



# **KENYA'S INVESTMENT OPPORTUNITIES**

**RECENT ECONOMIC DEVELOPMENTS AND THE  
NEXT STEPS: VISION 2030**

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# Format of Presentation

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- # **Recalling the three ERS Pillars and progress under each of them;**
- # **Next Steps After The ERS: Vision 2030**
- # **Medium-Term Prospects**
  - **Macro-framework**
  - **Structural Reforms**
- # **Conclusion**

# Recalling ERS Objectives

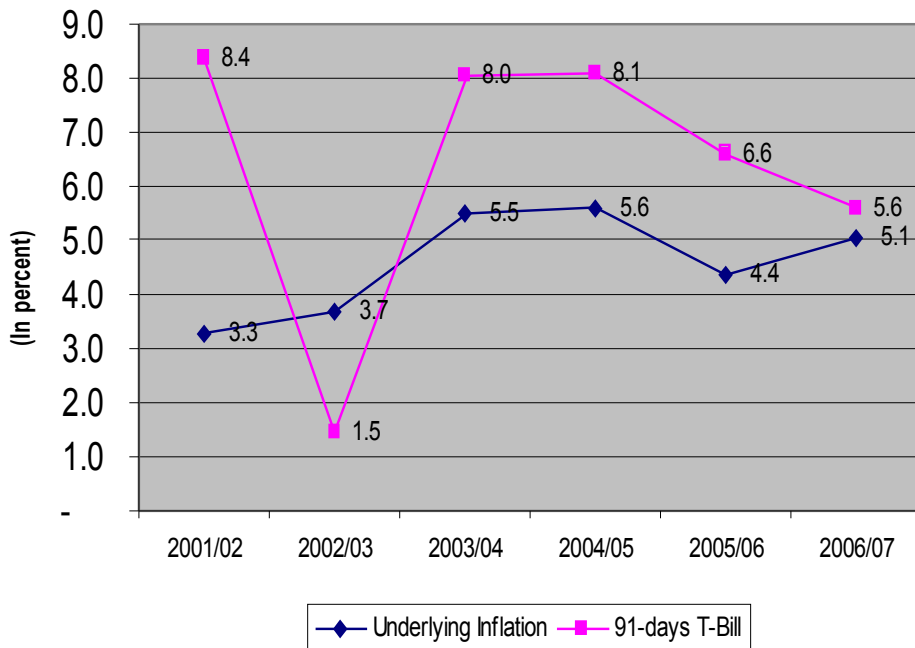
- # Under the ERS, the Government Development Strategy is built around three pillars:
  - ⇒ **Pillar I:** Rapid Economic growth underpinned by macro-economic stability;
  - ⇒ **Pillar II:** Enhancing equity and poverty reduction; and
  - ⇒ **Pillar III:** Improving governance to support the other two pillars of growth and poverty reduction

# Progress Under Pillar I: Recent Economic Performance

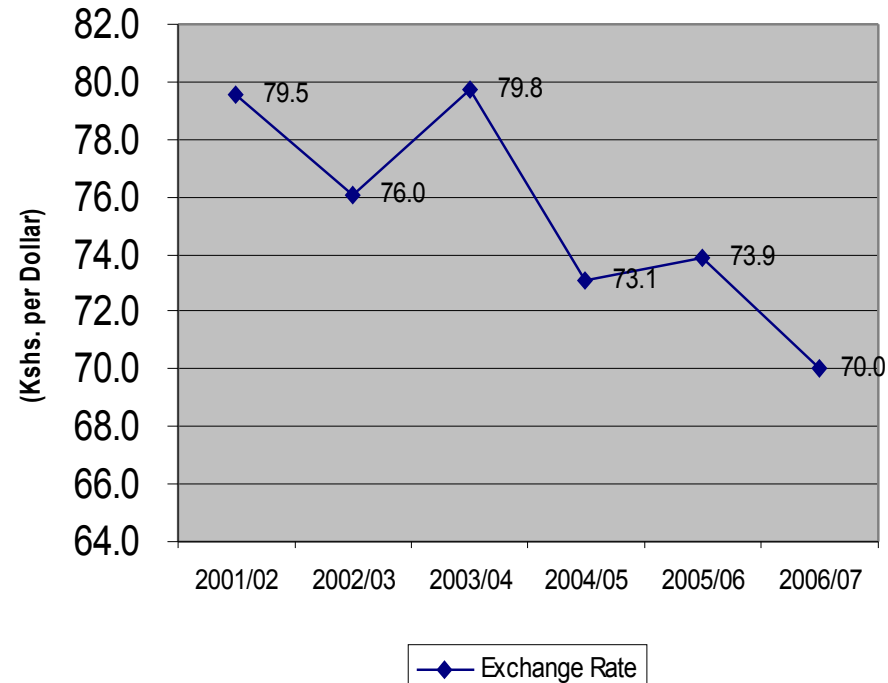
- # Significant progress has been achieved under each Pillar of the ERS, over the last 4-years.
- # Let me start with the first pillar which focuses on macro-economic stability and rapid but sustainable economic growth.
- # Prudent fiscal and monetary policies have resulted in:
  - A steady decline in interest rates;
  - A broadly stable underlying rate of inflation; and
  - A strengthened shilling exchange rate.

# Progress Under Pillar I - Macro-Economic Variables: Inflation, interest, X-rate

## Inflation and Interest Rates

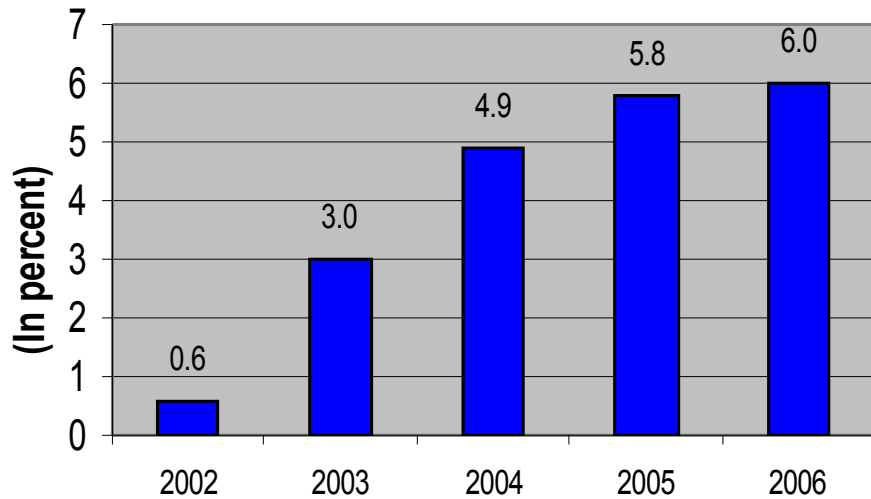


## Exchange Rate

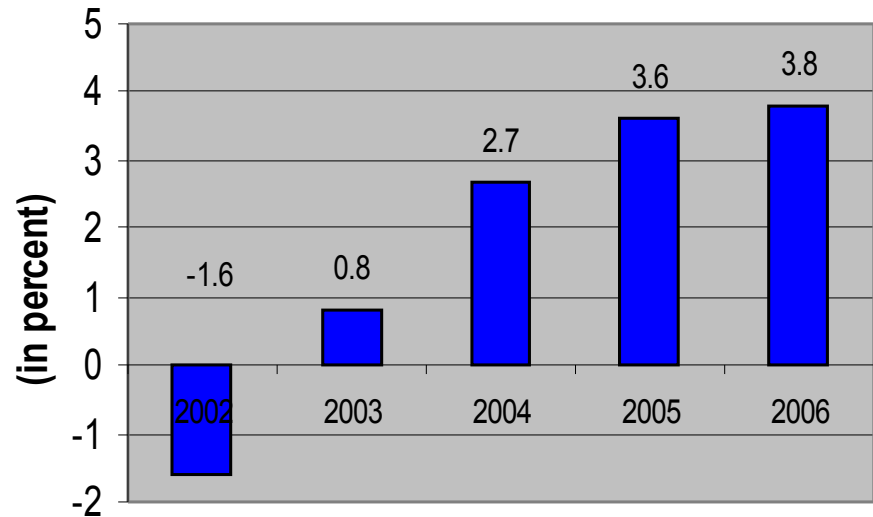


# Progress Under Pillar I Cont..

Reflecting this stable macro-environment, real GDP growth has accelerated sharply

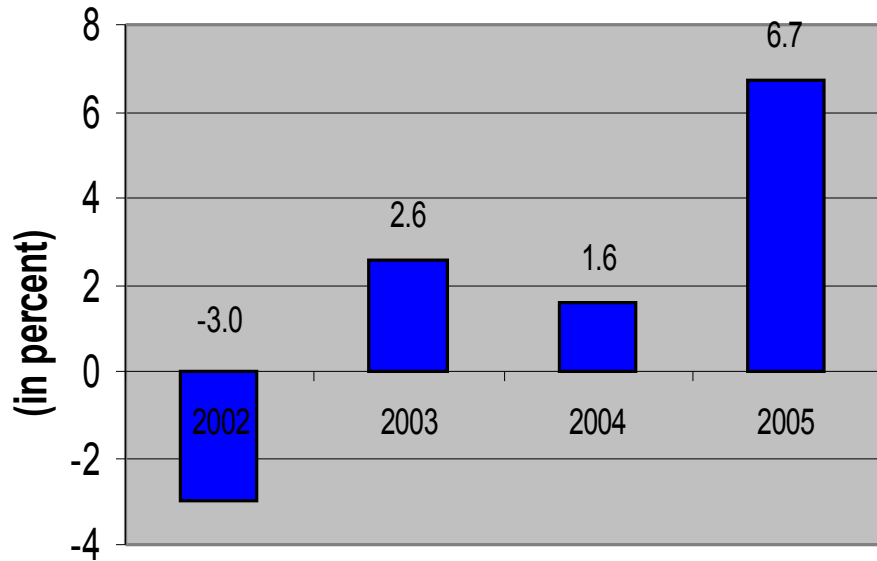


This has resulted in a marked increase in growth of per capita income from minus 1.6% to plus 3.8%

