Standard Bank

AFRICA TRADE BAROMETER

Highlights of the current cross-border trade landscape in Kenya

Kenya
COUNTRY FOCUS

September 2023 | Issue 3

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EXECUTIVE SUMMARY

Being Africa's largest bank, Standard Bank (trading in Kenya as Stanbic Bank) has leveraged its presence and expertise across the continent to create the Stanbic Bank Africa Trade Barometer (SB ATB). The SB ATB was launched in 2022 with the intent of creating Africa's leading trade index to address the information vacuum of reliable African trade data and to support and enable the growth of intra-Africa trade. Availability of trade data remains a challenge across Africa and the SB ATB aims to fill part of this data gap through up-to-date survey data on the views of African businesses on the environment they operate in, their trade behaviour, trading activities and their perceptions on trade.

This is Issue 3 of the SB ATB. The SB ATB focuses on 10 countries: Angola, Ghana, Kenya, Mozambique, Namibia, Nigeria, South Africa, Tanzania, Uganda and Zambia.

In order to construct the SB ATB index rankings, seven broad thematic categories of data are collected from both primary and secondary data sources. These thematic categories are trade openness, access to finance, macroeconomic stability, infrastructure, foreign trade, governance and economy and traders' financial behaviour.

From a primary data perspective, the Stanbic Bank Firm Survey Trade Barometer (SB STB) is constructed. The SB STB scores and ranking by country are the averages of all the data collected only from the primary research surveys conducted with over 2,500 businesses across the 10 countries of interest.

From a secondary research perspective, the Stanbic Bank 3-Year Quantitative Trade Barometer (SB QTB) is constructed. The SB QTB scores and ranking by country are the averages of all the selected indicators collected only from existing secondary data sources.

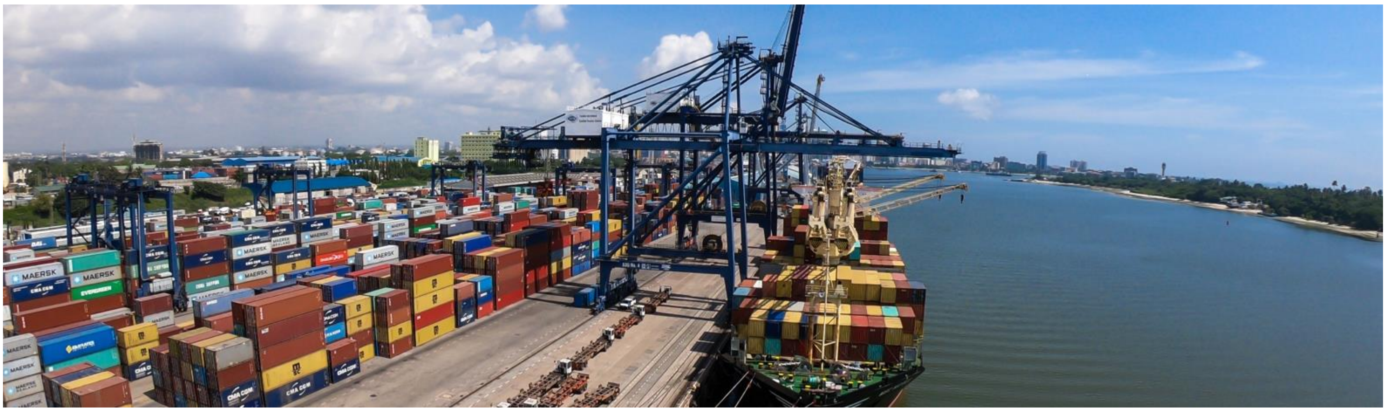
The SB ATB is an aggregate of the SB QTB and the SB STB.

This is the country report for Kenya. It contains analysis of the primary and secondary data gathered specifically for Kenya between March and May 2023 and showcases trends and opportunities in trade within the country.

Kenya's position in the overall SB ATB ranking improved from position 7 in September 2022 to position 6. With regards to the SB QTB, Kenya declined from position 5 to position 6. Similarly, Kenya's position in the SB STB slightly declined from position 7 to position 8. Hence, although Kenya declined both in the SB QTB and the SB STB, her overall SB ATB position improved in relation to the markets. It is important to note that the SB ATB ranking of countries is relative to the 10 countries themselves. In other words, countries are ranked against each other i.e., relative scores to each other.

Kenya has improved in the overall SB ATB ranking from position 7 in September 2022 to position 6.

The table below shows Kenya's relative performance in the seven broad thematic categories of the SB ATB.



Mombasa

SB STB ranking for Kenya across seven thematic areas

Thematic category	Indicator	Ranking out of 10 countries
Macroeconomic Stability	Business Confidence 55 55	6 (unchanged)
Governance and Economy	Government Support on Trade 48 57	4 ↑ (+3)
Infrastructure	Quality of infrastructure 48 53	3 ↑ (+3)
	Infrastructure obstacles 57 58	4 (unchanged)
Access to Finance	Access to Credit 43 49	2 ↑ (+4)
Traders' Financial Behaviour	Credit Terms Extended to Clients 37 43	8 ↓ (-2)
	Credit Terms Advance from Suppliers 44 58	5 (unchanged)
Foreign Trade	Ease of Trade 40 41	7 ↑ (+1)
Trade Openness	Trade openness 52 50	9 ↓ (-4)

Sep'22 May'23

Note: All indicators have an index score ranging from 0 to 100, where 0 represents a low score and 100 the highest score.

Kenya's overall macroeconomic conditions are average relative to the other countries in the Stanbic Bank Africa Trade Barometer. As such, Kenya's macroeconomic conditions have a moderate impact (i.e., neither too positive nor too negative) on her overall tradability attractiveness. Kenya's relatively high GDP and GDP growth have a positive impact on the country's tradability attractiveness. On the other hand, relatively high inflation, and the depreciation of the Kenyan Shilling, resulting from, among other factors, the high inflationary and interest rate environment globally, have a negative impact on the country's tradability attractiveness.

Business confidence among surveyed Kenyan businesses is generally neutral and consistent with the average of the other 9 markets in the SB ATB. Kenya has a business confidence score of 55, relatively consistent the average of all 10 SB ATB markets of 58. As such, Kenya is ranked sixth in the SB ATB in terms of business confidence—unchanged from September 2022 (**see the table above**). Whilst most surveyed businesses in Kenya have a neutral perspective on the prospects of the economy, the majority (74%) expect their revenue to increase over the next year, reflecting the waning effects of the COVID-19 pandemic on the operations of businesses.

Over the past three surveys, the perception of the Government's role in supporting cross-border trade amongst surveyed businesses in Kenya has been on an upward trajectory, improving from a score of 46 to 57 (see the table above). That said, surveyed businesses indicated that the Government should support their activities by reducing business taxes and lowering customs duties. In addition, improving local availability of the US dollar may be an important Government initiative to improve the enabling environment for cross-border transactions—particularly given the strain that recent shortages have put on Kenyan businesses.

The perception of infrastructure among Kenyan businesses is high relative to the 9 other markets in the SB ATB. Particularly, Kenya's transport infrastructure is generally well perceived by businesses—with a quality of transport infrastructure score of 53 relative to the average of SB ATB markets of 46 (**see the table above**). However, similar to the results in previous surveys, the state of the power supply (particularly the cost of power) was identified by Kenyan businesses as the largest obstacle constraining their operations.

Sentiments amongst surveyed businesses point toward increased cross-border trade over the next few years. The majority of importers and exporters expect the scale of their foreign trade activity to increase—signalling businesses' intent to increasingly engage in trade with other markets. Surveyed importers in particular expect import relations with China to increase; whilst sentiments amongst surveyed exporters point primarily toward increased export activity toward other East African countries such as Tanzania and Uganda.

Surveyed businesses in Kenya perceive access to credit as improving. This improvement was particularly high among small businesses and comes as the banking sector endeavours to expand its loan book, evident by the 12% increase in their loan book to the trade industry since 2021, amounting to USD 5.4 billion.

The primary research findings suggest that the burden of some of the traditional barriers on Kenyan businesses to trade with the rest of Africa may be declining. For example, the percentage of firms reporting trade with the rest of Africa to be easy grew significantly from 17% in September 2022 to 31% in this iteration of the survey. This change was particularly driven by a significant increase in the percentage of businesses reporting that there are easy trading procedures and lower trading taxes.

This result may be driven by the fact that most of the businesses' exports are sold to fellow EAC member states, where the existence of the EAC Common Market Protocol and EAC Customs Union has eliminated or significantly reduced tariffs and trade barriers and harmonised customs procedures amongst member states.

Kenya is one of the 54 signatories to the African Continental Free Trade Agreement (AfCFTA). Awareness of the AfCFTA amongst surveyed Kenyan businesses has significantly improved, increasing to 43% in May 2023 from 15% in September 2022. This result suggests that the recent introduction of Kenya's National AfCFTA Implementation Strategy, aimed at expediting the implementation of the AfCFTA, may be realising the desired benefits. When asked what benefits the AfCFTA was expected to bring to their businesses, surveyed firms most commonly identified the easing of the movement of goods and services across borders, the provision of greater competition, as well as providing a larger market for goods and services.

In conclusion, one aspect that will be interesting to track in future issues of the Stanbic Bank Africa Trade Barometer (SB ATB) in Kenya is business perceptions around Government support on trade. This year's SB ATB was conducted a few months after the August 2022 general elections, whereby the Government support index score increased significantly from 48 to 57. This may be a reflection of relative optimism among some businesses with the election of a new government. However, having been in power for a year, the actual policies of the new administration are coming to light. The recently passed Finance Act of 2023 has policies that some consider anti-business, including tax hikes on fuel. It will be interesting to see in future issues of the SB ATB what the effect of such policies will be, and hence the effect they will have on business operations and the perceptions of businesses.

Nairobi Railway Station, Kenya

1. INTRODUCTION

Being Africa's largest bank, Standard Bank (trading in Kenya as Stanbic Bank) has leveraged its presence and expertise across the continent to create the Stanbic Bank Africa Trade Barometer (SB ATB). The SB ATB was conceived with the intent of creating Africa's leading trade index to address the information vacuum of reliable African trade data and to support and enable the growth of intra-Africa trade.

Definition of trade in the context of the SB ATB

> Trade—in the context of the SB ATB—should be understood as the process of production and transfer of goods and services that is enabled by solutions that effectively connect the supply chain domestically and internationally to create economic value.

