REPUBLIC OF KENYA

MINISTRY OF INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT

INVESTMENT OPPORTUNITIES IN THE MANUFACTURING SECTOR IN KENYA
1.0 INTRODUCTION

The Vision 2030 aims to transform Kenya into “a newly-industrializing, middle-income country providing a high quality of life by 2030”. The industrial sector has been identified as key to addressing incidences of high poverty levels, unemployment, disparities in regional development, and meagre foreign exchange earnings from exports of primary or semi-processed agricultural produce. The industrial sector also has strong linkages with other sectors and its growth will positively affect the other sectors. The sector, despite its potential, has not been dynamic enough to function as "the engine for growth" for the Kenyan economy as has been the case of the newly industrializing economies of South East Asia such as Indonesia, Malaysia, Thailand, Singapore and Korea.

Over the years, the industrial sector’s share of monetary GDP has remained about 15-16% out of which that of manufacturing sector has remained at a little more than 10% over the last two decades. The manufacturing sector’s contribution to GDP grew by an annual average of 5.5 per cent between the period 2003 and 2007. However, the sector’s growth in 2008 was 3.8 per cent, the lowest in the last five years. This has been attributed to the slowdown in the global economy, spill over effects from the post elections violence and other economic challenges such as high inflationary pressures, depreciation of the Kenya shilling, low levels of productivity, high cost of production, unfair competition from counterfeits and stiff competition from cheap imports.

In order to curb further job losses, decline of the industrial sector’s contribution to the economy and deteriorating standards of living on majority of Kenyans, the National Economic and Social Council (NESC) mandated the Committee on Industrialization to develop a National Policy Agenda on Industrialization to reverse the declining trend and make recommendations that will fast track the industrialization process. This paper is the outcome of that NESC decision.

The Government of Kenya in recognition of the role of private sector in spear heading Industrialization has put in place a policy frame-work to foster the creation of a Conducive environment for private sector participation in the economic development.

Kenya is located on the eastern coast of Africa, bordering Somalia to the east; Ethiopia to the north; Sudan to the north-west; Uganda to the west and Tanzania to the south. The Indian Ocean lies to the south-east. Kenya’s geographical position makes it a major gateway for trade in the Eastern and Central Africa region. Kenya has a total area of 582,650 sq km out of which 569,250 sq Km is land and 13,400 sq Km is under water. Kenya has a population of approximately 36 million people with a national literacy rate of over 78%. Kenya has abundant, skilled and educated labour.

Kenya’s infrastructure is relatively developed in the sub-Saharan region. There are three International airports located in Nairobi, Mombasa and Eldoret. The main international airport, Jomo Kenyatta, is strategically located to serve major markets such as Europe and the Middle East, as well as other African countries. There are more than 150 other airports and airstrips located across the country.
Mombasa is the principal seaport of Kenya and hosts one of the modern ports of Africa. It has 21 berths, 2 bulk oil jetties and dry bulk wharves. The Seaport of Mombasa serves Kenya’s hinterland as well as the land-locked countries of Uganda, Rwanda, Burundi, Eastern DRC and Southern Sudan.

Kenya has an extensive road network connecting most parts of the country. The road network is estimated at 177,500 Km comprising 63,000 Km classified roads and 114,500 Km of unclassified roads. All weather roads connect major commercial centres. Electricity is the main source of power in Kenya. It is supplied at 240 volts, 50 cycles single-phase and at 415 volts, 50 cycles three-phase.

Kenya is served by a single-track railway system running from Mombasa through Nairobi to Uganda with branches to Nanyuki and Kisumu. The country also has a well-established communication system. There are over 40 Internet service providers licensed to operate in Kenya. They provide leased line, dial up, wireless and other modern available internet and communication technologies.

The manufacturing sector offers vast opportunities for investment, especially in providing forward and backward linkages and hence accelerating overall growth and competitiveness.