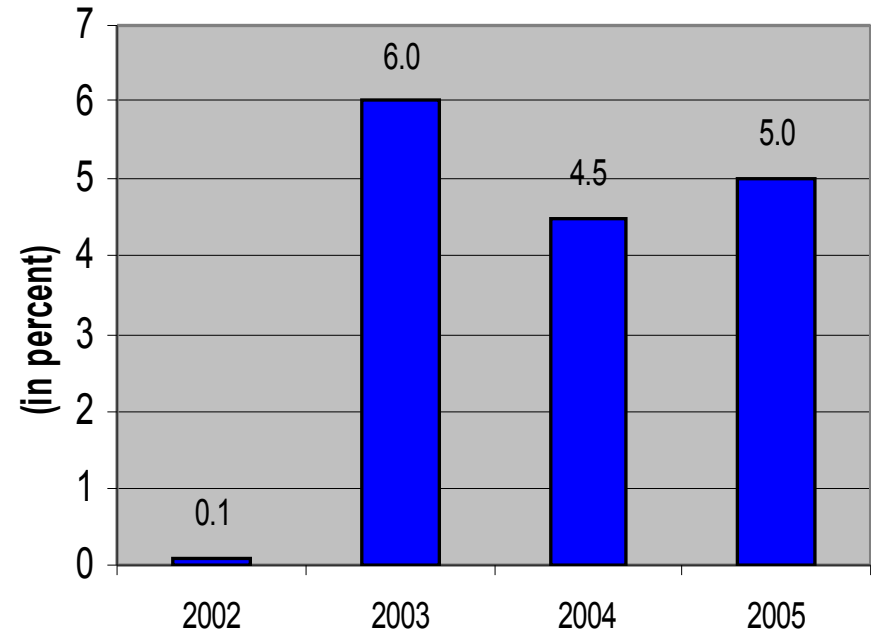


# Progress Under Pillar I Cont..

Growth in real GDP has been broad based: Agriculture production has shown a steady improvement...

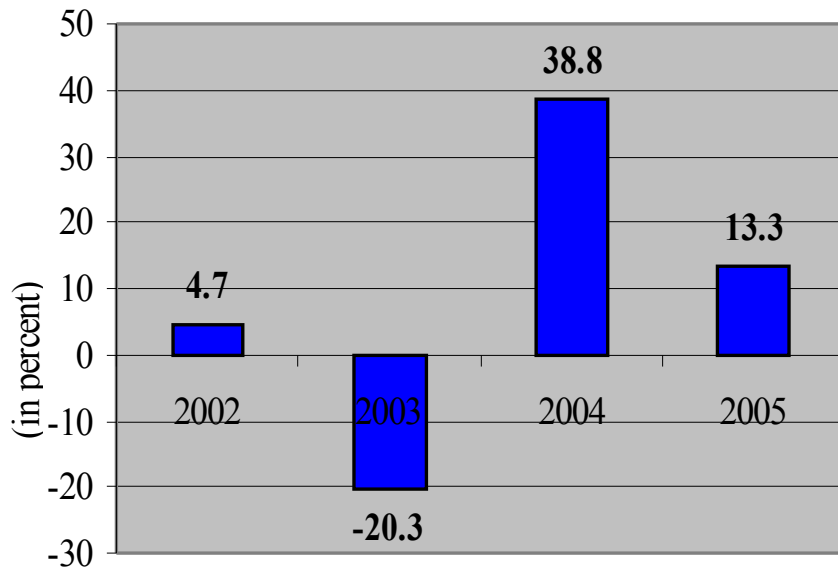


...as has the manufacturing Sector .

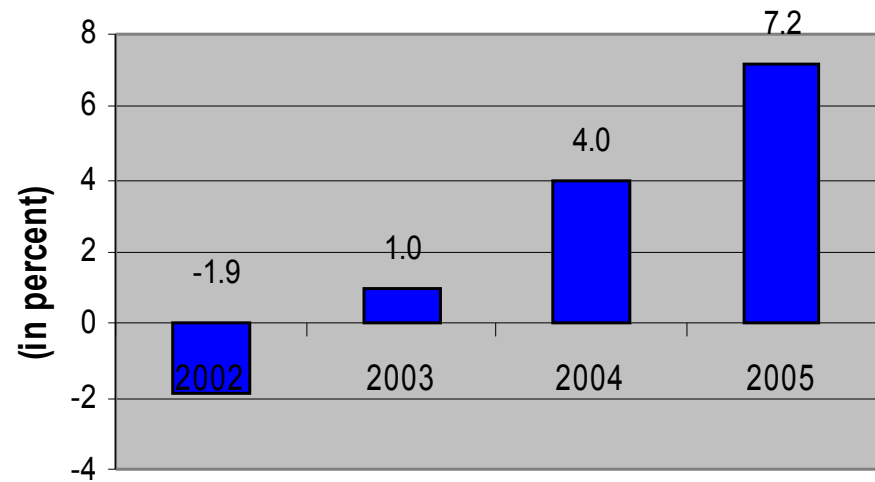


# Progress Under Pillar I Cont..

After dipping in 2003, the hotels and restaurants sector has recovered strongly.

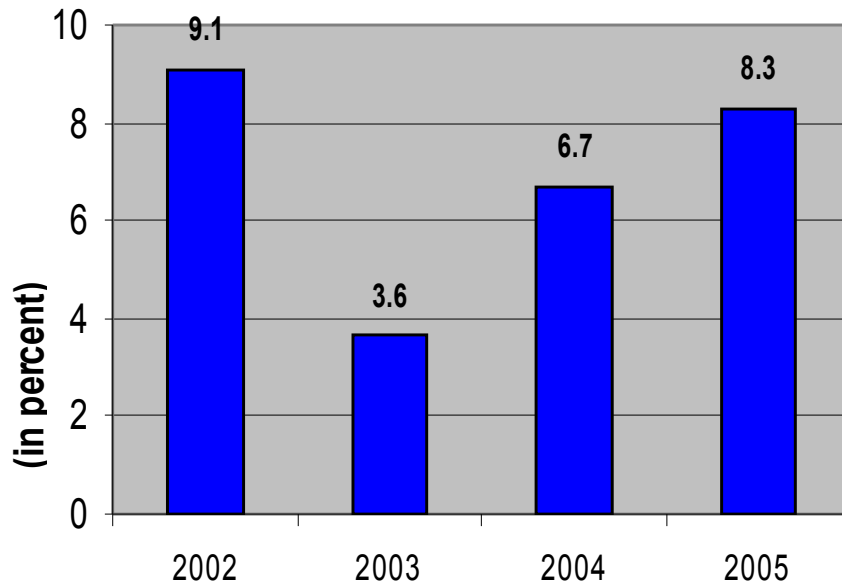


With lower interest rates, increased remittances, construction has picked up substantially.

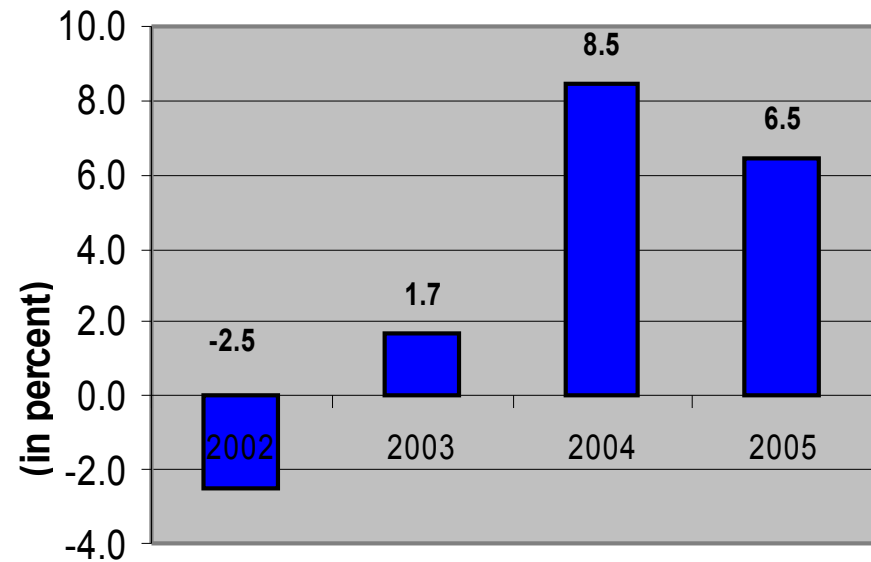


# Progress Under Pillar I Cont..

The transport and communication sector shows significant momentum going forward.

