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ECONOMIC PERFORMANCE AND PUBLIC FINANCE IN KENYA, 1960–2010

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ABSTRACT

Countries with positive per capita real growth are characterised by positive national savings—including government savings, increases in government investment, and strong increases in private savings and investment. On the other hand, countries with negative per capita real growth tend to be characterised by declines in savings and investment. During the past several decades, Kenya's emerging economy has undergone many changes and economic performance has been epitomised by periods of stability/instability, decline, or unevenness. This article discusses and analyses the record of economic performance and public finance in Kenya during the period 1960–2010, as well as policies and other factors that have influenced that record in this emerging economy.

Keywords: Kenya; economic performance; public finance; savings; investment

Introduction

Kenya's economy has been emerging as a market-based one, within a liberalised trade structure, and is now the regional hub for trade, finance, communication, and transportation linkages in East Africa. The country has a vision to become a middle-income economy by 2030. In fact, the *Kenya Vision 2030* (the long-term development blueprint for the country) proposes to create:

> A globally competitive and prosperous country with a high quality of life by 2030. It aims to transform Kenya into a newly-industrialising, middle-income country providing a high quality of life to all citizens in a clean and secure environment. (Republic of Kenya 2007, vii)

Africanus Journal of Development Studies
https://upjournals.co.za/index.php/Africanus/index
Volume 47 | Number 2 | 2017 | #3968 | 19 pages

https://doi.org/10.25159/0304-615X/3968
ISSN 0304-615X (Print)
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During the past several decades, Kenya's economy has undergone many changes and economic performance has been characterised by varying periods of stability/instability, decline, and unevenness in sectoral, temporal and spatial terms (Hope 2012; see also Zeleza 1991). In fact, Nulty (2012, 100) has argued that "compared primarily to other developing nations, Kenya has not managed to capitalise on possible opportunities for development and growth."

This article is an analytical case study of economic performance and public finance in Kenya. Increasing rates of savings and investment contribute to increasing rates of economic growth. Countries with positive per capita real growth are characterised by positive national savings (including government savings), increases in government investment, as well as strong increases in private savings and private investment. On the other hand, countries with negative per capita real growth tend to be characterised by declines in savings and investment. The article discusses and analyses the record of economic performance and public finance in Kenya during the period 1960–2010, as well as the policies and other factors that have influenced that record. It represents the five-decade period that preceded the implementation of the Second Republic constitution that came into force in August 2010, and which emphasises, among other things, economic and political decentralisation.

Consequently, this article offers an analysis of Kenya's record of economic performance and public finance before the full implementation of the Second Republic constitution. It is the cogent view of Hope (2015, 92) that, beyond 2010, "sustained socio-economic progress and political development in [the country] hinges critically on the country's approach to implementation of the 2010 constitution that has been so enthusiastically endorsed by Kenyans." Indeed, Hope (2015, 92) further, convincingly argues that:

> This [2010] constitution offers the best opportunity to the country in the quest for building a capable state with good governance and sustained economic progress . . . and will also enhance the chances of achieving the aspirations outlined in the *Kenya Vision 2030* of substantial improvements in the economic, social and political fronts.

Economic Performance and Growth

Growth, economic performance and development in Kenya have been significantly influenced, in varying ways and at various periods by some combination of endogenous and exogenous factors that include, but are not limited to, severe droughts, erratic rains, reliance on several primary goods, persistent corruption, weak commodity prices, low investor confidence, meager donor support, political violence, global financial and oil crises, and bad policy choices (Hope 2012). Moreover, other researchers have observed that political power-plays in sporadic ethnic violence during election cycles since the advent of multi-party and political competition in 1992, as well as other risk factors, have been and remain a hindrance to the country's ability to sustain growth and retain its

position as a dominant East African economy (see, for example, Institute of Economic Affairs [IEA] Kenya 2017; Kimenyi, Mwega, and Ndung'u 2015; Kimenyi and Ndung'u 2005).

During the 1960s Kenya experienced growth in its gross domestic product (GDP). The average annual GDP growth was six per cent from 1961 to 1969. However, although positive rates of growth were recorded, there were several years of decline from previous years, but with 1966 recording the highest rate of growth in the period at 15 per cent (World Bank n.d.). After independence in 1963, Kenya pursued economic growth through, among other policies, public investment, encouragement of smallholder agricultural production, and incentives for domestic private investment (United States [US] Department of State 2010). This policy approach was also spelt out in the government strategy paper, entitled *African Socialism and its Application to Planning in Kenya*, which stated that "in the longer term, however, it is our aim to maintain a rapid rate of growth with less dependence on foreign sources of capital" (Republic of Kenya 1965, 20). Economic growth during the 1960s was stimulated primarily through agricultural production (US Department of State 2010). During this period the GDP at current prices averaged US$1.1 billion (World Bank n.d.).

