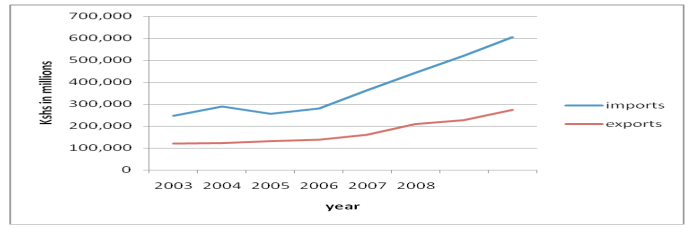
Trade

Over the period 2003 to 2008, the value of exports was on an upward trend (Figure 2.6). Exports grew by about 8.6 in 2007. In 2008, growth in the value of exports significantly declined to 8.7 per cent from 31.0 per cent in 2006 mainly due to a decline in re-exports and the effects of the post-election violence. Earnings from total exports financed 45.4 per cent of the import bill in 2008 compared with 48.1 per cent in 2005 (G0K, 2008). Kenya's composition of exports has remained broadly the same over the years; it is still dominantly an exporter of agricultural goods with food and beverages, consumer goods and lubricants being the key exports (Figure 2.6). It should be noted that most of Kenya's exports (tea, coffee, meat and cereals) depend on intensive labour, road, air and sea transport, all of which suffered serious setback due to the violence. Not to mention the losses experienced by transit transporters from and to land-locked countries of Burundi, Congo, Rwanda, South Sudan and Uganda

Figure 2.6: Value of Kenya's Exports



Source: Government of Kenya Economic Survey (2007)

Tourism

Tourism received 1.8 million international visitors by end of 2007, and earnings totaled Kshs. 65.4 billion. Kenya was ranked 101 in 2008 down from 98 in 2007. This was attributed mostly to the negative publicity from post-election violence decline in growth. It was also attributed to poor transport infrastructure, policy and legal weaknesses, and limited marketing budget in the tourism sector. The sector also contributes to the growth of other sectors (i.e. transportation, food, and entertainment). Tourism suffered from negative publicity on insecurity, both real and perceived, to the extent that some tourist source countries (USA and UK) issued travel advisories citing insecurity in the country. In addition, approximately 120,000 job losses in tourism, and Kenya Association of Manufacturers (KAM) analysis estimates a temporary loss of 400,000 jobs in manufacturing and agriculture (Kenya Association of manufacturers-report 2010) with casual informal labour to be the hardest hit by 2011. It is important to note that the impact of the crisis has been differential across geographical regions and has not been recorded by the government.

The Tourism sector had not recovered from the negative publicity in Malindi of tourists who had been kidnapped in 2006, and the bad state of Kenya's road transport. This led to low occupancy rates of 20 % and 40% overall (Kenya Tourism Association, 2009). The general negative impact in the tourism chain was hardest hit including local tourism. This meant that many tour and taxi transportation experienced losses of over 70% of their annual earnings. This situation also hit the matatu industry which had already experienced major disruptions in the major conflict cities of Eldoret, Nakuru, Naivasha, Narok, Kitale and Kisumu. The data available does not reflect the actually losses. In addition, the tourism sector which deals majorly with foreign business networks was still dealing with the global financial crisis of 2006 that was slowly moving into Europe, when they had to deal with post-election violence of 2007/2008. Although the sector has demonstrated the capacity to recover quickly, it has struggled over the last three years and their worries on the way the government is handling the MRC challenge and rhetoric from the politicians.

The Dynamics and Anticipated Impact of Kenya's 2012-2013 General Elections on the Region

It is evident that the election violence impacts business and the economy negatively and industry, economists and Kenyans, are anticipating that the next presidential and general elections takes in a different environment; with over just over I/2 of the provisions of Kenya constitution 2010 having been implemented to create checks and balances that would help avoid the confusion and mistakes made in 2007/2008. However, Kenya's next Presidential elections will be held in an environment heavy with real anxiety and uncertainty than in 2007/2008, this situation according to market analysts, could easily attract violence (Delloitte, 2012)

The intention to change the constitutional provisions to suit parliamentarians and lack of serious attention to address the constitutional provision of the two thirds rule, the Suguta Valley massacre,[3] controversial police reforms, and lack of leadership at EACC and National cohesion Commission, also provide pointers for concern and uncertainty. In addition, the continued existence of IDPs, the ICC process, the Church bombings and insecurity, lack of clarity and institutionalization of Political Parties for fair election participation process for their party membership. All these concerns are negative pointers to perceived conflicts and course for alarm for businesses and investors and ultimately for the economy.

