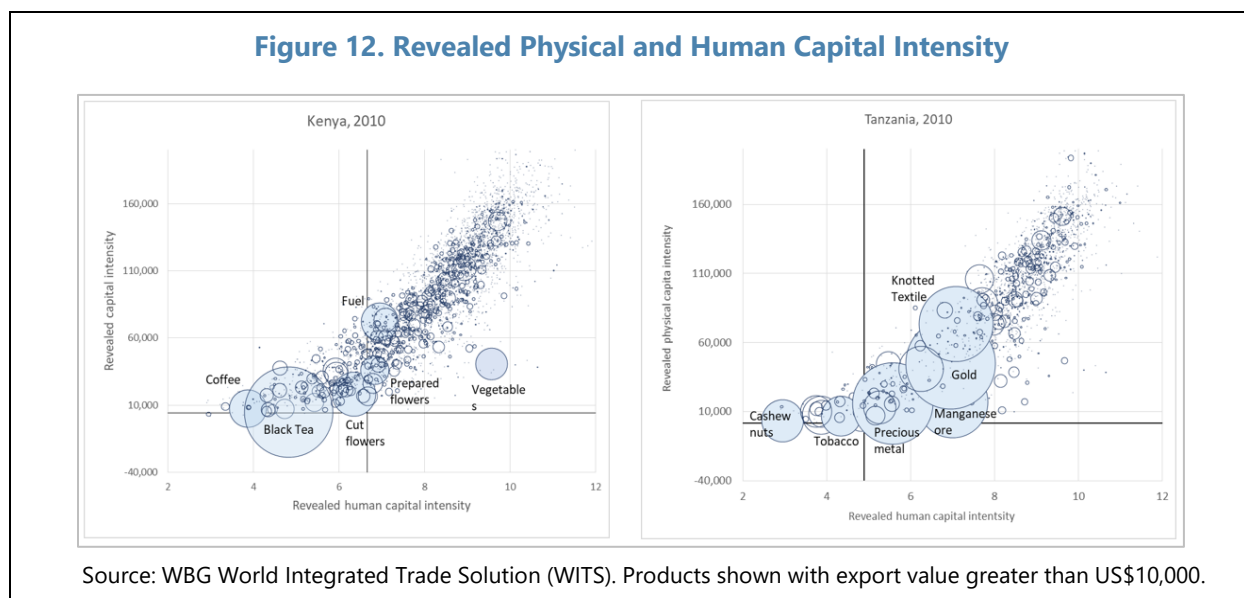
28. Primary products remained the dominant share for Kenya in both 2010 and 2019 (Figure 11, right-hand side). The technological classification of exports reflects work by Lall (2000) to categorize all manufactured products into one of five mutually exclusive groupings by skill intensity: high tech, medium tech, low tech, primary products, and resource-based products. The chart above illustrates the breakdown (or share) of Kenya's goods export basket into technological classifications using a horizontal bar graph. Analyzing how Kenya's trade portfolio has changed over time provides insights into its economic development pattern. As demonstrated above (e.g., export composition and export concentration), the heavy reliance on primary agriculture products, such as tea and coffee, with relatively little value-added is an important driver of these trade outcomes.

There has also been little appreciable movement toward low-tech, medium-tech or high-tech exports over the period.

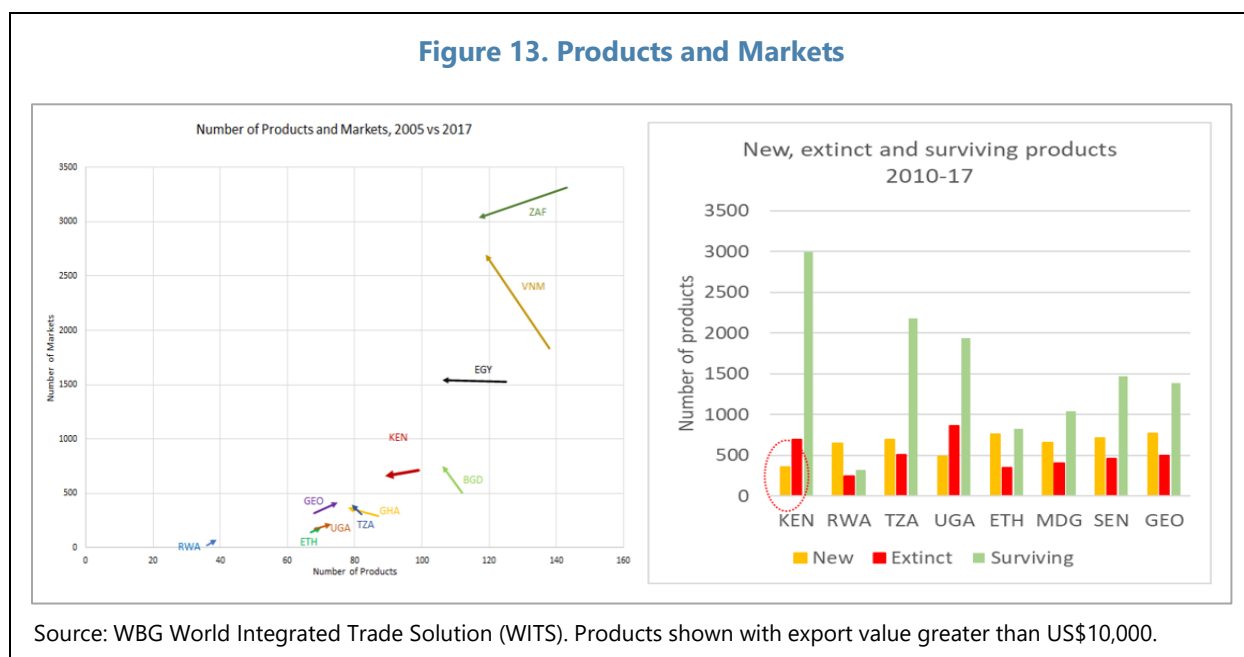
Export Product Structure

29. The products that are more prominent in Kenya's export basket do not utilize fully its factor endowments. The Heckscher-Ohlin theory predicts that countries will specialize in products and export goods that utilize intensively their relatively abundant factor—human capital or physical capital. The indicator compares a country's exports value, the revealed factor intensities of those products, and its capital endowments. The axes of these charts are the country-specific factor endowments (in terms of human and physical capital). The revealed (physical) capital intensity and revealed human capital intensity are computed as weighted averages of the respective factor endowments of countries producing each product, with weights derived from revealed comparative advantage. Figure 12 illustrates the relationship between export value and comparative advantage for Kenya (left-hand side) with Tanzania (right-hand side). Each circle represents a specific product (e.g., black tea), and the location of each circle depends on the producers of a given product and the relative factor endowments of those countries. Thus, products located closer to the axes represent those for which needed inputs are closer to the factor endowments of the producing country. The size of each circle (product) reflects its value share in the country's total exports; thus, a fair expectation is to see larger circles cluster around the intersecting lines. Considering the case of Kenya and its exports, black tea has a lower human capital intensity (and vegetables a higher one) than Kenya's factor endowments. Horticulture—cut and/or prepared flowers—appears to be the product category that best aligns with Kenya's factor endowments.

30. Kenya's export product structure is vastly different from Tanzania's. Agricultural products (black tea, flowers, vegetables, and coffee) are important in Kenya's export basket whereas minerals and metals feature highly in Tanzania's.

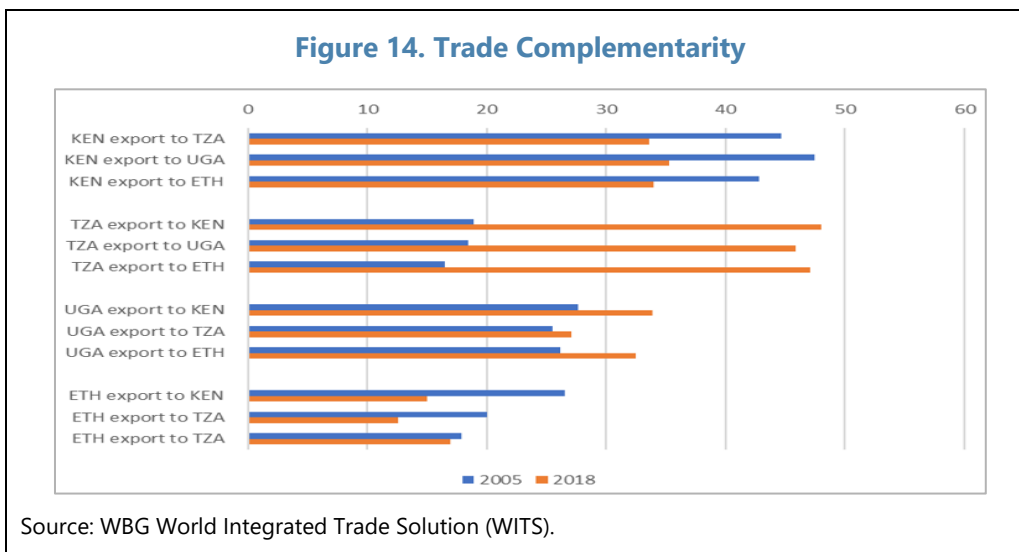


31. Turning to Kenya's trading network and the dynamism of its export products, Kenya has more trading relationships than SSA peers, except for South Africa (Figure 13). More markets and products suggest a more developed trading network, which is positive. The persistence of trading relationships is also a recognized sign of economic maturity (World Bank, 2013). However, Kenya and South Africa are the only countries in the chart (left-hand side) that lost both markets and products between 2005 and 2017. In fact, during 2010–17, Kenya had the least number of new products while having the highest survival rate, relative to the group of countries shown in the figure (right-hand side). This outcome suggests a lack of export dynamism and some entry barrier issues.



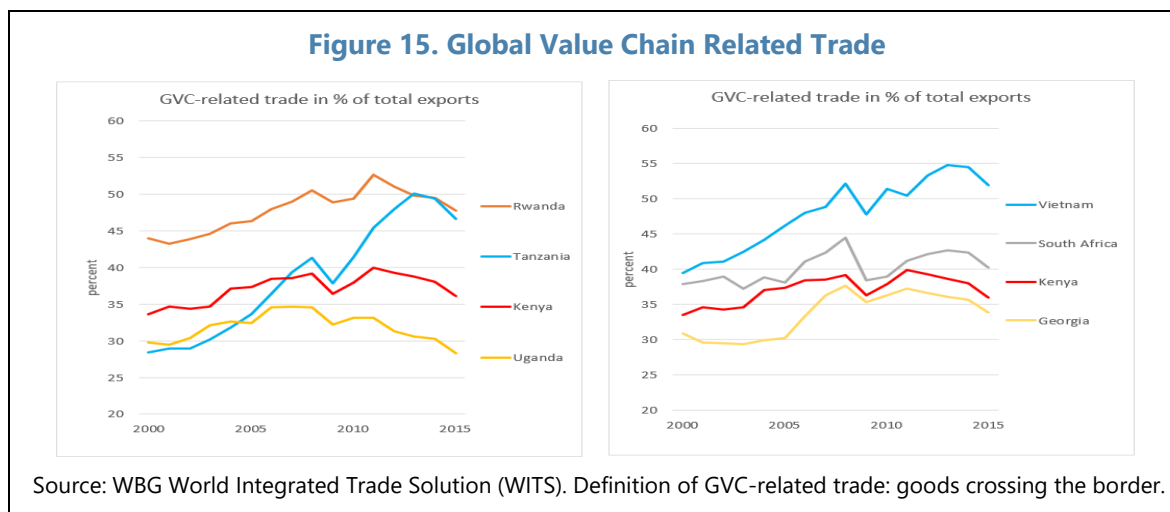
Trade Complementarity

32. The trade complementarity index between Kenya's exports and other peer countries' imports has fallen between 2005 and 2018 (Figure 14). Trade complementarity is a common measure of the gains from integration. It computes the degree to which the export pattern of one country matches the import pattern of another. A high degree of complementarity is read to indicate more favorable prospects for a successful trade arrangement. Kenya's index decline suggests that its gains from the integration movement in the EAC have been more limited due to this mismatch. On the other hand, Tanzania's and Uganda's trade complementarities with each other, Kenya, and Ethiopia improved.



