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Kenya Economic Outlook 2017
Joining the dots

Kenya Economic Review

Preamble

The Kenya Economic Outlook 2017 report provides an overview of Kenya's economic environment and key sectors. The report also highlights significant allocations from the 2017/18 Budget to various sectors of the economy.

Political Environment

The Economic Intelligence Unit (EIU) predicts that political tensions in Kenya will rise as campaigning for the next elections gathers momentum. The next presidential and legislative elections are scheduled for August 2017 with President Uhuru Kenyatta seeking re-election for a second and final five-year term.

Corruption is a major impediment to doing business in Kenya with allegations of misappropriation of public funds on the rise. The 2016 Corruption Perception Index released by Transparency International (TI) ranked Kenya among the most corrupt countries at 145 out of 176 countries. The EIU expects a boost in accountability especially at the county Government level following implementation of stronger checks and balances.

Kenya faces insecurity threats most notably from Al-Shabaab: the Somalia-based Islamist group. Even though terrorist attacks within the country have reduced drastically, there are still sporadic attacks. In January this year, Al-Shabaab militants attacked Kenyan soldiers deployed with AMISOM at a Kenyan military base in Kulbiyow, near the Kenyan border with Somalia. The EIU notes that security risks will not necessarily improve after the 2017 election.

According to the EIU, Kenya's foreign policy will be driven by economic interests; especially the maintenance of close

relations with donors and the advancement of regional integration of the East African Community (EAC) between 2016 and 2020.

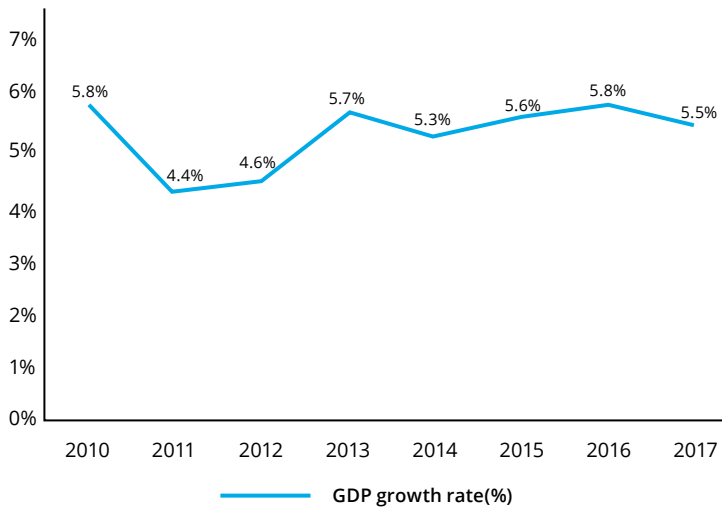
Economic Environment

The EIU predicts real Gross Domestic Product (GDP) to grow at 5.5% in 2017 down from an estimated 5.8% in 2016 due to a combination of domestic and international constraints. Domestic constraints include the forthcoming elections which might inhibit investments. International constraints include disruptive geopolitical events such as the United Kingdom's impending exit from the EU and Trump's presidency, which are likely to translate to reduced foreign investments to emerging economies.

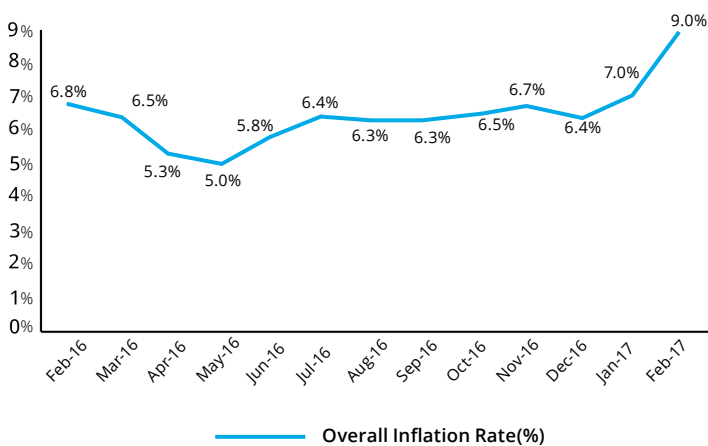
According to the EIU, growth will remain robust between 2017 and 2021, averaging 5.8% as a result of sustained expansion in consumer services, urbanisation, EAC integration, structural reforms and investment in infrastructure.

The US Department of State notes that Kenya is a favoured business hub for oil and gas exploration, manufacturing and transport. Kenya ranked 92 out of 189 economies in the 2017 Ease of Doing Business report released by the World Bank.

On 20 March 2017, the Central Bank of Kenya (CBK) retained the Central Bank Rate (CBR) rate at 10% so as to anchor prevailing uncertainties such as rising inflation and the impact of the interest rate caps on the effectiveness of monetary policy. The Banking (Amendment) Act, 2016, that came into force in September 2016, capped interest rates charged by lending institutions to 4% above the prevailing CBR set by the CBK. The Act also set the minimum interest rate granted on a deposit held in an interest earning account in Kenya to at least 70% of the base rate. The EIU expects this Act to limit lending to the private sector by banks.



Source: Kenya National Bureau of Statistics, EIU



Source: Kenya National Bureau of Statistics

GDP

According to the EIU, investment in infrastructure, strong household consumption, closer integration with EAC and recovery in tourism numbers led to the increase in the country's GDP from 5.6% in 2015 to 5.8% in 2016.

The EIU expects the country's GDP growth to decline to 5.5% in 2017 largely due to a slow down in investments as the country heads towards the general elections. Reduced lending to the private sector, the result of the enactment of the Banking (Amendment) Act that caps lending rates, will also contribute to a decline in GDP.

According to the Business Monitor Intelligence (BMI), private consumption will drive the country's economic growth going forward. Private consumption will account for an estimated 81.4% of GDP over the coming decade.

Inflation

The Kenya National Bureau of Statistics (KNBS) reported that inflation increased from 7.0% in January 2017 to 9.0% in February 2017 on account of rising food and electricity prices.