2.0 INVESTMENT OPPORTUNITIES IN THE MANUFACTURING SECTOR

2.1 Development of Industrial and manufacturing Zones

In order to harness the resources available in different parts of the country, region specific industrial and manufacturing clusters will be promoted. Necessary infrastructure and services will be provided to stimulate development of these clusters. Investment opportunities exist in development of Industrial Parks including Small and Medium Enterprises (SME) Parks and Export Processing Zones (EPZs) which offer a range of fiscal incentives that help in reducing start up and operational costs thereby making exporters internationally price competitive. The investor will recover his/her investments either through rent or selling the units.

Potential location for Industrial Parks include Nairobi due to its proximity to most important markets, Eldoret due to its location in high-potential agricultural areas and access to airport, Kisumu due to access to the regional markets and availability of raw materials such as limestone(Koru), chemicals (e.g ethanol from sugar factories).

Special Economic Cluster (SEC) will be set up in Mombasa to allow for easy importation of necessary raw materials and exporting of finished goods. The project will include an agroindustrial zone incorporating activities like blending and packing of fertilizers, tea and coffee and a consolidated meat and fish processing facility. The second SEC will be located in Kisumu to allow for access to regional markets and availability of limestone to support cement, chemicals and metal industries; agro-processing through increased horticultural production along the lakeshore.
2.5  **Tyre Manufacturing Plant**
The country currently has only one tyre manufacturing facility i.e. Sameer East Africa Ltd formerly Firestone (E.A.) Limited. Another tyre manufacturing facility would be a feasible proposition. ICDC has had long experience in this sector having been joint venture partners in this company. ICDC is convinced that another tyre manufacturing facility would be a feasible proposition and is therefore looking for joint venture partners to promote one. Some of the major dealers of imported brands could be interested in the proposal.

2.5  **Agro-processing industry**

Agro-processing industry comprises sub-sectors such as food, textile, and energy biotechnology. Kenya’s agro processing industry accounted for 6% of GDP and 30% of export earnings, and constituted 70% of the production value in the overall manufacturing sector value in 2006.

Investment opportunities in this sector include:

2.5.1  **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.

2.5.2  **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.

2.5.3  **Meat and fish products**
Beef processing units to be put up in major livestock production regions such as the Rift Valley and North Eastern Province. Game meat is a new area which has a very wide investment scope in Kenya. Areas like Ostrich farming and crocodile farming have already proved profitable. At present commercial poultry processing is almost under one monopoly. There is scope to set up a second large scale production and processing facility in order to supply chicken at affordable prices to an expanding domestic market. There is investment potential in deep-sea fishing (for prawns, lobsters, Tuna etc) prawns, farming, fish filleting and fish farming.

2.5.4  **Oil crops**
Most oil crops are well suited to Kenyan conditions, being drought resistant and without many serious plant diseases. These characteristics render, especially sunflower (but not maize) suitable for relay planting after the main crop (using residual soil moisture) and for planting during the short rainy season where bimodal precipitation occurs. Recent changes in imported oil costs indicated that sunflower may now be a financially attractive crop, and major expansion potential is believed to exist. In some areas in Kenya, the oil seeds are grown commercially. Potential may also exist for a number of oil crops that have not previously been grown on a commercial scale in Kenya. These include oil palm and sunflower. Insufficient information exists to predict whether these crops could be attractive for agricultural producers, but further field trials of suitable varieties would be worthwhile. Commercial oil production requires a very strong oil seed
processing industry to utilize the products and to sustain local production of oilseed. This presents investment opportunities.

2.5.5 Cashew nuts

The Coast Development Authority has approached ICDC to facilitate establishment of a cashew nut processing factory at Kwale in Kenya's South Coast. This will be a facility with capacity to process up to 20,000 tons of raw nuts per year. Up to 85% of the output will be for export. An earlier facility at Kilifi (North Coast) has closed down due to mismanagement. This was processing 15,000 tons of raw nuts per year. Presently, the bulk of cashew nuts are exported before they are processed. The ICDC and the Coast Development Authority will be enjoined in the joint venture together with interested foreign investor(s).

2.5.6 Soya bean project

ICDC intended to venture into processing of vegetable oil and the project was mooted. However, due to various reasons it could not implement the project. Some of the equipment that had been acquired for the project is still lying at Mombasa. There is huge potential for creation or joint ventures for processing of vegetable oil.