Furthermore, Kenya's influence in the East African region is often looked at from its contribution to peaceful referendums and elections in South Sudan and Somalia respectively. However, Kenya's military intervention in Somalia to get rid of the al-shaabab terror group, her boarder misunderstanding with Ethiopia and her unresolved 2008 questions as to the role of a section of Uganda's army in an hospital explosion in Eldoret are difficulties that are bound to negatively impact the economy. The strategic importance of Kenya in the region was demonstrated by the demolition of Kenya-Uganda rail way line in Kibera in Kenya's city of Nairobi. Above all, having led the regional Intergovernmental Authority on Development (IGAD) peace process that yielded the CPA, Kenya has a particularly strong interest in the South Sudan.

Understandably, the practical concerns from the expanded East African region4 stem from the dependency of all landlocked neighbours. For example, the stability of Kenya after the 2012-2013 elections will be vital for the entire Sudan's economic development, as Kenya provides transportation, human resource, technical skills, and links to foreign countries as well as several other governance assistances, particularly to the South Sudan. Most of the countries neighbouring Kenya within the larger EAC have economic interests relying heavily on Kenya's road, air, and water transportation network, health, banking and trade services function. Any stability or instability before, during and after the coming elections will negatively impact their economies.

The case of Uganda during the 2007 post elections violence point to this as well as a considerable number of states within the East African Community. The two Sudanese countries do not exist in a vacuum; rather, their post separation negotiations and bilateral relations are situated within a regional context. Kenya attempts to avoid directly antagonizing the Khartoum regime. The new government after the elections will also need to push for a reduction of violence in and permanent solutions to the conflicts in Darfur, Blue Nile, and South Kordofan.

3 Suguta Valley is in Baragoi a market town in Kenya, north of Maralal and east of the Suguta Valley. It is part of the Samburu District. The entire Baragoi division has a population of nearly 20,000 comprising mostly people from the Samburu and Turkana tribes

4 EAC- Membership now include Congo, Burundi, Rwanda and South Sudan

Recommendations and Conclusions

The demons and wounds that the 2007-2008 post-election violence still remain and require urgent remedial actions to be treated. There have been attempts at transforming the state towards good governance and politics. In this respect, since the chaos of 2007/8 there has been some meaningful socio-economic progress as numbers indicate, however, ethnicity continues to be prioritized in the political domain with widespread corruption and impunity still well entrenched.

There is no doubt that there is a need for concerted efforts from both the civil society and the private sector to lobby for a positive course in order to create awareness amongst the local citizens and ensure the laws under the new constitution are followed and implementation is devoid of political manipulations.

- Fundamentally, national, regional and international institutions (EAC, IGAD, AU, AID, etc) need to combine efforts to help achieve the desired results. These will include pursuing peaceful elections as well as keeping the political leaders to respect the law and institute a competitive, fair and credible election process.
- The corporate sector needs to partner with civil society and communities to create last peace building communities under the corporate social responsibility and ethics programs. Coca-Cola has been successful in South America conflict areas, and Oil companies are trying this approach in Nigeria.
- More specifically at policy level the Kenyan government and its EAC counterparts to:
- The Export oriented crops should adopt diversification of export channels in order to provide some protection against loss of income;
- Provision or creation of a Conflict /violence insurance product to stabilize the flower sub-sector. The EAC –IGAD summits need create some guarantees for a "secure and safe" regional framework to protect the region's economic needs and markets;
- A secure sub-region is vital for economic growth and in this regard the weight of the AU – an instinctively pro-unity institution – and the importance of its recognition cannot be ignored especially in creating a team and quelling the animosity between the new Sudan and South Sudan which has take-up Kenya's attention in the last few months.
- Institutionalize peace building as part of the measurable outputs, and mandate of Counties, sub-counties and constituencies in order to use financial criteria contained in the CRA formula.
- Undertake civic education for political parties to institutionalize governance structures and have clear and minimum required standards of a structure of political party
- Regionalize politics to get away from Tribal alliances

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The Impact of Election (2007/2008) Violence on Kenya's Economy[1]: Lessons Learned?