In the 1970s economic growth expanded, moving from the annual average of six per cent in the 1960s to an annual average rate of seven per cent, with nominal GDP averaging US$3.4 billion—with 1970 being the only year of negative growth (at -5 per cent)—while 1971 recorded the highest growth rate in the country's history to date, at 22 per cent (World Bank n.d.). This commendable growth rate was made possible (in addition to increased agricultural production), by increased productivity and favourable terms of trade (Republic of Kenya 2000). After experiencing moderately high growth rates in the 1960s and 1970s, Kenya's economic performance during the 1980s and 1990s was less impressive and far below its potential.

The 1980s kicked off with the knock-on effects of the second oil crisis of 1979, compounded by famine in 1980, and by 1982 the country was facing dire debt problems. The 1980s saw the economy growing at an annual average rate of only 4.3 per cent, and at less than half of that (at two per cent in the 1990s). The average annual GDP at current prices was US$7.1 billion and US$9.9 billion in the 1980s and 1990s, respectively (World Bank n.d.). The 1990s can be regarded as Kenya's "lost decade" in terms of economic performance with the recording of negative growth (-1 per cent) in 1992 and zero growth in 1993 and 1997, respectively. This overall negative performance occurred, despite the government's recognition and promotion of small enterprises and the informal sector (*Jua Kali*) as major sources of domestic growth and wealth creation beginning in the early 1990s (see Republic of Kenya 1992).

The decline in Kenya's economic performance in the 1980s and 1990s has been attributed to a number of factors. The US Department of State (2010), for example, noted that this decline was largely due to inappropriate policies related to agriculture,

land, and industrial development, which were compounded by poor international terms of trade and weaknesses in governance. Moreover:

> Increased government intrusion into the private sector and import substitution policies made the manufacturing sector uncompetitive. The policy environment, along with tight import controls and foreign exchange controls, made the domestic environment unattractive for both foreign and domestic investors (US Department of State 2010, 7).

According to one of the government's own assessments, in addition to exogenous factors, the erosion of growth was compounded by inadequate macro-economic policy responses, resulting in structural dislocations that acted as major constraints to economic growth (Republic of Kenya 2000). Also, Kimenyi, Mwega, and Ndung'u (2015, 2) observed that the two decades were "characterised by persistently low growth and limited economic transformation, despite the fact that the country maintained a large measure of political stability and pursued a fairly consistent development strategy."

This state of affairs led the government to engage the World Bank and the International Monetary Fund (IMF) in the introduction of structural adjustment programmes (SAPs). In fact, Kang'ethe (1994, 3) noted that it was the government's *Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth*, which stipulated the development policies for economic management towards the year 2000, "that prompted the profound structural adjustment process which [was subsequently] initiated by the Kenya government." The use of SAPs in Africa and elsewhere in the 1980s and 1990s proved to be very controversial, and much has been written about their origins and impact (see, for example, Hope 1997a; Naiman and Watkins 1999). SAPs were eventually scrapped, amid mounting evidence that they were causing more harm than good by lowering, instead of raising living standards, for the most part. The World Bank and IMF subsequently admitted that this was indeed the case and SAPs were replaced in 1999 by poverty-reduction strategies, which were designed to enhance country ownership of the development policy process. Very good accounts and analyses of Kenya's experience with SAPs in the 1980s and 1990s, and their lack of impact on growth, development, poverty, and other socio-economic indices, can be found in several analyses (see, for example, Kabubo-Mariara and Kiriti 2002; Rono 2002; Swamy 1994).

In the first decade of the 21st century, Kenya's economic growth began to recover and posted an annual average rate of four per cent. However, this growth rate was disappointing and was again influenced by several exogenous and endogenous factors. Annual average GDP at current prices for the period 2000–2010 was US$24 billion. The IMF, which had resumed loans in 2000 to help Kenya through the severe drought of 1999 to 2000, again halted lending to the country in 2001, when the government failed to institute several governance measures. With the elections of December 2002, a new government came to power in 2003 and began to implement an ambitious economic reform programme, in conjunction with resumed cooperation with the World Bank and the IMF. One of the notable reform measures instituted was the *Kenya: Economic*

Recovery Strategy for Wealth and Employment Creation 2003–2007 (*ERS 2003–2007*) (Republic of Kenya 2003).