2.5.7 Commercial dairy farming

Following the liberalization of the Dairy Sector, there has been increased production and demand for dairy products. The volume of marketed milk increased from 361 million litres in 2006 to 423 million litres in 2007.

2.5.8 Hides and skins

A large potential market for leather goods exists within the COMESA countries. The potential is demonstrated by the amount of imports of leather goods into COMESA countries, in relation to total exports by Kenya to all world countries. There are two options of investments one option is where the investment is in a central collection point for all hides and skins.

The alternative is investment in additional tanneries to absorb the current amount of hides and skins that go to waste. A huge potential lies in putting to use the hides and skins that currently goes to waste. Warehouses for hides and skins collection networks is another potential investment.

a) Investment in private extension services to offer advisory services to farmers on better animal husbandry practices.

b) Investment in manufacture of high quality footwear and other leather products for the American market under the AGOA facility, and EU under the Cotonou Agreement (under Cotonou, penetration of EU markets would be easy for footwear and leather products, since the “rules of origin” emphasize on wholly obtained materials). These investments could be made under the EPZ scheme. Establishment of modern leather goods factories. Establishment of leather designer shops.
c) Investment in rehabilitation of tanneries that have already closed and establishment of new modern tanneries. This could be done through joint venture partnerships aimed at rehabilitating the tanneries so as to increase capacity utilization in the sector. For existing tanneries, they require modernization in technologies, to enable them to process crust and finished leather, as opposed to the current practice where manufacture of wet blue leather dominates the sector (60% for hides tanning and for skins tanning).

2.5.8.1 Leather and Leather Sector

The policy on leather and leather products provides for encouragement in forward and backward linkages so as to reap maximum value chain addition in different chain levels. There are also incentives, which are enjoyed by investors interested in the sub-sector. These include EPZ, MUB, etc. The potential exists in the following areas:

a) Entering into joint venture with the local tannery owners to produce high quality leather for local and export market
b) Manufacture of high quality shoes for local and export markets
c) Manufacture of leather handcrafts for local and export market
d) 100 percent Foreign Owned Investment projects either in EPZ or MUBs to tap the large market in EU and America.

There are also potential investment in training institutes, aimed at offering skills in tannery and leather technology.

2.5.9 Textiles and Clothing Sector

a) Revitalization of Existing Enterprises
   ICDC has been involved in the textile sector for a long time and funded Rift Valley Textiles. This project requires substantial refurbishment to bring the technology to the present age. ICDC has received some inquiries regarding the purchase of the plant but would prefer a comprehensive rehabilitation package.

b) There is scope and potential of investing in synthetic fibres (e.g. nylon, polypropylene) and dyes.

c) There are also other opportunities for involvement in the textile sector in making garments for European and American markets.

d) Over and above this we have opportunities for investment in cotton growing, ginning, spinning and weaving.

e) Potential to invest in garments manufacture for exports to US under the AGOA facility. Investments aimed at reviving and or rehabilitation of the closed textile mills ranging from spinning, weaving and garments making for local and export markets.

f) Opportunities also exist for the revival and or rehabilitation of the cotton growing irrigation schemes. Potential exists for the establishment of a synthetic fibers’ plant to utilize the chemicals available at the petroleum refinery plant at Mombasa; Investment in
dye manufacture, starch production and spare parts manufacture, which are currently imported; and Fabrics manufacture to replace import dependence.

2.5.10 Wood and Wood Products

Manufacture of high quality household furniture, as indicated by the growing value of imports. Manufacture of high quality furniture and wood based products for export markets, to exploit the preferential market access within COMESA, USA and EU countries. Manufacture of knock down furniture for supply to primary schools under the free primary education system. Manufacture of knock down furniture for offices (this is a growing market which some local companies and importers are already taking advantage of). Manufacture of alternative raw materials to timber, for example utilization of saw dust to produce chip boards, as the current insufficient supply of timber is not expected to ease in the near future.