Dr. Kiti Reginah M.K Kitiabi (PhD)[2]

Introduction

An analysis of Kenya's economy in 2010/2011 reveals that Real GDP expanded by 5.6% in 2010, compared to a growth of 2.6 % in 2009 and a real GDP of 7.1 % in 2007. It also shows that all sectors of the economy recorded positive growths of varying magnitudes. The main sectors driving the economy were agriculture and forestry, wholesale and retail trade, transport and communication, manufacturing and financial intermediation. The growth in these sectors was influenced by improved weather conditions, low inflationary pressure, low interest rates, stable macroeconomic environment, and increased credit to the private sector as well as higher investments noting that the focus of this paper is political economic analysis (Torsten 2002) rather than political economy.

Kenya has made impressive improvements in infrastructure and policy institutionalization since the 2003. NARC indicative recent discoveries in oil and natural gas means we are better positioned to attract FDI and improve the investment climate. It is projected Economy survey, 2011) be to approximately over $1.3 billion from 2013 through to 2018 indicates that the nature of growth, more specifically, political stability a major variable in attracting and growing investments. In 2007, FDI was at $729m and dropped almost 75% to $183m in 2008 after the election violence indicating a possible evidence of recurrence. Kenya's declining growth of 7.1 % in 2007 to 1.7 per cent in 2008 was compounded by high inflation, with headline inflation reaching 25.8 per cent in March 2009 while underlying inflation rose above the 5% target to reach 9% with declining revenues of 456 Billion in 2009 (KRA, Financial report 2009/2010) pointing to the election violence of 2008.

Consequently, the government quickly intervened to address declining growth that included boosting demand for the products of farmers, cushioning industries hard hit by the violence and 2008/2009 global recession and enhancing their competitiveness by reducing energy costs and improving infrastructure, expanding irrigation and conservation activities, creating employment, by addressing key macroeconomic variables over 2009/10-2011/12 that includes recovery of economic growth from a low of 1.7 per cent in 2008 to 2.0 in 2008 and 3.1 per cent in 2009/10 rising to 6.3 per cent in 2011/12. The plummeting growth after the elections, with foreign direct investment dropping to $183 million in 2008 following the post-election chaos is still to stabilize five years later and we are yet to reach that level of economic growth again, despite the relative stabilization of the economy. The lesson here is that perception in investors is a reality and it is very easy to destroy, but extremely difficult and painful to rebuild, indeed, as politicians make statements and chest-thumbing, the investors hold their 'money' close to their chest willingly.

The paper also discusses poverty gap and wealth inequalities rather than poverty levels which for example do not cause violence in The Republic of Tanzania where poverty levels are higher. Poverty gap is the mean shortfall from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line (WDI, 2010). This measure reflects the depth of poverty as well as its incidence. Kenya is rated the 10th most unequal country in the world in terms of wealth disparities. Of Africa's 54 states, it is the third most unequal after South Africa and Nigeria[3].

Unlike the economic survey 2011 economic issues, election campaigns in Kenya have often focused on non-economic internal issues, often driven by ethnic agenda and lacking in regional–geo-economics (or geopolitics), often defined as the sum total of regional resource utilization4 and production processes and efficiency model of converting inputs into outputs. For any economy to grow focused priority on its productive, social and governance sectors is paramount. The productive sector includes increased investments in infrastructure, agriculture (i.e. food secure, exports) tourism, trade and industry. The social sector involves access to education, health services, water, shelter and the governance sector is access to state services of protection of the people's sovereignty, civil liberties and rights access to security, fairness & justice, public services, freedom of choice, democratic and ethical institutions as enshrined in the constitution (Kenya Constitution, 2010). Interestingly, these three sectors while important to any economy are also prone to election violence and conflict.

1 Economy: A Total sum of a county's resources used in the production process inputs and outputs and how a society uses its resources to produce and distribute goods and services

2 Private/Public Sector & Investment Advisor

3 Poverty Gap Index: The mean over the population of the proportionate poverty gap, where the poverty gap is given by the distance of the poor below the poverty line, as a percentage of the poverty line.

