

Republic of Kenya
September 2010

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country	S/T Business	S/T	Debt Recovery
Rating	Cycle	Political	The use of a collection agent is recommended.
	Indicator	Indicator	
3C	↑	→/↑	

Country rating key - political risks: 1=low, 2=medium, 3=high
Commercial risks: A=low, B=medium, C=high

Credit Guarantee Experience

Cover is offered on an open basis and we have a high amount of exposure. This is not a claim-free market.

Political Highlights:

- President Mwai Kibaki has been head of government since 30 December 2002.
- The president is elected by popular vote for a five year term and is eligible for a second term. In addition to receiving the largest number of votes in absolute terms, the presidential candidate must also win 25% or more of the vote in at least five of Kenya's seven provinces and one area to avoid a runoff.
- The next elections to be held in December 2012.
- Kenya's new constitution was formally signed on 27 August 2010. The former constitution was in place since independence from Britain in 1963 with deep political and ethnical divisions within Kenya blocking previous attempts to replace the document. The new law is meant to curb the president's power and increase public independence.
- The peaceful referendum of the new constitution has increased confidence in the country.
- Many of the provisions in the document will take immediate effect but the new governing structures are only expected to be fully implemented in 2012 after the presidential elections.
- President Kibaki refused to pass into law a bill that will allow the price-fixing of essential food and fuel prices. Kenya's parliament passed the bill in June 2010, allowing the finance minister to set maximum retail and wholesale prices of essential goods including fuel, maize flour, wheat, wheat flour, rice, cooking oil, sugar, paraffin, diesel and petrol.
- President Kibaki warned that Kenya need to comply with the WTO's General Agreement on Tariffs and Trade that warns against internal price control measures that could discourage investors. The president recommended that the bill be amended to allow the finance minister to only set maximum prices of gazetted essential commodities upon consultation with the concerned industry.

Economic Developments:

- Kenya is East Africa's biggest economy. Its population is estimated at 39m inhabitants. 50% of the population is estimated to live below the poverty line.
- Kenya's government has failed to curb the high corruption levels in the country. This led to the IMF suspending various aid programs and loans on various occasions.
- Real GDP increased from 1.7% in 2008 to 2.6% in 2009. This is lower than the high levels seen in 2007 with a real GDP growth rate of 7%. The lower growth rates can be attributed to the post election violence in 2008 and the adverse effects of the global financial crisis on remittances and exports. The government expects a higher economic growth rate of 5.2% in 2010.
- GDP composition by sector: services sector 62%, agricultural sector 20% and the industrial sector 18%.
- Tourism is one of Kenya's biggest foreign exchange earners and accounts for ±5% of GDP. The industry is showing signs of improvement as tourist arrivals increased in 1H10 and are expected to exceed the record high 2007 figures with 483.000 arrivals in 1H10 compared to 477.000 in 1H07.

