

# Pestel analysis of kenya



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The Republic of Kenya is a developing country of East Africa lying at the equator. On the south east it is surrounded by the Indian Ocean and on the others it is surrounded by Somalia, Ethiopia, Sudan, Uganda and Tanzania. The country is named after Mount Kenya, the country's highest peak. Its economy is the largest by GDP in the east and central Africa. Its capital, Nairobi is a major commercial hub. All these factors make Kenya as an emerging and developing African nation.

## **POLITICAL ENVIRONMENT**

Kenya is divided into seven provinces and one area. The president is the head of the state and also the head of the government. The term of the president lasts for five years and he is elected from the members of the national assembly. The vice president and the cabinet is appointed by the president.

Unlike the elections held in 2002, the 2007 elections were not peaceful. It was won by a narrow margin by the former President Kibaki of the Party of National Unity (PNU) over Orange Democratic Movement (ODM), Raila Odinga. The Kenyan government was criticized for failing to establish a special tribunal for the investigation of post-electoral violence. This post electoral crisis was a major blow to the Kenya's regional and international reputation. A power sharing agreement between the two political parties was brokered by the international community in Feb 2009. Mr Odinga was elected as the new president and the cabinet members were elected by both the parties. In August 2010 a new constitution was adopted.

Investment Environment: The strong protectionist tendencies followed by the government since 2002, were liberalized and since then the government has been trying to increase the investment inflows and to improve the legal and business environment in the country.

Despite the government's promises to address corruption, little progress has been made on this issue, and according to Transparency International's 2009 East African Bribery Index, Kenya is the most corruption-prone country in the region, with corruption particularly prevalent in the public sector. A cumbersome bureaucracy and labor unrest can also impose costly delays on business operations. Application of regulations tends to be inconsistent.

Tax System: The tax system in the country is based on a pay as you earn scheme and is progressive in nature. Value Added Tax (VAT) rates in the country are high i. e. 17% on all goods with the exemption of unprocessed agricultural products and processed foodstuffs. Excise tax rates of 135% on cigarettes and tobacco products and 95% on light beer makes the access of these goods confined only to the wealthy.

Labor Laws: The Kenyan constitution guarantees fundamental right and freedom to all individuals. It provides right for principles, such as prohibition of inhuman treatment and protection from slavery and forced labor.

The following Acts of Parliament form the labor legislation framework in the country.

Employment Act

Regulation of Wages and Conditions of Employment Act

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Industrial Training Act

Workmen's Compensation Act

Shop Hours Act

Mombasa Shop Hours Act

Factories Act

Trade Unions Act

Trade Disputes Act

Companies Act

Bankruptcy Act

Merchant Shipping Act

Export Processing Zone's Act

Immigration Act

Pension Act

Retirement Benefits Act

National Social Security Fund

National Hospital Insurance Act

Provident Fund Act

Public Health Act.

Environmental Law: Although the environment standards in Kenya are quite low as compared to the Western European countries, a number of organizations are pushing for stronger environmental controls. The relaxed environmental laws are behind exploited by the local and multinational companies. It is expected that the new Environmental Management and Coordination Act will change the face of Kenyan Environmental Law. Much more public awareness is needed for environmental protection in the country.

Trade Restrictions – The previous restrictions by the previous Kenyan Governments to promote the Africanization of Trade has now been removed. Now the condition in the country has changed and it is now much more favorable to the private and foreign investments. The IMF and the World Bank have provided huge sums of money for the development of infrastructure and to curb corruption at the administrative levels. United States is one of the key donors to Kenya. It provides donations to Kenya's apparel industry under the African Growth and Opportunity Act (AGOA).

## **ECONOMIC ENVIRONMENT**

Kenyan economy is market based with a few state owned enterprises and a liberalized trade system.

According to the UN Human Development Index, Kenya stands at 147th position.

Kenya's economy is highly dependent on agriculture and industrial sector still remains underdeveloped. Most of the foreign aid received by the country is used to import a majority of consumer goods.

The major economic problems faced by Kenyan economy are

## **High Population Growth**

## **Rampant Corruption**

## **Inflation**

Kenya is a regional hub for trade in East Africa. Kenyan shilling is the official currency of the nation. The country has a market based economy with a liberalized trade policy. Over reliance in agricultural production and tourism makes the country vulnerable to the economic high and lows.

Kenya's GDP has been inconsistent since it got independence since 1963. It achieved a high economic growth rate of 6% which fell to below 4%. In the 1990s its GDP growth rate fell even further to 1.5%. In 2000, the IMF and the World Bank offered loans to the country to prevent a severe economic crisis with GDP growth falling to below 0.2%.

Inflation is another cause of concern for the Kenyan economy. From 2004, the inflation rate in the country has been above 9% and due to political instability and unrest in the country and also the budget deficits, the inflation had risen to 26.3% in 2009.

