

JICA Country Analysis Paper for the Republic of Kenya

**Japan International Cooperation Agency
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JICA Country Analysis Paper (JCAP) is a document in which recipient countries are analyzed by JICA, as a development assistance agency, from the viewpoint of development and is to be utilized in considering and extending effective cooperation to ODA recipient countries. JCAP also provides information to the Government of Japan for formulation of development policies such as “Country Assistance Policy”. It is also noted that actual cooperation and projects to be implemented shall be considered and determined in accordance with policies of the Government of Japan, and budget of each fiscal year and other relevant factors.

1. Analysis of the current situation of Kenya

Politics: Democratic nation supported by a relatively stable political regime

- Kenya achieved independence in 1963 and became republic (a presidential system) in 1964. In November 2017, Uhuru Muigai Kenyatta, the incumbent president, was re-elected for a second term.
- In accordance with the constitution established in August 2010, devolution has been taking its root; promoting the delegation of authority to all 47 counties. However, the administration capacity of some of those delegated county governments is still limited.
- Influx of refugees from bordering countries with public disorder is reported, particularly from Somalia and South Sudan. Terrorist operation by Al-Shabaab, Islamic fundamentalist group, is continuing in retaliation to the government of Kenya's participation to the African Union Mission in Somalia (AMISOM) and requires continued alert.

Economic situation: Realized solid economic growth with one of the most diversified economic structures among the resource-poor countries of Sub-Saharan Africa. On the other hand, the country contends with various risks including an increase of public debt and a chronic budget deficit, fluctuations in weather and oil prices, and an unstable political and security situation.

- The GDP growth rate peaked at 8.4% in 2010 and since then has generally grown at around 4% to 6%. In the short to medium term, solid economic growth supported by the improved business environment and increasing public infrastructure investment is expected. However, increase in oil prices could lead to negative impact.
- While inflation rate spiked to 14% due to a drought-induced increase in food prices in 2011, thanks to a decrease in electricity and oil prices, the inflation rate has been within the central bank target of 5%±2.5 percentage.
- The Central Bank has focused its monetary policy prioritizing on price stability. Although the soundness of the banking sector is high, a slowdown in private loans resulting from interest-rate cap has had a negative impact on the real economy.
- The exchange rate has been stable due to market intervention by the central bank and robust inflow of oversea remittance.
- Due to rapid increase in expenditure arising from infrastructure development, devolution and public security, a chronic budget deficit of 5% to 9% of GDP has been recorded since 2012. Overall challenges include strengthening tax collection capacity, tax system reform and rationalizing and streamlining expenditures.
- Public debt, which was 52.4% of GDP at the end of 2015, has been increasing. However, in the medium term, the debt is considered sustainable as it is expected to decline gradually after peaking at 54% to 55%.
- The current account deficit has been narrowing due to a decline in oil prices, an increase in agricultural exports, and an increase in tourism revenue. On the other hand, an increase in imports due to large infrastructure projects, solid domestic demand, and an increase in oil prices can be risk factors for prolongation of the deficit.

Industrial structure: National economy largely depends on the agricultural and service sectors. Although the business environment has been improving, foreign direct investments remain at low levels.

- In FY2016, Kenyan industries mainly consist of the primary industry (35.6% of GDP) and the tertiary industry (45.4% of GDP).
- The agriculture is the major sector of the Kenyan economy. In addition to the traditional agricultural products, such as tea and coffee, exports of horticultural crops have been increasing. However, limited self-sufficiency ratio is a large challenge as key crops such as rice and wheat is heavily dependent on foreign import.
- Although the World Bank's "Doing Business" indicator is improving, foreign direct investment inflow remains low.

Social sector: Assistance to the people left behind from the general economic growth and mitigation of disparities and other negative impact is required.