Global Value Chains

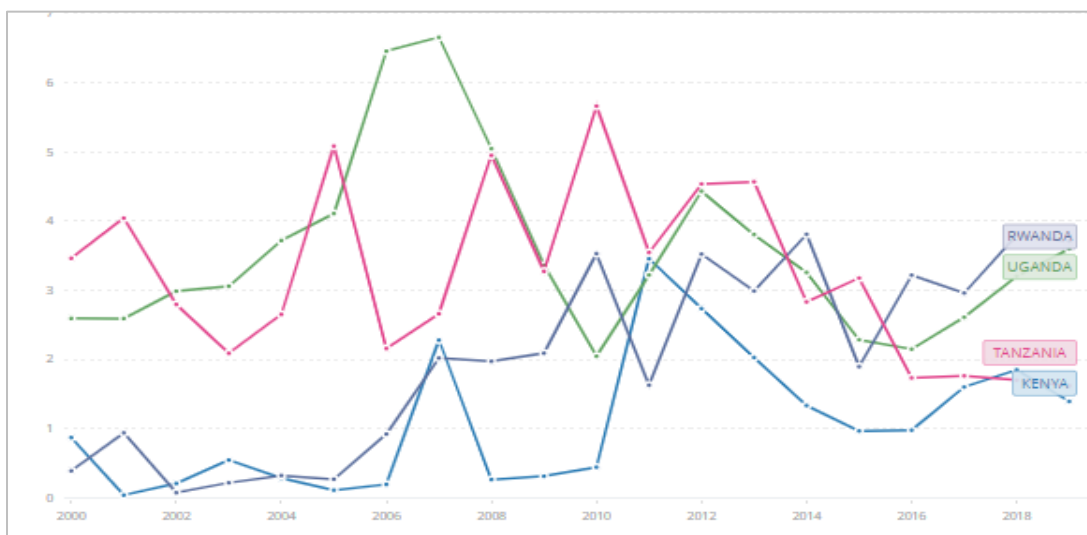
33. Kenya’s participation in global value chains (GVCs), which refer to international production sharing, increased between 2000 and 2010 but then fell after 2010 (Figure 15).¹⁷ Other Kenya’s peers—both within the EAC (left-hand side) and SSA and Georgia (right-hand side)—experienced similar declines, except for Tanzania and Vietnam that deepened their GVC links. To increase exports and participation in global value chains, Kenya could seek to boost foreign direct investment (FDI) (Figure 16), including in its special economic and export processing zones by implementing the recently approved Kenya Investment Policy, which inter alia seeks to ease entry conditions for foreign investment (World Bank, 2020). World Bank research has also found that firms with international exposure tend to be larger, more productive, and better managed, and noted Kenya’s relatively low participation in global value chains.¹⁸



¹⁷ GVC-related trade is measured as the value of goods and services exported by a sector or a country that crosses more than one border.

¹⁸ World Bank, 2020. Systematic Country Diagnostic—Kenya.

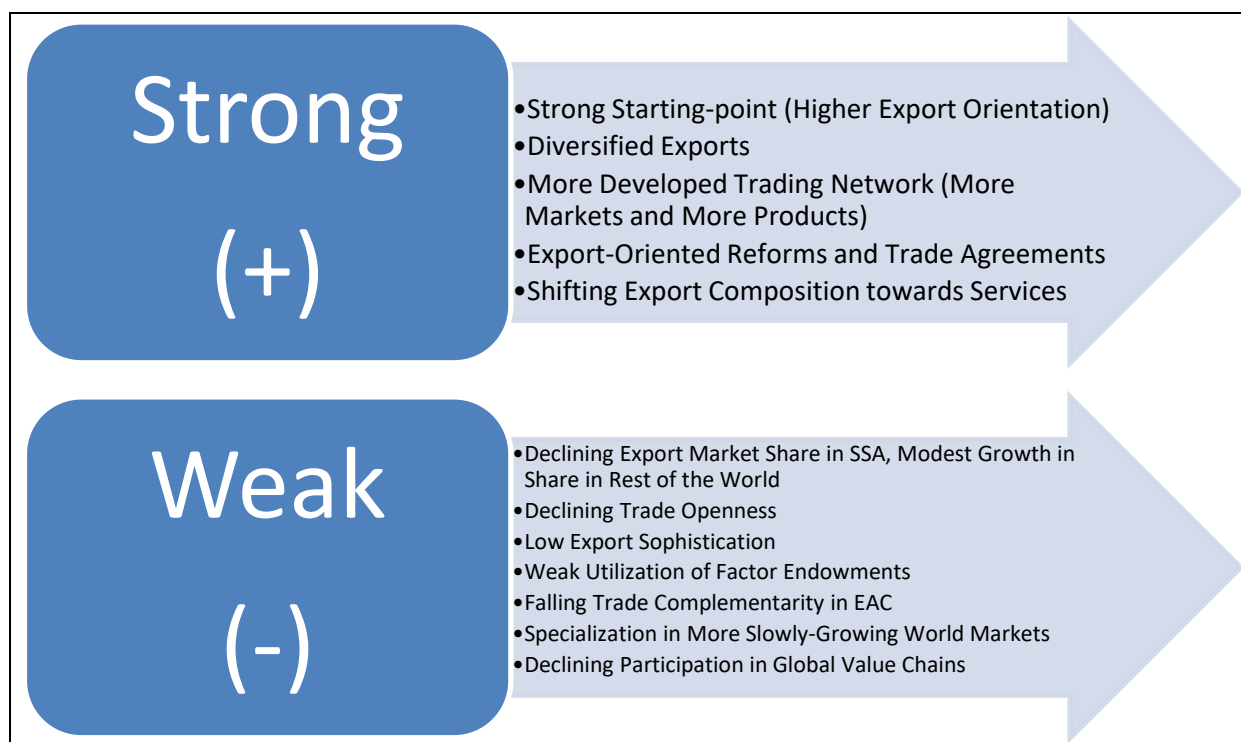
Figure 16. Foreign Direct Investment (Net Inflows)



Sources: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates.

Summary Findings of the Benchmarking Exercise

34. A summary of the pluses and minuses of Kenya's trade outcome indicators—where the plus (minus) highlights areas of relatively strong (weak) performance—follows:



D. Potential Drivers of Loss of Competitiveness

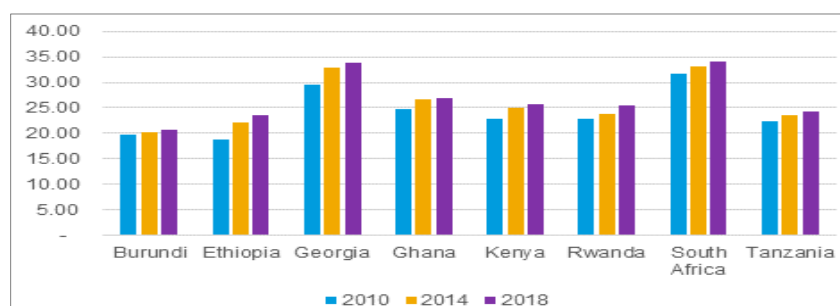
35. Given that Kenya does not appear to be underperforming (relative to its EAC and SSA peers) across all dimensions of the enablers to trade and its trade-specific policies seem to support exports, the question is: what are the drivers for the evidence of loss of competitiveness? What we have just seen is that—starting from a relatively high level as a preeminent regional trading power—Kenya’s regional market shares dropped (EAC) or remained roughly stable (SSA) while the growth of its market share vis-à-vis the rest of the world was only marginally positive after 2010. Regional peers performed better. At the same time, several of Kenya’s other export-related metrics have plateaued or declined, such as trade openness, export composition, and export diversification. Now we will look at some of the structural (non-price) factors that may be associated with this apparent deterioration of Kenya’s competitiveness, such as, lack of export sector dynamism, barriers to firm entry, restrictiveness of product market regulations, corruption, tax and informality, limited access to finance, and tariff and non-tariff barriers.

Lack of Export Sector Dynamism

36. The lack of dynamism in the exports sector, allowing for the entry of more productive firms and exit of less productive ones, appears to be a key explanatory factor for the loss of competitiveness in Kenya. The World Bank’s Systematic Country Diagnostic on Kenya, using the conceptual framework presented in Cusolito and Maloney (2018), has shown productivity growth in Kenya since the new millennium has come from incumbent firms (within the same sector) with little room for new entrants and likely reflecting challenges due to entry barriers (World Bank, 2020).¹⁹ On the other hand, what is observed in the same report from the experiences of more dynamic producers is that the greater share of productivity growth comes from new firms (net entry), supporting the underlying dynamism of these economies. The Kenya Association of Manufacturers—the representative business association for manufacturing value-added industries in Kenya—pointed out that export growth has been driven primarily by existing products in existing markets with little new product or market discovery. As such, Kenya may be able to improve export performance and competitiveness by facilitating more dynamism in the export sector.

37. Similarly, while the productive capacities index for Kenya has increased in the last decade, its growth has decelerated in recent years. On the other hand, the productive capacities index of its peers, including Ethiopia, Georgia, Rwanda, and South Africa, has continued to rise at a faster pace (Figure 17). Productive capacities are the combination of productive resources, entrepreneurial capabilities, and production linkages that together determines a country’s ability to produce goods and services that will help it grow and develop. The deceleration in the improvement of the productive capacities index for Kenya seems likely to have also affected export performance.

¹⁹ The World Bank’s Systematic Country Diagnostic on Kenya was published in 2020. Some references to productivity growth, therefore, are not based on the GDP revisions following the completion of the rebasing exercise in 2021.

Figure 17. Productive Capacities Index ^{1/}

1/ UNCTAD's Productive Capacities Index (PCI) is a dynamic and practical tool to support developing countries in understanding the status of their productive capacity and how this can be improved. It builds on UNCTAD's longstanding work on productive capacities, which are essential for generating inclusive and sustained economic growth and achieving sustainable development. The overall PCI score is the geometric average of the values of the eight PCI categories, namely, natural capital, human capital, energy, transport, ICT, institutions, structural change, and private sector. For more information, including the technical notes on how the index is computed, refer to https://unctad.org/system/files/official-document/aldc2020d3_en.pdf. UNCTAD used 2015 as the base year for all countries; therefore, Kenya's data predate the rebasing exercise in 2021.

Source: United Nations Conference on Trade and Development (UNCTAD).

Barriers to Firm Entry

38. Regulatory barriers that restrict the entry of private firms in domestic markets, particularly in export-oriented sectors, not only limit competition and reduce consumer welfare, but also stifle productivity, and undermine external competitiveness and economic growth. Among the constraints to Kenya achieving higher aggregate output and productivity growth, World Bank (2020) lists barriers to entry and direct competition from state-owned enterprises (SOEs).²⁰ Kenya's SOE sector has had longstanding challenges such as, overlapping mandates, low profitability, weak governance, and poor value for money. The high prevalence of SOEs, coupled with entry barriers, could restrict healthy competition and lead to suboptimal trade, growth, and development outcomes. World Bank (2020) further explains that an important part of creating a more conducive environment for private (local and foreign) investment in Kenya is the need to reduce the public sector's crowding out effect on the private sector. The World Bank's Systematic Country Diagnostic on Kenya prioritizes removal of regulatory hurdles in order to enhance competition among the actions that could encourage productive investment in the private sector. The diagnostic refers to work by Bourlès et al. (2010), which found that reducing anticompetitive regulations in OECD countries and better aligning them with best practices has the potential to increase productivity gains.²¹ Furthermore, research done in 2019 as part of the IMF's

²⁰ Used broadly to cover all state corporations, including educational establishments, regulatory bodies, and healthcare facilities, among others. The 2013 Report of The Presidential Taskforce on Parastatal Reforms underscored the need for the government to rationalize the number of SOEs. The Government of Kenya's Blueprint for Governance Reform of State Corporations (developed with IMF TA in 2021) recognizes that SOEs are the main providers of key public services, including public utilities, and that their operations have an impact on citizens' everyday life and on the competitiveness of the rest of the economy.

²¹ Bourlès et al. (2010) estimated the gains from removing anticompetitive regulations in OECD countries to be in the range of 3–13 percent.

Regional Economic Outlook for sub-Saharan Africa found that increased competition in the SSA region, measured by moving from the median value of the competition intensity index for SSA countries to the top quartile of the global distribution, can boost the real per capita GDP growth rate by as much as 1 percentage point through improved export competitiveness, productivity growth, and investment (IMF 2019c).