2.5.11 Chemicals industry

a) 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:-

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

c) Establishment of a bio-fertilizer plant in western Kenya (Mumias Sugar Co. Ltd) to utilize bagasse and wastes from timber industries.

d) Production of nitrogen fixing micro organisms such as Rhizobium which can be used in leguminous plants to increase crop yields.

e) Dyes for textiles industries
There are investment opportunities in the manufacture of dyes which are important for the textile industry.

f) 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 insecticides 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 naturally 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.

**g) 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. A third cement producer is being constructed in West Pokot. The current total capacity for the three 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 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. The initial investment is estimated at US$ 35 million. Other potential investment areas include using cement in the paving of the country’s roads. This would raise the demand for cement, hence the need for more cement plants.

**h) Salt works**

ICDC has received a proposal for a joint venture in a 400 ton per day salt processing plant at the Kenyan coast. This is a project with an estimated total cost of US$ 8.8 million. The local partners are contributing US$ 3.3 million and are looking for other interested investors to facilitate realization of the project.

**Koru**: Vast amount of limestone exists in Koru area of Western Kenya. Currently, only a small portion of the lime deposit in Koru is being exploited. The limestone deposits in Koru are contaminated with about 2% phosphate, which must be removed for quality cement manufacture. The phosphate so obtained could be used as fertilizer directly or be blend with other elements to manufacture compound fertilizers. Thus the Koru limestone deposits could be harnessed to produce fertilizer.

**Shimoni**: The south coast of Kenya is endowed with abundant coral limestone deposits that can be harnessed to produce quality cement. There is a potential for a cement factory with a capacity of 600,000 tonnes per annum.

**i) Plastics and Rubber Products**

Investment opportunities exist in the following areas:

a) Manufacture of quality electrical appliances like sockets, plugs and automotive plastics spares, so as to replace imports, and since the use of such items is on the increase,
b) Manufacture of household wares like plastics kitchenware,

c) Manufacture of petroleum based chemicals used in production of synthetic fibres for textile industry,

d) Manufacture of plastics spares and housings for electronics industry.

j) 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.

k) Printing and Publishing Sector

Opportunities for additional investments in the sector include:

2.5.12 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.

2.5.13 Iron and Steel Industry
Kenya has large quantities of iron and steel that could be exploited for commercial ventures. Large deposits are found in Kitui, Taita Taveta, Homa Bay and Kakamega. The following are some of the potential areas for investment.

2.5.13.1 An Integrated Iron and Steel plant With Billet Casting Facility
The total requirement for billet would be over 300,000 tons per annum by the year 2003. To meet these demands consideration should be given to the establishment of an integrated iron and steel plant with Billet Casting Facility to feed the existing rolling mills in the three East African countries.

Billets will be supplied to down stream mills in Tanzania, Kenya and Uganda. Billets, blooms and finished products can be exported to Mauritius, Re-union, Madagascar and neighboring countries which are COMEASA countries like Mozambique and Zambia.

2.5.13.2 Production of grinding mill balls
There is a need to assess the demand by users of such facilities such as Bamburi Portland Cement Works.

2.5.13.3 Production of casting sand/Moulding
a) A majority of foundry industries in the country still employ sand casting techniques. Sand casting material is available in the country but has not been fully exploited for
commercial purposes. Such a project would meet casting sand requirement for the whole spectrum of foundry industries in the country.

b) Along with foundry sand is the design and production of dies and patterns. The import bill on spare-parts is still increasing due to inability of local plants to produce them. A study to take stock of both industrial and agricultural spare parts requirements would be necessary, as this would form the basis upon which to set up a center or an institute to start mass production of components and replacement parts.

2.5.13.4 Production of high strength reinforcement Bars

A hot-rolled square bar of mild steel, subsequently twisted in cold form to produce the required strength is used almost exclusively in Kenya for concrete reinforcement purposes. This technology has completely been phased out in major steel companies in the world, and the trend is towards the production of high strength reinforcement steel bars using micro-alloy elements, torbar and the newly introduced technology of tempco process. The latter technology has gained wide acceptance as it has the ability of imparting the required mechanical properties to steel products, and therefore eliminates the costs associated with twisting or micro-alloy addition.

