

Institute of Belt and Road Initiative

National Study Series: Kenya

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Section 1: Country Profile

1.1: Introduction

Kenya, officially the Republic of Kenya is an East African former British colony. Kenya gained her independence on 12th December 1963 and has been under four presidents to date. It is a multi-party democracy country where the people exercise their sovereign right of voting the government of the day every five years. Kenya also practice devolved governance with 47 semi-autonomous counties presided over by governors who are directly elected by people through universal suffrage every five years.

It has a bicameral legislature with an upper house of parliament with 290 members of parliament and a lower senate house of 47 elected members drawn from all the 47 counties. The rule of law is harnessed in the constitution which was promulgated in 2010 and vested in the three arms of the government; the executive which consists of the president and his cabinet, the legislature which consists of the two houses and the judiciary.

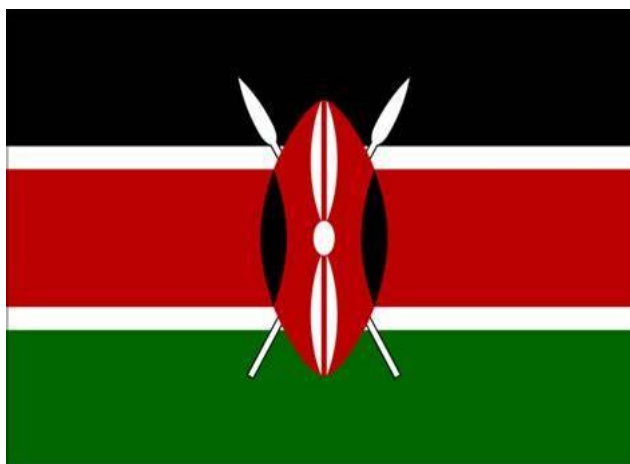
The devolved units have their assemblies at the county level where they are further subdivided into wards with every ward electing a member to represent it at the county level. These counties are partially funded by the central government through devolved funds. In all the houses, the parliament, senate and the county assemblies, there are special seats for women, youth and persons with disabilities as postulated in the constitution. Adherence to the two third gender rule is also in place when filling up these positions.

Quick facts

Official name	Republic of Kenya
Size in square kms	580,367
Population (2019 census)	47,564,296
GDP in USD	99,246 bn
Capital city	Nairobi
Currency	Kenya shilling (Ksh)
Official languages	English, Swahili
Other important towns	Mombasa (port), Kisumu (inland port), Eldoret and Nakuru.

Source: www.knbs.or.ke: Federal Research Division, Country profile: Kenya, June 2007

National flag



Color	Meaning
Black	People of the Republic Kenya
White	Peace
Red	Bloodshed in the struggle for independence
Green	Country's landscape and natural wealth

Symbol of national unity

The coat of arms of Kenya features two lions, a symbol of protection, holding spears and a traditional East African shield. The shield and spears symbolize unity and defense of freedom. The shield contains the national colors.



National holidays

Jan 01	New year's Day
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May 01	Labor Day
June 01	Madaraka Day (celebration of first self-internal rule in 1963)
October 10	Huduma Day (huduma means service to others)
October 20	MashujaaDay (Mashujaa is Swahili for heroes. We celebrate our freedom heroes)
December 12	Jamhuri Day (The day Kenya became a republic in 1964)
Dec 25	Christmas Day
December 26	Utamanduni Day (celebration of culture)

Note: Religious affiliated holidays such as Easter and Idulfitri do not have fixed dates but are celebrated every year.

Source: www.learnings.blogs.nytimes.com

1.2: Geographical location

Bisected horizontally by the Equator and vertically by longitude 38 °E, Kenya is bordered to the north by South Sudan and Ethiopia, to the east by Somalia and the Indian Ocean, to the south by Tanzania, and to the west by Lake Victoria and Uganda.



Nairobi city, popularly known as the Green City in the Sun is the Kenyan capital and the United Nations Headquarters in Africa. It is the seat of government and the major industrial hub of the country. It is the headquarters of important regional railways, harbours, and airways corporations. The city is well served by roads and railways. It has a population of around 4.4 million according to the 2019 population census.



