KENYA BUSINESS FACT SHEET

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ISCG

Contents

Business opportunities

The major sectors of Kenya's economy are agriculture, industries and services. Though agriculture formed the basis of the economy of Kenya in the early years of independence, today this sector accounts for a very small percentage of the country's GDP. The services sector contributes the highest percentage to the country's total GDP followed by the industrial sector.

Agriculture

- ✓ Agriculture has, for many years, formed the backbone of Kenya's economy in which it contributes about 23.8% per cent of the Gross Domestic Product (GDP). In addition, the sector contributes more than 60 per cent of the total export earnings and about 45 per cent of government revenue, while providing for most of the country's food requirements. The sector is estimated to have a further indirect contribution of nearly 27 per cent of GDP through linkages with manufacturing, distribution, and other service related sectors.
- ✓ The tea sector is a dominant sector and the coffee sector has started to pick up following a decline in the recent past. The horticultural and flora sectors have seen unprecedented growth over the past years as more companies venture into production and export of flowers and fresh produce.
- ✓ The sugar industry has faced significant challenges and it is the government’s intention to improve the sector. This industry is expected to show good growth over the next few years, should the government implement their stated policies.
- ✓ Other sectors where the country has significant untapped resources include cotton, forestry, fishing, pyrethrum, and macadamia nuts.

Tourism

- ✓ Tourism is Kenya's third largest foreign exchange earner. The tourism industry is growing as a result of the liberalisation measures, diversification of tourist generating markets and continued Government commitment to providing an enabling environment, coupled with successful tourism promotion and political stability. Enormous opportunities exist for investment in film production; recreation and entertainment facilities in the following areas:

- Conference Tourism
- Cultural tourism
- Cruise ship Tourism
- Aviation/tour and travel Tourism
- Eco-tourism

- ✓ In the year 2008, the tourism sector in Kenya recorded one of its worst performances ever in real terms. The dismal performance was mainly occasioned by the post election crisis and the subsequent travel bans from the source markets. As a consequence, tourism earnings decreased by 19.2% from Ksh 65.2 billion in 2007 to Ksh 52.7 billion in 2008.

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Industrial Manufacturing

- ✓ Kenya has a large manufacturing sector serving both the local market and exports to the East African region. The sector, which is dominated by subsidiaries of multi-national corporations, contributed approximately 16.7%of the Gross Domestic Product (GDP) in 2007. Improved power supply, increased supply of agricultural products for agro processing, favourable tax reforms and tax incentives, more vigorous export promotion and liberal trade incentives to take advantage of the expanded market outlets through AGOA, COMESA and East African Community (EAC) arrangements, have all resulted in a modest expansion in the sector of 2.1 % per cent in 2007 as compared to 1.4% in 2006.

Energy sector

- ✓ The main source of energy in Kenya is actually wood fuel, which accounts for about 70% of all energy consumed. Petroleum and electricity currently account for only 21% and 9%, respectively. The Government's sector-development priorities include measures to shift the pattern of energy consumption towards modern forms of energy (i.e. electricity and petroleum), in order to protect the environment and to provide energy forms necessary for economic growth.
- ✓ The current peak electric power demand is estimated at 1,180 MW and it is projected to grow at 7% annually over the next 10 years, to reach 2,263MW by 2018. This demand growth is driven by an accelerated consumer connection policy and anticipated robust economic growth performance.

ICT sector

- ✓ The government of Kenya has made ICT a priority in its economic recovery strategy initiatives. With the incentives and benefits that Kenya has to offer, the following areas can be invested in:

- I.T. Enabled Services
- Call Centres for both inbound and outbound calls
- Wide range of Business Process Outsourcing activities
- Disaster recovery
- Software development
- Education and Training
- ICT Habitats
- Development of Broadband infrastructure

Knowledge Industry

✓ To compliment all the above sectors, Kenya aspires to attract internationally reputable educational institutions, universities and training centres. The following areas exist for investment:
  - Science and technology centres
  - IT Centres of Excellence
  - Training Centres for Hospitality industry
  - School Fashion and Design
  - R&D institutes
  - Schools for Business and International Marketing

✓ Kenya's computer market (hardware & software) reached US$ 40.63 million in 1998, representing a growth of 33% from the previous year and US$ 60 million in 1999, a further40% growth due to the millennium bug preparations. Imported software, accounts for more than 95% of the market share in terms of value and installed base.

General introduction

Kenya lies across the equator in east-central Africa, on the coast of the Indian Ocean. It is twice the size of Nevada. Kenya borders Somalia to the east, Ethiopia to the north, Tanzania to the south, Uganda to the west, and Sudan to the northwest. In the north, the land is arid; the southwest corner is in the fertile Lake Victoria Basin; and a length of the eastern depression of the Great Rift Valley separates western highlands from those that rise from the lowland coastal strip.

Kenya is a multicultural society; in the north live Somalis and the nomadic Hamitic peoples (Rendille, Samburu and Turkana), in the south and eastern lowlands are Kamba and Masai and the Luo live around Lake Victoria. The largest group is the Kikuyu who live in the central highlands and have traditionally been dominant in commerce and politics, although this is now changing. There are many other smaller groups and, although Kenya emphasises nationalism, tribal and cultural identity is a factor. A small European settler population remains in the highlands, involved in farming and commerce.

Country facts

Area	Total: 580,367 sq km Land: 569,140 sq km Water: 11,227 sq km
Coastal line	536 km
Terrain	low plains rise to central highlands bisected by Great Rift Valley; fertile plateau in west
Land use	Arable land: 8.01% Permanent crops: 0.97% Other : 91.02% (2005)
Irrigation	1,030 sq km (2003)
population	39,002,772
Population growth	2.691% (2009 est.)

