

Government Policy And Foreign Investment In Kenya

By

Paul Kamau

Institute for Development Studies

University of Nairobi

13th November 2014

Kenya Background Information

- **Area:** 581,309 km² – 1/3 is Arable (Arid & Semi Arid – 2/3)
- **Regions:** 47 Counties – County Governments (2013) – Devolution system being established after the 2010 Constitution
- **Neighbouring Countries:** Uganda, South Sudan, Ethiopia, Somalia, Tanzania
- **Capital and Commercial city:** Nairobi
- **Population:** 43 million as at 2013
- **Population Growth Rate:** 2.7% in 2014
- **Official Languages:** Swahili and English
- **National Language:** Swahili

Development Policy in Kenya 1963 -2014

- Sessional Paper No.10 of 1965. This policy is credited with the successful industrialisation of sub-sectors producing consumer products, such as textiles, food and beverages. **Import Substitution Industrialization Policy and Africanization**
- Structural Adjustment Policies (SAP) in Mid 1980s: Sessional Paper No. 1 of 1986. This paper emphasised a shift from ISI to EPS -**International competition and non-traditional exports – Export Diversification.**
- Economic Recovery Strategy for Wealth and Employment Creation 2003 -2007 - With the reforms of the 80's and 90's stimulating very little growth in the economy. **Revitalization of the economy – Stimulus programme**

Development Policy in Kenya 1963 -2014

- ERS - aimed at improving efficiency and productivity in agriculture, trade, industry, tourism and mining, promote FDI, & create reform agents -National Economic and Social Council (NESC)
- **The Vision 2030**
- Current Blue Print of Development Agenda – 3 Pillars – Economic , Political and Social Pillars
- *Economic - the government places a premium on a stable economy to attract and retain investors with the key economic pillars being tourism, agriculture, manufacturing, trade, BPO and financial services.*
- *To create a globally competitive and prosperous country with a highly quality of life by 2030*
- *To achieve Newly industrialized - middle income country status by 2030*
- *Meet the 7 MDG Goals by the year 2015*

Selected Key Investment Projects under the Vision 2030

- LAPPSET

Dubbed as an integrated and transformative game changer, this US\$ 4.45 billion project will connect the Great Lakes region and Eastern Africa to the port of Lamu.

The project is expected to inject 2 – 3% into the country's GDP and will strengthen the country's place as a gateway and a transport and logistics hub to the Eastern African and Great Lakes region.

The project will also open up the Northern Kenyan region to greater investments and thereby leading to economic growth in the region.

- Standard Gauge Railway Line
- Flagship Projects
- 24 Hour Economy

- Airport Expansion
- Road Transport Expansion

Growth Domestic Product GDP



SOURCE: WWW.TRADINGECONOMICS.COM | KENYA NATIONAL BUREAU OF STATISTICS

SELECTED ECONOMIC AND SOCIAL INDICATORS 2009 - 2013

Indicator	2009	2010	2011	2012	2013
GDP Growth (Annual %)	2.7	5.8	4.4	4.6	4.7
Population growth (Annual %)	2.7	2.7	2.7	2.7	2.7
GDP per capita (KSh current)	62,981.6	66,807.2	77,601.2	83,723.7	90,876.2
Current Acc. surplus (KSh mn)	-124,139.9	-187,677.3	-340,178.7	-359,676.7	-412,379.7
FDI as % of GDP	0.4	0.5	1.0	0.6	1.2
Gross Capital Formation % of GDP	20	20	21	20	22

Source: Economic Survey (2014)

FOREIGN DIRECT INVESTMENT (FDI)

- FDI is defined as investment in foreign assets such as foreign currency, credits, rights, benefits or property, undertaken by a foreign national for purposes of production of goods and services.
- The controlling ownership in a business enterprise in one country by an entity based in another country – 10% or more
- An investment made by a company or entity based in one country, into a company or entity based in another country – differs with overseas share investment – significant degree of influence and control
- Mergers & acquisition, Joint Ventures; Building new facilities (Greenfields), reinvesting profits.

Types of FDI

A. **Market seeking FDI**

This is driven by access to local or regional markets. Investing locally can be driven by regulations or to save on operational costs such as transportation. In Kenya, an example of this is General Motors', which assembles cars in Kenya for the Kenyan market.

