

Emerging Africa

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Issue no 1: Focus on Kenya

General characteristics

Kenya lies on the equator and is bordered by Ethiopia (north), Somalia (northeast), Tanzania (south), Uganda and Lake Victoria (west), and Sudan (northwest). The country enjoys a coastline that stretches 480 kilometres from Tanzania in the south to Somalia in the north. It is characterised by tranquil beaches, golden sand dunes, warm turquoise water and pristine secluded islands. Four Marine National Parks and five Marine National Reserves afford protection to a myriad of fishes and their habitat, which includes coral reefs.

Independence from the United Kingdom was obtained on December 12, 1963, but the country had to wait almost 40 years for representative democracy to become institutionalised (with the 2002 elections, won by a coalition headed by the current President, Mwai Kibaki).

Kenya is widely regarded as East Africa's most developed country. Prior to the post-election crisis of December 2007, the nation enjoyed relatively high economic growth (averaging more than 6% per annum between 2004 and 2007) as well as a satisfactory level of political stability.

In terms of land area the country is ranked in the top-50 in the world. At 583,000 square km, it is larger than France and Spain and almost half of the size of South Africa. Kenya's population continues to grow at a healthy pace (2.7% per annum, on average since 2000) and has moved above the 40-million mark. This rate is more than double the world average of 1.2 % (since 2000).

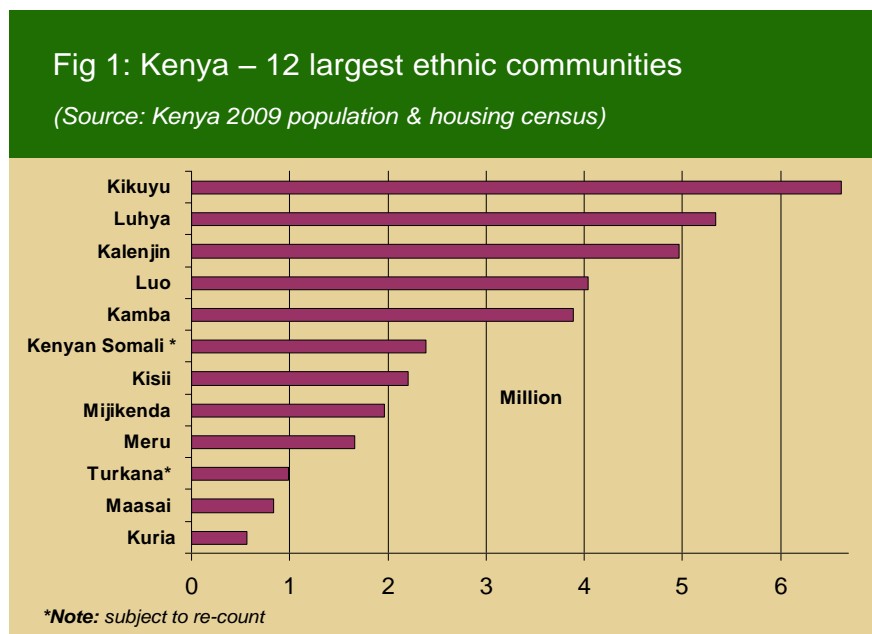


Figure 1 clearly illustrates the large ethnic diversity of the Kenyan population in terms of the twelve ethnic groups that each represent more than half a million people.

In Africa, only Nigeria, Ethiopia, DR Congo, South Africa, Tanzania and Sudan have larger populations. Kenya's population density stands at 66 people per square km, which is marginally higher than the world average.

Nairobi is the primary communication and financial hub of East Africa, due to its large urban population, the presence of skilled professionals, adequate transportation linkages, sound communications infrastructure, a well-developed banking system and a measure of diversified manufacturing activity.

Demographics

According to the 2008 revision of *World Population Prospects*, published by the United Nations - UN (Population Division of the Department of Economic and Social Affairs), Kenya was forecast to have a population of 40,863 million people in 2010.

The Population Division of the UN does not distinguish between low, medium & high variants for population growth for all countries and Kenya falls into this category. Despite this limitation to the UN's demographic research, the forecast for 2010 is quite accurate when compared to the results of Kenya's latest Population and Housing Census, conducted in August 2009.

An extrapolation of the population size as determined by this census, based on the average annual population growth rate between 2005 and 2010, yields a figure of 40,170 million as at February 2011.

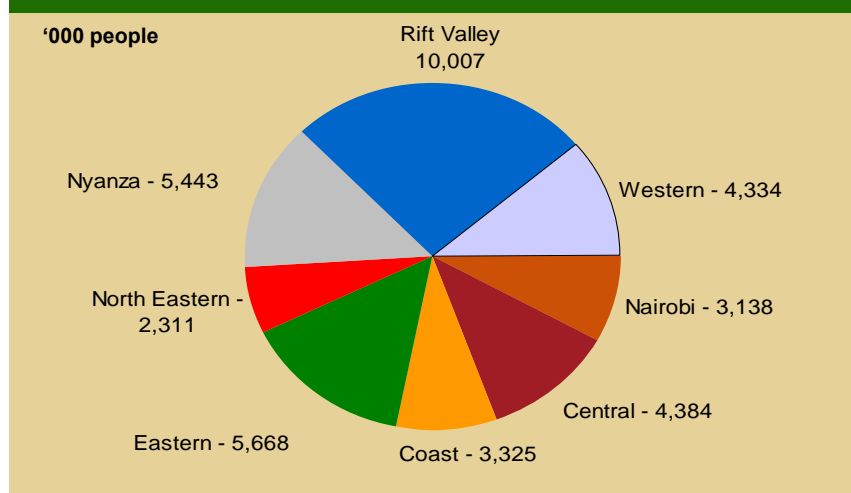
Table 1 ranks sub-Saharan African countries in terms of population size. Kenya's population is the sixth largest in the region, which is regarded as a positive factor in terms of the potential future market size (from both a demand and supply perspective).

Table 1: Top-20 countries in sub-Saharan Africa in terms of population size - 2010			
	Million		Million
Nigeria	158.3	Madagascar	20.1
Ethiopia	85.0	Cameroon	20.0
DR Congo	67.8	Angola	19.0
South Africa	50.5	Burkina Faso	16.3
Tanzania	45.0	Niger	15.9
Kenya	40.9	Malawi	15.7
Uganda	33.8	Mali	13.3
Ghana	24.3	Zambia	13.3
Mozambique	23.4	Senegal	12.9
Côte d'Ivoire	21.6	Zimbabwe	12.6
Source: UNDP			

The census results indicate that Protestant Christian churches dominate the religious affiliation of the country, with 18.3 million followers. They are followed by the Catholic Church with 9 million followers while other Christian churches account for 4.6 million followers. The Muslim population in the country stands at 4.3 million.

