Country Highlights

# KENYA 2018

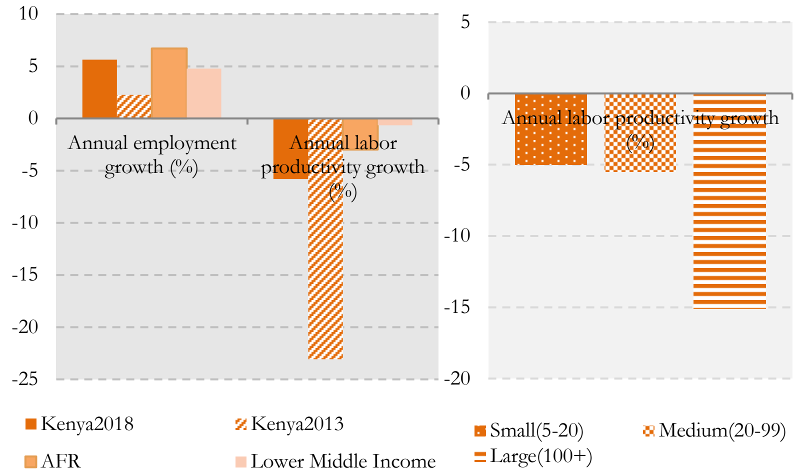
WORLD BANK GROUP

2018 KENYA ENTERPRISE SURVEY

The World Bank interviewed a representative sample of the private sector in 10 of the most active economic regions in Kenya. The sample consisted of 1001 business establishments surveyed from May 2018 through January 2019. The Enterprise Survey (ES) covers several topics of the business environment as well as performance measures for each firm. Below are the main highlights from the survey.

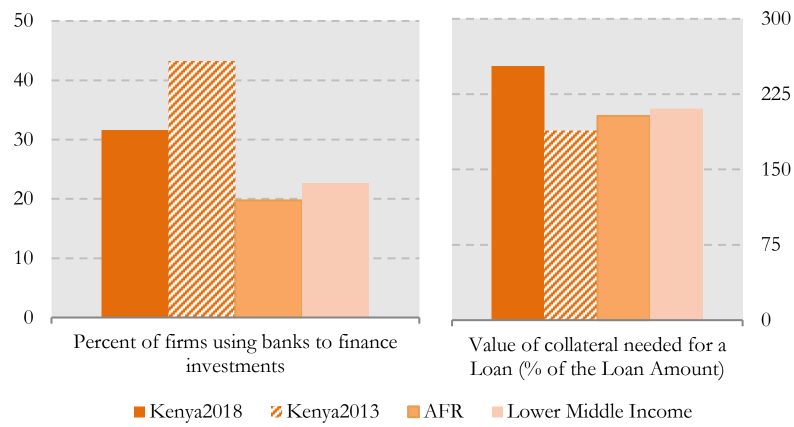
## *Kenyan firms exhibit healthy employment growth but their labor productivity contracted between 2016 and 2018*

Kenyan firms experienced an acceleration in both employment and sales growth (not shown) in 2018 when compared to growth in 2013. However, the improvement in sales growth did not keep pace with employment growth, resulting in negative annual labor productivity growth. Annual employment growth in 2018, at a healthy 5.4%, is still below the average for Africa, but it is above the average for countries at the same income level. This declining labor productivity is driven by large firms (100+ employees), which experienced a considerably higher contraction, 15%, than medium and small firms, both at around 5%.