Mombasa city: Port City



Mombasa is the coastal city of Kenya along the Indian ocean. The city is known as the white and blue city in Kenya. It is the country's oldest and second largest after Nairobi with a population of about 1.2 million people according to the 2019 census.



Kisumu City: Inland Port

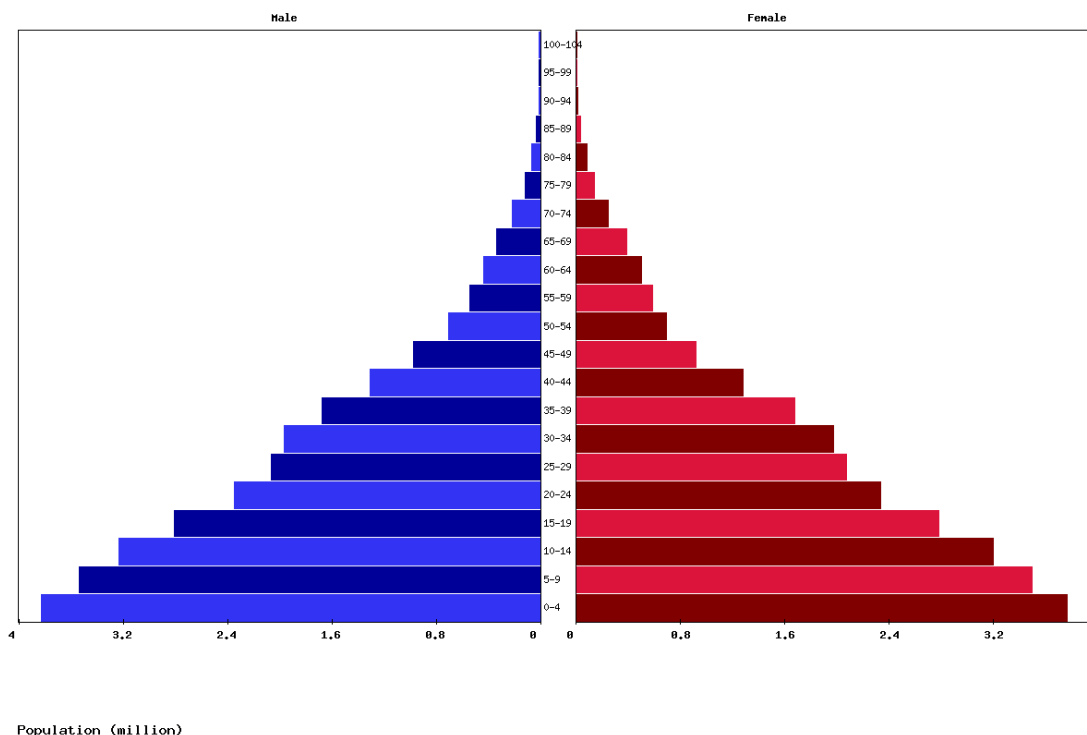
This is an inland port city on Lake Victoria with a population of 0.6 million people. Lake Victoria with a surface area of approximately 54, 947 square kilometres is Africa's largest tropical lake, and the world's second largest fresh water lake by surface area after Lake Superior in North America.



1.4: Population

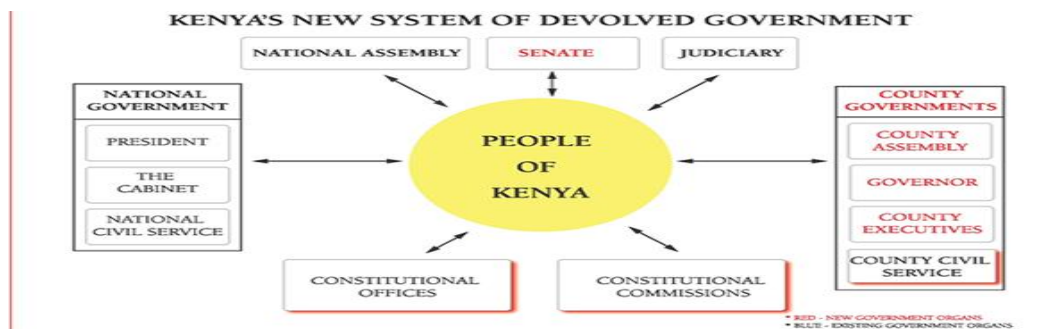
According to the 2019 population census report, Kenya has a total population of 47,564,296. Other demographics are as tabulated below.

