

IMPACTS OF IMPLEMENTING THE BOTTOM-UP ECONOMIC PLAN ON JOBS, POVERTY, AND FOOD SECURITY IN KENYA

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Summary of key findings

This policy note presents results from an economy-wide model to assess the expected impacts of implementing the Bottom-Up Economic Plan in Kenya.

- The economywide modeling results suggest that the design of the Bottom-Up Economic Plan is consistent with its goals of achieving broad-based growth and benefiting the poor, particularly the poorest of the poor at the bottom of the pyramid.
- We estimate that 5 million jobs will be created, 5.5 million people will move out of poverty, and 2.9 million people will be lifted out of hunger by 2027 under the implementation of the Plan scenario, as compared to today.
- The structural transformation envisaged in the Plan is key for achieving higher middle-income status. Growth driven by productivity-enhancing private investments (especially in domestic manufacturing) and exports will lead to the acceleration of structural change.
- Growth led by the agricultural sector is far more effective at reducing poverty than a similar level of growth coming from nonagricultural sectors.

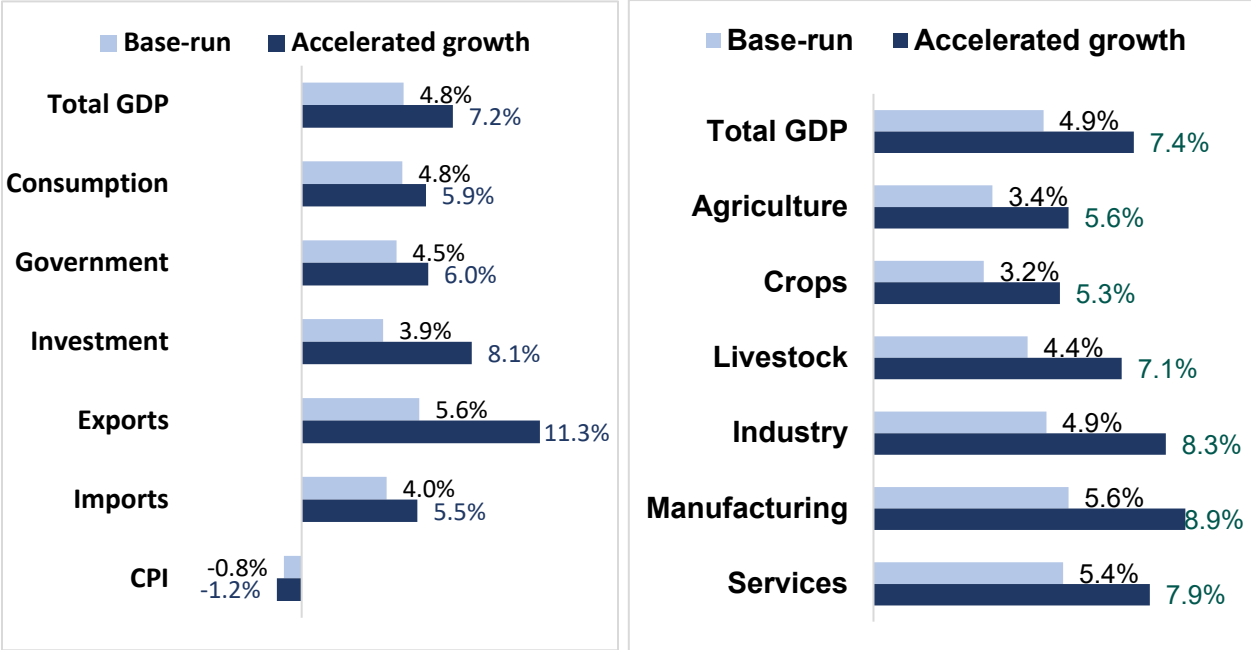


The Bottom-Up Economic Plan. The new Kenyan government has ambitious plans to create jobs, eradicate hunger, and lower the cost of living for its citizens. The “Bottom-Up Economic Plan” (hereafter

referred to as “The Plan”) operationalizes these objectives by empowering micro, small, and medium enterprises and farmers as the engine for growth and job creation, by broadening the tax base and improving budget allocation for priority sectors, and by enhancing food production to improve Kenya’s foreign exchange balance and inclusive growth. Enhanced access to credit for the private sector is facilitated by the establishment of the “Hustlers’ Fund” (Financial Inclusion Fund). As a response to challenges related to information asymmetry that affects market access and risk management, the Enterprise Resource Planning system is planned for all participants. The five sectors that form the core pillars of the Plan’s Agenda include: 1) Agriculture, with a financial commitment of KSh 250 billion for FY2023–2027; 2) the Micro, Small, and Medium Enterprise Sector, with a budget of KSh 250 billion; 3) Housing and Settlement, with a budget of KSh 250 billion; 4) Healthcare, with a budget of KSh 250 billion, of which the budgeted commitment is KSh 50 billion and the remaining KSh 200 billion will be financed by a pension fund; and finally, 5) Digital Superhighway and Creative Economy, with a budget of KSh 40 billion.¹