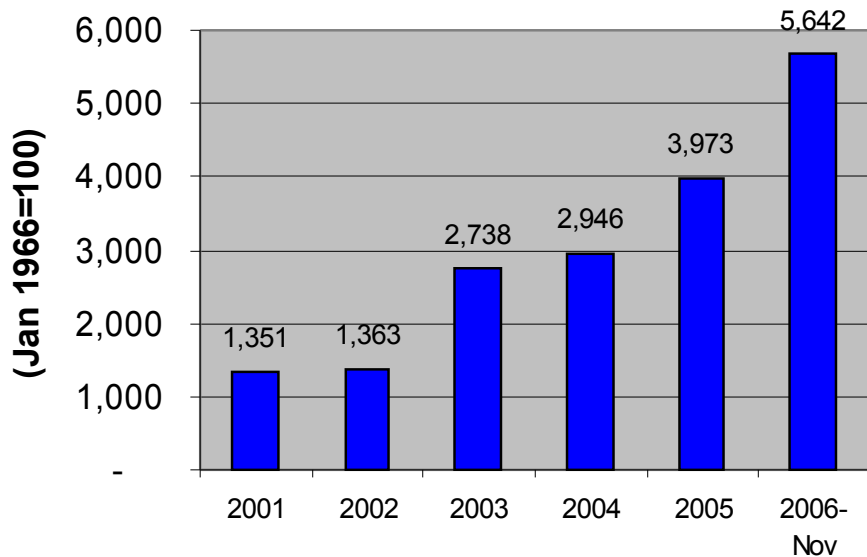


The wholesale and retail trade sector also shows signs of sustained growth over the medium-term

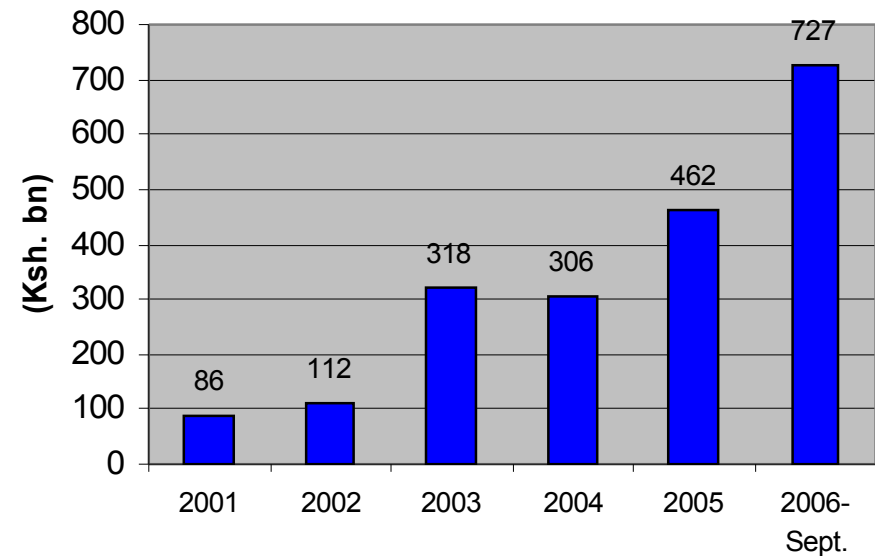


# Progress Under Pillar I Cont..

Reflecting confidence in the economy, the NSE index had increased by over 350%-before the recent correction

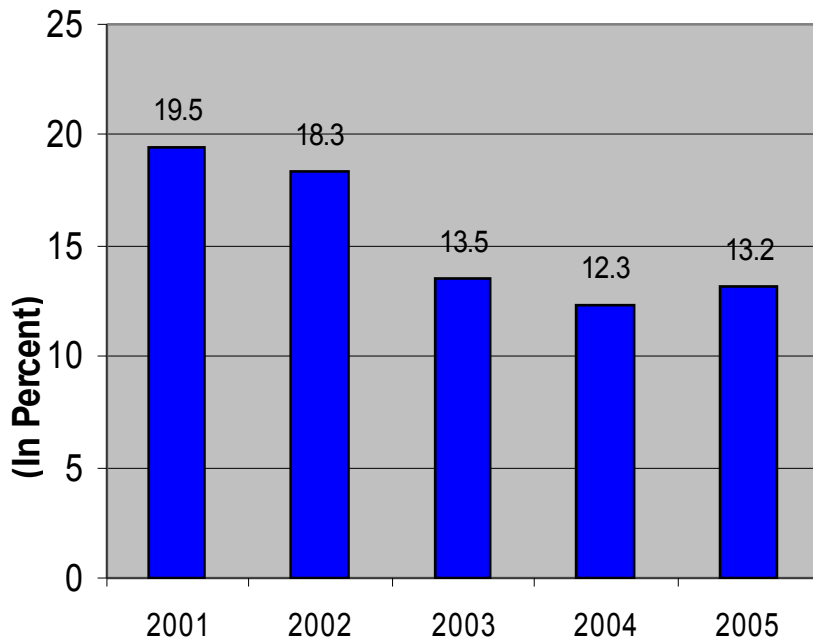


As a result, market capitalization has increased by over 745%--or a compounded rate of 53% a year.

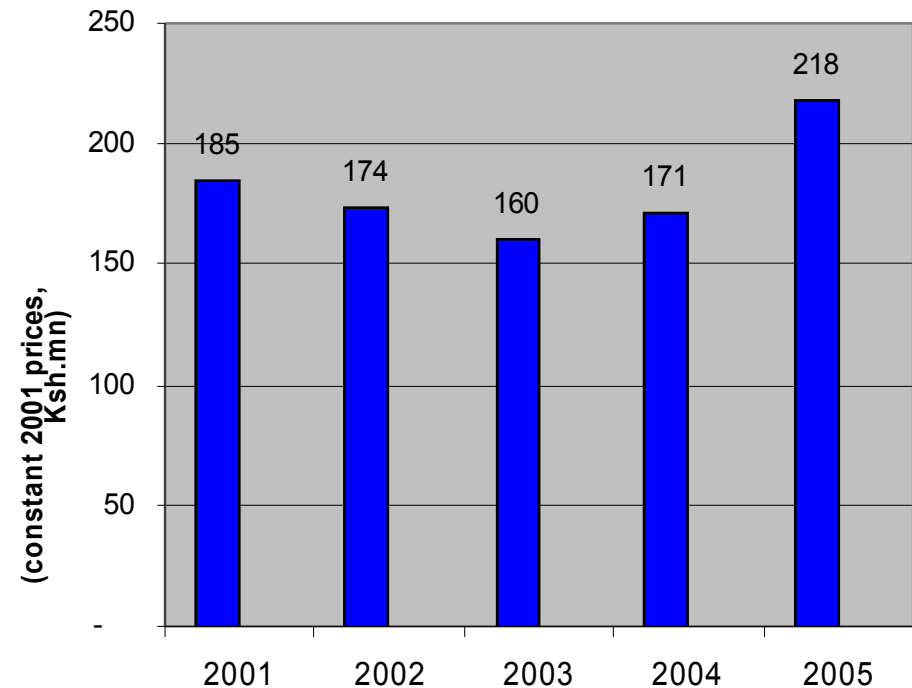


# Progress Under Pillar I Cont..

Reflecting fiscal discipline and low inflation, bank lending rates have trended downwards

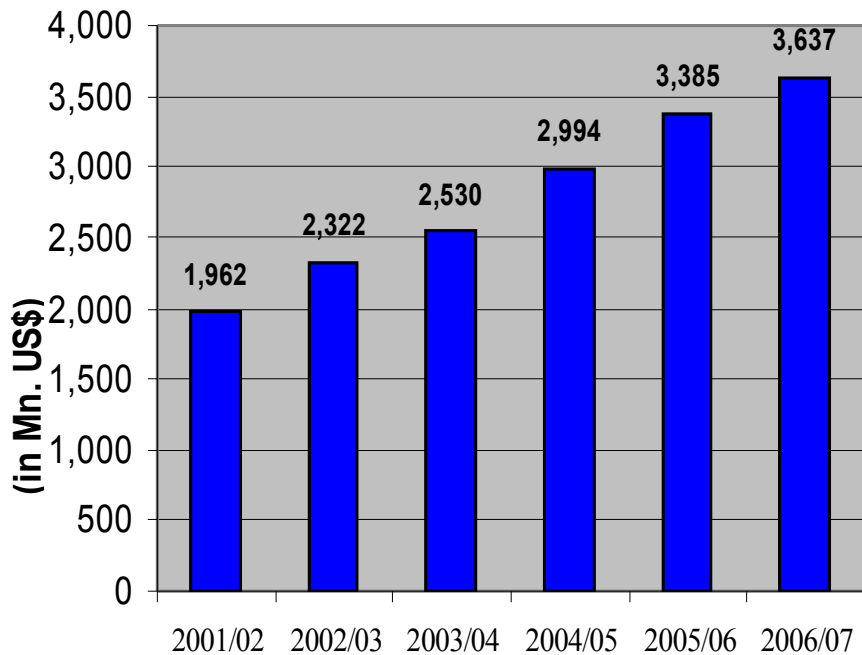


After initially declining due to high lending rates, overall investment has picked up in line with lower interest rates.