Overly Restrictive Product Market Regulations (PMRs)

39. Frontier and emerging market economies (including EAC and SSA peers) have more favorable product market regulation (PMR) scores than Kenya (Figure 18). While the paucity of data for all relevant comparator countries prevents the drawing of definitive conclusions, comparison of Kenya's PMR ranking with that of Rwanda, Senegal, and South Africa suggests that overly restrictive product market regulation could be further investigated as a potential factor for the lack of dynamism of the export industries. Based on the available Organization of Economic Cooperation and Development (OECD) PMR indicators, the following areas may be relevant: scope of SOEs (pervasiveness of state ownership across 30 business sectors measured as the share of sectors in which the state controls at least one firm); price controls (extent and type of price controls in 8 sectors: air transport, road freight transport, retail distribution, telecommunication, electricity, gas, water, professional services); administrative burden for corporations; barriers in services sectors (entry barriers in professional services, freight transport services, and retail distribution); and tariff barriers. According to the OECD–World Bank Group (WBG) PMR indicators, some sub-Saharan African countries (Kenya, Senegal, South Africa) are among the most restrictive in the sample evaluated in terms of allowing entry into the network and services sectors.²² Price controls are also evident among SSA peers. It is interesting to note that 3 of the SSA peers (all except South Africa) compare poorly on tariff barriers.

Corruption

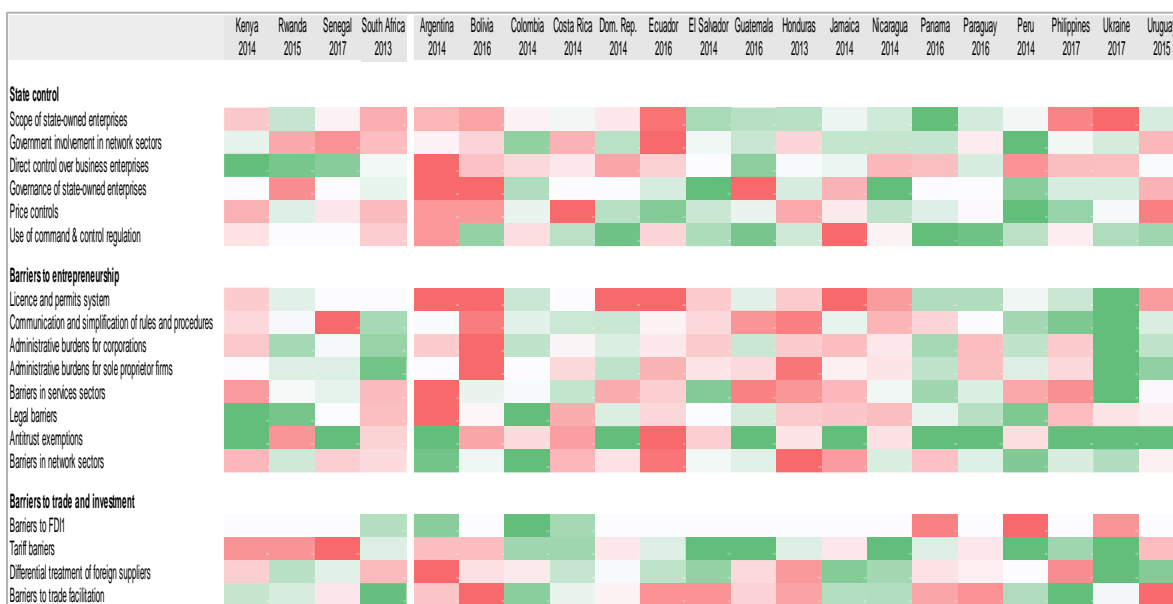
40. Governance vulnerabilities and corruption risks affect private sector investment decisions in Kenya. Problems associated with governance and corruption are longstanding, and GAN Integrity's [Kenya Corruption Report](#) (last updated in August 2020) noted that "Kenya's competitiveness is held back by high corruption levels that penetrate every sector of the economy." The cost of corruption is a serious deterrent to potential investors and a major impediment for existing and new businesses (Transparency International, 2009). The corruption perceptions index scores for Kenya (2012–20) show a deterioration in corruption perceptions in 2014 and 2015 before improving again (Figure 19). Kenya's latest score (31 in 2020) is a new high since 2012; the relevant peer group averages in 2020 are 30 for the EAC and 32 for SSA.²³ Other indicators (like experiences with bribery surveyed by the Global Corruption Barometer for Africa) suggest that there is widespread perception that corruption permeates all sectors of public life in Kenya. Despite the

²² The network sectors comprise electricity, gas, rail transport, air transport, postal services, and telecommunication. The services sectors are professional services, freight transport services, and retail distribution.

²³ The standard errors for these 2020 scores are: 1.49 for Kenya; 1.95 for the EAC, average (6 countries); and 2.14 for SSA, average (45 countries).

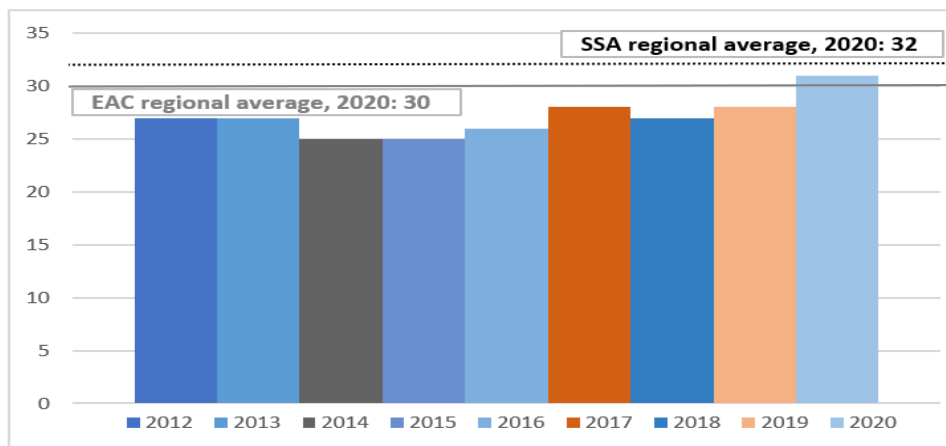
recent improvement in the corruption perceptions index score, 67 percent of people surveyed in Kenya for the 2019 Global Corruption Barometer for Africa thought that corruption increased in the previous year. Within the framework of the World Bank’s [Enterprise Surveys 2018](#), roughly 40 percent of the companies surveyed reported that corruption was a major constraint to their operations.

Figure 18. Product Market Regulation (PMR) Scores



Sources: OECD PMR Indicators, OECD-WBG PMR Indicators, and WBG’s Markets and Competition Policy Database.

Figure 19. Corruption Perceptions Index (Score, 2012–20)



Notes: Transparency International Corruption Perception Index is an indicator that measures perception of corruption. A higher value represents lower perceived levels of corruption. The accuracy of the index can be biased by experts’ views (instead of facts on corruption). The average standard error for Kenya’s scores (2012-2020) is 2.23, ranging from 1.49 in 2020 to 3.02 in 2015. Non-IMF indicators provide qualitative information about corruption. They do not represent the IMF’s assessment of the level of corruption in Kenya, the EAC, and SSA.

Source: Transparency International, Corruption Perception Index.

Tax and Informality

41. The Kenya Association of Manufacturers points to taxation policies, which are perceived by local firms as unfair and unpredictable and not supporting local manufacturing, as a potential driver of loss competitiveness. The business association provides the following examples of concern for its members: introduction of the value-added tax (VAT) on machinery; excise duty on inputs; changes in income tax policy (including investment deduction and earnings before interest, taxes, depreciation, and amortization); and the withdrawal of the electricity rebate program. However, IMF staff analysis indicates that tax revenue in Kenya declined overall from 16.8 percent of GDP to about 15 percent of GDP between FY2013/14 and FY2018/19, including due to widespread VAT exemptions and erosion of the corporate income tax base resulting from tax depreciation and capital allowances (see Box 2 in the main text of the Staff Report for the 2021 Article IV Consultation and Second Reviews of the Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility). It also found Kenya's tax revenues to be comparable overall to EAC and regional peers. Compared to the EAC average, Kenya's tax mobilization relied more on income taxes and less on indirect taxes.

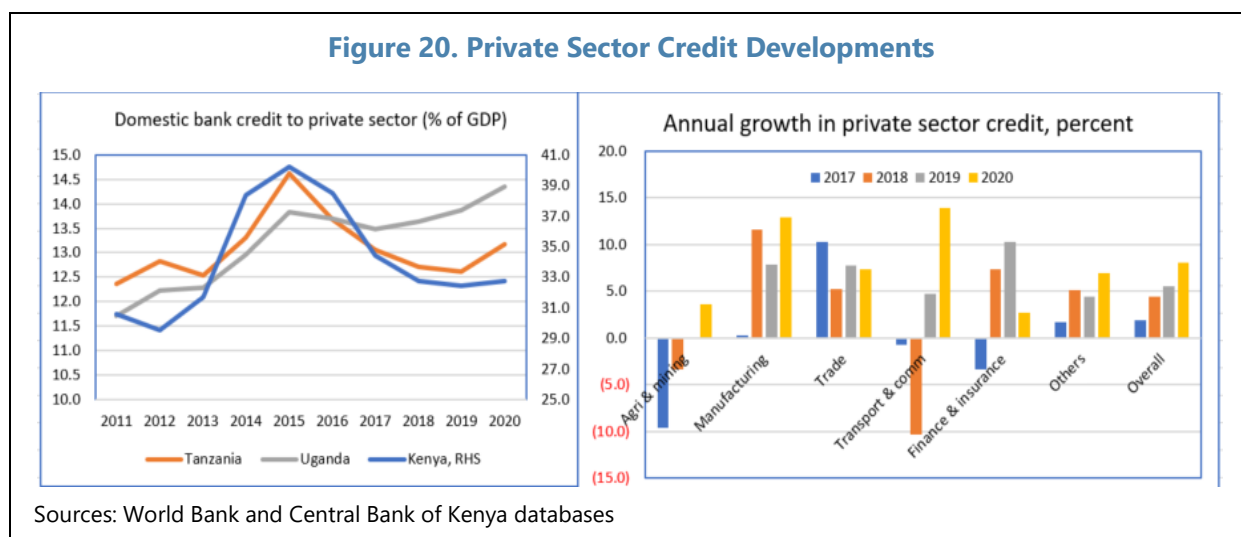
42. In Kenya, just like in many developing countries, most enterprises are in the informal sector. The Kenya National Bureau of Statistics (KNBS) provisionally estimated that 83.3 percent of employment in 2019 was in the informal sector.²⁴ Given that a large proportion of workers in the informal sector have limited skills and these enterprises face difficulties in accessing finance, physical infrastructure, and other government services, productivity in the sector is low. Transitioning to formality has been slow. According to the World Bank's survey of informal enterprises in Kenya, most informal firms prefer to remain informal citing the following reasons: cost of business registration (counting the time, fees, and paperwork required), taxes that registered businesses pay, inspections after registration, bribes registered businesses pay, and they do not see any benefit accruing from registering (World Bank, 2016).

Limited Access to Finance

43. While the overall level of credit to the private sector as a share of GDP is significantly higher in Kenya than peers, access to finance has remained one of the biggest challenges reported by enterprises in Kenya, particularly in the informal sector. Factors like increases in domestic borrowing by government, and delayed bill payment by county and national governments may complicate private sector access to finance. Domestic credit as a share of GDP weakened after 2010 in both Kenya and Tanzania; on the other hand, the evolution of domestic credit growth was more robust in Uganda. According to the survey of informal enterprises in Kenya conducted by the World Bank in 2016, over 60 percent of respondents classified access to finance as the largest hinderance (ranking it as the number one obstacle). Data from the survey also show that the challenge is more acute for small firms. Most informal sector enterprises do not keep proper records and lack tangible collateral, such as land title deed or valuable assets, making formal institutions

²⁴ Kenya National Bureau of Statistics, Economic Survey 2020. The estimate refers to the employment stock as of June 30, 2019 and excludes small scale farming and pastoralist activities.

unable to lend to them. Interest rate controls imposed in 2016, while established with the goal of reducing the cost of credit, and thus making credit more affordable and accessible to a wider range of borrowers (including firms), had unintended negative consequences especially for small borrowers and small and medium-sized enterprises (SMEs).²⁵ Kenyan government initiatives to improve access to finance include the repeal of the interest rate controls; establishment of a credit guarantee scheme for SMEs; payment of pending bills owed to SMEs; and introduction of an SME lending vehicle through STAWI—a solution designed for all entrepreneurs to improve access to credit, among others. Overall growth in credit to private sector has been recovering in recent years but lending to some key sectors like trade, and finance and insurance is falling (Figure 20).