The Kenyan economy is bound to grow much faster under the Plan. Under the Plan, total annual GDP growth is estimated to rise from the base-run scenario of 4.8 percent to 7.4 percent at factor cost and 7.2 percent at market prices in 2023–2027. Investments and exports both grow faster than GDP (Figure 1). The annual growth rate of investments more than doubles (from its base-run of 3.9 percent to 8.1 percent), with capital supply expanding much faster than land and labor force. The trade position improves substantially, driven by stronger growth in exports than in imports (11.3 percent versus 5.5 percent per year). As a result, the Kenyan economy reorients toward exports and investments. Private and public consumption demand grows more slowly than GDP, and such growth leads to falling consumer prices (CPI falls from 0.8 percent to 1.2 percent per year in 2023–2027).

Figure 1: Growth under base-run and accelerated growth scenarios (average annual growth rate in 2023–2027)



Note: The left panel shows total GDP at market prices, and the right panel shows total GDP at factor costs.

Source: Kenya economywide model results. “Industry” includes mining, manufacturing, utilities, and construction.

¹ <https://uda.ke/downloads/manifesto.pdf>

Growth is broad-based and driven by private sector–led capital accumulation and productivity enhancements. Additional growth of 2–3.5 percentage points occurs across all production sectors, indicating that growth is broad-based. Key priority subsectors highlighted in the plan include maize; dairy; cattle; tea value addition; expanding and revamping export cash crops such as coffee, cashew nuts, avocado, macadamia nuts, and pyrethrum; and revamping leather, cotton, pharmaceutical, and textile and clothing industries (see Appendix). The modeling results suggest that focusing on these priority sectors can deliver the expected positive impacts on jobs, poverty, and food security. Consistent with the “bottom-up” nature of the Plan, there are larger growth accelerations in agriculture (in relative terms) compared to other sectors, while more rapid growth in absolute terms occurs in many nonagricultural sectors that have higher productivity, such as the manufacturing sector. Broad-based growth is accompanied by continued structural change in the Kenyan economy, with more workers employed off-farm within the agrifood system and in other nonagricultural sectors. Investment growth leads to rapid growth in construction of 8.2 percent per year, as well as high growth rates in more capital-intensive sectors, many of which are in manufacturing. In total, almost half of total GDP growth in 2023–2027 is associated with investment-led capital accumulation. It is notable that total factor productivity (TFP) growth is the most important source for accelerating growth, contributing to two-thirds of additional growth (the difference between the base-run and accelerated growth scenarios) in 2023–2027. Labor force growth is a third important source for growth, explaining about 15 percent of total accelerated GDP growth in 2023–2027. Growth in productivity and increases in employment occur in the broad economy, while investment that has a positive effect from the aggregate demand side increases the capital supply employed in many sectors.

