



BRIEFING NOTE ON THE HIGH-LEVEL DIALOGUE ON THE IMPLEMENTATION OF THE HOLISTIC PRODUCTIVE CAPACITIES DEVELOPMENT PROGRAMME FOR KENYA 16TH AUGUST 2023

I. Introduction

The Kenya Vision 2030, launched in 2008, is the Kenyan long-term development blueprint whose aim is to create a globally competitive and prosperous nation. This goal is to be achieved by transforming Kenya into a newly industrializing upper middle-income country that provides a high quality of life to all its citizens in a clean and secure environment by year 2030. The Vision is anchored on three (3) pillars namely: Economic, Social and Political. The pillars are anchored on the Enablers, which form the foundations for social and economic transformation of the country.

To support the implementation process of the blueprint, the Kenya Vision 2030 Delivery Secretariat (VDS) was established in 2009 with a mandate inter alia of spearheading the implementation of the Vision as the development blueprint and strategy towards making Kenya an industrializing and prosperous country, providing strategic leadership, coordination, and direction in the realization of the Vision 2030 goals and objectives.

To support the implementation of the Vision and the Government agenda - the Bottom-Up Economic Transformation Agenda, VDS collaborated with the UNCTAD in assessing Kenya's National Productive Capacities Gap Assessment (NPCGA). The NPCGA was validated and launched in May 2023 in Nairobi. To implement the policy measures proposed in the assessment, VDS and UNCTAD designed a seven (7) year Holistic Productive Capacities Development Programme for Kenya. The Programme is scheduled to be launched on 16th August 2023 in Nairobi.

The key objectives of the launch are to:

- i. Deliberate and agree on the way forward in sequencing of priorities in the technical implementation of the Holistic Productive Capacities Development Programme (HPCDP) for Kenya;
- ii. Ensure buy-in of the HPCDP by Kenyan Government;

- iii. Secure funding from development partners; and
- iv. Start subsequent steps, including institutional arrangement for a coordinated implementation of the Programme.

About 65-70 participants from key Kenya's public institutions, private sector, academia, and civil society entities as well as key development partners will take part in the High-level Dialogue. The Prime Cabinet Minister is expected to deliver a keynote address at the event together with the Secretary-General of UNCTAD.

Holistic approaches to development are derived from the determination to address paradoxes and failures of past and present development policies and strategies in developing countries. The paradoxes and failures include the phenomenon of "jobless growth" or weak employment intensity of growth, poor poverty reduction outcomes, and low & middle- income traps in which most developing countries, including Kenya, find themselves. Moreover, past and present policies also expose developing countries to recurring internal and external shocks and crises, making sustainability of economic growth elusive. Therefore, redefining & redesigning new generation policies centered on the fostering of economy wide productive capacities & structural transformation has become more urgent today than ever before.

At the backdrop of the above-mentioned phenomena, new policy approaches to development are being piloted and experimented in several developing countries in Africa, Asia and Latin America. Such approaches are designed to harness the economic potential for inclusive growth and transformation by shifting away from short-term, sectoral and fragmented policy intervention towards long-term, holistic and integrated approaches to development. In this context, the Holistic Programme of Kenya is an outcome of clearly articulated priorities by the country's stakeholders advanced at various engagements with the UNCTAD Secretariat in the past two years. These engagements include: -

- A high-level policy dialogue convened, in March 2022, in collaboration with the then Ministry of Trade, Industrialization and Enterprise Development, on the place of UNCTAD's Productive Capacity Index (PCI) in Kenya's development journey;
- The technical training of Kenyan statisticians in March 2022;
- Targeted consultations with key stakeholders that were brought together by the Kenya Vision 2030 Delivery Secretariat respectively in July and December 2022; and

- May 2023 event in which the Holistic Programme and the NPCGA were presented to stakeholders and extensively debated.

Further, the Holistic Programme responds to the key challenges and binding constraints identified by the National Productive Capacities Gap Assessment (NCPGA). It builds on evidence-based and data-driven assessments using the Productive Capacities Index (PCI) which gave the basis for the formulation of the National Productive Capacities Gap Assessment (NPCGA) for Kenya.

II. Kenya's performance under the PCI¹

UNCTAD has long argued that to achieve inclusive and sustained growth, developing countries should build productive capacities and foster structural economic transformation. UNCTAD defines productive capacities according to three distinct but interrelated dimensions: “the productive resources, entrepreneurial capabilities and production linkages, which together determine the capacity of a country to produce goods and services and enable it to grow and develop.”