B. **Efficiency seeking FDI**

Commonly described as offshoring, or investing in foreign markets to take advantage of a lower cost structure. An example of this in Kenya is the establishment of BPO's such as the ADEC group from Philippines; Textile and Clothing firms from Asian countries

C. **Resource seeking FDI**

This is investment focused on extracting or refining natural resources such as petroleum, natural gas, or timber. The discovery of oil in Kenya has attracted quite a few companies such as the Tullow Oil PLC from Ireland and Camac Energy from the US.

Importance of FDI in Development

Source of Economic Development

Inflow of foreign capital into the host Economy

Increased Tax revenue

Technology transfer and skills

Employment - expand job opportunities

Greater competitiveness

Access to Regional Markets – Export Potential by the host country

Overall inflows

FDI inflows to Kenya increased 4 times from USD 914.92 million in 2012 to USD 3,378.92 million in 2013.

Similarly, job created increased 3 folds to 8,223 from 2,491 jobs in 2012

	2010	2011	2012	2013
Capital Invested (USD mn)	842.02	2,086.45	914.92	3,378.98
Employment	2,539	6,328	2,491	8,223

Source: KenInvest (2014)

FDI Policy in Kenya

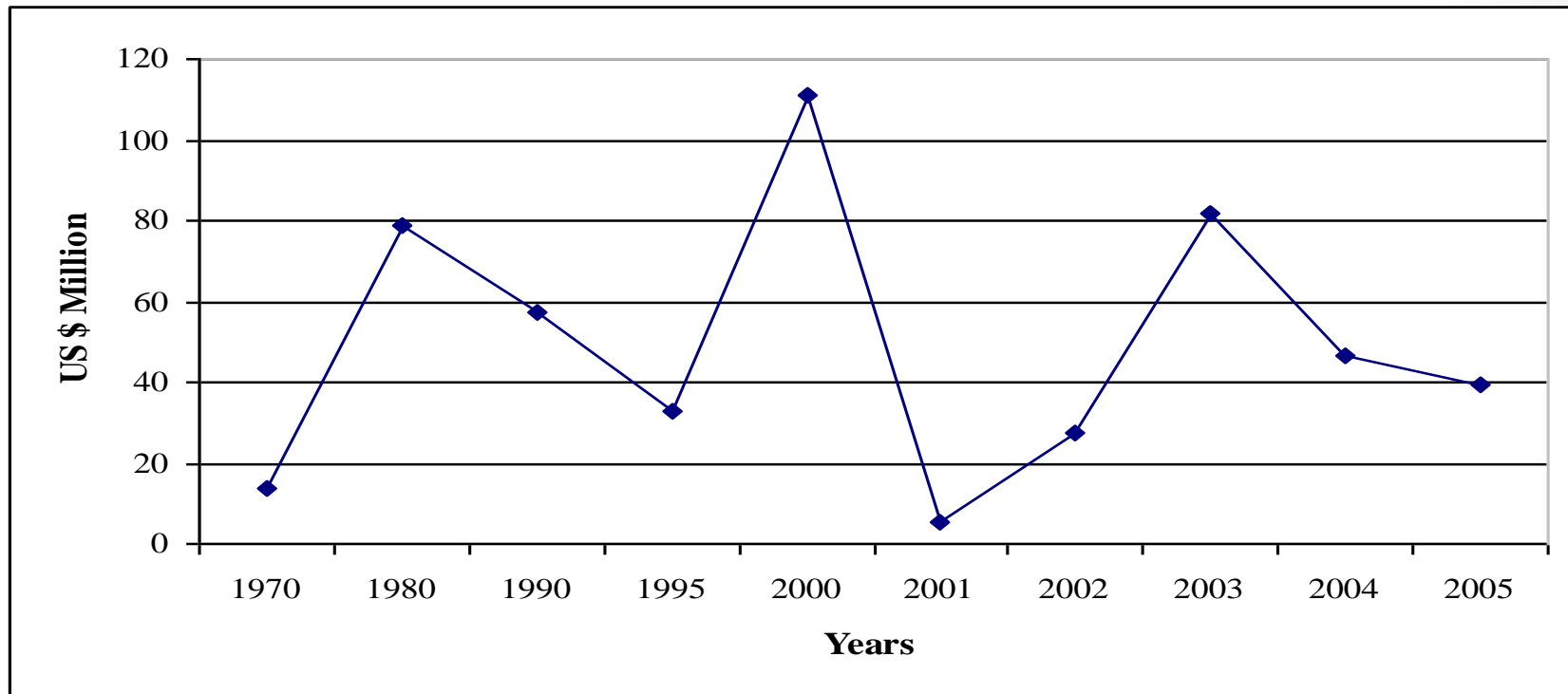
ERS 2003; Investment Promotion Act 2004; Vision 2030

