Africa Growth Initiative
at BROOKINGS

Roundtable with Kenya's Deputy Prime Minister and Minister of Finance Uhuru Kenyatta

Tuesday, October 12, 2010, 1:30 pm – 3:00 pm
Africa Growth Initiative at Brookings, 1775 Massachusetts Ave NW, Washington, DC

With a new constitution signed and steady economic performance this year, Kenya is making great strides toward political reform. However, there is still much work to be done in implementing the new constitution and improving governance to ensure their standing in the world community. On October 12, the Africa Growth Initiative (AGI) at Brookings hosted Kenya's Deputy Prime Minister and Minister of Finance Uhuru Kenyatta to discuss political and economic growth trajectories for the country. Daniel Kaufmann, senior fellow in the Global Economy and Development program at Brookings, moderated the discussion.

In his opening remarks, Minister Kenyatta explained that up until December 2007, Kenya had experienced impressive growth of about 7 percent. Subsequently, the government revenue grew from Ksh 200 billion in 2002 to Ksh 600 billion in 2007. Prior to 2007, Kenya was on track to becoming a middle-income country. However, the post-election crisis, which lasted nearly four months, derailed this progress. In response, the Kenyan government built a coalition government compromised of the two main parties. By the second quarter of 2008, Kenya was beginning to rebound from the post-election crisis, displaying a resilience of the nation's economy. Even with rising energy prices, the financial crisis and the worst drought period since independence, Kenyatta focused on Kenya's great strides to overcome such hurdles. Kenyatta also announced that in 2010 the Kenyan economy is expected to grow nearly 5 percent.

Kenya's goal has been to become a middle-income country. Though, the policy implemented for economic growth during the pre-election crisis period was based on the Economic Recovery Strategy that was launched in 2003. However, after the crisis, Kenya decided to adopt a more holistic approach in the Vision 2030, which has three specific pillars.

The first is the political pillar, which states the need for a new constitution, a successful referendum and institutional reforms to prevent future crises like the post-election violence in December 2007. Kenyatta discussed key background information on the new constitution and highlighted the support received from community and faith-based organizations as a result of cooperation between all parties. In addition, Kenyatta mentioned the government's transition from a more centralized system to a 'devolved' system. This new constitution is committed to inclusivity to involve as wide a constituency as possible in the decision making process. Furthermore, Kenyatta addressed the new government adopted by Kenya which includes separation of powers between the executive, legislative and judiciary branches. The executive branch consists of the president and his cabinet, which will be selected from outside of parliament. The legislature focuses on lawmaking and vetting judiciary nominees. The judiciary branch includes a chief justice appointed by the president, who in turn will be vetted by parliament. Kenyatta also spoke about how the policy reforms will include better terms and conditions and greater accountability.

The social pillar calls to obtain social cohesion through the Millennium Development Goals. As a result, the Kenyan Treasury is supporting universal education and now tuition-free secondary education. The nation is also committed to investing in technical schools to build human capacity through technical skills training. The government is investing significantly in information and communication technologies (ICTs), which includes an undersea cable connecting fiber networks around the country. As of now, the country boasts 2,000 start-up ICT firms, which have invested in countries like Haiti and Chile. In addition, Kenya is now the African leader in mobile telephone applications. M-PESA and similar products are expanding mobile banking. Subsequently, Equity bank has started a program to reduce the cost of opening bank accounts through mobile phones. Lastly, Kenyatta mentioned that external companies such as CISCO, IBM and Indian companies are investing and thinking about outsourcing to Kenya. As a result, these strategies are being employed to address issues like youth unemployment.

The economic pillar states that in order to achieve sustainable economic growth, the average GDP growth rate of 10 percent per year must be reached by 2010. External partners such as the World Bank, China and Japan have all helped to invest in agriculture and irrigation. The government is committed to increasing irrigation in order to better utilize the country's water resources and to ensure food security. The International Monetary Fund (IMF) has also helped Kenya with balance of payments as well as structural reforms in the financial sector. In order to ensure greater government accountability, Kenyatta mentioned that the government is reforming its financial management system. In addition, the government plans to digitize all government records, which in turn will increase transparency and open up new applications for the use of this information.

Kenyatta moved forward with the presentation to address issues of corruption. Currently, Kenya is negotiating with the IMF to address some of the perceptions of corruption in the country. Kenyatta emphasized that is important not to ignore the positive measures taken by the government. The recent scandal in the education department demonstrated this. The government investigated, prosecuted and fired those who had been found to have broken the law. Kenya is also continuing to pursue police reform and has hired a new attorney general, separate from the public prosecutor, who will be vetted by parliament. Kenya is currently working with the IMF, and hopes to move from threshold to compact status with the Millennium Challenge Corporation, which will allow for more development funds.

