# RESEARCH SUMMARY

# CRISIS, GROWTH AND CHANGES IN SUB SAHARA AFRICA: EVIDENCE FROM KENYA

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*ABSTRAK*

*Sejak 2008, perekonomian dunia telah dibayangi oleh tekanan krisis keuangan global. Dengan hubungan global yang relatif kuat, sulit bagi Kenya untuk sepenuhnya keluar dari krisis tersebut. Kenya juga mengalami krisis pangan, krisis politik pasca pemilu dan krisis keamanan. Namun, ekonomi Kenya, sejak awal tahun 2000an, terus bertumbuh tanpa banyak terpengaruh oleh krisis. Dengan pendekatan sejarah dan ekonomi, penelitian ini berangkat dari keingintahuan yang sederhana tentang bagaimana perkembangan ekonomi Kenya selama krisis. Studi ini meneliti tiga sektor yang bertahan hidup dan berkembang selama masa krisis, yaitu sektor pertanian (teh, kopi dan bunga potong), infrastruktur, dan teknologi keuangan. Selain itu, studi ini juga menggambarkan peningkatan peran China dalam perekonomian Kenya, ketika negara-negara donor lainnya berada dalam krisis.*

*Kata kunci: Krisis, sektor pertanian, pembangunan infrastruktur, teknologi keuangan, China*

***ABSTRACT***

Since 2008, the world economy has been overshadowed by a heavy pressure from the global financial crisis. With a relatively strong global relationship, it is difficult for Kenya to fully escape the global financial crisis. Kenya has also gone through a food crisis, the post-election political crisis and the security crisis. In fact, the Kenyan economy, since the early 2000s, continues to grow without much affected by the crises. With history and economics approach, this study departs from a simple curiosity, to know how Kenya's economic development is during the crises. This study examines three sectors that survive and thrive during times of crisis, namely agricultural sector (tea, coffee and cut flowers), infrastructure, and financial technology. In addition, this study also describes the increasing role of China in the Kenyan economy, when other donor countries are in crisis.

***Keywords***: Crisis, agricultural sector, infrastructure development, financial technology, China

## INTRODUCTION

In the past decade, Kenya has gone through serious crises. First, the country experienced a political crisis following the 2007 presidential elections. There was huge unrest in Kenya after the incumbent, President Mwai Kibaki, was declared the winner in the presidential election on December 27, 2007. Violence broke out in coastal areas such as in Mombasa, Nairobi, and extended in some other regions, particularly in the Rift Valley. Around 1400 people were reported killed and more than 600 thousand people have been displaced (Brownsell, 2013).

Second, after the political crisis decreased economic growth rate in 2008, Kenya had to face global financial crisis that began to hit the United States (US) and Europe. With a very close relationship between European countries and African countries in several ways such as trade flows, foreign aid, and flow of people (migration), it is difficult to ignore the impacts of global financial crisis on the dynamics of society in the Sub-Saharan Africa. For Kenya that have a fairly open economy (international trade and financial depth level is relatively high in Sub-Sahara Africa), and their dependence on remittances from diaspora abroad, the global financial crisis is quite alarming.

Third, Kenya experienced a severe drought in 2011, which resulted in food shortages (McKenzie & Kermeliotis, 2011). As a country that relies heavily on agriculture with very low irrigation systems, Kenya depends on the intensity of rainfall in their agricultural activity. This is especially true in the main areas that are dry and have limited infrastructure development. Drought is a potential to decrease Kenyan economy, which is 40 percent comes from agricultural sector.

Fourth, terror attacks launched by Al-Shabaab militants in the West-Gate Shopping Mall in 2013 showed that there is a security crisis in Kenya. The attack that killed more than 60 people is one terror incident among several others in the country that borders with Somalia, which is the base of Al-Shabaab group (see New York City Police Department, 2013). The terrorist incident badly hit the tourism sector which is an important backbone for the economy. Kenya is famous for the great wildebeest migration in July each year. Security conditions had led many countries to issue travel warning, which decrease the number of foreign tourists to Kenya.