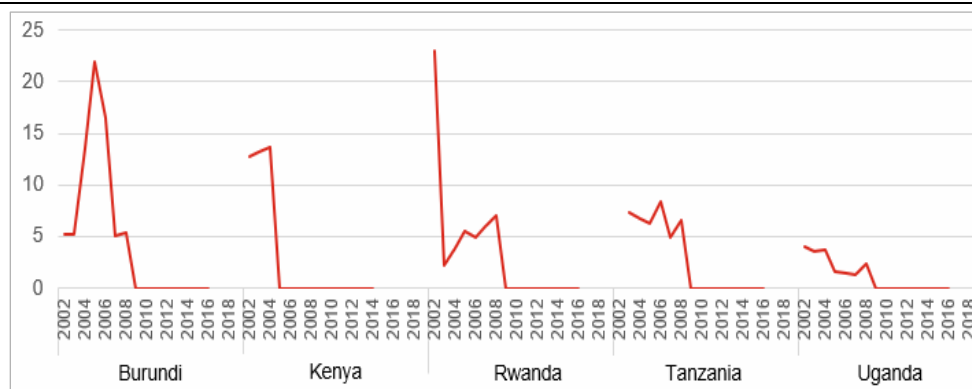
Tariff and Non-Tariff Barriers

44. Kenya's recent multilateral and bilateral trade agreements have supported trade liberalization and led to decline in tariff barriers, including total elimination of tariffs in the EAC region. Tariffs declined among EAC members since the integration movement began in 2005 and were eliminated by 2010 (Figure 21a). More generally, effective tariff rates faced by Kenyan exporters to SSA countries are moderate, although effective applied tariffs remain high in some trading partners in the SSA region (Figure 21b). Kenya's obligations under the AfCFTA will not only include tariff reductions but also service sector reforms, investment, and worker mobility.

²⁵ The interest rate controls that capped lending rates at 400 basis points above the policy rate were in place from September 2016 and removed in November 2019. See Alper et al (2019) and The Kenya Financial Stability Report (Issue No. 11, published by the CBK and Financial Sector Regulators in October 2020) for a discussion of the impact of introducing and abolishing the interest rate controls.

Figure 21. Tariff Developments**a. Applied Intra-EAC Tariff Rates, 2002–18**

(simple average, in percent)

**b. Applied Effective Import Tariff Rates**

(weighted average, in percent)

Imports from Kenya to...	2005	2018
Rwanda	0.00	0.00
Tanzania	3.10	0.00
Uganda	0.86	0.00
Ethiopia	n.a.	15.99
Angola	6.97	19.23
Namibia	2.50	0.49
South Africa	8.67	5.72
Sub-Saharan Africa	2.72	1.13

Sources: World Bank and WBG World Integrated Trade Solution (WITS).

45. Although Kenya has made strides in trade liberalization, some tariff and non-tariff barriers still act as an impediment to trade. Some such barriers are directly trade-related—such as setting up of quotas, imposing surcharges, and anti-dumping measures. Others have a link to trade in as far as their implementation is monitored at the border, including labelling, packaging, sanitary standards; while a third group arises from public policy, such as government procurement, investment restrictions, extent of intellectual property rights protection (UNCTAD, 2005). The increase in government regulatory action, involving non-tariff barriers especially in developed countries, place burdens on companies in developing countries, including Kenya. This burden is even more costly for SMEs attempting to venture in the international marketplace. Resources available to SMEs are often insufficient to meet the differing requirements from country to country.

46. Tariff barrier reductions have made non-tariff barriers a more visible concern for market access. The Second East African Community Development Strategy (2001–05) highlighted

procedural obstacles in the application of non-tariff measures,²⁶ leading to administrative and bureaucratic inefficiencies, as major impediments to trade in the region, leading to increased cost of doing business in the region. Discriminatory sourcing and trade monopolies also have a negative impact on businesses; and a study by the World Trade Organization (WTO) identified such obstacles in Kenya (WTO, 2014). Comprehensively tackling tariff and nontariff barriers in the context of the AfCFTA, developing regional value chains, and implementing complementary reforms to boost investment and competitiveness could lift medium-term export growth.

E. Conclusion

47. Among the priorities of its national development strategy, Kenya plans to deepen structural reforms to improve the business environment and thereby boost investment and employment creation. While the Kenyan authorities have embarked on several critical reforms to improve the business environment, including its trade policy regime, it takes time for the effects of reforms to be seen. Evidence suggests that Kenya has lost export competitiveness within the last decade signaled by reductions in market share (particularly in the EAC), including in key sectors such as agriculture and manufacturing.

48. Benchmarking Kenya's non-price competitiveness indicators with comparators showed mixed results. Kenya generally outperforms SSA peers in the ETI ranking and the GCI sub-indexes, both published by the WEF. The Kenyan authorities have placed a premium on procedural changes to strengthen the business environment. Building on past reforms, they have committed to remove impediments to facilitate trade and investment-led growth. More recent business environment improvements include a significant simplification of processes to start a business and increased provision of electricity. On the other hand, Kenya's global and sub-regional export market shares have dropped, and other competitiveness indicators have also worsened, such as trade openness, export composition, and export diversification.

49. The lack of dynamism in the exports sector seems to be the main explanatory factor for the loss of competitiveness as well as specialization in products with low demand growth and subject to competition from producers from relatively low-income countries. Preliminary evidence indicates that product market regulations, barriers to firm entry (particularly in sectors with a high prevalence of SOEs), corruption, access to finance, and non-tariff barriers in trading partners, among others, deserve investigation as possible contributing factors to the loss of competitiveness.

50. With the AfCFTA implementation, Kenya will have an opportunity to expand intra-regional trade in the wider SSA market, made up of 54 of the 55 African Union countries and 1.2 billion people. The AfCFTA provides its participating members with the prospect of boosting

²⁶ The Kenya Association of Manufacturers reported that it actively participates in engagement meetings between Kenya and other EAC partners to resolve existing non-tariff barriers. For instance, the Association participated in the 6th Kenya-Tanzania Bilateral Meeting (September 23–25, 2021) during which, 12 out of 34 non-trade barriers were resolved. The remaining 18 issues are administrative in nature and a timeframe of up to December 2021 was agreed for complete resolution.

regional trade and economic integration. While trade began under the agreement at the beginning of 2021, it may take some time for members to fully benefit from the arrangement.

51. In the meantime, Kenya's IMF-supported reform agenda lays a good foundation to address some of the issues identified as contributing to the loss of competitiveness. Key reforms undertaken in the context of the program that could enhance competitiveness include improving governance, strengthening the anti-corruption framework, and reducing fiscal risks associated with SOEs. These policy reforms could help to restore competitiveness and deliver important benefits for export-oriented companies in the future.

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TOWARDS MORE GENDER EQUALITY IN KENYA¹

This paper analyzes Kenya's multi-faceted profile of gender inequality and shows, using a general equilibrium model, that greater gender equality would generate substantial macroeconomic and socio-economic benefits. The paper discusses several gender gaps in Kenya, including in education, access to health services, employment, earnings, and financial inclusion. It also assesses legal provisions and customary and religious practices that contribute to reinforcing gender gaps. Using a general equilibrium model, several policy options to alleviate gender inequality are studied, including, as a novel contribution, policies that would reduce time spent by women fetching safe water. Amongst studied options, policies aimed at reducing the educational gender gap and discrimination in the informal sector have the largest positive effects. The paper also offers policy advice on how to further increase policy efficiency and ensure that the COVID-19 crisis does not erode too much of the recent gains towards gender equality.

A. Introduction

1. There is ample cross-country evidence that gender inequality hurts growth (Cuberes and Teignier, 2016; IMF, 2015). There are several channels through which effects take place. For example, gender equal labor force participation could increase SSA's GDP by up to 11 percent by 2025 (McKinsey Global Institute, 2015). Reducing gender inequality in labor market opportunities and wage differential can also boost growth (UNDP, 2016). The estimated impact varies depending on studies. Steinberg and Nakane (2012) estimate that a one standard deviation increase in the education level in OECD countries is associated with a 3-percentage point increase in female labor force participation.

2. Greater gender equity is at the center of Kenya's policy goals. Gender equality is central to Kenya's vision of becoming a "middle-income country providing a high-quality life to all its citizens by the year 2030" (Government of Kenya 2007). In that regard, policies have aimed and succeeded in increasing per capita income, while ensuring inclusiveness and overall and gender inequality. Kenya experienced robust GDP growth in the last decade, averaging 5.0 percent over 2010–19, with per capita income raising from US\$1176 to US\$2110. The share of Kenyans with revenue below the international poverty line of US\$1.9 a day decreased by 6.9 percentage points from 2005–06 to 2015–16, reaching 36.8 percent.² However, there are vast regional differences with the most severe incidence registered in the Northeastern counties, at 70 percent, compared to 16.7 percent in Nairobi. Inequality in Kenya is moderate, with a Gini coefficient estimated at 0.39 in

¹ Prepared by Mame Astou Diouf, Vivian Malta, and Francine Nyankiye. The authors thank Ben Clements, Ngugi Nyambura (the UN Women Office in Nairobi, Kenya), and participants of a seminar at the Kenyan Ministry of Finance (staff mission of February 2020) and a seminar in the IMF African Department's Inclusive Growth Network for their valuable comments.

² With respect to the national poverty line, poverty decreased from 46.8 percent in 2005–06 to 36.1 percent in 2015–16.

2015–16,³ a level comparable to that in other large sub-Saharan African (SSA) economies including Tanzania, Uganda, and Ghana.

3. Gender gaps in Kenya have decreased in the last decade but remain substantial and larger than in East African Community (EAC) peer countries. Kenya ranked 95 out of 156 countries on the 2021 Global Gender Gap (GGG) Index.⁴ While gender gaps in education are limited at the primary and secondary levels, gaps are large at the tertiary level. Female labor force participation is lower than for men and the wage gap is sizeable. Equally important, women spend a significant amount of time on unpaid care work within the household, including fetching water, owing to traditional gender roles. Gender gaps are generally more pronounced in Kenya than in other EAC countries. However, Kenyan women have better access to some services than their EAC peers, notably access to post-primary education and financial services.

A. Gender Imbalances in Kenya's Economic Opportunities

4. Gender inequality in Kenya is higher than in EAC peer countries. Kenya ranked 126 out of 162 on the UNDP's 2019 Gender Inequality Index (GII) with a score of 0.52. The index measures gender inequalities in three aspects of human development: economic status, reproductive health and empowerment.⁵ The country lagged compared to EAC peers on the 2021 Global Gender Gap Index (GGGI, Figure 2), ranking 95 out of 156 countries (16th amongst 35 SSA countries) behind Rwanda, Burundi, Uganda, and Tanzania.

5. Women older than 20 are more likely to reside in poor households than men, especially when they were previously married. This is despite the fact that Kenya's population is broadly balanced, with a male-to-female ratio averaging 1.03 during 2015–20 (Human Development Report 2020). In addition, women generate lower income—GNI per capita is estimated at \$3,666 for women (2017 PPP \$) versus \$4,829 for men.

6. School outcomes in Kenya also portrays gender imbalances, as high female literacy rate and lower-level school attainment contrast with large gender gaps in tertiary education, but outcomes are broadly similar to regional performance. Kenya's education attainment score reached 0.93 over 1.0 in the 2021 WEF GGG report (Figure 2). Moreover, female literacy rate averaged 86.1 percent during 2006–16, only slightly lower than that for men (86.9 percent, 2018 HDI report; 88 percent, 2021 WEF GGGR). The country fared better than Tanzania and Uganda on the GGG education attainment score but lagged behind Rwanda.

³ World Bank's 2018 Poverty Report. Overall inequality declined from 0.45 to 0.39 during the period.

⁴ The GGG Index is annually estimated by the World Economic Forum since 2006 and measures the extent of gender-based gaps among four key dimensions: Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment. It is published in the Global Gender Gap Report (GGG Report).

⁵ In the GII, reproductive health is measured by maternal mortality ratio and adolescent birth rates; while empowerment is measured by proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education; and economic status is expressed as labor market participation and measured by labor force participation rate of female and male populations aged 15 years and older. Source: UNDP Human Development Reports.

- While female and male school enrollment in primary and secondary school are broadly balanced, enrollment of boys is much higher in tertiary education. The ratio of female to male students is 0.98 in pre-primary school and 1.0 in primary school (average 2012–17; 1.0 for WEF GGGR), and 0.90 in secondary school (2021 WEF GGGR). However, the ratio deteriorates to 0.74 in tertiary school (2021 WEF GGGR) with as a consequence, lower average years of schooling for women (6.0 years, 2020 HDI report) than for men (7.2 years).
- While women’s education outcomes have improved since the 2000s, the education gap remains high. The female-to-male enrollment ratio in secondary school improved from 0.89 in 2005–06 to 0.94 in 2015–16. Nevertheless, the household survey shows that 18 percent of women aged 15+ were illiterate in 2015–16, almost twice as high for men (10 percent). And, as of 2015–19, only 29.8 percent of women aged 25+ had some secondary education compared to 37.3 percent of men (Panel 2). Kenya is also slipping behind others in reducing gender inequity in education. The country’s ranking in the education attainment sub-index of the 2021 GGG Index was 126 out of 156 countries, its worst comparative ranking of all GGG dimensions that year and a relative deterioration compared to 2006 (88 out of 115 countries). Education outcomes are uneven across the country with higher enrollment in central and Western Kenya than in the Northern and Coastal areas.

