Kenya

POPULATION: 36.9 million (July 2007 est.)
CAPITAL: Nairobi
LOCATION: eastern Africa, bordering the Indian Ocean, between Somalia and Tanzania
AREA: 582,646 sq km
MAJOR LANGUAGES: English, Swahili
MAJOR RELIGIONS: Christianity, Islam
MONETARY UNIT: Kenyan shilling (66.8 per US dollar)
GNI PER CAPITA: $455 (2006)
EXPORTS: tea, coffee, horticultural products, petroleum products, cement

A long-term vision for prosperity

With a general election due before the end of 2007, Kenyans will be reflecting on how their nation has fared over the last five years. As President Mwai Kibaki seeks re-election for a second term he will be putting considerable emphasis on the progress made by the economy, for under his stewardship Kenya has witnessed a remarkable recovery from virtual stagnation.

Macro-economic stability has spurred confidence in the business environment, and the private sector has been allowed to flourish. Agriculture, manufacturing, and tourism have been revitalized, and infrastructure improved. GDP growth was 6.1 per cent last year, the highest in a decade and a huge improvement on the 0.3 per cent growth in 2002. Exports and international reserves have almost doubled, per capita income has risen year-on-year, and poverty has been significantly reduced.

The annual growth rate was 6.1 per cent last year, the highest in a decade

There is still much to be done to improve competitiveness and to buoy Kenya's image as an attractive destination for foreign investors, but the Vision 2030 national development strategy, launched last year, has set the East African state on the path to becoming a middle-income country. Two crucial areas that have seen important changes are finance and energy, both of which impact directly on the performance of the productive sectors of the economy.

The central bank has been working to create an effective legal framework, strengthen institutions, and promote confidence in the banking sector. The development of new banking products is being encouraged to tap into savings and channel them into investment, and there has been significant growth in consumer lending, benefiting the economy. Moves have been made to make it cheaper and easier to access funds, especially for low-income groups. "There are many small and medium-sized enterprises in the rural areas who need services from microfinance institutions," says Finance Minister Amos Kimunya.

At the forefront of president Kibaki's economic reform programme has been the desire to resume dialogue with the World Bank and the IMF. With the resumption of donor involvement came renewed investor confidence, giving new impetus to the privatisation process.

The Nairobi Stock Exchange was founded in 1954 with the assistance of the LSE, and is now Africa's fourth largest exchange, and the continent's fifth largest in terms of market capitalisation as a percentage of GDP. Some 50 listed companies operate on the exchange, which has a trading volume of $5 million per day. Kestrel Capital was founded in 1995, and today it is the leading stockbroker on the NSE, the market leader in the country for trading blue-chip companies and has been named by Euromoney magazine as 'Best Stockbroker in Kenya' several times. Kestrel was a co-sponsoring broker for the 1996 privatisation of Kenya Airways, which won the World Bank Award for Excellence for its efficiency. Since then, Kestrel has played a role in the privatisation of such state assets as the Kenya Commercial Bank, KenGen, the Kenya Oil Company and the National Bank of Kenya. "Foreign investors are important in any emerging market," says Jimnah Mbaru, Chairman of the NSE, "now they constitute around 12–15 per cent of turnover, but when the market is fully vibrant, foreign investors will account for 60% of the total." ●

FINANCE

Meeting the needs of customers large and small

From microfinance at one end to blue-chip client insurance at the other, Kenya's financial sector is doing good business while underpinning economic growth

One of Africa's fastest growing financial institutions, Equity Bank has been opening 3,000 new accounts per day. Now, with more than one million customers, the bank is home to 30 per cent of all bank accounts in Kenya. It's a significant indicator, says Chief Executive James Mwangi, of the extent to which the bank has succeeded in making microfinance accessible and affordable to the majority of the Kenyan people. "The engine of our success is our ability to be market-driven," he says.

When the former Equity Building Society became a commercial bank three years ago, it looked outside the banking business for inspiration. "We adopted a large volume, a low business margin model heavily borrowed from Wal-Mart," explains Mr. Mwangi.

The bank focused its attention on small savers, who were being ignored by the big banks, developing products specifically for farmers and low- to middle-income earners. Through expansion of its branch network, it has become predominant in rural areas, where the income of local communities has risen along with the growth of the economy.

Equity Bank has focused on the needs of small savers

Last year, Equity Bank became the first privately owned indigenous bank to be listed on the Nairobi Stock Exchange. It also more than doubled its pre-tax profit to over Sh1 billion ($15 million), from Sh501 million in the previous year. "We anticipate that Equity Bank is likely to keep doubling itself every two years for the next five years," says Mr. Mwangi.

To ensure that its growth is sustainable, the bank has invested in high-range ICT infrastructure. The majority of cash withdrawals are now via ATMs, and new services such as internet banking and SMS banking have been introduced.