Launched in 2022, this is Issue 3 of the SB ATB. Issue 1 and Issue 2 were published in June 2022 and November 2022 respectively. The SB ATB focuses on 10 countries: Angola, Ghana, Kenya, Mozambique, Namibia, Nigeria, South Africa, Tanzania, Uganda, and Zambia.

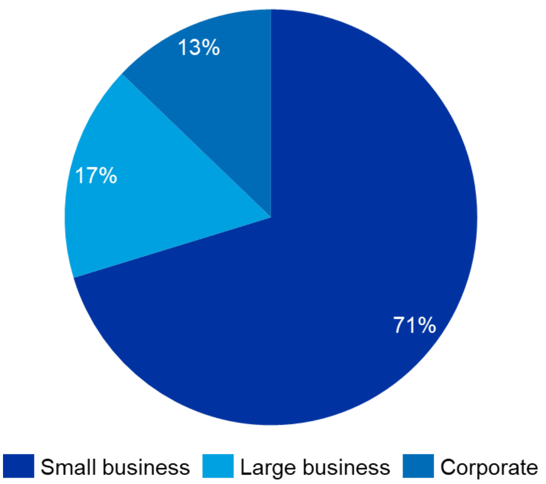
The objective of the SB ATB is to provide dynamic and insightful analysis that can intelligently inform and grow Africa's trade ecosystem. Updated annually, the data enables stakeholders to take the pulse of African trade in near real-time to measure improvements or declines in business confidence, track operational challenges, and identify shifts in overall tradability. To do so, the SB ATB covers seven broad thematic categories of data that impact on trade. These are: trade openness, access to finance, macroeconomic stability, infrastructure, foreign trade, governance and economy, and trade financial behaviour. These are the seven variables on which the trade barometer scores for each country are constructed.

The SB ATB is based on primary and secondary data sources. Primary research is gathered through a survey of over 2 500 firms representing small businesses, large businesses, and corporates across the 10 countries.[1] The survey is augmented by in-depth interviews (IDIs) with select thought leaders in respective countries, and secondary data from sources such as the World Bank, the International Monetary Fund (IMF) and central banks of the respective countries.

This is the country report for Kenya. It contains analysis of the primary and secondary data gathered specifically for Kenya and showcases trends and opportunities in trade within the country. Primary and secondary data was gathered in Kenya between March and May 2023 for this third issue of the SB ATB.

A total of 263 businesses were surveyed in Kenya. To be representative, the majority of these (71%) were small businesses (see **Figure 1**) given that most businesses in the country fall in this category. The reader should bear this in mind as it has a commensurate impact on the insights highlighted in this report. The surveyed businesses were in Nairobi, Mombasa, Nakuru, Kisumu and Eldoret.

Figure 1: Breakdown of surveyed businesses in Kenya by business segment



Source: Stanbic Bank Africa Trade Barometer Issue 3

The fact that the majority of surveyed businesses were small businesses is the central value-add of the Stanbic Bank Africa Trade Barometer (SB ATB). Aggregate trade data and information on the African continent is skewed by large businesses who trade specific commodities in large volumes. The trading activities and behaviour of small businesses is therefore not adequately represented. The SB ATB is different because, due to the underlying sample composition being majority small businesses, the emphasis and findings relate to small businesses, their trade behaviour, trading activities and their perceptions on trade. The SB ATB also makes a contribution in understanding the trade perceptions of small businesses in Africa that do not necessarily engage in cross-border trade. This is important because this understanding is helpful in the quest for Africa

[1] The business size definitions by turnover bands, as used in the context of the SB ATB, can be found in the 'About the Research' section later in this report

to transform herself from a poorly integrated trade environment to more trade integration where a large diversity and scope of the overall economy trades with each other.

Because of the intentional bias of the SB ATB on smaller businesses, the reader may notice that in certain instances the survey findings may differ from data at the aggregate level. This is to be expected as in many cases data at the aggregate level (from sources such as the Statistics Bureaus of individual countries, World Bank, etc.) is skewed by a few large businesses (multinationals, etc.) that trade large volumes of specific commodities. This is pointed out in the report, as relevant.

There were three IDIs conducted in Kenya as part of this third issue. One interview was with a chief executive officer (CEO) of a microfinance institution, another with a financial sector economist, and finally with a representative from a government-owned policy research institute.

Please note that although this is Issue 3 of the SB ATB and hence there are three data points for all variables from the surveys conducted so far (January 2022, September 2022 and now May 2023), this report predominantly compares September 2022 and May 2023 data points in most cases. This is done for ease of analysis and comparison with recent market trends in order to make contextual sense of the data. That said, all data points from the last three surveys of the SB ATB are available on request.

2. COUNTRY RANKINGS

Kenya has improved one position in the Stanbic Bank Africa Trade Barometer ranking, from position 7 to position 6

In order to construct the Stanbic Bank Africa Trade Barometer (SB ATB) index rankings, seven broad thematic categories of data are collected from both primary and secondary data sources. These thematic categories are trade openness, access to finance, macroeconomic stability, infrastructure, foreign trade, governance and economy, and trade financial behaviour.

From a secondary research perspective, the Stanbic Bank 3-Year Quantitative Trade Barometer (SB QTB) is constructed. The SB QTB scores and ranking by country are the averages of all the selected indicators collected only from existing secondary data sources / reported facts.

From a primary data perspective, the Stanbic Bank Firm Survey Trade Barometer (SB STB) is constructed. The SB STB scores and ranking by country are the averages of all the data collected only from the primary research surveys conducted with 2,636 businesses.

The SB ATB is an aggregate of the SB QTB and the SB STB. Changes in a country's ranking on the three indices (SB ATB, SB QTB and SB STB) are driven by changes in both the aggregate score for that country, as well as their relative ranking against the other countries included. Changes in the SB ATB rankings over the past 6 months are driven mostly by the changes in the SB STB scores.

It is important to emphasise that the SB ATB ranking of countries is relative to the 10 countries themselves. In other words, countries are ranked against each other i.e., relative scores to each other. This is pegged on a scale of 0 - 100. When indexed between this range, South Africa has the highest Tradability Index while Angola has the lowest. This does not imply that one cannot trade in Angola or that South Africa is perfect, it only implies that at a common starting point of 0 and maximum point of 100, this is how the two markets fared.

Kenya has improved from position 7 to position 6 in the SB ATB (see **Figure 2**). Kenya's SB STB scores that significantly improved in this iteration of the survey are **government support of trading activities** (businesses have a relatively positive perception on the support the government is providing to their trading activities) and **credit terms advanced by suppliers** (Kenyan businesses are increasingly utilising credit arrangements with suppliers as a form of credit).

The rest of this report unpacks Kenya's performance in the Stanbic Bank Africa Trade Barometer Issue 3 from both a primary and secondary research perspective, in line with the seven broad thematic areas referenced earlier.

Figure 2: ATB, QTB and STB ranking, by country

1 = High tradability score ↔ 10 = Low tradability score

May '23	South Africa	Namibia	Mozambique	Nigeria	Ghana	Kenya	Tanzania	Uganda	Zambia	Angola
ATB	1	2	3	4	5	6	7	8	9	10
Sep '22	1	3	6	8	2	7	5	4	9	10
Jan '22	1	7	3	8	2	4	5	6	9	10

May '23	South Africa	Namibia	Mozambique	Nigeria	Ghana	Kenya	Zambia	Tanzania	Uganda	Angola
QTB	1	2	3	4	5	6	7	8	9	10
Sep '22	1	4	3	7	2	5	9	6	8	10
Jan '22	1	8	3	6	2	4	9	5	7	10

May '23	Angola	South Africa	Tanzania	Namibia	Nigeria	Mozambique	Ghana	Kenya	Uganda	Zambia
STB	1	2	3	4	5	6	7	8	9	10
Sep '22	6	2	1	4	8	9	10	7	3	5
Jan '22	6	5	4	2	10	1	9	7	8	3

Key: Angola, Ghana, Kenya, Mozambique, Namibia, Nigeria, South Africa, Tanzania, Uganda, Zambia

Source: Stanbic Bank Africa Trade Barometer Issue 3
Notes: All values are shown so that a higher value is 'better' for trade, with the best to least ranking economies being ranked 1, 2, 3, etc., and how this has changed over time | Red border indicates that the country has declined in the relevant ranking from September 2022, Green border indicates that the country has improved in ranking from September 2022, while Grey border indicates that the country has remained in the same position as in September 2022.

National delivery of goods, Kenya

3. MACROECONOMIC ENVIRONMENT

Kenya's macroeconomic conditions have a moderate impact on her tradability attractiveness

A country's macroeconomic environment plays an important role in how attractive it is with regards to trading activities. A country has a high tradability attractiveness if it is characterised by: high GDP (many goods and services are produced in the country); high GDP per capita (residents have a high spending power); stable inflation (a stable local currency so that it does not disadvantage importers, for instance); high foreign direct investment (FDI) (generally conducive for business and investment); high merchandise trade as a percentage of GDP (imports and exports are high); and so on.

As part of the calculation of the SB QTB, a tradability attractiveness score is calculated for each country using relevant macroeconomic indicators, including those highlighted in Table 1. The three-year average (2020, 2021 and 2022) of each relevant indicator in a country is first normalised[2] which allows for the relative impact of each indicator on overall tradability attractiveness to be compared and converted to a score. The same macroeconomic indicators can be used to understand the macroeconomic environment of a country, which is done in this section of the report.

Macroeconomic conditions in Kenya are improving, although negatively affected by global inflation contributing to rising domestic inflation and the depreciation of the Kenyan Shilling

The overall macroeconomic conditions in Kenya continue to be average hence having moderate impact (i.e., neither too positive nor too negative) on her overall tradability attractiveness (see **Table 1**). Notable variables that have a high positive impact on tradability attractiveness include GDP and GDP growth which have recovered from the worst effects of the COVID-19 pandemic. Although Kenya's FDI net inflows have been dwindling over the past decade, FDI net inflows have shown slight improvement post the COVID-19 pandemic, thus positively impacting the country's tradability attractiveness. Moreover, while FDI inflows to Kenya remain behind that of Ethiopia, Uganda and Tanzania, Kenya recorded the second-largest growth in FDI inflows after South Sudan in 2022.[3] On the other hand, notable variables that have a high negative impact on tradability attractiveness include merchandise trade which still forms a relatively small portion of Kenya's GDP signalling low trade openness; and exports which form a relatively small and decreasing percentage of GDP, although there are signs of recovery driven by exports in the agriculture sector (tea, coffee and horticulture). Rising inflation fuelled by global inflation due to the Russia-Ukraine conflict (among other factors), and the coinciding depreciation of the Kenyan Shilling adversely affect the country's tradability attractiveness.