- Population is growing at a pace of one million per annum and abundant young workforce is a potential engine for further economic growth. However, high unemployment could lead to social disorder and therefore job-creation is an imminent challenge.
- Nominal GNI per capita in 2016 was USD1,131 ranking Kenya as a low-income country. The growth rate of nominal GNI per capita was 2.5% on average between 2010 and 2016.
- In rural areas, population growth is outpacing agricultural production, and as a result, it is estimated that the population below the poverty line is in increasing trend. Furthermore, disparities between urban and rural area is still at large, and the influx of the rural population into urban areas is expected to continue to rise. Indeed, urban population have been increasing at an average of 4.4% during the period of 2010 to 2016. However, the percentage of people living in the slum against the entire urban population is remaining at the same level, indicating the number of population under poverty is increasing in urban area as well.

2. Development policy and plan of Kenya

Development policy and plan of Kenya: "Food security", "Improving access to affordable accommodation", "Promoting the manufacturing industry", and "Universal Health Coverage" are four prioritized economic policies.

- In 2008, the government of Kenya announced a national development plan "Vision 2030" with the aim of becoming a middle-income country by 2030 and improving the quality of life for all citizens through industrialization.
- The Third Medium Term Plan (MTPIII, 2018-2022) is in the final stage of work within the government of Kenya. President Uhuru Muigai Kenyatta has announced "Food security," "Improving access to affordable accommodation," "Promoting the manufacturing industry," and "Universal Health Coverage" as four prioritized economic policies.

3. Development cooperation

Cooperation by Japan: Kenya is one of Japan's largest partners in Africa in terms of the scale of cooperation and as well as being a model country for each sector.

- The gross volume of Japanese development cooperation by the end of FY2016 were JPY375.6 billion for Japanese ODA loans (ranked first in Sub-Saharan Africa), JPY86 billion for grant (ranked second in the same region), and JPY122.2 billion for technical cooperation (ranked first in the same region).
- In August 2016, TICAD VI was held in Nairobi as the first conference in Africa after the launch of the TICAD process. The number of participants was more than 11,000 including representatives from 53 African countries, the private sector, and civil society.

Cooperation by other donors and aid coordination: Among bilateral donors, the amount of loans provided by Japan is ranked second after China. Although Kenya has a framework for aid coordination, there are still challenges that inhibit its ability to function effectively.

- More than 20 multilateral and bilateral donors have provided loans to the government of Kenya. According to the budget document for FY2017/18, the amount of loans provided by Japan was USD879 million (6% of the total amount of loans provided by donors) which ranked fourth among all donors (ranked second among bilateral donors).
- In September 2009, the Secretariat for Aid Effectiveness was established in the External Resource Department of the National Treasury. The Harmonization, Alignment and Coordination Group was changed to the Aid Effectiveness Group (AEG) in which donors and the External Resource Department of the National Treasury serve as co-chairs. In addition, the principle of aid effectiveness and the partnership principle were contained in MTPII.

4. Direction of JICA's cooperation for Kenya

Relevance of JICA's cooperation: Contributing to the economic and political stability, as well as to promoting the strong interests of Japanese private enterprises for further investment to Kenya is important. However, worsening of disparities and other negative effects of the economic growth also needs to be mitigated.

- Kenya has the largest economy in the East African Community (EAC) and is taking a leading role for economic development of EAC and other surrounding countries. Geopolitically, Kenya is a logistics hub as a starting point for the Northern Economic Corridor connecting to Uganda and Rwanda.
- Kenya has significant political influence within the EAC, such as through its promotion of regional integration and its strong involvement for regional peacekeeping.
- Japanese enterprise recognizes Kenya as an important entry point to Sub-Saharan Africa. As of 2017, 52 Japanese enterprises have bases in Kenya, showing their strong interest for the region.
- Kenya have a number of challenges such as an increase of the poor, environmental deterioration due to rapid urbanization, mass youth unemployment, and frequent drought in the northern area. It is

necessary to expand assistance to the people that were left behind and have not been able to benefit from the general economic growth.

