May 2021

Accelerating Progress in Poverty Eradication Post COVID-19: The Case of Kenya[1]

Summary: *The economic and social disruptions induced by the Covid-19 pandemic have eroded progress in poverty reduction in Kenya, increased poverty by 4% (or an additional two [2] million poor according to the World Bank Kenya Economic Update through serious impacts on livelihoods, by sharp decreases in incomes and employment. This paper proposes an integrated post-COVID-19 green inclusive sustainable recovery to accelerate poverty eradication in Kenya. It argues that the scale and complexity of the challenges Kenya faces requires an increase in investment in all forms of capital in a manner that addresses critical transitions in economic activity, energy, food and land-use, and transport and urban systems – as well as in other dimensions of economic activity – with the full engagement of the private sector*.

1. Introduction

Kenya's economy has been hurt by the COVID–19 pandemic. Kenya's GDP grew by 4.9% in first quarter of 2020 compared to 5.5% over the same period in 2019. The economy has been exposed through the dampening effects on domestic activity of the containment measures and behavioural responses severely affecting incomes and jobs, and through trade and travel disruption (affecting key foreign currency earners such as tourism and cut flowers). The second quarter 2020 report released by the Kenya National Bureau of Statistics (KNBS) reaffirmed the negative impact of the pandemic and growth contracted to negative 5.7%.

Economic performance in the third quarter of 2020 remained depressed but relatively better compared to the second quarter of 2020. Real GDP is estimated to have contracted by 1.1% in the quarter compared to a growth of 5.8% in the corresponding quarter of 2019. Overall, the economy was significantly affected by the pandemic, which was manifested by the collapse in tourism, services, transport, communications, public administration, financial services, real estate, the closure of schools and pressure on household income stemming from job losses and wage cuts.

The economic and social disruptions induced by the Covid-19 pandemic have eroded progress in poverty reduction in Kenya, increased poverty by 4% (or an additional two [2] million poor according to the World Bank

[1] Prepared by Rogers Dhliwayo for United Nations Department of Economic and Social Affairs (UNDESA), Virtual Inter-agency Expert Group Meeting on Implementation of the Third United Nations Decade for the Eradication of Poverty (2018-2027) under the theme "Accelerating Global Actions for a World without Poverty," 24 to 27 May 2021. The views expressed in this paper are those of the author and do not represent the views of UNDP, the United Nations or any of its affiliate organizations. For more information, please contact the author at the following email: rogers.dhliwayo@undp.org

Kenya Economic Update through serious impacts on livelihoods, by sharp decreases in incomes and employment.[2]

This paper proposes an integrated post-COVID-19 green inclusive sustainable recovery to accelerate poverty eradication in Kenya. It argues that the scale and complexity of the challenges Kenya faces requires an increase in investment in all forms of capital in a manner that addresses critical transitions in economic activity, energy, food and land-use, and transport and urban systems – as well as in other dimensions of economic activity – with the full engagement of the private sector. This will entail building resilience and inclusion across all facets of the economy and society, and a dramatic increase in equality of outcome and opportunities – strengthening human capital through improved access and service delivery, while bolstering mechanisms to ensure equal opportunities, equitable access and voice.

2. The Socio-Economic Impact of COVID-19 in Kenya

The COVID-19 pandemic is a huge setback progress in poverty eradication in Kenya. The pandemic has inflicted a heavy damage on healthy firms through four channels: falling demand and revenues, reduced input supply, tightening of credit conditions, and increased uncertainty and with the damage aggravated by a large informal sector, high poverty rate and unemployed youth population. The pandemic has exacerbated food insecurity and increased poverty by 4% (or an additional two [2] million poor) through serious impacts on livelihoods, sharp decreases in incomes and employment. The pandemic has resulted in huge losses of employment, dropping from 71% of the population in Q4 2019 to 50% in May–June 2020. School closures have also compounded the pre-existing learning crisis and will worsen learning poverty and inequality, especially for the poor and people with disabilities.