4 Economic resources- Labor markets, Capital markets (financial & economic capital markets), land (natural resource markets).

Kenya Elections Project

This project contributes to peaceful elections management and state stability in Kenya, by reflecting and analysing the legal framework, political processes as well as practical of elections management. It offers opinion on contested aspects of the electoral and political process. Analysis is undertaken by a team of analysts comprised of individuals from the academia, civil society and government. Each output of the project is peer reviewed by six different individuals and debated at a review meeting, so as to ensure quality. The project regularly publishes its outputs as Elections Dispatch, which is disseminated in soft and hardcopy. The Elections Dispatch is a practical policy oriented publication. It feeds into and informs the electoral and political process by providing practical and easy solutions to policy makers in government, civil society, development partners, and the general public.

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The economic literature that exists conclusively points to the negative effects of conflict (i.e. election violence, civil wars and political instability) to economy decline. In particular, Chauvin, and Rohner (2009) in their study of the effects of conflict on the production structure of the economy, conclude that civil conflict is a major reason for structural economic problems in developing countries like Kenya. This study makes three conclusions that are important for the discussion herein; conflict reduces the share of the manufacturing sector in GDP - in the case of a "an infant" manufacturing sector like that of Kenya it wipes out serious structural growth gains made over the periods of sessional papers No 1 of 1986, 1994 and 1997 which emphasized sustainable growth, management and transformation of the manufacturing sector through the industrialization program.

Conflict increases the exploitation of natural resources (forestry, water) and reduces the production of crops – as indicated in this paper the 2007/2008 election violence had a devastating effects on the (horticulture) flower industry, Mau forest in Kuresoi and reduced agriculture production in rift valley, and reduced outputs in the service sector (markets, transportation & banking) as discussed below. Furthermore, collier and found that the industries that are more institutional/transaction (export) and labour intensive (service) safer most and are also less likely to recover unless supported.

Whereas competition amongst regions, sectors, firms and individuals in business and politics is healthy negative competition in politics has far – reaching consequences for the economy than the reverse. Amidst election fever and complex regional/personal urge to gain a competitive advantage, there are emerging internal sobering political dynamics with a new generation of urban citizens that consider themselves as distinctly different from their older counterparts, least bothered about ethnic affiliations and therefore difficult to manipulate using tribal messages, or is it?

However, the democratic institutional structure to carry this group to the ballot paper for a chance to participate in the election process is remote or non-existent. The question is, --- this group that contributed to increased use of the social media and ICT applications such as the internet, face book, twitter and other interaction platforms in the 2007 elections, going to extent the ICT critical influential factor in the race for the 2012 presidential elections in Kenya to 2013 in a positive manner? How this constituency that was largely is ignored in past elections and the internally displaced persons (IDPs) mostly women who lost their livelihoods, likely to affect the 2013 elections and the economy? It is no doubt that the future of Kenya's economic recovery currently at 3.9% depends on this 2013 election and future elections in neighboring countries will borrow in large measure from Kenya.

With this scenario one wonders whether a repeat prospect is not in the offing? Well seemingly so if the shifting pre-election alliances formations aimed at crafting an ethnic vehicle capable of capturing the state are anything to go by. Indeed, the Kenya Private Sector alliance has argued that the political alliances and rhetoric is not good for the economy. As argued above, if the same players remain in the game then we can assume that Kenya's forth coming elections will still be influenced to a large extent by ethnic manipulations.

For several decades following its independence, the Republic of Kenya stood somewhat apart from this norm and was widely regarded as one of the most stable countries in an otherwise volatile region. But as has been observed this reputation began to change following the beginning of a transition to multi-party democracy in the early 1990s. The new power contests presented by elections provided a political outlet for the long-simmering ethnic rivalries which now threaten to periodically escalate into inter-ethnic violence. Ogude (2010) has argued that this situation will not change in 2013 since a key element in Kenya's presidential elections is the role of personalities in elections.

I argue that this time around the candidates do not have significant influences on the campaigns and voting patterns for 2012/3 Presidential race is unlike any other previous one due to the supporting institutional framework led by the Independent Electoral and Boundaries Commission (IEBC) and Commission for Implementation of the Commission (CIC).

