



Ministry of Investments, Trade and Industry
State Department for Industry



REPORT

**ON THE STATUS OF
MANUFACTURING IN
NAIROBI CITY COUNTY**

Presented to: The
Principal Secretary
| State Department
For Industry

JUNE 2025



MINISTRY OF INVESTMENTS TRADE AND INDUSTRY
STATE DEPARTMENT FOR INDUSTRY



Ministry of Investments, Trade and Industry
State Department for Industry



MINISTRY OF CO-OPERATIVES AND MICRO,
SMALL AND MEDIUM ENTERPRISES (MSMEs)
DEVELOPMENT

REPORT ON THE STATUS OF MANUFACTURING IN NAIROBI CITY COUNTY

MINISTRY OF INVESTMENTS TRADE AND INDUSTRY
STATE DEPARTMENT FOR INDUSTRY
KENYA INDUSTRY ENTREPRENEURSHIP PROJECT
(KIE-KIEP)
(CREDIT NO. 6268-KE)

JUNE 2025



THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP





Published by:

State Department for Industry,
Social Security House,
Block A,
P.O BOX 30418 – 00200,
Nairobi, Kenya

-  **Tel:** +254 20-2731531
-  **Email:** info@industrialization.go.ke ps@industrialization.go.ke
-  **Facebook:** Industrialization KE
-  **X:** @IndustryKE
-  **WhatsApp Channel:** Industry Kenya
-  **Website:** www.industrialization.go.ke

Published 2025

ISBN: 978-9914-9650-9-4 (print)

Report on the Status of Manufacturing In Nairobi City County - June 2025 was implemented by the State Department for Industry (SDI) in collaboration with Kenya Industrial Estates and Kenya National Bureau of Statistics (KNBS),

Additional information about the report may be obtained from Kenya National Bureau of Statistics (KNBS), P.O. Box 30266-00100, GPO Nairobi, Kenya; telephone: + Tel: +254-20-3317583, +254-20-2911000/1, +254-20-3317612/22/23/51; email: directorgeneral@knbs.or.ke, info@knbs.or.ke, library@knbs.or.ke; website: www.knbs.or.ke.

© 2025 State Department for Industry



Some rights reserved.

This work is made available under the Attribution-Non-commercial 4.0 International (CC BY-NC 4.0) available at <https://creativecommons.org/licenses/by-nc/4.0/> This license allows reusers to distribute, remix, adapt, and build upon the material in any medium or format for non-commercial purposes only so long as the work is appropriately cited and attribution is given to the creator.

Image source: Istock © 2025 accessed via www.istockphoto.com

Recommended citation: State Department for Industry.2025. Report on the Status of Manufacturing In Nairobi City County - June 2025.Nairobi, Kenya.

PREFACE



This assessment report on manufacturing opportunities for industrial growth in Nairobi County emerges from a shared aspiration to foster sustainable economic development, generate employment, and position Nairobi as a regional hub for industrial innovation. The dynamic shifts in global production, regional trade, and urbanization patterns underscore the urgency of reimagining Nairobi's manufacturing potential in ways that are both inclusive and forward-looking.

The objective of this study is to provide a comprehensive overview of the current manufacturing landscape within Nairobi County, while identifying high-impact opportunities across priority sectors. The report draws on data analysis, stakeholder consultations, and sectoral reviews to chart out pathways for industrial expansion that align with Nairobi's comparative advantages and future development goals.

This initiative is grounded in the understanding that manufacturing is not merely a sector—it is an enabler of value addition, skill formation, and economic diversification. Nairobi's centrality in Kenya's innovation ecosystem, proximity to regional markets, and a growing population of talented youth provide a strong foundation upon which to build a resilient and globally competitive manufacturing base.

The findings contained in this report are intended to support policymakers, investors, development partners, and local industry players with strategic insights and practical recommendations. Whether through expanding agro-processing capacity, supporting green manufacturing, fostering enterprise zones, or leveraging digital technologies, this report seeks to illuminate actionable opportunities that will drive Nairobi's industrial agenda forward.

We extend our gratitude to all contributors who shared their expertise and perspectives, enabling a holistic and impactful assessment. It is our hope that this report inspires bold, collaborative action to unlock the full industrial promise of Nairobi County.

A stylized, handwritten signature in blue ink, appearing to read 'Erastus Gatebe'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**Prof. Erastus Gatebe, PhD, MBS
INDUSTRIALIZATION SECRETARY,
STATE DEPARTMENT FOR INDUSTRY**



ACKNOWLEDGEMENT

The successful completion of this assessment report on manufacturing opportunities for industrial growth in Nairobi County is the result of the collective effort, insights, and commitment of numerous stakeholders. It is with deep appreciation that we recognize the individuals and institutions who made this undertaking possible.

First and foremost, we extend our sincere gratitude to the leadership of Nairobi County Government for their vision, guidance, and unwavering support throughout the development of this report. Their recognition of manufacturing as a strategic driver for economic transformation was instrumental in shaping the scope and direction of this study.

We also acknowledge the invaluable contributions of the technical teams and sector specialists who provided rigorous analysis, data interpretation, and contextual insights. Their dedication to delivering a high-quality, evidence-based report has ensured that the findings and recommendations reflect both current realities and future possibilities.

Our appreciation goes to the representatives from industry, academia, development partners, and civil society organizations who participated in consultations, shared experiences, and offered constructive feedback. Their diverse perspectives helped enrich the report and ground it in practical, stakeholder-driven priorities.

Special thanks are due to the research and coordination team whose tireless efforts-through data collection, stakeholder engagement, and content development-ensured the timely delivery of this comprehensive assessment.

Lastly, we recognize the citizens and entrepreneurs of Nairobi County whose innovation, resilience, and drive continue to shape the city's industrial identity. It is our hope that this report will serve their aspirations and contribute meaningfully to a more inclusive and prosperous manufacturing sector.

To all who contributed in ways big and small, we express our heartfelt thanks.

CPA Charles Mativo
Ag. MANAGING DIRECTOR
KENYA INDUSTRIAL ESTATES

TABLE OF CONTENTS

PREFACE	05
ACKNOWLEDGEMENT	06
LIST OF TABLES	08
LIST OF FIGURES	08
ABBREVIATIONS AND ACRONYMS	09
GLOSSARY	11
EXECUTIVE SUMMARY	12
 1.0 STATUS OF MANUFACTURING IN NAIROBI CITY COUNTY	 15
1.0 INTRODUCTION	15
1.1 OBJECTIVE OF THE REPORT	15
 2.0 HISTORICAL OVERVIEW OF THE MANUFACTURING SECTOR IN KENYA	 17
 3.0 INDUSTRIAL MAPPING FINDINGS	 19
3.1. Establishment Profile	19
3.2. Production Profile	20
3.3. Raw Material Sourcing	21
3.4. Employment Profile	22
3.5. Capacity Utilisation	22
3.6. Energy and Utility Usage	23
 4.0 MANUFACTURING SECTOR TRENDS	 25
4.1 Regional Concentration	25
4.2 Export Performance & Trade Integration	25
4.3 Technology Adoption & Automation	25
4.4 MSME and Informal Sector Integration	26
4.5 Green Manufacturing & Sustainability	26
4.6 Energy Cost & Competitiveness	26
4.7 Skills Development & Workforce Readiness	28
4.8 Access to Finance & Non-Performing Loans (NPLs)	29
4.9 Regulatory Environment & Taxation	31
4.10 Gender Inclusion	31
 5.0 GOVERNMENT-LED INITIATIVES	 33
5.1 Policy and Regulatory Support	33
5.2 Skills Development and Innovation	34
5.3 Infrastructure and Energy	35
5.4 Trade Facilitation and Export Development	35
 6.0 CHALLENGES AND OPPORTUNITIES FOR SECTORAL GROWTH	 37
 7.0 POLICY RECOMMENDATIONS FOR GROWTH WITHIN MANUFACTURING SECTOR IN NAIROBI COUNTY	 39
 8.0 RESETTING THE MANUFACTURING SECTOR IN NAIROBI COUNTY	 41
CONCLUSION	43
REFERENCES	43



LIST OF TABLES

Table 1: Domestic Tax Contribution by Manufacturers in Kenya (January 2023 – January 2024) (KES Million)	31
Table 2: Competitive Analysis of Railway Development Levy (RDL) and Import Declaration Fee (IDF) on Imports	31

LIST OF FIGURES

Figure 1: Electricity Prices for Selected Countries, December 2024 (kWh, US\$)	27
Figure 2: Diesel Prices for selected countries, February 2025 (Litre/US\$)	27
Figure 3: Credit Advanced to the Manufacturing Sector by Commercial Banks and Other Financial Institutions (KES Billion)	29
Figure 4: Gross Non-Performing Loans Advanced to the Manufacturing Sector (2018–2023) (KES Million)	29

ACRONYMS AND ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AfDB	The African Development Fund
AGOA	African Growth and Opportunity Act
BETA	Bottom-Up Economic Transformation Agenda
BRTU	Business Reforms and Transformation Unit
CAIPs	County Aggregation and Industrial Parks
CEEC	Centre For Energy Efficiency and Conservation
CIDC	Constituency Industrial Development Centre
COMESA	Common Market for Eastern and Southern Africa
DFIs	Development Finance Institutions
EAC	East Africa Community
EPZ	Export processing Zone
EPZA	Export Processing Zones Authority
EVS	Electric Vehicles
FMCG	Fast-Moving Consumer Goods
FSC	Forest Stewardship Council
GIZ	German Corporation for International Cooperation
ICD	Inland Container Depot
ICT	Information Communication Technology
IDA	International Development Association
IDF	Import Declaration Fee
ISO	International Organization for Standardization
KAM	Kenya Association of Manufacturers
KDC	Kenya Development Corporation
KEBS	Kenya Bureau of Standards
KEPSA	Kenya Private Sector Alliance
KENIA	Kenya National Innovation Agency
KENINVEST	Kenya Investment Authority
KEPROBA	Kenya Export Promotion and Branding Agency
KIE	Kenya Industrial Estates