To operationalize the concept of productive capacities, UNCTAD developed the Productive Capacities Index (PCI). The index measures productive capacities using 42 indicators, arranged in 8 categories. The composite index covers 193 economies between 2000 and 2022.

An analysis of Kenya's performance on UNCTAD's Productive Capacities Index helps to identify the areas where the country is doing well in building productive capacities, and areas where the country continues to face challenges and binding constraints.

In 2000, Kenya's overall PCI score trailed the average for sub-Saharan Africa (SSA). Kenya has since expanded its productive capacities at a faster rate and, after 2018, its PCI score exceeded the SSA average, placing Kenya 141st out of 194 economies compared in 2022. However, compared with star performers in Africa, such as Egypt, Mauritius, South Africa, and Tunisia, as well as developing countries outside of Africa, Kenya's scores are relatively low in almost all the categories measured.

¹ The PCI is a multi-dimensional diagnostic analysis tool comprising eight components namely: Human Capital, Natural Capital, Energy, ICTs, Structural Change, Transport, Institutions and Private Sector.

Some of the key challenges facing Kenya as corroborated by the NCPGA include:

- Continued dependence on the exports of primary commodities, such as tea, coffee and horticulture;
- High youth unemployment;
- High energy costs impeding competitiveness;
- Weak private sector;
- Lack of access to affordable finance; and
- Mounting public debt.

III. The Holistic Programme, the Bottom-Up Economic Transformation Agenda (2022-2027) and the Kenya Vision 2030

The Programme is designed to tap the comparative advantages of Kenya and relieve the key binding constraints to the country's development as articulated in the NCPGA. It is also tailored to support the delivery of "The Bottom-Up Economic Transformation Agenda 2022-2027"- The Plan- and ultimately support the achievement of the Kenya Vision 2030.

The Holistic Programme's priority areas for policy interventions are captured in five main pillars, namely: -

- i. Economic diversification, industrialisation and value addition,
- ii. Infrastructure (including energy) and natural environment;
- iii. ICT for digitalization and transformation;
- iv. Private sector, and
- v. Skills formation and improved policy coordination.

Besides resonating conceptually, the pillars of the Holistic Programme align with a number of sectors identified as the core of The Plan. In particular, The Plan's emphasis on value addition portends a clear policy direction to address the phenomenon of "reverse structural transformation"; observed in Kenya's recent development trajectory wherein the agricultural sector continues to dominate Kenya's GDP relative to the manufacturing sector.

The Plan's overarching objective of creating the most jobs "at the bottom of the pyramid" can be achieved if, as The Plan points out, the significant potential the country holds in leather, building products (inputs in the construction industry), pharmaceuticals and medical supplies and garments and textiles are harnessed. The pillars of the Holistic Programme are designed to contribute to this endeavor.

IV. Way Forward

Following the technical validation of the NPCGA and the consideration of the Holistic Programme at the May 2023 event, elevating the dialogue to the politically significant level of the Office of the Prime Cabinet Secretary presents an opportunity for manifesting National ownership of the Holistic Programme. National ownership means providing policy guidance for the implementation of the pillars of the Holistic Programme and institutional framework for effective interinstitutional coordination of implementation side by side with The Plan.

The demonstration of political commitment to the Holistic Programme sends positive signals for the immediate next step of resource mobilization, critical for the rollout and implementation of the Holistic Programme. Kenya is expected to mobilize financial resources from bilateral and multilateral development partners to provide adequate and sustainable funding for the implementation of the Holistic Programme for the next 7 years (2023-2030).

As soon as the Holistic Programme is approved with the agreed implementation modality, the VDS and UNCTAD Secretariat will elaborate an action plan including timeframe, expected output and detailed costing of each of the pillars for implementation for submission for the Government's approval by September 2023. The implementation of the Holistic Programme will: -

- help Kenya to diversify its economy into higher value-added sectors, and sustain growth with positive impact on jobs creation and poverty alleviation;
- enhance the country's capacity to effectively utilize its comparative advantages, including the blue economy, by relieving key binding constraints and identifying latent opportunities;
- build the capacity of domestic private sector to become dynamic, vibrant and internationally competitive;
- help in making the Kenyan Industrial Parks and Special Economic Zones attractive and cost effective through tested business models; and

- assist in fostering socioeconomic resilience to external shocks, while enabling Kenya to break the lower-middle income trap, as well as dependence on external financing for its development.