Direction of JICA's cooperation (overall objectives): Sustainable development for economic growth and fair social development

- While contributing to the development of infrastructure and improvement of economic environment for the promotion of economic growth, JICA's cooperation will prioritize challenging the issues caused by economic growth and support those who left behind.

Priority Areas to be addressed by JICA: (1) Economic Infrastructure Development, (2) Industrial Development, (3) Agricultural and Rural Development, (4) UHC and (5) Environment

(1) Economic Infrastructure Development

Infrastructure development is a pressing issue as it is the foundation and bottleneck for economic growth. JICA will implement both soft and hard cooperation in following areas: development of the Northern Economic Corridor, appropriate planning, development, improvement, maintenance, and management of urban infrastructure (which is the keystone of the economy and logistics) and improvement in electricity access.

(2) Industrial Development

For economic growth, industrial promotion through expansion of trade and investments and a development of domestic industries must be ensured. To this end, improvement of business and investment environments, industrial promotion, export promotion and new market formation in line with regional integration are necessary. For contribution to those efforts, JICA will provide inclusive assistance utilizing Japanese developmental experience especially for economic infrastructure for industrial developments, institutional development and capacity building of human resources. Considering the high interest for investment by Japanese private companies to Kenya, JICA will also promote the development of business environment primarily through private sector partnership schemes.

(3) Agricultural and Rural Development

To further promote the agriculture (one of the key industries), it is necessary to promote exports of agricultural products, strengthen domestic production, and realize food and nutrition security. For these to be achieved, JICA will continue to address strengthening small-scale farmer's capacity corresponding to market needs and strengthening the value chain (market). Further, improvement of agricultural productivity (improvement of production technology and the development of small-scale irrigation facilities), reduction of postharvest loss, proper farming input, and promotion of farming input focusing on rice and other grains that are heavily dependent on imports. In addition, JICA will also address improvements in access to and consumption of nutritious food.

(4) Universal Health Coverage (UHC)

Although the people's health status has been improving, geographical and economic disparities affect health indicators. Responding to inequity in health services is an urgent issue. For achieving UHC by 2030, the government of Kenya has announced UHC-related programs as its main policies, such as Health Insurance Subsidy Program for the poor, Free Maternity Service, and Health Sector Service Fund-Results Based Financing. In addition, in response to decentralization based on the current constitution, there have been serious challenges such as securing health budget, appropriate budget execution and provision of health services to residents by the county government. Based on the above, JICA will provide its cooperation for the achievement of UHC under decentralized health system.

(5) Environment

In the country where arid and semi-arid land (ASAL) area accounts for 80% of the national land, conservation of environmental resources such as water and forests are an extremely important. In addition, countermeasures against damages caused by droughts, which have become more apparent due to the impact of climate change in recent years, are urgent challenges. Furthermore, there are growing concerns about the deterioration of the urban environment due to the urban migration and economic growth. Therefore, JICA will support countermeasures against climate change from perspectives of both mitigation and adaptation such as water resource management, forest conservation and drought resilience as well as improvement of the urban environment through enhancement of water and sewage service delivery and solid waste management.

5. Major development issues of Kenya (program level) and direction of cooperation

(1) Economic Infrastructure Development

Development issue (1)-1: Transportation Infrastructure Development

Provide assistance for infrastructure and system developments of the Northern Economic Corridor mainly focusing in Mombasa and Nairobi for vitalization of entire East African logistics.

Cooperation program (1)-1-1: Nairobi Urban Infrastructure Development Program

Provide assistance for infrastructure development in order to mitigate and reduce traffic congestion and traffic accidents in Nairobi where people and economic activities are concentrated.

Cooperation program (1)-1-2: Mombasa Area Infrastructure Development Program

Provide assistance for infrastructure development and formulation of development plan for Mombasa to expedite the economic growth not limited to Mombasa but of entire Kenya.

Cooperation program (1)-1-3: Regional Transportation Network Improvement Program

Provide assistance for integration of industrial development (including agricultural and fisheries industries) with infrastructure development for the Northern Economic Corridor in order to expedite the economic growth of entire Kenya.