Interestingly, even though the country had to face several crises, Kenya›s economy continues to grow confidently. The country›s economy is still growing an average of 5 to 6 percent annually since 2003. The gross domestic product (GDP) of the country has only decreased in 2008 when the political crisis is sweeping the country. After that, the Kenyan economy grew quite high compared to other countries in Sub-Saharan Africa region.

Despites these crises, interestingly, the Kenyan economy continues to grow without much affected by the crises since the early 2000s. With historical and economic approach, this study departs from a simple curiosity, to know how Kenya's economic development is during the crises. This study examines three sectors that survive and thrive during times of crisis, namely agricultural sector (tea, coffee and cut flowers), infrastructure, and financial technology. In addition, this study also describes the increasing role of China in the Kenyan economy, when other donor countries are in crisis.

Analysis in this paper is based on primary and secondary data. It uses secondary data obtained from the official documents of the Kenyan government, such as development planning, budget and debt documents. We also use statistics and periodical publications and online publications of international organizations such as the World Bank, the African Development Bank (AfDB), the United Nations and International Monetary Fund, which heavily involved in the economic and development in Kenya. In addition, articles from newspapers, magazines, and academic journals that analyze and or related to the crisis in the countries of the eastern region of Sub-Saharan Africa are important sources for this study. The collection of primary data through observations and interviews were conducted in Nairobi, the capital of Kenya, in April 2017. Interviews were conducted with lecturers from the University of Nairobi, the World Bank, the IMF, the African Development Bank, British Embassy, local communities, and also with Indonesian diplomats and embassy staffs in Nairobi.

## KENYA: BRIEF OVERVIEW

After independence in 1963, Kenya was led by Prime Minister Jomo Kenyatta, who became president after the former British colony became a republic in 1964. In the early independence period, many assets such as land controlled by the European were taken over. Unfortunately, some of the assets were

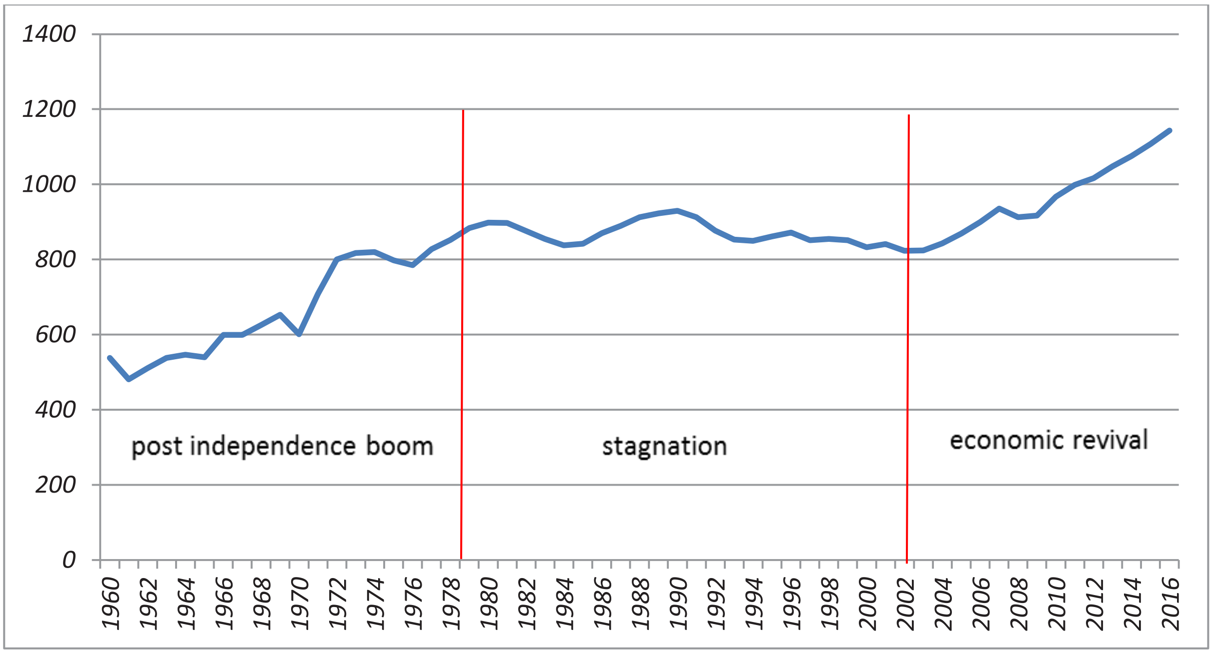


Figure 1.1. GDP per capita (Constant 2010USD)