Box 1: Methodology

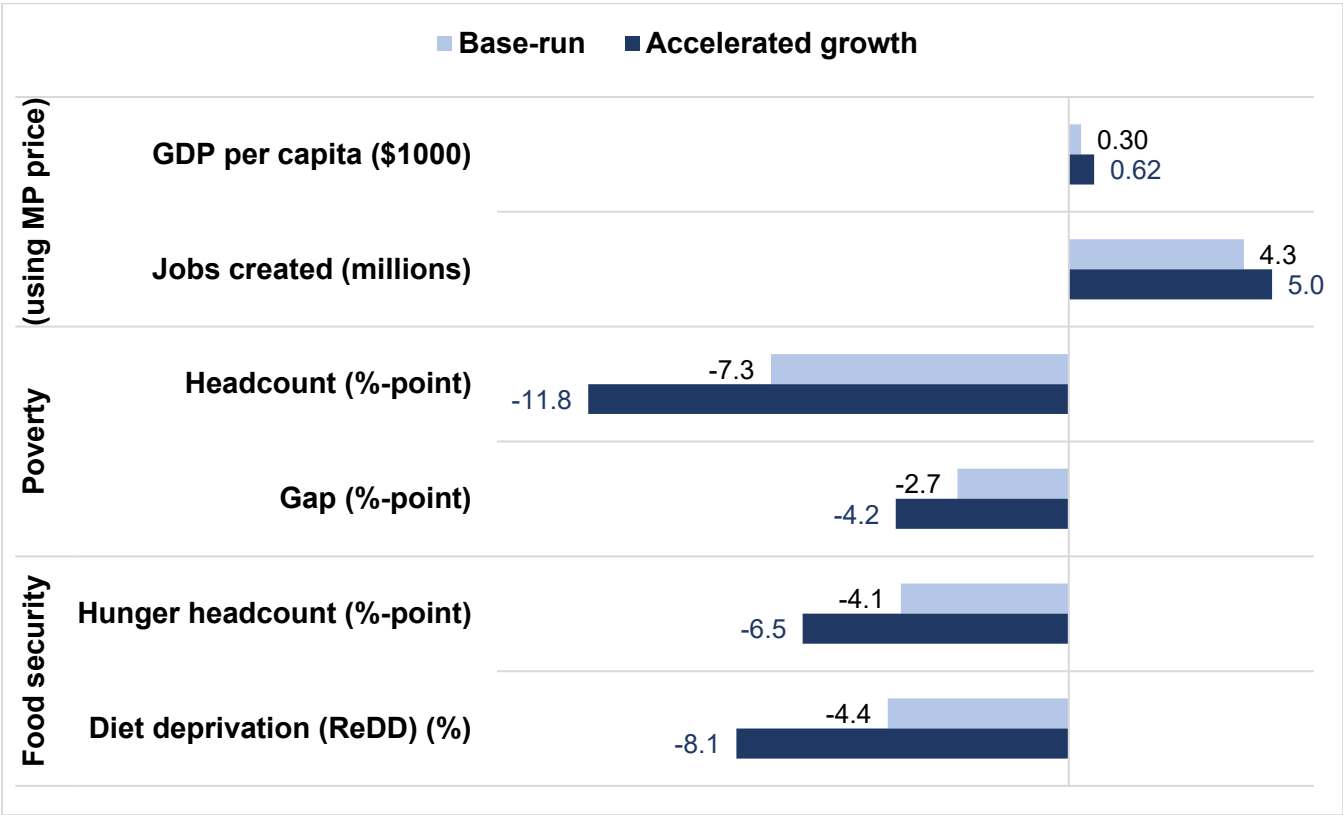
The authors first reviewed the Bottom-Up Economic Plan at the detailed subsector level for specific targets. For example, the Plan aims to increase maize yields to reduce dependence on food imports; support export value chains such as coffee, tea, and avocado; expand the apparel industry; support renewable energies; establish universal healthcare; and accelerate road infrastructure, housing, and education. Based on a comprehensive review of these sector-specific targets and drawing on experts’ opinions, the authors established the expected subsector-level growth rates. Based on these subsector-level estimates, the team then used Kenya’s economywide computable general equilibrium RIAPA model to estimate the combined impacts of the Plan on social and economic outcomes. The RIAPA model aggregates the Kenyan economy into 90 sectors that cover production, consumption, trade, and investment activities. The model considers two scenarios: base-run, which reflects the continuation of recent growth trends observed in 2009–2019 (before the pandemic), and accelerated growth, which reflects the targets of the Bottom-Up Growth Plan for 2023–2027, as described above.

By accelerating sector-specific productivity growth and private and public investment, and through intersectoral linkages and spillover effects, the RIAPA model assesses the potential outcomes of the Bottom-Up Economic Plan in 2023–2027. The model measures the impact on the macroeconomy (for example, investment, trade, prices) and on sectoral production and employment. With the integration of a survey-based microsimulation model that details individual households’ consumption and expenditures, the RIAPA model also estimates the household-level impact of the Plan, including household incomes, poverty, and food security. In addition, the RIAPA model allows for isolating the effects of different sectoral contributions to growth, and can determine which sectors are driving poverty and food security outcomes more than others

Growth acceleration leads to rising incomes and employment, lower poverty, and improved food security.

