

■ Kenya

October 2010



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Country profile

Country and population



Area: 580,367 sq km

Natural resources: limestone, soda ash, salt, gemstones, fluorspar, zinc, diatomite, gypsum, wildlife, hydropower

Time difference: UTC+3

Border countries: Ethiopia, Somalia, Sudan, Tanzania, Uganda

Population: 39,1 million (est. 2009)

Capital: Nairobi

Ethnic groups: Kikuyu 22%, Luhya 14%, Luo 13%, Kalenjin 12%, Kamba 11%, Kisii

Finpro

6%, Meru 6%, other African 15%, non-African (Asian, European, and Arab) 1%
Languages: English (official), Kiswahili (official), numerous indigenous languages
Religions: Christian (80%), Muslim (10%), other (10%)

Infrastructure

Telephone dialing code: country code +254, Nairobi 20, Mombasa 41

Mobile phone standard: GSM, CDMA, 3G

Electrical network: 240 V, 50 Hz, Plug type G (British)

Number of main telephone lines /100 inhabitants: 1.9 in 2009

Number of mobile phone subscribers /100 inhabitants: 47.6 in 2009

Number of internet users /100 inhabitants: 9.8 in 2009

Number of broadband internet subscribers /100 inhabitants: 5.2 in 2009

Roadways: 160,886 km, paved 11,197 km

Railways: 2,778 km

Airports: 17

Politics and administration

Official name: Republic of Kenya

Conventional short form: Kenya

Form of state: Unitary republic

Head of state: President Emilio Mwai Kibaki (PNU) since 30 December 2002

Ruling party: Party of National Unity (PNU)

National government: The president and his cabinet, comprising a grand coalition between the Party of National Unity (PNU) and the Orange Democratic Movement (ODM), and allied parties

Next elections: December 2012

Independence: 1963 from the UK

Independence Day: 12 December

Key figures

Currency: Kenyan shillings (KES)

Exchange rate KSh:US\$ (av) 2009: 77.35

GDP (US\$ m at market exchange rates): 2009 estimate 29,077, 2010 forecast 30,674

GDP per head (US\$ at market exchange rates): 2009 estimate 730, 2010 forecast 750

GDP (US\$ m at PPP): 2009 estimate 63,877, 2010 forecast 67,095

GDP per head (US\$ at PPP): 2009 estimate 1,600, 2010 forecast 1,640

Major exports 2008: horticultural products, tea, coffee, fish & fish preparations

Major imports 2008: industrial supplies, machinery & other capital equipment, food & beverages, consumer goods

Leading markets 2009: Uganda, UK, USA, Netherlands, China

Leading suppliers 2009: United Arab Emirates, Saudi Arabia, South Africa, USA, China

Trade with Finland 2009: exports from Finland to Kenya 19 340 million euros, imports from Kenya to Finland 19 269 million euros

Net foreign direct investments 2009: US\$ 141 million

Taxation: Individual tax is charged progressively up to 30 %. Corporation tax is 30 % for resident companies and 37.5 % for non-resident companies, the overall tax burden rises up to 50 % of gross profits with labor and other taxes.

Business operations

Kenya's strengths and weaknesses

Strengths

- Free market economy
- Entry point to East African region, EAC (Rwanda, Burundi and Uganda) of 138 million people
- Member of Common Market for Eastern and Southern Africa (COMESA) of 385 million people
- Nairobi is the major transport hub for Eastern Africa
- Port of Mombasa serves also neighboring landlocked countries (Uganda, Rwanda, Burundi Southern Sudan and Congo)
- UN headquarters (UNEP and UN Habitat) situated in Kenya
- Diversified economy
- Growing ties with China could give Kenya greater influence on the global stage
- Private consumption is expected to have grown by 4 % in 2010
- Expected growth for middle and upper income households in medium term, which will increase spending in education, health, transportation and communications
- Availability of young and educated work force

Weaknesses

- High level of corruption in public affairs (government, city authorities)
- Lack of infrastructure
- High crime levels
- Competition from low-cost imports and fake products
- New business registration process is long and bureaucratic

Potential sectors and business opportunities for Finnish companies

Kenya is the most developed economy in East Africa. The East African Community (EAC) including Kenya, Tanzania, Burundi, Uganda and Rwanda was formed in July 2000. It is a common market enabling products, services and labor to move from country to country freely and with reduced restrictions on trade and investments. This will increase business opportunities significantly since Kenya's role in EAC is very strong and it serves as an entry point to other EAC countries. Kenya is also strengthening its' position as a regional manufacturing and transportation hub. The country has the strongest manufacturing sector and should benefit most of the regional integration.