Source: Word Bank (2017)

transferred to Kenyatta's own group, particularly ethnic Kikuyu, even though the assets were belong to other ethnic groups before the colonial era. As a result, many other ethnic groups were not satisfied, such as those living in the area around the beach. The country, that officially uses English language and Swahili, is a country with many ethnic groups, such as Kikuyu (20%), Luo (14%), Luhya (13%), Kalenjing (11%), Kamba (11%), Kisii (6%), Mijikenda (5%), Somali (2%), Turkana (2%), Maasai (1%), and others (14%), including Indian and Arabic (Mynott, 2008). Since the beginning of independence, Kikuyu has a benefited position, by controlling assets and positions in government, as well as the target of government programs. Favoritism by the government at the time have resulted in inequality between ethnic groups, which is one of the roots of political problems recurring from time to time, especially when general elections (Miguel, 2004).

Figure 1.1 shows that Kenya's economy can be divided into three periods, namely post-independence boom (1963-1978), stagnation (1978-2002), and economic revival (2002-2016). Kenya's economy grew significantly in post-independence period, when Jomo Kenyatta led the country (1963-1978). In that period, the average economic (GDP) growth in Kenya reached 6.9 percent annually, except in 1970 and 1975 when the country suffered a severe drought. Unfortunately, the economic growth did not continue since Daniel Arap Moi became president, because Jomo Kenyatta died in 1978. Figure 1.1 shows that per capita GDP was stagnated, and even decreasing during Daniel Arap Moi time in power (1978-2002). During this period, the GDP only grew by an average of 3 percent per year, and GDP per capita fell from USD898 in 1980 to USD823 in 2002. During the reign of Moi, favoritism continued but shifted to Moi's support base, especially in the Rift Valley (Miguel, 2004, p.337). This has caused ongoing ethnic tensions in the country.

Kenya›s economic revival occurred after the elections in 2002, which declared Mwai Kibaki as the winner, beating Uhurru Kenyatta, the son of former president Jomo Kenyatta that was supported by Daniel Moi. From 2003 to 2015, GDP grew by more than 5 percent annually. Only in 2008 the economy stagnated with a growth rate reached only 0.2 percent because of the post-election political crisis. The high growth rate is mainly due to the rise of agricultural commodities prices, such as tea and coffee that are major contributors to Kenya's exports.

Despite a relatively high economic growth, unemployment rate is increasing in the period. The unemployment rate rose from 8.1 percent in 1999 to around 12 percent in 2009, although it decreased again to 10 percent in 2016 (World Bank, 2017). The unemployment rate for youth (15-24 years) indicates a more severe situation. Since 2005, the youth unemployment rate reaches more than 20 percent, and continued to increase, up to 23.8 percent in 2009 (World Bank, 2017). This indicates that the economic revival since 2002 has not been supported by a strong production base, but because of changes in international prices.

The service and agricultural sectors continued to be main contributors to Kenya's economy from independence until the beginning of 2016. According to the World Bank (2017), in 2016, the agricultural sector accounted for more than 35 percent of Kenya›s GDP, while the service sector accounts for more than 45 percent. The contribution of the agricultural sector is not too surprising (World Bank, 2017). Approximately, from 45 million Kenya's population in 2016, about 74 percent live in rural areas with the main occupation as a farmer. The great contribution of agricultural sector is mainly supported by the three main export commodities, namely tea, coffee and cut flowers. Meanwhile, with limited agricultural infrastructure, particularly irrigation, food commodities are still highly dependent on weather conditions, and drought is main threat.