Inequality has also increased between men and women as women as women have lost their jobs at a faster rate than men, and gender-based violence is reported to have increased. The KNBS Quarterly Labour Force Survey (QLFS) November 2020 revealed that the labour participation rate has fallen significantly because of COVID-19. World Bank data shows that in 2019, Kenya had a labour-force participation rate of 75%; this rate fell to 56.8% in April 2020. According to the KNBS QLFS, the percentage of the population in active employment, whether informal or formal, has fallen to 65.3% of men and 48.8% of women. Furthmore, women comprise 70% of low wage earners.[3] Most are employed in the informal sector or run micro and small enterprises; and this sector is characterized by daily wages, limited social protection measures and savings. Thus, the socio-economic consequences of the pandemic are likely to have a far greater impact on the long-term health, well-being and poverty levels of the population than the predicted fatalities caused directly by the disease.

3. The Government COVID-19 Response

The government adopted several containment measures, including social distancing and heightened restrictions in most non-essential social spaces to gatherings; encouragement of teleworking where possible; establishment of isolation facilities; declaration of night curfew and limitations on public transportation passenger capacity. Some of the containment measures have since been relaxed. Domestic flights commenced on July 15, 2020, while international flights commenced on August 1, 2020. All international arrivals were to undertake specifically a SarsCoV2 RT PCR Swab test, failure to which they will be quarantined for two weeks. Test results notwithstanding, passengers from selected counties are required to undergo a fourteen-day quarantine.

---

[2] World Bank, (2020). *Kenya Economic Update: Navigating the Pandemic, November 2020 | Edition No. 22*, Available at https://openknowledge.worldbank.org/bitstream/handle/10986/34819/Kenya-Economic-Update-Navigating-the-Pandemic.pdf?sequence=1&isAllowed=y

[3] Kenya National Bureau of Statistics (2019). Economic Survey 2019, Kenya National Bureau of Statistics, Nairobi.

A resurgence of infections in a second wave led to reversal of some of the relaxed measures. Physical participation in places of worship with an age limit of 65 years to take a maximum of 90 minutes down from two hours. Attendance to weddings limited 50 people down from 200 people. While funeral attendance limit remains 200 people, those allowed at the grave side are only 15. Schools re-opening was in phases and were fully reopened on January 4, 2021. An initial Covid-19 vaccine deployment plan put out by the ministry of health targets 30% population coverage by mid-2023, with two thirds of the vaccines expected to be provided by GAVI/COVAX and the remainder procured by the government. The first phase of deployment, which aims to cover 3% of the population by end-June 2021, would focus on frontline health workers. The first batch of the vaccine covering 0.5% of the population arrived in the country in early March 2021. A rapid resurgence of infections in recent weeks led to reversal of relaxation measures introduced since mid-2020. On March 26, the authorities reimposed containment measures in Nairobi and four neighboring counties, including a ban on movement in and out of the area; cessation of in-person meetings, worship, and dining; closure of bars; extension of curfew hours and withdrawal of curfew passes; directing employees to work from home; sending the Parliament on recess; and closing schools and universities again (primary and secondary schools had started planned 7-week recess the week before). In the remaining counties, physical participation in places of worship, funerals, and weddings is allowed with restrictions on the number of participants.

The government took early measures to support the economy from the effects of the pandemic. The government, as part of the FY2019/20 budget (ending June 30, 2020), initially earmarked Ksh40 billion (0.4% of GDP) for Covid-related expenditure, including health sector (enhanced surveillance, laboratory services, isolation units, equipment, supplies, and communication); social protection (cash transfers and food relief); and funds for expediting payments of existing obligations to maintain cash flow for businesses during the crisis. The FY2020/21 budget includes a Ksh56.6 million (0.5% of GDP) economic stimulus package that includes a new youth employment scheme, provision of credit guarantees, fast-tracking payment of VAT refunds and other government obligations, increased funding for cash transfers, and several other initiatives. A package of tax measures has been adopted, including full income tax relief for persons earning below the equivalent of US$225 per month, reduction of the top pay-as you earn rate from 30 to 25%, reduction of the base corporate income tax rate from 30 to 25%, reduction of the turnover tax rate on small businesses from 3 to 1%, and a reduction of the standard VAT rate from 16 to 14. Some of the tax measures, including the reduction of top PAYE rate, corporate income tax rate and VAT were reversed effective January 1, 2021.