Under the *ERS 2003–2007*, investor confidence was somewhat restored, farm prices improved, and rural electrification proceeded in many parts of the country. In addition, access to clean water and affordable healthcare services also improved, and school enrolments increased (African Development Bank [AfDB], Organisation for Economic Cooperation and Development [OECD], and the United Nations Economic Commission for Africa [UNECA] 2008). In fact, between 2003 and 2007 economic growth rebounded; increasing from three per cent in 2003 to seven per cent in 2007. The *ERS 2003–2007* was replaced by the *Kenya Vision 2030*, referred to earlier on, which is the country's development blueprint for the period 2008 to 2030. The vision is based on three pillars: economic, social, and political (Republic of Kenya 2007). The economic pillar aims to improve the prosperity of all Kenyans through an economic development programme that covers all the regions of the country. The social pillar seeks to build a just and cohesive society with social equity in a clean and secure environment. The political pillar strives to realise a democratic political system, founded on issue-based politics that respects the rule of law and protects the rights and freedoms of every individual in Kenyan society (Republic of Kenya 2007). The *Kenya Vision 2030* is being implemented through successive five-year medium-term plans (MTPs). The MTPs represent the primary documents, which outline the Kenya consensus on policies, reform measures, projects, and programmes that the government has committed to implement in pursuit of the *Kenya Vision 2030* (Republic of Kenya 2008). The policies and reform measures stipulated in the MTPs aim at achieving faster and significant structural changes in Kenya's economy.

Sector Performance

During the 1960s, agriculture contributed a little more than one-third of the GDP, services a little more than two-fifths, and industry more than one-tenth. However, by the first decade of the 21st century, the services sector was contributing more than one-half of the GDP, while agriculture's share declined to one-quarter and the share of industry held steady. Despite services being the major sectoral contributor to GDP, Kenya's economy relies primarily on the performance of agriculture—particularly in terms of export earnings and employment. The value added by the agricultural sector to GDP averaged 38 per cent during the period 2000–2009. By 2009 agriculture contributed 24 per cent to GDP, while services and industry contributed 59 per cent and 17 per cent, respectively (Republic of Kenya 2010a; World Bank n.d.).

Through linkages with agro-based sectors and associated industries, agriculture also indirectly contributed a further 27 per cent to Kenya's GDP (Republic of Kenya 2010a). The government of Kenya has also noted that:

> Agriculture [on average] accounts for 65 per cent of Kenya's total exports, 18 per cent and 60 per cent of the formal and total employment, respectively [and] remains the main source of livelihood for the poor and is also one of the sectors identified to deliver the 10 per cent economic growth rate under Vision 2030 (Republic of Kenya 2010b, 129).

By 2010, as economic performance improved, the increase in output was attributed, to some extent, to agricultural growth due to good rains in the latter part of 2009 and in early 2010. The average agricultural growth at the end of 2010 was 6.4 per cent, with a contribution to real GDP of 22 per cent (Central Bank of Kenya [CBK] 2010; 2012).

The industrial sector has been contributing an annual average of 18 per cent to GDP since the 1960s, with the exception of the 1970s and 1980s, when its contribution was slightly higher, at 19–20 per cent. Although Kenya is the most industrially-developed country in East Africa, the manufacturing industry still accounted for only about 10 per cent of GDP, and also contributed 14 per cent to wage employment (The Kenya Institute for Public Policy Research and Analysis [KIPPRA] 2009). Manufacturing in Kenya is dominated by food processing and processing of consumer goods. The country also refines crude petroleum into petroleum products, which are mainly consumed locally. Industrial activity is concentrated around the three largest urban centers of Nairobi, Mombasa, and Kisumu. About one-half of the total investment in the industrial sector is foreign, with the United Kingdom (UK) providing one-half of that. Although the manufacturing sector in Kenya is diversified in terms of activities, agro-processing of food commodities and refining of petroleum products are the main industries in terms of value added. By 2010, and thereafter, the country had therefore not substantially transformed its manufacturing sector from traditional industries (The Kenya Institute for Public Policy Research and Analysis [KIPPRA] 2009; Were 2016); and "today manufacturing plays about the same role in Kenya's economy as it did 30 years ago" (Page 2016, 16).

The Kenyan manufacturing industry has been supported primarily by a vibrant domestic demand and regional market. Most of Kenya's manufactured goods go to the regional Common Market for Eastern and Southern Africa (COMESA), which is discussed below. However, the manufacturing industry has not reached its full potential in the country due to—among other things—high input costs, inadequate infrastructure, poor productivity growth, and intense competition from imports subsequent to the liberalisation of the economy in the early 1990s (Bigsten and Kimuyu 2002; Chege, Ngui, and Kimuyu 2014; Hope 2012; Ngui, Chege, and Kimuyu 2016). To deal with these challenges the government of Kenya has, over the years, developed and attempted to implement several industrial development strategies or policies. These include the *Sessional Paper Number 2 of 1996 on Industrial Transformation to the Year 2020,* whose objective was to achieve the transformation of the Kenyan economy to a newly industrialising country by the year 2020 (Republic of Kenya 1996)—a similar objective to the now *Kenya Vision 2030*.