KIEP	Kenya Industry and Entrepreneurship Project
KIPI	Kenya Industrial Property Institute
KIRDI	Kenya Industrial Research and Development Institute
KITP	Kenya Industrial Transformation Programme
KITI	Kenya Industrial Training Institute
KNBS	Kenya National Bureau of Statistics
KNCCI	Kenya National Chamber of Commerce and Industry
KYEOP	Kenya Youth Employment and Opportunities Project
MFIs	Microfinance Institutions
MSEA	Micro and Small Enterprises Authority
MSMES	Micro, Small and Medium-Sized Enterprises
MSMIS	Micro, Small and Medium-Sized Industries
NCIDP	Nairobi County Integrated Development Plan
NIMP	Nairobi Industrial Master Plan
NPLs	Non Performing Loans
PPEs	Personal Protective Equipment
PPPs	Public-Private Partnerships
R&D	Research and Development
RDL	Railway Development Levy
SADC	Southern African Development Community
SDI	State Department for Industry
SEZS	Special Economic Zones
SEZS	Special Economic Zones Authority
SGR	Standard Gauge Railway
SMES	Small and Medium Enterprises
SMIS	Small and Medium Industries
TVET	Technical and Vocational Education and Training
UNIDO	United Nations Industrial Development Organisation
USP	Urban Support Program
WB	World Bank

GLOSSARY

Term	Definition
Agro-processing	The transformation of agricultural products into semi-finished or finished goods, such as packaged food, beverages, and dairy products.
AfCFTA (African Continental Free Trade Area)	A trade agreement among African Union member states aimed at creating a single continental market for goods and services.
Bottom-Up Economic Transformation Agenda (BETA)	Kenya's national strategy focused on empowering MSMEs and decentralizing economic growth.
Circular Economy	A model that emphasizes reusing, recycling, and regenerating materials to create a closed-loop system, minimizing waste.
Export Processing Zones (EPZs)	Designated areas that offer incentives to export-oriented manufacturers, including tax exemptions and infrastructure support.
Fast-Moving Consumer Goods (FMCG)	Products that are sold quickly and at relatively low cost, such as food, beverages, and household supplies.
Green Manufacturing	Environmentally friendly production processes that reduce waste, emissions, and energy use.
Industry 4.0	The integration of digital technologies like IoT, AI, and robotics into manufacturing processes.
Jua Kali	A Swahili term referring to Kenya's informal sector artisans and small-scale manufacturers, often operating in open-air workshops.
Kenya Industrial Estates (KIE)	A state corporation that provides MSMEs with access to workspace, credit, and business advisory services.
Micro, Small, and Medium Enterprises (MSMEs)	Businesses that fall below certain thresholds in terms of employees, turnover, and capital investment.
Nairobi Industrial Master Plan (NIMP)	A proposed framework for structured industrial development and spatial planning within Nairobi County.
Special Economic Zones (SEZs)	Geographic zones designated to attract investment through tax and regulatory incentives focused on manufacturing and export.
Value Chain	The full range of activities involved in producing and delivering a product or service, from raw material to end consumer.



EXECUTIVE SUMMARY

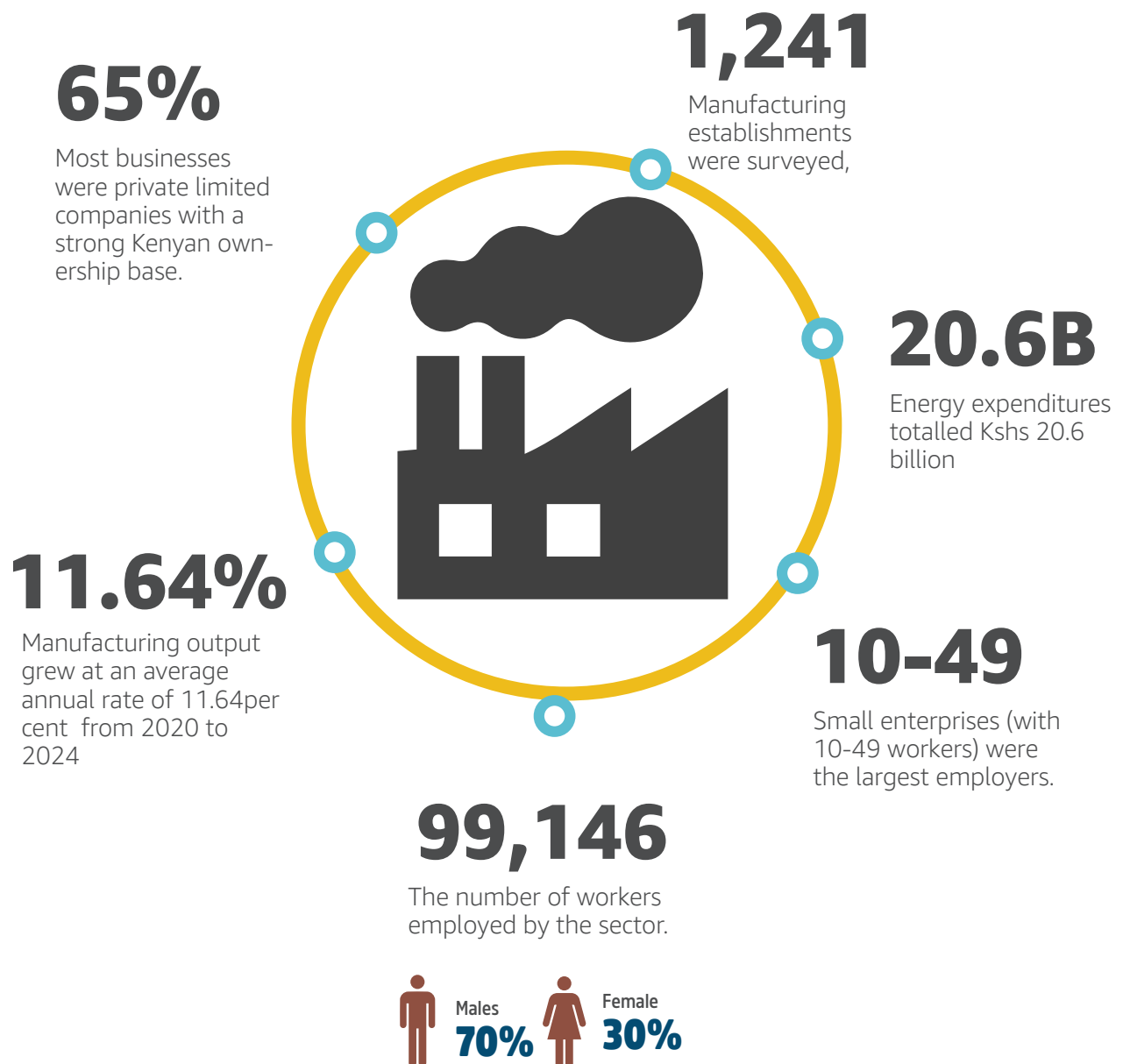
This report presents a situational analysis of the manufacturing sector in Nairobi City County, drawing insights from establishment-level data across production, employment, raw material sourcing, capacity utilization, and energy consumption. Among the four sectors covered under the Nairobi industry mapping exercise, namely: Manufac-

turing, Mining and Quarrying, Electricity, gas, steam, and air condition supply, Water supply; sewerage, waste management and remediation services, - manufacturing was by far the most significant, contributing nearly one-third of Kenya's overall manufacturing output. This underlines Nairobi's importance as the epicentre of Kenya's industrial transformation.

Key Highlights from the Industrial Mapping Exercise:

- **Establishment Profile:** A total of 1,241 manufacturing establishments were surveyed, with a concentration in Starehe, Kasarani, and Lang'ata sub-counties. Most businesses were private limited companies with a strong Kenyan ownership base of 65 per cent.
- **Employment Dynamics:** The sector employed 99,146 workers, with males constituting 70 per cent and females 30 per cent. Small enterprises (with 10-49 workers) were the largest employers. Notably, gender inclusion was observed in sub-sectors such as jewellery, electric lighting, and fertilizer production.
- **Production Profile:** Key contributors included textiles, footwear, chemicals, detergents, and basic iron and steel within the non-food sector. Within the food manufacturing category, bakery products, grain milling, and dairy processing emerged as the leading sub-sectors, collectively supporting essential urban food supply chains.
- **Raw Material Sourcing:** Heavy reliance on imports was noted in sub-sectors like motor vehicles and pharmaceuticals. However, sectors like dairy, cocoa, and apparel achieved full local sourcing, highlighting opportunities to build local supply chains.
- **Capacity Utilization:** Challenges such as high taxation, utility costs, and raw material prices hindered optimal operations. Some sub-sectors operated below capacity due to demand and infrastructure constraints.
- **Energy and Utilities:** Energy expenditures totalled Kshs 20.6 billion, led by KPLC electricity and diesel. Satisfaction levels were high for charcoal, LPG, and solar energy but moderate to low for electricity and petroleum-based fuels.
- **Sector Trends:** Manufacturing output grew at an average annual rate of 11.64 per cent from 2020 to 2024, though its GDP contribution slightly dropped to 7.3 per cent in 2024, suggesting slower growth relative to other sectors.
- **Global Competitiveness:** Kenyan manufacturers face higher electricity and financing costs than regional peers. Non-performing loans rose significantly, from Kshs 6.81 billion in 2019 to Kshs 129.5 billion in 2024, partly due to post-COVID disruptions and global monetary tightening.

Key Highlights



STATUS OF MANUFACTURING IN
NAIROBI CITY COUNTY



Chapter

01.

STATUS OF MANUFACTURING IN NAIROBI CITY COUNTY

1.0 INTRODUCTION

The manufacturing sector in Kenya is considered to be an important driver of economic growth and development in the country. It contributes significantly to employment creation, export earnings, and value addition to raw materials. In recent years, the manufacturing sector in Kenya has faced some challenges, however, there have been efforts by the Kenyan government and other stakeholders to support the manufacturing sector and address these challenges. These efforts include the development of industrial parks, promotion of export processing zones, provision of tax incentives, and implementation of policies to promote local content and value addition. Despite the challenges, the manufacturing sector in Kenya has shown some positive trends, with increased investments in certain sub-sectors such as food processing, textiles and apparel, and construction materials. There has also been a growing focus on innovation and technology adoption to improve productivity and competitiveness.

Manufacturing remains a central pillar of Nairobi City County's economic identity and plays a vital role in Kenya's broader industrial transformation agenda. As the country charts its path toward industrialization through Vision 2030 and the Bottom-Up Economic Transformation Agenda (BETA), Nairobi emerges as a strategic hub of manufacturing activity and innovation.