Economic facts

Subject	Units	2004	2005	2006	2007	2008	2009	2010	2014
GDP constant prices	Annual Percent change	4.6	5.9	6.4	7.1	1.7	2.5	4.0	6.5
GDP, current price[1]	Billion, U.S Dollars	16.1b	18.77b	22.52b	27.03b	30.24b	29.78b	36.29b	52.1b
Inflation Rate, consumer price	Annual percent Change	11.7	10.3	12.0	7.8	5.0	13.8	7.8	5.0
Current Account Balance	U.S Dollars		7.27b	10.89b	11.41b	14.32b	12.99b	15.3b	20.51b
GDP per capital, current price	US Dollars	490,45	561,18	661,4	779,9	857,38	829,6	993,97	1,356.3
Current Account, balance	Percent of GDP	0.1	-0.8	-2.5	-4.1	-6.8	-8.1	-6.3	-4.0

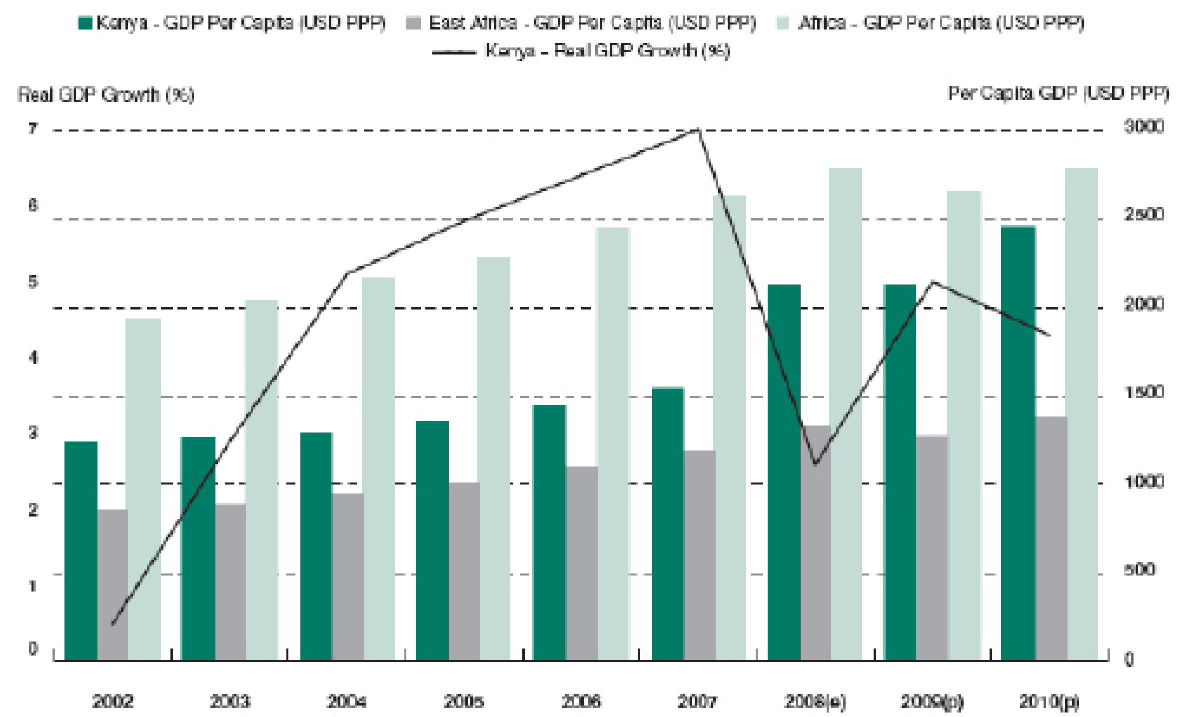
[1] http://www.economywatch.com/economic-statistics/egypt/GDP_Per_Capita_Current_Prices_US_Dollars/

Economic situation

Kenyan economic growth is forecast at 4.5-6 percent for 2008. However, the country's poverty status wills likely increase from the 45.6 percent registered in 2006 because of the post-election crisis. Kenya's economy registered 7 percent growth in 2007, 6.4 percent in 2006, 5.7 percent in 2005 and 5.1 percent in 2004. Kenya's economic growth faces a number of challenges such as high electricity, fuel and food prices, eroded transportation FDFDIall of which makes Kenya a high cost producer, reducing its competitiveness in the global economy.

Real GDP growth and per capita GDP

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

Political situation

Kenya suffered political violence when incumbent President Mwai Kibaki declared victory in the December 2007 elections and the opposing political party also claimed victory. Shortly thereafter the violence erupted. Eventual intervention by high-level African Union and United Nations leaders resulted in a power sharing agreement that left Mwai Kibaki as President but established a Prime Minister position for opposition leader Raila Odinga, in addition to doubling the number of cabinet-level positions. The political crisis disrupted every sector of the economy, and while the analysts estimate losses in the Billion of Dollars, the true cost may never be fully understood. In spite of the 2008 violence, Kenya's $ 27 billion economy (2007 GDP estimate) is still the largest and most diversified in the region. It's financial and transportation systems are the economic lifeline for much of east and central Africa, providing an operational platform for the United States and the United Nations to carry out conflict resolution, counter terrorism, as well as rescue and relief operations in regional trouble spots.

Foreign aid

U.S. Government committed to provide a $100-million recovery package that has three main components: peace and reconciliation support for reform, and restored livelihoods and communities.

A further 383 million euros of EU aid to Kenya is planned for 2008-2013, a third of which is budgetary aid.

As of September 2009, the World Bank's portfolio in Kenya consists of 16 active operations (including a grant from the Global Environment Facility), with total commitments of over US$1.4 billion. The largest share of commitments is in infrastructure (transport and energy), water, agriculture, natural resource management, and health and education.

In addition, the Bank is financing five regional projects with a total commitment of US$320 million for Kenya in transport and trade, agriculture, environment and telecommunications infrastructure. In fiscal 2009 (June to July), the Bank's Executive Board of Directors approved four projects, the Northern Corridor Transport Improvement Project additional financing, Energy Sector Recovery Project additional financing, the Cash Transfer for Orphans and Vulnerable Project and the Kenya Agricultural Productivity and Agribusiness Project.

Foreign investors (FDI)

Notable recent trends in sectoral composition of FDI are in horticulture, floriculture, garments, and tourism. While interest in horticulture and floriculture has been in response to favourable local conditions linked to climate and transport infrastructure, Garment investment has been in response to the U.S. granting preferential access to its market under AGOA. Manufacturing FDI has concentrated on consumer goods sectors, such as the food and beverage industry. Most foreign investment in manufacturing since 2001 has been in the Export Processing Zone (EPZs), with the majority in AGOA-related textiles. There were 55 foreign or joint-venture enterprises operating in EPZs in 2003. EPZs have expanded from their initial textiles focus to also produce a number of other goods. The largest single investment is the De La Rue currency printing operation with a value of $48 million.