7. A large gender bias exists in employment. Female labor force participation is relatively lower than that for males (Figure 3), the largest gap being registered in the Northeast region and the coast. There are almost twice as many unemployed women as unemployed men—with a female-to-male ratio of 1.94. This is worse than the average in the EAC and in SSA. This gap is equally concerning for youth, with female unemployment about 10 percent higher than that for men (2020 HD report). Interestingly, an increasing number of youths are working while attending school, an option that could be explored to improve women’s outcomes.

8. Women’s empowerment through political and economic leadership has improved but there is room for more improvement. Participation in decision making and public life has increased with the share of seats held by women in national parliament doubling since 2012 to 22 percent (Economic Survey 2021).⁶ This is higher than the SSA average. As of 2020, 33.3 percent of ministerial positions were held by women and there has never been a women head of state. A bill requiring that neither gender should have more than two-thirds in elective positions was rejected by the Kenyan Parliament in 2018.

9. Progress in addressing socio-economic challenges related to gender inequality has been mixed. Laws provide women in formal employment with three months of maternity leave, but in some instances, this is not adhered to. Moreover, casually employed women are not entitled to maternity leave⁷ (Kimani-Murage., 2016; [The conversation](#)). Prenatal care coverage is high with 93.7 percent of women having at least one visit before delivery. However, only 61.8 percent of births

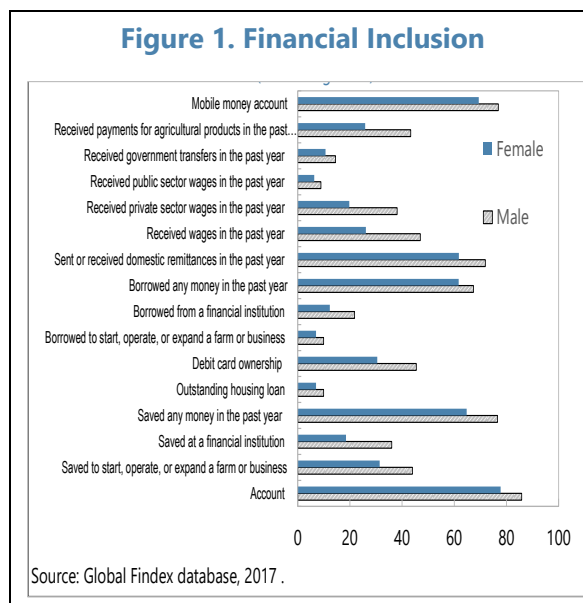
⁶ The ratio is estimated at 29.8 percent in the 2020 WEF’s GGG Report.

⁷ “The Conversation”: Better maternity leave laws are needed to protect African mothers <https://theconversation.com/better-maternity-leave-laws-are-needed-to-protect-african-mothers-55778>.

are attended by skilled health personnel, which results in a high maternal mortality ratio (342 per 100,000 live births, 2020 HD report), still below to the average in SSA of 549 per 100,000 live births. Prevalence of underage marriage is high, with 23 percent of married women aged 20–24.

10. Women’s financial inclusion is advanced, aided by the high penetration of mobile financial services, but is lagging compared to that of men (Figure 1).

A large majority of women aged 15+ hold an account at financial institution or with a mobile money-service provider (77.7 percent), higher than the average for SSA countries. However, there is room for improvement as more men have an account at financial institutions than women (female-to-male ratio is 88 percent) and the gap regarding access to financing is still sizeable. There is also a gap in access to mobile banking, possibly because poor women might not afford buying a phone, which limits their access to mobile banking. Recent initiatives by the Central Bank of Kenya to reduce the cost of mobile money transactions during the COVID-19 crisis could further support mobile banking penetration for women.



B. Possible Factors Driving Gender Inequality in Kenya

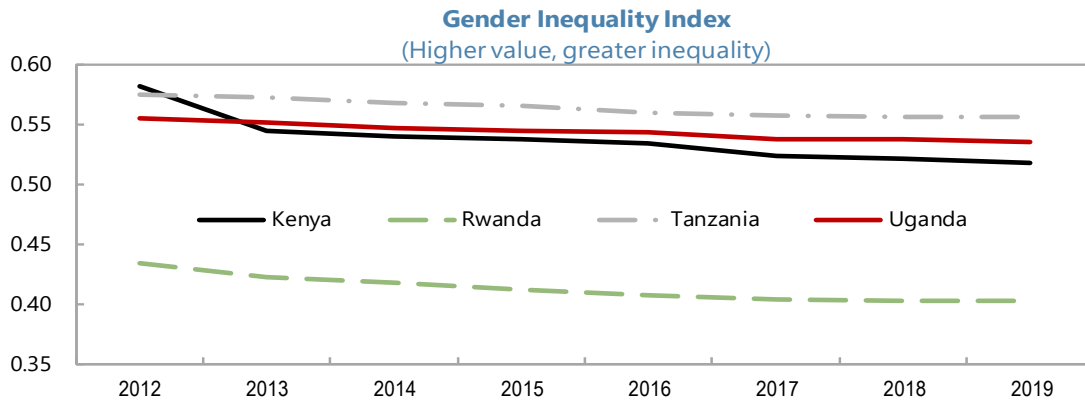
This section analyzes factors that may explain Kenya’s profile of gender inequality. These factors could serve as basis to design mitigating policies.

11. Lower levels of education for women reduces potential output of an economy. As portrayed in the previous section, there are still gender gaps in education to overcome in Kenya, especially in the secondary and tertiary education. Greater gender equality in education impacts economic growth, as human capital and productivity are at the core of a country’s potential output. The effect of a women’s education goes beyond her generation, as studies show that mother’s education improves children’s future outcomes in the labor market.

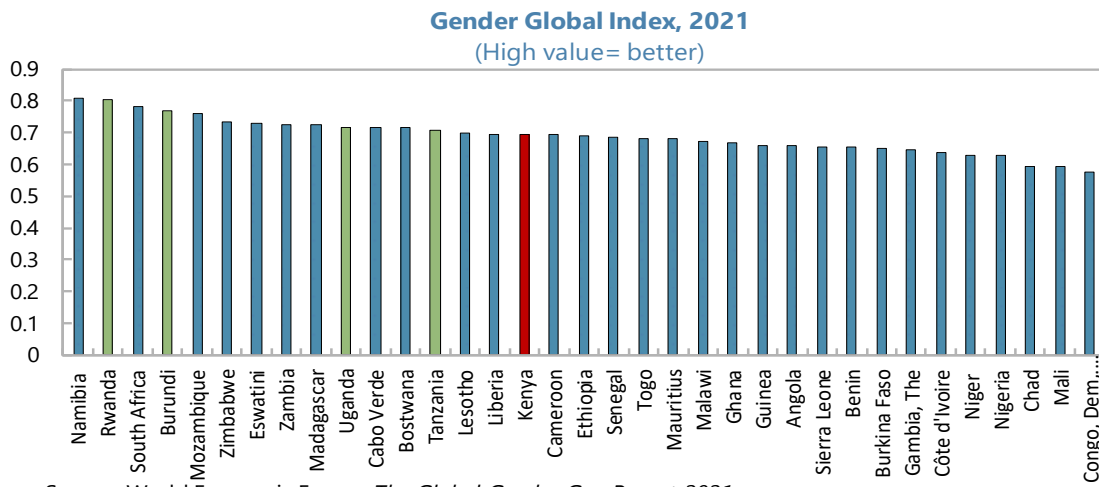
12. Girls’ dropout from school is predominantly due to pregnancy, followed by cost of education. Boys’ dropout, in contrast, is mostly due to cost of education and lack of interest. To improve education attainment, policies helping to delay marriage and fertility decisions and improving family planning, including increasing access to affordable reproductive health care services, may be beneficial.⁸ These measures could encourage enrollment and retention until tertiary education, which would in turn reduce gender inequality.

⁸ The World Bank, 2018; “Kenya Poverty and Gender Assessment, A Decade of Progress and the Challenges Ahead”; Washington D.C.; The World Bank Group.

Figure 2. Kenya—Gender Inequality and Gap

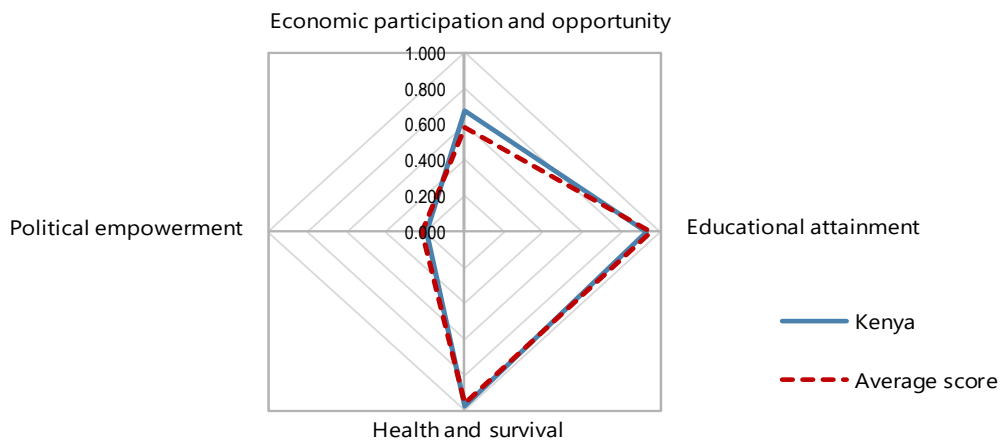


Source: UNDP, *Human Development Report 2020*.

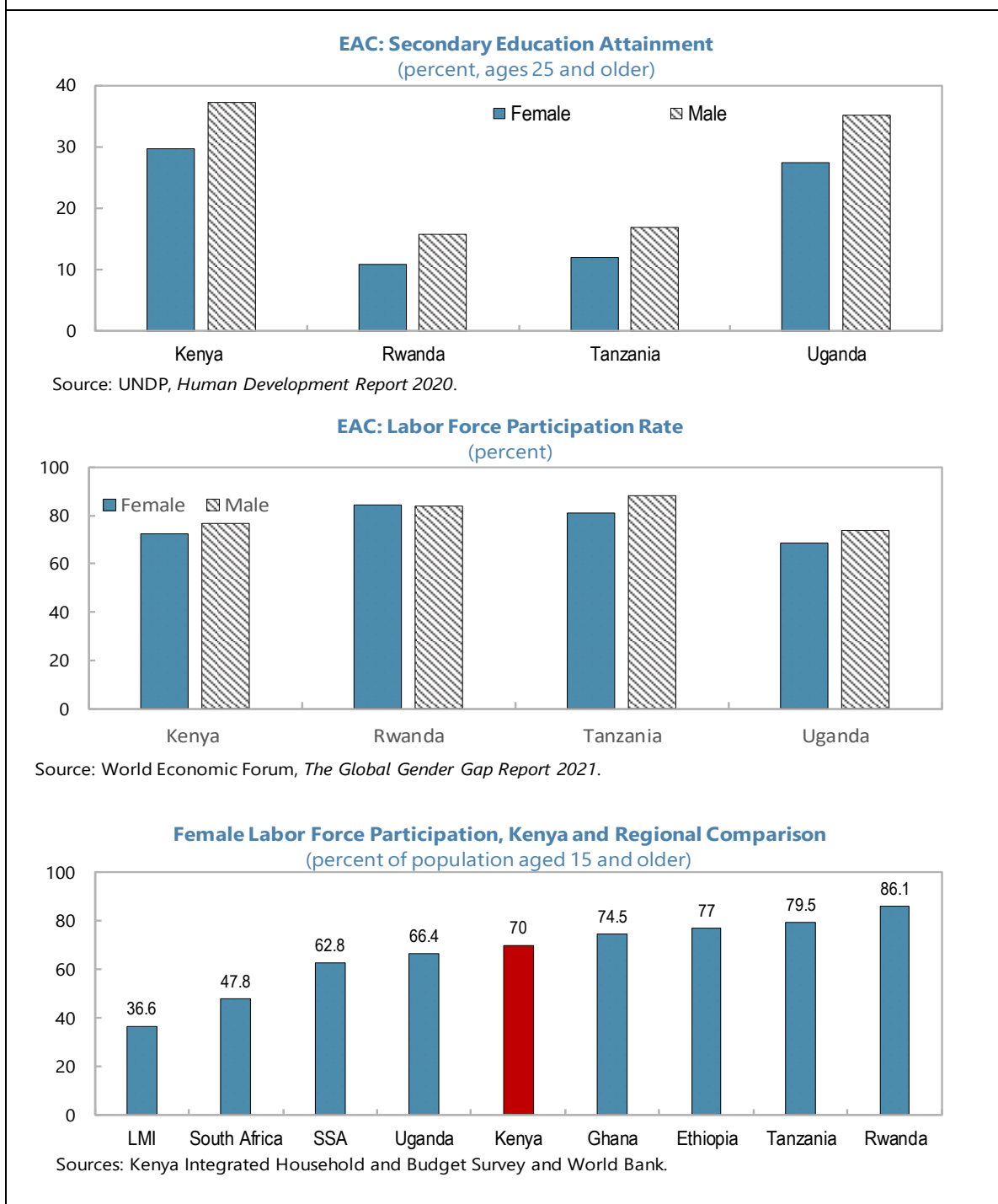


Source: World Economic Forum, *The Global Gender Gap Report 2021*.