Table 1: Kenya's macroeconomic indicators

Variable	2018	2019	2020	2021	2022
GDP (current USD)	USD 92 billion	USD 100 billion	USD 100 billion	USD 110 billion	USD 113 billion
Real GDP growth (%)	5.6%	5.1%	-0.3%	7.5%	4.8%
Inflation (annual %)	4.7%	5.2%	5.4%	6.1%	7.7%
Lending interest rate (%)	13.1%	12.4%	12.0%	12.1%	12.3%
Exchange rate (KES:USD, period average)	101.3	102.0	106.5	109.8	117.9
FDI net inflows (BoP, current USD)	USD 0.8 billion	USD 0.5 billion	USD 0.4 billion	USD 0.5 billion	USD 0.6 billion
Merchandise trade (% of GDP)	25%	23%	21%	24%	26%
Imports of goods & services (% of GDP)	22%	20%	18%	20%	22%
Exports of goods & services (% of GDP)	13%	11%	10%	11%	12%

Source: Kenya National Bureau of Statistics (KNBS); Stanbic Bank analysis;
Note: Some percentages and figures are rounded to the nearest whole number

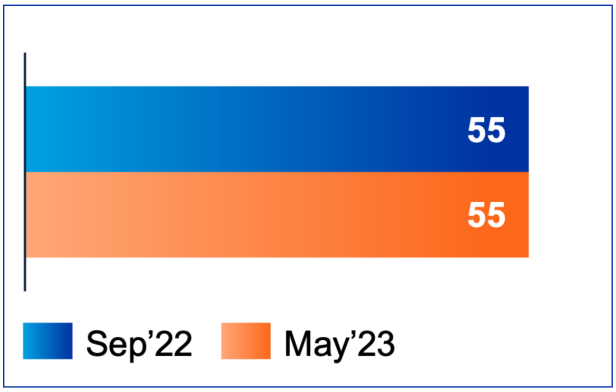
[2] Normalisation here means calculating the deviation of a particular macroeconomic indicator in a specific country from the mean of that indicator in all 10 SB ATB countries

[3] UNCTAD, 2023. Available here.

4. MACROECONOMIC STABILITY

Confidence in the economy remains relatively optimistic

Kenya's business confidence index score



Business confidence can vary between 0 and 100, where 0 indicates an extreme lack of confidence, 50 neutrality and 100 extreme confidence. In the May 2023 SB ATB survey results, Kenya's business confidence index score remained unchanged from September 2022 at 55.

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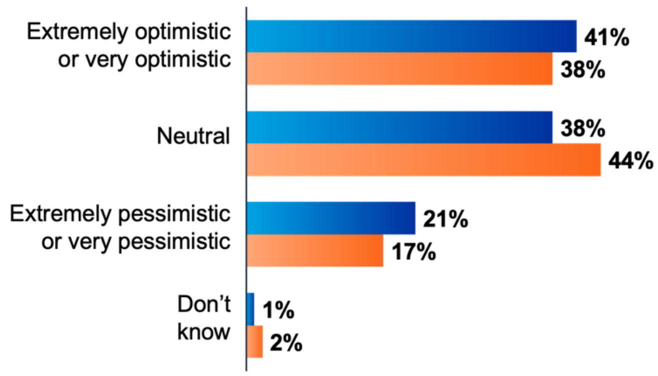
Most Kenyan businesses—regardless of their size—retain a positive or neutral outlook on the performance of the economy and their businesses over the next three years (see **Figure 3**). Their optimism appears to be supported by official economic growth forecasts. The Kenyan economy has steadily recovered from the worst effects of the COVID-19 pandemic and is forecasted to grow by 5.1% in 2023 and 5.5% in 2024 due to expected increases in household and services consumption expenditure (see **Figure 4**).[4]

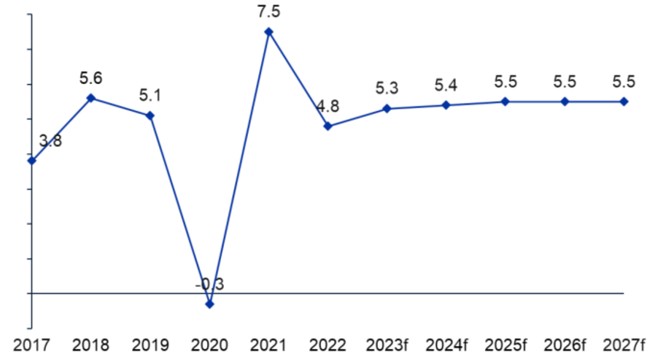
Figure 3: Outlook of businesses on the performance of the Kenyan economy over the next three years

Question: Please indicate how you feel about the performance of the economy in relation to business in the next 3 years.



Source: Stanbic Bank Africa Trade Barometer Issue 3

Figure 4: Real GDP growth (%, 2017 - 2027)



Source: Kenya National Bureau of Statistics (KNBS); IMF
Note: 'f' represents forecasted data points

Respondents who held an optimistic outlook on the immediate future of the Kenyan economy most commonly cited the country's political and economic stability as the main factors to their optimism. This sentiment is likely driven by the recent decline in political risk following the conclusion of the August 2022 elections that were regarded as largely peaceful by the international community.[5]

Respondents' positive outlook on the future state of the economy also appears to translate into an optimism around the prospects of their business. The majority (74%) of businesses believe that their revenue will increase over the next year primarily due to the perception that demand for their goods or services will increase in the near future. This overall sense of optimism reflects the waning effect of COVID-19 on the operations of businesses. Significantly fewer businesses reported reduced productivity, reduced demand, contract cancellation, changed working capital management, or prohibitive Government legislation as challenges impacting their businesses relative to the January 2022 and September 2022 iterations of the survey.

Only 17% of businesses expressed a negative outlook on the future performance of the Kenyan economy. The most common reasons cited for this were a perceived lack of political stability and high taxation.

The rising cost of inputs was also identified as a significant challenge that businesses are currently grappling with, given relatively high inflation in the country. There have been increases in the cost of fuel and other commodities in Kenya, as well as the fact that the Kenyan Shilling has been depreciating rapidly in recent

[4] IMF; African Development Bank, 2023. Available here

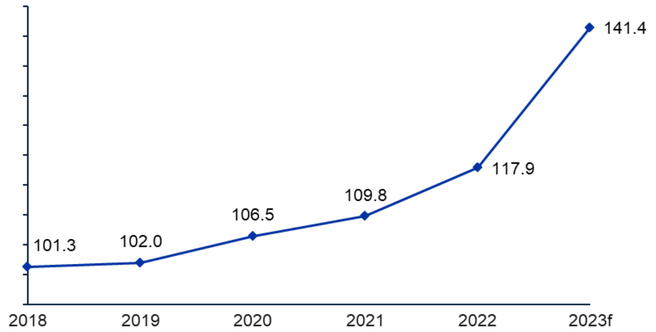
[5] IMF, 2023. Available here

months relative to the US dollar. Soaring costs have led firms to raise their prices charged for goods and services.[6]

Inflation grew to 9.2% in March 2023 compared to 5.6% in the same period in 2022 due to elevated food and fuel prices. These prices increased due to higher prices of fresh produce following the recent drier-than-expected weather conditions in the country, elevated international oil prices and the gradual unwinding of the Government Subsidy Programme on energy items.[7]

The KES, on the other hand, has been undergoing noted volatility against the US Dollar. The shilling lost 5% value against the US dollar in the period from January to March 2023, compared to a 1% depreciation in a similar period in 2022 (see **Figure 5**).[8] As the gap between Kenya's interest rates and US and European rates has narrowed, the shilling has become less and less attractive, putting the currency on a downward spiral of depreciation. It is unlikely that the shilling will gain ground in 2023. The US Federal Reserve remains committed to a course of higher interest rates, meaning the US dollar is likely to remain strong.

Figure 5: Foreign exchange (KES: USD, period average, 2017 - 2023)



Source: CBK; Stanbic Bank Analysis; African Markets Reveal report
Notes: 'f' represents forecasted data point

The SB ATB survey results reflect the findings of the latest Stanbic Bank Kenya Purchasing Managers' Index (PMI) data, signalling a continued downturn in the Kenyan private sector in recent months. The PMI score is a weighted average of five indices from survey data collected from 400 private sector companies. These five indices are New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are also seasonally adjusted.

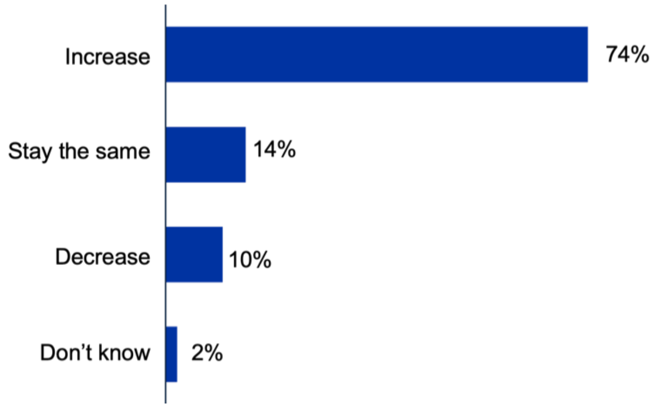
The headline PMI registered below the 50.0 neutral mark for the fourth month running in May.[9] However, at 49.4, the index was up from 47.2 in April, signalling a slower deterioration in business conditions in the current run of contraction. The main negative influences on the PMI in May came from significant contractions in new orders placed and output of businesses most likely due to a lack of purchasing power among customers due to high inflation and cash shortages. In addition, negative sentiments could be a reflection of nationwide public protests held by the opposition coalition during this time.

Despite challenging macroeconomic conditions, businesses appear to be optimistic about the prospects of their individual businesses (see **Figure 6**). The majority of businesses (74%) believe that their revenue will increase over the next year primarily due to the perception that demand for their goods or services will increase in the near-future. This overall sense of optimism reflects the waning effect of the COVID-19 pandemic on the operations of businesses as businesses anticipate an increase in demand. At the same time, the optimism despite adverse conditions highlights that businesses in Kenya have managed to adapt and operate in such unfavourable conditions.