FDI in services has been directed to a wide array of sub-sectors such as tourism, financial and business services and telecommunications. Kenya has attracted foreign investors in banking and professional services. Companies such as Deloitte and Touché, Ernst and Young and KPMG base their main East African operations in Kenya. 13 of the 43 banks in Kenya are foreign, controlling 51% of total banking assets in the country. Considering the power sector; four of the 14 Independent Power Producers (IPP) in Africa are based in Kenya. The telecommunications sector has witnessed foreign shareholding in the cell phone services industry. Safaricom for example, is 40% owned by Vodafone of the U.K. while Celtel Kenya is 60% owned by Celtel of Netherlands. A third national mobile operator, Econet (South Africa), was awarded a license in 2003, but has not yet commenced operations.

Trade

Kenya is a member of the Common Market for East and Southern Africa States (COMESA). COMESA established a common external tariff and low or zero internal tariffs for trade between its nine members. Those internal tariffs have produced economic stress in the sugar and flour milling industries.

In addition, Kenya, Tanzania and Uganda signed the East African Community Customs Union Protocol effective the beginning of 2005. The Protocol integrates nearly 120 million people, with a combined gross domestic product of $41 billion into a single market. As a result of this agreement, Kenya increased tariffs on some key agricultural products.

The following is a summary of **current incentives** that have been put in place.

- ✓ Investment Allowance is provided as an incentive for investment in the manufacturing and hotel sectors at the rate of 100 per cent countrywide.
- ✓ For Manufacturers under Bond (MUB), the applicable rate is 100 per cent. In addition, eligible capital expenditures have been expanded to include certain infrastructure and environmental protection equipment related to manufacturing activity.
- ✓ Depreciation Liberal rates are allowed for depreciation of assets based on book value Loss Carried Forward Business enterprises that suffer losses can carry forward such losses to be offset against future taxable profits.
- ✓ Remission from Customs Duties on capital goods, plant and machinery are at the rate of up to 5%.
- ✓ Large-scale private investment projects whose expenditure on productive physical assets are in excess of US$5 million within a two-year period, and generate net economic benefits for the country, can recover the value of import duties paid on imported capital goods for the project against income tax liability.

Export products

Top Products Exported by Kenya	Market Value: 8,443 (millions)		
Product	Trade Value	Share	Growth
	(thousands)	(%)	(% 5yr)
0603 - Cut Flowers & Buds	417,119	4.94	112.67
0902 - Tea	401,470	4.75	96.58
0708 - Leguminous Vegetables	197,756	2.34	156.98
0901 - Coffee	157,218	1.86	68.21
2710 - Non Crude Oil	141,208	1.67	(39.07)
6204 - Non-Knit Womens & Girls Suits	135,292	1.60	108.15
6203 - Non-Knit Mens & Boys Suits	63,901	0.76	82.87
6908 - Glazed Ceramic Flags & Paving	59,127	0.70	16,171.95
0304 - Fish Fillets	56,490	0.67	(14.01)
2008 - Prepared Fruit	52,658	0.62	11.73

Import products

Top Products Imported by Kenya	Market Value: 13,867 (millions)		
Product	Trade Value	Share	Growth
	(thousands)	(%)	(% 5yr)
8802 - Aircraft	243,324	1.75	138.93
8704 - Trucks	220,130	1.59	283.99
2710 - Non Crude Oil	204,464	1.47	379.84
7208 - Iron & Steel > 600 mm Wide - Hot	154,225	1.11	120.22
8703 - Passenger Vehicles	144,864	1.04	137.55
3004 - Medicines in Doses	121,619	0.88	45.49
1001 - Wheat	108,512	0.78	379.51
3901 - Polymers of Ethylene	90,706	0.65	920.84
8517 - Telephone, Fax & Switching Apparatus	85,312	0.62	127.69
8525 - Cel Phones, Video Recorders & Radio Transcievers	81,687	0.59	53.84

ICT Sector

The Information and Communication Technology (ICT) sector plays a crucial role in the Socio-economic development of the Country. The Government has recognized the importance of ICT as a powerful tool in accelerating productivity of all sectors and empowering people to meet the challenges of the 21st century. To optimize the sector's contribution to the development of the entire economy the government is currently offering investment opportunities to the private sector.

Opportunities

The ICT sector in Kenya provides investment opportunities in the following areas under the Public Private Partnership arrangement.

- **Data Centre and Disaster Recovery Centre**

A secure information system requires a data center and recovery site. The government will partner with private sector to build a National Data Centre and a Disaster Recovery Centre to provide world-class services to both public and private sector operators. The services to be provided will include disaster surveillance and management and early warning. The operations of the NDC will be managed and controlled from a Network Operations Centre (NOC) that will need to be established. The establishment of this data center will include site identification, construction of ideal premises, procurement of equipment and requisite services, and establishment of the NOC. The projects are expected to be undertaken through a Public-Private Partnerships.

- **Deploying of Digital Broadcast Network**

The government has developed the analogue to digital broadcast switch over strategy by 2012. The government is proposing to initiate a public private partnership for deploying a digital broadcast network to provide signals to broadcasters' country wide. This will improve the signal quality, and increase broadcast coverage area countrywide.

- **Rolling out of E-government services**

The government is digitizing most of its services to improve service delivery. The government is therefore looking forward to partner with the private sector in PPP arrangement to roll out e-government services. Major areas include motor vehicle registration, pension services, judicially case management, land registration and many others.

- **Government Applications**

The Government is in the process of harmonizing the registration agencies through the Integration of Population Registration System (IPRS) programme. The IPRS is targeting to come up with a population register that will update register of the whole residential population in order to sufficiently identify an individual uniquely and also be used for approved purposes. The implementation of the IPRS is on-going. In order to further effectively render its services, the Government is proposing further development in the registration process which include production and processing of national identity cards/passport, driver's license, motor vehicle log books, payroll, pension, land information system/local authorities and rates collection.

✓ **National ID (Third Generation)**

The Government intends to acquire and install a new system for registration and issuance of new generation of national IDs. The registration of persons and application for national IDs is done in all divisions of every district. The process involve filling of forms, photo and fingerprints taking. The raw data is then forwarded manually to the headquarters, a process that consumes a lot of time.

This process needs to be automated to an ideal situation i.e., the processing should be done in a real-time such that once biometric features are captured and application is completed the data should be availed for processing immediately. The 3rd Generation ID Project may be considered within the framework of BOT. Details of the system, the security features, and mode of production is still being reviewed. But it offers a potential ground for Public Private Partnership.

- ✓ **Births and Deaths Registration**

This process is similar to that of 3rd generation IDs. The registration coverage of births and deaths occurring in Kenya is very low. Automated data centres will be required to ensure full coverage of all areas in the country. The process has a potential for investment through Build Operate and Transfer. The process may be operated in tandem with that of national ID.