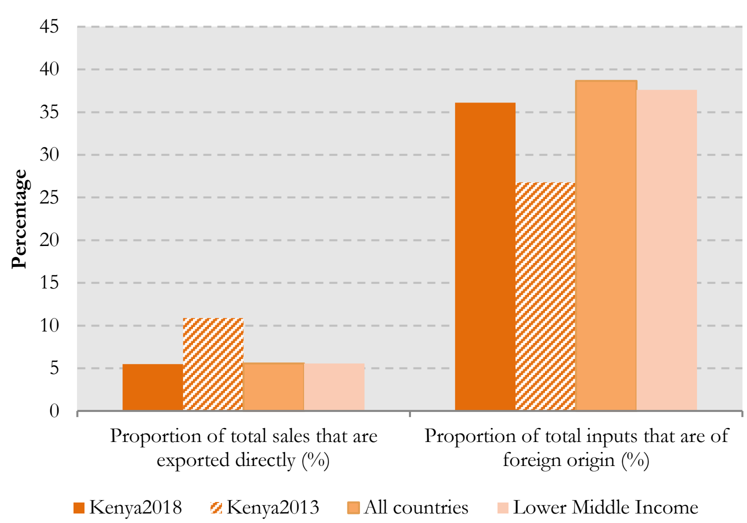

## *Access to finance deteriorated as compared to 2013*

Firms' access to finance has slightly deteriorated since 2013. In 2018, 32% and 36% of Kenyan firms used banks to finance investments and working capital, respectively. The corresponding figures in 2013 were higher, 43% and 41%. Despite this decrease, access to banks is still higher in Kenya than in other economies in the region or in economies with a similar income level. The percentage of firms with a bank loan, 34%, in 2018 remained close to its level in 2013, 36%, and it is higher than in comparator economies. However, the average value of collateral requested as security for loans increased as compared to 2013 becoming higher than the average in comparator economies.



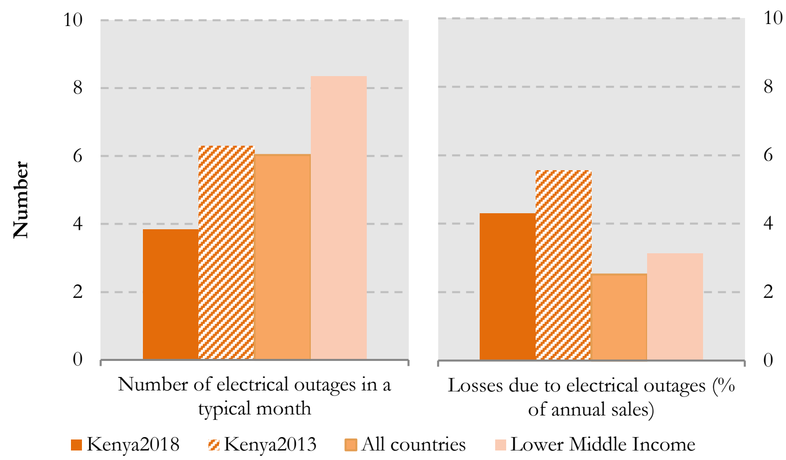

## *Kenya's private sector trades less with the rest of the world on the export side but more on the import side*

A lower share of firms exported, directly or indirectly, at least 1% of their sales in 2018 than in 2013 (21% vs 35%, respectively). The proportion of total sales that are exported directly also dropped from 11% in 2013 to 5% in 2018, which is close to the averages for all countries and for the lower-middle income economies. On the other hand, a higher share of firms in Kenya uses inputs of foreign origin in 2018 vs 2013. Overall, the proportion of imported inputs increased from 27% in 2013 to 36% in 2018, which brought Kenya closer to the global and lower-middle income country averages of 39% and 38%, respectively.



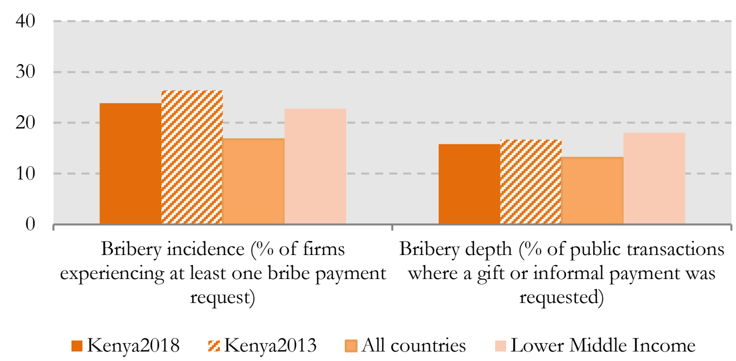
## *Despite some improvement, power supply is still poor*