The city contributes approximately one-third of Kenya's total manufacturing output, underscoring its significance as a national industrial hub. Its manufacturing ecosystem is diverse-spanning formal and informal enterprises, a mix of local and foreign investments, and a wide spectrum of sectors from food processing to heavy industry.

The purpose of this report is to provide a comprehensive, evidence-based analysis of the current status of the manufacturing sector in Nairobi City County. By assessing the sector's structural characteristics, performance indicators, constraints, and emerging opportunities, the report aims to inform policy formulation, investment prioritization, and industrial development planning.

Given Nairobi's critical share in national output, any strategic interventions in its manufacturing space have wide-reaching implications-for employment, enterprise growth, innovation diffusion, and regional value chain development. This report therefore establishes a credible foundation for government, industry stakeholders, and development partners to align their efforts toward a more competitive, inclusive, and sustainable manufacturing sector in Nairobi and beyond.

1.1 OBJECTIVE OF THE REPORT

The report seeks to provide a comprehensive overview of the status of manufacturing in Nairobi City County. It highlights the following:

- i. Distribution and characteristics of manufacturing establishments;
- ii. Employment patterns and gender representation;
- iii. Production trends and raw material sourcing;
- iv. Capacity utilization and energy consumption;
- v. Challenges and opportunities for sectoral growth; and
- vi. Policy recommendations to improve productivity, competitiveness, and inclusivity.



Chapter

02.

2.0 HISTORICAL OVERVIEW OF THE MANUFACTURING SECTOR IN KENYA

The manufacturing sector in Kenya has evolved significantly since independence, shaping its role as a critical pillar of industrialization and economic development. During the post-independence era (1960s-1980s), Kenya adopted an Import Substitution Industrialization (ISI) Strategy aimed at reducing dependence on foreign goods. This period saw the growth of agro-processing, textile and garment industries, and public-sector-driven industrial expansion through state-owned enterprises such as Kenya Industrial Estates (KIE) and the Development Finance Corporation of Kenya (DFCK).

In the 1990s, structural adjustment programs (SAPs) and liberalization policies shifted the landscape. Many state-owned industries were privatized or collapsed under the weight of liberalized markets, leading to increased exposure to global competition. The dominance of informal and small-scale manufacturing began to take root during this time, with limited technological upgrading or capital investments.

The 2000s ushered in renewed interest in manufacturing through Kenya's Vision 2030. The sector is anchored on the Economic Pillar of the Vision 2030. It is a growth accelerator that culminates in poverty reduction in countries with rapid industrialization. It has the potential to create jobs both directly and indirectly through backward and forward linkages with agriculture, construction, trade and other sectors of the economy.

During the first three years (between 2018-2020) of the Third Medium Term Plan, the sector contributed an average of 8 per cent to GDP before drastically declining in the latter phase of the plan due to COVID-19 pandemic. The sector created an average of one million additional jobs per annum in both formal and informal sectors driven by some industrial sub-sectors that had high growth which included; agro-processing; packaging materials; pharmaceuticals, cement, building and

construction materials, and textile and apparels. Subsequently, policy instruments such as the National Industrialization Policy (2010) and the Special Economic Zones (SEZ) Act (2015) which aimed to spur competitiveness, infrastructure development, and foreign direct investment were developed.

Recently, under the Big Four Agenda (2018-2022) and the ongoing Bottom-Up Economic Transformation Agenda (BETA), manufacturing has been prioritized as a core growth sector. Strategic focus areas have included: construction of industrial parks in all the forty seven (47) Counties; affordable energy; MSME upgrading; and improving the ease of doing business. Over the past years, the sector's share of contribution to GDP has dropped significantly from 11.08 per cent recorded in 2011 to 7.3 per cent recorded in 2024 (Economic Survey, 2025). The sector's output expanded by 4.4 per cent in 2024 up from a growth of 2.1 per cent in 2023, mainly fueled by the manufacture of food products. The sector has continued to face persistent challenges such as high input costs, limited access to finance, weak value chains, and infrastructural constraints. However, recent efforts under the Kenya Association of Manufacturers' Manufacturing Priority Agenda (MPA) 2025 and World Bank supported initiatives such as KIEP aim to reverse stagnation and modernize Kenya's manufacturing ecosystem.

Further, Kenya has put in place diverse mechanisms to support the growth of the manufacturing sector, as outlined in BETA. These include: prioritizing manufacturing growth to 20 per cent of Kenya's GDP by 2030; adopting Kenya's export-led growth strategy; implementing the Buy Kenya Build Kenya strategy; identifying priority value chains for specific interventions; and accelerating the ratification of key trade agreements. Kenya has continued to have open communication channels with the manufacturing sector. This is geared towards revamping the manufacturing sector as well as drive competitiveness and growth of local industries through the value chain approach.



Chapter

03.

3.0 INDUSTRIAL MAPPING FINDINGS

The exercise was conducted in the eleven sub-counties within Nairobi County with the primary objective of developing a database and directory of industries, purposely for policy formulation & promotion of industrial growth and development. The key findings are presented below:

3.1 Distribution And Establishment Profile

Nairobi County serves as Kenya's industrial heartbeat, hosting a diverse array of manufacturing establishments that span formal enterprises, SMEs, and informal sector players. The spatial distribution of these establishments is largely concentrated in key industrial zones such as Industrial Area, Baba Dogo, Ruaraka, and Embakasi, with emerging clusters in satellite towns like Athi River and Syokimau. These zones benefit from proximity to transport infrastructure, access to skilled labor, and relatively better utility services.

The manufacturing landscape in Nairobi is characterized by: sectoral diversity where dominant industries include food and beverage processing, textiles and apparel, plastics, pharmaceuticals, and metal fabrication. Fast-moving consumer goods (FMCG) producers and agro-processing firms are particularly prominent; enterprise composition interms in which a few large formal firms anchor the sector but the small and medium-sized enterprises (SMEs) form the backbone of manufacturing activity and also plays a significant role, especially in value addition and employment generation; many firms demonstrate adaptive strategies such as product innovation, flexible production systems, and niche market targeting; and manufacturing contributes significantly to employment, especially for youth and women, and supports urban livelihoods through forward and backward linkages in supply chains.

This dynamic ecosystem reflects Nairobi's potential to drive inclusive industrial growth, provided that enabling policies, infrastructure upgrades, and targeted support for SMEs and informal manufacturers are prioritized.

From the mapping exercise that had been conducted, 1,241 establishments show a high concentration in:

- » Starehe (38.2per cent)
- » Kasarani (16.5per cent)
- » Lang'ata (13.9per cent)

Ownership Structures:

- » 70.7 per cent are Private Limited Companies
- » 16.9 per cent are Sole Proprietorships
- » 8.9 per cent are Partnerships
- » 3.5 per cent other categories including public limited companies and parastatals

Ownership by nationality:

- » 65 per cent are Kenyan owned
- » 34.7 per cent are owned by Non-citizens
- » 0.3 per cent are Government-owned

Number of years in operation:

- » 62.7per cent have operated for over 10 years
- » 17.6per cent have operated between 6 and 10 years
- » 10.5per cent have operated between 1 and 3 years

The number of new entrants in the sector within the



last three years, depicts a manufacturing sector that has opportunities for growth and investment.

Association Membership:

- » 51.97 per cent of the establishments belong to the Kenya Association of Manufacturers (KAM)
- » 16.45 per cent of the establishments belong to the Federation of Kenyan Employers (FKE)
- » 6.05 per cent of the establishments belong to the in Kenya National Chamber of Commerce and Industry (KNCCI)
- » 5.79 per cent of the establishments belong to the Kenya Private Sector Alliance (KEPSA)
- » 47.58 per cent of the establishments are affiliated with at least one industry association.

3.2 Production Profile

The manufacturing output in Nairobi City County demonstrates a well-diversified structure, spanning across both food and non-food sub-sectors. The sector exhibits significant production capacity in high-consumption goods, indicating the city's role as a production and supply hub not only for the capital but also for the national economy.

Food processing in Nairobi supports critical value chains in urban consumption and agribusiness. The leading sub-sectors within this category include:

- » **Bakery Products** - With over 4.1 million metric tons, this sub-sector alone constitutes over 50 per cent of Nairobi's food manufacturing output, catering to daily urban demand.
- » **Grain Milling** - Contributing 858,088 MT, it plays a vital role in flour and cereal production, constituting roughly 10.3 per cent of food sector output.
- » **Dairy Products** - Processed volume exceeded 239 million litres, accounting for approximately 27.7 per cent of food manufacturing by volume.
- » **Meat Processing** - With 116,519 MT, it contributes about 1.4 per cent, supporting protein needs for urban populations.
- » **Animal Feeds** - At 260,804 MT, it supports livestock and poultry sectors, especially in peri-urban zones.

- » **Soft Drinks and Bottled Water** - Production of 341 million litres, comprising nearly 4 per cent of the food sub-sector.

- » **Vegetable Oils & Fats, Spirits, and Malt Liquors** - These contribute the remaining 6.6 per cent reflecting diversified food and beverage production.

These figures suggest that the food manufacturing industry in Nairobi remains essential in ensuring food security, supporting upstream agriculture, and sustaining urban consumption.

Non-food manufacturing dominates Nairobi's industrial profile, spanning light manufacturing, chemicals, building materials, and consumer goods. Key highlights include:

- » **Textiles and Apparel:**

- o Made-up Textile Articles (70 million pieces) lead the textile category, forming about 23.7 per cent of non-food manufacturing by item count.
- o Textile Fibre Spinning contributed over 1.27 million kg, and leather processing covered over 1.8 million square feet, with footwear production reaching 15.3 million units - collectively contributing 17.2 per cent to non-food production.

- » **Chemicals and Detergents:**

- o Paints, Varnishes, and Inks: 36 million litres produced, contributing 12.2 per cent to non-food manufacturing.
- o Soap, Detergents & Cosmetics: 123,853 MT, accounting for 10.4 per cent of volume-based output.

- » **Construction Inputs:**

- o Basic Iron and Steel production stood at 372,475 MT, comprising 10.2 per cent of total non-food production.
- o Plastics and Glass Products together added over 73,000 MT, representing 4.3 per cent

- » **Tobacco Products:** 7.4 billion sticks (milles), forming 6.7 per cent of the sector.

These sub-sectors provide essential inputs for Kenya's infrastructure, urban housing, transport, packaging, and sanitation needs.