Total dependency ratio	78.3%
Median age	Male: 19.9 years, Female: 20.2 years
Population growth rate	1.57%
Birth rate	22.6 births/1,000 population
Death rate:	6.7 deaths/1,000 population
Urbanization	Urban population: 27.5 of total population Rate of urbanization: 4.23%
Sex ratio at birth	1.02 males/female
Infant mortality rate	36.1 deaths/1,000 live births Male: 40.3/1,000 live births Female: 31.7 deaths/ 1,000 live births
Life expectancy at birth	Total population: 64.6 years Male: 63.1 years Female: 66.1 years
Total fertility rate	2.81 children born/woman



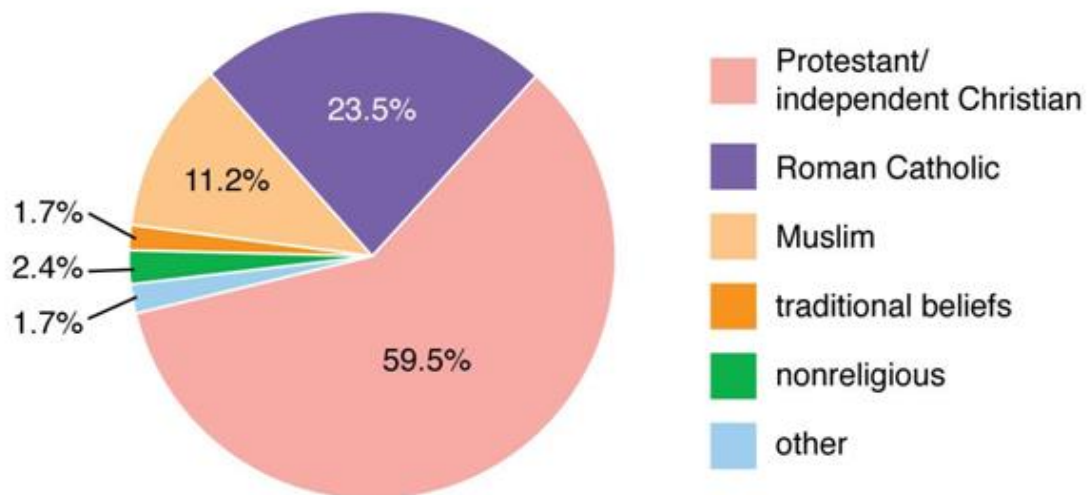
Source: www.knbs.or.ke

1.5: Governance structure



1.6: Religion

The constitution of Kenya provides for freedom of religion, separates church and state, and guards its citizens from religious discrimination and unwelcome religious pressure. However, Kenya is a predominantly Christian state (approximately 84%) with the other religious beliefs constituting the rest 16% as captured below.



Source: www.knbs.or.ke

1.7: Transport

Air

Kenya has two international airports that is Jomo Kenyatta International Airport in Nairobi, which is Africa's premier hub and ideal gateway into and out of East and Central Africa. The airport boasts of over 40 passenger airlines and 25 cargo airlines. It is Kenya's largest aviation facility and the busiest airport in East Africa. Its importance as an aviation center makes it the pace setter for other airports in the region.



Moi International Airport, in Mombasa is the second largest airport in Kenya. It handles tremendous traffic with more than eighteen airlines flying directly from and to Europe, and offering connections to over twenty cities in the region.



Road network

Kenya has a road network of about 177, 800 km out of which only 63,575 km is classified. Approximately 70% (44,100 km) of the classified road network is in good condition and is maintainable while the remaining 30% (18,900 km) requires rehabilitation or reconstruction.



