The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

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Supporting Sustainable Development through Research and Capacity Building

Boosting Investments for Delivery of the Kenya Vision 2030

Kenya's economy has remained stable and resilient to various macroeconomic shocks that include prolonged electioneering period and severe drought during the year 2017. However, growth rate slowed to 4.9% in 2017 down from 5.9% in 2016 largely due to decline in growth in key sectors such as agriculture and manufacturing. In addition, the investment performance for the Medium Term Plans I and II remained below the 30% target, which minimized prospects for securing the double-digit economic growth envisaged to deliver the Vision 2030.

Broadly, the quality and impact of higher investments depend on incentives, innovations and institutions. Improvement of the business environment is also vital for greater utilization of natural resources to accelerate productivity and rejuvenate stagnating industries to provide more jobs for the youth and women.

The Kenya Economic Report 2018 focuses on investments that can support delivery of the desired 10% economic growth for sustainable development as aspired in the Kenya Vision 2030, and especially in view of the "Big Four" agenda that focuses on manufacturing, food and nutritional security, universal health care; and affordable housing.

This policy brief explores the investment options in selected key sectors expected to deliver the Vision 2030 objectives.

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Macroeconomic Stability and Growth

Macroeconomic stability should remain a priority for Kenya to attain double digit growth. The country needs to ensure that fiscal policy enhances growth and maintains the fiscal consolidation path. Debt management needs to be enhanced to keep it on a sustainable path. The monetary policy and financial stability needs to be maintained to ensure market confidence. There is also need to enhance mobilization of domestic resources to finance the envisaged investments by, for example, exploiting opportunities to raise fiscal revenue, strengthening existing development finance institutions, expanding alternative sources of finance, and fostering private sector savings by deepening financial sector development.

Boosting Growth of the Manufacturing Sector

The contribution of the manufacturing sector to GDP is expected to increase to at least 15% by 2022 with emphasis on agro-processing, textiles, leather and blue economy sub-sectors. This will require increased funding especially in construction of special economic zones; innovations and technologies; and supporting SMEs development through credit, training and sub-contracting with large firms.

Fostering sub-contracting with large firms is critical in enhancing access to technology, finance, and innovations. Further, mainstreaming relevant trade facilitation activities into SMEs' policies can support participation in regional and international value chains. Besides, effective implementation of existing procurement laws and regulations with respect to use of local resources, and special considerations to women and youth, can foster growth of SMEs. In addition, effective implementation of the counterfeit policy is required to reduce the influx of substandard products and shield domestic firms from unfair competition. Further, strengthening institutions such as the Kenya Industrial Estates, Kenya Industrial Research and Development Institute, and Kenya Intellectual Property Institute is necessary to build the industrial culture and enhance competitiveness of SMEs. In addition, fast-tracking establishment of targeted special economic zones and rationalization of the incentive packages extended to firms in SEZs vis-à-vis those operating outside the zones is necessary to avoid unfair competition in the domestic market.

Spurring Investment in Trade

While domestic wholesale and retail trade has witnessed significant growth, there is need to address issues regarding the prevailing multiple charges, fees and levies by national and county governments on traders. This tends to raise the cost of doing business and discourages investments. Furthermore, there is need to complete targeted flagship projects to increase retail markets and thus improve efficiency, effectiveness and growth of distribution of goods and services domestically.

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Strengthening the *Buy Kenya Build Kenya* initiative and coordination of implementation of the National Trade Policy, and the Industrialization Strategy, are pertinent in encouraging use of local materials, value addition and diversification of production. Further, Kenya's active participation in regional economic integration and implementation of various trade facilitation programmes is instrumental in improving the business environment and supporting access to regional and international markets.

Finally, Kenya needs to enhance promotional activities for exports and deepen bilateral relations to fully exploit the market potential of the recently concluded African Continental Free Trade Area.

Investing to Grow the Tourism Sector

Kenya attracts the highest number of tourists in the East Africa Community. However, it faces stiff competition from regional countries, especially Tanzania and South Africa due to lack of competitiveness, lower returns and less diversity of products. There are numerous investment opportunities for large scale public-private-partnership projects in development of tourism-related infrastructure at both national and county levels, including airstrips, airports, Meetings, Incentives, Conventions and Exhibitions facilities, accommodation and sports facilities. County governments need to start exploiting the existing opportunities, including in cultural and creative tourism.

Enhancing Food Security with Increased Investments in Agriculture

Over-reliance on rainfall, poor production systems, poor infrastructure, including roads, storage facilities, markets and marketing systems remain key constraints to increasing productivity in the agriculture sector. Food insecurity is also exacerbated by high post-harvest losses arising from poor handling, improper storage, poor roads, and lack of knowledge of modern preservation technologies in the food value chains. Low value addition in agriculture also contributes to high post-harvest losses, compounding food insecurity. Kenya needs to extensively promote irrigated agriculture and adopt climate smart agriculture to reduce vulnerability to climate risks. Reducing the cost of agriculture production and providing extension services to improve production methods will increase agriculture output. In addition, there is need to enhance the performance of key institutions supporting the agricultural sector and promote value addition, reduce post-harvest losses, and remove restrictions or trade barriers to ensure timely distribution of agricultural commodities.

Closing Infrastructure Gaps to Expand Capacity of the Economy

There have been significant investments in the development of infrastructure in the recent past, especially in transport, energy, communication,

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housing, water and sanitation. This is because of the critical linkages infrastructure has with other sectors of the economy. The expansion of road networks, airports, coastline port, completion of the first phase of the Standard Gauge Railway and increased generation of power have all contributed to improved efficiency and productive capacities of various sectors. This has laid the foundation for sustained growth and development. However, infrastructure coverage across the country is still low, with significant gaps that slow down the role of infrastructure in providing momentum for sustainable growth.

The "Big Four" agenda targets development of 500,000 housing units, which is expected to bridge the existing gaps, improve quality and reduce the costs of housing. Besides, the absorption of project finance and maintenance of existing infrastructure remains relatively low, and various tariffs for infrastructure services are yet to get to competitive level. To maintain the momentum for development of infrastructure, the country requires a robust strategy for mobilizing resources, and build capacity in project planning and management to reduce the cost of developing infrastructure. Moreover, there is need for targeted and prioritized interventions especially in the areas of the "Big Four" agenda.

Investing in Human Capital Development

Development of human capital through education and training, provision of health, education and other social services are critical for poverty reduction and sustainable development. Greater investments in the social sector have resulted in increased uptake of health care services, increased enrolment and completion rates at various levels of education, and more targeted social protection programmes.

Investments in training health sector workers, in medical equipment and facilities, and provision of universal health care are expected to expand the scope of coverage and make health services affordable as envisaged in the "Big Four" agenda. Provision of free primary and free day secondary education is aimed at reducing the cost of education. However, frequent industrial unrests affect education calendars and undermine the quality and completion of programmes at different levels of education. There is need to, among other things, promote collaboration with the private sector to enhance health insurance. In social protection, there is need to ensure effective monitoring, ensure effectiveness of interventions, and increase awareness to improve uptake.

Coordinating Growth in Institutional Framework

A strong institutional and coordination framework is key for effective implementation of the various investment programmes in the country. There currently exists multiple agencies and institutions dealing with investment-related issues, including registration and issuance of licences within national and county governments. To address regional balance in development, the government established regional development authorities to enhance investments at regional level. However, a coordination framework is required between the national and county governments to ensure rationalization of policies for effective implementation.

The national investment coordination framework needs to be harmonized with the investment frameworks for various regional trade agreements to facilitate smooth implementation of projects across various sectors.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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