

# Why Kenya?

## Summary

**Area (land plus water):** 582,650 km<sup>2</sup> (224,960 mi<sup>2</sup>)

**Population:** 44.2 million (2016) (42.2% under age 15)

**Population growth rate (change):** 2.8%

**Population density:** 80.9 people per km<sup>2</sup>

**Urban population:** 25.6%

**Capital city:** Nairobi (population 6.5 million [2016])

**Official languages:** Swahili, English

**Currency:** Kenyan shilling

**Nominal GDP:** US \$63.4 billion

**Real annual GDP Growth:** 5.6%

**GDP per capita:** US \$1,434.4

**GNI per capita, PPP (current international \$):** \$3,016

**Annual inflation rate:** 6.6%

**General government gross debt:** 51.3% of GDP

**Fiscal balance:** -8.3% of GDP

**Current account balance:** -6.8% of GDP / US \$-4.3 billion

**Exports of goods to UK:** £310 million

**Imports of goods from UK:** US \$380 million

**Inward direct investment flow:** US \$1.0 billion

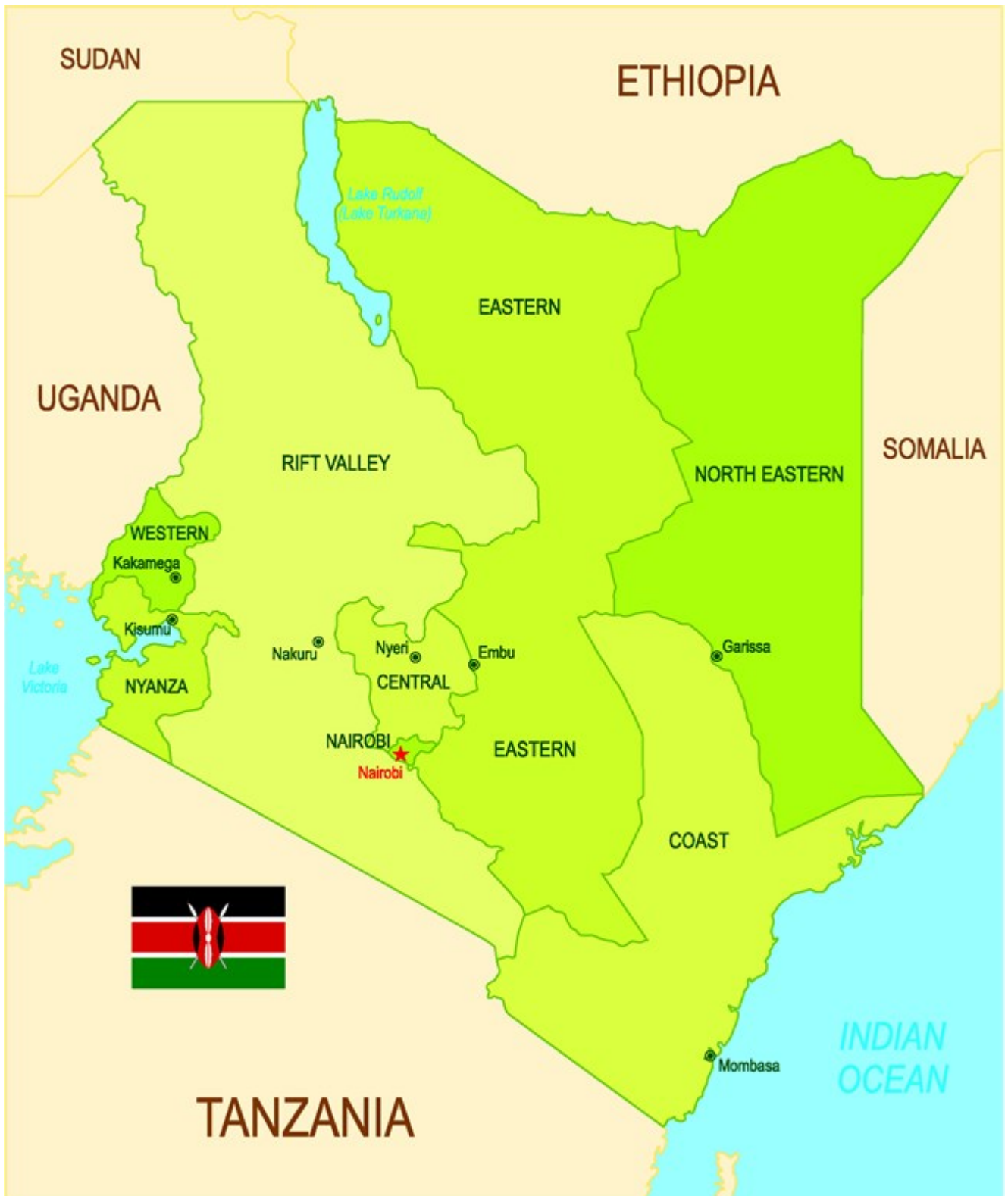
**Exports + imports as share of GDP:** 49.9%