One of the features of Kenya's demographics is the relatively even spread of the population amongst the eight provinces, as illustrated by figure 2.

**Fig 2: Kenya – population by province (2009 census)
– total of 38.6 million**



The population of Kenya has continued to grow exponentially and by 2010 the population size was more than seven times larger than in 1948 and over four-fold that of 1963 (the date of independence). During the past decade alone, 10 million people have been added to the population.

Whereas the bulk of the Kenyan population is made up of children aged 0 to 14 (43%), the number of people between the ages of 15 to 34 years has been increasing and is expected to form the bulk of the population within the next two decades.

Development indicators

According to the latest global Human Development Index (HDI) rankings, compiled by the United Nations Development Programme (UNDP), Kenya remains classified as a low human development country.

The government is acutely aware of the need to improve the socio-economic situation of Kenyans, as demonstrated by the ambitious goals of “Kenya Vision 2030”, which embodies the country’s long-term growth and development strategy.

Table 2: Top-20 countries in sub-Saharan Africa in terms of Human Development Index rankings - 2010			
	Global rank		Global rank
Mauritius	72	Kenya	128
Gabon	93	Ghana	130
Botswana	98	Cameroon	131
Namibia	105	Benin	134
South Africa	110	Madagascar	135
Equatorial Guinea	117	Togo	139
Cape Verde	118	Comoros	140
Swaziland	121	Lesotho	141
Congo	126	Nigeria	142
São Tomé and Príncipe	127	Uganda	143

Source: UNDP

Interestingly, Kenya is the highest ranked country in the so-called fourth division of the HDI rankings and enjoys the 11th highest ranking of all the countries in sub-Saharan Africa. Table 2 provides the top-20 rankings for this region.

A total of 169 countries have been included in the 2010 HDI rankings, with a separate list of 25 countries for which the required data sets are insufficient (mainly as a result of one or more of the following factors: restrictions on media freedom; censorship; socio-political instability; and totalitarian regimes).

Two of the key components used to calculate the global HDI values are life expectancy at birth and gross national income *per capita*. The fact that Kenya's ranking for the former indicator is lower than for the HDI as a whole (see table 3) confirms the existence of a relatively superior ranking for disposable income, despite the country's sizeable population.

Table: Top-20 countries in sub-Saharan Africa in terms of life expectancy at birth			
	Years		Years
Seychelles	73	Liberia	59.1
Mauritius	72.1	Guinea	58.9
Cape Verde	71.7	Côte d'Ivoire	58.4
Comoros	66.2	Ghana	57.1
São Tomé and Príncipe	66.1	Tanzania	56.9
Togo	63.3	Gabon	56.7
Benin	62.3	Gambia	56.6
Namibia	62.1	Senegal	56.2
Madagascar	61.2	Kenya	55.6
Eritrea	60.4	Congo	53.9
Source: <i>United Nations</i>			

It seems clear therefore, that modest progress with basic service delivery, combined with relatively high economic growth could result in a promotion to the category for medium human development within two to three years.

Economic Freedom

According to the 2011 *Economic Freedom Index*, published by the Fraser Institute in the report titled: *Economic Freedom of the World (EFW)*, Kenya is ranked 14th out of 46 countries in the sub-Saharan Africa region. The country's global ranking is 106 and its overall score of 57.4 is below the world average.

The index measures the degree to which the policies and institutions of countries are supportive of economic freedom and it has been compiled for the past 25 years. The Fraser Institute utilises the research inputs of experts at several leading Universities.

The cornerstones of economic freedom are widely regarded as personal choice, voluntary exchange, freedom to compete, and security of privately owned property. Forty-two data points are used to construct a summary index.

Kenya's score is virtually unchanged from the previous year, with gains in trade and investment freedom offsetting a significantly lower government spending score. The latter, however, has been mainly caused by the need to implement counter-cyclical fiscal

policies in the wake of the recent global recession and could be partially reversed during 2011 and 2012. The 2011 edition of *EFW* acknowledges that Kenya's economy is one of Africa's most developed and has gradually emerged from the twin effects of recent socio-political instability and the economic slowdown.

Table 4 summarises the strengths and weaknesses that have been identified in the report in terms of Kenya's economic freedom disposition.

Table 4: Kenya - strengths & weaknesses identified by the 2010 Economic Freedom Survey
<p>Strengths</p> <ul style="list-style-type: none"> Relatively low wages Judicial enforcement of property & commercial rights Recent improvements to institutional stability of financial system Existence of an automated bond-trading market Relatively well-developed equity market Well-developed & uncensored telecommunications system Foreign and local investors generally receive equal treatment Residents and non-residents may hold foreign exchange accounts No restrictions on international payments and transfers (current) Relatively prudent fiscal policies Relatively low weighted average tariff rate (6.1 percent in 2009) Commitment to a regulatory environment more conducive to the private sector
<p>Weaknesses</p> <ul style="list-style-type: none"> Rigid labour legislation High levels of crime Poor infrastructure Bureaucratic inefficiency in the public sector Pervasive corruption Police force regarded as the most corrupt public institution Enforcement of property rights subject to delays Sale of land by mortgage lenders to collect debts generally not allowed Investment is constrained in sectors where the state has a statutory monopoly Large variety of restrictions on imports and exports Onerous import and export licensing requirements Existence of bureaucratic hurdles in establishing private enterprises

Regulatory environment

Punitive licensing processes and foreign ownership restrictions in key sectors of the economy represent obstacles to the creation of a climate conducive to business development via foreign direct investment (FDI).

According to a recent World Bank study, covering 21 Sub-Saharan African countries, Kenya was found to restrict foreign ownership in more sectors than most of its rivals in the quest to secure inward FDI.

The limits to foreign ownership are mainly in the sectors for telecoms, insurance, media, transport and power generation. The study polled countries based on restrictions to foreign equity ownership, the process of starting a foreign business, access to industrial land and commercial arbitration regimes.

Effective corporate tax rate

The 2011 edition of “*Paying Taxes – the global picture*” highlights the existence of disincentives to private sector investment in several African countries as a result of relatively high effective corporate tax rates.

