REPUBLIC OF KENYA

MINISTRY OF LABOUR AND SOCIAL PROTECTION

OFFICIAL LAUNCH OF THE EAST AFRICAN REGIONAL ECONOMIC OUTLOOK 2020 REPORT

SPEECH BY THE CABINET SECRETARY,
MINISTRY OF LABOUR AND SOCIAL PROTECTION
MR SIMON K. CHELUGUI

8TH JULY 2020

The Ag Director General, ADB East Africa Regional Office Mrs Nnenna Nwabufo

Cabinet Secretaries and Ministers present,

Principal Secretaries Present

Development Partners Present,

Representative Federation of Kenya Employers,

Representatives from other institutions / organizations

The Management of Africa Development Bank Group

Staff of Africa Development Bank Group

All Government official present

The media

Distinguished Guests

Ladies and Gentlemen,

Good Afternoon

It is with great appreciation that I join you all in this occasion of the official launch of the East Africa Regional Economic Outlook report 2020 that has been generated by African Development Bank Group.

Ladies and Gentlemen,

Availability of up-to-date, accurate and reliable Labour Market Information is very critical for decision making be it at policy level or even at personal level. Such information can only be availed through collecting, collation and analysis of labour market data to generate reports useful for policy and decision making by stakeholders in the economy. I am therefore cognizant of the amount of work that has gone in generating this report.

The 2020 East Africa Regional Economic Outlook analyses economic growth, its drivers, its implications for social development including poverty, employment and inequality as well as progress in regional integration, taking into consideration of the impact of COVI-19 crisis. The report has also examined skills development and education for the work force of the future in East Africa, and its policy implications. This report augers very well with My Ministry which has the Mandate of providing policy guidance on Human Resource Planning and Development in the Kenya.

Ladies and Gentlemen,

East Africa's economies are slowly transitioning from agriculture to services with the contribution of agriculture to the region's GDP going down from an average of 33.4 percent at the turn of the millennium to 28.3 percent in 2018 compared to the contribution of services having increased from 44.6 percent to 53.8 percent in the same period. Pre-COVID-19 estimates indicated an expansion in employment opportunities in the region's service sector in line with this structural transformation.

However, these estimates are no longer tenable given the ongoing COVID-19 induced demand and supply which has greatly affected the services sector. Within this region however, countries where contribution of services is prominent include Seychelles (80 %), Eritrea (67%), Kenya (60%) and Rwanda (47%).

Ladies and Gentlemen,

The global economy is estimated to have grown by 2.9 percent in 2019 and was projected to grow by 3.4 percent in 2020. Similarly, Africa's economic growth projection for 2020 was 3.9 percent while East Africa's GDP growth was projected to be 5.1 percent in 2020 hence making the region the fastest growing in Africa.

The region's growth was largely driven by strong public spending in infrastructure, rising domestic demand, the benefit of improved stability, new investment opportunities and incentives for industrial development. Overall, the impact of the region's economic growth on poverty, inequality and unemployment is expected to remain minimal, with inequality, poverty and unemployment expected to persist in 2020.

Although year 2020 started with promises of better growth projections, the outbreak of the COVID-19 pandemic has threatened the way of life for a large number of people globally. Many businesses worldwide have encountered losses which have threatened their operations and solvency, especially among smaller enterprises. From the available global predictions, the economic growth projection are now expected to contract significantly. The contraction in Africa is expected to become very significant.

Ladies and Gentlemen,

In the East African Region, COVID-19 has brought disruptions of fiscal expenditure plans, revenue mobilization, supply chains and international market demands, hence dampening the growth projection to 1.2 percent for year 2020 although a recovery of 2.8 percent in the worse-case scenario is projected in 2021 assuming that COVID-19 would be contained in the short-to-medium term.

The impact of **COVID-19** crisis can be felt through reduced commodity prices and trade, reduced foreign direct investment, reduced earnings from tourism and travel, volatility in financial markets, and disruptions in the social sectors, notably education and health.

It is therefore expected that fiscal deficits will deteriorate as government's ramp up public spending to address the health and economic effects of the pandemic amid reduced public revenues. Similarly, the current account deficits will be aggravated by reduced export earnings and inflation is projected to increase as supply shocks offset the reduced demand.

Ladies and Gentlemen,

Having realized the crisis posed by COVID-19 pandemic, the Government of Kenya introduced a raft of measures to contain its spread, which include; Stay and work from home advice, cessation of movements in and out of some high-risk areas, dust to down curfew, travel restrictions, temporary closure of restaurants and bars and; social distancing advice, wearing od masks and regular washing of hands.

These measures have significantly contained the spread of the pandemic, but have also led to unintended outcome of job loss in the Kenya Labour Market especially in some of the Key sectors of our economy. The informal sector has been the hardest hit with the number of those affected projected to hit 1.2 Million workers. The scenario is not different in all the other Regional Countries.

