Why You Should Invest In Africa's Fastest-Growing Country

By Ky Trang Ho, Contributor, Forbes

NAIROBI, Kenya, August 10, 2015 (Forbes) -- President Barack Obama’s short visit to Nairobi last month raises hopes for strengthening business ties between the U.S. and Kenya. The Kenya Investment Authority used the event to highlight the investment opportunities in Africa’s fastest-growing country. The organization, which goes by KenInvest, was established by the government in 2004 to advise investors and help foreign companies do business in Kenya.

Three ETFs offer minor exposure to Kenya:

1. Guggenheim Frontier Markets ETF (FRN), weighted 8% in Kenya
2. iShares MSCI Frontier 100 Index Fund (FM), 6%

3. Market Vectors Africa Index ETF (AFK), 3%

Mutual funds with exposure to the country include:

1. Wasatch Frontier Emerging Small Countries Fund (WAFMX), weighted 9% in Kenya
2. Nile Pan Africa Fund (NAFAX), 19%
3. T. Rowe Price Africa & Middle East Fund (TRAMX), 5%.

Dr. Moses Ikiara, managing director of KenInvest, makes a case for why you should invest in Kenya.

Ho: Why should U.S. investors consider venturing to Kenya in their portfolios?

Ikiara: Quick, name the nation with the fastest-growing economy in Africa and third fastest in the world. The answer is Kenya, where President Obama made a three-day visit in July. It’s his first trip to his father’s birthplace since entering the White House. The trip coincided with Kenya’s hosting of the annual Global Entrepreneurial Summit.

Kenya, which Bloomberg predicts will be the world’s third-fastest growing economy in 2015, is an oasis of opportunity. Kenya’s location on the eastern coast of Sub-Saharan Africa positions it as the commercial gateway to the rest of Sub-Saharan Africa. It’s a destination for investors looking for exposure to East Africa and its 140 million consumers. The free-trade agreement that was signed in June between the East African Communities (EAC), Common Market for Eastern and Southern Africa (COMESA) and the South African Development Community (SADC) offers market access to 600 million consumers.

As the largest economy in the region, Kenya accounts for 40% of the East EAC’s gross domestic product and has the region’s
best performing regional currency

. Its nascent economy is bolstered by a highly educated, English-speaking and youthful workforce. Some 60% of Kenyans are 25-years old or younger.

Kenya's impressive technological and scientific achievements recently attracted significant investments from venture capitalists and some of the world's leading multinational corporations, including Google (GOOG), IBM (IBM), Facebook (FB), Chase Bank and General Electric (GE). All of them were represented at this year's summit. In the past three years, General Electric's revenue from Africa doubled to more than $3 billion.

To foster Kenya's continued growth trajectory, the country has undertaken a comprehensive program, known as Kenya Vision 2030 , to modernize its infrastructure, increase its tourism and strengthen its industrial presence. Additionally, Vision 2030 is aimed at growing Kenya's consumptive capacity by raising all Kenyans above the poverty line and increasing per capita income to at least $3,000.

In addition to Kenya's commitment to modernizing its infrastructure, Kenya is a signatory to a number of multilateral and bilateral free-trade agreements including the African Growth and Opportunity Act (AGOA) trade preferences program with the United States. The program has opened a free and open trading relationship with the United States across the textile and apparel markets.

In July, the U.S. Congress extended AGOA for 10 years ensuring that Kenya continues to have duty-free access to U.S. markets for Kenya's major exports including textiles, apparels, and crafts. Since the inception of AGOA in 2001, the U.S.'s overall trade with Sub-Saharan Africa nearly doubled to $52 billion in 2014. U.S. exports to Sub-Saharan Africa have tripled to $25 billion in 2014. In 2013, Kenya was the 96th largest trading partner with the United States with $1.1 billion dollars in reciprocal trade. In 2013, U.S. goods exports to Kenya increased to $651 million, representing a

14.5% increase from 2012 and a 232% overall increase since 2003.

To keep up with the growth trajectory, Kenya has committed to an aggressive expansion and modernization of its transport, energy and Information Communication Technology (ICT) infrastructure, which has piqued the interest of outside investors.

On July 21st, Aeolus Kenya Limited, a major Kenyan development firm, announced its involvement in discussions with U.S. companies regarding plans for the $25 billion LAPPSET development project, which includes the construction The Lamu Port, South Sudan, Ethiopia Transport or (LAPPSET) corridor. The LAPPSET project will encompass a modern port facility in Lamu with 31 berths, a highway, a railway line, an oil pipeline, three airports, three resort cities and a fiber optic cable linking Kenya with Ethiopia, South Sudan and Sudan.

