

Services snapshot

Kenya



KEY SERVICES DATA¹, 2013

Services² share of industry value added: **61%**
 Services share of employment 2005: **35%**
 Trade in services³ contribution to GDP: **17%**
 Services share of total exports: **39%**
 Services export composition 2012: **transportation (55%), travel (24%), other commercial services (21%)**
 Services import composition 2012: **transportation (58%), other commercial services (34%), travel (8%)**
 Services exports: **US\$ 4 billion**
 Services imports: **US\$ 2 billion**
 Services trade surplus: **US\$ 1.7 billion**

5% per annum is expected to decrease down to 4% p.a. by 2016.⁵

Services accounted for 61% of value added GDP in 2013 and is the most rapidly growing sector.⁶ This has not translated equally into employment; as of 2005 when the latest data is available, employment in services is 35% only compared to 61% in agriculture.⁷

In 2013, Kenya recorded a net services trade surplus of US\$ 1.7 billion. This is a result of the traditional trade surplus in transport services and travel services (a proxy for Tourism). The trade surplus has been gradually increasing since 2000 with the exception of a 34% decline between 2008 and 2009 due to the political unrest and the global economic recession.

SERVICES AT A GLANCE

Kenya benefits from its geographical position among key markets in East Africa. The economy enters the 5th year of relative stability after a sharp decline in GDP growth in 2008 and 2009 due to post-election violence in 2008, combined with the effects of rising world food and fuel prices, severe droughts, and the global economic recession.⁴ The current GDP growth rate of

Since 2009, the average contribution to GDP of services trade was 17%. Both exports and imports have been gradually increasing since 2009, with exports growth rates being slightly higher than imports growth rates. The share of services in total exports reached 39% in 2013. Among the services subsectors, transport and travel are the largest exporters.⁸

SERVICES SUBSECTORS

Financial services

The financial system is relatively well developed and sound.⁴ Access to financial services improved, rising from 19% of the population in 2006 to 35% in 2013.⁹ As of 2011, 43 commercial banks with over 1,100 branches and 2,200 ATMs operated in the country. Deposit and lending services are also offered by other financial institutions, such as microfinance institutions (MFIs) and the Kenya Post Office Savings Bank. The importance of the microfinance industry in deepening financial markets and enhancing access to financial services and products, particularly in rural areas, is growing.⁴ One of the main obstacles to access has been the high cost of financial services and products when a large percentage of the population has low and irregular income.⁹ In order to improve the access to financial services, there have been some innovations of delivery channels, such as Mobile phone Financial Services (MFS), Deposit Taking MFIs and the Technology-led agency model.⁹ In particular, mobile banking is important.

Kenya's landmark M-PESA platform, a service offered through a partnership between Safaricom and Vodafone, allows a range of money transfer, cash-flow management and banking options through mobile phones.⁴ Launched in March 2010, M-PESA counted more than 9 million customers in January 2010⁴ and created some 79,000 jobs to meet the increased demand.¹⁰

Kenya is a net exporter of insurance and financial services with a trade surplus of US\$ 63 million in 2012. Insurance and financial services accounted for 7% of services exports (see Figure 1).⁸

Communication services

Kenya is a net exporter of communication services with a trade surplus of US\$ 457 million in 2012. Communication services represented 12% of services exports (see Figure 2).⁸