3.3 Raw Material Sourcing

Raw material sourcing in Nairobi County reflects a dynamic interplay between local availability, regional trade, and global supply chains. Manufacturing establishments—ranging from large formal firms to SMEs and informal producers—adopt varied sourcing strategies based on sectoral needs, cost efficiency, and supply reliability. Key characteristics on material sourcing include:

- » **Local Sourcing Trends:** There is a growing shift toward domestic procurement, especially among FMCG giants like Unilever Kenya, which aims to source up to 70% of its raw materials locally by 2025. This trend is driven by supply chain disruptions, cost pressures, and policy incentives promoting local resilience.
- » **Sector-Specific Inputs:**
 - o Agro-processing firms rely heavily on Kenyan agricultural produce such as maize, sugarcane, and horticultural crops.
 - o Chemical and plastics manufacturers source bulk inputs from suppliers like Reucher Africa Kenya Limited and FADA Energy Chemical Company, which offer industrial chemicals, petrochemicals, and plastic resins.
 - o Textile and apparel industries often blend local cotton with imported synthetic fibers.
- » **Import Dependency:** Despite efforts to localize, many manufacturers still depend on imported raw materials—especially for specialized inputs like pharmaceu-

tical ingredients, high-grade metals, and advanced polymers.

- » **Supply Chain Challenges:** Manufacturers face hurdles such as fluctuating global prices, logistical bottlenecks, and inconsistent quality standards. These challenges have spurred interest in backward integration and strategic warehousing.
- » **Policy and Infrastructure Influence:** Proximity to transport corridors like Mombasa Road and access to bonded warehouses in Nairobi enhance sourcing efficiency. Government initiatives under the Kenya Industrial Transformation Programme (KITP) also encourage local value chain development.

In essence, raw material sourcing in Nairobi's manufacturing sector is evolving toward greater localization, supported by strategic partnerships and infrastructure upgrades. This shift holds promise for industrial competitiveness and inclusive economic growth. The sourcing of raw materials plays a critical role in cost and sustainability. Nairobi manufacturers in some sub-sectors rely heavily on imported raw materials, particularly:

- » Motor vehicles & trailers: 76.98 per cent importation of raw material
- » Imitation jewellery 72.31 per cent
- » Pharmaceuticals 62.28 per cent
- » Electrical Equipment 61.32 per cent



In contrast, some sub-sectors source nearly all raw materials locally, including:

- » **Dairy Produce, Cocoa, Fish, Apparel:** 100 per cent local sourcing
- » **Milling products:** 88.1 per cent are sourced locally
- » **Meat and vegetables:** 86 per cent are sourced locally

This highlights both dependency risks for certain industries and opportunities to boost local value chains

3.4. Employment Profile

3.4.1 Overview of Employment in the Manufacturing Sector

The manufacturing sector is a significant employer in Kenya, providing jobs for thousands of people. According to data from the Kenya National Bureau of Statistics (2021), the number of persons in formal manufacturing employment increased by 6.7 per cent from 316,900 thousand in 2020 to 338,000 thousand in 2021.

- » **Employment by sub-sector:** The manufacturing sector in Kenya is composed of several sub-sectors, with food and beverage being the largest employer. In 2020, the food and beverage sub-sector employed approximately 167,000 people, while the textiles and clothing sub-sector employed about 36,000 people.
- » **Gender distribution:** The manufacturing sector in Kenya is predominantly male-dominated. In 2020, approximately 76% of the total employees in the sector were male, while only 24% were female.
- » **Youth employment:** The manufacturing sector in Kenya has also been a significant employer of young people. In 2020, approximately 48% of the total employees in the sector were aged between 20-34 years.
- » **Formal and informal employment:** The majority of employment in the manufacturing sector in Kenya is informal, with only a small percentage of workers being formally employed. In 2020, approximately 78% of the total employees in the sector were engaged in informal employment, while only 22% were in formal employment.

3.4.2 Employment Profile in Nairobi County

Nairobi City County continues to anchor Kenya's manufacturing workforce, employing 99,146 workers, 70 per cent male (69,039) and 30 per cent female (30,107). While male dominance remains evident, several sub-sectors are exhib-

iting increased female participation. Enterprise Size Distribution revealed that small enterprises (10-49 employees) account for the highest share of employment at 39.6 per cent, followed by large enterprises (100+ employees) at 26.8 per cent. Micro-enterprises (<10 employees) and medium enterprises (50-99) account for 22.2 per cent and 11.4 per cent respectively. This underscores the pivotal role of small-scale industries in job creation.

Gender Representation by Sub-sector showed that traditionally male-dominated areas such as footwear (95.8 per cent male) and machinery (93 per cent male) contrast sharply with female-majority sub-sectors such as jewellery (88.5 per cent female), fertilizer production (71.8 per cent), and electric lighting equipment (70.5 per cent). These findings indicate opportunities for targeted gender-responsive policies, especially in emerging and light manufacturing segments.

In terms of employment by sub-county, Starehe leads as the county's manufacturing employment hub, with an average of 31.3 per cent, 32.9 per cent male and 27.7 per cent female representation. Kasarani and Westlands show higher proportions of female employment, hinting at a shift toward inclusivity in new industrial clusters.

These statistics show that while the manufacturing sector in Kenya and in particularly Nairobi County is a significant employer, there is a need to address issues such as gender imbalance and informal employment.

3.5. Capacity Utilisation

On capacity utilization, we are looking into the extent to which a manufacturing firm uses its installed production capacity. High utilization suggests efficient operations, while low utilization may indicate underperformance or systemic constraints. Nairobi County, as Kenya's industrial hub, hosts a diverse array of manufacturing firms from large-scale enterprises to SMEs. However, capacity utilization across the sector During the survey on mapping of industries, the following key observations were made: remains suboptimal, with many firms operating below 60–70% of their installed capacity.

- » SMEs dominate the landscape, comprising over 90% of manufacturing firms.
- » Underutilization is widespread, especially among small and medium enterprises.
- » Sectoral variation do exist e.g. food processing and construction materials tend to have higher utilization than textiles or electronics.

- » During the conversation with the industry players, the team also noted that the Manufacturing establishments face various obstacles that hinder optimal production. The most cited challenges for underutilization included:
- » **High Operating Costs:** energy tariffs, logistics inefficiencies, and regulatory burdens inflate production costs.
 - o High taxation and levies - 74.81 per cent
 - o High utility costs - 62.9 per cent
 - o High cost of raw materials - 58.93 per cent
 - o Power supply breakdowns - 45.19 per cent
- » Market Access & Competition causing Insufficient domestic demand - 53.44 per cent where the local manufacturers face stiff competition from imports, especially in consumer goods and limited export channels constrain growth beyond domestic demand.
- » **Policy and Infrastructure Gaps:** inconsistent policy implementation and inadequate industrial infrastructure (e.g., roads, water, power) affect production continuity.
- » **Skills Mismatch:** a shortage of technically skilled labour affects productivity and equipment handling.
- » Shortage/cost of credit - 44.89 per cent that has been affected by lack of access to adequate finance

At the activity level, specific sub-sectors such as metal fabrication, textile machinery, concrete products, and confectionery reported non-optimal operations. Conversely, activities like tea processing, motor vehicle assembly, and domestic appliance manufacturing showed high optimal operation rates. Some Sub sectors had mixed responses. For example:

- » **Bakery products:** 62.7 per cent not at optimal
- » **Dairy products:** 66.7 per cent not at optimal
- » **Fruit & vegetable processing:** 57.9 per cent not at optimal

These patterns point to sector-specific constraints and varying operational efficiencies across the board. Capacity utilization in Nairobi County's manufacturing sector reflects both the potential and constraints of Kenya's industrial landscape. While the sector is vibrant and diverse, underutilization remains a barrier to inclusive growth and competitiveness. Addressing structural challenges—through innovation, policy reform, and strategic investment—can unlock higher productivity and position Nairobi as a regional manufacturing powerhouse.

3.6. Energy And Utility Usage

One of the biggest energy consumers in Kenya is the manufacturing sector. The sector is a key engine of growth as it harbors high productivity economic activities. In devising her development plan, Kenya has envisioned a specifically central role for this sector. Given the significance of the manufacturing sector both in its impact on the economy's performance and in energy consumption, the need for energy efficiency has gained prominence. The International Energy Agency (IEA) provides that energy efficiency is the best cost-effective measure to handle energy use concerns (IEA, 2014). Energy efficiency entails the use of fewer amounts of energy in production without reducing output (Lundgren et al., 2016). The manufacturing sector in Nairobi County is one of the highest energy-consuming segments of Kenya's economy. It accounts for over 50% of national electricity consumption and approximately 12% of fuel usage, second only to the transport sector.

Energy is a major input for Nairobi's manufacturing establishments, with total energy-related expenditures reaching Kshs 20.6 billion. Top utility expenditures:

- » **Electricity (KPLC):** Kshs 13.3 billion (550M kWh consumed)
- » **Diesel:** Kshs 3.8 billion (22.4M litres consumed)
- » **LPG Gas:** Kshs 953M
- » **Kerosene:** Kshs 556M
- » **Petrol:** Kshs 497M

Electricity from solar, wind, and biogas also featured but at much smaller scales.

Energy Satisfaction Levels:

- » **High:** Charcoal 85.7 per cent, LPG 69.8 per cent, Solar 65.3 per cent
- » **Moderate:** Diesel 53.8 per cent, Petrol 51.2 per cent
- » **Low:** KPLC electricity 42 per cent

The usage versus capacity analysis also revealed significant underutilization, especially for LPG and diesel, indicating room for operational scale-up if barriers are addressed. Energy and utility usage in Nairobi County's manufacturing sector is both a challenge and an opportunity. While consumption continues to rise, inefficiencies persist, especially among SMEs. Strategic investments in technology, policy reforms, and capacity building can unlock significant savings, enhance competitiveness, and support Kenya's broader industrialization goals.



Chapter

04.