In 2006, a Private Sector Development Strategy (PSDS) was formulated, covering the five-year period 2006–2010. It was intended to enhance private-sector growth and competitiveness, which was to contribute, in turn, to the country's medium-term objectives as outlined in the ERS *2003–2007,* and thereby catalyse the provision of an enabling environment to enhance private sector growth and competitiveness. The main approach advocated in the PSDS was the fast tracking of existing and new government initiatives by (1) addressing constraints to public service delivery through catalytic activities; (2) supporting the faster implementation of macro-economic reforms in key areas such as trade, deregulation, and access to finance; and (3) funding specific initiatives to fast track the growth and competitiveness of micro, small and medium enterprises (Republic of Kenya 2006).

Undoubtedly, Kenya is emerging as a service-driven economy. The services sector improved its annual average percentage contribution to GDP from 45 per cent in the 1960s to 54 per cent by the first decade of the 21st century (World Bank n.d.). During the past few decades, the services sector contributed an annual average of 53 per cent to GDP. However, the sector may be contributing as much as 60 per cent of GDP, with a corresponding 68 per cent of employment creation (Hope 2012). Two areas that have emerged as strong growth sub-sectors of Kenya's services sector are business process outsourcing (BPO) and financial services. Essentially, business processing outsourcing occurs when a company hires another company to handle some of its business activities. It is the practice of using a third party, contracted to perform specific, specialised processes on a company's behalf with at least a guaranteed equal service level. It encompasses a number of functions that are considered non-core to the primary business of the hiring company. These outsourcing deals frequently involve multi-year contracts and include, but are not limited to, such areas as customer relationship management, call centers and telemarketing, tele-servicing and product support, payroll maintenance, finance/accounting/billing, logistics management, and insurance claims processing.

Perhaps the most well-known of the financial services products—and on which several case studies have been written—is M-Pesa, which was launched in March 2007 (see, for example, Hughes and Lonie 2007; Jack and Suri 2011; Jacob 2016; Mas and Radcliffe 2011; Mbiti and Weil 2011; Mbogo 2010; Morawczynski 2009; Plyler, Haas, and Nagarajan 2010; Stuart and Cohen 2011). M-Pesa is derived from the Swahili word *pesa*, meaning cash and the "M" which stands for mobile. The product concept is very simple. An M-Pesa customer can use his or her mobile phone to move money quickly, securely, and across great distances, directly to another mobile phone through which the user can conduct other financial transactions. Neither customer needs to have a bank account. They register instead with Safaricom for an M-Pesa account. Customers turn cash essentially into e-money at Safaricom dealers and follow simple instructions on their phones to make payments through their M-Pesa accounts.

The success and popularity of M-Pesa is, undoubtedly, derived from the fact that it was able to meet a need in Kenya and now elsewhere also. The service is scoring very

high on financials as well as in customer satisfaction and confidence. It has also been expanded to capture international remittances. More innovative supply-side products of this nature are needed. Commercial banks in particular, need to develop more customer-friendly products to enhance financial inclusion in the country. As observed by Mas and Radcliffe (2011), M-Pesa has certainly provided one glimpse of a commercially-sound, affordable and effective way to offer financial services to all. M-Pesa, as well as the other mobile money systems, has transitioned recently from a pure money transfer system into a payment platform that allows institutions and businesses to send and receive payments. According to the United Nations Human Settlements Programme [UN-HABITAT] (2011, 36), "it is rumored that even Kenya Police now routinely collect [some of their bribes] using M-Pesa."

External Trade

Trade is a key element in the trajectory toward achieving and sustaining good economic performance and growth. In fact, international trade, comprising both imports and exports of goods and services is a critical instrument for economic growth. The government has also identified the export trade sector to play a significant role towards the attainment of national development objectives (Republic of Kenya 2008). Kenya's external trade patterns are heavily influenced by both global market conditions and the country's vigorous pursuit of regional integration—despite that, in the latter case, there is a growing body of literature that points to the costly and unrewarding proliferation of cross-memberships in Africa's regional integration bodies (see, for example, Hope 2004b; UNECA 2006).