- ✓ **Visas**

There are plans for a Visa Issuing System to be installed in all border control points. The Visa system is expected to replace the current manual process of issuing visa stickers in order to enhance service delivery. In addition, the system is expected to boost the collection of Appropriation In Aid (AIA). The potentiality for investment may be realized through BOT.

- ✓ **Cross Border Management**

The cross border management has a potential for investment in aliens registration and monitoring. The intention is to register and keep accurate data for aliens entering or leaving the country. The data should be captured on real-time basis. The target areas for installation are all border control points and at the Immigration headquarters. Potential benefits may be realized through BOT.

- **Multimedia Technology Parks (MTPs)**

The government considers establishment of an ICT Park as a top priority since they have a significant potential to contribute to ICT infrastructure development in particular and enhancement of economic growth of the country in general. The government has already identified the land where the first ICT Park would be established. This will be a Public Private Partnership initiative where investors will be invited to venture.

- **Software and Hardware Development**

The government is promoting locally produced software and hardware in order to help build skills and capacity in the assembly of the various hardware components into complete IT equipments. Because of the favourable fiscal policy environment such as tax holidays on ICT hardware, and the relatively low cost of domestic labour, it is anticipated that per unit price of such locally assembled IT equipments will be relatively much lower than an imported one. Investors are therefore invited to take the advantage and invest in the development of soft ware and assembly of hardware.

- **Communication Equipment in the security sector**

With the fast changing telecommunication and the sophistication of crimes, the world is becoming a global village. Telecommunication makes an integral part of security provision.

Communications in Security need measures and controls taken to deny unauthorized persons information derived from telecommunications and ensure the authenticity of such telecommunications. Communications security includes crypto security, transmission security, emission security, traffic-flow security and physical security of equipment.

- ✓ **Crypto security:** The component of communications security that results from the provision of technically sound cryptosystems and their proper use. This includes ensuring message confidentiality and authenticity.

- ✓ **Emission Security (EMSEC):** Protection resulting from all measures taken to deny unauthorized persons information of value which might be derived from intercept and analysis of compromising emanations from crypto-equipment, automated information systems (computers), and telecommunications systems.

- ✓ **Physical Security:** The component of communications security that results from all physical measures necessary to safeguard classified equipment, material, and documents from access thereto or observation thereof by unauthorized persons.

- ✓ **Traffic-Flow Security**: Measures that conceal the presence and properties of valid messages on a network. It includes the protection resulting from features, inherent in some Crypto equipment, that conceal the presence of valid messages on a communications circuit, normally achieved by causing the circuit to appear busy at all times.

- ✓ **Transmission Security (TRANSEC**): The component of communications security that results from the application of measures designed to protect transmissions from interception and exploitation by means other than cryptanalysis (e.g. frequency hopping and spread spectrum.

- **Business Process Outsourcing Park (BPO)**

The government is committed to market Kenya as a premier centre of excellence in information and communication technology. The government therefore plans to develop special economic zone in Nairobi that will be served by superior telecommunications infrastructures, affordable and readily available energy and that is easily accessible to international transport facilities. The Zone will encompass Multimedia Technology Parks, Malls, Office Parks, Industrial Park and Recreational Facilities among others. The special economic zone is expected to provide opportunities that will stimulate Business Process Outsourcing (BPO) activities across the borders.

To achieve this, government will partner with the private sector to construct a state-of-the art ICT Park within the zone. This would in turn seek to transform the Country into a major ICT hub particularly for the Business Process Outsourcing (BPO) which holds a huge potential for job creation and economic development. The parks will be used to promote locally produced software and hardware in order to help build skills and capacity in the assembly of the various hardware components into complete IT equipments.

The government has already identified 100 acres of land in Athi River which is only 30Kms away from Nairobi City Central Business District. The area is along Mombasa road and is well served by transport tele-communications and energy infrastructure. This will be a Public

Private Partnership Initiative where international investors will be invited to venture. Investors are therefore invited to take this advantage and invest in hardware and software development locally.

Agriculture sector

Kenya's agricultural sector directly influences overall economic performance through its contribution to GDP. Periods of high economic growth rates have been synonymous with increased agricultural growth.

The tea sector is a dominant sector and the coffee sector has started to pick up following a decline in the recent past. The horticultural and flora sectors have seen unprecedented growth over the past years as more companies venture into production and export of flowers and fresh produce.

The sugar industry has faced significant challenges and it is the government's intention to improve the sector. This industry is expected to show good growth over the next few years, should the government implement their stated policies.

Other sectors where the country has significant untapped resources include cotton, forestry, fishing, pyrethrum, and macadamia nuts.

PricewaterhouseCoopers provides services to the main agricultural companies producing tea, coffee, flowers, horticulture and sugar in Kenya. With the introduction of International Accounting Standard 41 – Agriculture, PricewaterhouseCoopers played an active role in bringing together key players in the sector to address and overcome the challenges of implementing the standard.

Opportunities

✓ Agricultural Support

Investment opportunities exist in seed production, manufacture of sprayers and pesticides, veterinary services, construction of dams and bore holes, installation of irrigation systems and services. Opportunities also exist in support services, such as cold storage facilities and refrigerated transport for horticultural and other perishable products.

✓ Horticulture

The horticultural sector is one of the fastest growing sectors in the economy and is the second largest foreign exchange earner after tea. Opportunities exist in production and export of products such as cut-flowers, French beans, pineapples, mushrooms, asparagus, mangoes, macadamia nuts, avocados, passion fruits, melons, and carrots.

- ✓ **Agro-Processing**

Numerous investment opportunities exist in this sector. Edible and other oils produced locally include butter, ghee and margarine as well as sunflower, rapeseed, cottonseed, sesame, coconut and corn oils, while a large quantity of palm oil is imported. Investments to develop substitutes for palm oil imports are welcome.
Kenya produces excellent beer, utilising locally grown barley. The country has recently developed papaya and grape wines that can be exported to regional and international markets. Opportunities exist in coffee roasting and grinding, with a further potential such as in the production of decaffeinated coffee for export.
Sugar production, at 402,000 tonnes per annum is below the domestic demand estimated at 600,000 tonnes per annum. Molasses, a by-product of sugar production, is processed into power alcohol, potable alcohol, and baker's yeast. There is also considerable potential for the expansion of chocolate and confectionery products for export. Opportunities for investment exist in the production and processing of sugar, tea, meat and dairy products.

- ✓ **Poultry Products**

Hatcheries for the production of chicken for both domestic and regional consumption are under-exploited.