4.0. MANUFACTURING SECTOR TRENDS

The manufacturing sector in Nairobi has demonstrated steady growth over recent years, with the national manufacturing output reaching KES 3.69 trillion in 2024. From 2020 to 2024, the sector recorded a Compound Annual Growth Rate (CAGR) of approximately 11.64 per cent. However, its contribution to GDP declined slightly from 7.5 per cent in 2023 to 7.3 per cent in 2024 (Economic Survey, 2025), suggesting that while the sector is expanding in absolute terms, it is growing at a slower pace compared to other sectors of the economy. Several underlying trends and structural dynamics are shaping the trajectory of the manufacturing industry in Nairobi and nationally. These trends, along with emerging opportunities and risks, require close attention from policymakers, investors, and sector stakeholders;

4.1 Regional Concentration

Nairobi consistently contributes around 36.9 per cent of total manufacturing GDP, dwarfing Mombasa at 9.6 per cent and Kiambu at 8.4 per cent (Gross County Product Report, 2023). The over-concentration threatens balanced regional development. Strengthening manufacturing hubs in Kisumu, Eldoret, and Mombasa is vital for equitable industrial growth.

To address this, the government is implementing County Aggregation and Industrial Parks (CAIPs) and expanding industrial infrastructure to decentralize manufacturing and foster regionally inclusive growth.

4.2 Export Performance & Trade Integration

Africa is the dominant destination of Kenya's exports accounting for 43 per cent of total value of export earnings in 2023. Total exports to Africa increased by 21.6 per cent to Ksh. 435 billion in the review period. (Economic Survey

2024). This growth was mainly supported by an increase in exports to the EAC economic bloc, which accounted for 30.3 per cent of the total export earnings. This illustrates the importance of the African continent and the value of the AfCFTA as an export market which provides a huge market for the 1.3 billion people in the African continent.

In 2023, exports of food and beverages accounted for 44.25 per cent of total exports, followed by non-food industrial supplies at 26.61 per cent. During this period, the share of domestic exports of fuel and lubricants increased from 1.34 per cent in 2022 to 1.83 per cent in 2023, largely driven by domestic exports of primary fuel and lubricants. The share of domestic exports of machinery and other capital equipment increased from 1.41 per cent in 2022 to 1.63 per cent in 2023. (Economic Survey 2024)

4.3 Technology Adoption & Automation

Technology adoption across Kenya's manufacturing sector remains relatively low, particularly among Micro, Small, and Medium Enterprises (MSMEs). Most establishments continue to rely on labour-intensive processes and outdated equipment, limiting productivity, quality, and competitiveness. According to the Census of Industrial Production (2018) and insights from the Entrepreneurship Ecosystem and MSME Report (World Bank), less than 20 per cent of manufacturing firms had adopted digital production or process automation tools by 2023.

This slow uptake has implications for industrial resilience, especially in light of global supply chain disruptions, rising labour costs, and growing demands for quality assurance. Sectors such as pharmaceuticals, food processing, and packaging have shown marginal progress in automation, but broader transformation is constrained by high initial costs,



lack of technical capacity, and limited access to industrial internet infrastructure. Kenya's shift toward digital industrial transformation is supported through initiatives like the Kenya Industry and Entrepreneurship Project (KIEP), TVET reforms, and public-private innovation platforms.

However, to scale this impact, there is a need for targeted support to facilitate:

- » Affordable access to manufacturing technologies (e.g., robotics, smart machinery, ERP systems)
- » Skills development in industrial automation and digital manufacturing
- » R&D
- » Linkages with institutions like KIRDI
- » Policy incentives for Industry 4.0 adoption, especially among SMEs

Greater integration of technology and automation is critical if Kenya's manufacturing sector is to achieve global competitiveness, reduce operational inefficiencies, and prepare for emerging digital value chains under AfCFTA and beyond.

4.4 MSME and Informal Sector Integration

MSMEs represent over 60 per cent of Kenya's manufacturing establishments, yet many operate informally, limiting access to finance, markets, and infrastructure. Informality persists due to complex compliance processes and limited support structures.

Government-led efforts such as MSEA's KJET and Nyota program, Common Manufacturing Facilities, and inclusion in CAIPs are helping integrate MSMEs into the formal industrial ecosystem.

Policy frameworks like Fourth MTP and MPA 2025 now emphasize simplified licensing, digital registration, and supply chain inclusion, making MSME formalization a national priority for inclusive industrial growth.

4.5 Green Manufacturing & Sustainability

Kenya's manufacturing sector is increasingly adopting green practices to align with global sustainability standards and reduce environmental impact. Nairobi-based industries have begun integrating solar, biogas, and energy-efficient technologies, supported by government incentives and policies.

The government has promoted sustainability through:

- » Duty remissions and tax incentives on green inputs and equipment
- » Support for waste-to-energy initiatives, water recycling, and cleaner production
- » Inclusion of green transition goals in Fourth MTP and the Kenya Green Economy Strategy

Institutions like KIRDI and Nairobi Industrial and Technology Park are helping firms prototype eco-friendly processes, especially in agro-processing, chemicals, and textiles.

Kenya now offers renewable energy feed-in tariffs (REFIT) and incentives in SEZs, promoting green manufacturing. Yet solar, wind, and biogas adoption remains minimal. KAM calls to reduce electricity tariffs, especially for SMEs and energy-intensive industries. Scaling up green manufacturing is key for accessing AfCFTA, EU markets, and positioning Nairobi as a competitive hub for climate-smart industrialization.

4.6 Energy Cost & Competitiveness

Electricity prices in Kenya (KES 33.18/kWh) are significantly higher compared to Uganda (KES 22.98) and Tanzania (KES 11.23). (globalpetrolprices.com/electricity/prices/#hl75).

KAM notes a 59 per cent increase in industrial rates between January 2021 and January 2024, undermining sector competitiveness.

Compared to Uganda and Tanzania, Diesel prices in Kenya are at KES 165.7 per litre, whereas in Uganda the price is at KES 176 and Tanzania at KES 135.9 respectively.

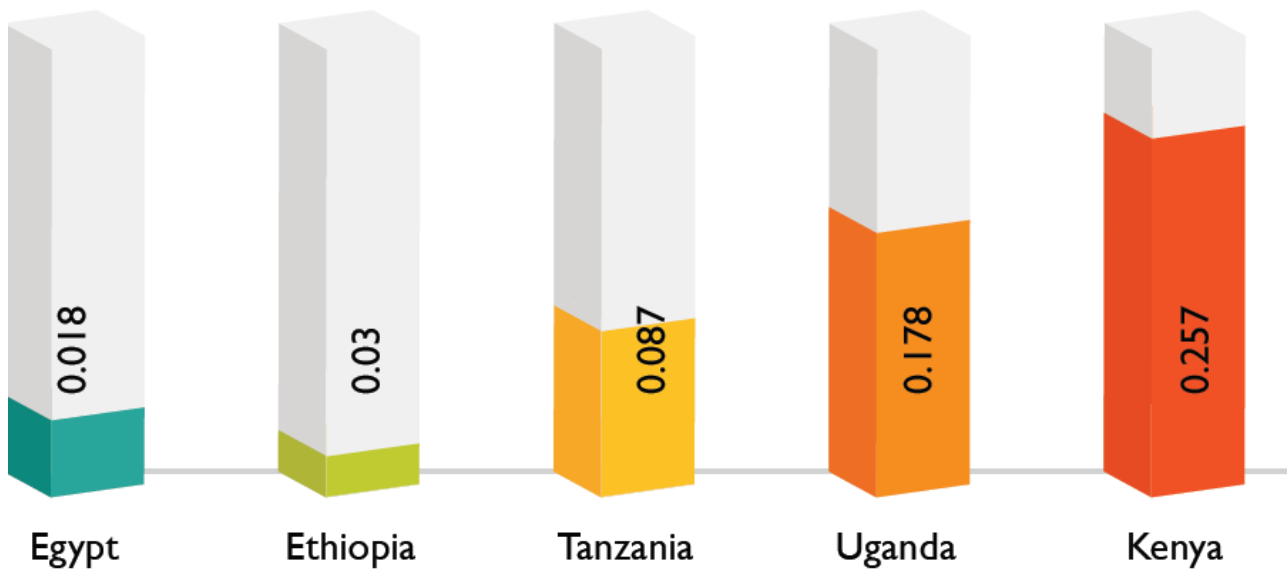


Figure 1: Electricity prices for selected countries, December 2024 (kWh, US\$)

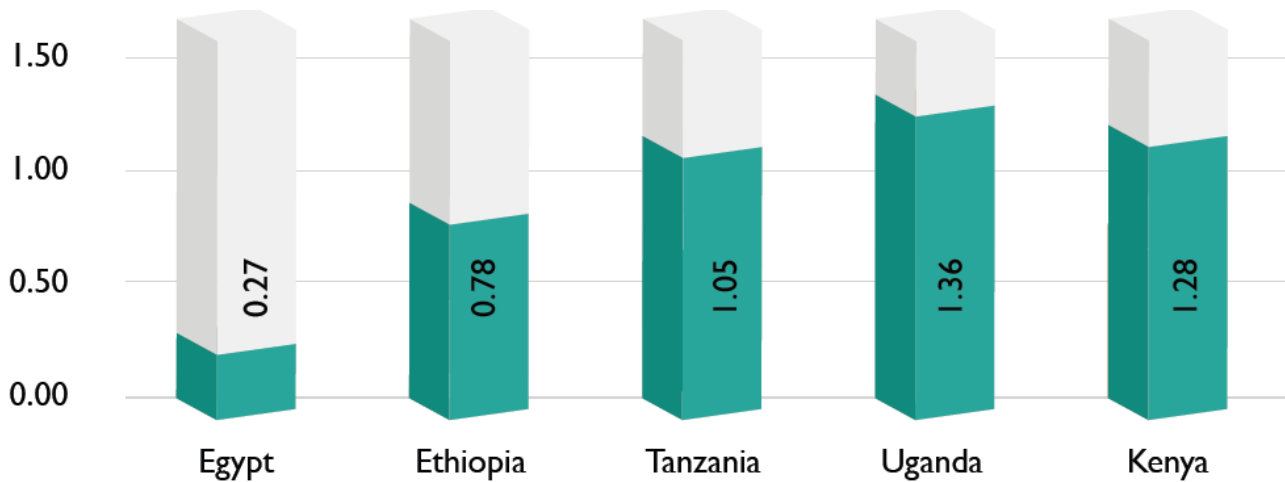


Figure 2: Diesel prices for selected countries, February 2025 (Litre, US\$)



4.7 Skills Development & Workforce Readiness

Manufacturing accounts for 11.5 per cent of formal employment, with 347,000 jobs created in 2024. The total number of persons employed in the formal manufacturing sector grew by 2.8 per cent from 352.6 thousand recorded in 2022 to 362.3 thousand in 2024. (Economic survey 2022 & 2024).