In order to maximize the country's strategic position as a gateway, the government is planning to invest significantly in infrastructure and improve transportation links. This will help the development of domestic industries and trade.

There are interesting business opportunities for foreign exporters and investors in Kenya for example in transport and infrastructure, agriculture, forestry, telecommuni-

cations, manufacturing, sewerage and waste management, building and construction, education, energy and pharmaceutical/health care sectors.

Financing and guarantees

Finnvera

Finnvera offers financing and financing expertise to meet the needs the company might face when planning an enterprise's internationalization. It provides its clients with loans, guarantees, venture capital investments and export credit guarantees.

Finnvera classifies Kenya as a high risk country 6/7.

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Finnfund

Finnfund is a Finnish development finance company that provides long-term risk capital for private projects in developing countries and Russia. Apart from co-investing with Finnish companies, Finnfund can finance ventures that use Finnish technology, cooperate with Finnish partners on a long-term basis or generate major environmental or social benefits.

While most of the past investments have been in manufacturing, Finnfund also finances projects in other sectors ranging from agribusiness and power generation to telecommunications and services.

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E-mail: helena.arlander@finnfund.fi, <http://www.finnfund.fi>

Finnpartnership program is part of Finnfund and it provides advisory services for the business activities of Finnish companies in developing countries as well as financial support in the planning, development and implementation phases of a project. Finnish companies can easily acquire information on new business opportunities and business partners in developing countries. Finnpartnership provides its services free of charge.

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Economy

Macroeconomic indicators

Key figures

	2006	2007	2008	2009b	2010c	2011c
GDP (US\$ m at market exchange rates)	22,779	27,125	30,355	29,077	30,674	32,934
GDP per head (US\$ at market exchange rates)	620	720	780	730	750	790
GDP (% change)	6.3	7.1	1.7	2.6	4.0	5.4
Consumer prices (% change)	14.5	9.8	16.3	9.3	4.2	5.7
Industrial production (% change)	1.9	6.9	4.8	3.7	4.0	4.7
Gross fixed investment (US\$ m at current market prices)	4,291	5,262	5,903	6,058	6,522	7,236
Current-account balance (% of GDP)	-2.2	-3.8	-6.5	-5.5	-4.6	-5.1
Exchange rate KSh: US\$ (av)	72.10	67.32	69.18	77.35	79.22	81.50

Source: Economist Intelligence Unit (EIU) 10/2010 (b = estimate, c = forecast)

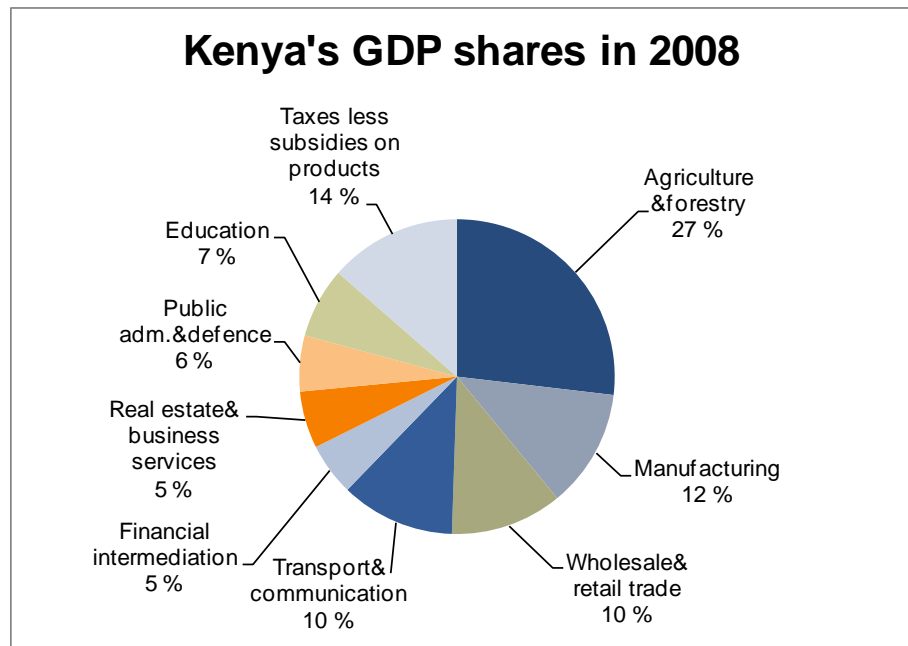
Kenya's economy registered very high growth rates, between 6-7 % in 2006 and 2007. In 2008 there was a very significant drop in the GDP due to post-election crisis, drought and the global financial crisis. In 2009 GDP grew by 2.6 % and for 2010 EIU forecasts 4.0 % growth.

