A New Frontier for Kenya and Africa

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By Christine Lagarde

For yet a third year I have kept my tradition of starting the New Year with a visit to Sub-Saharan Africa—a region that truly offers great promise! As the world economy has remained focused on the crisis of the advanced economies, Africa has quietly forged ahead with strong growth led by a vibrant private sector and surging foreign investment. Over the past decade Sub-Saharan Africa has posted growth averaging 5.6 percent a year.

The countries of East Africa have done especially well. So what better place to begin my travels this year than in Kenya, which has emerged as one of the region's "frontier economies"—countries whose recent performance is propelling them toward middle-income status.

International Monetary Fund Managing Director Christine Lagarde walks with some children after she visited the Nest Home, an orphanage and halfway house for children January 7, 2014 in Nairobi, Kenya. Lagarde is on a two country visit to Africa. IMF Photograph/Stephen Jaffe

Kenya is a remarkable economic story. It is now one of the top five destinations for foreign direct investment in Africa and boasts a dynamic business community led by a service sector that is helping the country to develop into a regional hub. Kenya's successful development of mobile communications has spurred the rapid expansion of online banking. It has the highest share of the population with access to financial services—more than 70 percent—in all of Sub-Saharan Africa.This dynamism is evident in the bustling streets of Nairobi. I was struck by the vitality and entrepreneurial spirit of the people in the markets. This is a country on the move.

International Monetary Fund Managing Director Christine Lagarde speaks in the chamber to Parliamentarians January 7, 2014 in Nairobi, Kenya. Lagarde is on a two country visit to Africa. IMF Photograph/Stephen Jaffe

Meeting with Kenya's leaders, including President Uhuru Kenyatta, its business community, parliamentarians, prominent women, and civil society figures, I was also struck by the deep commitment to the policies that can ensure the country's recent achievements form the foundation for future success. There is wide recognition that the economic reform process that has already brought low inflation, strengthened buffers, and increased capital flows must continue; and indeed, be further strengthened. This is important to make growth more sustainable—especially in creating opportunities and jobs for Kenya's young population; and to make growth more inclusive—with the benefits flowing to all Kenyans.

International Monetary Fund Managing Director Christine Lagarde speaks at the Kenya Private Sector Alliance in "Mindspeak", a forum for young entrepreneurs January 6, 2014 in Nairobi, Kenya. Lagarde is on a two country visit to Africa. IMF Photograph/Stephen Jaffe

In my meeting with some of Kenya's young entrepreneurs in Nairobi, we discussed the keys to building on the country's momentum and what I called the necessary "Three Cs".

- The first "C":*completing* fiscal devolution. As part of the new constitution, Kenya is transitioning to a new form of devolved government. This process carries significant risks, and careful implementation is crucial to enable all parts of Kenya to gain access to fiscal resources and ensure that the benefits of growth are spread more equitably.

- The second "C": *closing* infrastructure gaps. Kenya still has large infrastructure needs. Investment in roads, railways, power generation, and all of the other sinews of a modern economy is all the more important for the country to take-off. The country's new-found natural resources wealth—properly and transparently used— offers an opportunity to invest for growth and job creation.

- The third “C”: *continuing* regional integration. Regional integration can offer East Africa the prospect of new markets and new opportunities. Kenya has led the way in this effort; it is now the second-largest investor in the region. Last November, the heads of state of the East African Community (Burundi, Kenya, Rwanda, Tanzania, and Uganda) signed the Monetary Union Protocol, which sets in motion the process toward a common currency. This is an opportunity but also a major challenge. Drawing upon the experience and the lessons learned from other regions can be instructive in successfully managing this process.

All of this gives me great hope for Kenya’s future. This is a country that has faced extraordinarily difficult challenges in recent years—the impact of the global crisis, drought in the Horn of Africa, and the terrible attack on the Westgate Mall in September. Throughout these difficulties, the Kenyan people have demonstrated great fortitude and courage. The IMF has stood with Kenya—providing financial backing and policy advice. We will continue to support the Kenyan people as they stand on the threshold of a new future for their country, and for Africa.