Cooperation program (1)-1-4: Urban Development

Provide assistance for the formulation of a sustainable urban plan in Nairobi and other cities.

Development issue (1)-2: Electricity Access Improvement

Provide seamless assistance for generation, transmission and distribution of power through coordination with the government of Kenya and other donors to solidify the foundation of economic growth.

Cooperation program (1)-2: Generation, Transmission and Distribution Capacity Enhancement Program

Provide developmental assistance for domestic power plants and transmission/distribution networks, as well as for the construction of international transmission/distribution grids for promotion of electricity supply leading to further economic growth.

(2) Industrial development**Development issue (2)-1: Trading and Investment Environment Improvement**

Although the business environment has been improving, an attraction of foreign investments is a challenge.

Cooperation program (2)-1: Trading and Investment Environment Improvement Program

Provide comprehensive assistance to policies, systems, and infrastructure in order to attract foreign investment.

Development issue (2)-2: Private Sector Promotion

For maintaining and expanding economic growth, development of the manufacturing industry and strengthening of the competitiveness of micro, small, and medium enterprises are necessary.

Cooperation program (2)-2: Private Sector Promotion Program

Bottom up of industries through capacity development of micro, small, and medium enterprises, human resources development for industrial development, and entrepreneur assistance.

Development issue (2)-3: Human Resource Development of Science, Technology and Innovation (STI) personnel

Shortage of science/technology and agricultural personnel who support industrial advances and a brain drain outside of Africa are issues.

Cooperation program (2)-3: Human Resource Development of STI personnel Program

Provide assistance for the development of human resources that support the industrialization of Kenya and other African countries, based on the trust in cooperation built over the years.

(3) Agricultural and rural development**Development issue (3)-1: Market-oriented Agriculture Development**

It is necessary to promote exports of agricultural products and to strengthen domestic production, through the farming capacity development of small farmers that meet market needs and value chain (market)

strengthening.

Cooperation program (3)-1: Market-oriented Agriculture Development Program

Provide assistance for the capacity development of organizations related to the processing and distribution sectors, and infrastructure development for the strengthening of the value chain (market). This will be done in addition to strengthening linkages with markets and promoting market needs-based agriculture for small farmers through awareness-raising activities.

Development issue (3)-2: Food and Nutrition Security

An improvement of agricultural productivity and strengthening competitiveness concerning rice and other major grains that are heavily dependent on imports is necessary. Efforts for improving access to and consumption of nutritious food are also necessary.

Cooperation program (3)-2: Food and Nutrition Security Program

Provide assistance for improvements in agricultural productivity and strengthening competitiveness concerning rice and other major grains that are heavily dependent on imports. In addition, assistance will be provided in order to contribute to an improvement of access to and consumption of nutritious food.

(4) UHC

Development issue (4)-1: Health Systems Strengthening

For achieving UHC, strengthening health financing and health service delivery is necessary.

Cooperation program (4)-1: Health Systems Strengthening Program

For achieving UHC, provide assistance for strengthening health system management and health financing.

Development issue (4)-2: Pandemic Preparedness

For strengthening capacity of emergency responses and preparedness against public health threats, provide technical assistance at the central (including research facilities), county, and community levels.

Cooperation program (4)-2: Pandemic Preparedness Program

For building resilience against public health emergencies such as infectious diseases, provide assistance for building institutional and human capacity and strengthening network for research institute and regional center.

(5) Environment

Development issue (5)-1: Climate Change Resilience Strengthening

Assistance for the proper management and development of the natural environment, which will be the basis for sustainable economic development, is necessary. Strengthening of resilience to recent climate change should also be promoted.

Cooperation program (5)-1-1: Water Resource Management Program

Provide assistance for proper management of water resources in river basin basis by strengthening the

basic information management capacity on hydrological data collection, evaluation and analysis in addition to promoting appropriate allocation of water resources.