Photo of a Matatu: The most popular mode of road transport.



Photo of a busy super highway outside Nairobi



An express highway under construction

Rail

The metre-gauge railway and the standard gauge railway connect Kenya's main port city of Mombasa to the interior, running through the national capital of Nairobi. The metre-gauge network runs to the Ugandan border, and the Mombasa-Nairobi Standard Gauge Railway, financed by a Chinese loan is being extended to the Ugandan border.



Photo of a passenger train at one of the new standard gauge railway terminals



Cargo train

Sea



The port of Mombasa is the principal Kenyan seaport and comprises of Kilindini harbor and Port Reitz on the Eastern side of the Mombasa Island and the Old Port and Port Tudor north of the Mombasa Island. Kilindini is naturally deep and well sheltered and is the main harbor where most of the shipping activities take place. It has 16 deep water berths, two oil terminals and safe anchorages and mooring buoys for sea-going ships. The port of Mombasa does not only serve Kenya but is also the main gateway to the East African hinterland countries of Uganda, Rwanda, Burundi, DRC and Southern Sudan

1.8: Cash crops

Kenya is a major exporter of black tea and Arabica coffee to the world market. In 2018, Kenya was the largest exporter and producer of black tea, with a total export value of USD 1, 355, 994. Coffee is ranked 17th in the world with a 1% contribution to the total export.

Tea farm in Kericho County, Kenya



Coffee farm in Kiambu County in Kenya: Source: www.kilimo.go.ke

1.9: Wildlife

Kenya is also home to the “Big Five” and the spectacular wild beast migration between the Serengeti in Tanzania and Maasai Mara in Kenya.



Source: www.ktb.go.ke

Wild beast migration



Source: www.ktb.go.k

1.10: Local delicacies

“Nyama choma” or roast meat is one of the favorite delicacies served in Kenya. The mouth-watering beef, chicken or pork is served with other accompaniments across Kenya. Ugali is prepared from maize flour, chapatti from wheat flour.



Nyama choma

Ugali

Chapati

Pilau

Section 2: The economic context of Kenya

1.1: Economic Indicators

Kenya has enjoyed a decade of strong economic growth, allowing the country to access the status of a middle-income country in 2016. Driven by a strong recovery in agriculture due to improved weather conditions, resilient performance of services sectors, strong private consumption and sustained confidence in the economy thanks to eased political uncertainties, Kenya's economy maintained its good performance in 2019.

However, according to IMF, GDP's growth decreased to 5.6% from a previous 6.3%. The GDP growth was expected to reach 6% in 2020 and stay at this level in 2021, spurred by private consumption and good performances in the industrial and services sectors. However this might not be the case given the devastating effects of COVID-19 which has impacted negatively on the economic wellbeing of nations worldwide.

Public policies have managed to keep the inflation (5.6%) within the target range. For 2020, the government has committed to bring down the budget deficit which was at 7.7% last year. In November, after much controversy, the country removed the interest cap rates that limit the interest on loans to 4 percentage points above the benchmark, since 2016. This measure will foster the recovery in private credit growth. The interest rate cap was found to have unintended consequences such as the collapse of credit to MSMEs, shrinking of the loan book for small banks, reduced financial intermediation, predatory lending by microfinance institutions, lack of transparency in lending rates and loss of jobs occasioned by the need for banks to cut down on operational costs.

The government has launched the Big 4 development agenda. This program, which is part of the long term development plan of the country, Vision 2030, will prioritize four major areas: manufacturing, universal healthcare, affordable housing and food security. This program is expected to drive the growth of the country in coming years. For 2020, the government has reiterated its commitment to macroeconomic policies that would maintain public debt at a sustainable level, contain inflation within the target range, and preserve external stability. The Debt-to-GDP ratio was at 61.6% in 2019.

Kenya has been investing in reducing child mortality, meeting this Millennium Development Goals (MDGs) target. The country also managed to almost reach universal primary school enrolment, while

narrowing gender gaps in education. Kenya has been ranked 147th in the 2019 UNDP human development index. The unemployment rate was estimated at 9.3% in 2019 (World Bank).