Kenya's manufacturing sector faces a skills mismatch, with many firms citing limited access to technically trained labor, especially in automation, engineering, and quality control. This gap has hindered productivity and innovation, particularly among SMEs.

To address this, the government and development partners have invested in:

- » TVET modernization and curriculum alignment with industry demands
- » Programs like the Kenya Industry and Entrepreneurship Project (KIEP) supporting establishment-level innovation
- » Partnerships between manufacturers and technical universities for on-the-job training
- » Support from institutions like KIRDI for prototyping and technical upskilling

Despite progress, there's a need to scale up industry-academia linkages, strengthen apprenticeship systems, and promote lifelong learning to prepare the workforce for emerging manufacturing technologies and regional competition.

4.8 Access to Finance & Non-Performing Loans (NPLs)

The total credit approved for use in the manufacturing sector by both commercial banks and industrial financial Institutions in 2023 amounted to Ksh. 639.0 billion, an increase

of 20.8 per cent from Ksh. 528.9 billion in 2022. (Economic Survey 2024).

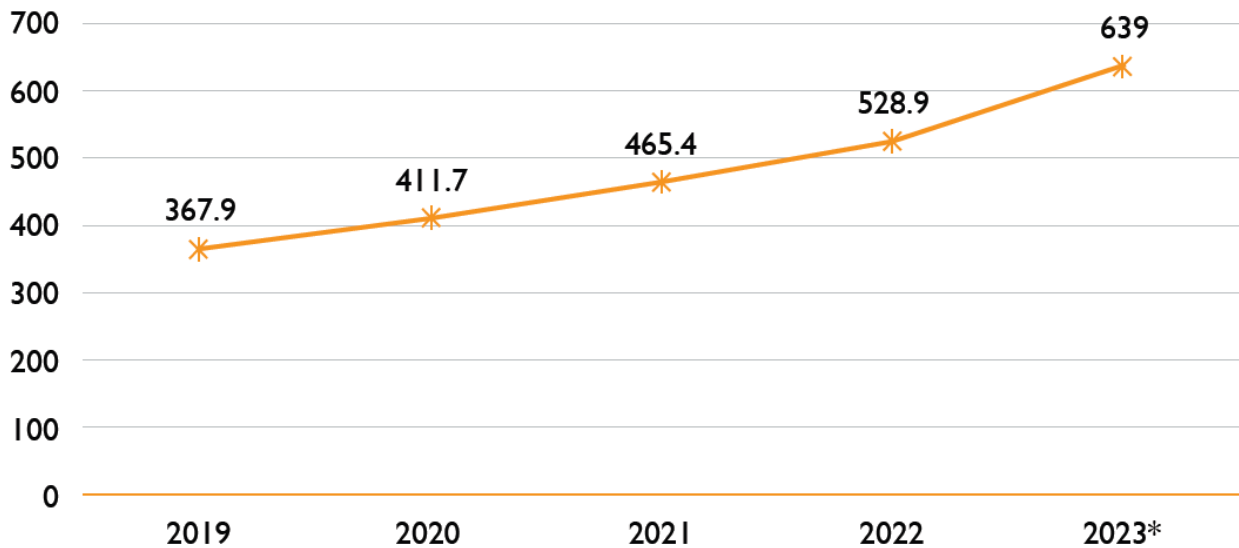


Figure 3: Credit advanced to the Manufacturing sector by commercial banks and other financial institutions (Ksh billion)

Gross non-performing loans (NPLs) advanced to the manufacturing sector have been on an upward trajectory and increased to Ksh. 135,167.5 million compared to Ksh. 90,883.60 in 2022. This implies that there are conditions prevailing in the country hindering the capacity of the man-

ufacturing sector to service its loans. One of the reasons is diminished purchasing power by consumers due to the prevailing cash crunch. (CBK Bank supervision Annual Report, 2018-2023)

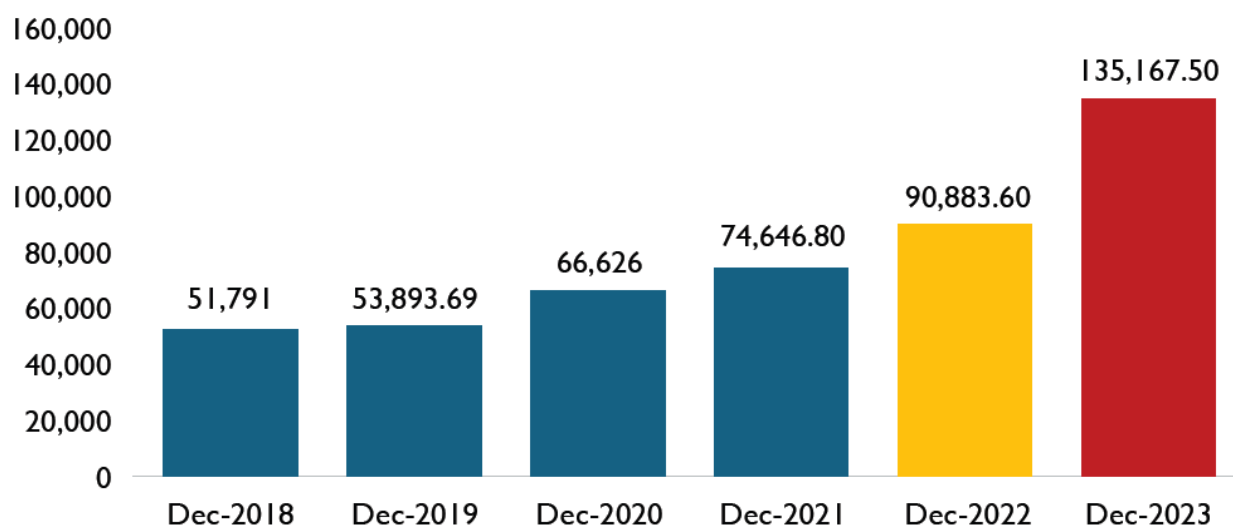


Figure 4: Gross non-performing loans advanced to the manufacturing sector (2018-2023) Ksh. Million)



4.9 Regulatory Environment & Taxation

Manufacturers are also major sources of domestic taxes. For instance, between January 2023 to January 2024, domestic tax contribution by manufacturers was Ksh. 135.2 billion, a monthly average of Ksh. 10.4 billion (KRA)

	2023												2024
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan
PAYE	3,700	3,045	2,920	4,562	3,088	3,245	4,101	3,056	2,749	2,928	3,118	2,925	3,972
Domestic VAT	3,600	3,217	2,764	2,629	2,133	2,492	2,668	2,191	2,852	2,875	2,337	2,500	3,053
Corporation Tax	522	178	1,060	7,909	252	4,550	814	132	4,374	986	403	4,297	365
Domestic Excise	2,518	2,467	2,301	2,444	2,529	2,295	2,292	1,972	2,319	2,306	2,266	2,281	2,602
Total	10,340	8,907	9,046	17,544	8,003	12,582	9,875	7,351	12,294	9,095	8,125	12,002	9,992

Table 1: Domestic tax (Kes Million) contribution by manufacturers in Kenya (Jan 2023 - Jan 2024)

A competitive analysis of Railway Development Levies and Import Declaration fee on imports between Kenya and its neighbors, shows that Kenya charges 2.5 per cent on IDF and 2 per cent on RDL, a total of 4.5 per cent. Uganda and Tanzania both charge 1.5 per cent for both IDF and RDL,

while Rwanda charges 1.9 per cent.

KAM has raised concerns about regulatory burdens, tax instability, and compliance challenges. It recommends streamlining regulatory processes and promoting local value addition through targeted tax incentives for SMEs and exporters.

Table 2: Competitive analysis of RDL and IDF on imports

Tax	Kenya	Uganda	Tanzania	Rwanda	Burundi
IDF	2.5%	0%	0%	0.4%	0%
RDL	2%	1.5%	1.5%	1.5%	0%
Total	4.5%	1.5%	1.5%	1.9%	0%

4.10 Gender Inclusion

While Nairobi's manufacturing sector remains predominantly male-dominated 70 per cent of the workforce is male, there are notable pockets of progress in gender inclusion. Several sub-sectors show strong female representation, including: Jewellery & related articles, Electric lighting equipment, Fertiliser production and Apparel and textile manufacturing. Sub-counties like Kasarani and Westlands also exhibit higher proportions of female employment, reflecting shifting pat-

terns in workforce composition.

These trends signal opportunities for gender-responsive policies, skills development targeting women, and incentives to support female-led enterprises in light manufacturing and value-added processing. Promoting gender inclusion is not only a matter of equity but also key to unlocking underutilised human capital in the industrial workforce.



Chapter

05.

5. GOVERNMENT- LED INITIATIVES

The Government of Kenya has launched a series of strategic initiatives aimed at revitalizing and expanding manufacturing activities within Nairobi County, recognizing its central role in national industrial development. These efforts are anchored in broader frameworks such as the Bottom-Up Economic Transformation Agenda (BETA), Vision 2030, and the African Continental Free Trade Area (AfCFTA) implementation. These initiatives collectively aim to position Nairobi County as a competitive, inclusive, and innovation-driven manufacturing hub. Their success hinges on effective implementation, stakeholder collaboration, and continuous data-driven policy refinement.

5.1 Policy and Regulatory Support

The Government of Kenya, in collaboration with industry stakeholders such as the Kenya Association of Manufacturers (KAM), has progressively implemented policy and regulatory reforms to enhance the competitiveness of the manufacturing sector. Anchored in the Manufacturing Priority Agenda (MPA) 2025 and the Fourth Medium-Term Plan, these reforms focus on improving the business environment, reducing the cost of compliance, and incentivizing local production.

Key initiatives include:

01.

- » **Manufacturing Priority Agenda (MPA):** Developed annually by KAM, the MPA provides a roadmap for policy engagement and prioritization, focusing on five pillars: competitiveness and level playing field, industrial productivity, market access, SME development, and sustainable manufacturing. The agenda is widely adopted by policy makers to inform legislative and administrative action.

02.

- » **Buy Kenya, Build Kenya Strategy:** Spearheaded by the Ministry of Investments, Trade and Industry, this strategy promotes the consumption of locally manufactured goods through public procurement preferences, awareness campaigns, and capacity building of domestic producers.

03.

- » **Regulatory Reforms and Ease of Doing Business:** Under the Business Reforms and Transformation Unit (BRTU) at the National Treasury, the government continues to streamline licenses, reduce duplicative regulations, and enhance digital service delivery to reduce regulatory burdens across the manufacturing lifecycle.