- ✓ **Fisheries**

Kenya's water resources of the Indian Ocean and Lake Victoria provide vast fishing potential. At present, deep sea fishing, prawn and trout farming are in their infancy but growing rapidly. Opportunities also exist in fish processing (filleting and fishmeal production), as well as fisheries-support infrastructure (refrigerated transport, cold storage, etc.

- ✓ **Leather and Leather Good**

Most hides and skins are processed up to the wet blue stage for export while investment opportunities exist in production of finished leather, offering potential for the manufacture of shoes and other leather products.

- ✓ **Livestock**

Investment opportunities exist in the rearing of livestock for meat and dairy products. The dairy industry has been liberalised, providing new investment opportunities in milk processing for local and regional markets. Non conventional livestock farming, for example, of ostrich and crocodile farming, represent an exciting new area of investment. Bee keeping and honey processing are are untapped potential in Kenya.

The Energy Sector

Electric power supply in Kenya falls far below the demand. This calls for private sector investment in power generation for sale to the national grid. The current peak electric power demand is estimated at 1,180 MW and it is projected to grow at 7% annually over the next 10 years, to reach 2,263MW by 2018. This demand growth is driven by an accelerated consumer connection policy and anticipated robust economic growth performance. Annual Electricity consumer connections have continued to rise sharply over the last three years from 67,105 in the Financial Year (FY) 2005/06 to 122,080 in FY 2006/07 and to 140,807 in FY 2007/08. The Government's policy is to connect at least one million new consumers in the next five years. To meet this projected demand in electricity, the installed generating capacity will have to be raised from 1,180MW currently to 1,860MW by 2013 and to 2,600MW by 2018. These supply projections have in-built reserve (security) margin of 15% above peak demand.

This projected growth rate in demand will require corresponding increases in capital outlay to provide the needed incremental generation capacity and associated supply and distribution infrastructure. It is envisaged that the private sector will play a key role in providing the required capital either on its own or through Public Private Partnerships. The projected growth in electricity demand, therefore, presents a golden opportunity to invest in the energy sector. Highlighted below are some of the priority projects that present immediate opportunities for private sector investments.

Opportunities

- ✓ **Transformer manufacturing**

In order to achieve the government's objective of connecting one million customers in the next five years, a total of 60,000 transformers will be required. It is also estimated that an additional 2,000 transformers will require repairs annually.

This provides a very good investment opportunity for manufacturing and repairing of transformers. In addition, there exists a high potential for manufacturing of other related equipment such as switchgears, insulators and electricity energy meters. Indeed, the proposed factory for the manufacture of transformers will also benefit from both the EAC and COMESA markets.

- ✓ **Geothermal Development**

The geothermal resources in Kenya are concentrated in the Rift Valley of Kenya with an estimated potential of over 4,000 MW. Out of this resource potential, 130MW has been developed for electricity generation. Another 35MW is scheduled for commissioning by November 2008, thus raising the total to 165MW.

Appraisal drilling is currently in progress in Olkaria IV geothermal field for development of a 70MW electric power plant. Five wells with an average output of 5MW per well havealready been drilled, while the sixth and final appraisal well is in progress. Drilling of twelve (12) steam production wells will commence immediately and be completed by March, 2009, thus raising the number of wells needed for the proposed 70MW power plant to 18. As a parallel initiative, preparation of tender documents for conversion of steam into electricity will commence in December 2009. It is intended to have a continuous drilling campaign to provide adequate steam for development of another 490MW of geothermal plants by the year indicated in the table below after the proposed 70MW Olkaria IV power plant. Private Sector Companies will be expected to bid alongside KenGen for such steam to electricity power conversion projects. The lowest price evaluated complaint bidder will be awarded 20 year contract during which period GDC will guarantee continuous availability of steam. Public private partnership will also be encouraged to minimize perceived investor risks.

✓ **300 Mw Coal Fired Plant**

The Government of Kenya commissioned a feasibility study on the establishment of a 300 MW coal power plant in Mombasa. It also identified three suitable sites for the coal plant. The plant will require 0.9 to 1.1 million tones of coal per year, all of which will have to be landed at the Mombasa port and transported to the power station. The port currently has only two berths capable of unloading coal. However, both are not capable of handling this additional large amount of coal.
Given these constraints, the study has identified and recommended Mdugani within Mombasa harbour as the most feasible site because of availability of ample space, minimal coal handling between ship and plant. Also similar power plants can be constructed in the vicinity in future taking advantage of coal unloading facility and grid connection to be provided. There is therefore an investment opportunity in a coal handling facility. The facility can also be used to serve other coal users such as cement factories in Kenya and the region.

✓ **Coal Exploration and Exploitation**

The Government of Kenya is currently carrying out coal exploration in the Mui basin in Mwingi district, which covers an area of 400km2. This basin is 180 km North East of Nairobi. So far thirty three (33) wells have been drilled with depths ranging from 75 to 324 metres and coal seams encountered in twenty (20) of the wells. Coal sample analyses have revealed that the coal is sub-bituminous to bituminous in quality, with an average calorific value of 18MJ/kg.
Coal exploration has reached a commendable stage as three (3) new wells with coal seams thickness of 13 metres, 5.37 metres and 4.20 metres have been sunk this year. Seventeen (17) wells previously sunk have coal seam thicknesses ranging from 0.3 metres to 12.6 metres. These coal seams have been discovered at depths ranging from 20 metres to 320 metres below the ground. An area of about 20 km2 has been delineated as a coal zone.
To determine the quantity and quality of the coal deposits, the government has floated a competitive tender for drilling of twenty (20) appraisal wells in Kateiko – Yoonye area covering 40 Km2. The successful bidder will in addition to drilling the 20 wells be expected to estimate the commerciality of the coal deposits. If commercial deposits are ascertained, a concession will be granted to a private developer through an open competitive tender.
To accelerate coal exploration, the government has also created three more Coal exploration blocks in the Mui basin, which shall be leased to prospective investors for exploration and exploitation.

Hydropower Development

Kenya's least power development plan has identified a number of potential hydropower plants. Although the plants have not been considered economical in the past, recent oil price increases now make them attractive for investment. The best among the undeveloped hydropower sites are:

a. Mutonga on the Tana River with an expected capacity of 60 MW and an annual average electricity generation of 336 GWh. The estimated cost of construction is US$ 270 million.
b. Downstream of the Mutonga site is the Lower Grand Falls with a capacity of 140 MW and annual average electricity generation of 715 GWh. These sites provide a good potential for investment in hydropower.