The modeling results show that GDP increases by an additional US\$320 (KSh 35,000) per person by 2027 (from US\$2,470 under base-run to US\$2,790 under the accelerated growth scenario by 2027). Accelerated growth is accompanied by job creation, with an additional 700,000 jobs by 2027 alone, in addition to the 4.3 million new jobs expected under the 2027 base-run scenario (that is, a total of 5.0 million new jobs by 2027). Rising incomes and additional jobs lead to greater reductions in poverty: it is estimated that 5.5 million people will be lifted out of poverty by 2027, 2.5 million more than in the base-run scenario. Importantly—and consistent with the Plan’s targets—growth also benefits the poorest of the poor by further narrowing the poverty gap (a measure of the distance between poor people’s income and the national poverty line). The smaller the poverty gap, the more that growth benefits the poorest of the poor. By 2027, the poverty gap declines by 4.2 percentage points from its level in 2021 under the accelerated growth scenario, while it falls by 2.7 percentage points under the base-run scenario. In line with poverty reduction and narrowing the poverty gap, food security is improved. By 2027, undernourishment is expected to improve for 2.9 million people, 1.5 million more than under the base-run. Diet deprivation also improves. Diet deprivation is an index to measure the gap between household-level actual consumption and the healthy reference diet, based on six major food groups. By 2027, the index falls by 8.1 percent from its 2021 level under the accelerated growth scenario, 3.7 percentage points more than the decline under the base-run.

Figure 2. Poverty and food security outcomes under base-run and accelerated growth scenarios (Change in outcomes by 2027, where 2021 is the base)



Source: Kenya economywide model results.

In summary, the Plan’s design is consistent with its goals, but the literature suggests that its success will depend on many internal and external factors. Achieving inclusive economic growth as envisaged in the Plan will require continued national efforts to improve governance and public sector reforms by creating an enabling environment for investments and businesses; improving collaboration and coherence between national and county-level governments in the design and implementation of policies and projects; and enhancing economic management to address existing market failures (KIPPRA 2020). Continued research and evaluation during the Plan’s implementation will also be important to monitor impact and make any needed changes to ensure that the Plan leads to more inclusive growth and benefits the poorest of the poor.