*[Source: mostly FCO Economics Unit, Oct 2016]*

## Background

### **Geography**

Located in Central-East Africa, on the equator and bordering Somalia to the east, Ethiopia to the north, Sudan and South Sudan to the north-west, Uganda to the west, Tanzania to the south and a 536 km coastline along the Indian Ocean in the southeast, Kenya's terrain is composed of a low coastal strip of mangrove swamps backed by arid plains that rise into central highlands, including Mount Kenya, 5,199 m high. These highlands are bisected by the Great Rift Valley running north-south, to the west of which, further mountains descend to the fertile Lake Victoria Basin near the border with Uganda and Tanzania. The two main rivers are the Tana (1,000 km long) and the Galana (390 km long), both draining from the Central Highlands into the Indian Ocean.



**General overview**

Kenya is now the 6th largest economy in Sub-Saharan Africa and home to 44 million people. It is the regional hub for trade and finance in Eastern Africa and the natural

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Generated from <http://kenya.doingbusinessguide.co.uk/the-guide/> Wednesday, July

18, 2018

entry point to the region. The country has a market-based economy with a liberalised foreign trade policy. There are positive prospects of economic growth predicted. Onwards from 2015, the Kenyan Government predicted 6.5-7%, the World Bank predicts 6% for 2017 and the International Monetary Fund 6.9-7.2%. IMF projected the percentage of change to real GDP in 2017 as 6.1%, and the CIA World Factbook lists 6% real growth rate in 2016.

Kenya officially became a lower-middle-income country in 2014 following a GDP recalculation exercise, and according to the World Bank, Kenya's Gross National Income (GNI) per capita PPP (current international \$) in 2015 was 3,070 (i.e. the dollar value of a country's final income in a year, divided by its population, converted to international dollars using purchasing power parity rates – an international measure reflecting the average income of a country's citizens for comparative purposes). The World Bank's Ease of Doing Business 2017 report ranks Kenya 92nd out of 190 economies, while the World Economic Forum's Global Competitiveness Index 2016-2017 places Kenya at 96th out of 138.

*[Source: FCO Overseas Business Risk/gov.uk/World Bank/World Economic Forum]*

## Government overview

### **Political situation**

Since 1992 Kenya has held regular democratic elections and experienced a transition of power three times. A new constitution was adopted in 2010 and was seen as an opportunity to break from an over-centralised system that failed to hold previous governments to account. Under the new constitution, there is greater opportunity for public accountability as separate branches of national government have gained more independence from the executive branch. Significant power and resources have been devolved to 47 new county government structures, although the transition remains a work in progress.

Kenya has a relatively free press and lively politics. The 2013 elections were largely peaceful and were followed by the inauguration of President Uhuru Kenyatta and Deputy President William Ruto, marking a departure from the ethnic violence that followed Kenya's disputed elections in 2007. However, the seeds of ethnic violence are still present in Kenya and elections remain a focal point for tensions to ignite once more. The next presidential election is scheduled to be conducted on Tuesday 17th August 2017. For more information, see: <http://buzzkenya.com/date-2017-general-election-agreed>.

Cases against the alleged perpetrators of the 2007 post-election violence were referred to the International Criminal Court and in 2011, ICC judges confirmed charges against three Kenyans: Uhuru Kenyatta (since elected President), William Ruto (since elected Deputy President) and radio journalist Joshua Sang. The case against President Uhuru

has since been withdrawn for lack of evidence. The trials of the Deputy President and Joshua Sang are ongoing.

For information on political risk, including political demonstrations, see the travel advice section in this guide, and also the FCO travel advice pages at: [www.gov.uk/foreign-travel-advice/kenya](http://www.gov.uk/foreign-travel-advice/kenya)

*[Source: FCO Overseas Business Risk/gov.uk]*

## **Business and human rights**

The Kenyan employment laws set the minimum age for employment at 16 and the minimum age for hazardous work at 18. Children between the ages of 13 and 15 may perform light work. In addition, the laws allow minors under age 15 to apprentice in an industrial undertaking without setting a minimum age.