In addition to Kenya's rapid growth and potential, many global companies have already invested in Kenya. It is the regional headquarters for Google (GOOG), IBM (IBM), Oracle (ORCL), Microsoft (MSFT), SAP (SAP), Coca-Cola (KO), General Electric (GE) and Cisco (CSCO). In recent months, the trend of multinational investment has continued with the commitment by the Wrigley Company to invest $63 million dollars in a manufacturing facility in Kenya.

In summary, a diversified and growing economy, preferential access to world markets through various tax treaties, favorable business conditions, political stability, an educated English speaking middle class and the country's strategic location makes Kenya an ideal pick for U.S. investors.

Ho: What is your outlook investing in Kenya's stock market over the next year and five years?

Ikiara: Kenya is undoubtedly a growth-oriented destination for investors. According to World Bank estimates, Kenya's economy is projected to grow by 6% in 2015. Additionally, the International Monetary

Fund and the government of Kenya expect economic growth of 6.5%-7% this year. The growth trajectory is projected to continue with the economy expanding at 6.5%-7% in 2016 and 2017.

The World Bank’s Kenya Economic Update for March 2015 stated: “The country is emerging as one of Africa’s key growth centers and is also poised to become one of the fastest-growing economies in East Africa, supported by lower energy costs, investment in infrastructure, agriculture, manufacturing and other industries.

“The momentum for growth is expected to be sustained by a stable macroeconomic environment, continued investment in infrastructure, improved business environment, exports and regional integration.”

Sustained economic growth and continued positive forecasts will lead to investor confidence, which may in turn lead to the growth of Kenya’s stock market, which is the fourth-largest in Africa. The next five years will tell a self-reinforcing growth story as more of Kenya’s modernization efforts come online, and favorable returns on foreign investments are realized.

Ho: What are some of the business opportunities in Kenya?

Ikiara: Kenya’s growth plan is predicated on modernizing key industries and sectors of the economy to stimulate further investment and opportunity. The most fertile sectors of the economy that are ripe for investment are agro-processing, technology, infrastructure tourism and manufacturing. The infrastructure opportunity includes transportation, ICT, housing and energy production and grid infrastructure.

The technology startup boom has already yielded amazing results. M-Pesa, a mobile-phone based money transfer, and micro-financing service have provided millions of Kenyans with their first access to the financial system. It simultaneously reduced crime that is characteristic of cash-dominant systems by allowing customers to use their mobile phones as bank debit cards. M-Pesa’s service is now used by more than half of Kenya’s 45 million citizens.

BRCK, another thriving start-up, has used innovative technology to solve a common problem:

rural locations still off the internet grid. The company created a durable device that uses mobile networks to create Wi-Fi hotspots, using its power source whenever local power is out, a frequent occurrence in Africa.

Ushahidi, an open crowdsourcing platform, has been used to dramatic effect, from tracking post-election violence following Kenya's 2007 election, to real-time recovery efforts following major earthquakes in Haiti and Chile. It also tracked snow cleanup results in the United States.

Regarding energy, the government is committed to increasing investment in renewables including wind, geothermal and solar. Renewable-energy production is a prime candidate for outside investment as the weather and climate are conducive to wind and solar power.

As recently as June, Google expressed interest in financing the largest wind power project in Africa. The proposed $700 million project would cover 40,000 acres and increase Kenya's energy capacity by 25%. The opportunity is big because consistent access to power is an area that needs improvement across many rural parts of the country. In addition to renewable energy, there are opportunities to develop diesel plants, hydropower, drilling and steam field development, construction of pipeline and storage facilities and petroleum exploration in a number of regions.

Public infrastructure is another strong area for investment. As part of the Kenya 2030 plan, the government has committed to the construction of 10,000 kilometers of new roads, an airport expansion, 700 kilometers of new railway and commuter rail systems and power grid modernization efforts. As a testament to this effort, in May, President Kenyatta opened a new airport terminal at Jomo Kenyatta International Airport that will handle an additional 2.5 million travelers per year making it East Africa's busiest airport.