On March 24, the Central Bank of Kenya (1) lowered its policy rate by 100 bps to 7.25%; (2) lowered banks' cash reserve ratio by 100 bps to 4.25%; (3) increased the maximum tenor of repurchase agreements from 28 to 91 days; and (4) announced flexibility to banks regarding loan classification and provisioning for loans that were performing on March 2, 2020 but were restructured due to the pandemic. The central bank has also encouraged banks to extend flexibility to borrowers' loan terms based on pandemic-related circumstances and encouraged the waiving or reducing of charges on mobile money transactions to disincentivize the use of cash. On April 15, the central bank suspended the listing of negative credit information for borrowers whose loans became non-performing after April 1 for six months. A new minimum threshold of $10 was set for negative credit information submitted to credit reference bureaus. On April 29, the Central Bank lowered its policy rate by 25 bps to 7.0 %. Some of the measures including waiving or reducing of charges on mobile money transactions and suspension of listing of negative credit information for borrowers were reversed on January 1, 2021. The measures on loan restructuring and classification flexibility expired on March 2, 2021.

4. Accelerating Poverty Eradication in Kenya through a Green Inclusive Sustainable Recovery

The full extent of the suffering caused by COVID-19 is still emerging, but poor communities, small and informal businesses, and marginalised communities are bearing the brunt of the pandemic in Kenya. The pandemic has exposed the scale of poverty and inequalities in Kenya, and it is likely to exacerbate them.

Responding to the pandemic to accelerate poverty eradication in Kenya requires a green inclusive sustainable recovery. Studies have shown that a green inclusive sustainable recovery will create significant numbers of jobs and help accelerate poverty eradication. For example, a study by Hepburn et al (2020) revealed that targeted green investments could improve the quality of a recovery in terms of job creation and could enhance countries' resilience to climate change.[4] In the same vein, a study by O'Callaghan and Bird (2020) on green investments in South Africa revealed that green investments provide a stronger gross value added and jobs creation pathway than "traditional" fossil fuel-based investments[5] with up to 250% more jobs could be created in the short-term and as much as 420% greater economic value generated in the long-term compared with traditional fossil fuel-based alternatives.

A green inclusive sustainable recovery will provide high quality jobs for Kenyans and will enhance sustainable growth and support the shift from a low productivity to a high productivity economy. The adoption of such a strategy will also offer an opportunity to make the Kenyan economy more resilient, in terms of education, skills, depth of supply chains, finance and climate resilience.

To accelerate poverty eradication in Kenya a green inclusive sustainable recovery will require coordinated investments across the following areas:

- i Investment in human capital: facilitating the emergence of an upskilled workforce and healthy resilient citizenry in an economy creating decent jobs.
- ii Investment in resilient infrastructure: investing in enablers, such as modern resilient energy systems, sustainable transport and digitalization.
- iii Investment in food security: investing in agriculture and rural communities to ensure more secure and affordable food for consumers and better returns for farmers.
- iv Investment in the country's natural capital: investing in nature-based solutions to generate employment while also protecting natural resources.
- v Investment in markets and financial systems: developing domestic markets to enhance the Kenyan economy resilience, investing in value chains within the context of the African Continental Free Trade Area, particularly for industries that have relatively short and sustainable national and regional supply chains.

---

[4] Cameron Hepburn *et al.*, (4 May 2020), "Will COVID-19 Fiscal Recovery Packages Accelerate or Retard Progress on Climate Change?" *Working Paper No. 20-02, Oxford Review of Economic Policy, 36(S1),* Available at: https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf

[5] Brian O'Callaghan and Julia Bird, (2020). "A Prosperous Green Recovery for South Africa: Could Green Investment Bring Short-Term Economic Recovery While Unlocking Long-Term Sustainable Growth? Oxford University Economic Recovery Project, SSEE, Vivid Economics and ECA, Available at https://recovery.smithschool.ox.ac.uk/wp-content/uploads/2021/03/20200301_OXFORD-VIVID-_-A-Prosperous-Green-Recovery-for-South-Africa_vf_EN.pdf