KENYA: AN OVERVIEW

The Republic of Kenya is regarded as the regional hub for finance and trade in East Africa. Mombasa, Kenya’s main port, is the largest seaport in East Africa that serves as gateway to many other East and Central African nations as well, many of which are landlocked.

Kenya has made significant improvement to its business environment. In the 2015 World Bank Doing Business Report, the country was ranked 108 out of 189 countries globally compared to 136 in 2014, making it the third most improved economy in the world. Kenya has a population of approximately 44.86 million in 2014, out of which around 26 million lies in the working age group of 15–64.

Kenya has a strong banking sector, and its legal, regulatory and accounting systems are transparent and consistent with international norms. There are no exchange controls after the 1994 liberalization, which removed all restrictions. Kenya’s banking sector consists of 43 commercial banks, out of which 13% are either 100% foreign owned or have significant foreign share.

SECTOR OVERVIEW

The cotton, textiles and apparel (CTA) industry is the second biggest manufacturing activity in Kenya, providing livelihood to approximately 200,000 households.

Raw material scenario

- Kenya has 385,000 ha of land suitable for cotton cultivation, but only fraction of it is under cotton cultivation.
- Current production of cotton lint in Kenya is approximately 7,000 tons versus a potential production of 200,000 tons of lint or 750,000 tons of seed cotton.
- In Kenya, cotton is mainly cultivated under rain-fed conditions.
- Kenya also produces fibres like wool and sisal, but in small quantities.
Manufacturing value chain

- **Ginning:**
  There are 23 ginneries in Kenya, with an installed capacity to gin approximately 140,000 bales annually, but only eight of them are operational and the equipment in the ginning units are outdated.

- **Textiles:**
  Kenya’s installed capacity is approximately 140,000 ring spindles and 900 open-end (OE) rotors. However, most of the installed capacity is quite old and is only partially operational. Yarn is mostly imported from Asian countries. There are very few fabric production mills that mostly cater to domestic and regional markets.

- **Apparel:**
  Kenya has approximately 170 large-scale and 75,000 small-scale and micro apparel manufacturers. Out of these, 37 units are export-oriented that contribute to the bulk of the sector’s exports revenue. Kenya imports roughly 93% of its fabric supply, mainly from Chinese Taipei, Hong Kong, the People’s Republic of China, the Islamic Republic of Pakistan and the Republic of India.

**WHY KENYA?**

Kenya’s global and regional market access

<table>
<thead>
<tr>
<th>Market access under:</th>
<th>Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Growth and Opportunity Act (AGOA)</td>
<td>The United States of America (third country fabric provision)</td>
</tr>
<tr>
<td>Economic Partnership Agreement (EPA)</td>
<td>Europe (third country fabric provision)</td>
</tr>
<tr>
<td>East African Community (EAC)</td>
<td>The Republic of Burundi, the Republic of Rwanda, the Republic of Uganda and the United Republic of Tanzania</td>
</tr>
<tr>
<td>Common Market for Eastern and Southern Africa (COMESA)</td>
<td>Burundi, the Union of the Comoros, the Democratic Republic of the Congo, the Arab Republic of Egypt, the Republic of Djibouti, the State of Eritrea, Libya, the Republic of the Sudan, the Republic of Madagascar, the Republic of Malawi, the Republic of Mauritius, Rwanda, the Kingdom of Swaziland, Uganda, the Republic of Zambia, the Republic of Seychelles and the Republic of Zimbabwe</td>
</tr>
<tr>
<td>Tripartite Free Trade Area (TFTA) between EAC, COMESA and Southern African Development Community (SADC)</td>
<td>Regional markets, including South Africa</td>
</tr>
</tbody>
</table>

*Source: World Bank, 2014

Kenya trade scenario

- **Overall sector exports from Kenya have grown from US$ 253 million in 2009 to US$ 444 million in 2014 at a compound annual growth rate (CAGR) of 10%.