The large contribution of service sectors was mainly supported by tourism, especially safari business, which is a primary sector in Kenya to earn foreign currencies. Kenya is very popular with its Kilimanjaro mountain and safari, especially with the big five animals, namely the lion, rhino, leopard, elephants and buffalo, as well as giraffe, hippo and zebra. In times of great wildebeest migration, every hotel and inn definitely full with tourists who want to see attractions, such as how a herd of buffalos had to cross a river with crocodiles waiting in the water. Although a primary sector, the tourism sector is highly vulnerable to the global economy and security conditions. Kenya is a country located in the Eastern Africa region and directly borders with Tanzania, South Sudan, Ethiopia, Uganda, Somalia, and the Indian Ocean. With more than half of Somalia is now controlled by Al-Shabaab group, and a number of refugees from that country entered Kenya, security in the country is now become vulnerable. Kenya has been hit by terrorism, and one biggest casualty is the one at the West Gate Shopping mall.

## GROWING IN CRISIS

This section presents main findings about three sectors that survive and thrive during times of crisis, namely agricultural sector (tea, coffee and cut flowers), infrastructure, and financial technology. It also describes the increasing role of China in the Kenyan economy.

### Coffee, tea and CutfFlowers

The development of Kenya's three export commodities, coffee, tea and cut flowers proved to have mainly contributed to Kenya's economy. The three commodities have their own trajectories, starting from coffee, then tea and cut flowers. The decline in Kenya coffee exports in the late 1980s had been replaced by the export of black tea and cut flower. These three commodities have become a source of revenue for Kenya. These three export commodities are cultivated mostly by small farmers (60%), and 40% by large and medium enterprises.

In light of the internal and external crises that occurred during the 1930-2013 period, coffee commodities appear to be more sensitive to international market price and climate crisis than the global crisis, except during the 1930s economic depression and the 1980s world economic recession. A very long drought in 2001/2002 has had an impact on the drastic drop in commodity exports. However, compared to coffee and tea commodities under the period of study, coffee exports fluctuated sharply compared to tea and cut flowers. Even these latter two commodities have dominated the world market.

The global financial crisis in 2008 in the United States and its impact on the export of Kenya's leading commodities is not so significant. In addition to exporting these three commodities to European countries, the Kenyan government has been looking for new consumer countries, such as Egypt, Pakistan, Middle East countries, even Korea and Japan.

## FinancialyTechnology

The global financial crisis has changed the landscape of how financial system works. While foreign banks scaled back their activities in some Sub-Sahara African countries, it's should be opportunities for local banks to increase their presence. But, at the same time, non-bank institution also sees the opportunity to expand financial services to rural poor which majority still unbanked. In Kenya, mobile phones-based technology, M-Pesa which launched in March 2007 by local giant mobile operator, Safaricom, started a revolution in the payment system. The cash payment system evolved from commodity money to fiat money, while cashless payment system changed from paper based to electronic based (electronic money, electronic wallet, mobile money). With these developments, the role of the payment system is becoming increasingly important in the economy.

Kenya offers successful story of expanding financial inclusion through digital financial services based on mobile phones for emerging market and developing countries. The demand of financial services was high due to the lack of other competitive money transfer services and the need to reduce dependency on cash for security reasons. Several factors help explain the success of mobile money payment in Kenya. The four main factors are development of adequate ICT infrastructure, the need for access to financial services, the regulatory approach to mobile money services in Kenya and strong brand image of mobile phone operators (in this case is Safaricom).

## Infrastructuret Development

After a period of stagnation from 1980 to 2000, the economy of Kenya is now reviving. The economy grew consistently more than 5 percent annually since 2004, even during the 2009 global financial crisis. After the 2007 post-election crisis, the government of Kenya launched the Vision 2030 aspires to be a middle income countries. To achieve the vision, the government of Kenya is prioritizing infrastructures as an enabler factor for development. It is believed that infrastructure development could reduce infrastructure deficits, strengthen growth, increase quality of life, reduce regional inequality, and provide legitimacy for a government performance.

Since 2009, the ability of government to build infrastructure across the country is noticeable, particularly in energy and transportation sectors. In the global financial crisis, the infrastructure development is considered as a key factor to maintain economic growth as suggested by Keynesian economists. An active government spending on infrastructure is expected to increase aggregate demand in the economy. While there was a limited source of finance from domestic resources and traditional donors, increasing role of China in global economy has significantly helped Kenya to close the financial needs. The shifting global economic power from the Western countries to Asian countries provides alternative sources of finances.