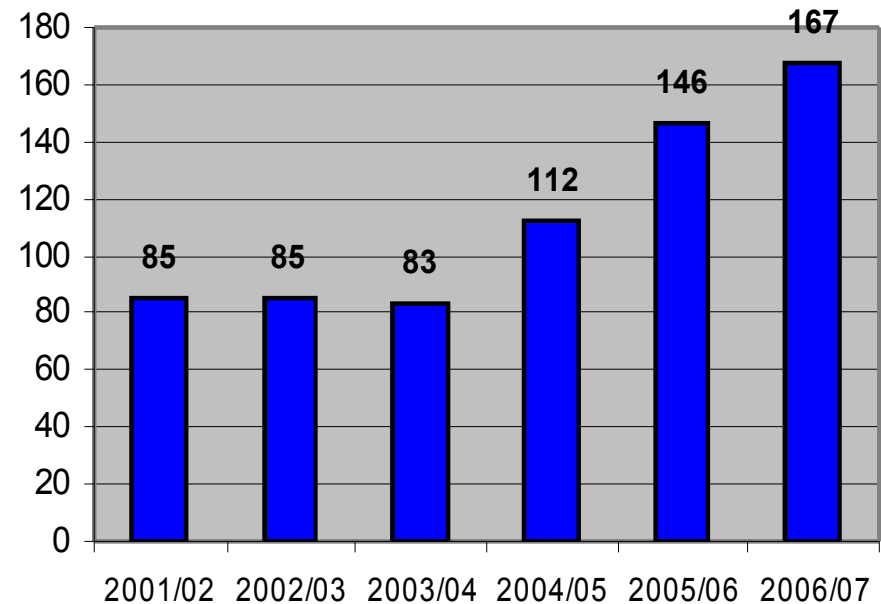


# Progress Under Pillar I — Balance of Payments (Cont.)

**Total exports have almost doubled...**

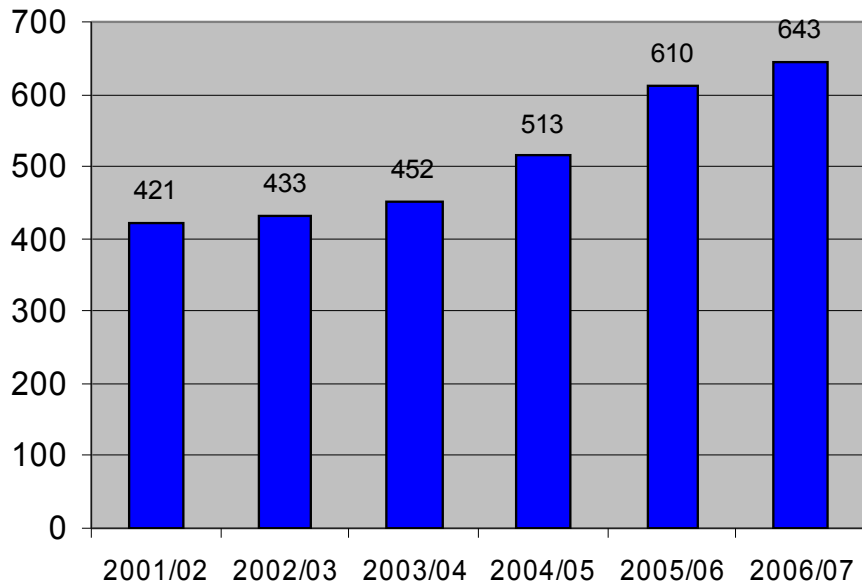


**Coffee receipts are expected to have doubled by 2006/07**

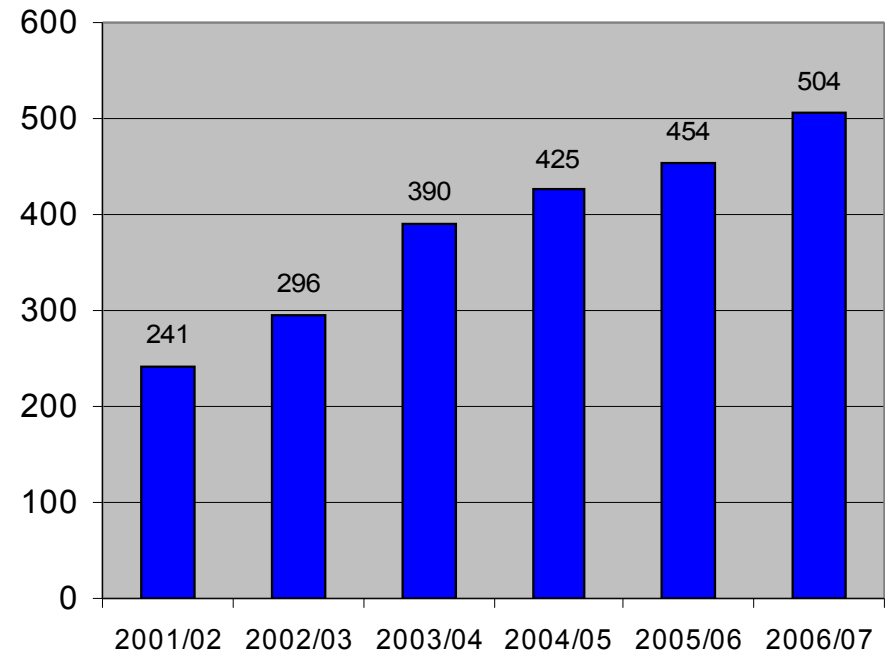


# Progress Under Pillar I Cont..

The tea sector has experienced strong growth although adversely affected by drought in early 2006

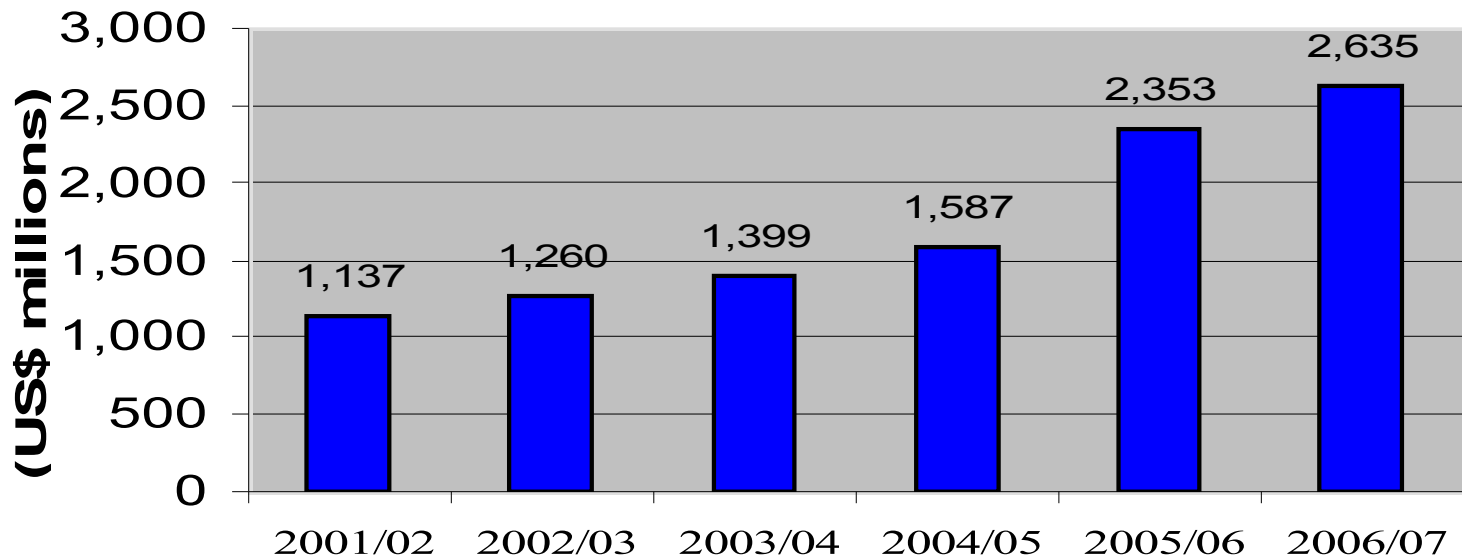


Horticultural exports have continued to perform well.