According to the government Kenya's GDP grew by 4.4 % during the first quarter of 2010. This is mainly driven by agriculture, expansion of telecommunication sector and recovery of tourism. The growth will most probably decrease during the second half because of the start of dry season and rising food prices.

The government has raised this year's growth forecast from 4.5 % to 5 %.

GDP

Even though Kenya is one of the most industrialized countries in East Africa, according to EIU industry contributes only 16 % to GDP. Agriculture represents 23 % of the GDP. The main contributor is services sector with 64 %. In the service sector tourism plays the major role as contributor.



Source: National Bureau of statistics 10/10

Other important sectors include manufacturing, transport and communication.

Inflation

Kenya's inflation rate was the lowest in many years in August 2010. It dropped to 3.2 % from previous month's 3.6 %. Nevertheless, EIU forecasts inflation to average 4.2 % in 2010 and 5.7 % in 2011 since the demand growth and food prices are expected to rise.

Unemployment

Depending on the source the unemployment rate varies between 13 - 35 %. Nevertheless, the youth unemployment rises up to 40%, which is one of the highest in the world. The economy creates 400,000 jobs per year, but mostly in the informal sector. In most of the cases the youth are employed in the informal sector, which is largely unregulated and workers are subjected to low earnings and long working hours without any formal contract.

Agriculture employs 75 % of the labor force even though it represents only 23 % of the GDP. On the other hand services represent 64 % of the GDP and employs only 25 % of the work force together with industry sector.

Economic policy

Privatization

Kenya's public sector is seen very large and relatively ineffective. The progress of selling state-owned companies in electricity, telecommunications and banking sectors has been very slow. The government is planning to enforce the privatization by build-

ing regulatory framework for public-private partnerships. Kenya is considered an entrepreneurial society. The private sector accounts for approximately 80% of GDP and provides over 50% of wage employment.

Foreign trade

Kenya's trade 2007-2012 (US\$ m)

	2007	2008	2009	2010b	2011b	2012b
Exports	4,132	5,040	4,459	5,141	5,747	6,181
Imports	-8,388	-10,689	-9,715	-10,395	-11,123	-11,901
Trade balance	-4,256	-5,649	-5,256	-5,254	-5,375	-5,720

Source: Economist Intelligence Unit 10/2010 (b = estimate)

Kenya's economy depend on the commodity prices for its agricultural exports and on the other hand on oil, which is Kenya's largest import.

In 2010 both exports and imports are expected to grow steadily. EIU estimates that the value of exports will grow approximately US\$ 500,000 thousand and imports almost US\$ 700,000 thousand.

Exports

Kenya is the largest exporter of black tea in the world.

The share of exports in GDP fell to 14 % in 2009. Agricultural exports form more than 50 % of total exports and therefore the economy depends on global commodity markets.

