

COUNTRY PROFILE:**REPUBLIC OF KENYA****DATED:****JANUARY 2009****CREDIT GUARANTEE:**

IES/O2: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No restriction

Recent 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 save for the 21 cabinet slots.

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 cut plantings. More than 10 million Kenyans, about a quarter of the population need 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 tons from 260,000 tons while strategic grain reserves have also dropped sharply.
- ❑ To address the crisis in the medium term, the government will avail 93,000 tons 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.
- ❑ Tea production in Kenya, the world's biggest exporter of black tea, dropped 6.4% last year to 345.8 million 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.
- ❑ As the eagerly awaited recovery in tourism takes off, corruption scandals are now compounding Kenya's tourism troubles. Hundreds of lodges and hotels remain closed. Kenya's tourism revenue fell by 54% compared with the pre-election 2007 period. Tourist arrivals between January and October 2008 declined by 35.2% to 565,748 visitors compared to the same period in 2007.
- ❑ 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.
- ❑ 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 range of 77.50-78.50 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.
- ❑ 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.
- ❑ 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.
- ❑ The Kenyan Port of Mombasa is expected to handle 30 million Metric tons of cargo in 2030 nearly double the amount moved last year; the facility handled 16 million tons 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%.

Latest 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 buses to Tanzania under the East African Common Rules of Origin. The development means buses 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.

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