# Progress Under Pillar I Cont..

**Reflecting the improved exports and capital inflows, international reserves have more than doubled**

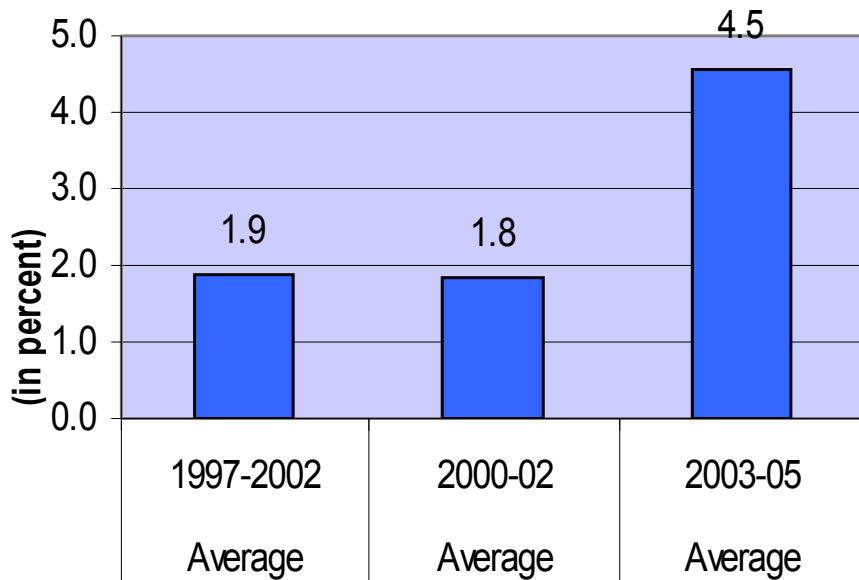


# Progress Under Pillar I Cont..

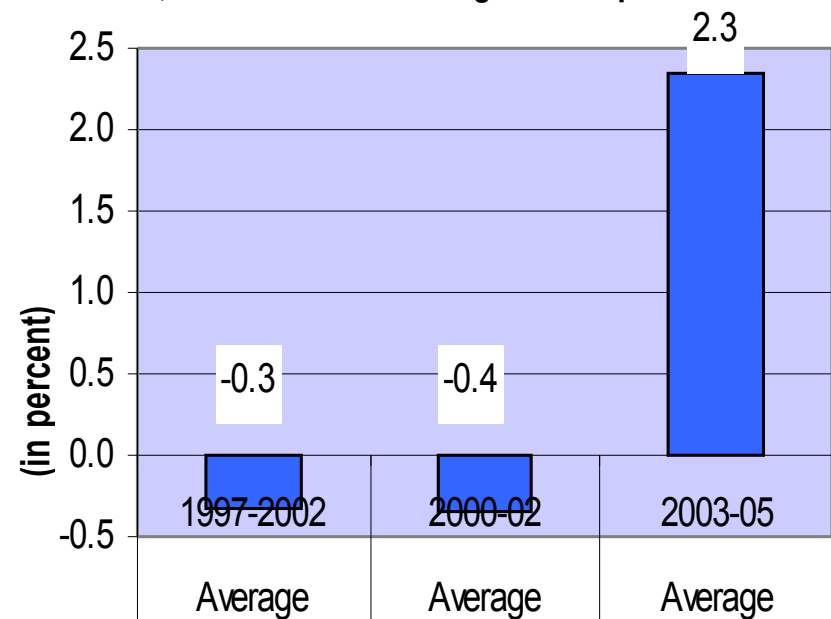
- # In sum over the last 4 years, most if not all key macro-economic indicators have moved in the right direction:
  - ⇒ Interest rates, exchange rates and inflation rates have either declined or stabilized; while
  - ⇒ Real GDP and per capita income have increased, as have international reserves and market capitalization.
- # Some have argued that the recent growth momentum is due to a change in the way GDP has been calculated. This cannot be supported by facts.
- # A longer term perspective on growth, based on the same method of calculating GDP, shows that growth has indeed accelerated over the past 4 years.

# Growth Pillar—A Longer-term Perspective

Average growth of real GDP over the 3-year period to end-2005 has more than doubled compared with the earlier periods

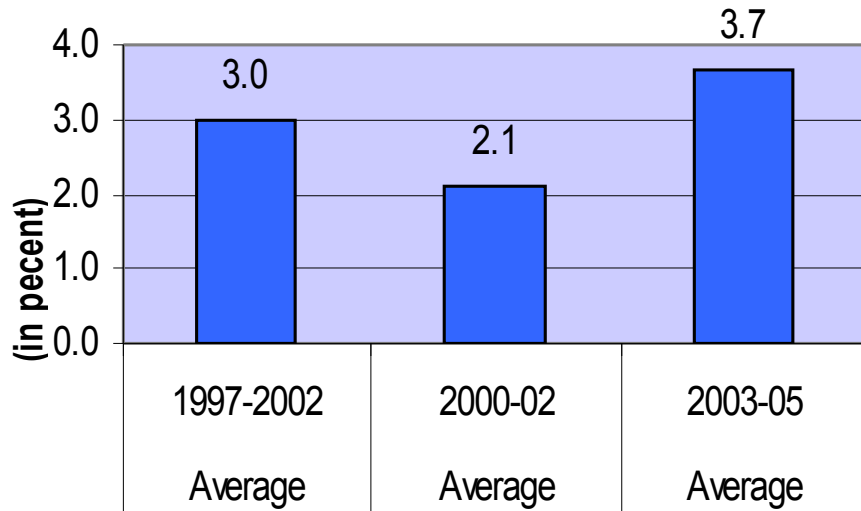


This has implied that growth real GDP per capita, assuming a population growth of 2.2%, has turned from negative to positive

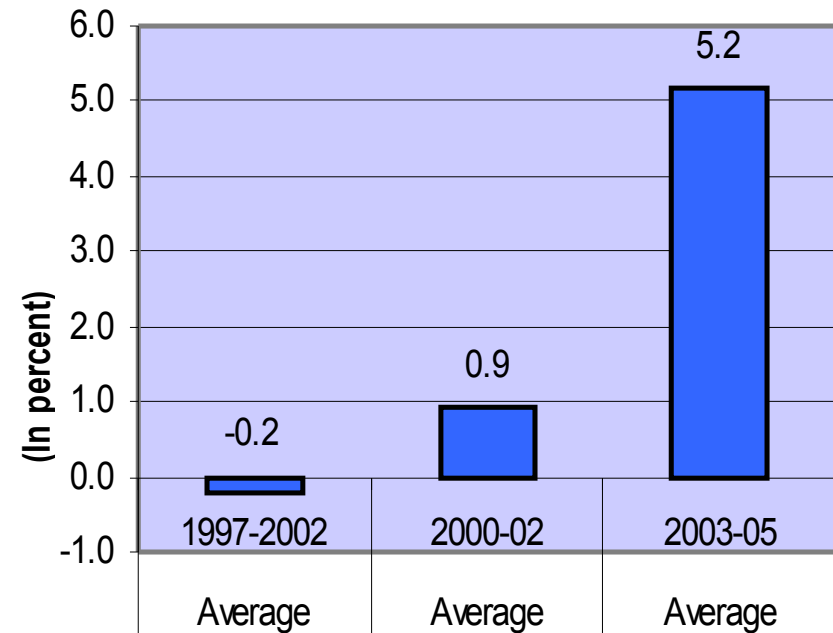


# Growth (Cont..)-Agric/Manu

**Average growth of agriculture production in 2003-05 has accelerated compared with the immediate previous 3 years.**

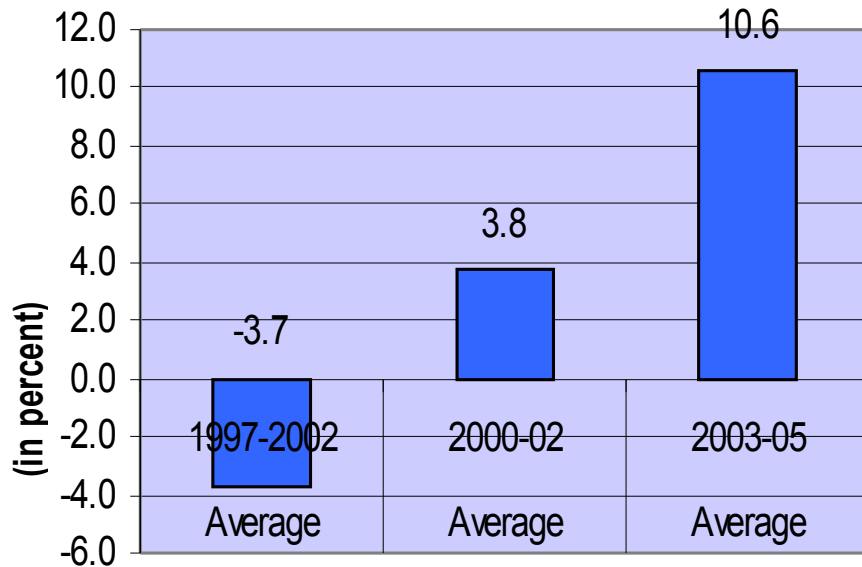


**We have also seen a rapid growth in the manufacturing Sector**

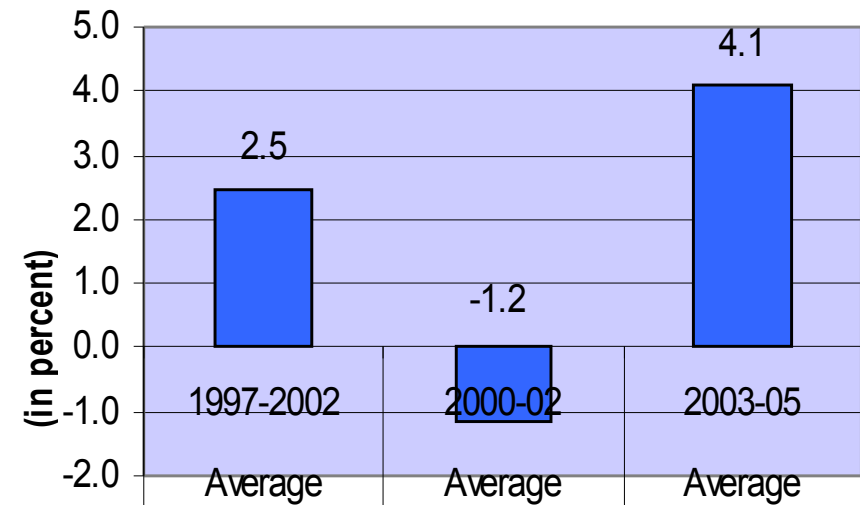


# Growth-Tourism/Construction

Reflecting increased tourist arrivals, the hotels and restaurants sector has rebounded.