Inflation averaged 6.3% in 2016 due to subdued oil prices, lower electricity tariffs (due to increased reliance on drought-resistant geothermal power) and low food prices due to improved rainfall.

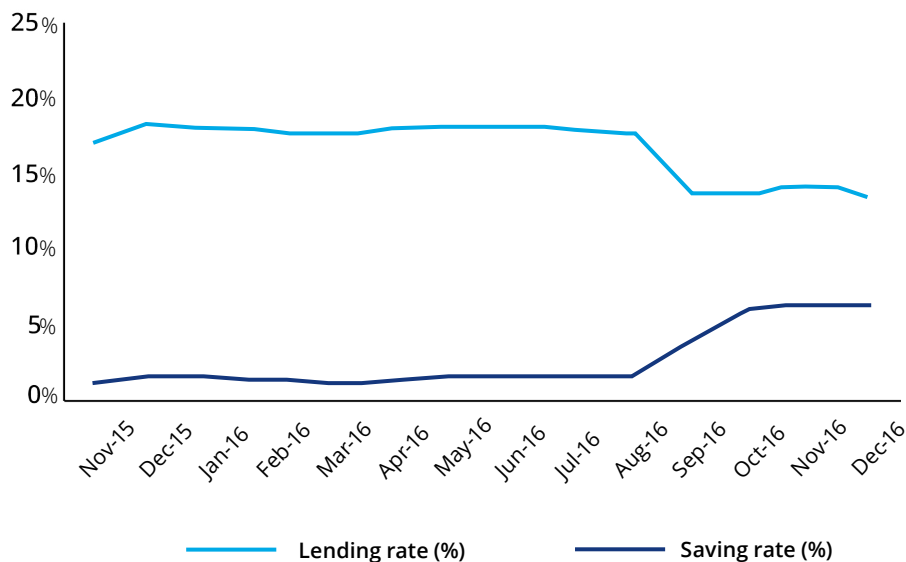
The EIU forecasts inflation to average 5.1% between 2017 and 2020 due to prudent monetary policy and efficiency gains arising from regulatory reform and investment in infrastructure. The EIU reported that drought remains a potential risk to inflation and demand pressures will prevent a rapid decline in inflation.

Interest Rates

The Banking (Amendment) Act, 2016 which came into force on 14 September 2016 set the maximum interest rate chargeable for a credit facility in Kenya at no more than 4% above the base rate (i.e. the CBR) published by CBK. In addition, the Act also set the minimum interest rate granted on a deposit held in an interest earning account in Kenya to at least 70% of the base rate.

The implementation of this Act led to the growth in the average savings rates given by commercial banks by 262% between August 2016 and October 2016 and a decrease in the average lending rates offered by commercial banks by 23% in the same period.

However, the interest rate capping appears not to have had the desired effect as lending to the private sector has declined. The President is on record saying that the Government is looking at ways of addressing this unintended consequence of the law.

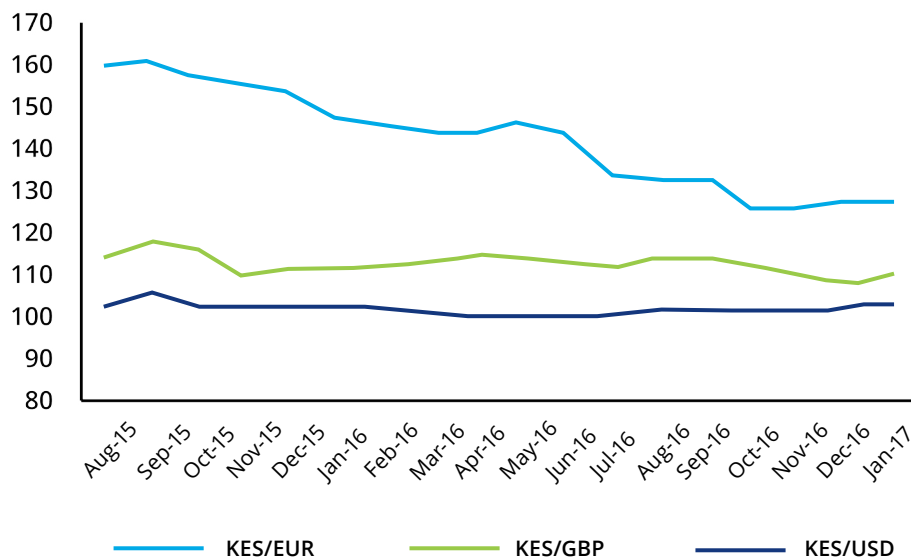


Source: Central Bank of Kenya

Exchange Rates

According to the KNBS, the Kenya Shilling (KES) strengthened by 0.1%, 16.7% and 3.1% against the United States Dollar (USD), the Great British Pound (GBP) and the Euro (EUR) respectively between December 2015 and December 2016. The International Monetary Fund (IMF) attributes this to an increase in foreign-currency denominated capital inflows, increase in conference tourism receipts and the vote by Great Britain to exit from the European Union which destabilised Western economies.

The EIU reports that the KES will remain vulnerable to global development such as further rises in US rates and uncertainties surrounding the state of the Chinese economy. The EIU predicts the KES to weaken from an estimated average of 106.5 against the US dollar in 2017 to a possible average of 120.5 in 2021.



Source: Central Bank of Kenya

Sectoral Perspective

Financial Services

The KNBS reported that the Financial Services Industry (FSI) which contributes approximately 6.8% to the country's GDP, withstood a turbulent year to post a growth of 6.1% in the third quarter (Q3) 2016 compared to a growth of 10.3% registered in Q3 2015 due to:

- Reduced lending to the Government by 6.5% in Q3 2016 compared to an increase of 21.6% in Q3 of 2015; and
- A general decline in the equity market performance attributed to various factors including: the general economic downturn, BREXIT and changes in investor sentiments due to the uncertain outcome of the United States of America (USA) election.

The Financial Sector Authority (FSA) Bill proposes the merging of the following four regulatory agencies: the Capital Markets Authority (CMA), the Retirements Benefits Authority (RBA), the Insurance Regulatory Authority (IRA) and the SACCO Societies Regulatory Agency (SASRA). The bill is currently undergoing legal drafting before being submitted to Parliament for approval.

