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Abbreviations & Acronyms

CA Communications Authority of Kenya
COMESA Common Market of East and Southern Africa
EAC East African Community
EPZA Export Processing Zone Authority
FDI Foreign Direct Investment
GDP Gross Domestic Product
ICT Information and Communications Technologies
ICTA ICT Authority
ITES Information Technology Enabled Services
KIA Kenya Investment Authority
KNBS Kenya National Bureau of Statistics
KOTDA Konza Technopolis Development Authority
KRA Kenya Revenue Authority
LAPSSET Lamu Port South Sudan Ethiopia Transport
MNC Multinational Corporation
MVNO Mobile Virtual Network Operator
SME Small and Medium Enterprise
VAT Value Added Tax
WB World Bank
Kenya: An Overview

Kenya is an East African country lying across the equator and bordered by the Federal Republic of Somalia in the north-east, the Federal Democratic Republic of Ethiopia in the north, the Republic of South Sudan in the north-west, the Republic of Uganda in the west, the Indian Ocean in the south-east and the United Republic of Tanzania in the south. Kenya is regarded as East Africa’s regional centre for finance and trade. Its capital city, Nairobi, is Kenya’s biggest city. Mombasa is another important city and has the biggest seaport in East Africa. Mombasa port serves as a gateway to many other East and Central African nations as well, many of which are landlocked. Kenya is a presidential representative multiparty democratic republic. There are eight provinces in.

Key facts

| Capital: | Nairobi |
| Area: | 580,370 km² |
| Population: | 51.4 million (2018) |
| 0–14 years: | 40% |
| 15–64 years: | 58% |
| Population growth: | 2.3% (2018) |
| Literacy Rate |
| Male: | 85% |
| Female: | 78% |
| Urban population: | 27.33% (2018) |
| GDP at current market prices: | $88 billion (2018) |
| GDP per capita (current): | $1,776 (2018) |
| GDP growth: | 6.3% (2018) |
| Inflation rate: | 5.56% (Nov 2019) |
| FDI inflow: | $1.4 billion (2017) |
| Exports: | $6.03 billion (2018) |
| Imports: | $17.34 billion (2018) |
| Exchange rate (per US$): | KES 101.5 (stand: 29.11.2019) |
| Govt. expenditure: | $29.8 billion (2018) |
| Govt. revenue: | $18.5 billion (2018) |
| Currency: | Kenyan shillings (KES) |
| Other major cities: | Mombasa, Kisumu, and Nakuru |
| Language: | English, Swahili |

*Source: ADB, 2018; KNBS, 2018; International Trade Centre, 2018; Trading Economics, 2018; World Bank, 2018*
POPULATION

Kenya prides itself on a large pool of young, highly educated, English-speaking, skilled and sought-after workforce in Africa, trained from within the country and in institutions around the world. Of the adult population, 82% are literate, with a life expectancy of 65.9 years at birth. Kenya also has one of the largest youth populations in Africa. Kenya’s entrepreneurship and human capital give it a huge potential for further growth, job creation and poverty reduction.

Figure 1: Population growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>23</td>
</tr>
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<td>1991</td>
<td>24</td>
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<td>2016</td>
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<td>2017</td>
<td>49</td>
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<tr>
<td>2018</td>
<td>50</td>
</tr>
<tr>
<td>2019</td>
<td>51</td>
</tr>
</tbody>
</table>

*Source: World Bank

ECONOMY

Kenya belongs to the top 10 biggest economies in Africa. Its gross domestic product (GDP) rose from $25,800 million in 2006 to $88,000 million in 2018. With an average real growth rate of 6.3%, Kenya is gradually emerging as one of the economic powerhouses of the Global South.

The key drivers for growth include a vibrant services sector, currency stability, low inflation, low fuel prices, a growing middle-class and rising incomes, a surge in remittances, and increased public investment in energy and transportation. Its position as the economic, commercial and logistical hub in Eastern and Central Africa places the country as one of the best investment destinations globally.

Figure 2: Sectoral Contribution to GDP (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture, forestry and fishing</th>
<th>Financial and insurance activities</th>
<th>Manufacturing</th>
<th>Wholesale and retail trade</th>
<th>Information and communications</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>10</td>
<td>27.5</td>
<td>6.8</td>
<td>8.6</td>
<td>8.6</td>
</tr>
<tr>
<td>2015</td>
<td>1.2</td>
<td>30.2</td>
<td>6.7</td>
<td>8.1</td>
<td>8.1</td>
</tr>
<tr>
<td>2016</td>
<td>1.5</td>
<td>31.1</td>
<td>7.1</td>
<td>7.2</td>
<td>8.1</td>
</tr>
<tr>
<td>2017</td>
<td>1.3</td>
<td>34.8</td>
<td>6.1</td>
<td>7.4</td>
<td>8.1</td>
</tr>
<tr>
<td>2018</td>
<td>1.3</td>
<td>34.2</td>
<td>6.7</td>
<td>7.4</td>
<td>8.1</td>
</tr>
</tbody>
</table>

*Source: Final Economic Survey 2019, KNBS
Growth in Agriculture Value Added at constant prices increased to 6.6% in 2018 from 1.8% recorded in 2017. The improved performance was due to favourable weather conditions for both crops and livestock production, occasioned by the long rains in 2018. Agriculture, forestry and fishing contributed 34.2% to GDP in 2018, followed by manufacturing at 7.7%.