- **Renewable Energy**

Increased use of solar and wind energy for industrial and domestic use will promote use of environmentally friendly technologies which will help in water conservation and protection of water catchment areas. In addition they will also reduce the dependency on oil-based energy sources.

✓ **Solar Electricity Generators**

Kenya lies astride the equator and has an average annual installation of between 4 and 6 kilowatt-hours per square meter per day. A vibrant solar energy market has developed in Kenya over the years for providing electricity to homes and institutions remote from the national grid and for medium temperature water heaters for domestic and commercial usage. A preliminary survey done in 2005 established that the annual market demand for Photo Voltaic (PV) panels was 500 kilowatt peak (kWp) and this was projected to grow at 15% annually. A government programme which commenced in 2005 to provide basic electricity to boarding schools and health facilities in remote areas has increased the annual demand for PV panels by 100 kilowatt peak. Out of approximately 3,000 eligible institutions, 133 have been equipped with PV Systems with a combined capacity of 399 kilowatts peak in the last four years. Another 46 institutions are earmarked to benefit from installation of PV Systems with a combined estimated capacity of 80 kilowatts peak. There is also the wider market provided by the other member states of the East African Community and COMESA. It is estimated that the initial market demand for PV Systems is one megawatt peak and this presents a great opportunity to investors in PV panels manufacture. An opportunity also exists for manufacture of associated components and accessories, such as charge controllers, inverters and PV batteries.

The Northern Kenya and other arid lands have strong reliable sunshine throughout the year thus providing high potential for investment in solar energy for sale to the national grid. Almost the whole of North Eastern province has this potential.

✓ **Wind Power Generation**

Preliminary wind resource assessment shows that wind regimes in certain parts of Kenya (Such as Marsabit, Ngong and the Coastal region) can support commercial electricity generation as they enjoy wind speeds ranging from 8 to 14 metres per second. This preliminary assessment has been used to develop a wind map for the whole country.

To facilitate decision-making in wind power generation investment, the government is undertaking wind data logging in high potential areas of Kenya. However, detailed feasibility studies would be carried out to determine the viability of specific sites identified in the wind map. The Kenya Government would, therefore, like to invite the private sector to invest in wind power electricity generation.
There is high wind speeds in various parts of northern Kenya and other arid lands. Specific areas that have been identified for wind power generation are Marsabit, Laisamis and Samburu. These areas have potential to produce over 150 MW of wind power for sale to the national grid.

- **Bio-Fuel Production**

Bio-energy is the energy derived from various sources of solids, liquids and gaseous biomass, including fuel wood, charcoal, ethanol, bio-diesel and biogas. Bio-energy is currently the focus of attention due to dwindling global resources of fossil fuels and rising prices. Their potential to mitigate climate change adds their attractiveness. Jetropha, a plant grown in arid and semi-arid lands is seen as the best source of bio-diesel across the country.

Consumption stood at 1.4 and 3.3 million litres of petrol and automotive diesel respectively per day in 2006 with average growth rate of 2.8% per year. Projections indicate that Kenya will require 2.7 and 6.5 million litres of petrol and automotive diesel respectively per day 10 by 2030. Currently, Kenya would require 77 million litres of ethanol per year for a national 10% (E10) blend at current consumption levels. This will need to grow to 148 million litres by 2030. A national B2 would require about 28 million litres of bio-diesel at current consumption levels and would be required to grow to 50 million litres by 2030. Opportunities in production and processing of Jetropha and sweet sorghum into bio-fuel exist in Galana and other areas of the country such as Eastern, North-Eastern, Rift-Valley and Nyanza Provinces. In addition, consultancy opportunities exist in research work and capacity building in bio-technology and relate industrial potential for production of biofuel.

- **Development of A 300 – 1000 Nuclear Power Plant**

Kenya's natural resources for development of low cost and affordable electricity are currently very limited. Given this situation, the Government has decided to diversify power generation sources, away from the very high cost oil based power plants, in order to make the cost of electricity affordable.

Nuclear power generation has therefore been identified as a potential source capable of providing affordable electricity to spur economic growth, consistent with Kenya's Vision 2030 development agenda. For a start it is proposed that the private sector will be given an opportunity to develop a 300 – 1,000MW nuclear power plant over the next 7 years. A Build Own Operate Transfer (BOOT) model based on 30-year Power Purchase Agreement (PPA) will be offered to a private sector investor with requisite experience and resources to construct and operate the power plant.

- **Exploration of hydrocarbons and petroleum**

There are huge investment opportunities in the exploration of hydrocarbons and Petroleum in the North Eastern parts of the country. These opportunities provide a good potential for investment.

Industry manufacturing

- **Tyre Manufacturing Plant**

The country currently has only one tyre manufacturing facility i.e. Firestone (E.A.) Limited. Another tyre manufacturing facility would be a feasible proposition.

- **Agro-processing industry**

✓ **Processing of White refined Industrial sugar**

Refining of industrial sugar is an area of great investment potential. It is a critical input in food, beverage and pharmaceutical sectors. Currently, it is imported. There is a large market for the inputs and the demand is growing.

✓ **Processing of Fruit Concentrates**

Fruit processing is an industry, which is growing. Kenya produces only two type of concentrate namely pineapple and mango. The rest of concentrates are imported outside the EAC region. There are investment opportunities in the processing of other concentrates.

✓ **Vegetable Oil Processing Industry**

In some areas in Kenya, the oil seeds are grown commercially. This requires a very strong oil seed processing industry to utilise the products and to sustain local production of oilseed. This presents investment opportunities.

- **Chemicals industry**

✓ **Manufacturing of fertilizers**

Fertilizer is one of the major farming inputs in the country and it is widely used. Kenya and the Eastern African region do not have a fertilizer manufacturing plant. All fertilizers used in the region are imported. Through the fertilizer cost reduction initiative identified under the Vision 2030, a fertilizer manufacturing and blending plant in Mombasa and Nakuru to serve the local and regional demand would be a feasible investment opportunity.
There is also potential in the following areas:-

a. Establishment of a fertilizer plant in Mombasa to manufacture DAP, CAN, NPK using imported intermediate inputs.

b. Establishment of a bio-fertilizer plant in western Kenya (Mumias Sugar Co. Ltd) to utilize bagasse and wastes from timber industries.
c. Production of nitrogen fixing micro organisms such as Rhizobium which can be used in leguminous plants to increase crop yields.

✓ ***Dyes for textiles industries***

There are investment opportunities in the manufacture of dyes which are important for the textile industry.