04.

- » **Incentives under SEZs and EPZs:** The establishment of Special Economic Zones (SEZs) and Export Processing Zones (EPZs) has enabled eligible manufacturers to access tax incentives, simplified customs procedures, and improved infrastructure, thereby attracting both domestic and foreign investment into industrial activities.



5.1.1 Fiscal Incentives and Research-Driven Industrial Support

The State Department for Industry (SDI), under the Ministry of Investments, Trade and Industry, plays a pivotal role in supporting Kenya's manufacturing sector through targeted industrial policy, regulatory facilitation, and incentive schemes. One of its core functions is conducting industrial research and offering evidence-based policy advisory services. This research helps identify priority sectors, address market gaps, and guide investment decisions, thereby shaping a more competitive manufacturing ecosystem.

A major function of the department is the coordination of the Industrial Parts Exemption Program, which enables manufacturers to import machinery, equipment, and critical components duty-free-provided they are not locally available. This significantly lowers capital investment costs and supports industrial productivity, especially for SMEs and emerging enterprises.

Additionally, SDI oversees the Duty Remission Scheme (DRS) under the East African Community (EAC) framework. This initiative allows eligible manufacturers to import specific raw materials and intermediate goods at reduced or zero duty, thus lowering production costs and boosting export competitiveness. The department also performs a technical evaluation and compliance facilitation role. It works closely with agencies such as the Kenya Revenue Authority (KRA), Kenya Bureau of Standards (KEBS), and industry associations like the Kenya Association of Manufacturers (KAM) to ensure that manufacturers meet the eligibility criteria for duty waivers while maintaining industry standards.

Lastly, the SDI provides direct support to key manufacturing sub-sectors-such as agro-processing, pharmaceuticals, automotive, and textiles-by promoting tailored fiscal incentives and aligning its programs with national policy instruments like the Bottom-up Economic Transformation Agenda (BETA) and Vision 2030.

5.1.2 Finance and Credit Access

KIE continues to play a key role in financing MSMEs in the manufacturing space by offering affordable loans, equipment leasing, and industrial sheds. It targets early-stage and growing enterprises across Nairobi and other counties, especially those lacking access to mainstream credit. KDC provides long-term and project-based financing to catalyse investment in large-scale manufacturing, agro-processing, and industrial innovation. The institution supports indus-

trial enterprises through debt, equity, and blended finance solutions.

Key financial intervention support provided by MSEA includes the;

- » **Kenya Jitihada Enterprise Tool (KJET)** is a digital platform that helps small businesses formalise, access credit, improve compliance, and prepare for public procurement opportunities.
- » **The National Youth Opportunities Towards Advancement (NYOTA)** is a youth-focused financing program supported by the World Bank providing affordable credit and grants to early-stage enterprises, with additional mentorship and business development support.
- » Launched in 2020, the **Credit Guarantee Scheme** offers partial guarantees to banks lending to MSMEs, thereby de-risking SME lending, mitigating collateral risks, and enabling more manufacturers to access credit. This initiative has lowered the lending barrier for small industrial establishments across sectors.

Though primarily a research institution, KIRDI has partnered with financial institutions to facilitate access to financing for manufacturing start-ups in its incubation programs-particularly in value addition, green manufacturing, and industrial prototyping.

5.2 Skills Development and Innovation

Skills development and innovation remain central to strengthening Nairobi's manufacturing competitiveness. The Kenya Industry and Entrepreneurship Project (KIEP) has played a critical role in upgrading SMEs through innovation support, technology transfer, and linkages with academia. The project's components have enhanced the entrepreneurial ecosystem by supporting accelerators, facilitating industry-academia collaborations, and promoting startup growth.

Complementary initiatives include:

- » **KIRDI supports SMEs through research, prototyping, and technical assistance in key manufacturing areas like food, engineering, and textiles providing affordable access to industrial labs and equipment.** KIEP enhances innovation by facilitating the registration and protection of industrial property rights, enabling manufacturers to safeguard and commercialize their innovations. KEBS plays a crucial role in manufacturing by developing and promoting standards, ensuring product quality, and facilitating trade. KEBS develops standards for products, measurements, and processes,

promoting these standards nationally and internationally, certifying industrial products, and improving measurement accuracy. They also provide testing and calibration services and disseminate information about standards

- » **Support to TVETs and Technical Universities:** The government has enhanced funding and curricula alignment in Technical and Vocational Education and Training (TVET) institutions and universities to meet industry-specific skill needs. The Competency-Based Education and Training (CBET) approach continues to promote practical, hands-on skills that support light and heavy manufacturing.

Industrial skills are the mandate of KITI which gives trainees hands-on training in technical skills with a strong component of entrepreneurship skills for self-employment. KITI trains artisans, craftsmen, technicians, engineering graduates, engineers and entrepreneurs to work in the existing industries and for self-employment; train middle level managers for the industrial sector and to carry out research in projects and products that would accelerate industrialization.

- » **Ajira Digital Program:** Though largely ICT-focused, it has offered digital upskilling that is now being linked to smart manufacturing and Industry 4.0 applications.
- » **Youth Empowerment and Technical Training Projects:** Programs such as Kenya Youth Employment and Opportunities Project (KYEOP) and linkage initiatives under the Ministry of Labour have targeted manufacturing-related skills in metalwork, fabrication, and garment making.
- » **Maker Spaces and Industrial Innovation Hubs:** Nairobi continues to host innovation labs and industrial maker spaces supported by development partners and research institutions that encourage prototyping and product design for SMEs.

5.3 Infrastructure and Energy

The government has prioritized infrastructure as a key enabler of manufacturing growth. Through the Last Mile Connectivity Program, access to electricity has been extended to industrial zones, supporting uninterrupted production. Major investments have also been made in Industrial Parks and Aggregation Centres, including the Nairobi Industrial and Technology Park, to boost manufacturing through shared utilities and logistics support.

To promote sustainability, manufacturers are encouraged to adopt green energy sources such as solar and biogas through policy incentives. Government institutions like KIE and MSEA provide affordable industrial sheds and workspaces for MSMEs, while EPZA and SEZA offer specialised infrastructure and tax incentives for export-focused manufacturers. The Constituency Industrial Development Centers (CIDCs) and the Jua Kali work-sites function as support hubs for Micro and Small Enterprises (MSEs) and Jua Kali artisans. They provide crucial resources like workspaces, equipment, and training to help these businesses grow and become more competitive. This support aims to improve living standards by creating jobs and increasing income within local communities. These efforts aim to lower operational costs, attract investment, and enhance industrial productivity in Nairobi City County.

The Urban Support Program (USP), funded by the World Bank and implemented by the Government of Kenya, aims to improve urban infrastructure in rapidly growing counties. In Nairobi City County, USP supports manufacturing by upgrading essential infrastructures such as roads, water, and drainage systems around industrial zones.

5.4 Trade Facilitation and Export Development

Integrated Customs Management System (iCMS) has streamlined trade logistics.

Participation in the Africa Continental Free Trade Area (AfCFTA) aims to expand market access for Kenyan manufacturers.

Through EAC agreements, small-scale manufacturers can access neighbouring markets under simplified customs procedures, enabling participation in cross-border trade. EAC MSMEs Trade fair is a government-supported regional trade fairs that provides manufacturers, especially youth and women-led enterprises, with an opportunity to showcase products, secure buyers, and build distribution networks across the East African region. The exhibitions have proven instrumental in exposing Nairobi-based manufacturers to markets within the EAC. The trade fair is held annually on rotation basis among the EAC partner states.

Selected manufacturers receive export credit and trade finance support through institutions such as the Kenya Export Promotion and Branding Agency (KEPROBA) and the Kenya Export Credit Guarantee Corporation, enabling them to expand their presence in regional and international markets.



Chapter

06.

6.0 CHALLENGES AND OPPORTUNITIES FOR SECTORAL GROWTH

The manufacturing sector in Nairobi County stands at a pivotal juncture—facing entrenched challenges while holding immense promise for industrial transformation. As Kenya’s economic and innovation hub, Nairobi hosts a diverse array of manufacturing enterprises ranging from agro-processing and textiles to pharmaceuticals and electronics. Yet, despite its strategic location and vibrant entrepreneurial ecosystem, the sector’s contribution to GDP has remained modest, hovering around 7–10% in recent years.

Despite Nairobi’s position as Kenya’s industrial nucleus, several systemic and operational constraints continue to limit sectoral expansion:

- » **High Cost of Production:** Electricity tariffs, fuel prices, and water costs remain among the highest in the region in addition there are multiple levies at county and national levels inflate operational expenses.
- » **Policy and Regulatory Uncertainty:** There is frequent shifts in industrial priorities and overlapping mandates across ministries create confusion. In addition there is lack of a harmonized national industrialization policy slows coordinated action.
- » **Infrastructure Gaps:** Inadequate last-mile connectivity, unreliable water supply, and poor waste management systems hinder productivity including logistics inefficiencies especially in transport and port services that limit competitiveness.
- » **Access to Finance:** SMEs who are the majority in Nairobi County struggle with high interest rates and limited access to long-term capital and suffers risk-averse lending practices hence discouraging innovation and expansion.
- » **Import Competition and Counterfeits from Cheap imports,** especially from Asia, undercut local manufacturers and counterfeit goods that erode market share and discourage investment in quality production.
- » **Skills and Technology Deficits:** mismatch between industry needs and vocational training output leads to high onboarding costs and low uptake of ICT and automation technologies reduces productivity and innovation.
- » **Weak Public-Private Coordination:** limited engagement between government and industry players results in misaligned policies and fragmented support for MSMEs and informal manufacturers reduces sectoral cohesion.
- » **Inconsistent government policies:** Inconsistent government policies can make it difficult for manufacturers to plan and invest for the long term.

However, Nairobi’s manufacturing sector is equally rich in opportunity. The county’s central position within East Africa offers access to regional markets through trade blocs like EAC, COMESA, and AfCFTA. Emerging industrial parks and Special Economic Zones (SEZs)—such as Tatu City and Athi River EPZ—provide shared infrastructure and tax incentives that can catalyze sectoral expansion. Moreover, Kenya’s strong agricultural base supports agro-processing, while the rise of green manufacturing and digital integration opens new frontiers for sustainable and smart production. Government initiatives like the Manufacturing Priority Agenda (MPA) 2025 and Vision 2030 signal renewed commitment to industrialization, with emphasis on export competitiveness, SME development, and public-private collaboration. If harnessed effectively, these frameworks can unlock Nairobi’s potential as a regional manufacturing powerhouse—driving job creation, innovation, and inclusive economic growth.