> **74%** *of surveyed businesses expect their business turnover to increase in the next year, despite the slight increase in negative sentiments*

Figure 6: Businesses revenue expectations over the next year

Question: Thinking ahead, do you expect business turnover to increase, decrease or remain the same.



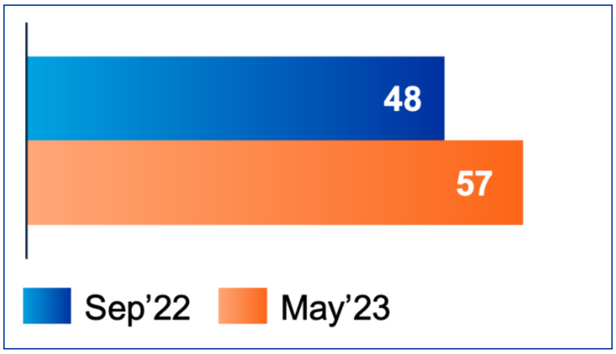
Source: Stanbic Bank Africa Trade Barometer Issue 3

[6] Stanbic Bank, 2023. Available here
[7] Ministry of Finance-Budget Review and Outlook Paper 2023
[8] CBK
[9] Stanbic Bank, 2023. Available here

5. GOVERNMENT SUPPORT

Perceptions of Government support on trade have improved

Kenya's government support index score



Government support index can vary between 0 and 100, where 0 indicates an extreme lack of Government support, 50 neutrality and 100 extreme Government support. In the May 2023 SB ATB survey results, Kenya's Government support index score increased from 48 to 57. This means that surveyed businesses in Kenya feel the Government has been more supportive of cross-border trade activities in this iteration of the survey compared to the September 2022 survey.

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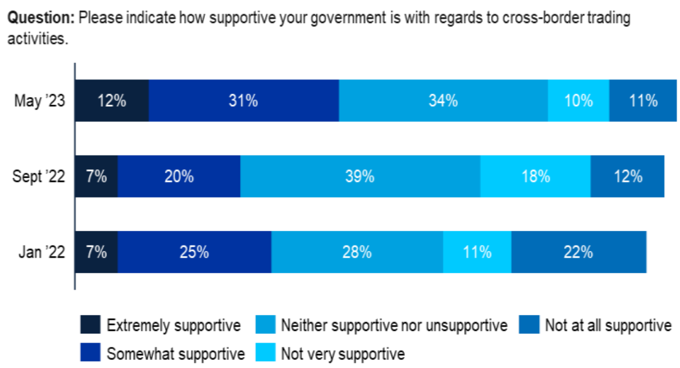
Most businesses have a positive perception of the Government's role in supporting their cross-border trade activities. Notably, there was a significant increase in the percentage of firms who feel the Government is at least somewhat supportive of their cross-border trading activities relative to September 2022, increasing from 27% in September 2022 to 43%.

> **43%** *of surveyed businesses (compared to 27% in September 2022) find the Kenyan Government more supportive of their cross-border trade activities.*

This positive perception of the Government's role in supporting traders comes following several recent Government interventions to support Kenyan businesses. These include the Government's focus on improving road and rail infrastructure with the intent of improving cross border trade, ; as well as plans to subsidise farm inputs and reduce the cost of production for traders in the agricultural sector.[10] Moreover, announcements made by the President in early 2023 on the Government's intent to lower electricity tariffs, resolve foreign currency shortages by working with the central bank to revive the interbank foreign exchange market, and reduce trade barriers with other East African countries (particularly Uganda) are likely to have resulted in these positive sentiments.[11] The Government support index may also be a reflection of the immediate reaction of businesses post the August 2022 general election due to the expected change in the business environment through the implementation of pro-business policies by a new government. However, these sentiments are likely to deteriorate in the future as the new Government administration is perceived to be implementing anti-business policies such as tax hikes on fuel.[12]

Figure 7: The extent the Government has supported cross-border trade activities as identified by businesses



Source: Stanbic Bank Africa Trade Barometer Issue 3

Larger businesses on average have a more positive perception of the Government's support for cross-border trade relative to smaller businesses. This difference may be explained by larger businesses having better access to information about Government programs, more resources and capacity to navigate complex regulatory environments and Government support being more accessible and tangible to larger businesses.

[10] IMF, 2023. Available here
[11] Republic of Kenya, 2023. Available here. | Reuters, 2023. Available here. | YouTube, 2023. Available here
[12] Africa News, 2023. Available here

Many businesses feel that the provision of some form of financial relief may ease some of the frictions that inhibit their ability to engage in cross-border trade. To permit a deeper understanding of their stance on Government support for cross-border trade, businesses were asked to state the degree to which various Government initiatives are important as means of facilitating cross-border trade. Businesses identified the reduction of business tax and the lowering of customs duties as the two most important interventions. This suggests that businesses believe that trade activity may be stimulated if the cost of trading were to be lowered. However, the capacity of the Government to do this may be limited, given its goals to decrease the fiscal deficit and embark on a period of fiscal consolidation.[13] This is because the Kenyan Government's debt ballooned over the last decade, with the country's debt-to-GDP ratio rising from 42% to 69% between 2013 and 2020. This level of debt might not be sustainable going forward.

Improving foreign currency availability and reducing limitations on foreign currency purchases may be an important Government initiative to strengthen the enabling environment for cross-border transactions. This is particularly important since the majority of cross-border transactions in Kenya are conducted in US dollars. The primary research indicates that these are particularly salient challenges for Kenyan importers and is likely driven by the recent decline in the supply of dollars in the country—with foreign exchange reserves hitting an eight-year low in March 2023. This shortage has also been associated with a depreciation of the Kenyan shilling relative to the US dollar, further increasing the cost of trade for Kenyan importers.[14]

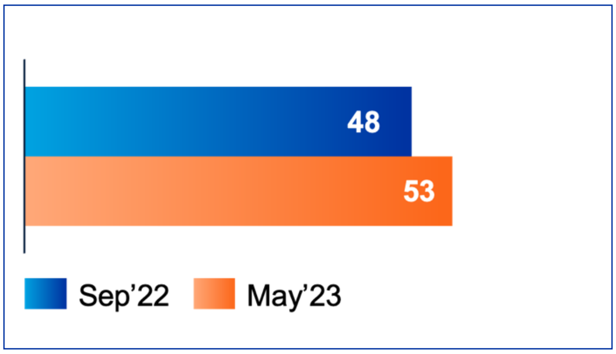
[13] World Economic Forum, 2023. Available here

[14] Bloomberg, 2023. Available here

6. INFRASTRUCTURE CONSTRAINTS AND ENABLERS

The perceived quality of infrastructure in Kenya has improved

Kenya's quality of trade-related infrastructure index score



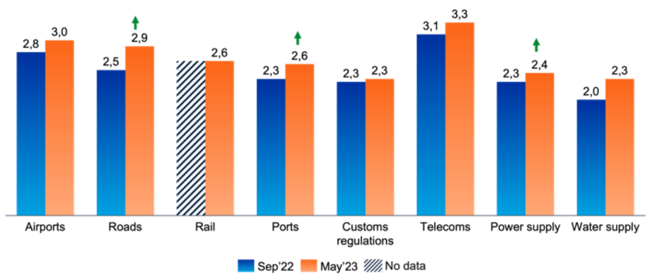
The quality of trade-related infrastructure index can vary between 0 and 100, where 0 indicates poor quality, 50 indicates fair quality and 100 indicates excellent quality. In the May 2023 SB ATB survey results, Kenya's quality of trade-related infrastructure index score moderately improved from 48 in September 2022 to 53.

***

The perceived quality of infrastructure in Kenya by surveyed businesses improved on average relative to the survey conducted in September 2022 (see **Figure 8**). This improvement was driven by increases in the perception of quality across all infrastructural aspects. Notably, there was a significant increase in the perceived quality of Kenya's road, port and water supply infrastructure.

Figure 8: The perceived quality of various infrastructural aspects by businesses (5-point scale)

Question: How would you rate the quality of each of the following aspects in your market?



Source: Stanbic Bank Africa Trade Barometer Issue 3.
Notes: Rating is on a 5-point scale, where 5 = excellent quality and 1 = poor quality | Arrows denote whether the value of the variable is significantly higher / lower than in the previous survey.

The positive perception among businesses of Kenya's infrastructure may not be surprising. The country has one of the best infrastructure networks in SSA, ranking 53rd in the world in the Global Quality Infrastructure Index.[15] The Government has historically made heavy investments in the country's road networks. The Port of Mombasa has also been undergoing major expansion and rehabilitation, including the upgrading of four berths to increase port capacity from 32 million tons to 47 million tons and the construction of a second container terminal.[16] Once it is brought online, the port will have the capacity for 20 million twenty-foot equivalent units (TEUs) annually. The Government is also hoping to yield improved trade facilitation from the development of the Mombasa Special Economic Zone (SEZ), set to be completed in 2026. This SEZ is planned to comprise an approximately 3,000 acre, customs-controlled area in which the Government will facilitate industrial activity through fiscal and regulatory incentives and infrastructure support.[17] This infrastructure support includes high quality logistics infrastructure such as highways, railways, and close proximity to the Port of Mombasa and the Moi International Airport. The Mombasa SEZ, given its strategic location and the aforementioned infrastructure support, is expected to boost trade and investment in the region - leveraging Mombasa's status as a major port city and gateway to East Africa.

That said, while the Government envisages transport diversification in the long term to improve trade flows, fiscal constraints mean that the pace of development will be slow.[18] Planned infrastructure development has been delayed as the Government looks to rein in debt and embark on fiscal consolidation. Projects such as Lamu Port Southern Sudan – Ethiopia Transport (LAPPSET) Corridor have witnessed slow pace of development.

> "In our country's context, I can say that recent improvements in our road networks and connecting rural areas to these networks have been major positive contributors to trade."