Firms in Kenya report fewer power outages in a typical month in 2018 than in 2013 and lower losses due to these outages: around 4% of their annual sales in 2018 vs 6% in 2013. This is still higher than the global average or the average for lower-middle income economies, both at 3%. Despite these improvements, power supply remains poor as documented also by two additional indicators: the percentage of firms reporting power outages (still 80% in 2018 vs 90% in 2013) and the percentage of firms owning or sharing generators, which increased from 57% in 2013 to 66% in 2018. The proportion of electricity derived from generators also increased from 8% in 2013 to 11% in 2013.



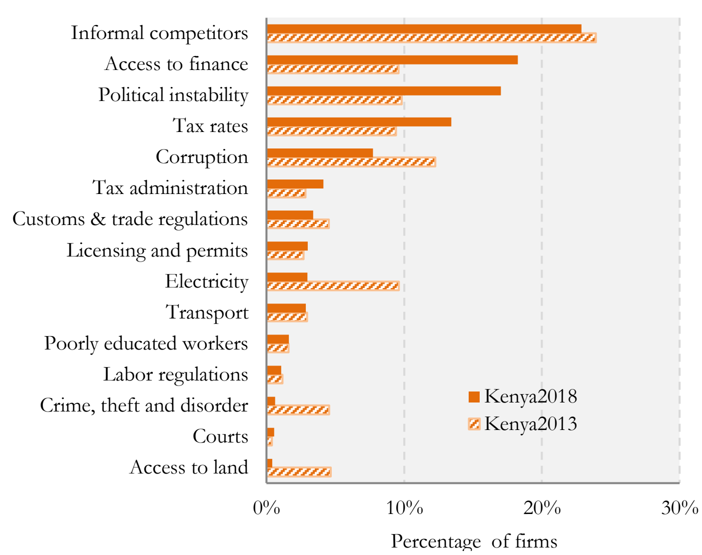

## *Firms in Kenya face less petty corruption compared to 2013 but still higher than international averages*

In 2018, slightly fewer firms in Kenya were faced with side payments or informal gifts as compared to 2013. The bribery incidence (the percentage of firms of whom payments or informal gifts were requested—in at least one of six regulatory and utility transactions) decreased from 26% in 2013 to 23% in 2018. Despite this positive trend the bribery incidence is still higher in Kenya than globally (17%). The bribery depth index, the percentage of these six transactions involving a bribe request, is also higher in Kenya at 16% compared to 13% globally.




## *Practices of informal competitors continue to be considered the main obstacle to private firms' operations*

The ES asks business owners and top managers to choose the main obstacle faced by the establishment in its day-to-day operations. Practices of competitors in the informal sector was the most frequently cited as a top obstacle in 2018 (23% of firms), at a level which is very similar to 2013 (24%). The second most reported obstacle in 2018 was access to finance (19%) as compared to 9% in 2013. Political instability was the third ranked obstacle both in 2018 and 2013; however, in 2018 it was cited as the biggest obstacle to operation by a considerably higher percentage of respondents (17% in 2018 versus 10% in 2013). Corruption, on the other hand, which was the second ranked obstacle in 2013, reported by 12% of respondents, dropped 5th in the ranking and was chosen by only 7% of establishments.




*The Enterprise Analysis Unit is a joint World Bank and IFC team of economists, survey experts specialized in private sector development. Surveys implemented by the team reveal what businesses and firms experience across the world by interviewing representative samples of the formal, non-agricultural, non-extractive, private sector with 5 employees or more. The resulting globally comparable firm-level data is used to construct business environment indicators and measure firm performance. The findings and recommendations help policy makers identify, prioritize, and implement policy reforms that support efficient private economic activity.*

*For more information on the survey visit* [http://www.enterprisesurveys.org](http://www.enterprisesurveys.org)