To kick-start the establishment of the Nairobi International Financial Centre to position Nairobi as an international financial hub, the Nairobi International Financial Centre Bill was approved by the Cabinet in December 2016 and submitted to Parliament for approval.

Banking

As at 30 March, there were 42 Commercial Banks, 13 Microfinance Institutions and one Mortgage Finance company regulated by CBK, which sets prudential regulations including minimum liquidity ratios and cash reserve ratios. CBK reported that it is currently processing requests for licensing by two new banks, ending a moratorium it put in place in 2015 on licensing of new commercial banks.

The Banking (Amendment) Act, 2016 that came into force in September 2016, capped the maximum interest rate chargeable by banks at 4% above the prevailing base rate set by CBK.

According to the IMF, interest rate caps in Kenya pose a great risk to Kenya's financial stability and this will slow the country's ambitions of being the regional leader in financial inclusion. IMF reported that the effects of the interest rate caps include:

- Inaccessibility to credit as many lenders opt to invest in safer Government securities, rather than lend to small and micro sized enterprises;
- Increased illiquidity in the economy as money backed investment schemes continuously seek other investment alternatives; and
- Contraction of the economy as businesses and individuals continue to find it hard to access credit, making them unable to participate in economic activities. This will in the long run affect the country's productivity.

Reports from the Kenya Bankers Association (KBA) indicated that micro-and small sized enterprises could be struggling to get loans following the enforcement of the Banking (Amendment) Act, 2016. KBA also reports that another effect of the interest rate cap is the loss of deposits by smaller banks (perceived as being risky) to larger banks.

The implementation of this Act led to an increase in average savings rates given by commercial banks by 262% between August 2016 and October 2016 and a decrease in the average lending rates offered by commercial banks by 23% over the same period.

Kenya's commercial banks will now struggle to adjust to a new operating environment characterised by a lending rate cap, the prospect of further Government intervention, a high ratio of non performing loans and the rise of competing services in the mobile financial services sector.

The National Treasury, KBA and CBK are currently undertaking a comprehensive assessment of the impact of the interest rate capping law on credit expansion to the private sector which has slowed down and on economic growth.

Insurance

According to the IRA, the growth in insurance premiums declined to 7.3% in Q3 2016 compared to a 12.8% growth in Q3 2015. This was attributed to a general slowdown of economic growth and the weakening of KES.

According to BMI, non-life insurance will remain the larger of the two segments (non-life and life insurance), accounting for over three quarters of all premiums written between 2017 and 2020. With a strong automotive market coupled with

the growing public and private investment in infrastructure, we expect to see a rising demand for motor and property insurance.

Growth in the Life sector will be much slower. Although demand is rising as household income rates improve and as the variety of investment options expands, overall development of the market continues to be restricted by low life expectancy and widespread poverty.

The Association of Kenya Insurance (AKI) continues to tackle fraudulent claims in the motor sector. AKI is in the process of implementing the Integrated Motor Insurance Data System (IMIDS). The system will centralise motor insurance data to facilitate the detection of fraudulent claims and assist in the management of motor certificates. The system will also be linked to the Kenya Revenue Authority (KRA), Ministry of Transport and the police. IMIDS is expected to promote best practice across the industry through use of standard formats for processing underwriting and claims information; facilitate information sharing among AKI members; and promote good governance through compliance of regulatory issues.

Section 20 of the Insurance Act requires all imports to be covered locally. Enforcement of the law, which came into effect on 1 January 2017, will see local insurance companies be among the biggest winners this year as the Government moves to implement the mandatory local underwriting for imports.

The National Treasury has also amended Insurance Act to allow for perpetual licensing instead of annual licensing of insurers.

The process of applying for annual licences of financial institutions is deemed time consuming and no longer necessary in this era of risk based supervision.

Capital Markets

The securities market's performance declined in the fourth quarter (Q4) 2016. This was attributed to a general economic downturn, implementation of the Banking (Amendment) Act, investment slowdown due to the 2017 general elections, BREXIT and changes in investor sentiments following the USA election. According to CMA, equity turnover reduced from KES 46.1 billion in Q4 2015 to KES 25.4 billion in Q4 2016. Bond turnover increased from KES 71.3 billion in Q4 2015 to KES 94.4 billion in Q4 2016 largely due to stable interest rates.

Since the implementation of the interest rate caps, the Nairobi Securities Exchange (NSE) has continued to experience a bear runs. Unit trusts and money market funds with deposits held in Banks also dropped as the deposit rates were lowered after the implementation of interest rate caps.

Major developments in the Capital Markets in 2016 included:

- The launch by CMA of an anonymous reporting portal to enable whistle blowers to report malpractices in the capital markets;
- The International Finance Corporation (IFC) and CMA signed a one year agreement to strengthen corporate governance. The two organisations will work together to implement the Code of Corporate Governance Practices for Issuers of Securities to the Public, which was enacted in 2016. This development is expected to position Kenyan firms competitively in the East African region;

- The CMA approved the licensing of two new fund managers; Watu Capital Limited and Allan Gray Limited bringing the total number of licensed fund managers to 28; and
- The CMA was admitted by the Council of the Islamic Financial Services Board (IFSB) as an associate member. This is in line with the Kenyan Government putting in place robust measures to enhance the growth of Sharia-compliant finance products.

The Treasury Minister stated that the Government needed to take advantage of the opportunities provided by Islamic finance to realise some of its flagship projects. To maximise Kenya's comparative advantage and position the country as a regional hub for Islamic finance products, the Treasury Minister will:-

- Propose legislative amendments to the Capital Markets Act, the Cooperatives Societies Act and Sacco Societies Act to facilitate for Sharia-compliant finance products;
- Amend the Public Finance Management Act to provide for issuance of Sukuk bond (Islamic bond) as an alternative source of financing our development projects;
- Amend the tax statutes to provide for equivalent tax treatment of these new financial products with the conventional financial products; and
- Issue regulations to facilitate development of Takaful Retirement Benefits Schemes in Kenya.