2.2: Main Sectors of Industry

Kenya is particularly advanced in the sector of services and has been the source of innovations adopted throughout the continent. In 2017, it became the first country to sell government bonds through mobile phones. It is also the third largest producer of tea and second exporter (in volume) in the world, the 9th producer of dry beans, the 17th producer of oilseeds, and is among the 20 largest coffee exporters (FAO).

Agriculture represents nearly 35% of Kenyan GDP and employs 57% of the workforce. Agriculture and horticulture are the two largest sectors of Kenyan economy. Coffee, wheat, sugarcane, fruit and vegetables are among the main crops, and dairy products, beef, fish, pork, poultry, and eggs are the main animal products. The country exports tea, coffee, cut flowers and vegetables.

The services sector contributes to 42.7% of the GDP and employs 35% of the workforce. Tourism, a core sector of the Kenyan economy, has been hit by several terrorist attacks carried out by the Al-Shabab group since 2013. The sector was starting to recover before the January 2019 terrorist attack that killed 15 people in Nairobi.

Manufacturing and financial industries, although modest, are among the most sophisticated in East Africa. The IT and communications sectors are expanding rapidly and the construction industry is very dynamic. The growth pace of the transport, medicine, education or financial services makes Kenya a regional hub.

2.3: Foreign trade figures of Kenya

Kenya is largely open to foreign trade, which accounts for around 36.2% of its GDP (World Bank, 2018). The country remains committed to trade liberalization through its membership in the World Trade Organisation (WTO), the Common Market for Eastern and Southern Africa (COMESA) and the EAC (East African Community), which includes Kenya, Tanzania, Uganda, Rwanda, Burundi, and South Sudan.

In 2016, the EAC adopted two key bills that (if passed) will pave the way for the establishment of a monetary union by 2024. The EAC also finalized the negotiations for an EPA with the EU in 2014, an agreement ratified by Kenya in 2016. Kenya also ratified the African Continental Free Trade Agreement (ACFTA) and signed many bilateral trade agreements. Most tariff barriers have been eliminated and customs duties are not very high. Kenya mostly exports agricultural products (tea,

flowers, coffee, fruits, and vegetables), petroleum oils, titanium ores, and medicines; and mainly imports petroleum products, palm oil, sugar, cereals, vehicles, and manufactured products.

The country's main export partners are Uganda, Pakistan, the USA, the Netherlands, and the U.K. Its main import partners are China (22.6% of total exports), India, Saudi Arabia, UAE, Japan, South Africa, and the U.S. Horticultural products could benefit from the start of direct flights to the United States.

Kenya imports almost three times more than it exports, which translates into a trade balance that is largely in deficit. This situation persists, with a downward trend, due to imports related to infrastructure modernization and oil exploration.

In 2017, the trade deficit amounted to USD 10.2 billion (WTO). In 2018, total goods exports reached USD 6.05 billion whereas total goods imported amounted to USD 17.37 billion. The bill of import of services amounted to USD 3.39 billion while the export of services generated USD 4.33 billion. The recovery in exports, mainly of agricultural products, is expected to continue and will reduce the goods deficit. At the same time, steps to rationalize capital expenditure should gradually curb demand for imports of capital goods.

2.4: Business environment

Accounting and accounting rules in Kenya: Accounting Rules

Tax Year

The tax year is the calendar year, but a company (except for financial institutions) can choose any date as the end of its financial year.

Accounting Standards

The financial statements must comply with International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs). ICPAK (Institute of Certified Public Accountants of Kenya) also requires that all audits are conducted in accordance with International Standards on Auditing (ISA).

Accounting Regulation Bodies

Public Accounts Committee (Parliament)

Registrar of Accountants Board (RAB)

Accounting Reports

Companies must prepare: a balance sheet, income statement, statement of cash flows, statement of changes in equity, the explanatory notes to the financial statements and disclosures required by IFRS and international auditing standards (IAS).

Publication Requirements

The financial statements must be prepared every 12 months.