The available estimates indicate that between the 1970s and 2010, informal and formal trade in Kenya accounted for approximately 10–39 per cent of GDP; and a large proportion of the total employment was in the informal sector (Hope 2012; 2014; The Kenya Institute for Public Policy Research and Analysis [KIPPRA] 2009). The main sectors in Kenya's external trade are services, agriculture, and manufacturing; and the country's overall trade partners are Africa, the European Union (EU), the United Arab Emirates (UAE), India, China, Japan, the US, the East African Community (EAC), and COMESA. The African continent accounts for about 24 per cent of Kenya's total trade, the EU accounts for about 20 per cent, and the share with the EAC partner states is about nine per cent, while for COMESA it is about 12 per cent (Kenya National Bureau of Statistics [KNBS] 2010). Kenya's main exports are coffee, tea, spices, refined petroleum, and cut flowers. Over the period 1990 to 2010, the value of the total exports of goods and services almost quadrupled. Exports totaled US$2.21 billion in 1990, compared to US$8.2 billion in 2010. However, aggregate (volume or total) trade was heavily impacted by the growth in imports also. The value of imports increased more rapidly (four-fold) than the value of exports, from US$2.69 billion in 1990 to US$13.4 billion in 2010. The result was a widening deficit in the trade balance from US$0.48

billion in 1990 to US$5.2 billion in 2010. Exports as a percentage of GDP remained constant at 21 per cent in 2000, as well as in 2010, while imports increased from 32 per cent of GDP in 2000 to 34 per cent in 2010 (Hope 2012; Republic of Kenya 2010b).

Despite Kenya's negative trade balances, coupled with current account deficits, during the period 2000–2010, its overall balance of payments was rarely negative. This was due to the fact that the current account deficit was being financed by increasing capital flows, which reached a record 9.5 per cent of GDP by 2009 and resulted in an overall balance of payments (including grants) surplus of approximately US$966 million, compared to a deficit of US$479 million in 2008 (Kenya National Bureau of Statistics [KNBS] 2010). By the end of fiscal year 2010, the balance of payments surplus was US$592 million (CBK 2011). The total capital and financial account improved from a surplus of US$1.2 billion in 2008 to a surplus of US$2.5 billion (more than double) in 2010 as a result of relatively improved inflows of capital to the private sector and government. The latter benefited from additional allocations of special drawing rights (SDRs) from the IMF to mitigate the adverse effects of the global recession (CBK 2010; 2011; KNBS 2010). The surplus in the balance of payments also indicated an improvement in Kenya's accumulation of international reserves. The country's official foreign exchange reserves increased from approximately US$1.7 billion in 2005 to approximately US$3.8 billion in 2010 (CBK 2010; 2011; KNBS 2010), covering about four months of imports of goods and services at that time.

Public Finance

Economic performance can have a major influence on good fiscal outcomes and vice versa (see, for example, Berg, Ostry, and Zetellmeyer 2012; IMF 2015). In this regard, the pursuit of rapid, sustainable, and shared growth requires effective and strategic public financial management (Hope 2008; KIPPRA 2009). The fiscal performance of Kenya, as it is elsewhere, is integrally related to the economy of the country. Since 2001, Kenya's fiscal performance, on the revenue side, has been steadily improving. Total revenue (including grants) increased from the approximate equivalent of US$2.8 billion in 2000−2001, to the approximate equivalent of US$7 billion in 2009−2010 (CBK 2011; IMF 2009; KNBS 2010). This improved performance was due primarily to reforms in revenue administration, including automation and the introduction of electronic tax registers (Hope 2012; KIPPRA 2009). However, in terms of fiscal ratios, total revenue and grants as a proportion of GDP moved unevenly downward from 26 per cent in 2000−2001 to 23 per cent in 2009−2010 (CBK 2011; IMF 2009; Republic of Kenya 2010b). Nonetheless, this still represented one of the highest revenue mobilisations in sub-Saharan Africa.

Tax revenue, not surprisingly, is the major source of central government revenue in Kenya. Tax revenue in Kenya increased from the approximate equivalent of US$2.2 billion in 2000−2001 to the approximate equivalent of US$6.1 billion in 2009−2010, representing an increase from approximately 79 per cent of total revenue in 2000−2001 to approximately 87 per cent in 2009−2010 (CBK 2011; IMF 2009; KNBS 2010). However, as a proportion of GDP, tax revenue decreased from approximately 20 per cent in 2000−2001 to approximately 15.3 per cent in 2009−2010 (CBK 2011; IMF 2009; Republic of Kenya 2010b). The principal components of tax revenue in Kenya continue to be the indirect taxes (on goods and services and trade)—which comprised approximately 67 per cent of the total tax revenue in 2000−2001 and approximately 60 per cent in 2009−2010. As a proportion of GDP, the indirect taxes comprised a total of 13 per cent in 2000−2001 and 14 per cent in 2009−2010. Direct taxes (on income and profits) therefore, amounted to 33 per cent of total tax revenue in 2000−2001 and 40 per cent in 2009−2010, while as a proportion of GDP they amounted to seven per cent and 9.3 per cent in 2000−2001 and 2009−2010, respectively (CBK 2011; IMF 2009; KNBS 2010; Republic of Kenya 2010b).