- Spell out Government commitment to attract and retain FDI
- How to address domestic impediments to FDI
- Policy on FDI
- Institutions to attract FDI
- Sectors with Restrictions – Insurance (77%) ; Telecommunication (70%); Listed Companies at NSE (75%). All other sectors are open up to 100% foreign ownership

Institutions

1. Kenya Investment Authority (KenInvest)
2. Export Processing Zones Authority
3. Ministry of Finance

Total FDI in Kenya 1970 - 2013



Mixed growth of FDI inflows

Increase 1970 – 80

Decrease in 1980-90

Privatization of Kenya Airways in 1996 – **Entry of KLM – Dutch**

2000- Sale of Telecommunications, mobile phones, AGOA

2003 – KenGen, Safaricom Equity Bank, KCB

Leading Source of FDI Inflow in Kenya 2010- 2013 by Country

	Capital \$ Million			
	2010	2011	2012	2013
India	90.2	304	69.1	1028.3
United Kingdom	101.3	338.77	159.4	315.97
Mauritius	-	180	-	300
USA	13.1	144.8	399.2	244.24
France	59.4	160.6	-	207.9
Denmark	-	-	-	197.1
South Africa	16.4	20.4	30.75	188.3
Japan	2.8	13.1	24.27	181.07
Germany	17.4	31.6	3.6	102.4
UAE	0	25.8	28.3	51.9
Russia	0	-	6.4	45.7
Canada	17.3	6.2	23.2	30.6

FDI In Kenya by Sectors

	CAPITAL (\$ MILLION)			
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Real Estate	97.60	7.00	-	841.25
Manufacturing	60.05	477.47	65.00	823.31
ICT & IT services	90.40	168.30	59.30	756.40
Transport and storage	97.60	26.00	103.00	594.30
Financial Services	21.80	91.50	98.60	145.47
Business Services	2.70	59.30	77.55	91.30
Communications	233.47	72.00	67.30	44.60
Mining	-	489.10	31.30	30.50
Energy	231.20	643.40	300.00	23.20
Wholesale and retail	7.20	38.58	61.47	14.27
Industrial Machinery, Equipment & Tools	-	5.60	10.80	8.40
Business Machines & Equipment	-	-	-	6.00
Tourism	-	8.20	40.60	-

Opportunities for FDI in Kenya

1. Most developed economy in the region – efficient systems
2. Relatively huge middle income population (Middle Class)
3. Educated and Skilled workforce
4. Liberalised economy – Financial and trade
5. Entry into the Regional market (Eastern & Southern Africa)
6. Membership to EAC, COMESA, AGOA, ACP-EU, GSP, MIGA
7. Tax holidays and Investment promotion programmes
8. Bilateral Trade agreements in place

CHALLENGES FACING FDI

- **Lack of a Coherent Investment policy**
- **Weak regulatory environment in comparison to countries like Rwanda, Uganda**
- **Increased global competition for FDI**
- **Licensing processes**
- **High Cost of doing Business (Energy and Transport)**
- **Devolution – Introduction of taxes by some counties**
- **Data Paucity**

CONCLUSION

1. Need to strengthen the policy environment for FDI
2. Harmonise and strengthen Institutions dealing with FDI
3. Enhance incentives to attract FDI
4. Proper monitoring of FDI
5. Collect reliable and credible data on FDI
6. Sector and Origin of FDI be systematized
7. China in the Kenyan FDI arena
8. Impact on employment needs to be evaluated to evaluate productivity issues.

Thank you for Listening