The Impact of 2007/2008 Elections on Kenya's Economy

The preceding discussion still does not remove doubts, uncertainty still lingers over Kenya's forthcoming general election date. Indeed, the challenges facing IEBC, CIC, Ethics and Anti-Corruption Commission(EACC) and the Judiciary, don't help either; the 2010 Constitution varied interpretations of various constitutional clauses for example, the date of elections, ethical matters, Public finance, political parties conduct etcetera remains divisive and controversial. This coupled with the high complications emerging from the confusion in the political parties posturing and politicking on the ICC process continues to create uncertainty in the economy and markets.

In 2007/2008 similar or worse tension prevailed leading up to the elections. To-date social-economic effects of the post election trauma are still to be determined, however, the economic and human costs of the violence though dramatic can be quantified and will have a long term impact on social relations and trust among ethnic communities for years to come. Various reports have attempted to explain the social and economic impact of the election violence (World Bank, 2011), USIAD, 2010) (Andreassen, Barasa, Kibua and Tostensen. 2008) none has specifically addressed its total short and long term impact on the economy.

In the period 2002 2007 Kenya's economic growth was robust with a real GDP average of 5.4%. In 2007 the real GDP reached 7.1%. The service sector, led by the tourism and telecommunications industry, was one of the main drivers of growth, indicating increased employment. However, strong economic growth had done little to reduce the country's widespread poverty because distribution was skewed in favour of the already affluent. In 1998 2002 the poorest 20% of the population received only 6% of the national income, while the richest 20% took 49%. In addition, the population suffered from generally high consumer price inflation, averaging around 11% in 2003 07 (Getzel, C. 2000).

The post-election crisis resulted in substantial damage to Kenya's social, infrastructural, institutional, and economic systems. To identify priority actions and to estimate the resources required to address them, the coalition government found itself with a strategy called the National Accord with Agenda [5] as the Implementation schedule under the National Reconciliation and Emergency Social and Economic Recovery Strategy (NARA) Implementation Committees2 of the same protagonists who were still seething in dislike of each other as to who "stole" the elections. These committees were periodically reporting to UN/AU through the president and the Prime minister on the recovery progress. Overall, the donor community report (2010) concludes that the assessments provided in the NARA are an accurate reflection of the impact of post-election violence (PEV) on the business community. Although the report was a government view of the impact of elections of selected sectors, it at least provided a government view. For us to make anticipated conclusions of what might happen in 2013 this survey reviews the most affected sectors of the agricultural sector (flowers); Small Enterprise, transport sectors and Financial services.

Agriculture

The agricultural sector bore the greatest brunt as it heavily relies on unskilled labour often 'migrant' workers from outside the counties. The resulting disruption in labour supply affected the production process, farm schedules and destruction of capital assets, which in turn distorted the demand and export patterns. Kenya's Economy Survey (2011) records a real growth in agriculture of 6.3 per cent in 2010 compared to 2.6 per cent in 2009. However, the reasons the government of Kenya gives for this turnaround is the usual favorable weather, improved prices of exports and tea and Government intervention through provision of subsidized programs. There is no mention to peace efforts by government (see NARA, GRRC and NSC committees) citizens, churches and civil society, clearly indicating that the government

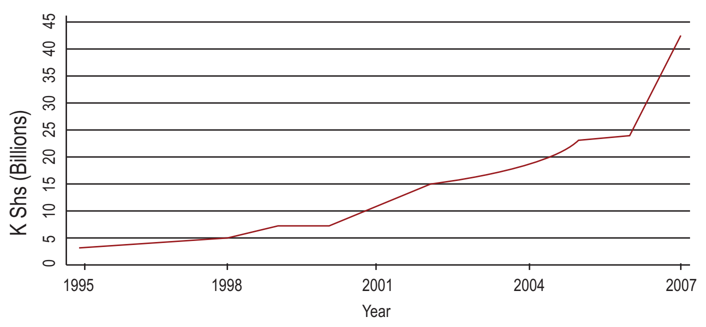
5 NARA was a GOK Social Economic Recovery strategy for economic recovery along with two other committees i.e. Government Resettlement and Reintegration Committee (GRRC) for IDP resettlement and the National Steering Committee on Peace Building and Conflict Management (NSC)

does not recognize the role of peace, and peace building (even of its own agents) to improved growth in agriculture and in the economy.