In February 2017, the CMA granted approval for the listing of the first Exchange Traded Fund (ETF) in Kenya, to be issued by NewGold Issuer (RF) Limited. NewGold Issuer (RF) Limited, is a company incorporated in South Africa.

NewGold Issuer (RF) Limited will issue and list 400,000 Gold Bullion Debentures as a secondary listing on the NSE main investment market segment. The value of NewGold ETF tracks the price of gold. The listing price of the ETF will be determined on the listing date based on the real time cash market values of the gold price and the real time price of the KES.

Pensions

The Government's development agenda outlined in the second Medium Term Plan 2013 – 2017 (MTP II) has underlined the importance of saving for retirement and the use of such resources for national economic development. The MTP II recognises that the pension sub-sector is expected to play a critical role in mobilising savings by raising institutional capital through pension fund reforms in order to deepen financial markets. These expectations are premised on the existence and operation of a credible, transparent and robust pension industry.

According to RBA, despite the Government's intentions, pension coverage has stagnated at 15% of the working population. In order to expand the pension sector, RBA has to ensure increased awareness of the benefits of saving for retirement within the population, whilst improving the supervision and regulation of the industry.

In 2016, RBA activated a thought-provoking "Call-to-Action" pension education campaign on TV, radio, ground and social media platform dubbed the "Kulegalega campaign". The campaign aims to demonstrate the consequences of not planning and saving for retirement, thus shocking Kenyans into action. The campaign targets viewers and listeners from both the formal/informal sectors and all segments between the ages of 25 – 44 years. Through the campaign RBA aims to increase the pension coverage by 5% by 2019.

Because some employers are opting to operate under a common Umbrella Retirement Benefits Scheme that provide retirement benefits to their employees unlike the current standalone retirement benefit schemes, the Government has prepared Umbrella Retirement Benefits Scheme Regulations to govern the operations of these type of schemes.

Public sector

Security

Kenya's position as a dominant regional economic player can only be guaranteed if it creates a conducive business environment by enhancing security within and beyond its borders.

In the financial period 2016/17, the trend of crime and insecurity was attributable to the proliferation of small arms and light weapons, inequity of resources, terrorism, organised crime, drug and substance abuse, community boundary disputes brought about by drought, cyber crime and politics driven by ethnic rivalry.

Terrorism continues to be a threat to National Security in the country. In 2016, Al-Shabaab militants continued to stage attacks in Mandera county near the Kenya - Somalia border. In 2017, the militants attacked Kenyan soldiers deployed with a regional peacekeeping mission at a military base in Kulbiyow, near the Kenya - Somali border. Kenya's security personnel are however making progress in curbing terrorism in the region. The recently held presidential elections and establishment of a national Government in Somalia signals a weakening of the Somalia-based terror groups.

In 2017, the USA Government strengthened Kenya's hand in the fight against Somalia based Al-Shabaab terrorists with the delivery of an unknown number of high tech drones. The drones enable Kenya to conduct real time surveillance in the battlefield. Kenya had ordered the pilotless aircraft in 2015. Kenya has also taken bold steps to address insecurity with an investment in security surveillance command and control systems in Nairobi and Mombasa. These systems have enabled the Government to monitor, identify, track criminals and terrorists.

To sustain police mobility and security operations, the Government has made the following allocations in the 2017/18 budget:

- KES 8.1 billion for leasing of police service vehicles;
- KES 24.8 billion for police and military modernisation;
- KES 12 billion for enhanced security operations;
- KES 0.9 billion for the construction and equipping of the national forensic laboratory; and
- KES 2 billion for securitising the country's borders.

Women and Youth Empowerment

Youth in Kenya face a myriad of challenges. One of these is the significantly higher unemployment rates compared to the other working age groups. Women and youth also remain underrepresented in most sectors of the economy.

Despite this, during the 2nd High-Level Meeting of the Global Partnership for Effective Development Co-operation 2016 held in Nairobi, President Uhuru Kenyatta cited Women and Youth Empowerment as a Government key focus area.

In 2016, Government agencies in the energy sector were heralded for their efforts to improve the environment for more women to participate in the energy sector through various initiatives such as Women in Geothermal (WING) program by Geothermal Development Company, Bring your daughter to work program by Kenya Power that exposes the young girls to the energy environment at an early stage and the Pink Energy initiative by KenGen.

The Government has also instituted measures that facilitate the participation of women and youth in conducting business with it. This has been achieved by formulating and implementing the 30% Access to Government Procurement Opportunities (AGPO) which offers preferential treatment on all Government tenders. According to the National Treasury, over KES 26 billion worth of tenders have been awarded under the AGPO platform to date.

To continue supporting youth and women, the Government has made the following allocations in the 2017/18 budget:

- KES 18.3 billion towards the youth empowerment programme;
- KES 0.6 billion for Youth Enterprise Development Fund;
- KES 0.7 billion for Youth Employment and Enterprise (Uwezo Fund) and;
- KES 0.8 billion for Women Enterprise Fund.

Devolution

According to the Commission on Revenue Allocation (CRA), counties have received an estimated allocation of over KES 1 trillion from the national Government since 2013. Nairobi county received the largest share at KES 51.6 billion, followed by Turkana and Kakamega counties at KES 39.9 billion and KES 36.9 billion respectively. Lamu and Tharaka Nithi counties were the lowest beneficiaries of the share at KES 8.3 billion and KES 12.9 billion respectively.

Counties, however, received additional allocations in form of conditional grants meant for specific items in their budgets. These included the allocations under the Equalisation Fund provided under Article 204 of the Constitution, which currently benefits 14 counties categorised by the CRA as marginalised.

Others included funds released for Level Five hospitals and leasing of medical equipment, rehabilitation of village polytechnics, road maintenance, fuel levy fund, loans from World Bank and funds released to fund capacity building initiatives in under the Kenya Devolution Support Programme.

In the 2017/18 budget, the national Government will provide counties with KES 291.1 billion as sharable revenue and an additional KES 38 billion conditional allocations, which include support from the country's development partners. This brings the total allocation to the county Governments to KES 329.3 billion (equivalent to 35.2% of the most recent audited revenues of the national Government).