Paying Taxes is a joint publication of the World Bank, the International Finance Corporation (IFC) and PwC, which looks at the impact of tax systems on business using a case study company. Although the research does not consider the costs for society as a whole nor the benefits that taxes provide (via government expenditures), a wealth of data is collected (covering 183 economies) that enables an assessment of tax systems around the world from the point of view of business over a six year period.

The study looks beyond statutory corporate income tax at all of the taxes and contributions mandated by government for the relevant case study company, and considers their full impact on business in terms of both their tax cost and their compliance burden.

One of the unique features of the annual *Paying Taxes* report is the use of the total tax rate (TTR) concept, also referred to as the “effective corporate tax rate”. When considering the burden of taxes on business, it is important to look at all the taxes that companies pay. These may include labour taxes and mandatory contributions paid by employers, sales tax, property tax and other smaller taxes such as property transfer tax, dividend tax, capital gains tax, financial transactions tax, waste collection tax and vehicle and road tax. In seven economies around the world, taxes and mandatory contributions add up to more than 100% of profit.

Fig 3: Total corporate tax rates – selected sub-Saharan African countries (Source: World Bank/IFC/PwC)

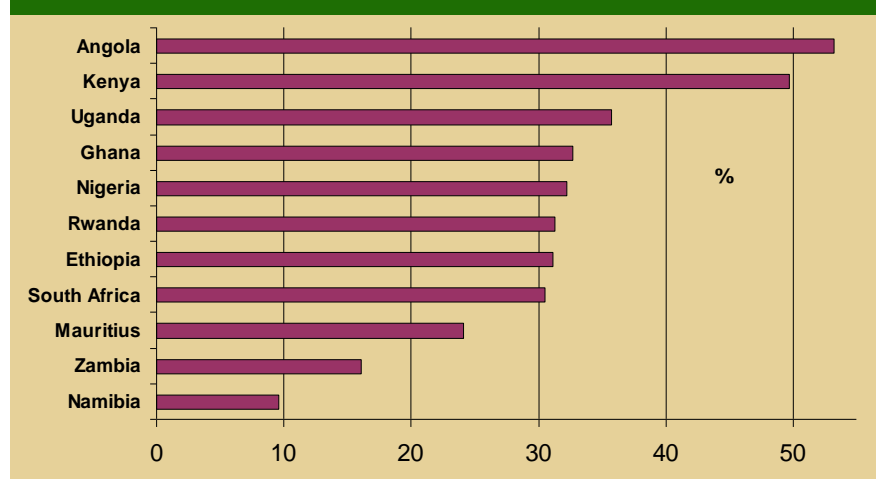


Figure 3 illustrates the TTRs of selected sub-Saharan countries (including those countries that often serve as benchmarks for measuring Kenya’s regional competitiveness). Unfortunately for Kenya, its TTR ranking is not favourable. The country has the 29th highest TTR of the 44 sub-Saharan African countries surveyed. At a level of 49.7%, the total tax rate of the Kenyan case study company is marginally higher than the world average of 47.8%.

In the African Union, the range of results for the TTR is significantly wider than in the European Union. The latter has a range from a low of 21.1% (Luxembourg) to a high of 68.6% (Italy). In Africa, the TTR ranges from a low of 9.6% in Namibia to 339.7% in the Democratic Republic of Congo. A feature of some African tax systems is the high level of so-called “other taxes” in the composition of the TTR.

Infrastructure

According to *The Global Competitiveness Report 2010/2011*, published by the World Economic Forum - WEF (within the framework of the Centre for Global Competitiveness and Performance), Kenya is ranked 11th out of the countries in sub-Saharan Africa for the quality of its overall infrastructure (see table 5).

In the event of excluding those countries whose populations are probably too small to warrant meaningful levels of foreign direct investment in diversified sectors of the economy, Kenya’s ranking improves to position number 7.

	Global rank		Global rank
Namibia	25	Kenya	88
Botswana	54	Cape Verde	99
South Africa	56	Zambia	103
Mauritius	57	Lesotho	104
Swaziland	60	Uganda	105
Rwanda	67	Malawi	106
Côte d'Ivoire	80	Mali	107
Senegal	81	Mozambique	110
Ghana	85	Madagascar	112
Ethiopia	87	Zimbabwe	116

Source: WEF

Survey results that support the quantitative determination of competitiveness indicators by the WEF confirm that an inadequate supply of infrastructure constitutes the fourth most problematic factor for doing business in Kenya.

The country’s standing within the context of sub-Saharan Africa is nevertheless markedly above average for all of the infrastructure competitiveness indicators, as depicted by the rankings in table 6.

	SSA ranking
Scheduled available airline seat kilometres originating in country	3
Passenger air transport infrastructure	5
Quality of railroad infrastructure	8
Quality of electricity supply (lack of interruptions and voltage fluctuations)	10
Quality of roads	11
Number of active fixed telephone lines <i>per capita</i>	11
Overall quality of infrastructure	11
Quality of port infrastructure	12
Number of mobile cellular telephone subscriptions <i>per capita</i>	12

The economy – composition & growth

The macro-economy of Kenya has fared particularly well over the past eight years, with an average real GDP growth rate of 4.4% per annum. In the process, the country's *per capita* GDP has increased from just over \$400 in 2002 to more than \$800 in 2010.

In terms of purchasing power parity, *per capita* GDP is forecast (by the IMF) to reach a level of close to \$1,800 in 2012.



An interesting feature of the Kenyan economy is its proven resilience to recession, due to a relatively diversified economy, with regard to both domestic value added and the existence of a vibrant external sector. Figure 4 illustrates the fact that Kenya managed to escape a technical recession during the global economic downswing of 2008/09 (defined as three successive quarters of negative real output growth).