Professional Accountancy Bodies

Institute of Certified Public Accountants of Kenya (ICPAK) ,

Institute of Certified Public Secretaries of Kenya (ICPSK)

Certification and Auditing

Regarding audits, the law requires companies to appoint auditors who are ICPAK member specialized audit firms such as Deloitte, Ernst & Young, Price Water House Coopers, KPMG.

Tax rates in Kenya

Consumption Taxes

Nature of the Tax

Value Added Tax (VAT): 16%

Reduced Tax Rate

The 2017 Finance Act introduced several measures aimed at assisting the development of significant sectors of the country's economy. These include zero-rated VAT for several products and services (like locally assembled tourist vehicles, Sharia-compliant finance products, goods supplied to marine fisheries and fish processors, certain food products, etc.). A reduced rate of 8% was introduced in September 2018 on local supply of fuel.

Other Consumption Taxes

Other taxes include: excise duties, tax on sugar and advance tax on motor vehicles.

Corporate Taxes

Company Tax- 30%

Tax Rate for Foreign Companies

Non-resident companies to Kenya (their head office isn't situated in the country) are taxed at 37.5%. Currently, there are no specific tax incentives for foreign companies. Export processing zone (EPZ) firms are exempt from tax in the first ten years of operation.

Capital Gains Taxation

Capital gains are taxed at 5% of the net gain (except the transfer of shares traded on any securities exchange licensed by the Capital Markets Authority, which are exempt).

Main Allowable Deductions and Tax Credits

Accounting depreciation or impairment does not give rise to deduction. However, capital allowances are granted at varying rates (1% to 150%) for certain assets used for business purposes. Any other expense, that is capital in nature, including goodwill, is not deductible.

Start-up and interest expenses are generally deductible. Bad debt is deductible in the year in which it becomes apparent that the debt is not recoverable. Charitable contributions, including donations to the Kenya Red Cross, country governments or any other public institution that is in charge of disaster relief, are deductible. Fines, penalties and taxes are not deductible. Net operating losses can be carried forward up to ten years. Carryback of losses is not permitted, except in the case of petroleum companies, which are entitled to carry back their losses indefinitely.

Other Corporate Taxes

1. Employers and employees are required to contribute KES 200 (2 dollars equivalent) per month each to the National Social Security Fund (NSSF). The new NSSF Act provides for a higher contribution rate of 6%; however, this has yet to be applied. The NSSF is alternatively aiming for a gradual increase of lump-sum contributions from KES 200 per month to KES 1,080 per month over the next five years.
2. Employers are liable for the National Hospital Insurance Fund (NHIF), but they are required to withhold up to KES 1,700 per month from their employees' salaries.
3. A tourism levy that corresponds to 2% of the annual turnover is payable by all companies involved in tourism activities.
4. Employers are required to pay a monthly training levy of KES 50 (0.5 dollars equivalent) per employee to the Directorate of Industrial Training. Companies liable for the tourism levy are exempt.
5. A fringe benefit tax of 30% applies to interest-free or low-interest loans granted to employees by their employers and is payable by the employer.
6. A 1% stamp duty applies to increases of authorised shared capital and transfer of shares and securities (shares/securities listed on the Nairobi Exchange are exempt). The rate is 4% on

immovable properties (2% if the property is located outside of municipalities).

7. A 20% withholding tax applies to demurrage charges paid to non-resident ship operators.

2.4: Intellectual property in Kenya

Intellectual Property: National Organisations

- The Kenya Industrial Property Institute (KIPI).
- Kenya Copyright Board (KECOBO)
- The State Law Office (Office of the General Prosecutor)

Regional Organisations

Kenya is member of the African Regional Intellectual Property Organization (ARIPO)

International Membership

Member of the WIPO (World Intellectual Property Organization)

Signatory to the Paris Convention For the Protection of Intellectual Property

Membership to the TRIPS agreement - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

2.5: Business law in Kenya

Legal Framework

Equal Treatment of Nationals and Foreigners

Foreigners have much less local political influence than any Kenyan citizen. Justice tends to favour Kenyans.

