

where the EU and its private sector have a comparative advantage, albeit that the export destinations will not be exclusively in the EU. Promotion of regional trade is important for the Kenyan economy.

Two focus areas can be distinguished in the action, which relate on one hand to improving logistics, increasing the competitiveness of Kenyan goods in selected value chains and creating wider market access, with a strong component of sustainability. The other component focuses on the government's regulatory environment and implementation of a restructured business related processes both at national and county level, and the push back of business related corruption within governmental agencies, by inter alia introducing more digital tools to replace manual in-transparent processes. There are strong links between this action and the Team Europe Initiative on Human-Centered digitalization. The common denominator in all the activities is to make doing business in Kenya easier, cheaper, sustainable, more transparent and fair.

2 RATIONALE

2.1 Context

Kenya is a lower-middle income country with a population of 52 million inhabitants. Prior to the COVID-19 pandemic, it had enjoyed a period of reasonably steady economic growth, with annual average GDP growth of 5.7% (2015-2019) dropping to 1.5% in 2020, with a GDP of around 90 billion Euro.

Unemployment figures stood at around 8% nationally, and over 15% for youth, but with a large informal sector this is difficult to quantify. Unemployment is higher for women than men, with only 30% of women involved in paid work.

In absence of rich mineral deposits like other countries, Kenya struggled, particularly since opening up its markets in the early 2000s for third country imports, with maintaining its trade balance, the country in 2019 had a KES 1.3 trillion (12 billion EUR) trade deficit against. Kenya's export performance has been lagging, growing at an average of 5% only over the period 2010 to 2019.

Kenya's export base is narrow, with the eight broad categories of products accounting for 66% of total exports in 2019 – Horticulture (24%), Tea (22%), Textile and apparel (7%), mineral products (5%), coffee (4%), agro-processed products (3%) and pharmaceutical products (2%). The destination markets are also quite narrow with the following regions or countries accounting for 82% of Kenya's exports in 2019 – EAC (23%), EU 27 (22%), Middle East (11%), COMESA (10%), US (9%) and Pakistan (8%).

The government considers trade and investment as one of the main pillars for economic growth, and aspires to lower the trade deficit by increasing local value added production for both import-substitution and increased exports, while at the same time improve the business enabling environment to become a more attractive investment destination.

Much work has been done on the government policies and processes that enable investments and private sector operations. Nevertheless, Kenya scores still relatively low in the World Bank Ease of Doing Business index¹ and other indices in certain areas such as a "starting a business" (129), "trading across borders" (117) and "paying taxes" (94). Legislation, policies and processes in these areas still put a large burden on the private sector which prevents investments to happen, the economy to grow, and jobs to be created. Challenges to start and do business are heavier for women: women's businesses tend to be smaller, with lower capital investment and often informal. Social norms contribute to women's discrimination in the sector, given that entrepreneurial activities are perceived as male. Lastly, Kenya features in the lower part of the corruption perception indices and rankings related to business practices (124 out of 180).

The Kenya Government, in support of the export led growth policy, has over the years pursued a number of export incentives, including membership of different regional trade communities and the conclusion of an Economic Partnership Agreement with the EU and has fully embraced the African Continental Free Trade Area (AfCFTA).

¹ On 16 September 2021, the WBG announced that it decided to discontinue the Ease of Doing Business index.