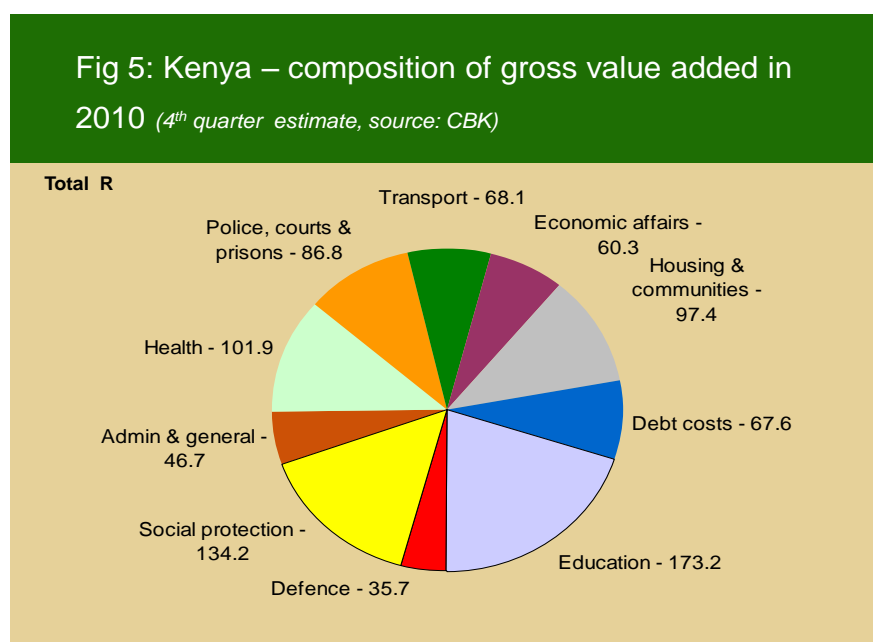
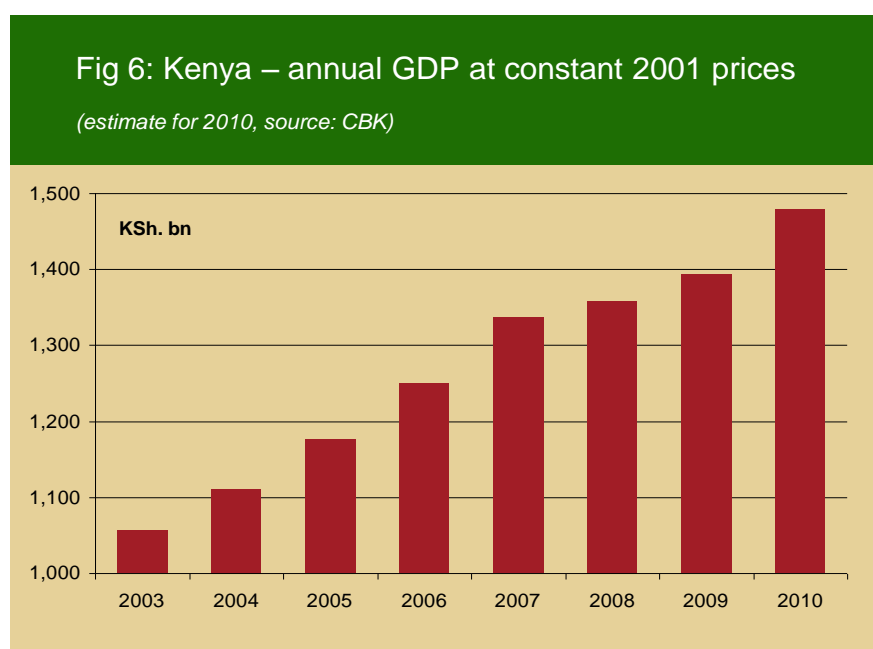


Figure 5 illustrates the composition of the Kenya's gross value added in 2010, which includes an estimate for the fourth quarter. The relatively low share of government's debt financing costs is an indication of the existence of inherent stability in the conducting of fiscal policy.

The inherent strength of the Kenyan economy is also depicted by the trend in figure 6, which clearly shows the strong rebound of GDP growth, following a relatively subdued performance in 2008 and 2009.



The fact that Kenya managed to avoid a full-blown economic recession is particularly impressive when viewed against the backdrop of the socio-political unrest that followed the disputed election results at the end of 2007 and the negative impact exerted on the important tourism sector by the global recession.

Kenya's regional economic significance is also confirmed by an impressive ranking as the fourth largest economy on the African continent, as depicted by the data in table 7.

	\$ billion		\$ billion
South Africa	354.4	Equatorial Guinea	14.5
Nigeria	206.7	Senegal	12.7
Angola	85.8	DR Congo	12.6
Kenya	32.4	Gabon	12.6
Ethiopia	30.9	Botswana	12.5
Tanzania	22.4	Congo	11.9
Ivory Coast	22.4	Namibia	11.5
Ghana	18.1	Mozambique	10.2
Uganda	17.1	Mauritius	9.4
Zambia	15.7	Mali	9.1

Source: IMF

Exchange rate trends

Higher levels of economic growth and strengthening domestic demand are expected to lead to an increase in the country's import propensity and, as an inference, will place pressure on the Kenyan current account deficit and currency.

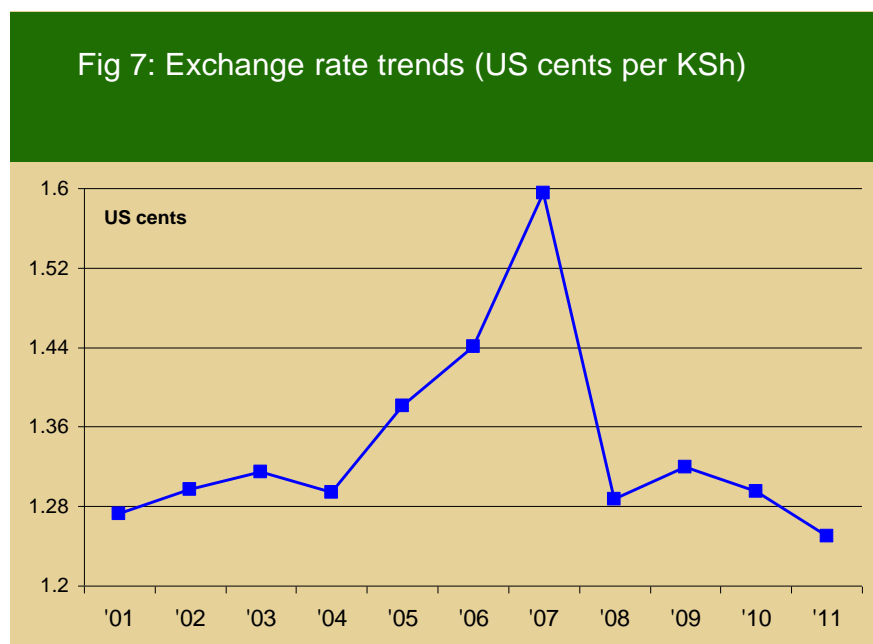


Figure 7 illustrates the strength of the Kenyan shilling between 2005 and 2007 as well as the return to a more realistic valuation in 2008. Over the past decade, the average annual rate of depreciation against the US dollar amounted to less than 0.2%.