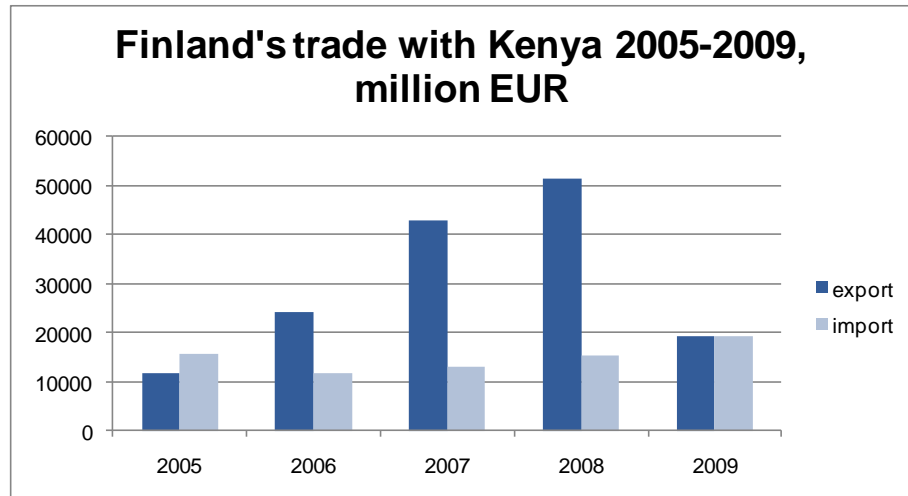
Most of Kenya's exports consist of horticultural products, tea, coffee and fish and fish preparations in 2008. The total value of exports in 2009 was US\$ 4,459 million and the leading markets were Uganda, UK, USA and Netherlands.

Imports

Imports include mainly industrial supplies, machinery and other capital equipment, food and beverages and consumer goods. The value of total imports in 2009 was US\$ 9,715 million. Kenya's leading suppliers are United Arab Emirates, Saudi Arabia, South Africa and USA.

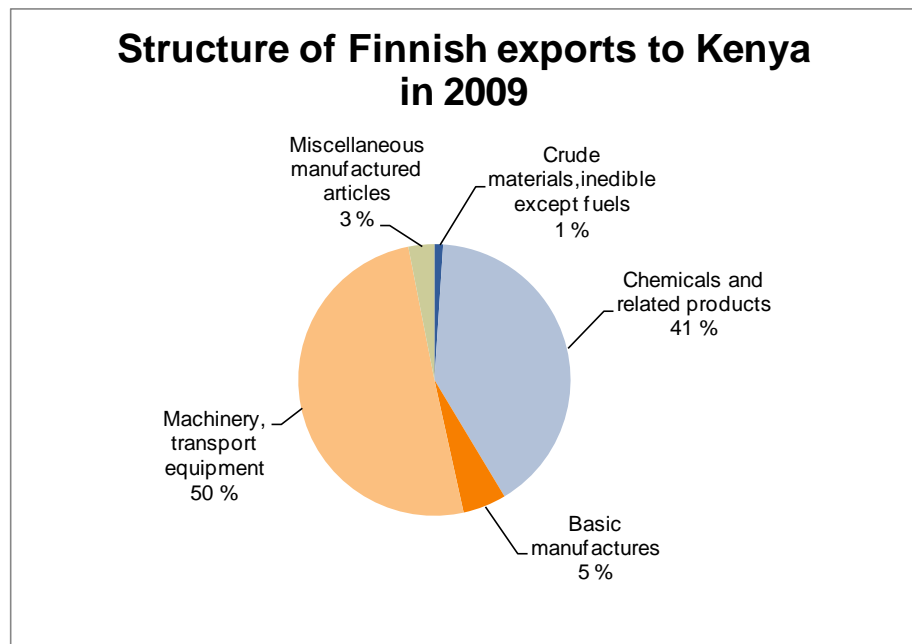
Trade with Finland

Kenya is the second largest trading partner for Finland in East Africa after Tanzania. Nevertheless the trade figures have remained very low. In 2009 the total value of Finnish exports to Kenya decreased more than 30 million euros. On the other hand imports grew slightly. Until 2009 the trade balance has been positive for Finland.