Kenya's tourism industry is another prime target for investment. In 2013, Kenyan tourism contributed 12.1% or $2.09 billion dollars to its GDP. Due to past security concerns that are now abating and the recent decision by the British Foreign and Commonwealth to lift a travel advisory against non-essential travel to coastal areas such as Mombasa, Kilifi and Watamu, there is strong potential to grow the tourism sector. Kenya's natural beauty is well documented. Today, 70% of foreign tourists rank wildlife as a primary attraction to draw people to Kenya.

As the tourist transport hub into East Africa, Kenya has the potential to grow its meeting, incentives, conventions and exhibitions (MICE) tourist segment given its well-educated English-speaking workforce. According to the International Congress and Convention Associations, Kenya ranks second after South Africa in the MICE category. Since 2008, Kenya has seen an average year-on-year growth of 35% in this sector. To meet the growing demand, Kenya Airways has ordered nine Boeing 787 Dreamliner aircraft to increase its passenger capacity by 20%. In Nairobi, eight major hotels are under construction, which will add 1,500 beds of capacity.

Ho: What is driving earnings and sales growth for companies in Kenya?

Ikiara: Ever since a fiber optic cable under the seabed finally brought high-speed internet access to Kenya in 2009, technology entrepreneurs immediately went to work developing and producing. Web-Based applications that have transformed the lives of millions of Africans. Today, there are four fiber-optic cable systems in the country.

In 2013, IBM (IBM) opened a research lab in Nairobi, the first on the continent. In the process, a new name has been bestowed upon Kenya, 'Silicon Savannah,' reflecting its continent-wide leadership position in the burgeoning information technology sector. What began in 2010 with the formation of iHub, a Nairobi-based center providing free internet and physical workspace to aspiring entrepreneurs, has today left the capital city teeming with science and technology innovation laboratories. It's evidence of Kenya's multi-billion dollar investment toward reaching its 2017 goal to grow the tech sector's contribution to total GDP from its current 3%, up to 10%.

Future government plans include the construction of Konza Techno City, a 5000-acre city that will be constructed south of Nairobi at a cost of $15 billion, and will include more innovation hubs. Foreign investment capital has responded accordingly: the Nairobi-based Savannah Fund is a seed capital fund specializing in early-stage technology startups and backed by an international network of accomplished venture capitalists.

Jiang Jianquing, chairman of the Industrial and Commercial Bank of China, the world's largest bank, pledged his bank's support during a public announcement at the Kenyan State House with President Kenyatta.

Ho: What efforts has the Kenyan government taken to improve the investment climate or to make it more attractive?

Ikiara: In various economic sectors, from mobile-payment technology to horticultural exporting to transportation and logistics, Kenya has already produced transformative innovations. These accomplishments are the result of years of synchronous effort from civic, corporate and government leaders. In 2010, a new constitution was approved, granting citizens the ability to initiate legislation.

In 2012, Kenya implemented the Universities Act, designed to improve the overall quality of education while strengthening the technology sector by separating it from the general university system. In July of 2013, as part of Vision 2030, Kenya's national development strategy plan, the country's Ministry of Information and Communication launched the 'National Broadband Strategy,' which established minimum standards for high speed internet access.

Today, Nairobi is home to ten colleges. Microsoft (MSFT), Intel (INTC), Google (GOOG), and other technology giants have established regional headquarters in the capital, producing the political-industrial ecosystem that enables Kenya to hatch and nurture its entrepreneurial economy.

On July 23, Kenya's technology sector quietly passed another milestone. Weza Tele, a start-up company with innovative technology and operating in the fin-tech sub-sector, was acquired by AFB, a financial services concern. It marked the largest such acquisition of a Kenyan start-up. Although small by American standards, it's very likely that the Weza Tele acquisition was only the tip of a giant iceberg.

In terms of the makeup of the overall economy, the Kenyan government is focused on economic diversification and fostering technological innovation. In July, these efforts were showcased as President Obama made his first visit as president to the country for the Global Entrepreneurship Summit in Nairobi.

The Kenyan government in partnership with the U.S. Trade Representative has worked to create an environment that brings together social innovators, business leaders, venture capitalists and philanthropists and has helped spark the interest of large multinational companies moving to Kenya. The Summit was a milestone for the U.S. and Kenya's $7 billion dollar effort to promote U.S. investment in Africa. The effort garnered interest and support from U.S. companies including GE (GE), Honeywell (HON) and Caterpillar (CAT). The summit marked a watershed moment in Kenya's economic development history.

Last year, during the U.S.–Africa Leader's Summit held in Washington, D.C., U.S. companies announced deals worth $14 million and made commitments of $12 billion to the continent.