On the other side of the public finance equation, the central government total expenditure and net lending increased from the approximate equivalent of US$3 billion in 2000−2001 to the approximate equivalent of US$9 billion in 2009−2010. As a proportion of GDP, total expenditure and net lending was 28 per cent in 2000−2001 and 31.4 per cent in 2009−2010. As one would expect, recurrent expenditure grabs the largest share of total expenditure at 85.4 per cent in 2000−2001 and 23 per cent in 2008−2009 as the government had been attempting to increase its outlays on development projects. In relationship to GDP, recurrent expenditure was 23.7 per cent in 2000−2001 and 23 per cent in 2008−2009 (IMF 2009; KNBS 2010; Republic of Kenya 2010b). By the first quarter of fiscal year 2010–2011 total expenditure and net lending amounted to approximately US$1.9 billion, roughly equivalent to the same amount for the corresponding period in the fiscal year 2009–2010 (Republic of Kenya 2010c). As can be gleaned from the foregoing, the relationship between government expenditure and net lending, on the one hand, and revenue and grants on the other hand, points to negative overall balances (fiscal deficits). In 2001−2002 this deficit was equivalent to 1.9 per cent of GDP and in 2008−2009 it was 85 per cent of GDP (IMF 2009; KNBS 2010; Republic of Kenya 2010b). By the first quarter of fiscal year 2010–2011, the overall fiscal deficit was equivalent to 0.8 per cent of GDP, compared to 2.2 per cent of GDP for the same period in the fiscal year 2009–2010 (Republic of Kenya 2010c).

Deficits lead to borrowing to meet the difference (shortfalls in revenue or excessive spending depending on one's point of view). Kenya's total public debt increased from the approximate equivalent of US$7.2 billion in 2002 to the approximate equivalent of US$15 billion in 2010, moving downward from 54 per cent of GDP in 2002 to 50 per cent of GDP in 2010 (CBK 2011; IMF 2009; KNBS 2010; Republic of Kenya 2010b; 2010d). With public debt as the fiscal policy anchor, the country's fiscal policy targeted

low and falling domestic public debt in proportion to GDP. During the recent past, the net debt stock in proportion to GDP was reduced as a result of privatisation receipts, some bilateral debt relief, and some GDP growth. In particular:

> Since the fiscal situation was close to balanced from 2003–04 to 2006–07, the government used the fiscal space to pay-down principal debt payments and used available privatisation receipts to lower the debt stock. So, while the fiscal performance had resulted in a widening fiscal deficit, there was room to accommodate this by raising the public debt to GDP ratio within debt sustainability parameters (Republic of Kenya 2010b, 22–23).

Consequently, by mid-2011, the total public debt to GDP percentage had climbed slightly to 54 per cent (CBK 2011).

Increasing rates of savings and investment contribute to increasing rates of economic growth. As previously noted, countries with positive per capita real growth are characterised by positive government savings, increases in government investment, and strong increases in private savings and investment. On the other hand, countries with negative per capita real growth tend to be characterised by declines in savings and investment. For Africa, it has also been determined that countries that improved their macroeconomic policies achieved higher growth rates, domestic savings, and private investment (Hope 1996; 1997b).

To fund its development expenditures and investment programmes, the government had estimated that it needed to increase gross national savings from its 15.6 per cent of GDP in 2006−2007 to approximately 26 per cent in 2012−2013 and to 29 per cent by 2030 (Republic of Kenya 2007). The manner in which these estimates were determined, as well as the annual time series derived were not provided. It was asserted that public savings would rise from 1.6 per cent of GDP in 2006−2007 to approximately three per cent in 2012−2013 and to 3.8 per cent of GDP by 2030 (Republic of Kenya 2007). This means that the bulk of the increased savings through to 2030 is intended to come from the private sector. In that regard, private savings were targeted to rise from 14 per cent of GDP in 2007−2008 to 23 per cent in 2012−2013 and to 25.5 per cent in 2030 (Republic of Kenya 2007). However, as seen in Figure 1, these targets for gross savings were not even close to being achieved. Consequently, greater policy efforts need to be made to encourage national savings, going forth.