"We have been able to handle rapid growth of nearly 3,000 accounts every day, simply because of the robustness of the system. It has the capability to process eleven million transactions per minute."

Mr. Mwangi adds, "It is the fact that we have the infrastructure to enable us to handle these huge volumes with low margins that has facilitated the attainment of significant profits."

Recently, the bank opened three new branches in Nairobi to serve women only, as part of a $75 million initiative with the United Nations Development Program to increase financial aid to female entrepreneurs over the next five years.

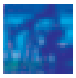
Like Equity Bank, Kenya's leading insurance broker, Aon Minet, is a customer-driven organisation, although in the latter's case the focus is on blue-chip clients. Last year, Aon was appointed insurance broker to Rift Valley Railways, the consortium that took over the management of the Kenya and Uganda railway network, the largest privatization venture in East Africa.

"The bottom line is to provide value to the client," says Managing Director Joe Onsando, who points out that as part of the international Aon Corporation, the company benefits from being part of a much larger operation that is moving towards becoming a one-stop shop for insurance in the East African region, and eventually across the continent.

"By far our biggest area is retail broking, although areas like human resources consulting will grow in the near future," says Mr. Onsando. ●

OIL & GAS

Hoping to strike it rich



Experts are optimistic that deposits exist, and good incentives are being offered to foreign companies prepared to invest their cash and expertise

Kenya has four sedimentary basins, covering 330,000 square kilometres, where there is the potential for finding commercially exploitable deposits of oil. Up to now, however, relatively few exploratory wells have been drilled—just 30 over the last 50 years. That's equivalent to one well per 11,000 square kilometres. In comparison, Kenya's East African neighbor, Sudan, where petroleum has been discovered, has one well per 300 square metres. Buying in oil accounts for approximately 25 per cent of the national import bill, and 11 per cent of GDP, although Kenya has signed a deal that will provide it with substantial quantities of cheaper oil from Libya—up to 40 per cent of demand.

"Fossil fuels will be needed for the next 50 years, so it's vital we fast-forward exploration"

Until Australia's Woodside Energy started drilling offshore last November, the oil exploration industry had effectively been inactive in Kenya since the early 1980s. Exploration is a capital intensive activity that is beyond the country's means, so the involvement of international oil companies is essential. The government is doing all it can to encourage them to invest their money, technology, and expertise.

Hopes have been raised by recent studies suggesting that there may be oil off the coast of East Africa. Oil investments in the area have risen to $300 million in the current financial year, and Kenya was able to showcase its potential to oil companies when Nairobi hosted the 11th Africa Oil and Gas, Trade and Finance Conference in May.

The one-stop shop for investment in the sector is the National Oil Corporation of Kenya (Nock), the state-owned integrated oil company. "Our job is to assist the government in bringing in investors," says Mary M'Mukindia, Nock's Managing Director. "Fossil fuels will be needed for the next 50 years, no matter how much we go for renewables. That's why it's vital that we fast-forward our exploration program."

Kenya offers investors strong incentives in comparison to other countries, she adds. "There is no tax levied on the investor—the government pays it. There are no signature bonuses, and most of our data is free. Our terms for negotiation are competitive, and we have very lax exploration periods ranging up to seven to eight years."

Following a new subdivision of the exploration acreage last year, the number of onshore and offshore blocks has been increased to a total of 38, of which 27 are yet to be unlicensed. So far, European, African, Australian, and Canadian companies have expressed the greatest interest.

Nock itself is eager to grow its upstream operations. "We have signed a contract with the Ministry of Energy in which we will take on blocks ourselves. We want to go into joint ventures, and we already have several potential partners," says Mrs. M'-Mukindia. Meanwhile, the corporation is expanding its downstream presence. Nock imports approximately 40 per cent of the oil that comes into Kenya, and competes with the private oil marketing companies operating in the country. The corporation is currently undertaking an ambitious expansion program that will see its branch network grow from six petrol stations to 36.

Nock is expanding its network of filling stations

According to Mrs. M'Mukindia, Nock is well on the way to recovery after a loss-making period. A recent review of its progress under an initiative aimed at strengthening parastatals and state departments showed that Nock had achieved a 69 per cent increase in customer satisfaction. Such improvement in all spheres of its operations saw the award of third place among 116 appraised parastatals. ●

OIL & GAS

Pipeline upgrade brings regional network closer

Demand for petroleum products is rising fast in Kenya and the region. Kenya Pipeline Company is undertaking ambitious expansion plans to upgrade and extend its infrastructure

When George Okungu joined the management of the state-owned Kenya Pipeline Company (KPC) in 2003, he found a firm "on the verge of collapse." Since then, KPC's fortunes have waxed. Costs have been contained and profitability has increased substantially, thanks to unprecedented growth in its commercial operations. A backlog of taxes due since 1990 has been cleared, and dividends are paid to the government. Last year, the company moved into smart, modern offices.