The Language of Justice

Both English and Swahili are accepted in the courts, but English is hierarchically more important.

Recourse to an Interpreter

Yes, the right to use an interpreter is guaranteed by law.

Sources of the Law and Legal Similarities

The Kenyan judicial system is founded on British law.

Industrial and commercial standards in Kenya

Standards

National Standards Organisations

Kenya Bureau of Standards (KEBS)

National Environment Management Authority

Division of Environmental Health

Integration in the International Standards Network

Kenya is a member of the International Organization for Standardization (ISO).

Classification of Standards

Kenyan standards (KS) are grouped into six categories: terminological glossaries or definitions; dimensional standards; performance standards; test methods standards; codes of practice and standards of measurement.

Business operations

Opening Hours and Days

Business hours are generally from 8 a.m. to 1 p.m. and from 2 p.m. to 5 p.m. Banks are open from 9 a.m. to 3 p.m. Most shops open from 9 a.m. to 6 p.m., some supermarkets are open 24-7 and in shopping centres some shops remain open until 8 p.m.

2.6: Investor services

Kenya Investment Authority (Keninvest) has a one stop center shop which is responsible for facilitating investments, offering investors with the relevant information and providing pre-investment and after-care services to investors. Once investors register with Keninvest, they are entitled to an investment certificate upon request and facilitation in relation to foreign taxpayer registration, immigration services, National Environmental Management Authority (NEMA) information, Kenya Power and Lighting Company (KPLC) services and Federation of Kenya Employers (FKE) services.

2.7: Investment opportunities

Export processing zones (EPZ)

Export processing zones (EPZs) are designated parts of Kenya that are aimed at promoting and facilitating export oriented investments and to develop an enabling environment for such investments.

Currently there are over 40 gazetted zones in Nairobi, Voi, Athi River, Kerio Valley, Mombasa and Kilifi in various stages of development by both private and public zone developer/operators. These zones are managed and promoted by the Export Processing zones Authority.

Why EPZS?

Kenya Export Processing Zones provide an attractive investment opportunity for export-oriented business ventures. There are no restrictions on who can invest in such zones. An EPZ firm may be 100% foreign owned, 100% Kenyan owned or any combination of foreign/Kenyan ownership. The Enterprise is also allowed to bring in foreign workers for training, technical and managerial categories. The scheme also offers a wide range of attractive fiscal, physical and procedures incentives to ensure lower cost operations, faster set up and smoother operations.

2.8: What to consider if you invest in Kenya

Strong Points

Kenya's economy has many strong points in terms of attracting FDI:

- It is a market economy and functions as the commercial, economic, technological and logistic hub of East Africa;
- It is a regional financial centre, has a strong industrial base and well-developed road infrastructure
- In urban areas, Kenya also has a young, well-educated and English-speaking population
- Kenya has vibrant horticultural and tourism sectors, although the latter is volatile, subject to domestic political stability and regional security concerns.
- Regional energy sector has a significant potential (including offshore gas fields), with direct (exploitable reserves within Kenya's territory) and indirect (inputs through and exports from Kenyan ports) benefits;
- Finally, foreign investors benefit from the same treatment as national investors from administrative and judicial authorities. Government Measures to Motivate or Restrict FDI

In April 2013, the Government passed a law on public-private partnerships (PPP) in order to attract foreign investment in the infrastructure sector. The Government has put in place an extensive program of privatization in various sectors, such as food processing, construction, equipment, education and energy. The special economic zones and export processing zones benefit from targeted incentives.

The Mining Law has recently been amended to limit foreign participation in the oil, gas and minerals mining sectors. However, in 2015, that law was amended in order to increase the attractiveness of the investment climate in the extractive industries.

In 2017, the government announced the development of the project Kenya Investment Policy to strengthen the creation of an environment conducive to investment growth. The policy provides for the revision of legislation affecting the entire investment network.

2.9: Conclusion

Kenya is one of the fastest growing economies in Africa. The investment opportunities are enormous. Skilled workforce, political stability and ease of doing business makes Kenya a favorite investment destination in Africa

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