Regionalism was another topic discussed by Kenyatta. He states that Kenya is committed to the East Africa Community (EAC) common market, which commenced in July 2010. The minister said it was important to recognize that increased regional trade helped Kenya and others countries in the EAC rebound faster from the financial/economic crisis; thus, regional integration is a key factor in Kenya's development strategy. Regionalism has also helped deal with conflicts and other security issues in East Africa. The Kenyan government is now working to resettle internally displaced persons (IDPs), who were displaced as a result of the December 2007 violence. The peaceful referendum encouraged some IDPs to return to their homes.

Minister Kenyatta concluded his discussion by highlighting Kenya's ability to have a peaceful referendum just two years after the 2007 crisis. He stressed Kenya's unwillingness to tolerate hate speech by mentioning the dismissal of MPs who made inflammatory statements in the run-up election. In addition, the software used to ensure a free and fair referendum and was actually developed by Kenyans. Through the use of mobile technology, Kenya was able to ensure transparency and openness in the election.

After Kenyatta's closing remarks, the discussion moved to the question and answer portion. Daniel Kaufman recognized the South-South cooperation taking place as Kenya helped Chile with the ongoing mining situation and asked what the most difficult constraints were for Kenya to achieve its goals. Kenyatta responded by stating the biggest challenge would be the full implementation of the new constitution. Other challenges mentioned were the ability to maintain the current development trajectory, to invest in infrastructure and to achieve the MDGs.

David Throup of the Center of Strategic and International Studies expressed concerns about the central government not having enough money for spending after devolving all the revenues to provincial administrative districts; he asked how corruption would be addressed in local government spending based on their negative track records. Kenyatta indicated that the central government will still have a great deal of responsibility and power, and that the new constitution was put in place to make the country better governed. He implied that giving more control to local governments should be perceived positively. He also indicated that within five years the provincial administrations would be reformed, and that not all functions are being devolved. The police force, highways and roads and electrical power are still left to the central government.

Martin Kimani of the Atlantic Council spoke about the economic relationship between Kenya and Sudan. Specifically, he questioned what economic effects Sudan will have upon Kenya if Sudan's south separates from the north. Kenyatta commented that Kenya is a guarantor of the Sudanese Comprehensive Peace Agreement and states that it wants to see a peaceful referendum. Kenyatta emphasized Kenya would be happy to work with the north or south should they separate. A peaceful resolution through a successful referendum would have major positive effects.

Jacques van der Gaag of Brookings pointed out that Kenyatta failed to mention the private sector during his presentation and asked what he feels the private sector's role is in forming the next generation of Kenya's leaders and workers. Kenyatta stated that the government is laying the infrastructure to be leveraged by the private sector. He said that the government is investing in energy to reduce the cost of doing business and working on regulatory reforms within the common market to make it easier for entrepreneurs to get licenses. Kenya is funding more technical institutes and working on ICT infrastructure. He noted that the government will stimulate the economy during times of crisis, but it looks to the private sector to be the driver and leader of economic growth.

Harry Broadman of the Albright Stonebridge Group asked about the challenges for the EAC in moving toward a monetary union and where this process currently stands. Kenya's Central Bank Governor Njuguna Ndungu listed several steps that must be taken. First, they must define the coverage criteria, such as deficit levels and inflation. Second, all members must agree upon a mechanism of enforcement. Third, the EAC must reconcile design issues that fail to harmonize monetary and fiscal policy across the region. Lastly, Ndungu emphasized the need for a high-level task force to negotiate the protocol and create EAC monetary institutions. Currently, the EAC has only begun the process with step one.

Daniel Kauffman remarked on issues of governance and asked what is different now in Kenya's economic growth and governance. Kenyatta notes that there have not been any major corruption scandals since 2003. Currently, Kenya has had significant success in investigating and prosecuting corruption. He concluded that the government is working to effectively tackle corruption through the new constitution, and is currently vetting all judges in the judiciary. The chief justice will be replaced, and vetted by Parliament. Addressing the concern of FDI, Kenyatta states that many fail to recognize that Kenya is a major supplier of FDI in East Africa. It is the second largest contributor of FDI in Uganda, after the United Kingdom, and it is among the top contributors in Tanzania.

Finally, Kauffman asked Kenyatta what message he would like to send to the external community about Africa and Kenya. On Africa, Kenyatta stressed the need to recognize that Africa is starting to stand on its own two feet. It is a continent with immense potential and high returns on investment. He noted that Africa has had the fastest recovery during the global crisis, but the continent continues to account for a very small share of GDP. On Kenya, Kenyatta emphasized the country's significant progress on its quest to become a middle-income country. However, international partners have failed to recognize such progress. He argues that they are constantly shifting the scope higher when Kenya reaches a milestone rather than recognizing and supporting its achievements. In terms of the relationship with the United States, Kenyatta recognized the success of the African Growth and Opportunity Act program and how it has helped Kenya to develop, especially on the manufacturing side. Kenyatta ended the discussion by emphasizing the important need to build on the achievements that Kenya has already made.