Today, with demand for petroleum products in the region skyrocketing, a massive long-term capacity enhancement program is under way and KPC has ambitious plans to build an intra-African network for the transportation of oil and gas around the Great Lakes region. "Our dream is to become a regional pipeline," says Mr. Okungu, now the company's Managing Director.

KPC was established in1973 to transport, store, and distribute petroleum products from the Port of Mombasa to the hinterland. More than 90 per cent of the petroleum products needed to drive the economy currently pass through the company's 450-kilometre pipeline from Mombasa to Nairobi, and its later extension into Western Kenya. "We transport oil products at the lowest cost in an environmentally controlled and friendly manner," says Mr. Okungu.

Pumping capacity will double on main Mombasa link

However, domestic demand has risen by 14 per cent per year, from 2.3 million tons in 2004 to 3 million tons last year, and the system is currently operating at maximum capacity. "We are confronting a situation where we cannot meet demand, so we must upgrade our facilities."

A Chinese company, China Petroleum Pipeline Engineering Corporation, is undertaking the $60 million project to enhance the main Mombasa to Nairobi link, with the work expected to be completed by August 2008. Pumping capacity will be doubled from 440 cubic litres per hour to 880 cubic litres per hour, following the installation of four new pump stations.

The capacity of the western Kenyan pipeline between Nairobi and Eldoret is also being enhanced. In June, it was announced that Shengli Engineering & Consulting of China had been awarded the contract to advise KPC on the construction of a parallel Nairobi-Eldoret pipeline that will double the existing flow rate to 400,000 litres per hour, sufficient capacity to cater to projected local and export demand up to 2020.

> **"We transport oil at the lowest cost in an environmentally friendly manner"**

Upgrading this section of pipeline is key to KPC's ambition to build a regional network supplying petroleum to landlocked countries of the Great Lakes region: Rwanda, Burundi, Uganda, and Democratic Republic of Congo (DRC). The plans involve running a pipeline from Eldoret through Kampala in Uganda to Kigali in Rwanda. Eventually, the pipeline would be extended to Goma in the eastern DRC.

Together with Kenya Petroleum Refineries, KPC is also constructing a new 6,000 ton LPG import storage depot in Mombasa, and a similar 2,000 ton facility in Nairobi, in partnership with private investors. ●

ELECTRICITY

New initiatives to power the nation

These are changing times for Kenya's main power provider, Kenya Electricity Generating Company (KenGen), which generates and distributes 80 per cent of the country's electricity.

In March, it announced a 40 per cent increase in pre-tax profits for the 6-month period ending December 31, 2006, and when it launched its IPO on the Nairobi stock exchange last year, it was oversubscribed thricefold. Demand for electricity is exceeding supply as the economy expands and the country strives to achieve its Vision 2030 goals. "We anticipate that growth will be 8-9 per cent over the next five years," says Eddy Njoroge, KenGen's Managing Director. "Right now our generation capacity is about 1,000 MW. We need to increase it by about 500 MW."

There are plans for new hydro-plants, but in the meantime the government is looking to harness Kenya's geothermal capacity. The Rift Valley is believed to offer the potential to produce up to 7,000 MW of geothermal energy. Three plants in the valley now produce 130MW of power, and KenGen recently started drilling a well for a fourth plant, which would add up to 70 MW.

Responsibility for exploration, drilling, and development of geothermal energy is to be handed over to a separate geothermal development company, leaving KenGen to focus on hydro and thermal generation, and renewable energy resources such as wind and solar power.

KenGen has won approval for six of the nine projects it submitted to the World Bank Carbon Financing Unit, through which it hopes to displace 662,600 tons of carbon emissions per annum. Mr. Njoroge says, "We shall be able to raise $6 million annually from this initiative. We are in the process of establishing a regional CDM (Clean Development Mechanism) centre because we feel that CDM and carbon trading will be an important part of development in the energy sector in the region."

While it will remain the major shareholder, the government intends to offload a further 19 per cent of its stake in KenGen. Originally scheduled for April, the offer has been put on hold while current production initiatives are under way. ●

The people's bank

Equity changed these people's lives. They had no collateral to offer, but Equity loaned them sufficient money to apply their entrepreneurial skills. Today they all have several employees and thriving businesses in their communities.

Equity is the fastest growing bank in Kenya and in all of Africa and has played a vital role in the nation's development. Why have we been so successful? Because we offer a creative approach towards understanding the needs of Kenyans.

We make access to capital a reality, which helps generate employment and wealth by creating a broad base of MSMEs. **We are yesterday's success story. Let us make you tomorrow's.**

Common people, common goals, common bank

EQUITY Bank

The Listening, Caring Financial Partner

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