Horticulture is exclusively export orientated and an important part of GDP, being one of the three largest foreign exchange earners in 2006 (with tourism and tea), and taking the top spot in 2007. This export orientation exposed the subsector to the election violence that reduced the exports of Kenyan flower exporters by nearly one quarter on average and by nearly 40% for firms located in conflict areas. Figure 1 displays the dramatic increase in the exports of cut flowers from Kenya after the peaceful 2002 elections.

Fig 2.1 Kenyan flower exports

Source HCDA (2009)



Overall, the conflict reduced Kenyan flower exports by a quarter for firms located in conflict areas mainly due to displaced labour, other exports were reduced by 38 percent falling to a record loss of over Kshs.30 billion in cut flowers from Kshs. 43 Billion in 2007. The effects lasting for over three months of violence are shown in figure 2.1 (Horticultural Crop Development Authority (HCDA, 2006). However, not all horticultural exporting firms were affected in the same way as indicated by the HCDA (2010) report. Those that used only auctions to sell their produce were worst affected and saw a drop in exports of 41 percent. Those that exported only via direct buyers saw a drop in exports of 26 percent, while flower exports that used both flower auctions and direct buyers only saw their exports drop by 11 percent.

Although the World Bank (2011) reports show that horticulture sub-sector recorded an actual 15 percent higher (8.5 metric tons (MT)) than in January 2007, this might indicate that flower exports are likely to be maintained at the 2007 levels of 95,000 metric tons valued at about US$ 613 million compared to the decline of over 24 percent in 2008/2009 (see figure. 2.1). This impact is however not entirely correct as there is need to assess the further displacement of flower-farm workers, increased cost of security to flower farmers, and new arrivals displaced from elsewhere in into the affected areas.

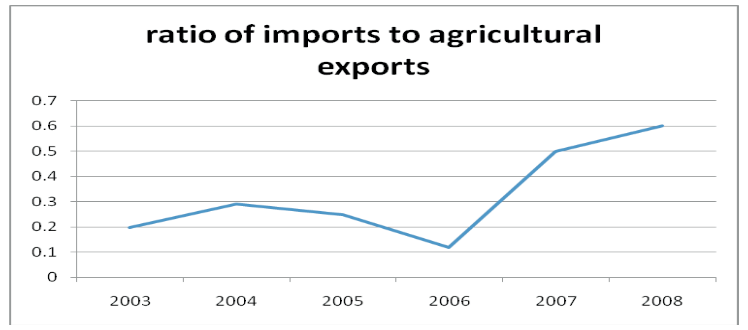
The World Bank (20011) estimated that there was across the board decline in the production of all main commodities, with the exception of the cut-flower sub-sector, averaging 25-30 percent in volume terms which had begun to see recovery by end of 2010. Furthermore, post-election violence interrupted the peak season for the short-rains' beans and maize harvests and it is estimated that 30 percent of the crops was not harvested and were lost. Even for those farmers who had already harvested, there were post-harvest losses of not less than 10 percent (30,000 MT) because of improper on-farm storage, made worse with the poor short-rains harvest that followed in late 2008. Furthermore, the short rains were inadequate in most of these areas and this resulted in both reduced production and lower national food supply.

Estimates by (USAID, (2009) on cereals in East Africa indicate that in total about 15-20 percent of the initially estimated 3 million MT of maize was lost in 2008, occasioning high inflation and increased cost of living that negatively affected the low income groups. The high inflation put pressure on the moderate and middle income groups who in turn put pressure on government to increase salaries to the Doctors, teachers and University Dons.

Figure 2.2 shows little convergence between the world food prices and the local market, which suggests that local factors, especially the post-election violence, may also be playing a big role in the price increase. The post-election violence led to the food price crisis which acerbated the disruption of policies that promote food production, dysfunctional input and output markets, inadequate subsidies to agricultural inputs, low food reserves, and raising unemployment. The need for investment in enhancing agricultural production for Kenya is also necessitated by the low ability to import commodities. This is indicated by the ratio of agricultural imports to total value of merchandise exports.