Representative from a Government-owned policy research institute

[15] Global Quality Infrastructure Index Program
[16] Ministry of Roads and Transport
[17] Special Economic Zones Authority, 2023. Available here
[18] Ministry of Roads and Transport; World Economic Forum

In addition to perceptions of quality, businesses were also asked to state the degree to which these infrastructural aspects form obstacles to the current operations of their business. **Reflecting the high quality of infrastructure in Kenya relative to the rest of SSA,[19] only one out of the eight infrastructural aspects (the state of the power supply) were identified as a significant obstacle hindering the operations of Kenyan businesses.**

Similar to the results in previous surveys, the state of the power supply was identified as the largest obstacle constraining the operations of Kenyan businesses. This comes following two nationwide outages that occurred in November 2022 and March 2023 which resulted in significant financial losses for businesses in affected regions and underlined the need for additional investment into Kenya's ageing transmission infrastructure.[20] Electricity bills have also been a concern for years, with new higher tariffs burdening consumers, households and businesses, and past subsidies by the Government not being able to fully address the issue.[21] Some relief from Government may be forthcoming in the form of a KES 10 billion (USD 72 million[22]) revamp of the transmission network beginning in July 2023 and amendments to regulation that will permit private electricity producers to sell power directly to all consumer groups.[23]

"The main barrier for businesses in terms of infrastructure is power, particularly for rural areas where it may be accessible but is unreliable. Even when businesses have access to a generator their cost of operations will be much higher. I have seen how power outages affect businesses that do not have generators where production goes down and productivity goes down."

Representative from a Government-owned policy research institute

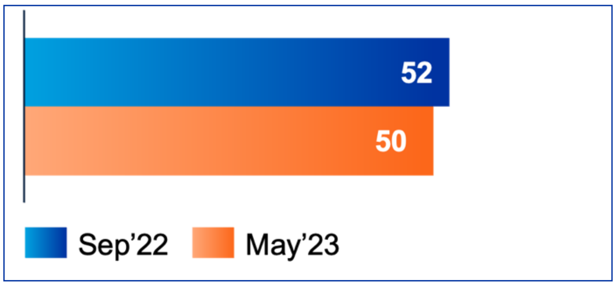
Mombasa – Nairobi Highway

[19] Global Quality Infrastructure Index Program, 2021. Available here.
[20] Onyano, 2022. Available here.
[21] The Kenya Institute for Public Policy Research and Analysis, 2023. Available here.
[22] Based on an approximate exchange rate of USD 1 = KES 138.
[23] Business Daily Africa, 2023. Available here.

7. TRADE OPENNESS

Exporters and importers remain bullish on the prospect of increased cross-border trade

Kenya's trade openness index score



The trade openness index score can vary between 0 and 100, where 0 indicates a high burden of obstacles inhibiting trade, 50 indicates a moderate burden of obstacles inhibiting trade and 100 indicating a low burden of obstacles inhibiting trade. In the May 2023 SB ATB survey results, the trader perceptions on the degree of challenges impacting trade score declined slightly from 52 to 50.

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The majority of businesses surveyed source their inputs locally, while only 20% of surveyed businesses import their inputs. For those businesses that import, the majority operate in the consumer goods sector, purchase their inputs directly from international wholesalers and use a transport or freight company for delivery to their premises.

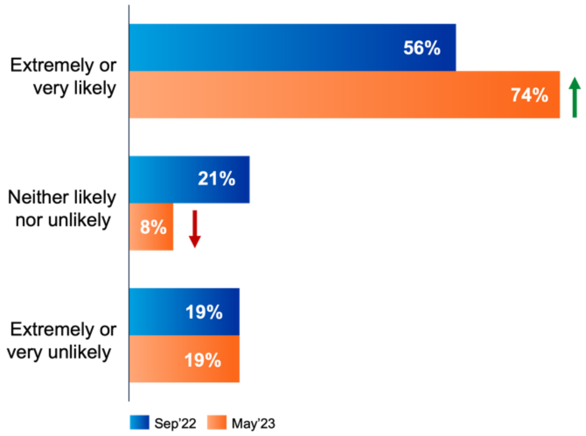
Asian countries—particularly China—are important bilateral import partners to Kenyan importers. Specifically, 64% of importers in our sample source inputs from at least one Asian country. The top three source countries are China, Japan and India. This survey data corresponds to aggregate country data—these countries all fall into the top five bilateral import partners for Kenya.[24] In addition, imports from these countries make up a large proportion of gross imports for those importers who import from Asia. When importers were asked about why they choose to import from China, the most important factors driving their decision were the perception that Chinese products are of a good quality, that the prices of their products are favourable and their customer service.

Comparatively, imports from other African countries are low. Only 19% of importers in our sample import from neighbouring East African countries, primarily Tanzania and Uganda. This is despite being part of the East African Community (EAC) trading block that aims to encourage trade between these nations. The number of businesses importing from the rest of Africa is also low. Only 2%, 8% and 2% of importers import from North Africa, Southern Africa and West Africa respectively.

Kenyan importers are bullish on the prospect of increasing the volume of their imports over the next two years (see **Figure 9**). 74% of importers believe that their import volumes are very likely or extremely likely to increase over the next two years. This represents a significant (18 percentage point) increase relative to the sentiments recorded in the September 2022 survey and reflects the optimism of businesses for increased economic activity over the forthcoming years. These businesses primarily expect imports from China to increase, and on average expect this increase to be around 38% of their current import volumes.

Figure 9: Importers perceptions on their likelihood to increase import volumes over the next 2 years

Question: How likely are you to increase the volume of imports in the next 2 years?



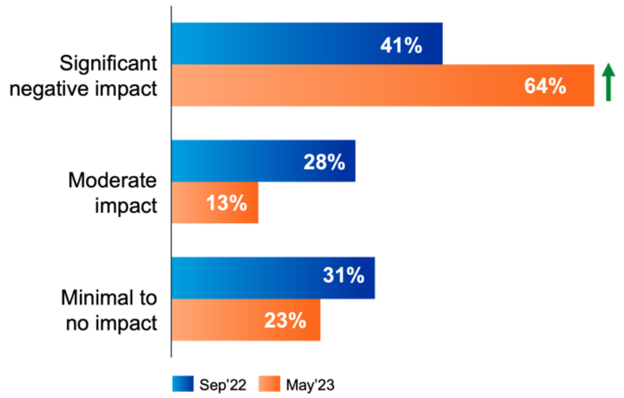
Source: Stanbic Bank Africa Trade Barometer Issue 3
Note: Arrows denote whether the value of the variable is significantly higher / lower than in the previous survey.

Importers overwhelmingly feel that importation-related taxes are an inhibitor on the ability of their business to grow (see **Figure 10**). 64% of respondents indicated that importation-related taxes have a significant negative impact on business growth. The proportion of importers reporting these taxes to have a significant negative impact increased significantly (by 23 percentage points) relative to the survey conducted in September 2022. This increased awareness of the impact of import taxes on the growth of their business may be driven by the increased financial strain on businesses, particularly given rising input prices and inflation.

[24] WITS, 2021. Available here.

Figure 10: The impact of importation-related taxes on importers

Question: To what extent do importation-related taxes, including tariffs, impact your business growth?



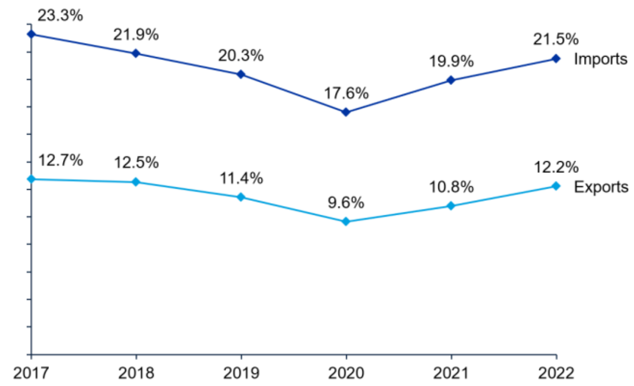
Source: Stanbic Bank Africa Trade Barometer Issue 3
Note: Sample includes importers only. Arrows denote whether the value of the variable is significantly higher / lower than in the previous survey.

> **64%** *of surveyed importers feel that importation-related taxes such as tariffs have a significant negative impact on their business growth.*

Conversely, importers in general feel that importation-related customs do not have a significant negative impact on the growth of their business. 52% of importers feel that customs and other trade regulations have a negligible impact on their business growth, similar to the results in the previous survey in September 2022. As such, compliance with import regulations does not appear to put significant strain on Kenyan importers.

In terms of businesses selling activity, the majority of businesses only sell their goods locally while only 6% of surveyed businesses export their goods to foreign markets. For those businesses that export, the majority operate in the consumer goods sector, and sell directly to international end consumers using freight companies for delivery. The relatively low proportion l of exporters within the sample reflects the situation at the aggregate country level. Kenya's exports as a percentage of GDP stood at only 12% in 2022 (see **Figure 11**).[25] This low percentage is mainly due to product-specific and market-specific barriers faced by Kenyan exporters, including difficulties in meeting certain standards in certain markets, the lack of trade-related infrastructure (including flights), and a lack of capabilities or productivity.[26] While exports form a relatively small share of Kenya's GDP, there are signs of recovery driven by exports in the agriculture sector which contribute more than 60% of the country's export earnings.[27]

Figure 11: Imports and exports (% of GDP, 2017 - 2022)



Source: World Bank, Kenya National Bureau of Statistics (KNBS)

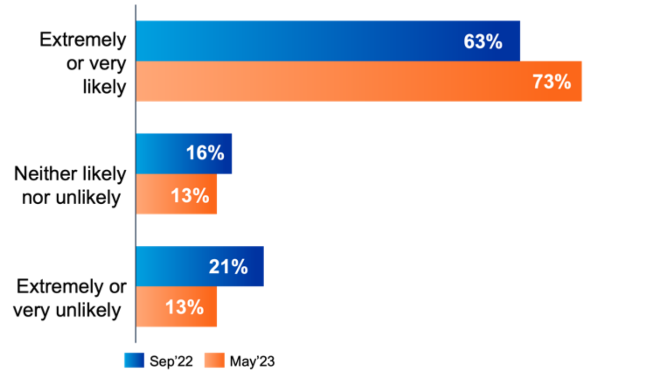
The majority of export activity by Kenyan exporters is concentrated toward other African markets. In particular, 80% of exporters in our sample export to other EAC countries. The most popular destinations are Tanzania (67%), Uganda (67%) and Burundi (27%). In addition, exports to other African markets form a significant share of exporters' gross exports (roughly 67% of the average exporters' exports are sold to other African countries). These results are different from the aggregate export data for Kenya, where the top five export markets are Uganda, Pakistan, United Kingdom, United States and the Netherlands.[28] The variation may be because corporates, who make up the bulk (volume) of exports and who make up a small portion of our sample (13%), may have access to different markets. On the other hand, small businesses, who made the largest portion of our sample at 71%, have access to more local markets and neighbouring countries.