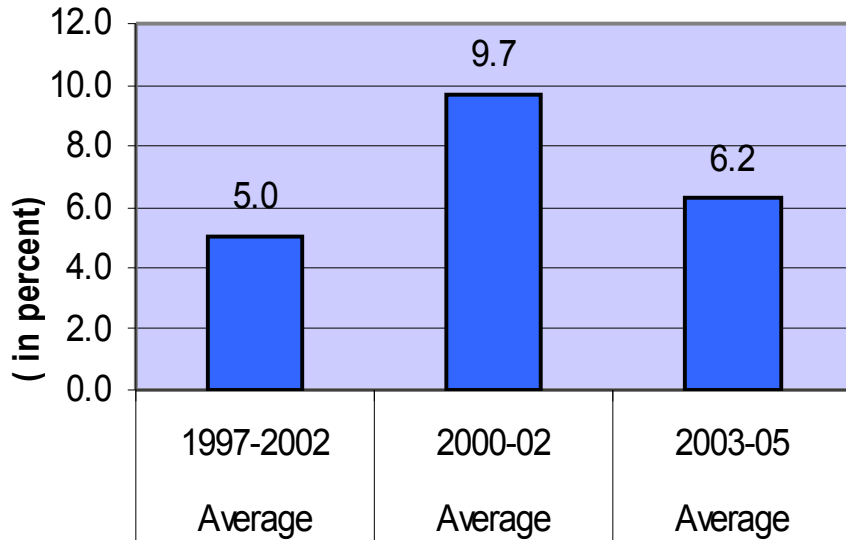


Construction, which registered negative growth in the period 2000-02 has increased sharply in line lower interest rates and increased confidence in the economy.

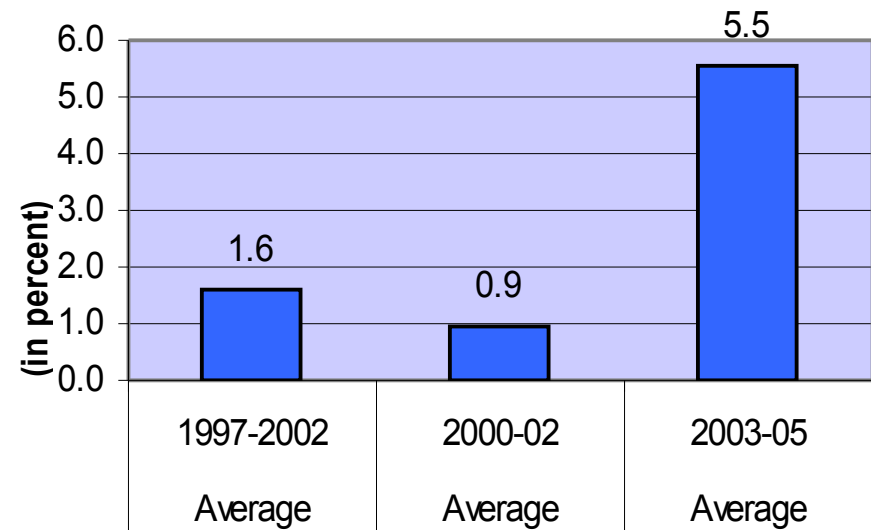


# Growth-Trans/Commu/Trade

The transport and communication sector continue to register strong growth--the rapid growth in 2000-02 reflected the coming on stream of Safaricom



After decelerating in 2000-02, the wholesale retail trade sector has made a noticeable turnaround.

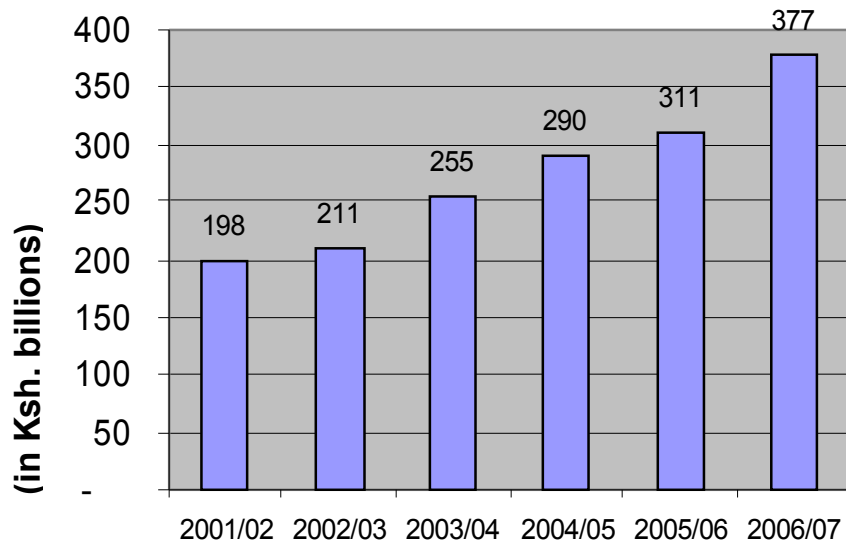


# Progress-Pillar II: Reforms for Poverty Reduction--Fiscal

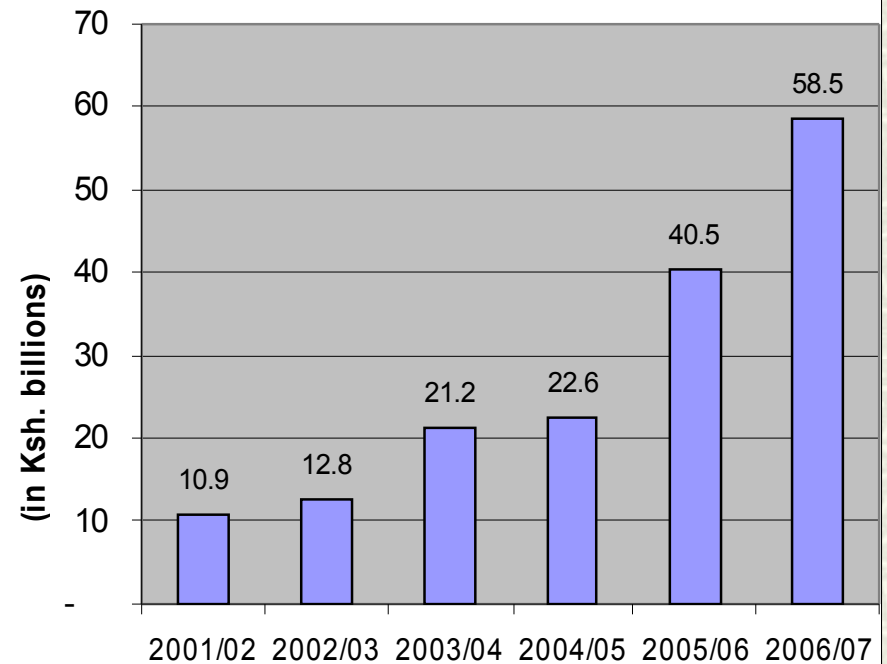
- Under the ERS's Pillar II, fiscal reforms have focused on creating fiscal space through tax and expenditure efficiencies in order to ensure expenditures:
  - ⇒ are pro-poor –providing for increased spending on core-poverty programs, including increased funding under education, health and water provision
  - ⇒ are pro-growth -ensuring ample resources are directed toward key priority sectors such as agriculture and infrastructure; and are
  - ⇒ consistent with a sustainable increase in domestic debt and that government does not crowd-out the private sector by driving up interest rates.

# Progress-Pillar II: Reforms for Poverty Reduction—Fiscal Cont.

Revenue collection has almost doubled despite a reduction in VAT from 18% to 16% and lower EAC customs duties