2.5.13.5 Machine Tool Industry.

There is a big market in Kenya for the production of the following products:

a) Industrial machinery and spares for agriculture, transport industry and workshop.
b) Pumps for irrigation, domestic waste handling purposes.
c) Equipment and hand tools for building sector, metal and wood working machine tools.

A local investor is looking for Joint venture with foreign investors in the manufacture of high precision engineering capital goods; and industrial spares.

2.5.13.6 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 aluminum canning plant, which can also cater for the needs of Uganda, Tanzania, Mauritius, Rwanda and Burundi.

2.5.13.7 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 spare part back up and after sales services. Currently these plants are being imported complete from India. Other investment opportunities are in forgings to manufacture wagon wheel, railway components, axles, powder
metallurgy components for auto-spares, foundry and shops for the manufacture of pumps and motors, and centrifugal casting of pipes.

2.5.13.8 Manufacture of Ductile Iron rolls
There is only one country (Egypt) which is currently producing such rolls in the region. Gauging by the over 20 mills in the country and the East Africa region at large, a great deal of business opportunity exists in this field.

2.5.13.9 Manufacture of medical equipment
There are vast opportunities for investment in the manufacture of medical equipment including electro-medical equipment. Investment in such opportunities could be in form of assembly with the target market being EAC and COMESA.

2.5.13.10 Medicinal and the Pharmaceutical plants
Considering that over 95 percent of raw materials used in the pharmaceutical industry are imported, there is ample scope for manufacture of these intermediate inputs to supply the entire COMESA region.

Possible areas of investment in this area include:

a) Set up pharmaceutical manufacturing industries which can produce drugs, ARVs, and Vaccines;
b) Provision of production of medical gases and oxygen generators plants;
c) Production of Medical Equipment and Maintenance;
d) Provision of specialized diagnostic services e.g., DNA tests, MRI, Nuclear/radiologist tests and open heart surgery in specific centers.
e) Multipurpose chemical plant for bulk production of intermediate inputs such as paracetamol, aspirin, etc.
f) Chemical plant to manufacture the anti-tuberculosis, anti-leprosy, antibiotic rifampicin from the penultimate state.
g) Manufacture of Quinine by extraction from Cinchona bark and subsequent purification and synthesis to Quinine sulphate.
h) Extraction of Hecogenin from sisal waste and synthesis of Betamethasone from Hecogenin. Once fully explored, these opportunities will lead to production of adequate pharmaceuticals/non-pharmaceuticals; medical equipment and specialized services for use in the country and for export to EAC and COMESA market.
i) Manufacture of disposable surgical gloves, other latex gloves and condoms so as to replace imports and as a way of dealing with the increasing risk of HIV infections in the COMESA region.
j) Commercial processing of traditional medicines, considering the diverse flora in Kenya and the abundant basic knowledge on medicinal herbs.
k) Processing of locally available sugar, salt (sodium chloride) and ethanol to pharmaceutical grades for use as inputs by pharmaceutical industries.
2.5.13.10.1 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.

2.6 Investment incentives

1) Kenya has no generalized incentives schemes governed by an industrial development law. Certain fiscal incentives may be available on a case-by-case basis.

2) Pursuant to this, the Government has designed suitable incentive packages and export Promotion programmes such as Manufacturing Under Bond (MUB), Export Promotion Zones (EPZs), both of which enjoy such privileges as tax holidays, exemption from duty on machinery, raw materials and intermediate inputs as well as removal of restrictions on foreign capital repatriation.

3) In addition, Kenya has been designated as a beneficiary sub-Saharan African country to benefit from Africa Growth and Opportunity Act (AGOA). Under the AGOA initiative, Kenya’s manufactured products enjoy duty free market access into US market. The Government has put in place measures to take full advantage of this arrangement. Both foreign and local investors are encouraged to channel their resources towards the production of textile, leather, horticulture, fish, rubber, iron and steel products which can benefit under the AGOA scheme.

4) Kenya offers numerous investment opportunities in, agro-processing, agro-chemicals, chemicals, pharmaceutical, mining and mineral processing and metallurgy, engineering and construction industry.