Wall Street woes threaten Kenya's lifeline

Barney Jopson

When Esther Kangogo's cramped wooden home was burnt to the ground by night-time raiders earlier this year, the money she secured to build a replacement came from half a world away: Dallas, Texas.

It is the home of her daughter Susan, a 28-year old nurse who is one of hundreds of thousands of Kenyans working in the west to support their families in east Africa.

But when the financial crisis that started on Wall Street began to hit the pocket books of workers in the US, it had a knock-on effect on the economic well-being of villages in the fields of rural Kenya. Migrants such as Ms Kangogo's daughter are now struggling to set aside cash for their relatives.

"Since the beginning of this year it seems life is hard for her," says Ms Kangogo, who farms a plot of wheat and maize on the rich orange soil of the Rift Valley. "The cost of living is higher and she has to pay college fees, and she works eight hours and gets paid $110 [£70, €86], so she can't afford to send money back home."

Kenya's financial system had remained insulated from the credit crunch for over a year. However, remittances have transmitted the impact of the global economic downturn directly to Kenyan households. Last year $574m was transferred back to Kenya through formal channels by members of its diaspora, according to the central bank. In Zimbabwe, Senegal and Ethiopia, economists estimate remittances had come close to, if not surpassed, aid as the biggest source of foreign currency. But even before the financial crisis escalated, data from Kenya for July and August showed remittances declining, both from the previous month and year on year - a sign of overseas Kenyans struggling with inflation, mortgage payments, job insecurity or redundancy. The year-on-year drop in August was 38 per cent.

Ms Kangogo says one of the last payments she received from her daughter was KSh.10,000 ($125, €99, £79) to build her new home in Burnt Forest, a one-track village that cuts through the lush Rift Valley, which saw a spate of house burnings and killings in January during post-election violence.

"We are not taking this lying down. We need to do something about it," said a senior economist at Kenya's ministry of planning. "Towards the end of the year we are likely to see further declines, especially around Christmas when the remittance flows are normally big, and this is going to affect the quality of people's lives."

An emergency committee including officials from the central bank and the finance ministry has been established to work out how to respond to the trend.

The government economist said that 50 per cent of remittances came from the US, which is estimated to be home to between 750,000 and 1m Kenyans by Kenya's embassy in Washington. The remittances have been used to invest in property and shares on the Nairobi stock market, and to help meet school fees and the daily living expenses of families.

Central bank statistics do not include remittances sent through unlicensed money traders or cash brought back to Kenya by hand. Independent economists estimate that unofficial and official flows combined probably topped $1bn last year, making them Kenya's biggest source of foreign currency ahead of tourism.

The pinch of the economic downturn is also being felt by Kenyans in the UK, who number around 200,000 according to Kenya's foreign ministry. Sam Ochieng, the Kenyan director of international programmes at Sacoma, a group that provides employment and business advice to Africans in the UK, says that in the past month he has seen an uptick in job losses and business closures, particularly in the training and hospitality sectors.

"At one of our weekend community functions you could see people were having difficult times because we were fund raising for one of the sick and the contributions were not as high as they have been," Mr Ochieng said. "People are not comfortable parting with their own money. They're saving the little they have."

A five-year period of accelerating Kenyan economic growth is likely to be cut off this year by the combined effects of falling remittances, the post-election crisis, higher inflation, and reduced spending by western consumers on tourism and Kenyan agricultural exports.

Following expansion of 7 per cent last year the International Monetary Fund forecasts that Kenya will grow by 3.3 per cent this year.

Fonte: Financial Times, London, October 25 e 26 2008, Primeiro Caderno, p. 5.