- The Coffee Board of Kenya expects coffee output to fall by 13% during the 2009-10 seasons due to adverse weather conditions. The Coffee Research Foundation recently introduced a new coffee variety that would cut the cost of production by 30% and increase farmers' earnings. The industry is currently re-planting and improving farm practices in order to increase output by 2015.
- Kenya's manufacturing sector is dominated by food processing and processing of consumer goods and is expected to recover in 2010.
- Kenya's unemployment rate reached 40% in 2009, with inflation decreasing from 16.3% in 2008 to 9.3% in 2009. The country's high public debt levels increased from 61.3% of GDP in 2008 to 66.7% of GDP in 2009.
- Kenya launched a Vision 2030 program that aims to increase the real GDP growth rate to 10% by 2015 and sustain this growth rate through infrastructure investment in order to become a middle-income country by 2030.
- As part of the program, Kenya launched a study on building a port at Lamu Island and developing a 1500km rail line to Southern Sudan and Ethiopia as well as an oil pipeline to Juba, the Southern Sudanese capital.
- Kenya is planning to increase spending on their road network, energy supplies, transport and the port of Mombasa to reduce transport costs and improve the country's competitiveness.
- Kenya Railways Corp, a state owned transport company, plans to finance the building of a \$200m commuter-train network in Nairobi, by issuing bonds. Construction is expected to start in October 2010 and be completed by 2013.
- A 2008 study found that the lack of reliable energy can reduce the country's growth rate by 1.5%. That is why the Kenyan government with the assistance of the World Bank and other development partners plan to invest \$1.4bn in the electricity sector. In June 2010 the World Bank approved a \$330m power generation loan to boost the country's infrastructure investment.
- Various wind power projects are currently underway to address the electricity shortages in the country. The government aims to reduce the cost of business by focusing more on renewable energy and reducing their dependence on costly diesel-powered generators. KenGen, Kenya's main power producer is set to add 20.4MW to its electricity grid from Kenya's first commercially viable wind power project. The Lake Turkana Wind Power Project is also underway and is expected to be completed by July 2013. This project will be Africa's largest, generating 300MW.
- The Dutch government announced in May that they will invest \$2m in the Kenya Domestic Biogas Programme that will include the implementation of 8,000 biogas digesters in 28 districts.
- Kenya also plans to develop nuclear energy by 2020 according to the Kenyan prime minister with assistance from France.
- Kenya's telecoms regulator reduced the 3G licence fees by 60% to encourage new entrants into the market and to improve the information network and business competitiveness in the country.
- Zain, Kenya's second largest telecoms operator was acquired by India's Bharti Airtel in June 2010. In August, Zain reduced their tariffs by 50% in an attempt to increase its user-base significantly and is planning to invest ±\$308m in the next 18 months to gain market leadership in the country. Currently Zain has a 10% market share in Kenya's mobile phone market with Safaricom dominating the market with a market share of 78%.
- The cut in inter-connection fees led to a decline in inflation from 3.6% in July to 3.2% in August as mobile phone operators reduced their call rates. A senior government official stated that the rate cuts were too steep and could negatively affect the profitability of telecoms operators in country.
- Two fibre-optic cables (TEAMS and SEACOM) came into operation in 2009, which is expected to boost Kenya's information and computer technology sector. The Kenyan ICT Board, a government department, announced in June 2010 that they will invest \$3.5m to develop the country's technology sector from mobile applications services to internet start-ups.
- In July the Central Bank cut interest rates from 6.75% to 6% in order to encourage commercial banks to reduce their steep lending rates, but the banks are still wary of the high risks associated with lending to individuals and companies in Kenya. Recent reports indicate that it is unlikely that commercial banks will cut rates for the remainder of 2010.
- Fitch Ratings did however issue a B+ long term foreign currency rating with a stable outlook due to stronger economic growth and low inflation. The peaceful referendum of the country's new constitution improved the outlook for political stability and investor confidence. S&P has a B rating on Kenya with a positive outlook.
- According to the African Economic Outlook 2010: Kenya's exports are expected to increase as the global recovery takes effect, with the fiscal stimulus package implemented in late 2009 expected to boost economic growth. Private and public investments are expected to increase with the economy expected to grow by 3.6%. The report indicated however that Kenya's economic growth is highly volatile as the weather plays an important role due to their dependence on agriculture as it makes a significant contribution to GDP and employs more than 50% of the labour force.

Trade Developments:

- Total exports decreased from \$5.04bn in 2008 to \$4.45bn in 2009. Export commodities include: tea, horticulture products, coffee, petroleum products, fish and cement.
- Total imports declined from \$10.69bn in 2008 to \$9.21bn in 2009. Import commodities include: machinery and transportation equipment, petroleum products, motor vehicles, iron and steel, resins and plastics.
- Large quantities of Kenya's exports are for other East-African countries. Kenya's main trading partners include: India, China, UAE, South Africa, UK, Netherlands, Uganda, Tanzania and US.
- Coffee and tea prices recently increased due to an increase in demand and quality. This can boost Kenya's foreign exchange receipts and the stability of the shilling against major currencies.
- Tea exports are Kenya's second biggest foreign exchange earner after horticulture. A decline in demand from Europe in 1H10 led to a decline in horticulture earnings. This is expected to be offset by the increase in coffee and tea earnings.
- China indicated that they will remove tariffs on Kenyan goods from 1 July 2010 to improve trade. Kenya is among 33 developing countries that will be exempt from Chinese import tariffs to motivate trade.
- Kenya is set to benefit from the China-Africa Agriculture Forum held in August as China agreed to transfer agricultural technology to Africa to boost food production and guarantee food security. This will include the introduction of new machinery and educating rural farmers.
- The Japan International Cooperation Agency (JICA) approved a \$156m loan to finance an irrigation development program that aims to improve Kenya's irrigation facilities to provide a stable supply of water which could boost the agricultural sector. The project is expected to be completed in November 2016.
- SA exports to Kenya totalled R5.6bn in 2008, R7.1bn in 2009 and R2.8bn up to June 2010.
- SA's imports from Kenya totalled R305m in 2008, R272m in 2009 and R91m up to June 2010.

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