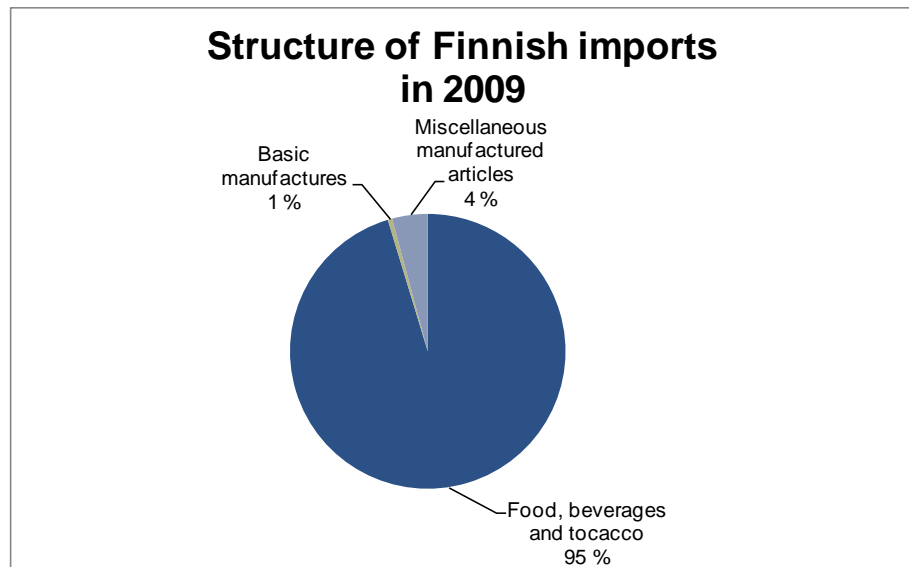
Source: Finnish Customs 10/2010

50 % of Finland's exports to Kenya consist of machinery. The main export product groups are fertilizers, power generating machinery and equipment, telecommunications and sound recording equipment and medicinal and pharmaceutical products.



Source: Finnish Customs 10/2010

According to the Finnish Customs Finland imported from Kenya mostly food products, e.g. coffee, tea, cocoa, spices, vegetables and fruits.



Source: Finnish Customs 10/2010

Investments

UNCTAD's figures for Kenya's FDI shows that Kenya received US\$ 141 million foreign direct investments in 2009. Kenya comes far behind its' neighboring countries Uganda and Tanzania, which received US\$ 800 million and US\$ 655 million respectively. The biggest impediments for bigger FDIs are political environment and insufficient infrastructure.

The UK is one of Kenya's largest source of FDIs. There are more than 60 UK companies operating in Kenya. Other important sources are USA, South Africa and Germany. China is also becoming more important actor. The most attractive sectors for investments are telecommunications, tourism, energy, infrastructure and construction.

There are certain restrictions on foreign investments in some sectors. For example in telecoms 30 % of the investment must be locally held. Also in the insurance sector local participation is required.

There are approximately 40 Export Processing Zones in Kenya. The benefits include among other things duty and VAT exemptions.

Foreign presence:

Sweden

Trade between Kenya and Sweden has been quite limited, but is growing steadily. In 2008 Sweden exported to Kenya products worth US\$ 72 million. Compared to 2007 there was a significant increase of 41 %. Exports include paper, machinery, manufactured products, medical equipment and vehicles. Imports from Kenya consist mainly of coffee, cut flowers, fruits and vegetables. The value of Swedish imports reached US\$ 34 million in 2008, 5 % more than in 2007.

Niina Touré

There are approximately 40 Swedish companies present in Kenya, mainly in Nairobi. Among these are ABB, Alfa Laval, Atlas Copco, Bahco, Ericsson, HemoCue, Lundin Petroleum, Sandvik, Scania, SKF, TetraPak and Volvo. Apart from Kenyan market many of them cover also other East African countries from their Nairobi offices.

Sectoral information

Agriculture

Agriculture has, for many years, formed the backbone of Kenya's economy: it contributes about 30 per cent of the Gross Domestic Product (GDP) and accounts for 80 per cent of national employment, mainly in the rural areas. In addition, the sector contributes more than 60 per cent of the total export earnings and about 45 per cent of government revenue, while providing for most of the country's food requirements. The sector is estimated to have a further indirect contribution of nearly 27 per cent of GDP through linkages with manufacturing, distribution, and other service related sectors.

The tea sector is a dominant sector and the coffee sector has started to pick up following a decline in the recent past. The horticultural and flora sectors have seen unprecedented growth over the past years as more companies venture into production and export of flowers and fresh produce.

Other sectors where the country has significant untapped resources include cotton, forestry, fishing, pyrethrum, and macadamia nuts.