✓ ***Value addition in Pyrethrum and other plants***

Kenya produces a lot of pyrethrum which is exported in a semi-processed form or as dried flowers which fetch little money in the world market. Opportunities exist in processing the plant into a final product. In addition, there are opportunities for manufacturing of insectides and fungicides using some imported ingredients mixing with locally available filler materials such as soapstone, limestone and clay for local and export market.

The processing of Neem tree extract as a source of a pesticide raw material should also be explored. The tree is being promoted by ICIPE in Kenya and it has been found that the extract has pesticidal properties.

The Aloe vera, which has been proved to have medicinal value, grows naturaly in the arid and semi-arid areas of Kenya such as Baringo, the Coast, Laikipia, Nanyuki and others. Commercial farming of Aloe vera is now practised in Laikipia and Baringo. However, most of the raw Aloe vera is exported raw for processing to the EU and Asia.

All these plants offer a very promising area of investment since the extract are natural organic substance that are biodegradable and hence poses less danger to the environment due to less persistency.

- **Manufacture of Cement**

Currently Kenya has three cement plants namely: Bamburi Portland Cement Company (BPCC) in Mombasa, Kaloleni Lime Cement works Ltd in Kaloleni, Kilifi and East Africa Portland Cement Company Ltd (EAPCC) at Athi River. The current total capacity for the tree cement producers is far much below demand. This sector is identified as one of the core industrial sectors, with ample scope to boost the other sectors of the economy, especially the building and construction industry. There is growing demand of cement from within and from outside the country from places such as Southern Sudan, Rwanda and Burundi. There is need for additional investment to cover the existing gap. New areas with investment opportunities in this sector are West Pokot, Koru (Kisumu), Athi River and Shimoni in Coast Province. The market for this sector is both local and also exports to EAC and COMESA countries.

- **Sheet Glass Production**

Currently Kenya has no sheet glass plants. There is growing demand for sheet glass due to increasing construction activities. Kenya has capacity to produce sheet glass because there is Soda Ash production at Lake Magadi. The market for this will be local, for EAC and also COMESA countries. The location for this industry which is viable is Magadi and Machakos.

- **Motor vehicle components manufacturing**

There are investment opportunities in manufacturing of motor vehicle components. There is a big market for vehicles in the EAC and COMESA regions.

- **Manufacture of Aluminium Cans**

In Kenya and East Africa region, all cans for use in packaging of canned beers and soft drinks are imported. Consumption of canned beverages is becoming very popular. Export of Kenyan beers in bottles is being hampered by the limitations of glass, which include bulkiness and breakages. The production of beers and carbonated beverages in Kenya has grown tremendously over the years. Investors are invited to put up an aluminium canning plant, which can also cater for the needs of Uganda, Tanzania, Mauritius, Rwanda and Burundi.

- **Component Manufacture**

Design and Local Manufacture of components and parts for use in the steel plants with capacities of 10-30,000 tons per annum which are very popular in the COMESA region is lacking. The rate of growth of steel mills in the region has been steadily rising pointing to an exciting business opportunity for whoever can supply such equipment with good sparepart back up and after sales services. Currently these plants are being imported complete from India. There is no reason why at least some of this equipment cannot be produced locally.

- **Raw materials for pharmaceutical industry**

Considering majority of the inputs used for making pharmaceutical products are imported, there is a wide scope for investment in making these inputs available to EAC and COMESA market.

Tourism Sector

The tourist industry is by far the largest single export earner in Kenya. Tourism forms a vital foundation for the country's economy and is highlights two of Kenya's most unique features: wildlife and beaches. Careful planning and proactive leadership have maximized the tourism potential as Kenya continually outpaces it's East African neighbors. A solid infrastructure coupled with a devotion to wildlife conservation has propelled Kenya to the forefront of the regional tourism industry

Opportunities

Investment opportunities in this sector are as following;

- **Development of Resort Cities**

This is one of Kenya’s flagship projects in the Tourism Sector which creates lucrative investment opportunities and involves the development of three (3) high-end resort cities – two at the Coast (North and South) and in Isiolo (North of Nairobi). Kenya has a long coastline with beautiful sandy beaches that are very attractive to tourists. There will also be a parks initiative which will involve upgrading and development of underutilised parks with an intention of offering quality niche experiences. These experiences include cultural, eco-friendly and water-based tourism. The government will provide the necessary physical infrastructure including land for the development of the resort cities.

- **Construction of International Hotel Chains**

The Kenya Government has developed a strategy to attract quality high-end international hotel chains and encourage investment in conference facilities. The opportunities in the hotel industry are provided for by the unmet demand for and high occupancy rates in key tourist areas. With normal tourist arrivals, the demand for accommodation exceeds the available bed capacity thus creating a demand for additional bed capacity. Land for constructing such hotels is available and the Government will offer the necessary support for such investments. Investment opportunities in establishment of tourist hotels exist areas such as Lake Turkana, Marsabit and Tana River.

- **Investment in Conference Facilities**

Kenya has three cities namely, Nairobi, Mombasa (the port city and entry point to East and Central Africa) and Kisumu (on the shores of Lake Victoria). The three cities offer a myriad of experiences. Kenya currently has only one large international conference centre (KICC) with a capacity of 2,000 delegates in Nairobi. With the ever increasing demand for conference/convention and exhibitions, the destination will require investment in this niche product.

Kenya is and as been host to two major UN organisations namely the United Nations Environment Programme and the United Nations Habitat. Nairobi, the capital city, is also rapidly becoming a regional business and financial services hub. These are some of the factors that make the demand for conference facilities high and therefore attractive for investment. Due to its strategic location in the East African Community Region, Kisumu offers viable opportunity for investment in hotel and conference business.

- **Entertainment Options – Amusement Parks, Clubs, Casinos, Theatres and Specialty Restaurants**

Great potential exists in the entertainment area. Investment in these areas will also add value to holiday experiences. With a growing economy and tourism sector, there is an increasing demand for entertainment options that include amusement parks, clubs, casinos, theatres and specialty restaurants.

- **Water Sport**

Waterways in Kenya have not been fully exploited and developed as a leisure product. Therefore investment is required in the Western Kenya Circuit where the massive Lake Victoria connects the EAC countries of Kenya, Uganda, Tanzania, Rwanda and Burundi, and in the coastal region in the Indian Ocean waters.