Health

The Government has attempted to improve healthcare in the country by supporting the expansion of voluntary health insurance to ensure that all Kenyans are able to access proper health care services. The National Health Insurance Fund (NHIF) introduced a new package that will cover patients with chronic diseases such as diabetes, hypertension and cancer.

According to the National Treasury, the number of Kenyans who access outpatient medical care through the NHIF has increased by more than 2 million since 2013. To further expand access to affordable healthcare, the Government has made the following allocations in the 2017/2018 budget:

- KES 0.9 billion for free primary healthcare;
- KES 0.3 billion for health insurance subsidy programme (elderly & disabled); and
- KES 1.1 billion for the rollout of universal health coverage.

In November 2016, the Ministry of Health stated that diabetes remains one of the leading non-communicable diseases that account for 40% of deaths in Kenya annually. The Government and multinational drug manufacturers have come together to subsidise the price of insulin and provide training on diabetes care to health professionals.

According to the World Health Organisation (WHO), cancer accounts for approximately 18,000 deaths annually in Kenya, with up to 60% of fatalities occurring among people who are in the most productive years of their life. Most cases are often undiagnosed or misdiagnosed, which is partly due to inadequate healthcare infrastructure and partly due to the widespread lack of awareness regarding the disease. Under the NHIF cover, patients in need of chemotherapy will get a cover of KES 25,000 per session, radiology KES 18,000, CT scan KES 8,000, MRI KES 15,000 and monthly clinic check-up fees of KES 5,000. The Government has also set aside KES 5 billion for leasing of specialised medical equipment the 2017/2018 budget.

As of June 2016, people living with HIV/AIDS were able to access medical services through NHIF. This has reduced the cost of accessing Antiretroviral Drugs (ARVs). To further improve immunisation coverage and increase access to ARVs, the Government has allocated KES 0.7 billion for vaccines; and KES 0.6 billion to the National Aids Control Council (NACC) in the 2017/2018 budget.

Private hospitals in Kenya have rolled out expansion plans in an effort to meet the growing need for quality healthcare by the burgeoning middle class in Kenya. However, with the majority of Kenyans falling in the lower income bracket, they are not able to afford health care services in private hospitals.

The Government has implemented the free maternity programme and equipped more than 200 theaters for emergency surgery during delivery. As a result, the number of women delivering in health facilities has increased from 660,000 to 1.2 million annually. To further support this programme, the Government has allocated KES 4.3 billion in the 2017/2018 budget.

In 2016, the Kenya Medical Practitioners Pharmacists and Dentists Union (KMPDU), released an audit report of the number of doctors in public facilities. The report established that 3,956 doctors were serving more than 40 million Kenyans (many of whom cannot afford the cost of services in private health facilities). According to WHO the minimum threshold ratio of doctors to population is 23 doctors to 10,000 people. Kenya falls below this threshold. The country should have an estimated 92,000 doctors in line with the minimum recommended ratio. The shortage can be attributed to mass resignations as doctors seek better terms of service in the private sector and in other countries.

In an effort to have better working conditions, doctors staged a 100 day strike from December 2016 to March 2017. The doctors wanted the Collective Bargaining Agreement (CBA) which they signed with the Government in 2013 to be implemented. The agreement included a pay rise for the doctors and other provisions for better working conditions.

To improve health service delivery, the Government has set aside KES 2.7 billion for Doctors/Clinical Officers/Nurses internship programme, KES 9 billion for Kenyatta National Hospital, KES 6.2 billion for Moi Teaching and Referral Hospital, KES 2 billion for Kenya Medical Research Institute, KES 0.7 billion for the Cancer Services and KES 3.9 billion for Kenya Medical Training College.

Education

According to the National Treasury, free Primary Education in the country continued to be implemented with enrolment estimated at 8.8 million in the period 2015/16. The number of primary schools increased from 21,302 in 2013/14 to 21,877 in 2015/16. Further, 150 public primary schools in all the 47 counties received 240,000 digital learning devices and 66,000 teachers trained on the use of the technology.

Primary Special Needs Education saw enrolment increase from 15,371 in 2014 to 105,727 in 2016 whereas special needs and integrated secondary enrolment increased from 3,128 to 3,588 in the same period.

In expanding education opportunities in Arid and Semi Arid Lands, the number of low cost boarding schools increased to 426 in 2016 from 400 in 2013 with the enrolment rate increasing at a marginal rate of 0.7% year on year from 2012 to 2016.

The number of mobile schools increased from 104 in 2014 to 117 in 2016. The enrolment rate in mobile schools has been growing at a rate of 10% per annum from 2014 to 2016.

In 2016, the Government enhanced the provision of technical skills to reduce unemployment amongst the youth. Technical education and training is one of the key initiatives in achieving Vision 2030 by creating a workforce ready for both the public and private sector. It is estimated that to attain the various megaprojects under Vision 2030, the country requires at least 30,000 technologists, 90,000 technicians, and more than 400,000 craftsmen. In the 2016/17 budget, the Government allocated KES 2.5 billion to technical, vocational education and training institutions.

The Government has made the following allocations to the education sector in the 2017/18 budget:

- KES 4 billion for examinations fee waiver for all class eight and form four candidates who will be sitting for the Kenya National Examination Council (KNEC) exams;
- KES 14 billion for the Free Primary Education programme and KES 33 billion for the Free Day Secondary Education programme;
- KES 2.5 billion for the School Feeding programme;
- KES 0.5 billion to support the provision for sanitary towels to our girls in schools;
- KES 2 billion for the recruitment of additional teachers;
- KES 13.4 billion for deployment of digital devices to schools;
- KES 0.3 billion for the upgrading of national schools;
- KES 6 billion for technical, vocational education and training;

- KES 83.8 billion for university education; and
- KES 10.1 billion to the Higher Education Loans Board.

Energy and Resource

According to the Energy Regulatory Commission (ERC), Kenya's energy needs derive primarily from three sources: wood fuel, petroleum and electricity (which account for 69%, 22% and 9% of total energy respectively).

Given the heavy reliance on biomass and petroleum (non renewable sources of energy), the Kenyan Government has set its eyes on the development of harnessing viable renewable sources of energy.