Cooperation program (5)-1-2: Forest Conservation Program

Contribute to the promotion of sustainable forest management through assistance to forest conservation policies, assistance for preparation of REDD+, and inclusive efforts through studies on timber breeding.

Cooperation program (5)-1-3: Drought Resilience Program

Provide assistance for medium- to long-term strengthening of resilience to droughts through sustainable natural resource management and diversification of livelihoods.

Development issue (5)-2: Urban Environment Improvement

For realizing sustainable urban development, it is necessary to improve the urban environment through strengthening the systems and capacity of county governments and other organizations that are entities of administrative services, and infrastructure development meeting urban needs.

Cooperation program (5)-2-1: Urban Water and Sewerage Services Development Program

Provide assistance for the enhancement and maintenance of sustainable water and sanitation services by strengthening the capacity on project implementation and operation of organizations providing urban water and sewerage services, as well as promoting their fiscal consolidation.

Cooperation program (5)-2-2: Waste Management and Pollution Control Program

Provide assistance for a resolution of issues related to the sanitary environment contributing to sustainable urban development and issues of environmental pollution, by using the knowledge of Japanese local governments.

6. Considerations in providing cooperation

- **Cooperation according to policies and strategies of the government of Kenya**

JICA will implement strategic and effective cooperation while paying close attention to the policy and strategy trends of the government of Kenya, such as MTPIII and “the Big 4 Agenda” announced by President Kenyatta.

- **Response to devolution**

Although devolution has been promoted in Kenya, the capacity of county governments remains insufficient. In addition, the division of the roles and responsibilities of the central and local governments is still unclear. Therefore, sufficient discussion and coordination with the recipient county government is necessary during the implementation of projects.

- **Utilization of private funds and privatization**

The government of Kenya has promoted infrastructure development through PPP to counter the huge demand of infrastructure development. However, this policy has led to some cases in which projects that were requested for Japanese ODA loan were asked to be changed to PPP projects; and some projects

with use of private funds being unrealistic have been launched through PPP nevertheless. Therefore, a type of funds to be applied needs to be sufficiently consulted with the government of Kenya during project formulation.

- **Use of assets of previous cooperation**

Achievements obtained through JICA's seamless cooperation such as JKUAT, KEFRI, KEMRI, and CEMASTEAM have become valuable assets. For future operation, JICA will further enhance the project effectiveness by utilizing these assets, including through third country cooperation.

- **Assistance for physical education and sports**

While volunteers for sports (judo, volleyball, baseball, etc.) and youth activities are not directly linked to above prioritized areas but will be dispatched according to requests from the government of Kenya.

Appendix 1: Overall Cooperation Program of JICA

Overall Cooperation Program of JICA

Direction	Sustainable Development for Economic Growth and Fair Social Development	
Priority Area	Development Issue	Program
Economic Infrastructure Development	Transportation Infrastructure Development	Nairobi Urban Infrastructure Development Program
		Mombasa Area Infrastructure Development Program
		Regional Transportation Network Improvement Program
	Urban Development Program	
	Electricity Access Improvement	Generation, Transmission and Distribution Capacity Enhancement Program
Industrial Development	Trading and Investment Environment Improvement	Trading and Investment Environment Improvement Program
	Private Sector Promotion	Private Sector Promotion Program
	Human Development of Science, Technology and Innovation	Human Development of Science, Technology and Innovation Program
Agriculture and Rural Development	Market-oriented Agriculture Development	Market-oriented Agriculture Development Program
	Food and Nutrition Security	Food and Nutrition Security Program
Universal Health Coverage	Health Systems Strengthening	Health Systems Strengthening Program
	Pandemic Preparedness	Pandemic Preparedness
Environment	Climate Change Resilience Strengthening	Water Resource Management Program
		Forest Management Program
		Resilience Against Drought Program
	Urban Environment Improvement	Urban Water and Sewerage Services Development Program
		Waste and Pollution Control Program
Others	Social Stabilization	Social Stabilization Program