Energy and environment

Kenya's electric power supply does not meet the demand. The electricity generation is mainly based on oil, hydro-power and renewables. Their shares are 28 %, 54 % and 18 % respectively. The country depends largely on hydro-power, which causes problems during drought. Therefore Kenya is trying to diversify the power supply sources. The use of renewable energy resources is promoted by the government since the proportion of renewables is very high.

At the moment only 15 % of Kenyan households have electricity. The government has a very ambitious objective to connect one million new customers during the next five years.

Telecommunications

Telecommunications sector focuses mainly on mobile phone and internet usage. Both of them have increased during the past few years significantly. Nevertheless, there is still potential market especially in the rural areas. According to EIU the number of mobile phone subscriptions grew by 15 % during the first quarter of 2010 to almost 20 million persons. Also internet subscriptions are growing very quickly and rose by 56 % to 2.7 million persons in the first quarter of 2010. This significant increase is mainly due to growth of mobile internet.

Several international operators led by Vodafone and France Telecom are present in the Kenyan market. There is a strong demand for mobile data services and for example mobile payment has been very successful. At the moment serious price competition is ongoing since an Indian company Bharti Airtel reduced by 50 % call tariffs in August 2010.

Infrastructure

Since Kenya is considered as economic, commercial and logistical hub of East Africa, it is focusing on improving its' transport infrastructure. Several new projects are underway including both new construction sites and renewal of for example old ports. One of the most important projects is the expansion of the port of Mombasa, which is considered as key to Kenya's and the whole region's trade growth. In addition, new port will be build in the north of country, Lamu and it will connect Kenya with Sudan and Ethiopia.

In the housing sector there is an urgent need for low-cost housing. The urban population is growing at a brisk pace and in need of economic housing solutions. Currently the government is trying to attract foreign investors in order to solve the problem. The country's state owned company signed a joint-venture with an Iranian company to build 20,000 houses during the next five years.

China has stated that it will give a US\$ 7 million grant to help fund infrastructure development projects in Kenya.

Pharmaceuticals and healthcare

In 2010 Kenya's government has allocated 5.5 % of total budget spending to healthcare, which is 15.5 % more than the previous year. The significant increase will most probably be seen in the growth of the drug market. Actually Kenya is East Africa's largest pharmaceutical manufacturer. There are several strong local players, but also various multinationals such as GlaxoSmithKline are present in the market.

The government has launched a program in order to improve healthcare services in rural areas. So far only 30 % of the rural population have access to healthcare services within 4km from home compared to 70 % of urban population. The program also includes building new hospitals, health centers and mobile clinics.

Banking

The Banking industry in Kenya is governed by the various prudential guidelines issued by the Central Bank of Kenya, was liberalized in 1995 and exchange controls lifted. As at December 2008 there were 46 banking and non bank institutions, 15 micro finance institutions and 109 foreign exchange bureaus.

Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; 1.) an industry wide branch network expansion strategy both in Kenya and in the East African community region. 2.) automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products.

Two of the four largest banks, the Kenya Commercial Bank (KCB) and the National Bank of Kenya (NBK), are partially government-owned, and the other two Barclays

Niina Touré

Bank and Standard Chartered are majority foreign-owned. Most of the many smaller banks are family owned and operated.

Customs and culture

- English is the official language and widely spoken.
- Business appointments should be made preferably 3-4 weeks beforehand, but agreed meetings have to follow up before actual meetings take place.
- Punctuality is expected.
- Men should wear dark suits and ties and women should wear dark, demure business-style suits.
- Working week is from Monday to Friday.
- Local representation is a must.
- Exporters should visit the market on regular basis and have solid partners on ground.
- Payment cycle varies between 90 – 120 days.

Links

National Bureau of Statistics

<http://www.knbs.or.ke/>

Kenya Investment Authority

<http://www.investmentkenya.com/>

Ministry of Industrialization

<http://www.tradeandindustry.go.ke/>

Kenya Ports Authority

<http://www.kpa.co.ke/Pages/default.aspx>

East Africa Community Portal

<http://www.eac.int/>

Newspapers and Magazines

Daily Nation

<http://www.nation.co.ke/>

The East African

<http://www.theeastafrican.co.ke/>

The Standard

<http://www.standardmedia.co.ke/>

Business Daily

<http://www.businessdailyafrica.com/>

The African Report

<http://www.theafricareport.com/>

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