Kenya is actively pursuing development in the geothermal sector, standing currently as Africa's leader and 8th in the world in terms of power generation from the earth. Research has shown that there are still close to 10,000 MW of potential geothermal energy in the highly seismic Rift Valley, which should help drive Kenya toward Vision 2030.

Kenya is home to Africa's largest wind power project (the 310MW Lake Turkana Wind Farm) as well as a further 900MW in development or online.

In September 2016, Kenya through the Kenya Nuclear Electricity Board (KNEB) signed a partnership agreement with Korea Electric Power Corporation (KEPCO), Korea Nuclear Association for International Cooperation (KNAIC) and the KEPCO International Graduate School (KINGS). The agreement will facilitate Kenya in obtaining important knowledge and expertise from Korea, the world's fifth-biggest user of nuclear

power. The deal is structured at enabling capacity building, specialised training and skills development, as well as technical support for its intended nuclear power program.

As part of the partnership, 16 Kenyan students have been enrolled at the KINGS to undertake Masters Degree courses in nuclear power engineering. Kenya plans to set up its first nuclear power plant with a capacity of 1,000 MW by 2027. This is expected to rise to a total of 4,000MW by 2033, making nuclear energy a key component of the Kenyan energy mix.

The Mining Act 2016 came into force on 27 May 2016. The Act applies to coal and coal seam gas, though it does not apply to matters relating to petroleum and hydrocarbon gases. The new Act sets out the obligations of the state with regards to the environment; in particular, the use of the environment in a sustainable manner. It also legalises Artisanal Miners while creating separate licensing regimes for small-scale and large-scale mining operations.

In February 2017, Acacia Mining announced the discovery of 1.3 million ounces of gold at its mines in the Liranda Corridor in Kakamega, whose grade is one of the highest in Africa. The Ministry of Mining estimates the discovery to amount to be valued at over KES 150 billion.

In March 2017, the national Government signed a production agreement with the British explorer and producer Tullow Oil, paving way for the exportation of crude oil from Turkana fields. The pact draws the roadmap for Kenya's early oil export plan that is expected to pump out 2,000 barrels per day for transportation by trucks and storage at the defunct Kenya Petroleum Refinery's storage tanks in Mombasa.

To harness the potential of the mining sector, the Government allocated KES 200 million for geological mapping and mineral exploitation, KES 150 million for geological databank, KES 103 million for mineral certification laboratory, KES 140 million for mineral audit support and a further KES 140 million for acquisition of survey equipment. The Government also expects a further KES 6 billion support from China for geo mapping once discussions are concluded.

Information and Communication Technology (ICT)

In its National ICT Policy Bill, the Government stated that the vision for Kenya is to be “a prosperous ICT-driven society”. This is in order to “improve the livelihoods of Kenyans by ensuring the availability of accessible, efficient, reliable and affordable ICT services”. As such, Kenya has seen tangible growth in the ICT sector.

Kenya is well-known around the world for being a pioneer in the field of mobile money and has continued to show growth in this field, while constantly improving technology and increasing access, with a 2.8% increase in mobile banking in 2016. In June 2016, Equitel (a mobile banking solution by Equity Bank Group) surpassed the 2 million subscriber mark.

According to BMI, Airtel and Orange are set to launch 4G LTE services across the country whereas Safaricom has adopted fibre expansion as its core 2017 investment strategy as it looks to make inroads in the fibre optic market. The disconnection of Telkom Kenya’s CDMA network in 2015, led to a substantial fall in fixed-line subscriptions in 2016.

Kenya’s internet connectivity increased by 25% over the last 3 years, with fiber optics accounting for close to 97% of all ground internet connections. This has boosted Kenya’s

connectivity internally, and to the rest of the world. Cloud computing and broader IT services markets are benefitting from the modernisation of the public and private sectors.

Key allocations in the 2017/18 budget to the ICT sector include:-

- KES 0.3 billion for the Single Window Support Project;
- KES 1.2 billion for the roll out of IFMIS;
- KES 0.6 billion for the establishment of the Kenya Advanced Institute of Science and Technology (KAIST) at Konza Technopolis;
- KES 13.4 billion for the Digital Literacy Programme (School Laptop Project); and
- KES 0.1 billion for Presidential Digital Talent Programme.

Agriculture

The agriculture industry in Kenya remains the most prominent, important and dominant industry. As of 2016, the industry accounted for over 26% of the total GDP, 20% of employment, 75% of the labour force, and over 50% of revenue from exports.

According to the KNBS, the agriculture sector grew by 3.9% in Q3 2016 compared to a growth of 5.5% in the Q3 2015. KNBS attributed this decline in growth to poor performance in the production of tea and coffee that declined by 0.3% and 4%, respectively in the period. The volume of fruit exports also declined by 36.7% during the period contributing to the diminished performance.

According to World Bank, the late onset of Kenya's second rainy season delayed coffee-bush flowering and the subsequent drought will hurt the size and quality of the nation's Arabica crop. The country, being the world's largest exporter of black tea may also miss a target to raise tea output by 25% to 500 million kilograms given the persistence of dry spell that begun in 2016.

Drought has also affected livestock production causing violent clashes amongst pastoralist communities. The National Drought Management Authority reports that the Government may spend more than the KES 21.5 billion it budgeted to support 1.3 million people who are currently facing drought and hunger.

In 2016, the Government of Kenya launched the Kenya National Agricultural Insurance Program, which is designed to address the challenges that agricultural producers face when there are large production shocks, such as droughts

and floods. The program, which is designed as a partnership between the Government and the private sector, was developed with assistance from the World Bank Group and builds on the experience of similar programs in Mexico, India, and China. One program line will focus on livestock insurance, while another will focus on maize and wheat insurance.

Agricultural value addition has also been identified as having the potential to act as a catalyst for the take-off of Kenya's industrial sector. Agri-business initiatives have received support from the Government. The Government is keen on targeting the youth who are increasingly considering it as a viable commercial venture.

In January 2017, following bilateral talks, India extended a KES 10 billion loan to Kenya for agricultural mechanisation.