Due to the relatively large inflation differentials that exist between Kenya and the US, this implies the existence of an overvalued Kenya shilling and the currency should therefore continue to depreciate moderately over the next two years.

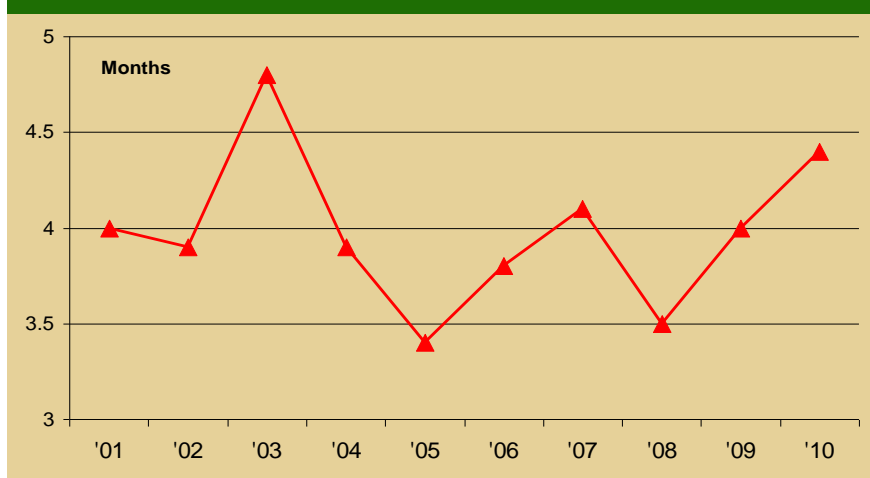
The two dominant global currencies, the euro and the dollar, are expected to remain relatively weak as Europe and the US continues to come to grips with fragile fiscal and monetary parameters.

This will moderate the depreciation of the KSh in 2011, but the Kenyan currency is expected to be relatively weaker against most of the emerging market currencies, including the BRICS grouping (Brazil, Russia, India, China and South Africa).

A modestly depreciating currency will exert a positive effect on the external price competitiveness of Kenya's exports, which is especially favourable in an environment of global demand swiftly recovering to its long-term potential. Prices of most of the country's export commodities have also fully recovered from the declining trend during the recent global recession.

The relatively stable long-term currency trend has been supported by a modest improvement of Kenya's foreign exchange reserves, with the import cover ratio having increased from 3.4 months in 2005 to 4.4 months in 2010 (see figure 8).

Fig 8: Kenya – import cover ratio (Source: CBK)



Over the past decade, the deficit on the current account of the balance of payments has averaged less than 3% of GDP, but this ratio jumped to more than 8% during the global recession. It has since moderated and the IMF is predicting a current account deficit/GDP ratio for Kenya of less than 6% during 2011, declining to less than 5.5% in 2012.

Inflation

Price stability may be at risk during 2011, mainly as a result of an early end of the mid-year rainy season, which is placing pressure on food prices. The outlook for non-food inflation has also become clouded as a result of higher commodity prices, especially oil.

Between 2005 and 2009, consumer prices increased at an average annual rate of more than 13%, but the consumer price index (CPI) moderated in 2010 to record annualised inflation of less than 8%.

The IMF is bullish about Kenya's medium-term inflation prospects, with a forecast increase of only 5% for annualised CPI during 2011 and 2012.

Economic growth prospects

The World Bank has revised its growth estimate for Kenya for 2010 upwards to 4.9%. An impressive and swift recovery from the global recession has resulted in broad-based and high levels of economic growth over the past year, with all the key sectors of the economy experiencing an upward growth trend. For 2011, the World Bank projects GDP growth of between 5% and 6%.

Scrutiny of relevant macroeconomic data and a number of official policy interventions reveals the existence of an impressive number of growth drivers in the Kenyan economy. Prospects for a sustained phase of relatively high economic growth are reinforced by the fact that these drivers represent a combination of cyclical and structural factors that support an upward phase of the business cycle. Key growth drivers include the following:

1. Further integration of the East African Community (EAC) into a common market promises to lower the costs of doing business in the region, as well as enhancing the global awareness of the investment opportunities in the whole region.

Although Kenya has the most restrictive foreign equity regulations in the EAC, the country boasts a well-developed secondary capital market and is home to 28 of the top-50 listed companies in the region.

2. Tourism, which represents approximately 9% of GDP (directly & indirectly), has recovered from the recession and promises to expand its role as one of the country's most important source of foreign exchange earnings. The Kenyan government seems intent on spending significant amounts on new infrastructure that would serve to underpin a structural expansion of tourism activities.
3. Economic recovery has been supported by a rebound in the agriculture sector, due mainly to reasonably favourable weather conditions and an increase in the area under irrigation. As a result, agriculture exports increased in 2010, with tea up 50 percent in volume terms.
4. Constitutional reforms, particularly the creation of a so-called Second Republic after the referendum of August 2010 has served to unite the majority of citizens, and has assisted in healing the divisions that followed the socio-political unrest of 2008. The new constitution delegates more powers to local governments and gives Kenyans a bill of rights. A MasterCard survey of consumer confidence in Kenya, conducted towards the end of 2010, has confirmed an upward trend in the levels of confidence in the economy.
5. Kenya seems destined to become a regional hub for information technology (IT) innovations and IT-enabled services. Recent innovations have included the areas of healthcare services, economic data (such as commodity prices), mobile money, whilst new investments have been channelled into the expansion of fibre-optic cable networks. Exceptionally high growth in IT-related economic activity occurred as a result of government liberalisation of the telecoms sector, allowing competition. According to the World Bank, this development provides a useful case study for other sectors of the economy, some of whom are exposed to strict regulations.
6. Kenya continues to experience relatively high population growth, which acts to secure demand growth. Combined with a well-educated and urbanising labour force, demographic expansion has provided one of the cornerstones for development and an increase in *per capita* incomes.
7. Kenya has been commended by the World Bank for its prudent macroeconomic management of the economy, as well as new investments in infrastructure. Prudent fiscal management made it possible for the country to apply counter-cyclical demand-side policies during the brief downward business cycle. Although the fiscal deficit widened during 2008, it has been narrowed again in 2009. Between 2005 and 2009, the deficit between current government expenditures and government revenues amounted to less than 3% of GDP.