In the period 2004-2008, Kenya spent almost 20 per cent of its export revenue on agricultural imports (Figure 2.2). Post-election violence led to increased imports and reducing exports where a large cost of farm inputs led to declining level of agricultural and food production. This could also be attributed to fear of anticipated political unrest in the country by investors. Post-election uncertainties and unresolved conflicts may have been the cause of food inflation given the high proportion of food component in overall inflation, which has been on average 50 per cent in the period 2000-2007.

Fig 2.2 Ratio of imports to Agricultural Exports



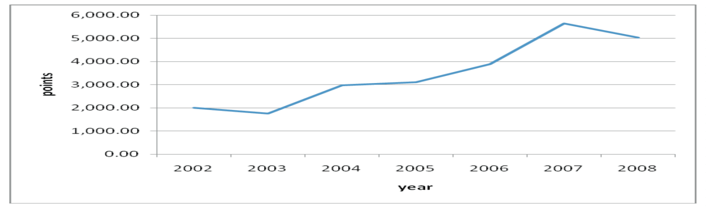
Source: Food Agriculture Organization

Financial Services

The financial sector plays a critical role in the development process through financial intermediation. Strong financial institutions are critical for increased investment, economic growth, employment and poverty alleviation. Broadly, the financial system includes the banking sector, capital markets sector, informal financial services sector and other non-banking financial institutions such as the insurance sector and pension schemes. By end of December 2007, there were 45 financial institutions comprising 42 commercial banks, two mortgage finance companies and one non-bank financial institution.

In the capital market, the stock market capitalization rose from Kshs. 792 billion in 2006 to Kshs. 851 billion in 2007 but fell to 763 billion in the year 2008. The daily NSE 20 Share Index lost 201 points between December 2007 and December 2008 to close the year at 5,445 points (Government of Kenya, 2009). The turnover, which is a measure of stock market liquidity, also reduced by 6.6 per cent in 2008 compared to the previous year. This may have been caused by post-election violence which led to many investors reducing their investment in Kenya for fear of depreciation of the Kenyan shilling. The performance in the stock market has been consistently impressive in Kenya. The Nairobi Stock Exchange (NSE) index grew by 185 per cent between December 2000 and December 2007 (Figure 2.3) but started falling immediately due to post election violence .The NSE 20 share index tracks the performance of the best 20 performing companies and does not, therefore, represent overall market trends. A new index, Nairobi All Share Index (NASI), tracking all the companies listed in the stock exchange, was recently launched and it is expected to provide a more enhanced picture of the stock market performance as shown in figure 2.3.

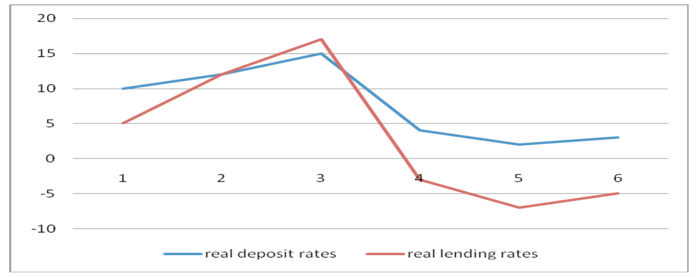
Figure 2.3 Stock Exchange Performances (2002-2008



Source: Nairobi Stock Exchange (2007; 2008)

The limited accessibility to financial services is due to the relatively high fees and commissions charged by banks as they tried to recover from the losses due to post election violence. The real deposit rate is also largely negative, meaning that depositors are not able to get full compensation for their savings due to nominal deposit rates being lower than the inflation rate caused by rise in food prices due to post election violence which led to property and food destruction. This discouraged saving and impedes investment growth as shown in Figure 2.4.

Figure 2.4: Deposits and Lending rates.



Source: World Bank (2011)

Transport and Communications

The transport and communication sector was also adversely affected by the violence. Unrest in Nakuru, Narok, Kisii, Kakamega and Naivasha effectively paralyzed transport to the western regions of the country, with roadblocks erected at regular intervals on the roads. Lorries, commuter buses and private vehicles were burned. Destruction of the Nairobi-Kampala railway at Kibera disrupted supplies to western parts of the country and Uganda, forcing re-routing to already insecure roads.

