

# PROSPECTS FOR THE KENYAN BLUE ECONOMY

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## EXECUTIVE SUMMARY

The government of Kenya is increasingly prioritising the Blue Economy as a potential source of employment and economic growth. In recent years a number of sectoral initiatives have been launched, as well as new institutional structures for the integrated governance of the Blue Economy. The sustainable growth of Kenya's Blue Economy, however, faces numerous challenges related to economic inclusivity, ecological sustainability and effective governance. This policy insight calls for strengthened dialogue to inform the prioritisation of Blue Economy responses, and for more inclusive, cooperative and adaptive governance approaches.

## INTRODUCTION

Maritime sectors have long played an important role in the Kenyan economy – the port of Mombasa connects the interior to international shipping routes, the country's waters are rich in fish and coastal tourism is an important source of foreign exchange. These sectors have largely been managed as distinct economic domains, but recent years have seen a shift in approach. This is reflected in the renaming of the Department of Fisheries as the Department of Fisheries and Blue Economy in June 2016 and the establishment of a Blue Economy Implementation Committee in January 2017. While maritime sectors feature prominently in the national debate on the development of the Blue Economy, the economic potential of inland water bodies has also received attention. This reflects an approach to the Blue Economy outlined

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in 2050 Africa's Integrated Maritime Strategy (2050 AIM Strategy) that includes inland lakes and waterways as an integral component of the continental Blue Economy. Although Kenya has a relatively short coastline of about 640km, the total exclusive economic zone covers 230 000km<sup>2</sup>, with a further 13 600km<sup>2</sup> of inland lakes. Despite the significant potential for the country's Blue Economy, there are challenges related to environmental sustainability, maritime security and inclusive development.

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## GROWTH AND ITS DISCONTENTS

The Kenyan economy has grown strongly over the past decade, following a slump during the 2008 global recession (also associated with political instability and election violence in Kenya during 2007/2008). The adoption of a new constitution in 2010 marked a fundamental shift in Kenya's governance system. One of the key features of the new dispensation was the creation of a new tier of government and the devolution of political and fiscal power to sub-national (county) levels of government. While it is still facing challenges of coordination and accountability, the devolvement of power in Kenya has assisted in addressing some of the regional disparities in public investment and development. Annual gross domestic product (GDP) growth since 2013 has consistently been close to 6%. With political uncertainty around the election and a drought affecting the agricultural sector in 2017, growth dipped to 4.8%, but it is expected to again be close to 6% in 2018.<sup>1</sup>

With a population of 48 million, the proportion of Kenyans living in poverty has dropped by 10 percentage points over the last decade, but remains high at 36%. There is widespread concern around 'jobless growth', with unemployment and underemployment a significant risk for prosperity and stability in the country. Over 17% of Kenyan youth are unemployed and rising inequality is a serious concern, not only between urban and rural regions but also within the rapidly developing urban areas of Nairobi and Mombasa.<sup>2</sup> The core challenge for the Kenyan government in the coming years will be to effectively promote inclusive growth. In this regard, the government announced a new economic strategy in December 2017 focused around a set of 'Big Four' priority areas, namely food security, affordable housing, increased manufacturing and universal healthcare.<sup>3</sup>

An important part of Kenya's current and future growth story is a series of large infrastructure projects encompassing road, rail, port and energy infrastructure. The completion of a new standard gauge railway from Mombasa to Nairobi, with financing from China, in May 2017 will greatly enhance the efficiency of trade. Commitments for further loans from China to support the expansion of the railway to Kisumu on the shores of Lake Victoria have already been secured, with the railway project ultimately planned to extend through Uganda into the eastern Democratic Republic of Congo, Rwanda and Burundi. Another major infrastructure project is the [Lamu Port–South Sudan–Ethiopia Transport \(LAPSSET\) Corridor](#). The highly ambitious project, which is ultimately envisioned to require investments of \$25.5 billion, entails the establishment of a major new port in Lamu with 32

berths, new roads and a 1 500km railway and pipeline, as well as new resort cities, airports and a refinery.<sup>4</sup> Additional major new road projects and a new phase in the expansion of the Mombasa port are also set to be initiated in 2018.<sup>5</sup>