Potential growth sectors

Sectors that are likely to record sound growth over the next five years include the following:

- *Agriculture*
Government is committed to new investment in supporting infrastructure, particularly roads and irrigation schemes. Due to the lack of long-term food security in the world's two most populous countries, China and India, it is anticipated that substantial scope exists for exports of processed foods.

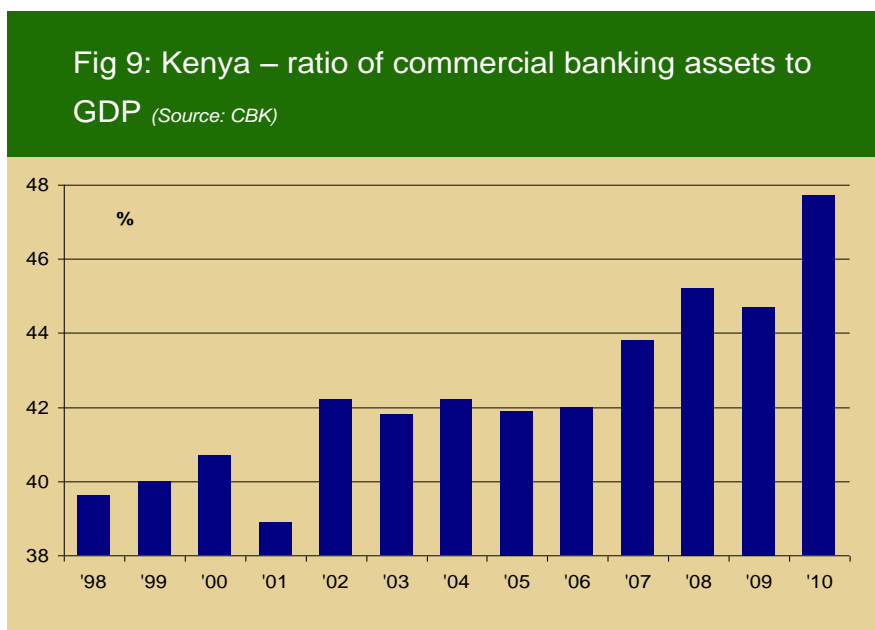
- *Telecommunications and IT applications*

Despite the country already having 18 million active mobile consumers (of which 10 million are subscribers), Safaricom predicts that the Kenyan mobile sector will grow by close to 20% in 2011. Safaricom is the biggest company in Eastern Africa, with market capitalisation of \$2.1bn (as at February 2011). The world's biggest telecoms company, Vodafone, owns 35% of Safaricom. Whilst obvious limitations exist for the further expansion of its customer base within Kenya, significant potential exists to market additional products to subscribers.

- *Financial services*

Although government has recently introduced new legislation aimed at providing a regulatory framework for a broader spectrum of financial services, the sector should continue to expand at a healthy rate over the medium term. According to data published by the World Bank, close to 70% of all adults in Kenya enjoyed access to financial services in 2010, compared to less than 5% in 2006. In 2010, transfers via mobile money are estimated to have amounted to a total of \$7 billion (20% of GDP).

One of the reasons for the success of mobile money in Kenya is related to a fairly balanced regulatory regime that attempts to protect users and to discourage fraud, on the one hand, whilst still encouraging innovation and the development of new services, on the other hand. Figure 9 clearly illustrates the rise in significance of the Kenyan banking sector, with the ratio of commercial banking assets to GDP increasing from less than 40% in 2001 to almost 48% in 2010.



- *Tourism*

A combination of global economic recovery, a return to socio-political stability, investment in transport systems, and Kenya's long-standing reputation as the premier African "Safari"-destination, point to the existence of significant growth potential in tourism-related sectors.

Table 8 depicts the average annual real growth rates between 2005 and 2009 of key macroeconomic indicators, including the GDP.

Table 8: Average annual real growth rates - selected indicators (2005 to 2009)	
	%
Vehicle registrations	24.0
Building plans passed	13.6
Bank assets	2.7
Cement sales	0.9
GDP	0.9
Imports	0.9
Exports	-4.2
Source: CBK	

The only indicator with negative growth is exports, which suffered from the twin effects of the decline in demand during the global recession and the commodity price decline during 2008 and 2009.

Agriculture development projects

Over the past two years a number of large-scale development projects have been initiated in Kenya in the strategically important area of agriculture. They include the following:

- The International Fund for Agricultural Development (IFAD) recently approved a loan valued at US\$15.6 million to help the southern Nyanza Community in Kenya cope with poverty and under-nourishment. The project aims to empower rural communities through, *inter alia*, strengthening local institutions and community-driven development activities; improving access to health care, safe water and sanitation; increasing farm labour productivity; and improving food security and nutrition.
- In recent years, IFAD has funded 14 projects in Kenya with a total investment value of approximately \$185 million. Current projects include: the Central Kenya Dry Lands Programme, Mount Kenya East Pilot Project for Natural Resources Management, South Nyanza Community Development Project, the Smallholder Dairy Commercialization Programme and the Smallholder Horticulture and Marketing Programme.
- In April 2009, the World Bank provided an emergency grant of US\$5 million under its Global Food Crisis Response Programme to assist Kenya deal with significant food shortfalls due to the impact of a drought in the country, high input prices and the global financial crisis.
- Kenya is a beneficiary of the East Africa Agricultural Productivity Programme - a US\$90 million project aimed at strengthening regional cooperation in the generation of technology, training and dissemination of dairy, cassava, rice and wheat.
- The World Bank recently announced a facility designed to assist Kenya's smallholding farmers in increasing productivity and to promote agribusiness development, valued at US\$ 82 million. The facility is linked to the Kenya Agricultural Productivity and Agribusiness Project, which attempts to assist the country in diversifying its agriculture, add value and deepen linkages to markets. It will also promote public private partnerships in service delivery and agribusiness.

The Kenyan government recently approved a budget of approximately US\$ 3.3 billion to support food security and job creation across the country, involving 18 multi-purpose

projects over the next 8 years. The projects, which will cover the six regional development authorities, will focus on irrigation of food and cash crops; hydro-electric power generation; supply of clean water; development of fisheries; water catchments conservation; and the creation of local employment. This programme expects to create 213,000 direct and 956,000 indirect jobs.

Tourism – a key pillar of the economy

In sub-Saharan Africa, only South Africa attracts more tourists than Kenya. The reasons for the country's status as one of the premier global tourist destinations are not difficult to find. Until the unfortunate, though brief, civil unrest following the December 2007 elections, Kenya had enjoyed a decade of socio-political stability and relatively high economic growth.