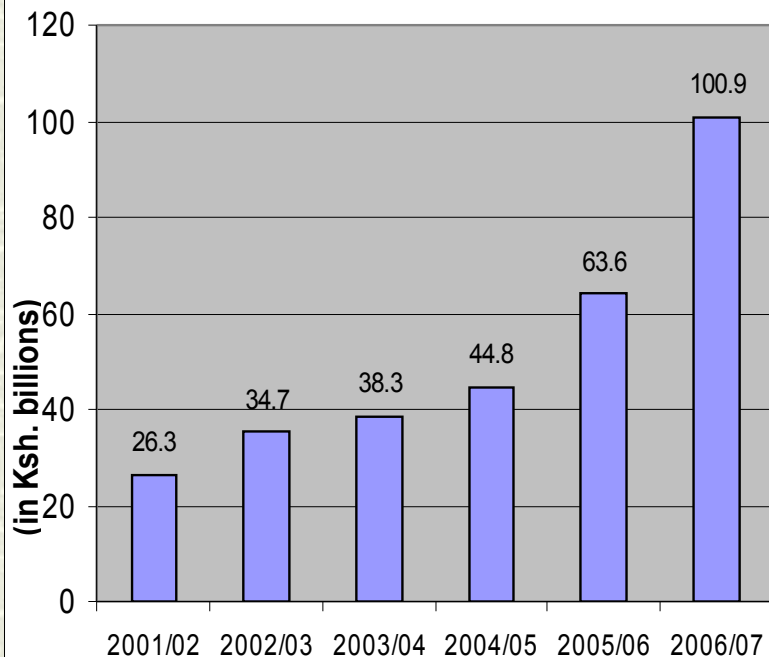


Domestically funded capital expenditure has increased almost six-fold

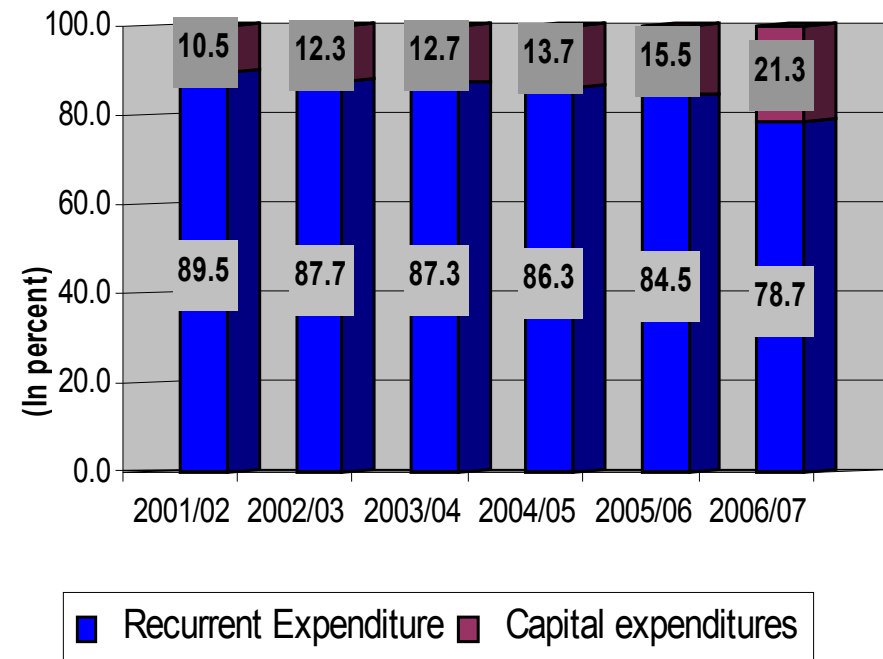


# Progress-Pillar II: Reforms for Poverty Reduction—Fiscal Cont.

Including foreign financing, total Capex is set to increase by 3.8 times

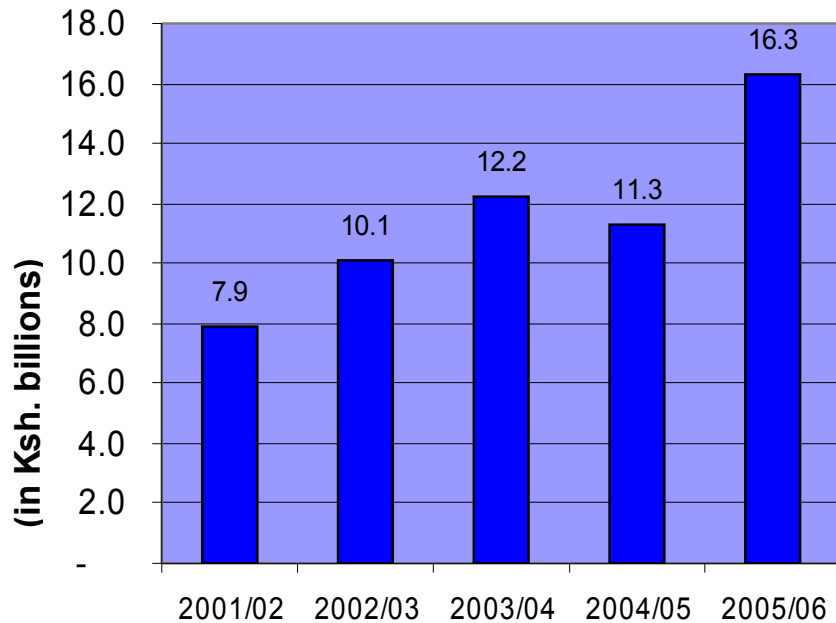


Changing shares of Recurrent and Capital Expenditures in total expenditure

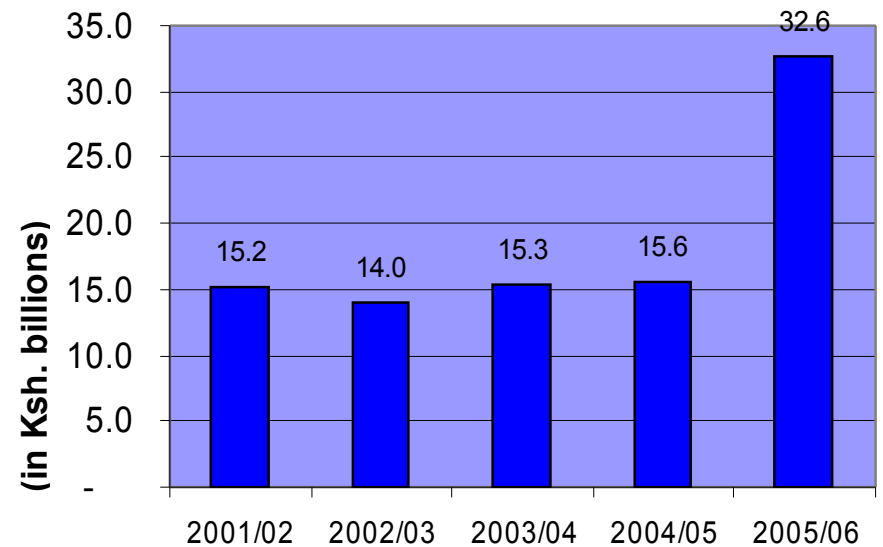


# Progress-Pillar II: Reforms for Poverty Reduction—Fiscal Cont.

**Agricultural expenditures are now more than double what they were in 2001/02.**



**Meanwhile, health expenditures are now 114 % higher per year, or more than 2 times what they were in 2001/02.**



# Progress-Pillar II: Structural Reforms for Poverty Reduction

- The strong rebound in growth of the agricultural sector has impacted positively on rural incomes where most of the poor Kenyans live.
- Reforms in the agriculture sector have included:
  - ⇒ Rehabilitating the rice irrigation schemes
  - ⇒ Enhancing the regulatory capacity of the Coffee Board to address governance and encourage coffee production
  - ⇒ Restructuring the pyrethrum Board, the cotton and sugar sub-sectors, resulting in strong rebound in output growth
  - ⇒ Restructuring the dairy industry –which resulted in 125% increase in milk sold between 2001 and 2005 thus improving farmers’ earnings
  - ⇒ Improving governance in the cooperative sector thus making credit accessible to farmers, improving farm productivity, output and income earnings

# Progress-Pillar II: Structural Reforms for Equity

- # Strengthened management of LATF to improve service delivery countrywide
  - ⇒ Increased disbursements from KShs.9.2 bn in FY00/01-02/03 to KShs.14.2 bn in FY03/04-05/06 - a 52% growth
- # Introduced CDF for poverty reduction and regional development
  - ⇒ CDF increased from KShs.1.2 bn in FY03/04 to KShs.10.0 bn in FY06/07.
  - ⇒ Each constituency now receives KShs.120 million of devolved funds to implement poverty reducing developments and boost local rural economies.

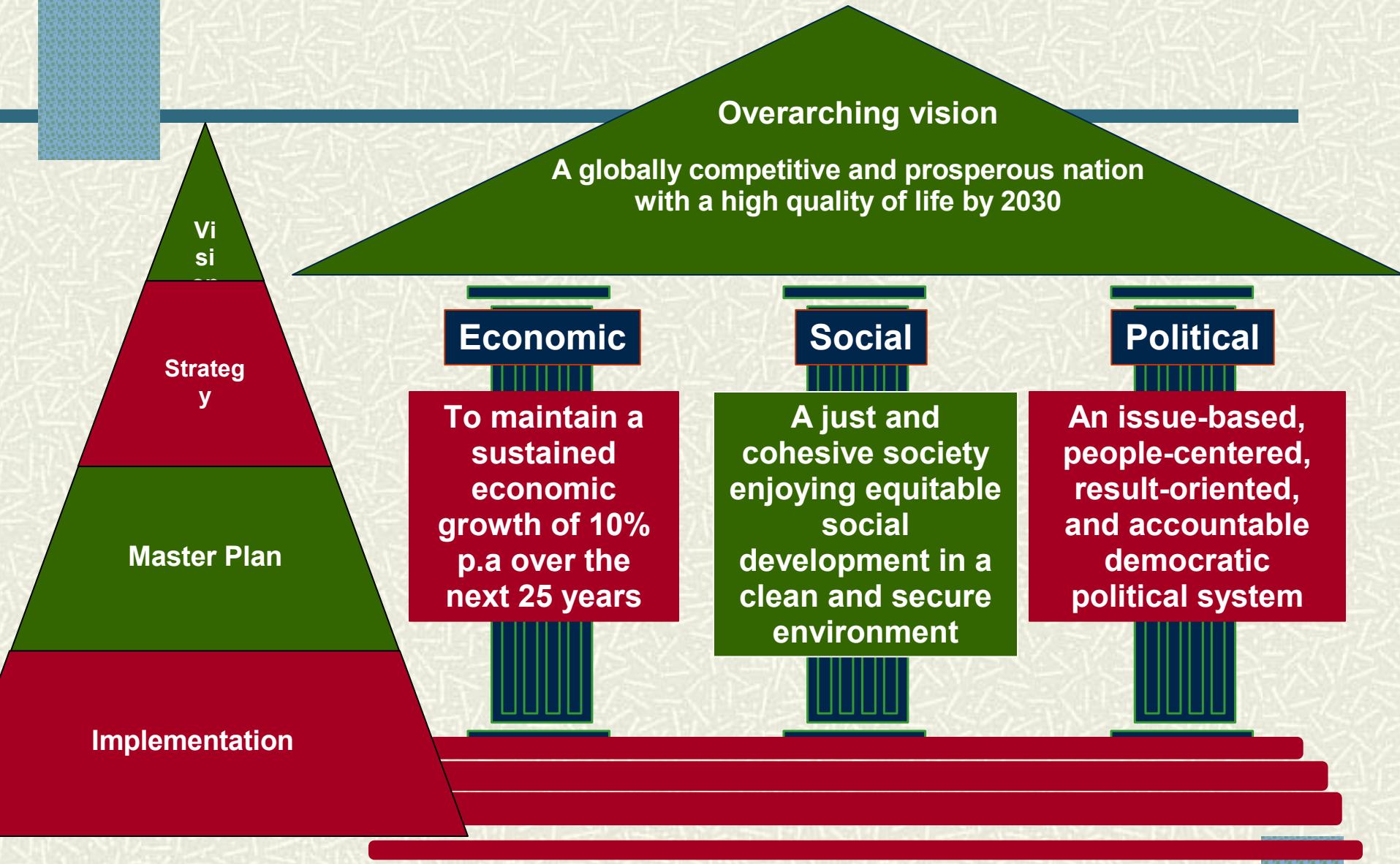
# Progress-Pillar III: Governance Reforms