The strong emphasis on economic growth and infrastructure investment, focused on Kenya's Agenda 2030 ambition of achieving middle-income status, has sparked concerns regarding negative environmental impacts and the undermining of the country's natural capital. Kenya encompasses diverse ecosystems, but about 80% of the country's land area is classified as arid or semi-arid, with the remaining 20% considered medium- to high-potential arable land.<sup>6</sup> Environmental challenges ranging from deforestation, soil erosion, land degradation, desertification and loss of biodiversity to water scarcity and pollution from industry threaten the socio-ecological systems and ecosystem services that underpin much of Kenya's economy. Eutrophication in Kenya's portion of Lake Victoria stemming from agricultural run-off and pollution has undermined economically important fisheries, while land fragmentation and unsustainable agricultural practices contribute to soil degradation. Concerns have been raised around air quality in the country's rapidly growing cities, and challenges related to solid waste management, water and sanitation are a significant problem, with only about 30% of Kenyans having access to improved sanitation.<sup>7</sup> The environmental impact of large infrastructure projects has been hotly debated. The decision to build a coal-fired power plant in Lamu and moves to construct a railway through part of the Nairobi National Park have sparked opposition from environmental groups within the country.

The political, economic, social and environmental pressures outlined above all find expression in the country's approach to developing its Blue Economy.

## KENYA'S BLUE ECONOMY

The spike in piracy activities off the coast of Somalia, Kenya and the broader Gulf of Aden region from 2008–2012 was a stark illustration of the importance of Kenya's maritime industries, and the critical role that maritime security plays in supporting conditions for a vibrant Blue Economy. At its peak, piracy in the region was costing the Kenyan shipping industry \$300–\$400 million annually, about \$15 million worth of cruise liner tourism dwindled to essentially zero, the cost of imported goods increased, business confidence slumped and Kenya's reputation as a tourism destination was dealt a significant blow.<sup>8</sup> Despite these setbacks, maritime sectors such as shipping, fisheries and coastal tourism make an important contribution to the national economy and show significant potential for growth.

Since 2005 the Mombasa Port Development Programme has seen significant investments in improving port capacity and efficiency. Cargo volumes in Mombasa port rose from 14.4 million tonnes in 2006 to 27 million tonnes in 2017 and are expected to reach 44 million tonnes by 2025.<sup>9</sup> Kenya is also in the process of rolling out a National Maritime Transport Policy, which seeks to strengthen the maritime transport sector through a range of interventions, including the revitalisation of the Kenya National Shipping Line.<sup>10</sup>

Kenya's fisheries make a relatively small contribution to GDP (less than 1%), but are of strategic value given the role of the sector in supporting livelihoods and contributing to food security. Fish production is dominated by freshwater catches,

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which account for over 95% of the total catch. Over 90% of this freshwater catch stems from Lake Victoria alone. Aquaculture production (almost exclusively freshwater aquaculture) has increased dramatically from 4 452 tonnes in 2008 to 18 700 tonnes in 2015.<sup>11</sup> While employment figures vary, the fisheries sector directly employs well over 100 000 Kenyans and supports the livelihoods of over 2 million. Kenya's marine artisanal fisheries are far less developed than those in neighbouring Tanzania, with only about 13 000 artisanal fishers operating in the nearshore waters.

The Kenyan government licenses distant water vessels to harvest catches in the broader exclusive economic zone, with a primary focus on tuna, shark and other large pelagic species.