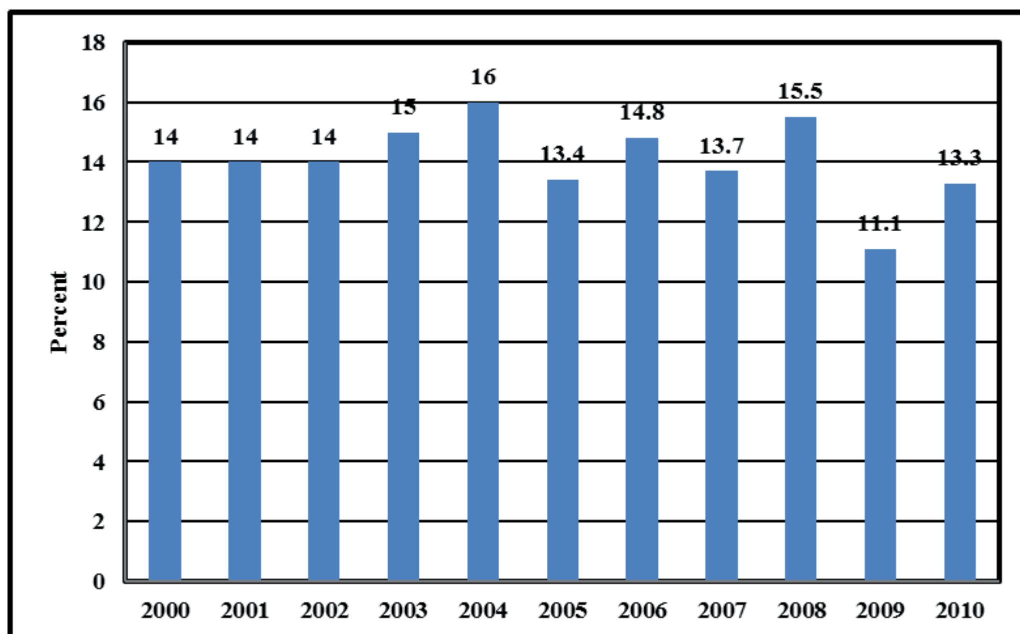

Figure 1: Gross national savings, 2000–2010 (percentage of GDP)

Source: *Author, based on data from KNBS (2010); and World Bank (n.d.)*

For the *Kenya Vision 2030* growth objectives to be realised, the government targeted an increase in the level of investment to 32.6 per cent of GDP by 2012−2013, which is by approximately 10 percentage points, and then remain above 32 per cent for the 2014−2030 period (Republic of Kenya 2007; 2008). However, by 2007−2008, the investment/GDP ratio was estimated at 19.4 per cent, compared to the target of 22.9 per cent for that period (Republic of Kenya 2010a). Foreign direct investment (FDI), in particular, has underperformed. Kenya has dramatically been unable to attract major and sustained flows of FDI over at least the past two decades. This is due to a number of factors, including increasing corruption, deteriorating infrastructure, and insecurity triggered by ethnic violence and terrorist acts, rather than formal restrictions on FDI entry (United Nations Conference on Trade and Development [UNCTAD] 2005). As shown in Figure 2, FDI net inflows declined from US$79 million in 1980 to US$57 million in 1990, and to US$42 million in 1995—and rebounded to US$111 million in 2000, declined to US$21 million in 2005, increased significantly to US$729 million in 2007, declined to US$96 million in 2008 due mostly to the 2007–2008 post-election violence, and climbed back up to US$ 178 million in 2010 (Hope 2012; UNCTAD 2005; 2010; 2012; World Bank n.d.).

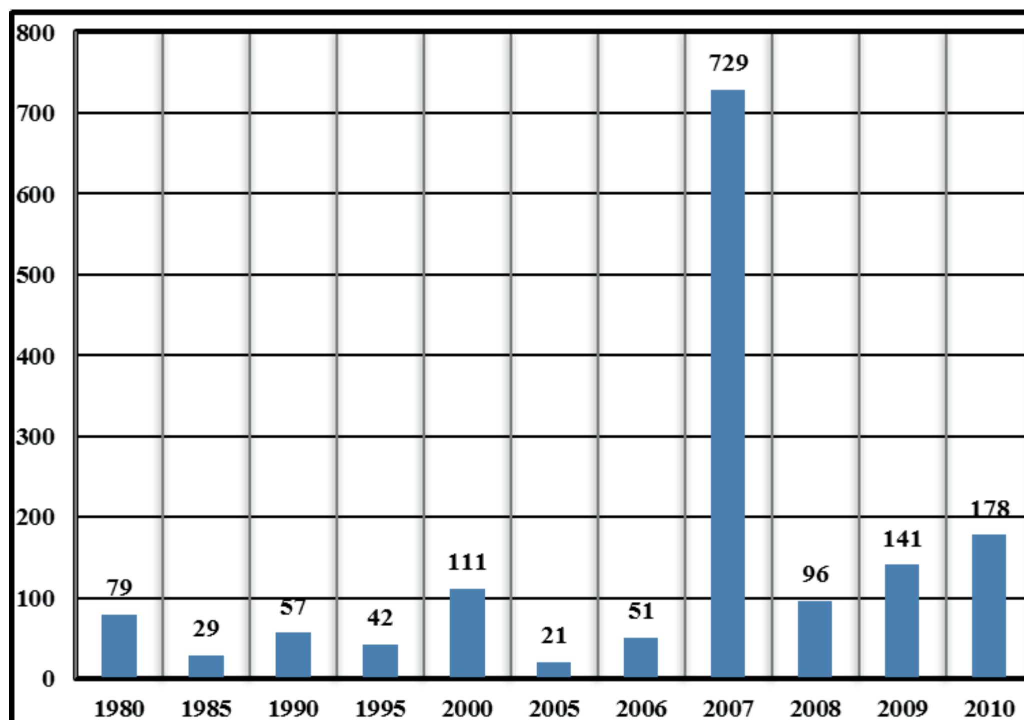

Figure 2: FDI net inflows, 1980–2010 (millions of US dollars)