Another important factor which has today become the biggest impediment to the growth of Kenyan economy is Corruption. There had been several foreign aid frauds in 2004-05 due to which the foreign agencies have delayed fund

advancements. In 2008, the post-election violence further worsened the economic condition of the country.

## **Key Industry Sectors**

The main industry sectors in Kenya consist of mining, horticulture, tourism, manufacturing, electricity and information technology. But the mainstay of the Kenyan economy is still agriculture.

**Agriculture-** Agriculture employs 75% of the population and contributes to almost 21% of the country's GDP. Industrial outputs accounts for only 16% of the country's production.

**Mining –** The ore reserves in Kenya are that of non-metallic minerals like soda ash, kaolin, fluorspar and gemstones. But this sector is not developed and it contributes only to 1% of GDP. The country has also invested in mining gold reserves found in the coast of Lake Victoria. Also exploration is being done to find some sources of metallic mineral ores.

**Oil –** Majority of oil consumed is imported from other African countries. It is a major source of commercial energy accounting for 80% of gross energy requirements.

**Electricity –** Five hydroelectric power plants generate 60% of Kenya's electricity. Thermal power plant is located in the capital city of Nairobi. Geothermal energy is also produced. State owned KenGen is the main power generating company in the country.

Tourism – Tourism is the leading foreign exchange earner in Kenya. Several tourist attraction places are present in the country like national parks, wildlife safaris, beach resorts and theme parks.

Information Technology – Kenya is one of the fastest growing African countries in the field of IT. With infrastructural aid from India in 2008, e-government services were launched in the country.

The service sector and the industrial sector provide employment to around 25% of the working population.

Economic reforms taken so far are as follows:

Various Economic Stimulus Programs(ESP) to fund different projects in the country has been initiated.

Constituency Development Fund(CDF) has been form towards financing rural projects. These include providing better irrigation facilities, fish farming, setting up ponds, setting up rice milling plants.

Modernization of Agriculture

Access to quality education to secure success of future generations.

Educated labour force is critical to enhanced productivity and competitiveness.

## **SOCIAL ENVIRONMENT**

Demography The population of Kenya is around 39002772 which have been reduced significantly due to AIDS. But the birth and the population growth



rate in the country has been significantly high and the population continues to grow.

There are more than 70 tribal groups among the Africans in Kenya. Although distinctions between many of them are blurred now each of them has left a significant impact on the Kenyan culture. Western cultural values are becoming more ingrained and the traditional values are disintegrating.

The life expectancy in Kenya is around 54 years. The literacy rate in adults (people age above 15) is 87%. 27% of the urban population has access to sanitation facilities. The infant mortality rate in Kenya is lower as compared to other African countries

The annual population growth rate in Kenya is 2%. The population of Kenya is a growing population with around 42% of the population in the age group of 0-14 years and 54.5% in the age group of 15-64. It has a huge workforce which can be tapped. Also the male female ratio is almost 50%. More than 90% of its population live in villages. The growth rate of rural population is around 2% while that of urban population is 4%.

**Linguistic Affiliation** The official languages in Kenya are the Swahili and English. Swahili which is a mix of Arabic and African language Bantu is spoken by the tribes in Kenya. English is the official language used in government and businesses. It is spoken not only by the elite but people with a formal education. There has been emphasis to make Swahili as the teaching language.

**Classes and Caste** There is a great deal of poverty in Kenya. The wealthy people are the Kikuyu followed by Luo tribes. Among the tribes such as Masai wealth is measured in the number of cattle people own. In the urban areas people dress in western clothing.

**Crime and Drugs** are the major problems in the cities.

There are many government run hospitals and clinics which provide free treatment to the poor. Also many adult literacy programs are being run by the government.

Women are treated as second class citizens in Kenya. Men usually control the property and money. Women are gaining education and their condition is improving. Women's groups such as the National Women's Council of Kenya have been instrumental in pushing for just laws and in teaching women skills that allow them to earn a living.

Polygamy is traditional and it is common for men to have two to three wives. Although it is still present but it is continuously reducing.

## **Religious Beliefs**

Around 66% of the Kenyan population is Christian of which 38% is protestant and 28% is Catholic. The remaining consists of animists 26%, 7% Muslims and 1% from other religions.

## **TECHNOLOGICAL ENVIRONMENT**

As compared to the 1990s Kenya has made some significant advancement in the field of technology especially the IT sector. With the help from Indian

government, Kenya has been able to establish e-government services in the country.

Many schools of international standards have been established in Kenya which impart education to the Kenyan students. All these schools have well equipped computer labs and instruments.

State owned KenGen is the main power company in the country. Kenya is taking steps to tap its huge geo thermal energy reserves. Also exploration work is going on the banks of Lake Victoria for gold.