The following key allocations have been made to the agriculture sector in the 2017/18 budget:-

- KES 7.3 billion has been allocated for on-going irrigation projects countrywide and transformation of agriculture from subsistence to productive commercial farming;
- KES 5 billion for inputs subsidy (Fertilizer and Seed);
- KES 1.3 billion for Strategic Grain Reserves
- KES 0.4 billion for Construction of Jetty for RV Mtafiti (Marine Research)
- KES 0.7 billion for Livestock & Crop Insurance Scheme
- KES 1 billion for Food Security & Crop Diversification Programme (Miraa Farmers); and
- KES 1.6 billion for Issuance of Title Deeds.

Manufacturing

While Kenya is the most industrially developed country in the East Africa region, manufacturing only accounts for 14% of GDP. According to the World Bank this is attributable to the fact that most of Kenya's exports such as tea and coffee require little or no processing.

Kenya has a manufacturing presence in textiles, food and grain milling, cement production, and oil refining. A large portion of Kenya's manufacturing comes from the informal sector, with homemade arts and crafts being a popular product for tourists and residents alike.

According to KNBS, the manufacturing sector registered a declined growth of 1.9% in Q3 2016 compared to a growth of 3.3% in the similar quarter in 2015.

The manufacture of food products subsector growth was supported by processing of maize meal, wheat flour and milk. On the other hand, growth was constrained by contraction in the production of soft drinks and manufacture of beer and stout. In the manufacture of non-food products, growth was hampered by a decline in the assembly of motor vehicles and cement production.

In January 2017, the Kenya Association of Manufacturers (KAM) launched the Manufacturing Priority Agenda (MPA) 2017 under the theme "Driving industrial transformation for job creation and inclusive economic growth". The MPA details the need for investment in technical skills, creating a nurturing environment for the Small and Micro Enterprises (SME's); with

a special emphasis on women and youth enterprises. It also aims to transform Kenya to an export hub thereby increasing the competitiveness for local business.

In a gazette notice dated 28 February 2017, the Environment and Natural Resources Cabinet Secretary announced a ban on plastic bags with effect from 6 months from the date of the notice. KAM cited that this directive would adversely impact manufacturers. According to KAM, the country currently has over 176 plastic manufacturing companies who directly employ 2.9% of all Kenyan employees and indirectly employ over 60,000 people.

The Ministry of Industry, Investment and Trade has formulated a policy that will promote local industry through procurement of locally made products. The Ministry is working with other Government agencies to implement this program. Inline with this drive, the ministry in partnership with a textile and apparel firms organised the first ever export quality sale, dubbed 'Super Sale' in March 2017. The initiative is under the Export Processing Zones (EPZ) Program and aims to provide Kenyans access to quality clothing at affordable prices (KES 50 to KES 600).

To improve efficiency in the manufacturing sector, the Government has allocated resources towards energy generation and distribution, improving on ease of doing business, security, and revival of strategic industries such as textile, pyrethrum, milk processing, and leather development amongst others. Going forward, the Government shall intensify investment in these areas to unlock the Country's economic potential.

Transport and Logistics

During the financial period 2016/17, the Kenyan Government continued to develop infrastructure at a relatively rapid rate. KNBS reported that the sector grew by 9.3% in Q3 2016 compared to a 15.6% growth the sector posted in Q3 2015. The slowed growth in infrastructure development, was mirrored by reduced consumption of cement from 11% in Q3 2015 to 5.3% in Q3 2016. In Q3 2016, imports of construction materials such as bitumen, bars and steel declined. This was partly due to a considerable reduction in civil works of the Standard Gauge Railway (SGR) from Mombasa to Nairobi. The SGR is in its final phase and is expected to be launched in June 2017.

The Government's focus on improving transport infrastructure (both by improving domestic infrastructure as well as links to the country) and the effort to facilitate foreign companies' ease of doing business are reflected in the Government's port, rail and road network expansion plans. Substantial Government spending on infrastructure alongside foreign investment flows are sustaining this high level of growth.

Roads

The Ministry for Transport and Infrastructure cited the high cost of land compensation, low contractor capacity and vandalism as major challenges in infrastructure development in 2016. Programmes undermined include the 10,000 km low-volume traffic roads aimed at improving access to social amenities, reduce travel costs, cut vehicle operating costs, and enhance rural connectivity and development.

In 2016, the Government announced that it would review the roads targeted for construction under its annuity scheme. In line with this, a number of road projects which should garner interest from private investors have been planned. A major road development earmarked for commissioning in 2017 is the Outer Ring Superhighway in Eastland's area Nairobi.

In the 2017/18 budget, the Government has allocated a total of KES 134.9 billion which includes KES 63.6 billion for on-going road construction, KES 44.3 billion for foreign financed roads and KES 27 billion for low volume seal roads.

Ports

Significant developments are in progress at the Mombasa Port: the country's main port. Referred as the Mombasa Port Development Project, it aims to increase the annual capacity from 250 thousand twenty foot equivalent units to 1.5 million units. In October 2016, construction of phase one of the 29 berth Lamu Port commenced. The port is intended to become an international port handling over 24 million tonnes of cargo, reducing the pressure from the port of Mombasa and helping Kenya retain its position as a regional transport hub.

Air

In February 2017, the US Federal Aviation Authority's (FAA) granted Jomo Kenyatta International Airport (JKIA) Category 1 status. This allows Kenya to enjoy direct flights to USA, which has elevated the country's profile as the regional hub. Flights from Nairobi to New York's John F. Kennedy Airport will be launched in early May, following a formal request by Kenya Airways to the US federal aviation department for a licence to fly directly to the US.

The phase one expansion of the Malindi Airport is undergoing following an allocation of KES 1.5 billion in the 2017/18 financial year. The expansion will enable the airport to accommodate the Boeing 737-600 aircraft which can take off from Rome to Malindi non-stop.

Rail

Heralded as one of Kenya's largest projects, the KES 327 billion SGR development has been a major driver of infrastructure growth since construction on the first phase between the Port of Mombasa and capital city Nairobi began in 2014. Phase I is on schedule to begin operations in June 2017, while construction of Phase II, stretching from Nairobi to Naivasha, is due to commence in 2017.