Figure 1. Financial services share in services trade

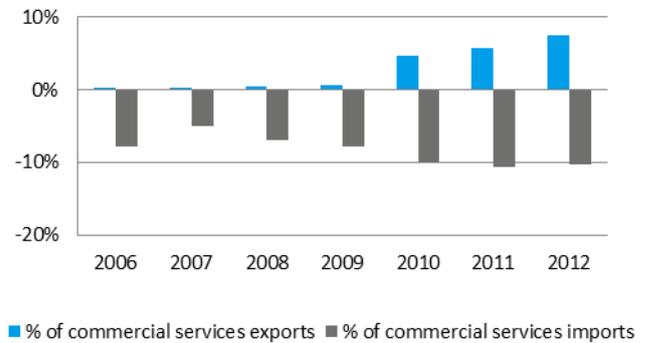


Figure 2. Communication services share in services trade

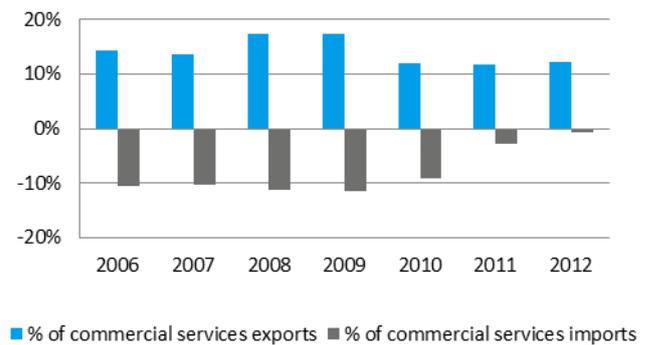
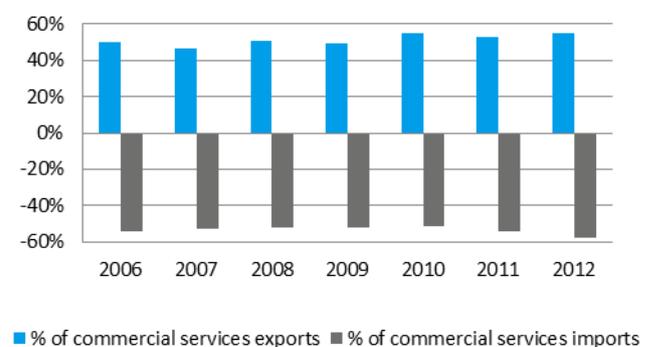


Figure 3. Transport services share in services trade



The market players in the mobile services sub-sector are Safaricom Kenya, Airtel Networks Kenya (formerly Zain), Telkom Kenya (Orange) and the Essar Telcom Kenya (Yu). In the fixed telecommunication services sub-sector, there are two main players, Telkom Kenya and Popote wireless. In internet and data services, the market players are the 4 mobile operators, the two fixed network operators and internet service providers (ISPs), Data Networks (KDN), Jamii Telecom, Access Kenya, and Wananchi online. The mobile operators have become the largest ISPs since the landing of the undersea cables in 2010 and the subsequent increase of the bandwidth.¹¹

By 2012, according to a CCK March-June 2012 quarterly report, 74% of the Kenyan population was covered by the mobile network (and 34% of the land area was reached by a mobile signal). This was a sharp increase from the 51% mobile penetration rate in 2010. Internet is also expanding: between 2009 and 2013, the share of Internet users in the population almost quadrupled from 10% in 2009 to 39% in 2013.¹² As of 2012, 12 million Internet users and 6.5 million Internet subscriptions were recorded. Of these, about 99% accessed internet/data via mobile broadband.¹¹

Transport services

Kenya serves as the commercial and transportation hub of East Africa, linking the region with North and South of Africa. Transport contributes 6% of the country's GDP. The regional demand for all transport services is significant and is expected to rise with the growing economic cooperation among the East African and COMESA countries.¹³

However, the transport infrastructure is inadequate to meet the country's needs. Infrastructure indicators appear relatively good compared to other low-income countries in Africa, but they remain below the levels found in Africa's middle-income economies, such as Egypt or Nigeria.¹⁴

Road transport is the most important, particularly for the distribution of goods and raw materials, but it is

challenged by the poor quality of roads, overloading and congestion problems. A major role in long distance freight transport is played by rail transport: Kenya's rail corridor, linking the Port of Mombasa to Nairobi and continuing onward into Uganda, is of strategic importance to the region. Air transport remains essential mainly for its link to tourism services. The country is well served from an airport and airline perspective and is a regional leader in air transportation. According to 2007 figures, Kenya has 225 airports, with 15 of these having paved runways. Kenya Airways is one of the top African international carriers: much of its success is attributable to an innovative public-private partnership with a key investor, KLM.¹⁴

On the other hand, maritime transport services suffer from inadequate port management, out-dated, complex and lengthy port procedures and lack of capacity to handle increasing container traffic. Congestion is a significant problem for Mombasa as the major port and distribution centre in the region. Kenya-based Trademark East Africa (TMEA) is investing US\$ 53 million in the Port of Mombasa over the 2011-2016 period in order to increase container trade capacity.¹⁴

Kenya is a net exporter of transport services with a trade surplus of US\$ 843 million in 2012 contributing nearly half of the total net services trade surplus. Transport services represented 55% of services exports (see Figure 3).⁸