Similar to importers, exporters are also bullish on the prospect of increasing the volume of their exports over the next two years (see **Figure 12**). Reflecting the aforementioned optimistic sentiments on revenue expectations, 73% of surveyed exporters feel that it is very likely or extremely likely to increase over the next two years. These exporters primarily believe that volumes will increase toward Tanzania and Uganda. The positive sentiment around export growth prospects may be driven by the government's efforts to position Kenya as a manufacturing hub from a small business perspective. Additionally, the growing maturity of the EAC and expected currency depreciation is expected to further support exports.

[25] World Bank; Kenya National Bureau of Statistics (KNBS)
[26] FSD Kenya
[27] PWC, 2023
[28] WITS, 2021. Available here

Figure 12: Exporters perceptions on their likelihood to increase export volumes over the next 2 years

Question: How likely are you to increase the volume of exports in the next 2 years?



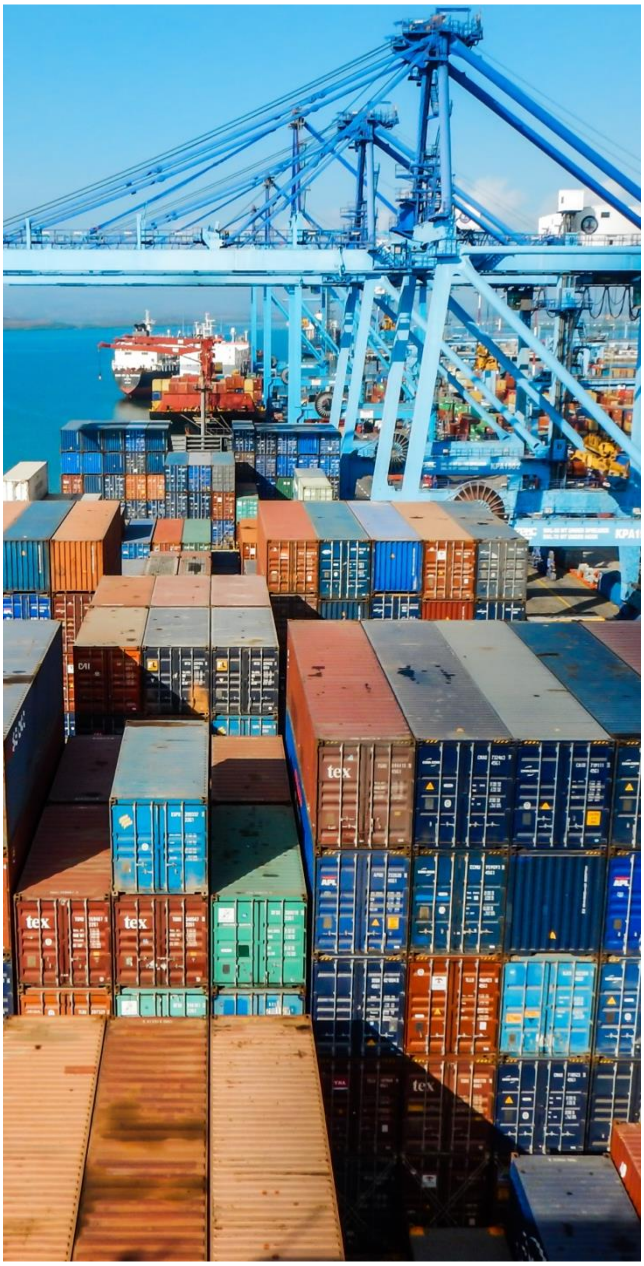
Source: Stanbic Bank Africa Trade Barometer Issue 3

Note: sample includes exporters only. Arrows denote whether the value of the variable is significantly higher/lower than in the previous survey.

The majority of surveyed exporters feel that exportation-related customs and trade legislation have a significant effect on the growth of their business. This may be due to customs regulations imposing additional costs on exporters such as expenses related to compliance, as well as prohibitive tariffs, quotas or technical standards that create barriers for exporters to access other foreign markets and hence hinder their revenue potential.

> "Most exporters complain about the many customs-related laws that are difficult to understand. These exporters have been calling for a simplification of the tariffs that are applied."

Representative from a Government-owned policy research institute

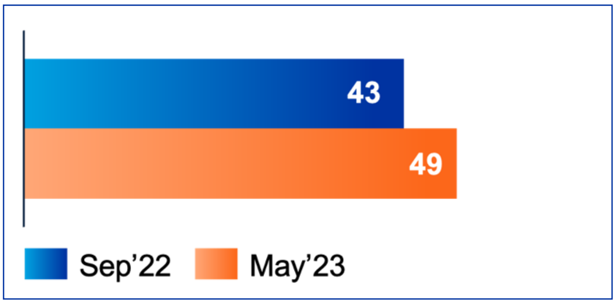


Container vessel under cargo operations - Mombasa

8. TRADERS' FINANCIAL BEHAVIOUR & ACCESS TO FINANCE

Businesses mainly use mobile money for domestic transactions. For cross border transactions, small businesses use mainly cash while larger businesses use digital payment methods

Kenya's access to finance index score



Access to finance can vary between 0 and 100, where 0 indicates an extreme difficulty in accessing finance, 50 neutrality and 100 indicates no difficulty in accessing finance. In the May 2023 SB ATB survey results, Kenya's access to finance index score increased to 49 from 43 in September 2022. This means surveyed businesses in Kenya found it easier to access finance compared to September 2022.

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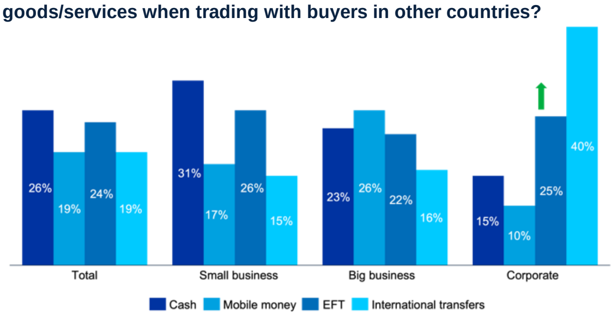
In Kenya, payment preferences vary across business segments for cross-border sales (see **Figure 13**). While small businesses lean towards cash (31%), corporates use digital payment solutions. Surveyed corporates utilise international transfers and EFTs to facilitate 40% and 25% of their cross-border sales, respectively.

Cash remains king for small businesses in Kenya to facilitate cross-border trade. 31% of surveyed small businesses use cash for cross-border sales.

Figure 13: The proportion of cross-border sales by method of payment

Question: Thinking of your sales, generally how are you paid for goods/services when trading with buyers in other countries?



Source: Stanbic Bank Africa Trade Barometer Issue 3

EFT is the preferred payment method for cross-border purchases. It was selected by 35% of businesses, while international transfers—which involves the movement of funds directly between two banks—was preferred by 26% of the respondents. The convenience and reliability of EFTs makes it an attractive option, particularly for corporations engaged in frequent cross-border trade.

"There is considerable effort in terms of different technology to enable ease of payments across borders in a manner meant to address the challenges that enterprises especially small and medium faced when doing international trade."

Financial sector economist

93% *of surveyed businesses use mobile money to facilitate domestic sales*

Mobile money is the preferred payment method for domestic transactions in Kenya. Among small businesses, it constitutes 46% of purchases, while larger businesses rely on it for 39% of their transactions. Notably, 93% of businesses use mobile money for domestic sales, underscoring its dominant position in the country's acceptance landscape. The widespread success of mobile money in Kenya, particularly Mpesa, can be attributed to its extensive agency network that provides convenient transactional services. This popularity is also indicative of the consumer-driven nature of the local payments landscape, where mobile money meets the demands of the marketplace.

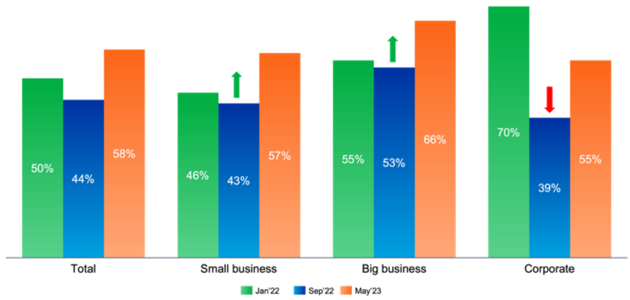
39% *of surveyed small businesses find it easy to access finance, increasing from 26% in September 2022.*

In a positive development, **the perceived access to credit among businesses in Kenya has improved.** This improvement was particularly high among small businesses (16% more respondents found accessing credit to be somewhat easy). Similarly, corporates indicated that accessing finance is becoming easier, especially as the economy recovers from the impact of COVID-19. This comes as the banking sector endeavours to expand its loan book, evident by the 12% increase in their loan book to the trade industry since 2021, amounting to USD 5.4 billion.

Both corporates and small businesses rely more on credit arrangements through their suppliers, as opposed to traditional credit (see **Figure 14**). While corporations historically had a high uptake of credit arrangements with their suppliers—especially pre-COVID-19—small businesses are now also pivoting toward this source of credit. **This could be a reflection of the challenges in accessing finance through conventional channels in the medium-term,** primarily driven by the persistent increases in the Central Bank Rate (CBR). **In March 2023, the CBR was adjusted upwards to 9.5% signalling a higher cost of credit going forward** (see **Figure 15**).[29] This has a direct negative implication on the cost of borrowing (at least in the medium term) and the working capital needs of traders and producers. This could result in limited investment in trade and commerce activities by individuals and enterprises.

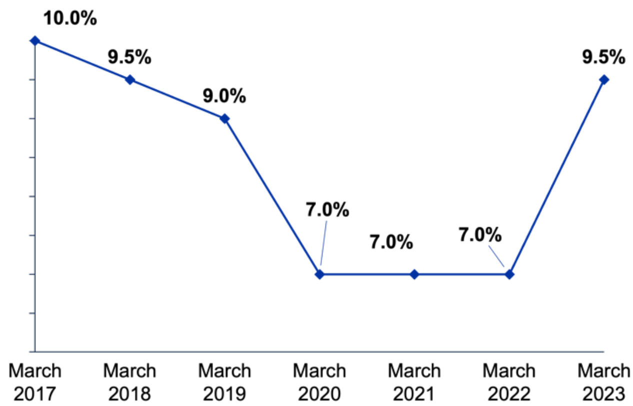
Figure 14: The proportion of Kenyan businesses with credit arrangements with their suppliers

Question: Do you have credit terms arrangements with your suppliers?