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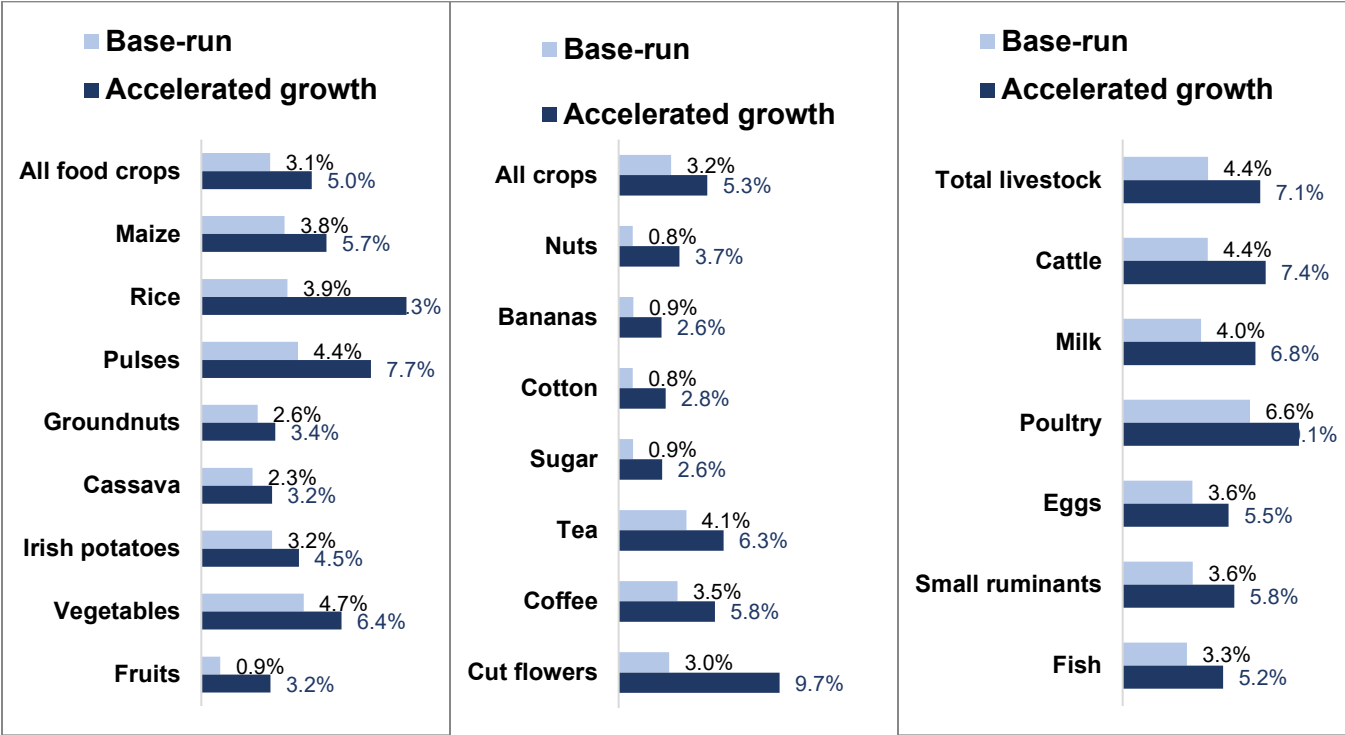
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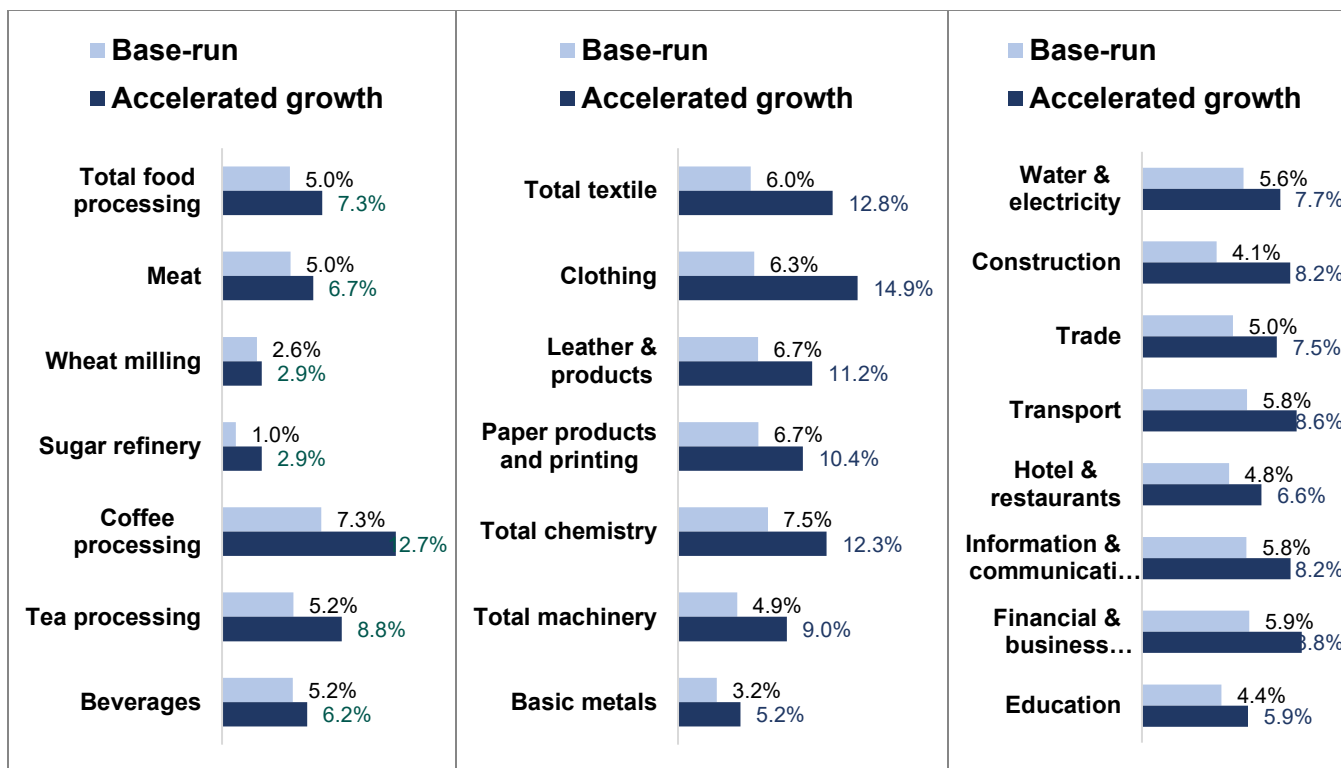
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Appendix. Subsector-level growth outcomes under Bottom-Up Economic Plan (average annual growth rate in 2023–2027)





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