In response to Covid-19 pandemic, GoK responded with several economic stimulus packages involving both fiscal and monetary policy, with the aim of boosting economic activity and preserving livelihoods. These included; paying outstanding VAT refunds and pending bills to boost businesses. Reduction of corporate and personal income tax rate; expanded the cash transfer programme to vulnerable households; in addition, GoK also introduced the 8-point economic stimulus programme of KES. 53.7 billion (US$ 0.5 billion) targeting 8 sectors namely Infrastructure; Education; MSMEs; Health; Agriculture; Tourism; Environment; and Manufacturing. The goal was protection of Jobs or creation on new Jobs.

On the monetary policy front, GoK through the central bank is fighting the economic effect of covid-19 pandemic by managing policy rate and cash reserve ratio, with aim to boosting economic activity. The policy rate was cut to 7.25 percent from 8.25 percent to lower the cost of borrowing, while the Cash Reserve Ratio was reduced to 4.25 percent from 5.25 percent, thereby releasing about KES. 35.2 billion, thereby easing the credit market conditions for affected businesses.

Ladies and Gentlemen,

Labor productivity is closely linked to economic growth, competitiveness and living standards. The report we are launching today shows that all East African countries experienced low growth in labor productivity in the past couple of years. Which implies that only a few of the region's workers will have high quality jobs despite living in one of the fastest growing regions in the world.

The report shows that East Africa's growth in labor productivity was expected to average 1.2 percent per annum over the period 2018-2020, slightly above Africa's 0.9 percent with Djibouti poised to record the highest level of labor productivity of all East African countries at 4.6 percent in 2019 but with a slight decline to 3.8 percent in 2020.Kenya Labour productivity grew from 2.3 % in 2018 to 3 % in 2019 prior to covid-19 it was expected to grow by 2.6 % in 2020. All the other countries in the region were expected to record positive labour productivity other than South Sudan. The average Labour productivity in East Africa is 1.15 %.However, due to the impact of COVID-19 crisis, all East African countries are now expected to experience low growth in labor productivity in the year 2020.

Ladies and Gentlemen,

Several East African countries have achieved gains from expanded access to education at different levels. However, COVID-19 may stagnate or reverse these gains and create longer-term human capital challenges. Countries in the region are likely to experience significant setbacks in educational outcomes as school closures are extended and accessibility to alternative options like distance learning and home-schooling remain out of reach for those without the means to acquire internet connectivity. Notably, all the countries in East Africa other than Burundi closed schools and universities to mitigate the spread of the virus. The closure of schools and universities has affected close to 90 million learners of whom 49 per cent are girls.

While school closures seem to present a logical solution to enforcing social distancing within communities, it could create longer-term human capital issues for East African economies, widen learning inequalities, and hurt vulnerable children and youth disproportionately particularly girls who may never return to school even after schools reopen. Statistic show that after every global crisis, the youth are normally hardest hit and take up to 10 years to recover because every year, the number of youth joining the labour market increases and competition for the few opportunities becomes harsher .There is now fear of having a COVID-19 generation that may struggle to fit to the Labour Market.

In Kenya, the government introduced free basic (primary and secondary) education in 2003 and the Free Day Secondary Education policy adopted in 2008. The Net Enrolment Rate for Primary is 92% while the Net Enrolment for secondary education is at 53%. The adoption of a 100% transition from primary to secondary school strategy in 2018 is expected to gradually improve the Net Enrolment Rate for Secondary Education.

Similarly, Government of Kenya adopted a new education system in 2018 that is meant to progressively replace the 8-4-4 system. The new system is based on a formative competency-based education curriculum for basic education and a competency-based education and training curriculum for tertiary education. It is designed to better prepare learners for the world of work and to stimulate involvement of the industry in the education system at the tertiary level.

TVET in Kenya has faced many challenges ranging from poor infrastructure, inadequate number of qualified trainers, non-responsive curriculum, weak industry linkages, and inadequate data for decision making. These challenges together with preference for university degrees contributed to poor perception and low enrolment in TVET. The challenges have equally contributed to skills gaps and skills mismatch as most trainees are ill prepared for the labour market or train in fields that are not relevant.

The Government is now working to turn the situation around through the TVET reforms initiated in 2013, which include curriculum reforms, upgrading TVET infrastructure, reducing the financial burden on students and parents by increasing capitation to TVET institutions for every student enrolled and expanding the Higher Education Loans to TVET trainees.

Consequently, student enrolment in TVET institutions has more than doubled from 147,821 in 2014 to 363,884 in 2018. This growth is significant, but still not adequate based on the estimates that the system should be absorbing at least one million students annually.

In Kenya, the government is the main financier for education with expenditure on education forming 5.3% of GDP. Several Ministries are responsible for the financing of the formal and non-formal TVET systems. These include the Ministry of Education, Ministry of Health, Ministry of Agriculture, Ministry of Infrastructure, a Ministry of Water, Ministry of Energy and Ministry of Labour and social protection

Public TVET institutions and Universities are funded through the National Treasury. They can also receive additional funding through public-private partnerships and are also supported by a Training Levy under the National Industrial Training Authority (NITA), collected from the employers which receive the services of the certified trainees. Other sources include parents and donors.