The constitution guarantees Kenyans the right to join and form Trade Unions and to engage in collective bargaining. About 5% of the Kenyan workforce belongs to a union. The constitution also gives every worker the right to fair remuneration and reasonable working conditions. In May 2015, the Kenyan Government raised the minimum wage to around US \$160 per month. However, this minimum is regularly flouted.

Although there have been notable changes in labour laws, women still remain in a disadvantaged position when trying to enter the labour force and face a considerable gender imbalance in access to formal employment. The requirement to pay the mandatory three-month maternity leave and fill the incumbent's vacation position has caused a bias against hiring female workers. Half of the labour force in the agricultural sector consists of women. The state is obligated under ILO convention 183 to put in place measures that ensure that women do not get disadvantaged as a result of the increase in the maternity leave period hence new investors should be keen to ensure their suppliers and partners are not perpetuating this.

Work permits are required for all foreign nationals wishing to work in the country, and the Kenyan Government requires foreign employees to be key senior managers or have special skills not available locally.

*[Source: FCO Overseas Business Risk/gov.uk]*

## **Economic overview**

Kenya is a member of the East African Community (EAC). It has the largest gross domestic product (GDP) economy in Southeast and Central Africa. Kenya has a population of approximately 44 million.

According to the World Bank's 'Kenya Economic Update' for October 2016, Kenya's strong economic growth is expected to continue despite the challenging global environment, with 5.9% in 2016 and forecasts of 6.1% by 2018. Kenya has emerged as one of Africa's key growth centres and is poised to become one of the fastest growing economies in East Africa, supported by lower energy costs and investment in infrastructure, agriculture and manufacturing. See: [www.worldbank.org/en/country/kenya/publication/kenya-economic-update-economic-growth-continues-despite-challenging-global-environment](http://www.worldbank.org/en/country/kenya/publication/kenya-economic-update-economic-growth-continues-despite-challenging-global-environment)

Kenya's inward foreign direct investment (FDI) in 2015 was at US \$1,437 according to the UN Conference on Trade and Development (UNCTAD). Sectors attracting investment include oil and gas exploration, energy, banking, real estate, retailing, consumer goods manufacturing, vehicle assembly, agriculture and tourism with the FDI flows coming from a wide variety of sources, including the US, Europe, key Asian economies and South Africa. Investors are attracted by Kenya's relatively diverse economy and pro-market policies, brisk growth in consumer spending and the country's central role in the East African Community (EAC).

*[Source: UNCTAD]*

Bilateral Trade with Kenya is currently at £1.3 billion. The UK was the fifth largest exporter of goods to Kenya, with a 4.2% market share after India, China, South Africa and Japan. The UK is an important destination for Kenya's goods with a market share of 9.8% after Uganda (12%), Tanzania (12%) and the Netherlands (10%). Kenya's economic fortunes are largely determined by commodity prices for its numerous agricultural exports, and oil, the country's major import. Horticultural products, tea and coffee are amongst the leading export commodities.

*[Source: gov.uk]*

Agriculture employs around 75% of the population, and represents over 50% of the country's export earnings and 24% of GDP. The financial services sector contributes about 5.4% of GDP, which makes it the fifth largest sector in the economy after agriculture (24%), transport & communications (12%), manufacturing (9.1%) and education (6%).

While the overall medium-term outlook remains favourable, risks exist from the continued downturn of the tourism sector arising from security concerns. External demand for exports is also sluggish and low growth of production for exports is widening the current account deficit. Also, the share of the manufacturing sector to GDP has remained stagnant in recent years, with low overall productivity and large productivity differences in firms across subsectors due to lack of competition. Much new investment in manufacturing in the region has been taking place in neighbouring Ethiopia where wages and energy costs are lower.

The value of the Kenyan Shilling weakened against major currencies, especially the US dollar during the first half of 2015. The Central Bank of Kenya (CBK) has a realistic target of maintaining month-on-month inflation at single digit levels (was at 6.87% in May 2015, 6.6% in April 2016, 6.99% in January 2017). The CBK adjusted upwards the lending rate to 9.87% in July 2015 from the rate of 8.5% which had prevailed for several months to cushion the shilling against further depreciation against the dollar.

*[Source: Central Bank of Kenya]*

Strong foreign investor participation in 2013 pushed bourses in East Africa to their best year that saw the stock markets set new performance records. Most investors who put their money in the stock markets got handsome returns, especially at the Nairobi Securities Exchange (NSE), which closed the year as the best performing bourse in Africa and the fourth in the World, according to the MSCI index. Investors showed a strong appetite for companies in the financial, manufacturing and investment sectors, a preference shown by the strong performance on counters in these segments.