In the 2017/18 budget, the Government has allocated KES 15.5 billion for the Phase I SGR, KES 59.6 billion for Phase II SGR and KES 0.4 billion for the relocation of railway lines at Kibera and Mukuru.

Tourism

Kenya's tourism sector is poised to record positive growth in 2017 as evidenced by growth in 2016. According to the World Travel and Tourism Council (WTTC) travel and tourism's direct contribution to GDP was KES 225.9 billion (3.8% of total GDP) in 2015 and was forecast to rise by 4.4% (KES 235.9 billion) in 2016.

In 2016, Kenya hosted over 200 global and continental meetings and high profile conferences. These included the United Nations Conference on Trade and Development (UNCTAD), the Tokyo International Conference on African Development (TICAD), the Global Partnership on Effective Development Co-operation's High-Level Meeting and the African, Caribbean and Pacific Assemblies Association. This saw Kenya cement its place as a key conferencing destination hub in East Africa.

Kenya is currently attracting investment from the Middle East. In August 2016, investors from the United Arab Emirates including representatives from major airlines and Dubai's Department of Tourism and Commerce marketing visited the country. Given the investment interest in the country, Kenya Tourism Board (KTB) has cited that the Middle East and Asia are a priority growth area in terms of Business tourism.

According to the KNBS, the accommodation and food services sector posted a growth of 13.8% in Q3 2016 compared to a contraction of 6.5% in Q3 2015. Visitor arrivals through Jomo Kenyatta and Moi International Airports rose by 16.8% in 2016 totaling to 874,000 compared to 748,000 in 2015.

The significantly improved performance was attributed to downgrading of travel advisories and Government measures including:

- The launching of a multi million dollar promotional campaign in India targeted towards promoting the country as an ideal tourist destination;
- Removal of Value Added Tax (VAT) charges on National Park fees and capping Kenya Wildlife Service (KWS) Park fees at USD 60 (down from USD 90) for the 2016/17 financial year;
- Establishment of the Kenya Convention Bureau (KCB) in 2016, to cater for business tourists. Mandated with promoting MICE (meetings, incentive travel, conferences and exhibitions) business, the KCB will address a tourism niche that has become the fastest growing segment in tourism in recent years;
- The USD 11.7 million Charter Incentive Scheme that waives landing fees at Mombasa and Malindi airports for all Charter Aircraft. It provides a USD 30 rebate for all disembarking tourists up to June 2018; and
- Scrapping of Visa fees for children under 16 indefinitely from February 2016.

In February 2017, JKIA received a safety certification (Category 1 rating) from the FAA. A Category 1 rating means that Kenya's civil aviation authority meets International Civil Aviation Organization (ICAO) standards. With the Category 1 rating, Kenyan air carriers will be able to apply for the requisite FAA and US Department of Transportation (DOT) authorisation to establish direct flight service to the United States. In Africa, only Morocco, Cape Verde, Senegal, Ghana, Nigeria, Ethiopia, and South Africa have direct flights to the US.

According to BMI, a new cruise ship terminal is reportedly due to open in Mombasa in 2017. Kenya hopes this will boost travel to the country by sea.

To further support the tourism sector, the Government has allocated KES 1 billion for Tourism recovery, KES 1 billion for sustaining new markets, KES 600 million for capital lending to hoteliers and KES 100 million for the restoration of Fort Jesus in the 2017/18 budget. The Government has also proposed to exempt all locally assembled tourist vehicles from VAT.

Glossary of Terms

AGPO	Access to Government Procurement Opportunities	KCB	Kenya Convention Bureau
AKI	Association of Kenya Insurance	KCC	Kenya Co-operative Creameries
ARVs	Antiretroviral Drugs	KEPCO	Korea Electric Power Corporation
ASALs	Arid and Semi Arid Lands	KES	Kenya Shilling
BMI	Business Monitor International	KINGS	KEPCO International Graduate School
CBA	Collective Bargaining Agreement	KMPDU	Kenya Medical Practitioners Pharmacists and Dentists
CBK	Central Bank of Kenya	KNAIC	Union Korea Nuclear Association for International
CBR	Central Bank Rate	KNBS	Cooperation Kenya National Bureau of Statistics
CMA	Capital Markets Authority	KNEB	Kenya Nuclear Electricity Board
CRA	Commission on Revenue Allocation	KNEC	Kenya National Examination Council
DOT	Department of Transport	KRA	Kenya Revenue Authority
EAC	East African Community	KTB	Kenya Tourism Board
EFT	Electronic Funds Transfer	KWS	Kenya Wildlife Service
EIU	Economic Intelligence Unit	MPA	Manufacturing Priority Agenda
EPZ	Export Processing Zones	MTP	Medium Term Plan
ERC	Energy Regulatory Commission	MW	Megawatts
ETF	Exchange Traded Fund	NACC	National Aids Control Council
EUR	Euro	NHIF	National Health Insurance Fund
FAA	US Federal Aviation Authority	NSE	Nairobi Securities Exchange
FSA	Financial Sector Authority	Q3	Third quarter
FSI	Financial Services Industry	Q4	Fourth quarter
GBP	Great British Pound	RBA	Retirements Benefits Authority
GDP	Gross Domestic Product	SASRA	Sacco Societies Regulatory Authority
ICAO	International Civil Aviation Organization	SGR	Standard Gauge Railway
ICT	Information, Communication and Technology	SMEs	Small and Micro Enterprises
IFC	International Finance Corporation	TI	Transparency International
IFSB	Islamic Financial Services Board	TICAD	Tokyo International Conference on African
IMF	International Monetary Fund	UNCTAD	Development United Nations Conference on Trade
IMIDS	Integrated Motor Insurance Data System	USA	and Development United States of America
IRA	Insurance Regulatory Authority	USD	United States Dollar
JKIA	Jomo Kenyatta International Airport	VAT	Value Added Tax
KAIST	Kenya Advanced Institute of Science and Technology	WHO	World Health Organisation
KAM	Kenya Association of Manufacturers	WING	Women in Geothermal
KBA	Kenya Bankers Association	WTTC	World Travel and Tourism Council

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