Conclusion

There are ample and promising investment opportunities available in key sectors of our economy. I would like in particular to lay emphasis on opportunities in the information and communication technology, infrastructure, building and construction, energy, agriculture, tourism, energy and financial sector among others

In conclusion, I wish to reiterate that Kenya is ready for increased investments, both for fully private investment and Public-Private.

Appendix

Ease in doing business

Foreign relations

Despite internal tensions in Sudan and Ethiopia, Kenya has maintained good relations with its northern neighbours. Recent relations with Uganda and Tanzania are strengthening as the three countries work for mutual economic benefit.

Kenya has hosted and played an active role in the negotiations to resolve the civil war in Sudan and to reinstate a central government authority in Somalia. On January 9, 2005 a Sudan North-South Comprehensive Peace Accord was signed in Nairobi.

Negotiations in the Somali National Reconciliation Conference resulted at the end of 2004 in the establishing of Somali Transitional Federal Institutions (Assembly, President, Prime Minister, and Government). Until early 2005, Kenya served as a major host both for these institutions. Between May and June 2005, members of the Somalia Transitional Federal Institutions relocated to Somalia. Kenya is host to more than 300,000 refugees, of which 288,000,000 are from Somalia and the remainder primarily from Sudan and Ethiopia.

Kenya maintains a moderate profile in Third World politics. Kenya's relations with Western countries are generally friendly, although current political and economic instabilities are sometimes blamed on Western pressures.

Taxation

Kenya has Double Tax Treaties with the following countries:

- ✓ United Kingdom
- ✓ Germany
- ✓ Canada
- ✓ Norway
- ✓ Denmark
- ✓ Sweden
- ✓ Zambia
- ✓ India.

Business Etiquette

Meeting and Greeting

- ✓ Handshakes are the most common greeting in business.
- ✓ When being introduced to someone for the first time, the handshake is short, while handshakes among people with a personal relationship are longer.
- ✓ It is a sign of respect to lower your eyes when greeting someone of a higher status or someone who is obviously older than you.
- ✓ Men should wait for a woman to extend her and first.
- ✓ To rush a greeting is extremely rude. Take the time to inquire about the other person's general well-being, family, and business in general.
- ✓ Titles are important. Use the honorific title plus any academic or professional title and the surname.
- ✓ Wait to be invited before moving to a first name basis.
- ✓ Business cards are exchanged without formal ritual.
- ✓ Present and receive business cards with two hands.

Business Meetings

Meeting schedules may be structured or not at all depending upon the ownership of the company. In British or Indian owned companies, agendas will be used and followed.
As relationships are important in Kenya, devote time to small talk in order to get to know your hosts and vice-versa. It is a good idea to allow your Kenyan hosts determine when it is time to begin the business discussion.
Meetings seldom have scheduled ending times since what matters is finishing the meeting in a satisfactory manner to all concerned. In fact, Kenyans are amused at the concept of an ending time, since they believe the meeting only ends when all parties are finished.
Kenyans value tradition. Therefore, it is a good idea to provide a historical framework or context when attempting to introduce a new idea or process. They may ask questions until they feel comfortable and are able to proceed satisfactorily.

Swot analysis of Kenya

Strength

Kenya is a natural hub for regional services and regional headquarters due to its high quality manpower and its amenities. Many foreign investors based in Kenya sell services to the region. This position has not been actively promoted, however, and comparative advantages remain under-exploited.

Export-led agribusiness has developed international competitiveness, in significant part due to FDI. The industry has flourished notwithstanding the infrastructure and policy difficulties that have undermined the traditional industrial base.

With a deep-sea port and a well-developed airport Kenya has significant potential as a regional logistics hub. It is the main entry point for the Great Lakes Region, one of the few

African regions with outstanding agricultural potential, and also serves Uganda and the Western regions of Tanzania (currently trade from Arusha, to Mwanza, both in Tanzania, passes through Kenya).

Weaknesses

Kenya's industrial sector operates under old-fashioned management and production processes that have been made obsolete by more recent structures based on the concepts of Lean Production/World Class Manufacturing. These flexible forms of production organization provide significant and low-cost returns through, among other things, production-pulling, total quality control or cellular layouts.
These forms of organization have been applied not just in high-income countries, but also in a variety of low-income economies (Kaplinsky, 1994). Visits to Kenyan manufacturing plants show that much of this organizational revolution has passed Kenyan industry by. Ironically, the very outdated nature of Kenya's factory system could provide potential for investors, notably foreign investors, for output expansion and cost reduction at attractive incremental capital cost.

Opportunities

Agriculture is the mainstay of the economy, providing livelihood to approximately 75 per cent of the population. There is considerable scope for diversification and expansion of the agricultural sector through accelerated food crop production and increase of non-traditional exports. There are also opportunities for improvement in technology infrastructure such as packaging, storage, and transportation. Intensified irrigation and additional value added processing are marketable areas for investments.

Tourism is Kenya's third largest foreign exchange earner. The tourism industry is growing as a result of the liberalisation measures, diversification of tourist generating markets and continued Government commitment to providing an enabling environment, coupled with successful tourism promotion and political stability. Enormous opportunities exist for investment in film production; recreation and entertainment facilities in the following areas: Conference Tourism, Cultural tourism, Cruise ship Tourism, Aviation/tour and travel Tourism, Eco-tourism

Manufacturing sector is an area where investment opportunities exist. Initially developed under the import substitution policy, there has now been a shift to export oriented manufacturing as the thrust of Kenya's industrial policy. The sector plays an important role in adding value to agricultural output and providing forward and backward linkages, hence accelerating overall growth. The manufacturing sector now comprises of more than 700 established enterprises and employs directly over, 218,000 persons as at the year 2000. A wide range of opportunities for direct and joint-venture investments exist in the manufacturing sector, including agro-processing, manufacture of garments, assembly of automotive components and electronics, plastics, paper, chemicals, pharmaceuticals, metal and engineering products for both domestic and export markets.

Threats

Productivity is not only low relative to strategic competitors like China and India, but it is also falling behind. Kenya's formal manufacturing firms have not seen gains in productivity in more than a decade. Meanwhile China and India have been making huge gains in firm productivity.

With the exception of the textiles sector, firms' propensity to export actually fell between 1999 and 2002. AGOA helps, as it has already in textiles, but in other sectors Kenya has to compete against China and India.

Useful contacts

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Links:

http://www.investmentkenya.com/
https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/countries?_nfls=false&_nfpb=true&_pageLabel=CountryType1&navigationPageId=/kenya
http://www.kendir.com/investment.html
http://www.uskcc.org/
http://eabc.info/node/360
http://allafrica.com/stories/200801310544.html