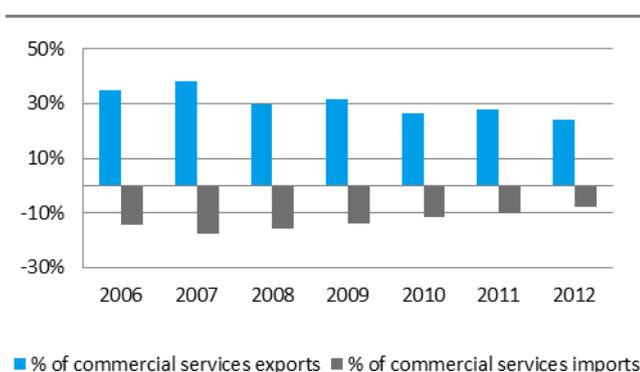
Tourism

Kenya is a net exporter in travel services with a trade surplus of US\$ 761 million in 2012. They represented 24% of total services exports (see Figure 4).⁸

In 2011 tourism experienced significant gains with earnings rising by 33% from previous year, helped by the weakening of the shilling and a 15% increase in tourist arrivals. Since 1995, there has been an upward trend with two exceptions in 1998 and 2008 when the

arrivals decreased.¹² The main arrivals were from United Kingdom, followed by United States, Italy, Germany and India, but, due to the euro area crisis, the number of tourists coming from Europe was lower than expected. The key drivers to total growth were increased arrivals from Eastern Europe (Poland, Russia and Czech Republic), the United Arab Emirates and African countries, such as Uganda, South Africa and Tanzania. However, overall growth of the tourism sector is likely to slow down due to ongoing security operations in Somalia, after attacks by al Qaeda-linked Islamist militants.¹⁵

Figure 4. Travel services share in services trade



FOREIGN DIRECT INVESTMENT (FDI)

Inflows of FDI have been on an upward trend with an exception for 2007 when FDI net inflows increased from US\$ 51 million in 2006 to US\$ 729 million in 2007, to then steadily fall down to US\$ 96 million in the following year.¹² The main foreign investors are Australia, India, United Kingdom and China.

Compared with its neighbors, Kenya's performance is weak, mainly due to the lack of favorable business environment which discourages investment.¹⁶ The country ranks 136th out of 189 countries in the World Bank Ease of Doing Business 2014 index and 15th within the Sub-Saharan Africa region.¹⁷

FOOTNOTES / SOURCES

1. Key data derived from: UN statistics division – National Accounts Official Country Data, ILO – Key Indicators of the Labour Market (KILM), World Bank – World Development Indicators, WTO Trade Profile, ITC Trade Map.
2. The services percentage of industry value added includes construction and utilities.
3. All trade data is for commercial services. Data for all figures derived from Trade Map (ITC, UNCTAD, WTO joint dataset).
4. Making Finance Work for Africa – Financial Sector Profile, Kenya.
5. World Bank – Global Economic Prospects.
6. United Nations Statistics Division – National Accounts Official Country Data.
7. ILO – Key Indicators of the Labour Market (KILM).
8. ITC Trade Map.
9. Central Bank of Kenya – Kenya's Mobile Phone Financial Services: A Revolution in the Financial Landscape, 2013.
10. Mobile Transaction – Lucy Harris: "M-PESA: How Kenya took the lead in mobile money", 2014.
11. Research ICT Africa – Evidence for ICT Policy Action, Policy Paper 9, 2012 – "Understanding what is happening in ICT in Kenya. A supply- and demand-side analysis of the ICT sector".
12. World Bank – World Development Indicators.
13. Kenya National Forum Group on Transport and Development – Kasuku S., and Macharia L. (2003), "Links Between Transport and Poverty: A Review Of Transport Policies In Kenya and The Links With Poverty Reduction", A Poverty Watch Publication.
14. PwC – Report "Africa gearing up", Kenya.
15. AfDB – African Economic Outlook 2012, Kenya.
16. WTO Secretariat, Trade Policy Review, Kenya, p. A2-179.
17. World Bank Group – Doing Business Index, June 2014.



For additional information

Contact person: Jane Drake-Brockman, Trade in Services Senior Officer
E-mail: drake-brockman@intracen.org
Telephone: +41-22 730 0446

Street address: ITC, 54-56 Rue de Montbrillant, 1202 Geneva, Switzerland
Postal address: ITC, Palais des Nations, 1211 Geneva 10, Switzerland
Internet: www.intracen.org