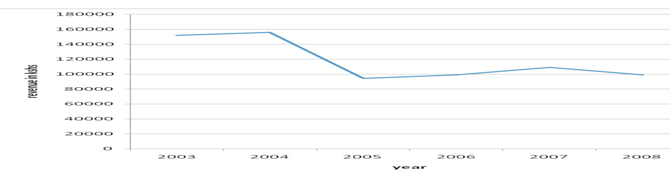
It is more difficult to obtain information on other service sectors. However, the fact that shops, stores and banks were closed during the crisis would mean that these sectors' contribution to GDP growth was negative in the first two months of the year. While the achievement of political solution is likely to lead a recovery in these sectors but not rapidly due to lower incomes, lack of supplies and imported goods as well as higher oil prices. Small and micro credit associations report facing defaulters and are estimating between 15 to 40 percent of their repayments losses. While the financial health of larger banks is thought to be better, there is no hard information. However, given the loss of output in the real sectors, financial sector's growth rate could decelerate to around 5-6 percent over the next two years or so from almost 8 in 2007. Rapid recovery is expected in both transport and communications sectors assuming that the political settlement agreement is adhered to.

These two sectors have been growing at about 9 percent in 2005 and 2006 and preliminary growth rate for these two sectors in 2007 was about 8.5 percent. Similar rates are expected in the next few years mostly from capacity utilization in transport and from both investment and productivity gains in the communications sector. The value of infrastructure output from the sector reduced at an alarming rate in the year 2008 due to the post election violence which led to burning and destruction of transport and communication infrastructure as shown in table 2.4 .figure 2.5 shows the falling levels of revenue from the sector which was highly attributed to political instability.

Table 2:1: value of infrastructure output

Sector	2003	2004	2005	2006	2007	2008
Electricity	18578.02	17,257.20	20,453.60	20,954.30	20,461.60	19,869.10
Water	6458.23	6,492.10	6,620.40	6,922.90	7,436.30	7,065.60
Posts	68752.2	74,325.00	8,001.20	8,367.80	8,545.90	6,203.70
Land	45230.56	46,513.00	47,636.10	50,278.80	58,054.10	52,427.70
Air	12587.08	11,161.80	11,621.10	12,545.10	14,410.80	13,344.80
Total	151606.09	155749.1	94332.4	99068.9	108908.7	98910.9

Fig 2.5: Revenue from the sector



Source: Kenya Economic Report 2009

Manufacturing and Construction

The manufacturing sector suffered significant distribution setbacks as a result of limited supply of raw materials and heavy man-hour losses. The collective impact of these was reduced capacity utilization, and hence productivity of 30 percent in January and February of 2009 that was reflected reduced GDP growth. Employment in the small and medium enterprises in the affected rural areas also suffered setbacks, since shops, machinery and plants were either damaged or demolished during the violence in major conflict areas and specifically in the rural market centres.

In addition, to an estimated 120,000 job losses in tourism, Kenya Association of Manufacturers (KAM, 2010) analysis estimates a temporary loss of about 400,000 jobs with casual informal labour likely to be the hardest hit. The impact of the crisis was differential across geographical regions but the KAM report notes that the hardest hit areas were Kisumu, Eldoret, Naivasha, Kisii and its environs. An estimated 40 percent drop in output in the Western region of this sector in 2008/2009. Construction activity slowed down after expanding over 10 percent in 2007 and preliminary data suggests this sector is taking a wait and see approach.

In contrast, in the year 2003 the exports in garments and apparel from Kenya rose due to African Growth and Opportunities Act (AGOA), which allowed African countries to export textiles and garments duty-free and without import quota restrictions (Table 2.2). The decline observed in 2008 was as a result of closure of some firms due to losses incurred due to the post-election violence and the influx of third class products which entered the Kenyan market leading to unhealthy competition.

Table 2.2: Export in Textiles

Year	Number of factories	Exports in KSHS
2003	10	30,000,000
2004	15	70,095,508
2005	25	119,907,104
2006	40	209,659,592
2007	36	261,214,768
2008	25	178,384,134