Source: *Author, based on data from World Bank (n.d.); and UNCTAD (2010; 2012)*

FDI net inflows are the inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital. It is, therefore, new investment inflows from foreign investors less divestment (World Bank n.d.). In 2010 Kenya's share of FDI inflows to all of Africa was 0.4 per cent and 21 per cent for East Africa (UNCTAD 2012). As a proportion of GDP, Kenya's FDI inflows declined from 4.5 per cent in 2000 to 0.4 per cent in 2010. As a percentage of gross fixed capital formation, the decline was from a high of 11.4 per cent in 2007 to 2.2 per cent in 2010 (UNCTAD 2010; 2012). As indicated above, this decline has been affected by corruption and the post-election violence of 2007–2008 (Hope 2012).

Despite the poor performance of FDI in the past few decades, Kenya still remains a natural destination for investment flows into the region. The country possesses regional advantages such as its air transportation network and the quality of its workforce. One avenue that Kenya can vigorously pursue in the quest to attract higher levels of FDI flows is investments from developing and transition economies. Investors from these economies have been found to be less apprehensive about the deterioration of locational

factors in Africa than investors from developed countries (United Nations Industrial Development Organisation [UNIDO] 2007). Moreover, these new sources of FDI can provide a buffer against the impacts of global crises by offering more resilient flows and a broader base of financial resources (UNCTAD 2010). Among key investment sources in this regard is China. Chinese FDI stock in Africa had reached US$7.8 billion by 2008, but accounted for only four per cent of China's total outward FDI stock (UNCTAD 2010). Based on the available data, Kenya's share of China's outward FDI stock in Africa was pegged at four per cent in 2005 (Kaplinsky and Morris 2009). However, looking at other evidence, this is surely underestimated. In particular, Kenya should vigorously attempt to position itself to benefit from the China-Africa Development Fund, which is an equity investment fund of China that focuses on investments in Africa. Indeed, evidence suggests that this has been the case in the post-2010 period, with the largest share of Kenya's debt stock now owed to China (see, for example, Munda 2018; Mungai 2016; Sanghi and Johnson 2016).

Conclusion

Kenya's economic performance and socio-economic trends over the period 1960–2010 have been influenced by a number of factors that included political violence and instability, poor governance, corruption, inadequate infrastructure, insecurity, bad policy choices, unfavourable weather patterns, low investor confidence, and external shocks such as rising energy prices and global financial crises. Basically, as also determined by Kimenyi, Mwega, and Ndung'u (2015, 4):

> The Kenyan story is one of missed opportunities. The country, for example, did not exploit globalisation to increase manufactured exports, given its coastal location, relatively cheap labour, and basically market-friendly orientation.

According to Jerven (2014), the country's growth performance is widely thought to be underpinned by its commitment to capitalist development. However, an analysis of the national statistics reveals that the growth experiences of Kenya have been surprisingly similar to those of countries such as Tanzania that were committed to a socialist path (Jerven 2014).

Nonetheless, Kenya remains the most resilient and important market-oriented emerging economy in Eastern Africa. It is still the most industrialised country in East Africa with tremendous economic potential and development promise. Within the EAC, Kenya has the strongest economy contributing 40 per cent to the EAC's total GDP in 2010 (World Bank 2010). It is a country whose recent development policies have also been lauded by its development partners. It has a well-educated workforce but poverty rates, although declining, are still too high.

Savings and investment loom large in Kenya's growth and development strategy, as is the case for all African countries, and which, in turn, will have a major influence

on the improvement of the country's socio-economic indicators—such as productive employment and poverty. Savings and investment will need to demonstrate better performance, not only in order to meet the objectives of the *Kenya Vision 2030*, but also for sustainable development beyond that. As posited by Hope (2010), the policy initiatives that are required are, among others: (1) savings—more attractive savings products with higher (real) interest rates to induce private financial savings; and (2) investment—public-private-partnerships (PPPs) being pursued and promoted, particularly with respect to infrastructure development.

Acknowledgments

Appreciation is expressed to the anonymous referees for their comments on an earlier draft. The views expressed here are those of the author and do not necessarily reflect those of Development Practice International or any other organisation to which he is affiliated.

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