- **The United States of America is the largest market, accounting for almost 82% of Kenya’s CTA exports. Kenya’s apparel exports have witnessed a CAGR of 14% from US$ 195 million in 2010 to US$ 379 million in 2014.**

*Source: OTEXA, US Trade under AGOA*
Business environment

LEGAL AND REGULATORY FRAMEWORK

- The key corporate and investment laws applicable in Kenya are the Companies Act (Cap 486) and the Investment Promotion Act, 2004.
- Kenya’s Government has introduced a new competition law, Public Partnership Act and capital markets regulations to increase the market competitiveness and to attract foreign investment.
- Government has also reduced the number of licenses required to set up a business from 300 to 11 in order to promote investment.
- New Kenyan Companies Act, 2015
- EPZ/SEZ Acts offer incentives focused on exports and regional markets

LOGISTICS AND CONNECTIVITY

- Kenya is the gateway to East Africa.
- There are three sea ports in Kenya – Mombasa, Lamu and Malindi.
- Improvement in roads infrastructure is in progress, and recent improvements have reduced the transit times from 18 days to five days from Nairobi to Mombasa port.
- There are four international airports in Kenya – Mombasa International Airport (MOI), Jomo Kenyatta International Airport, Kisumu Airport and Eldoret International Airport.
- Kenya Railways Corporation is in the process of developing a standard gauge railway line with a route length of 472 km to connect Kenya, Mombasa, Rwanda, South Sudan and Uganda.¹
- Mombasa port is the most efficient in East Africa in terms of amount of cargo processed and cost of handling. There are further plans to double the capacity over the next 5 years.

MANPOWER SCENARIO

- There is abundant availability of a relatively well-educated population.

POWER SCENARIO

- Kenya has a well-established power sector, with a total installed capacity of 1,783 MW.
- Kenya is the largest producer of geothermal energy in Africa.
- The average power cost in Kenya is US$ 0.14/kWh, while export processing zones (EPZs) enjoy subsidized power supply at US$ 0.09/unit.

GOVERNMENT SUPPORT FOR CTA SECTOR

- Support is provided to smallholder farmers by providing planting seeds, and advisory service through research and extension service.
- The Kenyan Government supports irrigation scheme rehabilitation to restore production of irrigated cotton over the course of the next five to 10 years.
- Kenya Investment Authority (KenInvest) facilitates implementation of new investment projects, providing aftercare services for new and existing investments.
- Incentives are provided to investors under EPZs, including tax incentives and holidays, VAT exemption, business allowance and investment deductions.
- The Kenyan Government is planning the establishment of industrial parks in Naivasha, Mtwapa, Samburu and Voi.

ADVANTAGE KENYA

Cotton, textile and apparel sector investors in Kenya can benefit from the following:

- Preferential market access
- Labour availability
- Good infrastructure
- Strong buyer linkages
- Stable political climate
- Investor-friendly policies
- Open banking systems
- International instruments to protect FDI
- Availability of factory space

Naivasha Textile City:

The Government of Kenya has launched a project to build a textile city in Naivasha area. This region has access to uninterrupted geothermal power at just five cents a kWh and inexpensive steam, making it an extremely attractive location for textile projects – spinning, fabric manufacturing and processing. Government plans to develop the entire city with complete support infrastructure to attract domestic and foreign investors to the zone.

¹ Railway-Technology, 2015
INVESTMENT OPPORTUNITIES

- Apparel manufacturing:
  Apparel manufacturing in Kenya is the most attractive investment option for global investors, as Kenya has duty-free access to the USA under AGOA and to the EU under EPA. Kenya has well-developed export channels, infrastructure and linkages with large USA buyers, which can prove beneficial for new investors.

- Textile (yarns and fabrics) manufacturing:
  The present textile manufacturing set-up in Kenya is underdeveloped and unable to meet industry demands. New investments in this segment can easily get access to ready markets not only in Kenya, but also in other neighbouring countries where apparel exports are growing.

- Apparel accessories:
  East Africa’s apparel exports are increasing continuously, but there is almost nil production of apparel accessories like labels, buttons, zippers or hooks, etc. An investment targeted at manufacturing and import substitution of such items can be a good proposition.

- Services:
  With growing production of textile and apparel-manufacturing factories, opportunities will arise to provide associated services like buying houses, testing houses, technical consultancy, brokerage services, export marketing and training, etc.

KEY CONTACTS

Ministry of Industrialization and Enterprise Development
Tel: +254 202 731 531
E-mail: cs@industrialization.go.ke
Web: www.industrialization.go.ke

Kenya Investment Authority (KenInvest)
Tel: +254 730 104 200
    +254 730 104 210
E-mail: info@investmentkenya.com
Web: www.investmentkenya.com

Export Processing Zones Authority (EPZA)
Tel: +254 45 662 1000
E-mail: info@epzakenya.com
Web: www.epzakenya.com

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