Kenya has also taken some initiatives to encourage inward investments. Earlier this year, the government in conjunction with the private sector, initiated favorable business reforms and policies to enable investors in Kenya to take only a day to register businesses, file taxes electronically and access regional and international markets easily.

Unlike many of Africa's other large economies, Kenya is not reliant on oil exports and isn't as exposed the fluctuations in global oil prices, which offers greater economic stability. It has a mature, diverse economy that is made up of large, medium and small businesses in major export industries including textiles, coffee, tobacco, iron and steel products, petroleum products and cement.

To further facilitate growth, the government is considering legislation that would establish three special economic zones (SEZs) within the country. The SEZs will allow lower levels of taxation and fewer regulatory hurdles, and will focus primarily on industrial activity, in particular, textile production. The SEZ bill is part of a broader initiative to boost the manufacturing sector, diversify the country's exports and encourage the creation of up to one million industrial jobs annually.

Kenya's focus on education has also created a strong precondition for an emerging middle class and strong human capital formation that will create skilled employees and consumers. Today, Kenya has one of the highest adult literacy rates in Africa at 87%. Some 300,000 students attend public and private universities, and one in five students are enrolled in one of Kenya's robust network of 39 public and private universities.

Ho: Are the current Kenyan investment laws investor-friendly?

Ikiara: Kenya's objective is to demonstrate to the world that it offers a fertile macro-economic environment supported by a modern financial sector, a vibrant stock market and a strong public-private partnership policy framework to promote engagement with the private sector. Thus, the Kenyan government structured a policy environment that's conducive for investment to support an emerging middle class.

The government has introduced safeguards to protect the rights of both local and international investors. Kenya's Foreign Investment Protection Act (FIPA) guarantees against government expropriation of private property. The constitution also explicitly protects private property. Kenya is a member of the Africa Trade Insurance Agency.

Kenya is in the process of developing a national investment policy. It passed a Private Public Partnership Act in 2013 to govern joint ventures. Kenya is also a signatory to and member of the Multilateral Investment Guarantee Agency (MIGA) — an affiliate of the World Bank. This guarantees investors against loss of Investment to political problems in host countries. The country is also signatory to the International Center for Settlement of Investment Disputes — a channel for settling disputes between foreign investors and governments.

Other efforts to improve investment climate so far include:

1. Quarterly presidential round tables within the private sector

1. Modernization of business regulation and insolvency laws
2. Setting up a cabinet committee to track progress on ease of doing business and a dedicated inter-agency institution (Business Environment Delivery Unit) for the same purpose
3. Setting up a one-stop center for investors that will be fully operationalized in 2015
4. A 25%-30% reduction of cost of power

In terms of the overall economy, Kenya has fully liberalized, removing exchange controls, import and export licenses and restrictions on the remittance of profits and dividends. As alluded to previously, Kenya has engaged some multilateral and bilateral trade agreements to ensure access to free and open markets for its domestic industries. As mentioned earlier the tripartite free-trade agreement signed in June will open the doors to 600 million of Africa's consumers.

As a member of the World Trade Organization, Kenya receives most favored nation treatment for 90% of the world's markets. In 2008, the U.S. and Kenya signed Trade and Investment Framework Agreements (TIFA) with the EAC. Additionally, Kenya is a member and beneficiary of the Common Market of Eastern and Southern Africa (COMESA) and the ACP-EU Trade Agreement. Each agreement ensures free trade and capital mobility for its signatories.

Ho: What are some of the risks of investing in Kenya? What concerns you about the country's stock market and economy currently?

Ikiara: In 2009, Kenya ratified a new constitution to put in place the parameters to build a strong and stable society. As with any country that is growing so fast there will always be peaks and valleys. The best way to avoid risk is to take a long-term perspective. Kenya is embarking on a journey of long-term growth and sustainability.

The companies and people that are investing here are looking down the road 30, 50 and 100 years. In the near term, the greatest risk for Kenya's economy is not following through and leveraging these investments to achieve the growth we seek. Amidst Kenya's resurgence, we are cognizant of the security concerns that are present in the region. That is why we've committed unprecedented resources towards our national security and have received support from critical partners such as the U.S.

However, the strength of the entire nation and its people greatly outweighs the threats posed. The same is true for the economy. The innovation and technological revolution that is occurring is a rising tide that is destined to lift up Kenya if we allow it to do so.

***Ky Trang Ho is the founder of Key Financial Media LLC, which produces content and thought leadership for financial advisors and investment strategists.**