The country offers a unique combination of natural attractions, ranging from more than 50 national parks, breathtaking mountain scenery, splendid beaches & coral reefs, spectacular lakes and deserts, and extensive savannah grassland.

Popularly referred to as the "Jewel of the East Africa", Kenya has the added advantage of a sophisticated tourism infrastructure, including the modern cities of Nairobi, Mombasa, Kisumu and Nakuru. Apart from the recent socio-political turmoil surrounding contested election results, the country has a long-standing reputation as a safe tourist destination.

Few countries on the African continent can match Kenya's attractions in the lucrative African safari holiday market. In 2007, more than one and a half million people visited Kenya for holiday & business purposes. Specific tourist attractions include six marine parks in the Indian Ocean, Mount Kilimanjaro and Lake Victoria. Lake Victoria is Africa's largest lake, and the largest tropical lake in the world. It is also the world's third-largest freshwater lake and is characterised by enormous biodiversity.

The world-famous Masai Mara National Reserve is the scene of the annual migration of millions of wildebeest and zebras from Tanzania's Serengeti National Park and is regarded as a lifetime experience for nature lovers.

Kenya is also home to a number of other spectacular lakes, including Lake Baringo, Lake Turkana, Lake Rudolf and Lake Naivasha. These lakes are renowned for their enchanting natural beauty as well as rich and diverse avifauna and they attract thousands of bird lovers and ornithologists every year to see the breathtaking scene of flocks of flamingos and other migratory birds.

The sector was growing at historical highs prior to the domestic socio-political turmoil of 2008 and the global recession of 2008 & 2009.

In 2010, the travel & tourism industry in Kenya accounted for 4.2% of GDP (directly). Combined with the indirect value added effects, the tourism industry's contribution to the country's GDP was more than double the direct share, namely 9%, making it the third largest contributor to GDP after agriculture and manufacturing, and the third largest foreign exchange earner after tea and horticulture. The World Travel & Tourism Council (WTTC) expects continued expansion of tourism in Kenya, with the contribution to GDP likely to increase to 10% by 2020.

Kenya's reputation as a premier tourist destination that caters for a broad spectrum of income groups globally is confirmed by the data in table 9. In sub-Saharan Africa, only South Africa enjoys a larger tourism industry (in terms of both the numbers of tourist arrivals and the direct monetary contribution to GDP).

Table 9 : Top-10 tourism & travel industries in sub-Saharan Africa (direct GVA) 2010	
	\$ million
South Africa	10,085
Kenya	1,648
Mauritius	1,085
Tanzania	730
Uganda	663
Botswana	568
Senegal	560
Angola	531
Ghana	517
Madagascar	357
<i>Source: WTTC</i>	

One of the reasons for optimism over the prospects for above average growth in Kenya's tourism sector (compared to GDP) is related to the sterling performance of capital investment in the industry since especially 2005.

Despite the global recession of 2009, the tourism sector in Kenya recorded average annual growth in capital investment of 15.7%, compared to average annual growth in the sector's direct gross value added (GVA) of 11.7% over this period (in nominal terms).

According to the United Nations agency tasked with monitoring the tourism sector, international tourism recovered strongly in 2010, after a decline brought on by the global financial crisis and recession of late 2008 and 2009. The recovery of tourism was due to improved economic conditions worldwide. Africa maintained tourism sector growth during 2010 and was the only major world region to record positive growth figures in 2009.

The tourism industry in Kenya has also been buoyed by the swiftness with which the global economy recovered from the recession and stands to gain from a renewed vigour in pursuing the goals of "Kenya Vision 2030".

The latter is the country's new development blueprint covering the period 2008 to 2030, with the aim of transforming Kenya into a newly industrialising, middle-income country providing a high quality life to all its citizens by the year 2030.

Kenya Vision 2030 is anchored on three pillars, namely economic, social and political. Six priority sectors have been targeted to raise the national GDP growth rate to 10% per annum by 2012. Tourism has been identified as the leading player of the six sectors (the others are agriculture, wholesale and retail trade, manufacturing, business process outsourcing and financial services).

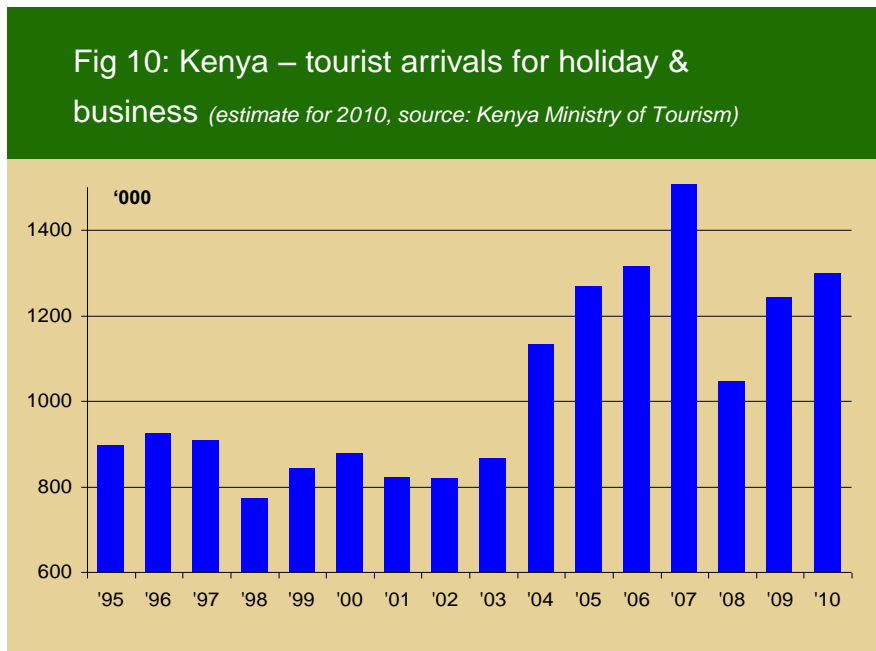
The Kenyan Ministry of Tourism's medium-term strategic plan has been aligned to the tourism sector goals as spelt out in Kenya Vision 2030. These goals are to:

- Increase international visitors from 1.8 million in 2007 to 3 million in 2012
- Increase average spending per visitor from Ksh 40,000 in 2006 to Ksh 70,000 by 2012.
- Treble annual national earnings from Ksh 65.4 billion in 2007 to Ksh 200 billion by 2012.