However, there are challenges ahead for Kenya to develop its infrastructure projects. The government of Kenya needs to be careful with the rapid increase of external finance. Total public and publicly guaranteed debt is now close to 50 percent of GDP, which is dangerous for the economy. The experience of Spain shows that uncalculated massive infrastructure development has led to a serious economic crisis.

## The Rise of China

As also in other parts of Africa, the role of China is prominent in the increasing infrastructure development since 2009. In 2005, China's bilateral aid to Kenya was only Ksh2.4 bn, or only about 1.58 percent of total bilateral aid received by Kenya. According to The National Treasury RoK (2013, 2016), in 2009, China contributed more than Ksh 11.8 bn (6.36 percent of total bilateral aid). Since then, contribution of bilateral aid from China to Kenya increased significantly, to 15.05 percent (Ksh 36.6 bn) in 2012 and 56.63 percent (Ksh 252 bn) in 2015.

China has shifted the position of traditional bilateral creditor for Kenya such as Japan, France and Germany. From 2005 to 2010, Japan, France and Germany were three main bilateral creditors for Kenya. Moreover, in 2015, bilateral aid from China only second to multilateral aid from International Development Association (IDA). It already bypassed all other multilateral donors, such as African Development Bank/Fund (ADB/ADF), European Economic Commission/European Investment Bank (EEC/EIB) and International Monetary Bank (IMF). The increasing role of China in Kenya confirms our finding in 2016 that the global financial crisis has shifted geographical economic power, from the US, the EU and Japan.

Data from Debt Management Department RoK (2015) shows that along with the Standard Gauge Railways projects that costs more than USD 3.6bn, the Nairobi-Thika superhighway projects is among the largest bilateral finance from China (USD 100m). Other infrastructure projects listed financed by China are rural telecommunication projects, geothermal production wells drilling, and power distribution system modernization.

## CONCLUSION

If crisis is interpreted as a critical period or a difficult time, then the crisis is not strange to the Kenyan population. The country in eastern Africa has experienced various crises since its independence in 1963, in terms of economic, political, social and security crises. Interestingly, as Kenya faces an ongoing crisis since the post-election crisis of 2007, the food crisis, terrorism and the global financial crisis, the country's economic growth continues to grow, although it has not been able to significantly reduce poverty and unemployment.

The ability to sustain this high rate of economic growth is fueled by an increase in agricultural commodity exports, which is a major contributor to Kenya's economy. Looking at the trajectory of three major agricultural commodities, tea, cut flowers and coffee, this study shows how the effect of increasing agricultural commodity prices has helped in maintaining the value of Kenyan exports. From its trajectories, the development of Kenya's three main export commodities proved to be an important contribution to Kenya's economy. The development of one commodity with another commodity changed, evidenced by the decrease in the quantity and trade of coffee replaced by tea. At the time of export tea prices fall, cut flowers become an alternative economic population.

Viewed from the internal and external crises that occurred during the period studied (1930-2013), the trajectory of the development of the three export commodities show that the world economic crisis, such as the depression, the oil crisis and the global financial crisis did not affect commodity prices, thus not directly affecting the export value of Kenya. Even the crisis of one commodity was overcome by the development of other commodities such as between coffee and tea in the 1930s, and tea and cut flowers in 2012.

Along with the global financial crisis, Kenya is developing M-Pesa, a mobile-based electronic money. The rapid development of M-Pesa in the country is supported by an increase in ICT infrastructure, built heavily in the country. In addition to demonstrating the transformation of financial technology, the widespread use of M-Pesa has also increased financial inclusion in the country. It also supports the creative destruction that occurred during the crisis.

Another interesting point from Kenya is massive infrastructure development since 2009, when many donor countries are experiencing an economic crisis. In addition to domestic demand for long-lasting infrastructure deficits, Kenyan policy makers believe that infrastructure development will help to boost economic growth, to improve living standards and to reduce inequality across regions, and to legitimize government performance.

In addition, China's increasing role in the global economy has helped to boost infrastructure development in Kenya. Foreign aid from China is very helpful in realizing infrastructure development, such as in the transportation and energy sector, in Kenya. However, China's rapidly growing aid since 2009, which became the largest bilateral aid since 2015, has also raised concerns, both in its paying ability and the accompanying social issues.

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