Source: Stanbic Bank Africa Trade Barometer Issue 3

Figure 15: Central bank rate (%, 2017 - 2023)



Source: CBK

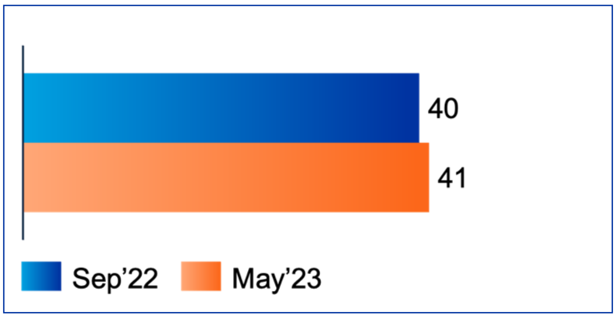
View of business district of Nairobi.

[29] CBK

9. FOREIGN TRADE & TRADING IN AFRICA

Businesses are reaping the fruits from Kenya being a member of the EAC, and awareness of the AfCFTA has significantly increased

Kenya's ease of trade index score



Ease of trade can vary between 0 and 100, where 0 indicates an extreme difficulty when trading with other countries, 50 neutrality and 100 indicates no difficulty when trading with other countries. In the May 2023 SB ATB survey results, Kenya's ease of trade index score increased to 41 from 40 in September 2022. This means surveyed businesses in Kenya found it easier to trade compared to September 2022.

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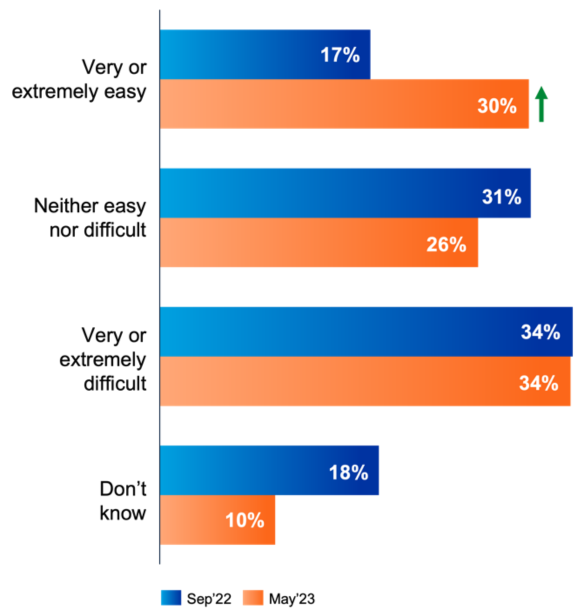
A country's political stability (22%), market accessibility (22%) and tax rates (19%) are the most important factors for Kenyan businesses when considering which partners to conduct cross-border trade with. The relative importance of political stability may explain why China is significantly favoured by businesses as a source of inputs relative to neighbouring East African countries, as its relative political stability may provide businesses with a degree of confidence in the predictability and stability of their supply chain. Market accessibility and tax rates, meanwhile, may explain why neighbouring East African countries are popular markets for Kenyan exports. Traders incur relatively low transport costs when trading with these countries due to their proximity and the relatively liberalised tariff schedule brought about by the EAC Common Market Protocol and Customs Union.

Intra-African trade—trade between African countries—has historically been low compared to African trade with other regions of the world. This has largely been attributed to a variety of complex and interrelated factors including infrastructure challenges, political instability and conflict, and the presence of barriers such as high tariffs and complex customs procedures.

The primary research findings suggest that the burden of some of these barriers on Kenyan businesses may be declining (see **Figure 16**). The percentage of firms reporting trade with the rest of Africa to be easy (either very easy or extremely easy) grew significantly from 17% in September 2022 to 31% in this iteration of the survey. More granular analysis reveals that this is driven by a significant increase in the percentage of businesses reporting that there are easy trading procedures and lower trading taxes. This result may be driven by the fact that the majority of the businesses exports are sold to fellow EAC member states, where the existence of the EAC Common Market Protocol and EAC Customs Union has eliminated or significantly reduced tariffs and trade barriers. The EAC has also harmonised customs procedures among member states and thereby significantly simplified trade processes between member states, which may explain why the majority of businesses are not significantly impacted by customs regulations.

Figure 16: Businesses perceptions of the ease of trading with other African countries

Question: In your view, would you say trading with the rest of Africa is…?



Source: Stanbic Bank Africa Trade Barometer Issue 3
Note: Arrows denote whether the value of the variable is significantly higher / lower than in the previous survey.

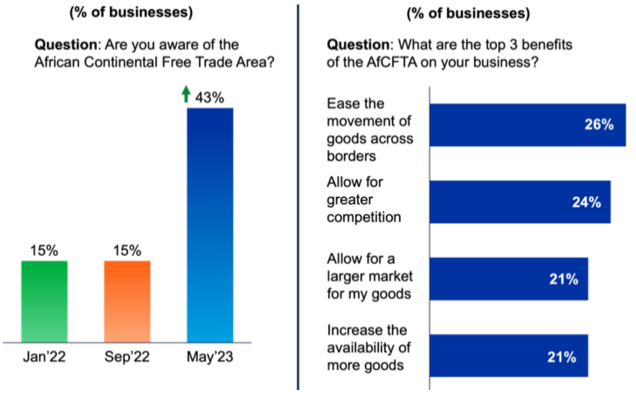
Kenya is one of 54 signatories to the African Continental Free Trade Agreement (AfCFTA). AfCFTA is an initiative which looks to, amongst other things, improve the level of intra-African trade by creating a single market for goods and services and lower some of these aforementioned trade barriers. To this end, members of the AfCFTA are committed to eliminating tariffs on most goods and services that are traded between African countries over a given period following the AfCFTA entering its operational phase in July 2019.

> **43%** *of surveyed businesses are aware of AfCFTA, increasing from 15% in September 2022.*

Awareness of the AfCFTA amongst Kenyan businesses is increasing (see **Figure 17**). The percentage of respondents that are aware of the AfCFTA increased to 43% from 15% recorded in both January and September 2022—a statistically significant change. This is partially driven by the recent introduction of Kenya's National AfCFTA Implementation Strategy, aimed at expediting the implementation of the AfCFTA. As part of this broader strategy, the communication strategy focuses on developing and delivering easily understandable and relevant messages to the target audience through engagement with AfCFTA champions, organising a mass media campaign and developing relevant content to promote the AfCFTA agenda.[30] In addition, Kenya's involvement in the guided trade pilot phase of the AfCFTA initiative is noteworthy. This marked the formal initiation of Kenya's preferential trading under the AfCFTA agreement on September 23, 2022. A notable event during this period was the export of the first consignment of Kenyan-made Exide batteries to Ghana.[31]

In general, most Kenyan businesses believe that the implementation of the AfCFTA will reap benefits for their businesses (see **Figure 17**). The most commonly identified benefits are easing the movement of goods and services across borders, greater competition, as well as providing a larger market for goods and services.

Figure 17: Businesses awareness and expected benefits of the African Continental Free Trade Area (% of businesses)



Source: Stanbic Bank Africa Trade Barometer Issue 3
Note: Arrows denote whether the value of the variable is significantly higher / lower than in the previous survey.

Container vessel

[30] UNECA, Available here

[31] The East African, Available here

10.MAIN OBSTACLES TO TRADE

Kenyan businesses continue to face significant obstacles to trade

Kenyan businesses face significant obstacles in global trade including customs, trade regulations and tariffs. While the Government collaborates with fellow African countries through memberships in the EAC and COMESA where preferential tariff regulations exist, perceived difficulties have increased over time. This highlights the need for strengthened Government support through the encouragement of Government participation in global and regional trading blocs with favourable forex controls and tariff regulations that can provide a more conducive environment for trade.

Businesses also feel that foreign exchange shortages are significant inhibitors on their ability to trade with other countries. 48% and 52% of surveyed businesses indicated that foreign exchange shortages are a severe or major obstacle constraining their ability to trade with countries within and outside of Africa respectively. This is likely driven by the recent scarcity of US dollars in Kenya, resulting in significant challenges for Kenyan importers since the majority of cross-border transactions in Kenya are conducted in US Dollars.

> "We need as Africans to really engage ourselves and develop robust markets amongst ourselves by conducting trade with one billion Africans to improve our economies, despite the challenges that we face to have this treaty enhanced across nations."

CEO of a microfinance institution

48% *of surveyed businesses indicated that foreign exchange shortages are a severe or major obstacle inhibiting their ability to trade with other African countries.*

While infrastructure challenges persist, certain trade obstacles have been alleviated over time. Both intra-Africa and global trade logistics have improved, with businesses highlighting improved rail infrastructure and airport operations. For instance, the horticulture sector encounters logistical hurdles in transporting perishable goods, despite improvements in infrastructure facilitated by Government and regional trade agreements. However, further efforts are required to address the remaining challenges in this area.

11. CONCLUSION

In conclusion, one aspect that will be interesting to track in future issues of the Stanbic Bank Africa Trade Barometer (SB ATB) in Kenya is business perceptions around Government support on trade. This year's SB ATB was conducted a few months after the August 2022 general elections, whereby the Government support index score increased significantly from 48 to 57—meaning more businesses had a positive perception of the Government's role in supporting their cross-border trade activities. This may reflect relative optimism among some businesses with the election of a new government. The current

administration campaigned on, among other things, changing the business environment through the implementation of pro-business policies.

However, having been in power for a year, the actual policies of the new administration are coming to light. The recently passed Finance Act of 2023 has policies that some consider anti-business, including tax hikes on fuel and contributions to a national housing fund.[32] It will be interesting to see in future issues of the SB ATB what the effect of such policies will be, and hence the effect they will have on business operations and the perceptions of businesses.

[32] Africa News, 2023. Available here

12. APPENDIX

Appendix 1: Stanbic Bank Africa Trade Barometer (SB ATB) Country Ranking for Issue 3, 2023

The Stanbic Bank Africa Trade Barometer (SB ATB) scores are an aggregate of the Stanbic Bank 3-Year Quantitative Trade Barometer (SB QTB) scores and the Stanbic Bank Survey Trade Barometer (SB STB) scores. Countries are ranked against each other, i.e., relative scores to each other. This is pegged on a scale of 0 - 100. When indexed between this range, South Africa has the highest Tradability Index while Angola has the lowest. This does not imply that one cannot trade in Angola or that South Africa is perfect, it only implies that at a common starting point of 0 and maximum point of 100, this is how the two markets fared.