Capacity to monitor the fisheries sector, particularly larger vessels operating further offshore, is limited. It is believed that Kenya may be losing up to \$100 million annually to illegal, unregulated and unreported fishing, primarily through the activities of larger vessels operating offshore.<sup>12</sup> However, there are also concerns around illegal fishing practices within the small-scale sector through the use of illegal fishing gears (such as nets with mesh size below the legal minimum requirement), as well as the illegal operations of small-scale fishers entering Kenya's waters from Tanzania. Kenya has recently acquired an offshore patrol vessel that is expected to commence operations in 2018, working closely with the navy to address illegal fisheries.<sup>13</sup> There is also a greater emphasis on cooperation in data sharing and joint enforcement with regional partners. One of the successes of the [Fish-I Africa Initiative](#), a programme aimed at addressing illegal fishing through data sharing, collaborative enforcement and the use of satellite monitoring, was the 2016 detainment of a fishing vessel in Mombasa that was suspected of operating illegally in Somali waters over several years.<sup>14</sup>

A key concern in the fisheries sector has been increasing the economic value that Kenya generates from fish caught by licenced offshore industrial fishing vessels. These catches are typically landed in fishing ports outside of Kenya and few Kenyans are employed in this sector. New regulations have been implemented that require fishing vessels to land part of their catch in Kenya, which would create economic opportunities in the processing and trade of fish products, yet the implementation of these regulations has been hampered by a lack of appropriate fish landing and processing facilities in the main port of Mombasa.

Over the past decade large offshore gas deposits in Tanzania and Mozambique, along with oil finds in Uganda and Kenya's Turkana region, have stimulated further exploration for energy resources across the East African region. Several energy majors as well as a number of junior exploration companies have secured exploration rights in Kenya's waters. To date, no major offshore finds have been announced, although a junior exploration company is said to have discovered oil deposits in the Lamu Basin in the northern part of Kenya's exclusive economic zone in 2014.<sup>15</sup>

Despite limited results to date, it is widely believed that the waters around Kenya and Somalia's maritime boundary are likely to contain significant oil and gas deposits. This underpins a current boundary dispute between Kenya and Somalia on the delineation of the maritime boundary between them.<sup>16</sup> They have opted to

resolve the matter through the International Court of Justice, which is currently considering the case.

Several marine protected areas (MPAs) have been established in Kenya. These MPAs potentially deliver a range of benefits, from protecting biodiversity and the functionality of key vulnerable ecosystems to providing benefits to adjoining fishing communities and supporting lucrative coastal tourism activities. Kenyan legislation distinguishes between marine parks, which allow partial protection where small-scale fishers are permitted, and marine reserves, in which no fishing or other extractive activities are permitted. In recent years there has also been a move towards the establishment of smaller, community-managed reserves through Locally Managed Marine Areas.<sup>17</sup> A recent study comparing government reserves, community reserves and open fishing areas noted that both the larger government reserves and the much smaller (often less than 1km<sup>2</sup>) community reserves were allowing fish populations to recover.<sup>18</sup> While research therefore supports the value of smaller reserves, only about 1% of Kenyan waters is fully protected. There is thus an urgent need to expand the coverage of fully protected reserves. As in other west Indian Ocean states, Kenya struggles to effectively monitor and enforce protected areas in light of resource constraints, while tensions between park management and local communities are also a problem. Local communities often perceive marine reserves to offer limited or no benefits to them, which speaks to the need for improved communication and cooperation between management authorities and local communities.

The protection of Kenya's marine ecosystems plays an important part in supporting the country's coastal tourism industry. Tourism accounts for about 10% of Kenya's GDP, with coastal tourism accounting for a significant share of the total. There are challenges, however, in managing the social and environmental impacts of mass tourism. In addition, enhancing the social inclusiveness of the coastal tourism sector through more effective support and integration of locally owned small and medium enterprises is an imperative. Nevertheless, coastal tourism has significant potential to boost non-extractive, sustainable use of coastal resources and natural assets.<sup>19</sup>

The preservation of Kenya's marine natural capital is crucial,<sup>20</sup> not only for the direct benefits it provides in supporting the country's important coastal tourism sector but also more broadly for a range of ecosystem services that support diverse socio-economic activities and livelihoods within local communities.

