

REPUBLIC OF KENYA
MARCH 2009

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
3C	→	→	Debt recovery would prove more effective through the use of collection agents.

Credit Guarantee Experience

We are open for cover in this market without any restrictions. Substantial turnover has been covered in this market and our experience has been favourable.

Political Highlights

- ❑ Loop holes in the National Accord and Reconciliation Act being exploited by President Kibaki's Party of National Unity (PNU) have sent Raila Odinga's Orange Democratic Movement (ODM) back to the drawing board. The party regrets having failed to negotiate for the inclusion of finer details in the law to offer distinctive powers to the prime minister. In the absence of a clear power sharing pact, ODM has been locked out of public service appointments, heightening tension in government. ODM's supporters are complaining and the party is increasingly getting unpopular because they have not been able to fulfill election promises. They say there is nothing that they got out of the coalition barring the 21 cabinet posts.
- ❑ Former President Daniel Moi has raised his concerns saying that post independent Kenya has deviated from the goals that informed the freedom struggle and cannot feed its citizens due to corruption and negligent leadership. He called for a change to the way politics are being conducted and warned that the country could soon join the ranks of failed states. He said that failed agricultural policies have led to the current food shortage and has reversed the country's status from a food exporter to a net food importer.

Recent Economic Highlights

- ❑ Kenya needs 900,000 metric tons of corn to tackle a food emergency and is appealing for Sh32bn (\$402 million) in aid. While the country has set aside Sh5bn, it requires donor organisations to help with the remainder. Kenya, sub-Saharan Africa's fifth-largest corn producer, has sufficient corn to last until February after poor rainfall and post-election violence in the first two months of 2008 reduced plantings. More than 1m Kenyans (about a quarter of the population) are in need of food aid. The US has pledged credit guarantees which will help the country import white corn and the government will continue to import maize duty-free until the next major harvest. Kenyan stocks fell to 63,000 tonnes from 260,000 tonnes while strategic grain reserves have also dropped sharply. To address the crisis in the medium term, the government will avail 93,000 tonnes of fertilizer at affordable prices to farmers and reduce the price of seeds by 10%. Government will also provide farmers with affordable mechanical ploughing services.
- ❑ Economic growth is estimated at 3.5 to 4% in 2008 from 7% in 2007. Kenya's economy is expected to grow by just over 4% in 2009 as it continues its recovery but prolonged dry weather and a global slowdown remain a threat to the key agricultural export sectors and tourism. The drought could also curtail electricity generation, leading to power rationing and factory shutdowns. The shilling is also expected to weaken by around 2 to 4% by year-end from its current level of 79.6 (at 24 February 2009), against the dollar.
- ❑ A Kenyan firm plans to produce 300MW of electricity by 2012 by harnessing renewable wind power in the north of the country. Once completed the project could meet about a quarter of Kenya's total energy demand, which stands at about 1,200MW. The government is also looking at developing 'green' energy sources to meet demand that is growing at around 8% a year. President Mwai Kibaki told the national Economic and Social Council that Kenya's economy could grow 8% by 2010 if it had cheaper electricity. Energy costs alone constitute more than 40% of total manufacturing costs.
- ❑ Inflation in Kenya slowed from 29.4% in November to 27.7% in December as energy and transport costs declined. Kenya's inflation is expected to drop by half as the statistics office prepares to cut the weighting of food in the consumer price index. Food will account for 40.3% of the index, down from 50.5%, after the change is implemented later this year. The underlying inflation rate which excludes food was 10.6% in December and is forecast to drop to the central bank's target of 5% by June.
- ❑ Tea production in Kenya, the world's biggest exporter of black tea, dropped 6.4% last year to 345.8m kg from a year earlier as poor weather crimped yields. Tea growing areas experienced dry-weather conditions, depressed rainfall and some incidences of frost in the first half of the year.
- ❑ The IMF has lauded the government's vision 2030 which it said sets out rightly ambitious longer-run objectives with Kenya aiming to reach middle-income status. The IMF said Kenya also needs to improve its competitiveness by foremost addressing supply bottlenecks and structural reforms.
- ❑ Corruption is hindering economic growth in Kenya and compounding attempts to make the country the preferred destination for investment. Corruption levels are perceived to be lower in neighbouring Uganda and Tanzania. Firms are ranking corruption in Kenya among the major constraints, with 30% putting it amongst the top three constraints. Kenya's position as an attractive business destination has fallen from second place in 2007 to third place within the east African region in 2008 after Uganda and Rwanda. The survey found that most regional investors pointed to a lack of a clear tax regime, poor infrastructure and corruption as reasons for many still shying away from Kenya.
- ❑ The Kenyan Port of Mombasa is expected to handle 30m metric tonnes of cargo in 2030 nearly double the amount moved last year; the facility handled 16m tonnes in 2008. The governments of Kenya and Uganda will soon commence the construction of a new railway line to decongest the Mombasa port and improve transportation on the northern corridor. The railway line is expected to cut delays of cargo at the port of Mombasa by 70%.
- ❑ The global financial crisis is causing shock waves in Kenya's tourism industry. The Kenyan Tourism Board confirmed that 2008 was a bad year for Kenya's tourism following the fighting that accompanied the country's general elections. Tourist arrivals between January and October

2008 declined by 35.2% to 565,748 visitors compared to the same period in 2007. Although the sector has stabilized following the election violence, it faces a bigger challenge that is the global financial crisis. The election of Barack Obama as US president is expected to change fortunes for Kenyans as many tourists flock to Obama's father's rural home in western Kenya.

- ❑ According to the private Kenya Flower Council, Kenya's flower export volume rose 2.2% to 93,000 tonnes in 2008 (but earnings dropped 7% to \$504m during that period) despite the drought and violence it experienced at home as well as the fuel prices and recession abroad. Kenya remains the top supplier to the EU and has a market share that exceeds 35%. The local industry employs over 100,000 people.
- ❑ The country's financial analysts have expressed fear that the country is headed for a serious recession in light of the current global crisis. Kenyans have already been feeling the effects after Government interventions to cushion its citizens from the soaring maize flour and fuel prices had little success. The Central Bank of Kenya has already reduced the cash ratio for the commercial banks from 6% to 5%. The country's top monetary policy committee is expected to soon come up with correct measures to address the looming crisis. The Bank retained its base lending rate at 8.5% in February 2009.
- ❑ The East African Community partner states have agreed in principle to introduce a common currency by 2015 subject to the enactment of a Common Market Protocol for the region. EAC minister says that the plans to introduce the common currency were on track and at an advanced stage.

Trade Developments

- ❑ Major exports: tea, horticultural products, coffee, petroleum products, fish and cement.
- ❑ Major imports: machinery and transportation equipment, petroleum products, motor vehicles, iron and steel, resins and plastics.
- ❑ Main trading partners: Uganda, UK, Tanzania, Netherlands, US, Pakistan, UAE, China, India, Saudi Arabia, South Africa and Japan.
- ❑ SA's exports to Kenya totaled R3.2bn in 2006 and R4.6bn in 2007. Local motor vehicle manufacturers can now export busses to Tanzania under the East African Common Rules of Origin. The development means busses which have grounded at the Namanga border can gain entry into the Tanzanian market under a preferential tariff as per East African rules of origin.

Researched and Compiled by Lily Maharaj and Valerie Mpoju, Economic Services - Credit Guarantee Insurance