In June 2014, Kenya successfully launched its debut Eurobond. Seeking to raise US \$1.5 billion, Kenya eventually raised US \$2 billion after the launch attracted bids four times the initial offer. Following international best practice, Kenya issued the bonds in two tranches of different maturity and yield, both below 7% per annum. At least some of the growth seen in the Nairobi Stock Exchange and at least some of the demand for Kenya's Eurobond reflects foreign investors chasing yield and could be susceptible to diminished risk appetites amongst these same foreign investors.

Kenya is a member of the East African Community (EAC), and the Common Market for Eastern and Southern African States (COMESA) trading blocs.

Over 60 UK companies now operate from Kenya, including British Airways, BAT, Standard Chartered Bank, Diageo, GlaxoSmithKline, Unilever, De La Rue, Finlays, G4S, Tullow Oil and BG Group.

### Benefits to UK businesses

There are clearly many historical, political and emotional reasons why there are such strong ties between Kenya and the UK – but there are many economic reasons too why investing in Kenya makes sense.

Benefits to UK businesses exporting to Kenya include:

- fully liberalised economy – free flow of trade and foreign private investment
- ease of transferring money outside Kenya
- good financial and legal systems compared to Sub-Saharan Africa

- regional entry point for the East Africa region – Nairobi serves as a regional economic hub
- well established private sector
- emerging middle class
- recent commercially-viable finds of hydrocarbons
- enormous renewable energy potential
- intelligent tech-savvy workforce
- very high standard of spoken and written English
- daily flights from the UK

Contact a DIT export adviser at: [www.greatbusiness.gov.uk](http://www.greatbusiness.gov.uk) for a free consultation if you are interested in exporting to Kenya.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. You can also check the current UKEF cover position for Kenya. See: [www.gov.uk/guidance/country-cover-policy-and-indicators#kenya](http://www.gov.uk/guidance/country-cover-policy-and-indicators#kenya)

*[Source: FCO Overseas Business Risk/DIT/UKEF/gov.uk/BCCK]*

### **Growth potential**

Kenya's economy grew by 5.3% in 2014, a dip from the 5.7% recorded in 2013. The dip was attributed to the hit Kenya took from the decline in tourism earnings and a sluggish manufacturing industry.

Sectors that recorded a growth in the latest Kenya National bureau of statistics' economic survey are:

- transport
- information and communications technology (ICT)
- energy
- education

The agriculture sector is the mainstay of the economy, it:

- contributes 26% to GDP directly and 25% indirectly



- forms 65% of Kenya's total exports
- provides 18% of formal employment

See: [www.knbs.or.ke/index.php](http://www.knbs.or.ke/index.php) to access the full 2016 economic survey report.

### Trade between the UK and Kenya

Although China and other new partners have recently overtaken the UK in terms of new investment per year, Britain remains the largest cumulative investor and contributor to Kenyan prosperity. Because bilateral trade is so balanced, the UK remains Kenya's largest trading partner with over £1.2 billion of trade annually.

Of note:

- UK companies form the two largest private sector employers (Finlays and G4S)
- UK companies make up five of the top ten taxpayers (including Diageo and Safaricom-Vodafone)
- UK annually sends the largest number of tourists to Kenya
- UK is the prime destination for further education

As a result:

- 19 FTSE 100 companies have a presence in Kenya
- Marks & Spencer alone buys products worth £100 million per year from Kenya. Sainsbury's, Waitrose, Tesco & Asda source products of similarly significant amounts. This translates to thousands of jobs and significant income for Kenyans
- UK companies form about 60% of the oil and gas operators in Kenya
- UK companies are investing over £50 million in geothermal, solar, biogas and wind projects within Kenya

The top four UK exports for 2013-14:

- tea (£91.4 million)
- vegetables (£76.1 million)
- crude vegetable materials (£60.4 million)

- baby prams, toys and games (£3.7 million)

*[Source: Department for International Trade/gov.uk/BCCK]*

In addition:

- In 2016 Kenya was ranked 145th out of 176 countries in Transparency International's latest corruption perception index (the UK ranked 10th): [www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016](http://www.transparency.org/news/feature/corruption_perceptions_index_2016)
- Kenya is ranked 92nd out of 190 in the World Bank's 2017 Ease of Doing Business index (the UK ranks 6th): [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings)
- The World Economic Forum's Global Competitiveness report 2016-17 ranks Kenya 96th out of 138 (the UK is ranked 7th): [www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1](http://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1)

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*[Source: Department for International Trade (DIT)/gov.uk]*

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## Professional Business Services



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## Case Study



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## Case Study



## Telecommunications Services



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