SB ATB scores remained the same for Angola, South Africa and Zambia, while the majority of ranks for other countries have increased from September 2022 (see **Table 2**).

Countries that have retained their ranking from September 2022:
- South Africa (1st position)
- Zambia (9th position)
- Angola (10th position)

Countries that have improved in their ranking from September 2022:
- Namibia (3rd to 2nd position)
- Mozambique (6th to 3rd position)
- Nigeria (8th to 4th position)
- Kenya (7th to 6th position)

Countries that have declined in their ranking from September 2022:
- Ghana (2nd to 5th position)
- Tanzania (5th to 7th position)
- Uganda (4th to 8th position)

Table 2: Stanbic Bank Africa Trade Barometer (SB ATB) scores by country

Country	Africa Trade Barometer (ATB) Score	ATB Ranking	
		September 2022	May 2023
Angola	0 0	10	10
Ghana	74,3 19,5	2	5
Kenya	55,8 19,3	7	6
Mozambique	57,5 30,5	6	3
Namibia	60,2 43,1	3	2
Nigeria	48,4 25,9	8	4
South Africa	100 100	1	1
Tanzania	58,9 15,3	5	7
Uganda	58,9 14,8	4	8
Zambia	43,2 14,1	9	9

Sep'22 May'23

Note: The scores denote the performance of each country relative to the full country list on the specified measures

Appendix 2: Stanbic Bank 3-Year Quantitative Trade Barometer (SB QTB) Country Ranking for Issue 3, 2023

The Stanbic Bank 3-Year Quantitative Trade Barometer (SB QTB) scores and ranking by country are the averages of all the selected indicators collected only from existing secondary data sources / reported facts.

SB QTB scores remained the same for Angola, Mozambique and South Africa, while the majority of ranks for other countries have dropped from September 2022 (see **Table 3**).

Countries that have retained their ranking from September 2022:

- South Africa (1st position)
- Mozambique (3rd position)
- Angola (10th position)

Countries that have improved in their ranking from September 2022:

- Namibia (4th to 2nd position)
- Nigeria (7th to 4th position)
- Zambia (9th to 7th position)

Countries that have declined in their ranking from September 2022:

- Ghana (2nd to 5th position)
- Kenya (5th to 6th position)
- Tanzania (6th to 8th position)
- Uganda (8th to 9th position)

Table 3: Stanbic Bank 3-Year Quantitative Trade Barometer (SB QTB) scores by country

Country	Africa Quantitative Barometer (QTB) Score		QTB Ranking	
	Sep'22	May'23	September 2022	May 2023
Angola	0	0	10	10
Ghana	86,2	26,6	2	5
Kenya	63,9	26,4	5	6
Mozambique	67,4	36,9	3	3
Namibia	64,7	46,2	4	2
Nigeria	56,1	32,4	7	4
South Africa	100	100	1	1
Tanzania	59,2	23,1	6	8
Uganda	51,8	17,6	8	9
Zambia	51,8	23,1	9	7

Note: The scores denote the performance of each country relative to the full country list on the specified measures

Appendix 3: Stanbic Bank Survey Trade Barometer (SB STB) Country Ranking for Issue 3, 2023

The Stanbic Bank Firm Survey Trade Barometer (SB STB) scores and ranking by country are the averages of all the data collected only from the primary research surveys conducted with 2,636 businesses.

Except for South Africa and Namibia, SB STB ranks have changed in this wave for all countries (see **Table 4**).

Countries that have retained their ranking from September 2022:

- South Africa (2nd position)
- Namibia (4th position)

Countries that have improved in their ranking from September 2022:

- Angola (6th to 1st position)
- Nigeria (8th to 5th position)
- Mozambique (9th to 6th position)
- Ghana (10th to 7th position)

Countries that have declined in their ranking from September 2022:

- Tanzania (1st to 3rd position)
- Kenya (7th to 8th position)
- Uganda (3rd to 9th position)
- Zambia (5th to 10th position)

Table 4: Stanbic Bank Survey Trade Barometer (SB STB) scores by country

Country	Africa Survey Barometer (STB) Score	STB Ranking	
		September 2022	May 2023
Angola	22,6 100	6	1
Ghana	0 18,4	10	7
Kenya	10,3 18,2	7	8
Mozambique	1,2 21,6	9	6
Namibia	34,1 52,7	4	4
Nigeria	8,4 22,5	8	5
South Africa	84,0 66,8	2	2
Tanzania	100 65,2	1	3
Uganda	57,0 12,2	3	9
Zambia	26,6 0	5	10

Sep'22 May'23

Note: The scores denote the performance of each country relative to the full country list on the specified measures

Appendix 4: The relative impact of selected macroeconomic indicators on the tradability attractiveness of Stanbic Bank Africa Trade Barometer Countries for Issue 3, 2023

In the table below, the ranking (between position 1 and position 10) as well as the respective colour coding highlight the impact of a specific macroeconomic indicator (e.g., FDI net inflows) on the tradability attractiveness of the respective country. To arrive at this ranking, the three-year average (2020, 2021 and 2022) of each indicator in a country is first normalised[33] which allows for the relative impact (relative to the other nine countries) of each indicator on overall tradability attractiveness for that country to be arrived at.

Table 5: Country ranking on the impact of macroeconomic indicators on tradability attractiveness

	Merchandise trade (% of GDP)	GDP (Current USD)	GDP growth (%, average annual)	Imports (% of GDP)	Exports (% of GDP)	Inflation	Lending interest rate (%)	FDI Net Inflows
Angola	4	4	10	9	2	10	8	10
Ghana	6	5	4	5	6	9	10	3
Kenya	9	3	1	7	9	6	3	7
Mozambique	2	9	6	1	4	5	6	2
Namibia	1	10	9	2	3	2	1	8
Nigeria	10	1	7	10	10	8	4	4
South Africa	5	2	8	4	5	4	2	1
Tanzania	8	6	3	8	7	1	5	6
Uganda	7	7	2	6	8	3	7	5
Zambia	3	8	5	3	1	7	9	9

Key: Negative relative trade impact Positive relative trade impact

[33] Normalisation here means calculating the deviation of a particular macroeconomic indicator in a specific country from the mean of that indicator in all 10 SB ATB countries

13. ABOUT THE RESEARCH

The Stanbic Bank Africa Trade Barometer is based on both primary and secondary research sources. This is Issue 3 of the SB ATB. Issue 1 was released in June 2022 and Issue 2 was released in November 2022. The data collection (both primary and secondary research) for Issue 3 happened between March and May 2023 in all 10 countries of interest.

The primary research component involves the administration and analysis of a firm survey (i.e., a survey of sample businesses in the countries of interest) and holding of in-depth interviews (IDIs) with key stakeholders. The sample is stratified by size (small, big, and corporate), region and industry. For Issue 3, 2 636 businesses were surveyed and 30 IDIs were conducted across the 10 countries.

In Kenya, 263 businesses were surveyed. 48% of these businesses were in Nairobi, 22% in Mombasa, 11% in Nakuru, 10% in Kisumu and 9% in Eldoret. The breakdown of surveyed businesses in Kenya by business segment was as follows:

- 71% were small businesses.
- 17% were big businesses.
- 13% were corporates.

In the context of the SB ATB, small businesses are defined as those with a turnover of less than KES 200 million, large businesses as those with a turnover of between KES 200 million and KES 4 billion and corporates as those with a turnover of more than KES 4 billion.

The breakdown of surveyed businesses in Kenya by industry was as in **Table 6**:

Table 6: Breakdown of surveyed businesses in Kenya by industry

Industry	%	Industry	%
Wholesale and retail trade; repair of motor vehicles and motorcycles	**30%**	Financial and insurance activities	**3%**
Accommodation and food service activities	**11%**	Education	**2%**
Manufacturing	**11%**	Electricity, gas, steam and air conditioning supply	**2%**
Public administration and defence; compulsory social security	**6%**	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	**2%**
Other service activities	**6%**	Real estate activities	**1%**
Human health and social work activities	**5%**	Activities of extraterritorial organisations	**1%**
Information and communication	**5%**	Water supply; sewerage, waste management and remediation activities	**1%**
Construction	**4%**	Professional, scientific and technical activities	**0.4%**
Transportation and storage	**4%**	Administrative and support service activities	**0.4%**
Agriculture, forestry and fishing	**3%**	Arts, entertainment and recreation	**0.4%**
Mining and quarrying (includes oil & gas)	**3%**		

The breakdown of surveyed businesses by staff complement was as follows:

- 30% had below 5 employees.
- 28% had 5 - 10 employees.
- 14% had 11 - 20 employees.
- 14% had 21 - 50 employees.
- 6% had 51 - 100 employees.
- 6% had 101 - 1,000 employees.
- 2% had 1,001 - 5,000 employees.

With regards to individual respondent characteristics within the businesses, 57% were male and 43% were female. The breakdown by their job titles is as follows:

- 35% were owners of the business.
- 17% were general managers.
- 9% were heads of department.
- 8% were chief accountants.
- 4% were managing directors.
- 4% were chief executive officers (CEOs)
- 3% were financial directors.
- 19% held other job titles.

Further details by region, business segment, industry, staff complement, age of firm, the firms' corporate and strategic decision-making structures as well as individual respondent characteristics (gender, job title, etc.) are available on request.

There were three IDIs conducted in Kenya as part of Issue 3. One interview was with a CEO of a microfinance institution, another with a financial sector economist, and finally with a representative from a government-owned policy research institute. These interviews are quoted in this report, as relevant.

The survey and IDIs were conducted on a confidential basis.

The secondary research component involves the gathering and analysis of quantitative data. This data is primarily collected from World Bank sources, although additional data is obtained from the International Monetary Fund (IMF), the International Trade Centre and individual country central banks and statistics bureaus.

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In-depth details on how the Standard Bank Africa Trade Barometer scores for each country are calculated, and the resultant country rankings, are available on request.

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The research was produced by Standard Bank Business and Commercial Banking Research and Insights. For any questions or information requirements on this report please contact tradebarometer@standardsbg.com

14. ENDNOTES

The secondary sources used in drafting this report are listed below in alphabetical order.

1. Bloomberg. Available here
2. Business Daily Africa. Available here
3. Central Bank of Kenya (CBK). Available here
4. International Monetary Fund (IMF). Available here
5. Kenya National Bureau of Statistics (KNBS): Available here
6. Ministry of Roads and Transport. Available here
7. Stanbic Bank Kenya. Available here
8. World Bank. Available here and here
9. World Economic Forum. Available here

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