- # Reforms under governance and anti-corruption have aimed at:
  - ⇒ Improving efficiency in public service; and
  - ⇒ Creating an enabling environment for business development
- # Therefore, Government has:
  - ⇒ Introduced several pieces of legislation aimed at fighting corruption; and enhancing public ethics, public financial management, public procurement and oversight on public finances
  - ⇒ Taken administrative actions to reduce corruption in public sector
  - ⇒ Strengthened capacity for investigations and prosecutions
  - ⇒ Created anti-corruption awareness through education
  - ⇒ Privatized/restructured SOE to enhance, transparency, accountability and efficiency

# THE NEXT STEPS: VISION 2030

- We have accomplished what we set out to do under the ERS, and the challenge now is how to consolidate these gains and set the stage for much higher rates of growth.
- The Question then is – “What Next” and this is where Vision 2030 comes in
- The Vision 2030 process was officially launched by H.E. late in 2006. It has been developed in such a way that:
  - ⇒ All Kenyans can identify with it;
  - ⇒ All Kenyans can believe in it; and
  - ⇒ All Kenyans can rally to it; andTherefore, it must be inclusive of Kenyans diverse cultures, religion, races and geographic areas of interest
- For these reasons, the Vision should be devoid of political and sectarian interests

# THE VISION 2030



# A highly participative supervision being followed to develop the Vision

Decision

**National Steering Committee**  
Made up of NESC Members and Chaired by  
H E the President  
Meeting once every 4-6 weeks

Execution

**Operations Committee**  
Made up of Reps from the Private Sector &  
PSs from Key Ministries & Chaired by the  
Head Of Public Service  
Meeting once every 3-4 weeks

**Core/Technical Team**  
Made up of several Key mangers from the Public  
sector & external experts as needed  
Meeting Continuously

Support

**Ministerial Vision 2030 Committees**  
Made up of Approx 5-7 Top Ministerial  
Officers & 5-7 relevant Ministerial  
Stakeholders & Chaired by PSs  
Meeting as necessary

# THE PROJECT APPROACH

## Phase I

### **High level diagnostic & benchmarking:**

- Understanding the implication of the vision and the key success factors to realise it.
- National & sector diagnostics to isolate key indicators for comparison with Kenya's peers & aspirational Countries.
- Aim is to identify major barriers to national & sectoral devt & how to overcome them.
- Identify key sectors with possibilities of quick wins.

## Phase II

### **High level strategies:**

- Devt of major objectives and priorities by key sectors based on their competitive advantage, unique competencies & possible inter-sectoral linkages for vision 2030.
- Followed by devt of strategies for each key sector based on a thorough analysis of the external environment as well as the internal capabilities of each.
- Strategies able to move the country to the targets envisaged by Vision 2030.

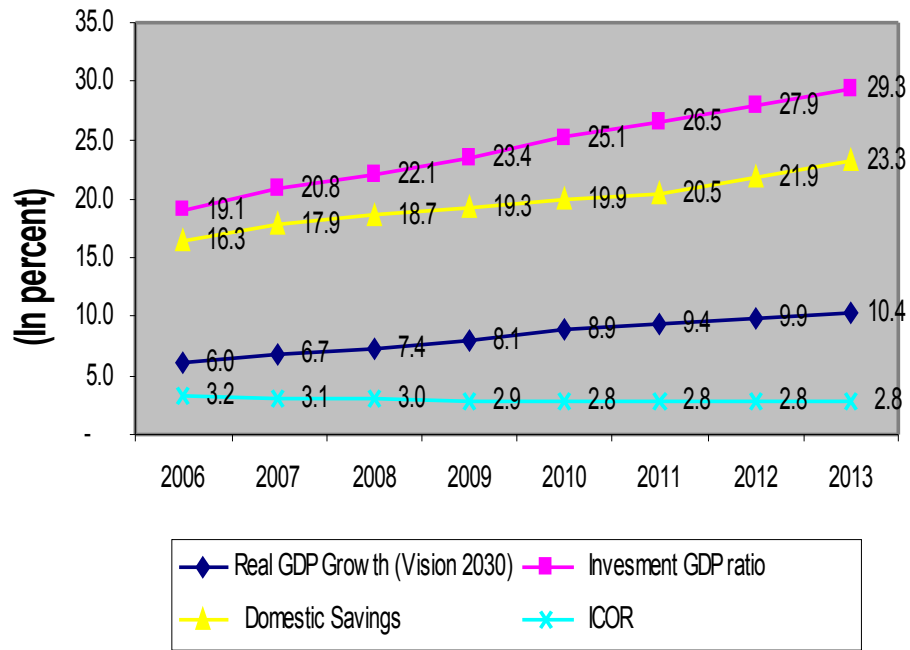
## Phase III

### **Master plan & Communication:**

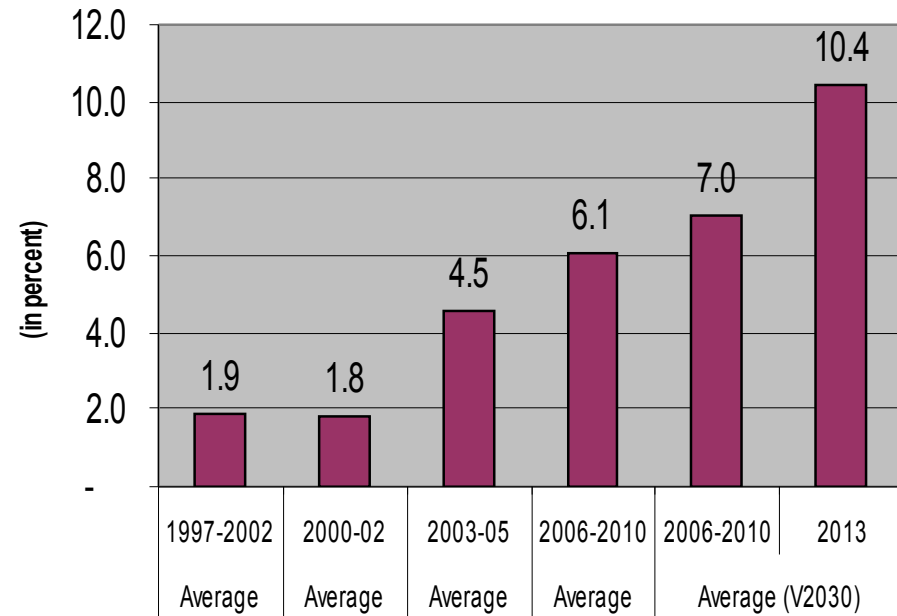
- Devt of implementation plans incl activities, roles & responsibilities.
- Critical to detail resources needed to realize vision 2030 targets, a communication strategy for buy in & an M&E system with clear milestones for effective control of project.
- Last, piloting of consultants' recommendations in a few sectors before full rolled out. The consultant will detail how to do this.

# Vision 2030 Growth Profile

## Vision 2030: Possible Real GDP Growth Scenario



## Real GDP Growth



# Medium Term Structural Reforms

- Achieving the Vision 2030 growth targets will be underpinned by various structural reforms to increase Total Factor Productivity (TFP) in the following areas:
  - ⇒ Public expenditure management and public financial reforms to enhance efficiency and effectiveness in use of resources
  - ⇒ Financial sector reforms to improve efficiency and enhance access to credit for private sector dev.
  - ⇒ Private sector development aimed at improving business environment and encourage private sector dev
  - ⇒ Privatization and restructuring of parastatals to enhance accountability and efficiency in their operations
  - ⇒ Increased efficiency and effectiveness in public service delivery—Kenya’s public sector reforms (performance contracting) have been recommended for an award by

# Conclusion

- # The Kenyan government has been successful in implementing the economic and structural reforms stipulated in the ERS.
- # In terms of the way forward, we will :
  - Sustain macro-economic stability and deepen structural reforms in areas such as:
    - ⇒ Accelerate development of Infrastructure
    - ⇒ Reform the financial sector
    - ⇒ Reduce the cost of doing business
    - ⇒ Privatize/restructure public enterprises; and
    - ⇒ Develop ICT.
- # Creating a conducive business environment for both foreign and domestic investors will be critical to achieving the levels of investments required to achieve V2030 and the MDGs.

# Conclusion Cont..

- # Investors, including especially Kenyans in the Diaspora, are therefore encouraged to take advantage of emerging investment opportunities in Kenya in the areas of:
  - ⇒ Agriculture and agro-processing
  - ⇒ Manufacturing for export into the region
  - ⇒ BPO/ICT development
  - ⇒ Banking and insurance
  - ⇒ Tourism development;
  - ⇒ Educational and health care provisions
  - ⇒ Infrastructure development, including roads construction, energy development; port developments, among others

# THANK YOU