Notable scientific institutions in Kenya include the UNESCO Regional Office for Science and Technology for Africa, in Nairobi; coffee and tea research foundations; grasslands and plant-breeding research stations; and numerous centers for medical, agricultural, and veterinary research. Medical research focuses on the study of leprosy and tuberculosis. The National Council for Science and Technology advises the government on scientific matters, and the Kenya National Academy of Sciences promotes advancement of learning and research

Information and Technology Africa (ICT Africa) was organized by, amongst others, the Nairobi-based African Telecommunications Union and the Union of National Radio and Television Organizations of Africa, headquartered in Senegal. But the challenge of making the communication facilities within the reach of every Kenyan still remains answered.

The computer ownership in Kenya is on the rise which shows that the importance of computers in the lives of the Kenyan people. This also is an indicator of the increase in the education level of the people.

Secondary education has been heavily subsidized with the government bearing all of the expenses.

## **ENVIRONMENTAL FACTORS**

Kenya's climate varies from semiarid in the northern part to the high rainfall areas in the central, western, and coastal regions. This variety in climate, coupled with high rates of rural-to-urban migration and urbanization, has given rise to diverse cultural settings in the country, each with its own unique development requirements and problems.

The equatorial climate in Kenya has resulted in a rich flora and fauna which is a major tourist attraction for people around the world. This foreign population is a huge source of foreign revenue for the country. Also it has resulted in a boom of tourist destinations and safaris in the country. Kenya is one of the favourite tourist places in Africa.

A part of Kenya lies in the coastal region. Lots of beautiful beaches and resorts have evolved in that area due to this.

This diverse environment has generated lots of new jobs for the people.

## **LEGAL ENVIRONMENT**

Kenya has a common law which is similar to that of Britain. There are also systems of Arabic Law and Tribal Laws. These are used to settle disputes between persons within an ethnic group or between two Muslims.

Citizens are not usually granted free legal aid except in capital cases. This has resulted in many poor Kenyans being jailed simply because of lack of legal defense. It has a spotty record in the area of human rights and liberties. Also it does not allow the independent monitoring of its prison system.

The mass media and communication sector as we have seen in the past electoral violence still remains quite vulnerable. The weak, irresponsible and the inadequate legal framework in the country still remains a cause of concern. There are three sources of press law in Kenya. These include the constitution of Kenya, the Statutory Law and the Common Law. But none of these laws guarantees the right to freedom of expression.

Corruption is a major problem for the economy and the legal system has not been able to find out a solution for it. A complete reformation of the legal system of the country is the need of the hour.

## **COMPETITIVE ADVANTAGE OF NATIONS – PORTER’S DIAMOND MODEL**

The diamond model of Michael porter helps us to understand the competitive advantage of nations.

## **Factor Conditions**

## **Related and Supporting Industries**

## **Demand Conditions**

## **Firm Structure, Strategy and Rivalry**

### **Factor Conditions**

Land- The Kenyan highlands and plateaus in the east comprise one of the most successful agricultural production regions in Africa. The country has a considerable area of wildlife habitat.

Labor – With almost 70% of the population under 30 Kenya has an abundant supply of labor now and also in the years to come. But due to lack of educational facilities and the high cost of education makes it impossible for the people to gain knowledge and increase their skills. There is a shortage of skilled labor in the country. The unemployment rate is high but the people are lacking the skills needed to do the important tasks. There is huge scope of services sector to grow in Kenya in the day to come.

Population Size- Kenya has a population of around 39 million people. This huge population size is a source of competitive advantage for the country due to their ever growing needs and wants.

### **Firm Structure, Strategy and Rivalry**

Many of the core industries like Power, Infrastructure, Energy, and Mining are owned and run by state owned corporations. Therefore very little or negligible competition exist in these fields. These state run corporations enjoy monopoly in their operations and face no competition. Recently the government has become more liberalized and has allowed FDIs to invest in <https://assignbuster.com/pestel-analysis-of-kenya/>

the projects in the country. Also many MNCs are entering Kenya which is expected to increase competition and increase industry competitiveness.

## **Demand Conditions**

Kenya has a huge population size and more than 85% of this population is in the age below 60. This huge population has generated a huge demand for goods and services in the country. Also as the people are getting more educated and aware they stand a better chance to choose and decide from the options available to them. These demanding customers have caused the firms to constantly improve their competitiveness. New products and services are being launched in the country.

## **Related and Supporting Industries**

There has been growth of the supporting industries in Kenya. The increased production of rice has resulted in the setting up of rice mills in the country. There are chances of setting up of non-metal based industries in the future as there are huge reserves of these minerals. Also many new textile industries have emerged in the country.

## **CONCLUSION**

The political situation in Kenya has become much more stable now than before. Liberalization policies and modern trade practices have resulted in new firms setting up their bases in the country. Various new industries have been set up. The country has been able to support its energy needs to an extent. It needs to invest more in the field of green technology. Many new R&D facilities have to be set up. More emphasis on modernization of agriculture should be done as it is the main source of occupation for a

majority of people. FII inflows in the country have increased which has increased as they are seeing more opportunities in the country in the future. But the need of the hour is a well-organized and transparent legal system in the country.

The Vision 2020 of the Kenyan government dreams it to be at par with the Asian giants.