Global Gender Gap (Scores: higher value = better)



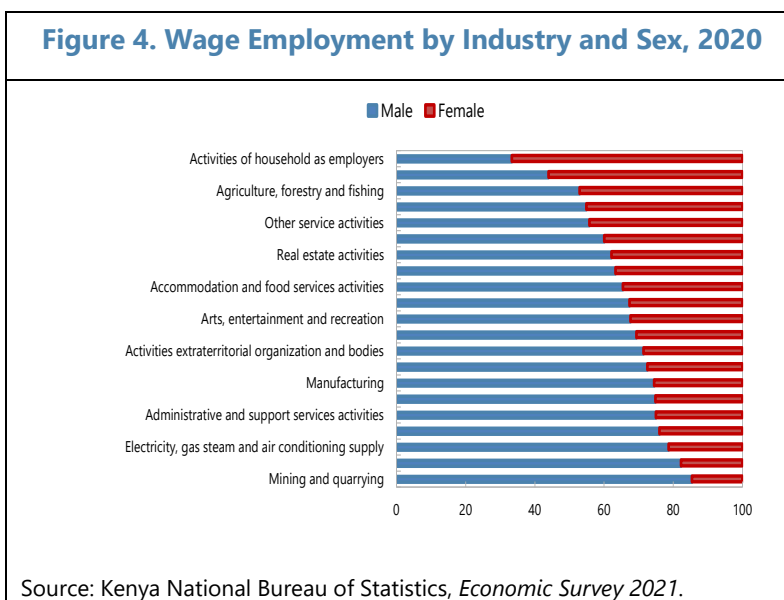
Source: World Economic Forum, *The Global Gender Gap Report, 2021*.

Figure 3. EAC and Others: Education Attainment and Labor Force Participation

13. Women’s heavier involvement in unpaid work, compared to men, also makes it difficult to achieve parity in the workplace. Women spend 2.5 more time collecting water or fuel and twice as much time on unpaid care work compared to men (Action Aid, 2013). The 2015–16 HH survey reports that water fetching is predominantly done by women and girls (84 percent).

14. Women are predominantly employed in agriculture and services, notably lower-skilled services, in contrast to men who are predominantly employed in sectors with high wage premiums.

Less than a third of employment in non-agriculture sector is held by women (39.5 percent, 2018 HDI report). Services dominated by women are household work and human health and social work services (Figure 4 and Table 1). Conversely, male employment is predominant in the industrial sector. Nevertheless, female employment increased in the last decade, mostly associated with rising wage employment, but also employment in household enterprises, both farm and non-farm. Even though most of the agricultural working force is female (56 percent), only 39 percent are the primary decision maker in management of agricultural plots.



15. Despite legal provisions requiring equal pay in Kenya, there is a large wage gap between working men and women.

Women earn on average 30 percent less than men (Text Table 1). Only about half of this gap is explained by workers' characteristics of age, education, working hours, urban-rural, and occupation. The other half is unexplained, which is usually linked in the literature to gender discrimination in the labor market. In fact, the 2017 WEF Global gender gap report reveals a wage gap of 14 percent for a similar work in formal enterprises and a difference in earned income of 35 percent (PPP, US\$) —which is in line with our estimates using the 2015 Kenya's household survey of 13 percent of wage gap in the formal sector and 38 percent in the informal sector. Fighting gender gaps in the informal sector is harder, as many times simple anti-discrimination laws are ineffective. In addition, non-farm female-run household enterprises have less profits (less than half profits) than male-run enterprises. They are also less likely to be in industry and formally registered, although these characteristics and sectoral distribution do not primarily explain the profit gap.

Text Table 1. Kenya: Male and Female Monthly Earnings
(Current Ksh, and male-to female ratio, 2015/16)

	Male	Female	Ratio male-to-female
Mean	18,276	14,075	1.30
10th percentile	3,000	2,000	1.50
Median	10,000	6,500	1.54
90th percentile	43,300	35,000	1.24

Source: Kenya Integrative Household and Budget Survey 2015/16.

16. Land and property ownership is lower among women. Only 12 percent of women report owning land, 27 ppt lower than men. This impairs women’s economic opportunities, especially those in rural sector, where land is crucial for production and where so many informal women work. Switching from a regime with no inheritance rights to equal inheritance rights is associated with improvement in primary school completion rates for females and better prenatal care (Harari 2017).

C. Macroeconomic and Distributional Gains from Gender Equality

17. We use a model calibrated to Kenya to study the effects from closing selected gender gaps. Using a general equilibrium framework, we assess the impact that measures aiming at closing gender gaps in economic empowerment on GDP, wage gaps, and income inequality. In particular, we are interested in the effects of measures that address gender gaps in education and labor market outcomes. A micro-founded general equilibrium model with heterogenous agents allows quantifying the gains from reducing gender gaps (Malta, Martinez and M. Tavares, 2019). The model is calibrated to match the main features of the Kenyan economy, including labor market outcomes (participation, earnings, informality), the distribution of income and education, gender inequality, and the government (see Box 1).

Box 1. Model

The model features are as follows:

- Households live for three periods and consist of husband, wife and children, or only a husband and a wife (when children left home to form their own families). Men always work, only deciding how much labor to supply in the formal and informal sectors. Women can work, and whenever they decide to work the family incurs a cost (related to time spent in home production, including raising children and other traditionally female household responsibilities; and social norms, including attitudes towards working women and the type of jobs women can perform). Children’s future productivity and incomes depend on the amount of human capital accumulated, including education. Their level of education depends on government expenditures on education, on households’ income and the child’s gender, calibrated in line with micro and macro data.
- Firms produce formal goods using labor and capital, hire employees, and pay corporate taxes. Informal goods production is done by households and uses only labor.
- Labor markets. Men and women (who work) decide how much labor to supply to the formal and informal sectors. They receive income and, in case they work for the formal sector, they pay labor taxes, mirroring Kenya’s tax system and labor earnings information from the Kenya’s 2015 household budget survey.
- The government provides education, buys formal goods, and taxes households (VAT, income tax) and firms, with a linear cost of providing an additional year of education.

18. There are several sources for gender inequality in the model. a disutility cost that a family incurs when the wife works; the difference in the education provided by the government depending on the gender and the family’s income level; the distinct returns to labor experience for men and women; and the remaining sources of discrimination faced by women in the formal and informal labor market, represented by a parameter in the production functions.

19. The model allows us to simulate scenarios with reduced gender-gaps in Kenya. The first simulation is to close gender gaps in education. In the second scenario, gender discrimination in the informal labor market is reduced. Finally, we investigate a scenario in which women's hours performing unpaid work is reduced, and instead they dedicate more effort and time to their paid work.

Closing Gender Gaps in Education

20. We equalize the number of years of education for boys and girls from the same income level. Using Kenya's 2015 household budget survey (by Kenya's National Bureau of Statistics), we estimate the average difference between females' and males' years of education for each quantile of the income distribution. We find that women in all income levels receive less years of education than their male counterparts. On average, working women receive 13 percent less time of schooling than men, and this gap is higher (28 percent) for poorer women. We then simulate a scenario in which working women from each income level have their number of years of education increased to reach those of their male counterparts.

21. In this scenario:

- **GDP level would be 4.4 percent larger.** With higher education levels, women's productivity in the labor market increases, pushing up their salaries (8.2 percent higher in the steady state), which in turn increases their demand for goods and services, creating a virtuous cycle of economic growth. Furthermore, with more education, a small share of women that was previously out of the labor force would start working, increasing female labor force participation by 0.4 percent. The gender pay gap would then be 6 cents on the dollar lower.
- **Poverty would decrease by more than 2 percent points.** As poorer women face relatively larger education gaps, the policy measure would impact them relatively more: poor working women with higher education would earn more and thus bring more income into their households. The poverty rate—the share of Kenyans living with less than US\$1.90 a day⁹—would decrease by 2.3 percentage points (from 37 percent). The Gini coefficient would also drop by 1.6 points (from 40.8).
- **Government revenues would grow by 0.6 pp of GDP.** With a more productive labor force (particularly higher skilled women), government corporate income taxes would grow. Similarly, higher wages from formal workers would generate more government income tax collection.

Reducing Discrimination in the Labor Market

22. Gender pay gaps are higher in Kenya's informal sector than in the formal sector. Using Kenya's 2015 household budget survey, we estimate that women working in the informal sector earn on average on 63 percent of their males' counterparts, while in their aggregate earning are relatively

⁹ Source: The World Bank.

much larger, at 87 percent of men's. This gap does not change substantially even when we control for factors such as education levels, leaving us with the so-called 'unexplained' gender gap.

23. We simulate a scenario in which gender discrimination in the informal sector reduces to formal sector levels. We first use the model to estimate the size of the gender discrimination in the formal and informal sectors that could explain Kenya's unexplained wage gaps in the formal and informal sector. We then simulate the scenario in which the discrimination in the informal labor market decreases to levels seen in the formal labor market, where anti-discrimination laws are more easily applied and where workers are more educated and come from higher income levels.

24. As the share of informal workers is large in Kenya, this measure would induce a large boost in GDP and positive macroeconomic dynamics. By facing less discrimination in the informal labor market, women's productivity would grow and so would their earnings. Female labor force participation would increase, as women are motivated by higher expected returns from working, by 6.6 percentage points. GDP in the new steady state equilibrium would be 10.6 percent higher than initially, tax revenue collection would increase, and women's wages would rise by 23.5 percent, while males' wages would also increase—to the tune of 1.4 percent, due to higher demand for their work triggered by the boost in GDP. Therefore, the overall gender pay gap in the entire economy would narrow by 16 cents on the dollar.

25. Reducing gender gaps in the informal sector would lead to lower income inequality. Households with women working in the informal sector would benefit from higher salaries, and since informal workers are usually in the lowest part of the income distribution, income inequality would fall. The Gini coefficient would decrease by 1.2 points. The ratio between top-10 to bottom-10 households' average income would narrow by 6.4 percent, and the ratio between top-50 and bottom-50 households would also narrow by 5.6 percent.

Reducing Time Women Spend Fetching Water

26. Water fetching occupies a larger part of women's time than men. The 2015/16 KIHBS survey reports that 84 percent of water fetching is done by women. Women that fetch water spend on average 36 minutes per day on that activity. This time increases to 45 minutes for women if they are in the poorest 25 percent of households and decrease to 26 for women in the richest 25 percent. Meanwhile, men spend on average 20 minutes per day fetching water.