Ladies and Gentlemen,

The ongoing slow industrial transformation and regional integration are expected to boost the region's demand for educated and skilled labor. For instance, flagship projects like the Northern Corridor Integration Project, Central Corridor Initiative and Lamu Port-South Sudan-Ethiopia-Transport Project are expected to generate over 300,000 direct jobs and several more indirect jobs for professionals, technicians and artisans, while African Continental Free Trade Area is expected to boost intra-regional trade and create additional jobs. However, East Africa may not reap the full employment benefits of the ongoing transformation and regional integration due to the skills mismatch and weaknesses in education and training.

Ladies and Gentlemen,

Firms in East Africa generally cite an inadequately skilled workforce as a major constraint on their businesses. This is born out the region deficiency in specialized Technical and Vocational Education and Training (TVET) skills, particularly in transport, energy, manufacturing including agro-processing and ICT, which could dampen the region's industrialization and integration agenda. There is also a weak link between the skills possessed by the labor force and those required by industry, implying that the region's inadequacies in education and skills development could result in a less productive workforce.

To address the Skills development, increase labor productivity and economic transformation, East African countries are pursuing six strategic thrusts aimed at strengthening TVET in the region including; developing quality assurance mechanisms; enhancing the quality of TVET teacher training;

strengthening the teaching of entrepreneurship, basic and generic skills in TVET; facilitating transition to self-employment; developing and strengthening partnerships with the private sector; and developing and strengthening funding mechanisms for youth enterprise start-ups.

Ladies and Gentlemen,

Kenya like other Countries in the region continues to grapple with the challenge of unemployment and under-employment manifested by the inability of the formal sector to generate enough jobs, especially among the youth. Currently, about **1 million** jobseekers enter the labour market annually, while only **800 thousand** can be absorbed .The bulk of these jobseekers are absorbed by the Informal Sector which has become a key driver of economic growth in Kenya.

According to the 2020 Economic Survey, the informal sector continues to provide the bulk of employment opportunities in the Kenya contributing **83.4%** of the total employment with wholesale and retail trade **(59.9%),** manufacturing (**20.2** percent), Social and Personal Services (**9.71** percent) and transport (**3.1%)** contributing most of employment opportunities in the sector.

Ladies and Gentlemen,

Last week, My Ministry launched the Informal Sector skills and Occupation survey a first of its kind to be carried out in Kenya whose overall objective was to provide comprehensive data on skills profiles and occupations prevalent in the informal sector. The survey showed that there are about **5**

million informal sector enterprises in Kenya Employing close to **11.9 million** workers.

The report pointed out that most enterprises in the informal sector indicated high cost of labour at **49.2 percent** and unavailability of required skills at **35.3 percent** as the main reasons for not having workers with the required skills. Further, the report indicated that the major technical skills lacked by most enterprises were Craft/vocational trades at **53.6 percent** followed by Personal Services at **30.1 percent**. Similarly, Majority of the informal sector enterprises (**63.4 percent**) reported that they do not train their employees. The findings from that report are in line with the Economic Outlook report we are launching today.

Ladies and Gentlemen,

To harness East Africa's growth prospects and mitigate the underlying external and domestic risks, a multiple of political and socio-economic policy interventions are necessary.

Some of the interventions proposed in this report include: Implementing a decisive and coordinated response to contain spread of **COVID-19** to mitigate its health and socio-economic effects; Accelerating structural transformation; improving the investment climate and providing opportunity for business development and expansion so as to Transition from low value-added production to higher value-added activities.

Countries may also diversify development financing sources to support the development of own country industries and businesses through the use of public private partnerships and securitization of infrastructure assets.

Similarly, complementary measures to boost domestic savings mobilization, like the development of domestic debt and equity markets, are also equally important.

To nurture skills for the workforce of the future, interventions like aligning education and training with skills required to advance high value-added production, science, technology and innovation is paramount; other interventions like investing in education technology infrastructure; addressing demand and supply side factors that inhibit children from attending school; establishing academia-industry linkages and integrating creative thinking and emotional intelligence in education and training curricula; and Undertaking broad based reforms to improve education and training will also be important policy consideration.

On the Micro economic level, strengthening macroeconomic policy coordination, while deepening regional integration is important coupled with a tighter monetary policy to control regional inflation. Last but not the least investing in Peace, security and stability in the region cannot be gain said.

My Ministry will study the finding of the Economic Outlook 2020 report to enrich our labour market observatory. I believe that the findings contained in this East Africa Regional Economic Outlook 2020 report will contribute necessary statistics that various Ministries and Government Agencies within the region can tap into to guide their policy decisions.

With these few remarks, it is now my honour and duty to declare The East Africa Regional Economic Outlook 2020 report Officially Launched.

Thank you very much and God bless you all!