The recovery of Kenya’s tourism sector from the 2008/9 recession has been quite impressive, with tourist arrivals during the first three quarters of 2010 having increased by an estimated 15% over the figure for the same period in the previous year.

According to the Kenyan Ministry of Tourism, the sector’s revenue earnings during the first three quarters of 2010 was even more impressive, rising by more than 75% over the comparable period in 2009. These data confirm that Kenya has managed to rehabilitate its image as a safe travel destination.

Figure 10 illustrates the welcome and swift recovery of tourist arrivals to Kenya during 2009 & 2010.



Business & consumer confidence

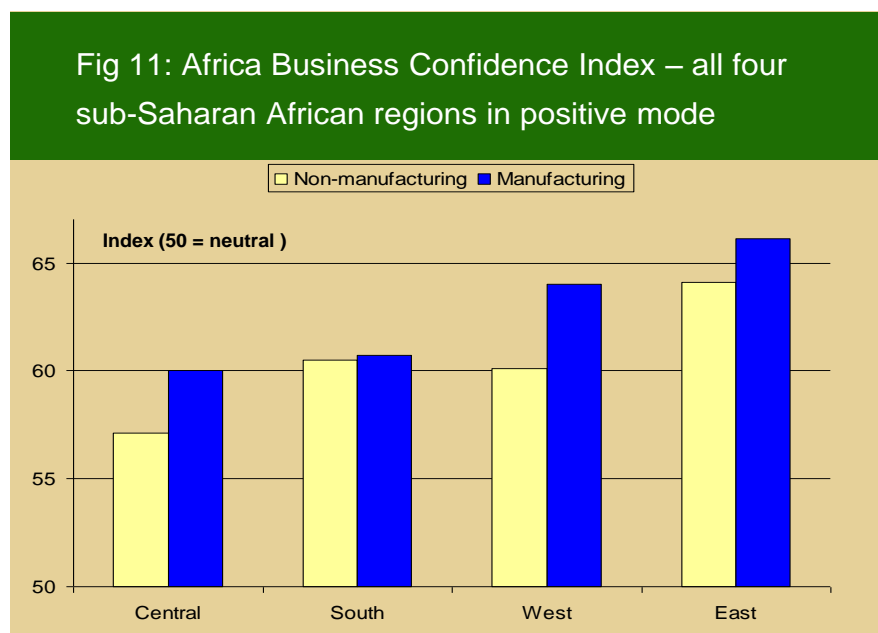
The first ever African Business Confidence Index (ABCI) was published in February by the Africa Business Panel (ABP). The index measures business confidence in the manufacturing and non-manufacturing private sector throughout Africa and will be published on a monthly basis.

Members of ABP work in the private sector for companies registered in and operating out of Africa. They are the senior managers, entrepreneurs or professionals that form the backbone of the business community throughout Africa.

ABP surveys its panel members on a monthly basis. Survey results are regarded as unique and also a good indication of trends and business activity across the African continent because it contains feedback from business professionals from almost all countries on the African continent.

The results for the inaugural survey, conducted in January 2011, indicate confidence and growth with an index of 63.89 and 61.3 for the manufacturing and non-manufacturing sectors, respectively. A level of 50 and above indicates expansion.

Figure 11 depicts the above average confidence levels in both the manufacturing and non-manufacturing sectors in the sub-Saharan African regions.



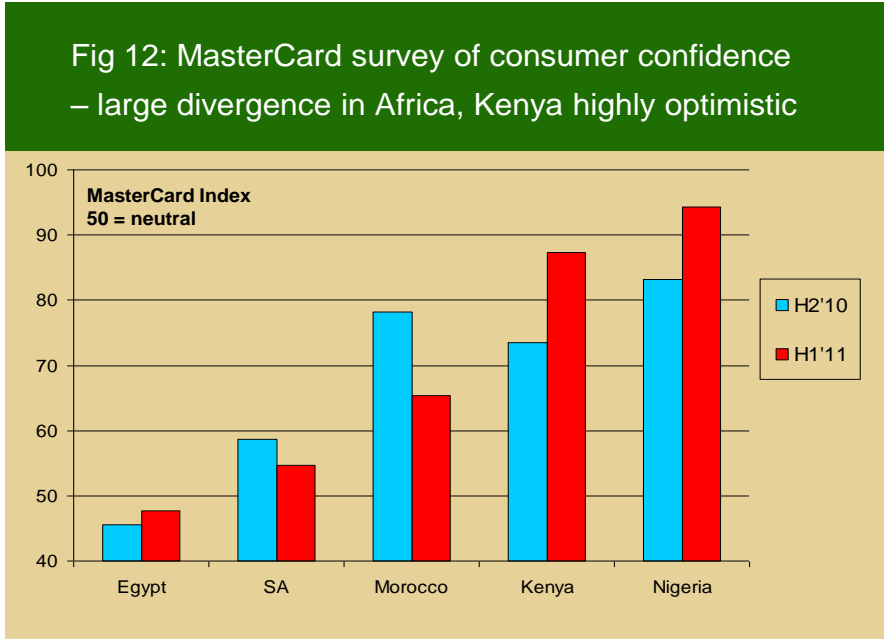
A total of 955 business professionals from 42 countries in Africa participated in the survey. Senior level participants to the survey included participants from 337 companies with revenues of more than \$100,000 and 17 companies with revenues of more than \$1 billion.

	Index value
New orders	70.9
Production	69.3
Overall Confidence Index	63.9
Imports	62.9
Inventories	62.7
Employment	59.6
Supplier deliveries	55.9
New export orders	52.8
<i>Source: Africa Business Panel</i>	

The ABCI follows a similar methodology and logic as the global Purchasing Manager Indices (PMIs). Participants are invited to report change from the previous month on a broad range of indicators of business activity. Table 10 ranks the index values of a selection of these indicators (for manufacturing). Kenya and South Africa represent the two dominant countries in terms of numbers of companies included in the survey.

Consumer confidence levels in Kenya are aligned to the general mood of optimism amongst producers. The latest MasterCard Consumer Confidence Index (MCCI) reveals

an increase in the level of optimism amongst consumers in three of the five African countries included in the bi-annual survey.



As is the case in the ABCI, a score of 50 represents neutral, with values of above 50 being in optimistic territory. Figure 12 confirms that only Egypt recorded a net negative result for the survey conducted at the end of 2010 (the MCCI is a forward-looking exercise, with respondents reflecting their views about economic prospects during the semester that follows the date of the survey).