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## GOVERNANCE OF THE BLUE ECONOMY

Promoting the sustainable development of national Blue Economies through appropriate governance structures is a challenging prospect. The Blue Economy encompasses various sectors and stakeholder groups; coordination and buy-in challenges may arise across numerous vertical and horizontal axes, thus calling for multi-scale, adaptive governance. In the executive branch of government a frequent challenge is authority and capability – a Blue Economy government department or other governance structure would be required to coordinate actions that have a direct bearing on the mandates of various ministries (eg, defence, fisheries, trade, environmental affairs, etc.), yet it is essential that the deep expertise

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on various maritime sectors and themes that resides within these ministries be incorporated into strategic decision-making. There may also be resistance to certain government departments being seen to direct the actions of others. Kenya's approach to this challenge has been to establish a Blue Economy Implementation Committee, chaired by the chief of the Kenya Defence Forces and including the principal secretaries from the departments of Fisheries, Maritime and Shipping Affairs, National Treasury, Transport and the Environment, respectively. The team also includes senior representatives from the International Relations Department, the Office of the President and the International Boundaries Office.<sup>21</sup> While this structure does provide for the necessary coordination among departments, there has been limited public communication around the precise mandate and priorities of the committee and the country's broader approach to the Blue Economy. Given the complexity of the Blue Economy, prioritising key sectors and programmes is essential, as is clearly articulating the approach to balancing socio-economic objectives and sustainability or conservation objectives. Such prioritisation must be supported by effective and inclusive national dialogue processes.

In May 2018 a regional high court ordered the government to pay compensation of KES<sup>22</sup> 1,76 billion (\$17,5 million) to 4 600 local fishers affected by the development of the Lamu port. The court case included testimony on the significant environmental and social impacts of the project, which the Kenyan government was said to have inadequately assessed. It also is said to have developed inadequate mitigation and compensation strategies. In 2017 the LAPSET Corridor Development Authority had indicated that compensation to affected fishing communities would take the form of skills and infrastructure development rather than direct monetary compensation. While the tensions around the Lamu port project have underscored shortcomings in the government's approach to coastal development and community engagement, the successful legal appeal by fishery-dependent communities attests to the ability of affected communities to use the legal system to address their concerns.

An example of effective cooperation between state agencies, non-governmental organisations and local communities is the [Mikoko Pamoja](#) mangrove rehabilitation and payment-for-ecosystem services project in Gazi Bay. The project required extensive research by local and international academic researchers working closely with the Kenya Marine and Fisheries Research Institute. The evidence base developed through this research was crucial in incorporating the project into certified carbon-offsetting schemes, allowing the project and community to receive funds for their conservation and restoration efforts. It has been hailed as the first community-based mangrove project in the world to successfully trade carbon credits. Revenues received through carbon offsets are in part allocated to community projects, including water and sanitation for the broader community as well as education materials for schools, while also supporting the rehabilitation activities and administration costs of the project. In 2017 the project received the Equator Prize, an initiative under the UN Development Programme that seeks to recognise outstanding community efforts to reduce poverty through the conservation and sustainable use of biodiversity. Recently, the programme has received support from a variety of funders to expand into the adjacent Vanga mangrove ecosystem. Again working closely with local communities, this project will encompass a significantly larger area than the Mikoko Pamoja project.<sup>23</sup>

## CONCLUSION

There has been strong political support for the development of Kenya's Blue Economy. In November 2018 Kenya will host a major global Blue Economy conference in partnership with the government of Canada and other partners. The LAPSET project, the expansion of the Mombasa port and efforts to ensure greater local economic benefit from the country's fisheries resources reflect the range of sectoral projects and initiatives that can contribute to the strengthening of maritime sectors. Kenya's importance as a regional transport node and the significance of its freshwater resources (particularly its Lake Victoria fisheries) are also major elements of the country's efforts to develop its Blue Economy. However, stronger integration of economic and sustainability concerns, as well as strategic prioritisation of interventions supported by an inclusive national dialogue, is required to ensure that Kenya's natural capital is preserved and, indeed, strengthened in parallel with efforts to strengthen the socio-economic benefits of the country's Blue Economy.

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