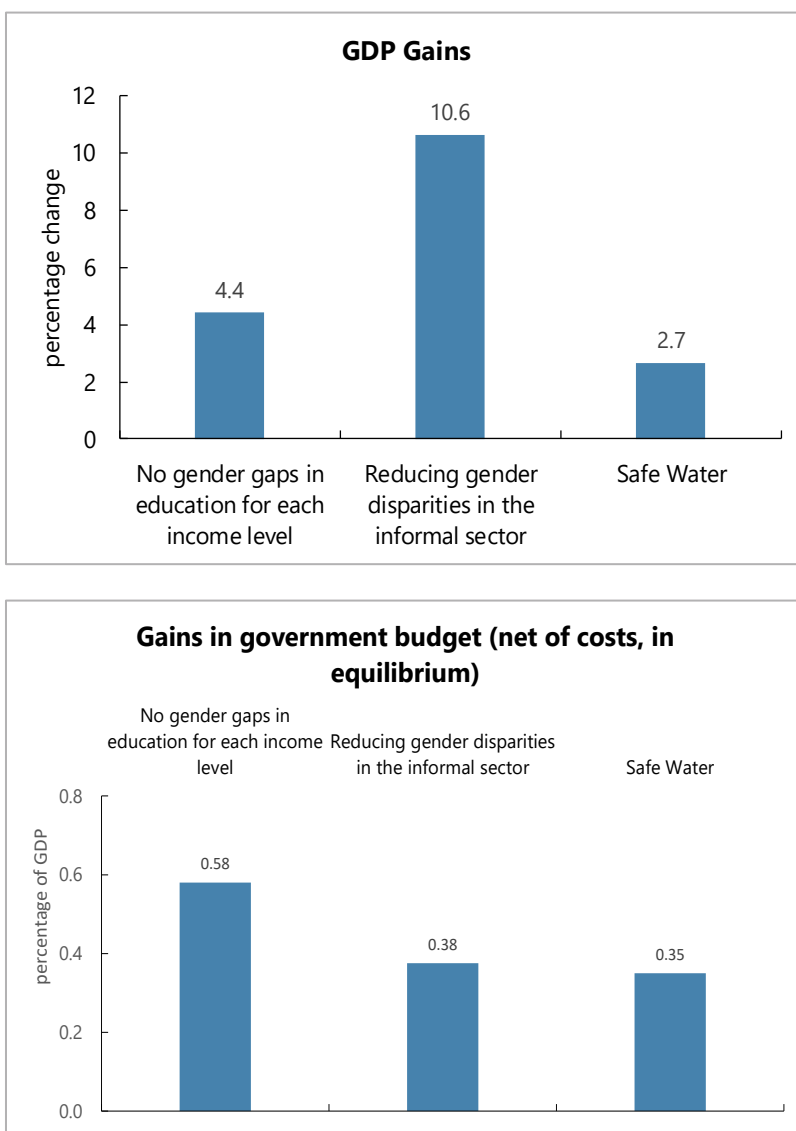
27. We simulate a scenario in which the government would provide safe piped water for all households. In this scenario, women and men could boost their supply of paid work by not having to spend time fetching water. Note this scenario does not account for other economic gains of providing safe water to households, including improvement to health outcomes and boost to productive activities such as agriculture production.

28. This policy would boost GDP and reduce poverty and inequality. The model predicts that the increased daily productivity of workers (and thus larger labor earnings) would give more incentives for women to enter the labor market, equalizing male's and female's labor force

participation. GDP would increase by 2.7 percent on the back of higher overall productivity per day, larger female labor force and higher wages—for both men and women, but particularly for women (3.2 percent vs 0.7 for men), therefore reducing the gender pay gap by almost 2 cents on the dollar. Inequality would decrease substantially, with the discrepancy between top 10 richest households and bottom 10 percent dropping by 7.6 percent. The poverty rate would decrease from 37 to 36 percent.

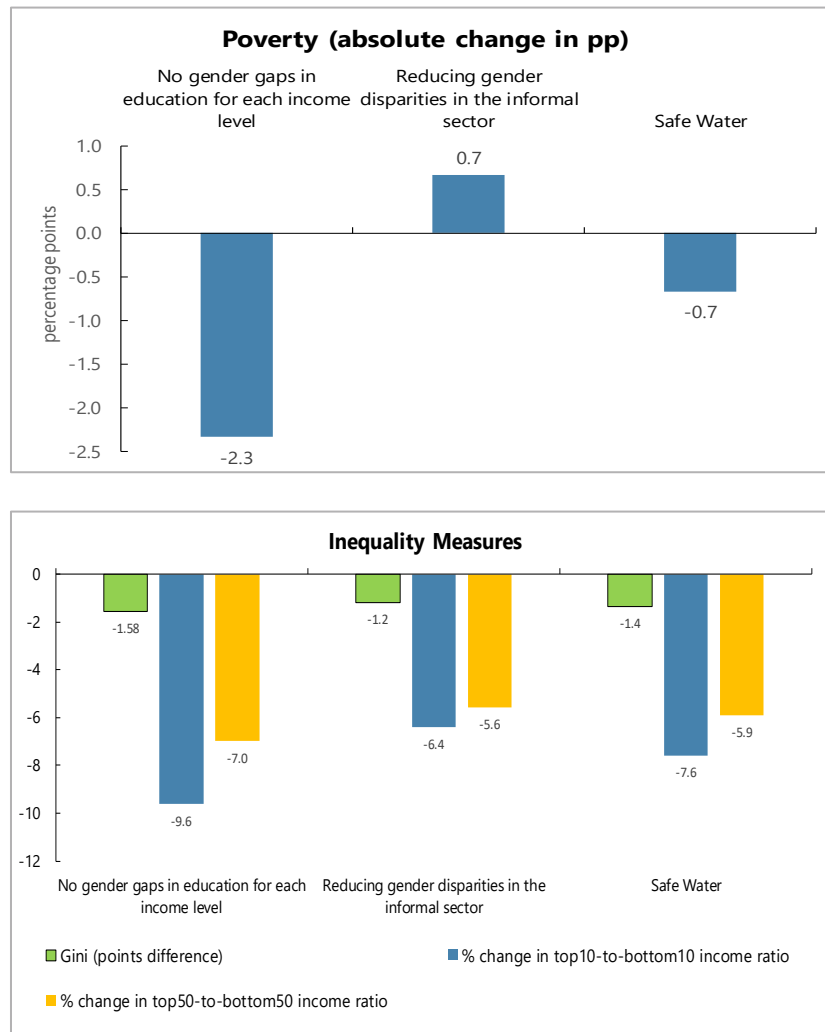
29. Government revenues gains would not surpass the policy measure costs. As government revenues would increase by 0.35 percentage points of GDP in the new equilibrium, the net cost of this measure in the long run would be 0.25 percent of GDP.

Figure 5. The Macroeconomic Impact of Gender-Rebalancing Policies



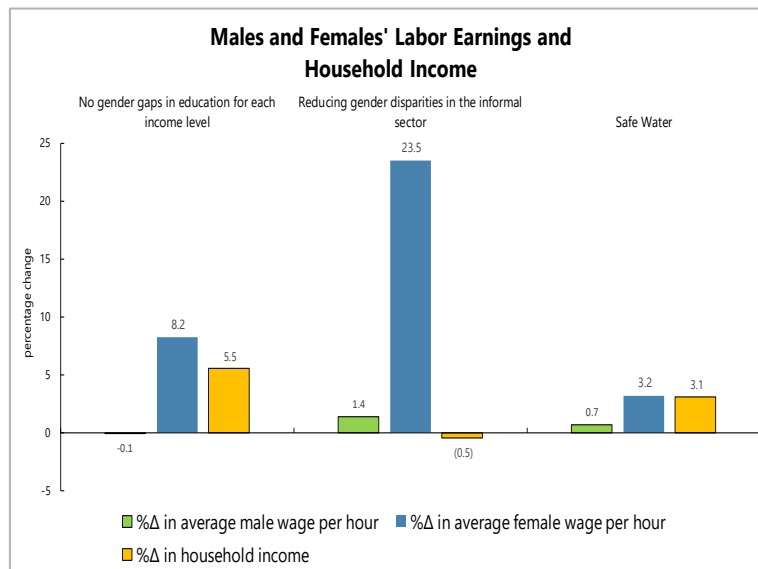
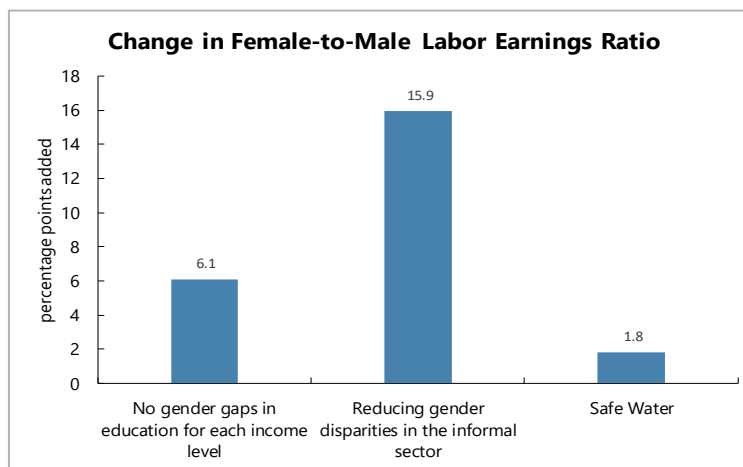
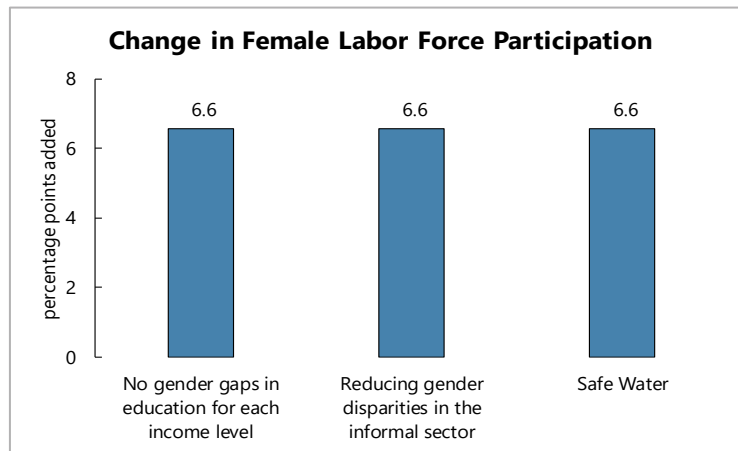
Source: Author’s calculations.

Figure 6. The Distributional Impact of Gender-Rebalancing Policies



Source: Authors' calculations.

Figure 7. Labor Market Implications of Gender-Rebalancing Policies

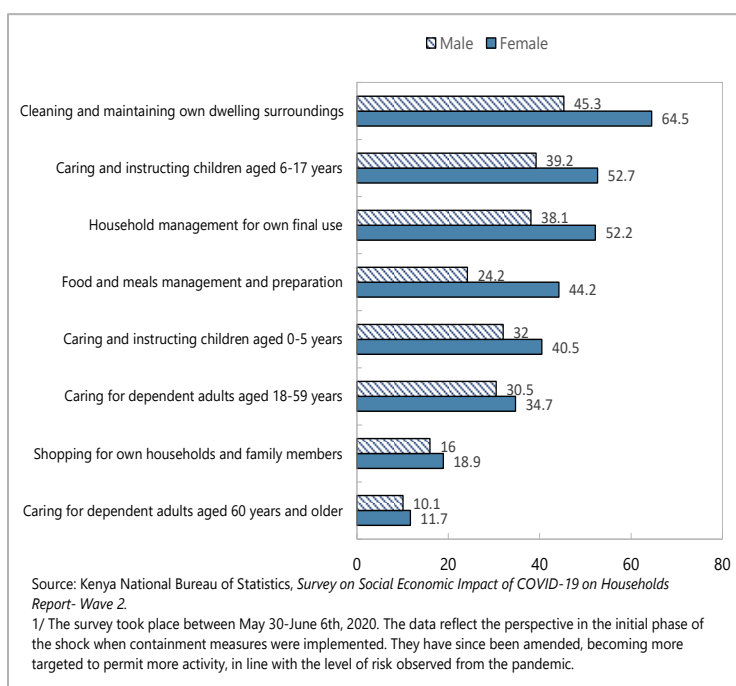


Source: Authors' calculations.

D. Policy Efforts to Improve Gender Equity

30. Kenya has put in place several policies to reduce gender gaps over the last decade, but more policy efforts are needed, especially in light of the potential lasting negative effects of the COVID-19 crisis. More fiscal policy tools, greater efficiency of gender-rebalancing public programs and policies, and tighter enforcement of existing laws could help increase gender inclusion. Policy measures to tackle gender inequality will be particularly important as the COVID-19 global crisis could reduce gender equity gains in Kenya, due to many reasons. Preliminary data point to predominantly negative effects on women, including higher time spent on unpaid work (Figure 8). Moreover, there are anecdotal evidence that (i) the COVID-19 shock is hitting harder the informal sector, which predominantly hires women and where job security and protection are minimal; (ii) the crisis might have been accompanied by an increase in violence against women due to lockdown measures; (iii) the crisis has induced even more girls' school dropouts than in normal times, (iv) teen pregnancy has increased contemporaneous with lockdown measures; (v) the large burden on the healthcare system is reducing access to family planning and increasing the chances of maternal mortality.