Chapter

07.

7.0 POLICY RECOMMENDATIONS FOR GROWTH WITHIN MANUFACTURING SECTOR IN NAIROBI COUNTY

Nairobi's manufacturing sector sits at a crossroads—facing entrenched challenges but also unprecedented opportunities. With bold reforms, strategic investment, and inclusive planning, the county can become a regional industrial powerhouse that drives job creation, innovation, and equitable growth. Manufacturers in Nairobi face a complex mix of structural, operational, and market-related challenges that constrain growth and competitiveness. Here's a concise breakdown of the most pressing issues. To unlock the sector's potential and enhance Nairobi's industrial competitiveness, a multi-pronged policy response is necessary. The following recommendations are proposed for consideration by policymakers, development partners, and industry stakeholders:

- » **Rationalization of Taxation and Tariffs:** Review and streamline the tax regime on industrial inputs, including energy and imported machinery. This will promote lower production costs, improve profit margins, and enhance price competitiveness for local manufacturers.
- » **Strengthening Local Sourcing and Value Chain Development:** Support local supplier networks through incentives, supplier development programs, and backward linkages in agro-processing, chemicals, and metals. This ensures reduced dependency on imports, increased domestic industrialisation, and stimulation of rural manufacturing.
- » **Energy Efficiency and Sustainability Support:** Expand tax credits and subsidies for solar, biogas, and energy-efficient technologies. Promote power purchase agreements (PPAs) for industrial zones. This will improve energy reliability and cost savings, with long-term sustainability gains for the sector.
- » **Infrastructure Modernisation:** Prioritise investment in transport logistics, ICT infrastructure, waste management, water connectivity, and grid stability within Nairobi's industrial zones. This will enhance production reliability, lower downtime, and reduce transaction costs for manufacturers.
- » **Industrial Clustering and Collective Bargaining:** Promote stronger engagement with associations such as KAM, KNCCI, and KEPSA, and encourage the formation of industrial clusters to pool resources and services. This will facilitate better negotiation power, shared services (e.g., logistics, waste management), and improved economies of scale.
- » **Access to Finance and Credit Risk Mitigation:** Facilitate structured financing schemes tailored to SMEs, including credit guarantees, blended finance, and concessional lending programs. This will reduce financial exclusion, increase capital investment in modern equipment, and reduce non-performing loan ratios in the sector.
- » **Technology and Innovation Upscaling:** Incentivize adoption of Industry 4.0 technologies and provide matching grants or tax deductions for investment in R&D and digitalization. This will increase productivity, improve product quality, and integrate into regional and global value chains.
- » **Workforce Development and Gender Inclusion:** Strengthen Technical and Vocational Education and Training (TVET) partnerships and implement targeted gender-responsive training programs. This will ensure a future-ready workforce and enhance the inclusion of women and youth in industrial employment.



Chapter

08.

8.0 RESETTling THE MANUFACTURING SECTOR IN NAIROBI COUNTY

Resetting the manufacturing sector in Nairobi County to support the Government achieve Agenda 2030 requires a comprehensive approach that addresses various aspects of the sector. Some key steps that can be taken both in the short and long run to reset the sector include:

- » **Policy Reforms:** The County government in liaison with the National Government should enact policies that are conducive to the growth of the manufacturing sector. This may include creating a favorable business environment, simplifying regulatory processes, and providing incentives such as tax breaks for manufacturers. The County Government should also develop industrial policies that focus on key priority sectors with high growth potential and align them with the National Government goals of Vision 2030 Agenda and Bottom-Up Economic Transformation Agenda, such as promoting sustainable and inclusive industrialization.
- » **Infrastructure Development:** Adequate infrastructure is essential for a robust manufacturing sector. This includes reliable and affordable energy supply, modern transportation and logistics systems, and access to water and other basic amenities. The County Government should invest in improving infrastructure and providing necessary support to manufacturing clusters or industrial parks to attract investment and spur manufacturing activities.
- » **Innovation:** Innovation is crucial for the growth of the manufacturing sector. The County Government in collaboration with other service providers should promote research and development (R&D) activities, encourage technology transfer, and foster collaboration between academia, research institutions, and the private sector. This can help Kenyan manufacturers adopt advanced technologies, improve product quality, and enhance competitiveness in domestic and international markets.
- » **Investment Promotion:** Nairobi County being the commercial and capital City should actively promote investment in the manufacturing sector by creating a favorable investment climate, providing investment incentives, and facilitating access to financing for manufacturers. The government should also strengthen public-private partnerships (PPPs) to leverage private sector resources and expertise in developing the manufacturing sector.
- » **Skills Development:** Developing a skilled workforce is crucial for the success of the manufacturing sector. The County Government need to invest in vocational and technical training programs that provide relevant skills for the modern manufacturing industry. This includes training in areas such as engineering, robotics, automation, and quality management. Efforts should also be made to enhance entrepreneurship skills among local manufacturers to stimulate innovation and growth. This is really necessary given the fact that there is a lot of youths migrating to Nairobi in such of jobs and livelihoods.



- » **Sustainable Manufacturing:** To support in the achievement of Vision 2030 Agenda, Nairobi`s manufacturing sector should prioritize sustainability given that the County holds almost 70% of the manufacturing sector. This includes adopting eco-friendly practices, reducing waste and pollution, promoting circular economy principles, and incorporating social and environmental considerations in business operations. The County Government should provide incentives for sustainable manufacturing practices and promote certifications such as ISO 14001 for environmental management.
- » **Market Access:** Access to local and international markets is essential for the growth of the manufacturing sector both at the County and National levels. Both governments should support export-oriented manufacturing by providing export incentives, promoting trade agreements, and facilitating market linkages for local manufacturers. This can help Kenyan manufacturers expand their customer base and increase export earnings.

Overall, resetting the manufacturing sector to achieve Vision 2030 Agenda and the Bottom-Up Economic Transformation Agenda (BATA) requires a multi-faceted approach that addresses policy, infrastructure, innovation, investment, skills, sustainability, and market access. It will require coordinated efforts from the government, private sector, academia, and civil society to drive sustainable and inclusive growth in the manufacturing sector, which can contribute to Kenya's economic development and achievement of the Sustainable Development Goals (SDGs) outlined in the Economic Agenda 2030. So, it's crucial to create a collaborative and enabling environment for all stakeholders to work together towards this common goal. Remember, success will depend on continuous monitoring and evaluation, and adaptive implementation strategies to overcome challenges and seize opportunities. With concerted efforts and sustained commitment, Nairobi County can reset its manufacturing sector to support in the achievement of Vision 2030 Agenda and the Bottom-Up Economic Transformation Agenda (BATA) drive inclusive and sustainable development.

Chapter

09.

CONCLUSION

The manufacturing sector in Nairobi City County remains a central pillar of Kenya's industrial landscape, contributing significantly to employment, innovation, and national output. However, its full potential is constrained by high input costs, energy inefficiencies, regulatory hurdles, and a reliance on imported raw materials. While steady growth has been recorded, challenges persist in capacity

utilization, financing, and technology adoption. This report provides a robust foundation for targeted interventions that can catalyze manufacturing-led growth in Nairobi City County. With coordinated efforts from government, private sector actors, and development partners, Nairobi can serve as a model of modern, inclusive, and globally competitive industrialization within the region.

REFERENCES

1. **Kenya National Bureau of Statistics (KNBS). (2025).** Economic Survey 2025. Nairobi: Government of Kenya.
2. **Kenya National Bureau of Statistics (KNBS). (2024).** Statistical Abstract 2024. Nairobi: Government of Kenya.
3. **Kenya Association of Manufacturers (KAM). (2024).** Manufacturing Priority Agenda (MPA) 2024/2025. Nairobi: KAM.
4. **Kenya Association of Manufacturers (KAM). (2023).** KAM's Policy Priorities and Submission to Fourth Medium Term Plan. Nairobi: KAM.
5. **Ministry of Industrialization, Trade and Enterprise Development (MITED). (2010).** National Industrialization Policy. Nairobi: Government of Kenya.
6. **Government of Kenya. (2015).** Special Economic Zones Act, No. 16 of 2015. Nairobi: National Council for Law Reporting.
7. **Ministry of Industrialization, Trade and Enterprise Development (MITED). (2021).** Buy Kenya, Build Kenya Strategy. Nairobi: Government of Kenya.
8. **Nairobi City County Government. (2022).** County Integrated Development Plan (CIDP) 2023–2027. Nairobi: Nairobi City County.
9. **World Bank. (2021).** Kenya Industry and Entrepreneurship Project (KIEP): Project Appraisal Document. Washington, D.C.: The World Bank Group.
10. **World Bank. (2022).** Support to Affordable Finance and Enterprise Recovery (SAFER) Program. Washington, D.C.: The World Bank Group.
11. **Ministry of Energy. (2022).** Renewable Energy Feed-In Tariff (REFIT) Guidelines. Nairobi: Government of Kenya.
12. **Kenya Power and Lighting Company (KPLC). (2024).** Tariff Schedule and Energy Cost Reports. Nairobi: KPLC.
13. **Kenya Revenue Authority (KRA). (2024).** Taxation and Import Duty Manual for Manufacturers. Nairobi: Government of Kenya.
14. **African Union (AU). (2018).** Agreement Establishing the African Continental Free Trade Area (AfCFTA). Addis Ababa: African Union.
15. **Mapping and Geolocation of Industries Survey (2025).** Primary Manufacturing Sector Data Collected in Nairobi City County (Feb–May 2025). Nairobi.
16. **Kenya National Bureau of Statistics (KNBS) (2023).** Gross County Product Report 2023





Ministry of Investments, Trade and Industry
State Department for Industry

State Department for Industry,
Social Security House,
Block A,
P.O BOX 30418 – 00100,
Nairobi Kenya

Tel: +254 20-2731531

Email: info@industrialization.go.ke ps@industrialization.go.ke

Facebook: Industrialization KE

X: @IndustryKE

WhatsApp Channel: Industry Kenya

www.industrialization.go.ke

ISBN 978-9914-9650-9-4



9 789914 965094 >