Figure 8. Kenya: Proportion of Individuals Whose Time Spent on Unpaid Care and Domestic Work Increased in the Last Two Weeks¹



E. Fiscal Policy Tools

31. Protecting priority social spending and further supporting counties with highest gender inequality would be beneficial. Kenya spends a sizeable share of its budget on priority social spending. About 31.4 percent of public spending is devoted to education, health, and social

protection, with the highest share being allocated to education (20.3 percent of expenditure). Current health expenditure amounts to about 5.2 percent of GDP.¹⁰ However, these three sectors have been decentralized at the county level, hence wide disparities across counties. This is supported by county gender data collected with the support of the UN Women in ten counties—Kilifi, Kakamega, Kitui, Kirinyaga, Kisumu, Turkana, Marsabit, Bomet, Meru, and Baringo. Exploring opportunities to further support counties where gender inequality is highest would be beneficial.

32. Improving efficiency of public spending on education would be improve outcome for girls. Kenya spends relatively more than peers on education (4.8 percent of GDP vs. 4.6 percent in Ethiopia and Tanzania and 2.4 percent in Uganda). Public spending on early childhood and primary education is overall progressive, and higher than in peer countries, although it becomes regressive at higher levels of education. Public primary school is fully subsidized, accounting for 42.2 percent of recurrent spending on education, and yield most benefits to the poorest 40 percent of the population (67.8 percent of benefits for early childhood education and 58.2 percent for primary education). Post-primary education represents a lesser share (32.2 percent of recurrent spending for secondary and 14.28 percent for tertiary), and often requires large co-payments. Nevertheless, as benefits of spending on public universities mostly accrue to richer families, improving targeting would increase the impact on women’s education.

33. Cash transfers implemented by the Kenyan government are pro-poor and progressive. Kenya has a range of cash transfer mechanisms targeted to different parts of the population including the Hunger Safety Net Program, Orphans and Vulnerable Children, Persons with Severe Disabilities, Urban Food Subsidy, and Bursary Fund Programs. Cash transfers are found pro-poor and, overall, perform well compared to peer SSA countries. It is also found that there is no one-size-fits-all in terms of targeting. Nevertheless, cash transfers are less progressive than education spending.

34. Expanding social program coverage would require additional resources. Although achievements by social programs are laudable, coverage is limited owing to resource constraints. The decline in inequality experienced in Kenya during the last decade was mostly attributable to economic growth, rather than resource redistribution. Additional funding for social programs targeted at women, within available fiscal space, is needed to increase coverage and sustain recent reductions on gender inequality.

F. Experiences with Other Gender-Responsive Policies in Kenya

35. Encourage school enrolment, notably in secondary school, and retention until tertiary level. These policies should particularly target retention in secondary school—research estimated that girls in secondary school missed the equivalent of 31 weeks of 144 weeks of learning in Kenya.¹¹ Such policies could be merit-based scholarships, financial or in-kind support during upper-primary

¹⁰ Source: United Nations Development Program, 2018; “Human Development Indices and Indicators”; 2018 Statistical Update —the World Health Organization reports lower spending.

¹¹ Girl Child Network.

school years (Duflo, Dupas, and Kremer (2015a); Friedman and al. (2016)). Programs and policies that also address the social factors that affect young women are critical to the retention strategy. Kenya's National Schools Sanitary Towel Program has since 2011 provided free sanitary towels to schools to cater for girls that cannot afford the cost. It should be however noted that given that girls from poor households have less chances of reaching tertiary level, public spending in policies to encourage enrollment in tertiary level could be regressive and such measures could increase overall inequality—with nevertheless, large aggregate macroeconomic gains. Switching from the current system of mostly merit-based scholarship to a system designed in a way that accounts for households' income vulnerability would increase progressivity.

36. Support further financial inclusion and women's ability to save, including improving the effectiveness of mobile banking and informal schemes such as risk-sharing arrangements.

Several government programs to address the gap in women's access to affordable credit are in place. These include the Women's Enterprise Fund which disbursed KES 4.5 billion (US\$ 50.6 million) in loans to women groups between 2014 and 2016. Other schemes such as the *Uwezo and Youth Enterprise Development Fund* are an additional source of low interest rate loans for women entrepreneurs. The preference and reservations scheme in favor of women, youth and persons with disability in the Public Procurement and Asset Disposal Act, aims at providing them access to public procurement opportunities. The scheme sets aside 30 percent of public procurement opportunities for women, youth and persons with disabilities. The uptake has been slow and hampered by among other things, implementation by public entities. The ongoing review of these funds and development of a single Biashara fund offers an opportunity to address some of these issues. Data from a soon to be launched baseline on Women's Access to Agricultural Finance (KIPPRA, 2019) supported by the European Union and UN Women will provide additional insight on the credit needs of women in the sector. The largest provider of credit—the private sector—has been slower in providing products that target female-owned small and micro enterprises, which are disproportionately affected by the financing gap. This is an area that could benefit from enabling public policies and further policy dialogue.

37. Tackle legal biases and ensuring enforcement of existing laws, notably in the informal sector. Notably, revisiting the laws on property ownership, inheritance rights, and gender equality in pay would be of great impact. Advocacy is ongoing to address contradictions between the Constitution and some laws such as the ones on marriage and matrimonial property and secure women's rights, with support of civil society organizations. Non-gender discrimination in hiring is prohibited by Article 27 of the Constitution and anti-union discrimination is also prohibited under section 5 of the Labor Relations Act. 31. However, enforcement is uneven. While the Matrimonial Properties Act (2013) provided clarity on the division of assets acquired jointly during marriage, section 7 which makes ownership dependent on the contributions of each spouse toward its acquisition discriminates against women who are more likely not to earn an income outside the home and whose contributions are non-monetary. A petition in 2018 by the Federation of Women Lawyers (FIDA) in Kenya to the High Court challenging this provision was unsuccessful. Other rulings by the courts have contradicted this ruling, pointing to the benefits of harmonizing the country's

laws and securing women's access to assets and by extension their economic well-being.¹² Harmonization of laws and strict enforcement would secure efficiency of existing laws and regulations.

38. Address the gap in implementation of existing policies and laws on gender equality.

Kenya has several promising laws and policies on gender equality; however, their implementation is hampered by lack of regulations to operationalize some of the laws and limited capacity, awareness and political will among duty bearers to enforce them. For example, regulations are pending to operationalize the 30-percent preference and reservations scheme of the Public Procurement and Asset Disposal Act (PPDA). Empowering constitutional commissions and other oversight or regulatory bodies to hold accountable duty bearers to implement gender related laws would make a difference. For example, while a Breastfeeding Clause was included in the Health Act 2015, requiring employers to establish lactation stations in the workplace and permitting nursing mothers breaks to breastfeed their babies during working hours – application and enforcement is not widespread even in public institutions. Further implementation of this type of law would help retain women of child-bearing age in the workforce.

39. There has been legal progress in terms of women's land rights. Kenya's Constitution and the three laws adopted since 2012 (the National Land Commission Act, the Land Act and the Land Registration Act) have created a significantly more enabling environment for women's land rights. The Land Registration Act (2012) provides for joint ownership of land, joint spousal registration of land and for joint spousal consent to land disposal, applicable for all forms of land tenure. The Land Act (2016) requires spousal consent for every land transaction and the Community Land Act (2016) has outlined that all members of the community irrespective of gender or marital status have a right to non-discrimination regarding rights of occupancy and in accessing the benefits accrued from this land. However, a major gap according to Kenya's 8th periodic report to the UN's Committee on the Elimination of Discrimination Against Women (CEDAW), is in bridging the gap between formal and informal justice systems at the local level. To address this gap, the government has engaged with non-state actors. For example, in the Mau Forest area, they have worked to harmonize traditional and statutory justice systems which has seen traditional chiefs now require spousal consent for all land transactions, thus safeguarding women's land rights.

40. Reap the benefits of fast digitalization. New technologies help improve public service delivery, including targeting of social safety nets, and could be used to improve gender equity. As one of the flagship countries implementing the global UN Women program, Women Count, the government is closing the gender statistics data gap in several areas. One area is understanding mobile phone ownership trends by gender, region, and education status. The data will help improve policy makers' understanding of women's ownership and show the intersections with age and geographical considerations. It is an important step to improving understanding of how women are experiencing the growing digitalization of services and interactions in Kenya.

¹² <https://www.hrw.org/news/2018/06/04/long-road-kenya-marriage-and-property-equality>

41. The consistent application of Gender Responsive Budgeting (GRB) principles across all public sector institutions can improve the financing of programs and policies that can close the gender gap in economic and social sectors. Supporting the regular production and use of gender statistics is an important aspect of these efforts. There are several completed or ongoing data related processes at national and county level that could be leveraged on or further supported. The production of women poverty profiles and the Women’s Empowerment Index by the KNBS will make available critical data on the status of women to help develop stronger programs to close the gender gap in various sectors.

G. Key Takeaways and Policy Recommendations

42. This paper provides a snapshot of various dimensions of gender inequality in Kenya. It shows that gender inequality spans several socio-economic dimensions in Kenya and significantly impacts women’s ability to rise to their potential impact in social and economic life, using evidence from several data sources. Kenya fares relatively well in terms of access to primary education and health services for women, but lags regarding female labor force participation and women’s employment. The gaps in wages and earnings and access to financing are sizeable, although high penetration of mobile financial services has helped. Divergences are particularly large in the informal sector. The paper also studies several economic and social factors underpinning gender inequality dynamics in Kenya: (i) Girls’ dropout from school is important and this is mainly due to pregnancy and cost of education; (ii) women’s economic power is considerably reduced by their heavy involvement in unpaid work; (iii) women are predominantly employed in agriculture and lower-skilled services; (iv) despite legal provisions requiring equal pay in Kenya, there is a large wage gap between employed women and men—as high as 54 percent. To end, lower financial inclusion and access to Information Technology reduce economic opportunities for women and land and property ownerships are other areas where large gender gaps exist.

43. A micro-founded general equilibrium model with heterogenous agents (Malta, Martinez, and M. Tavares (2019), show the large beneficial impact of gender-responsive policies on economic growth, income inequality, poverty, and gender wage gaps. The macroeconomic gains from reducing gaps are estimated to be large including an increase in GDP ranging from 2.7–10.6 percent in the new equilibrium, compared to the initial state, an increase in women’s productivity in the labor market and in their salaries, higher female labor force participation, and lower wage gap, poverty, and inequality. Policies to reduce gender discriminations in the informal sector to its magnitude in the formal sector would provide the largest effects, as the share of informal workers in Kenya is large. In this scenario, GDP in the new steady state equilibrium with larger female labor force and higher productivity would be 10.6 percent higher than initially and tax revenue collection would increase. Women’s wages would rise by 23.5 percent and the overall gender pay gap would narrow by 16 cents on the dollar. The Gini coefficient would decrease by 1.2 points. These results are comparable to the impact estimated for other SSA countries, including Nigeria and Senegal.

44. With such great potential gains from reducing gender inequality, Kenya would substantially benefit from further stepping up policy efforts to reduce gender gaps and

ensuring that the COVID-19 crisis does not completely erode recent gains. Notably, more fiscal policy tools, greater efficiency and consistent application of gender-rebalancing public programs and policies, and tighter enforcement of existing laws could help increase gender inclusion. New technologies could help improve public service delivery, including adequate targeting of social safety nets to women. Protecting priority social spending and further supporting counties with the highest gender inequality would also be beneficial. Increasing efficiency of public education programs in encouraging girls' school enrolment and retention until tertiary education level would produce large macroeconomic benefits, although the latter could increase overall inequality as girls in richer households are more likely to reach the tertiary level than these from poor households. This apparent tradeoff between gender inequality and overall inequality could be resolved by ensuring that merit-based educational policies are designed in a way that also supports vulnerable households. Similarly, increasing investments to improve provision of certain basic services, including proximity health services, childcare, and safe water would go a long way. Other policies that would be of great impact include supporting further financial inclusion and women's ability to save, including through mobile banking and informal schemes such as risk-sharing arrangements; tackling legal biases and ensuring enforcement of existing laws, notably in the informal sector; and revisiting the laws on property ownership, inheritance rights, and gender equality in pay.

45. In many areas, a first step and low hanging fruit would be to address the gap in implementation of existing policies and laws, which implementation is hampered by limited capacity and awareness. This implies also supporting wider adoption of good practices by private sector companies and public entities in Kenya regarding improving women's incomes, safety and broad rights.

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