**TRADE SCENARIO**

In 2018, both the values of domestic exports and imports rose at the same rate of 2%. The leading exports were tea, horticulture, articles of apparel and clothing accessories; coffee, titanium ores and concentrates, collectively accounting for 62% of the total domestic export earnings.

Total export earnings rose by 3.2% to KSh 612.9 billion in 2018, mainly due to an 11.4% growth in exports to Asia. The value of exports to Asia amounted to KSh 180.9 billion and accounted for 29.5% of the total exports in 2018.

The value of exports to the European Union (EU) increased by 4.4% and accounted for 21.4% of total exports at KSh 131.2 billion in 2018. Export earnings from the Netherlands and United Kingdom improved to KSh 46.4 billion and KSh 40.2 billion, respectively, on account of increased exports of horticultural products in 2018.
BANKING SECTOR

Domestic lending has been on an upward trend in Kenya, contributing immensely to economic performance. New credit lines and products to support short-term and medium-term investments have been developed in tandem with the improved sophistication of the Kenyan financial sector. As a result, the Kenyan financial sector is one of the most sophisticated and strongest in the East African region and the African continent at large.

Indeed, the annual growth rates of money supply and private-sector credit were consistent with the developments in the financial sector, in particular, the enforcement of the Banking (Amendment) Act 2016. While money supply (M1) expanded by 6.6% in 2018, the extended broad money supply (M3) grew by 8.9% in December 2017. Credit to the private sector expanded by 2.4% in 2017 and total domestic credit grew by 10.1% in 2018. The Central Bank of Kenya pursued accommodative monetary policy by lowering the Central Bank Rate (CBR) twice in 2018. The CBR was 9.50% at end of March 2018 and 9.00% in July 2018.

In 2018, the CBK commenced distribution of new generation coinage for the country following a notice in the Kenya Gazette.

In 2018, the International Accounting Standards (IAS) Board issued guidelines, International Financial Reporting Standard (IFRS). The standards aim to maintain a stable and efficient banking and financial system. The CBK issued a circular to commercial banks and mortgage finance companies to comply with the standards and the regulatory capital, with a five-year transition period that started in January 2018.

Kenyan banking sector comprised 42 commercial banks, 1 mortgage finance company, 13 microfinance banks, 9 representative offices of foreign banks, 72 foreign exchange bureaus, 19 money remittance providers and 3 credit reference bureaus as at December 31, 2018.

Apart from the commercial banks, there are financial institutions with the mandate to promote and finance Kenya’s regional trade, such as PTA Bank and East African Development Bank. These institutions provide financial as well as consulting and advisory roles to facilitate and foster trade, socioeconomic development and regional economic integration between their member states. As a member country, Kenya is also eligible to get credit support from African Exim bank for various sectors, including agriculture, trade, industry, infrastructure, energy and tourism.

RESERVE MANAGEMENT

Reserve money targeting has traditionally been the de jure monetary policy in Kenya, although targets on net domestic assets have become more prominent recently. The central bank has been paying increasing attention to short-term interest rates, which is reflected in less volatile interest rates since mid-2000. To maintain discipline in fiscal and monetary policy, a forecasting and policy analysis system (FPAS) has been implemented in collaboration with IMF, where a team consisting of IMF staff and external experts has been enrolled to provide training to Central Bank of Kenya (CBK) staff to generate a medium-term forecast, in order to create a model-based evaluation of applicable monetary policy issues that result in alternative risk scenarios. This forecast will be given to policymakers, along with a monetary policy recommendation.1

1 Source: East AFrittac News, October 2014
TAXATION STRUCTURE

The tax system in Kenya has experienced constant reform during the last two decades to make it less time-consuming and more investor friendly. The current individual and business tax rates applicable in Kenya are as follows.

Foreign investors can acquire shares in a listed company subject to a minimum reserve ratio of 25% for domestic investors, with the remaining 75% considered as free float available to local, foreign and regional investors without restrictions on the level of holding. To encourage the transfer of technology and skills, the government allows foreign investors to acquire up to 100% of local private fund management firms (i.e. not listed in NSE) and as much as 100% of local private stockbrokerage companies.

a. Individual income tax

<table>
<thead>
<tr>
<th>Taxable income (in KES)</th>
<th>Approx. US$ equiv.</th>
<th>Rate of Tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 147,580</td>
<td>Up to 1,454</td>
<td>10%</td>
</tr>
<tr>
<td>147,581-286,623</td>
<td>1,455-2,823</td>
<td>15%</td>
</tr>
<tr>
<td>286,624-425,667</td>
<td>2,824-4,194</td>
<td>20%</td>
</tr>
<tr>
<td>425,668-564,709</td>
<td>4,195-5,563</td>
<td>25%</td>
</tr>
<tr>
<td>More than 564,709</td>
<td>More than 5,563</td>
<td>30%</td>
</tr>
</tbody>
</table>

b. Business taxes

<table>
<thead>
<tr>
<th></th>
<th>Resident</th>
<th>Non-resident</th>
<th>EPZ units*</th>
<th>SEZ Units**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate tax**</td>
<td>30%</td>
<td>37.5%</td>
<td>0% for the first 10 years and 25% for next 10 years. Thereafter 30%</td>
<td>First 10 years 10% and 15% for next 10 years. Thereafter 30%</td>
</tr>
<tr>
<td>Withholding tax on dividends***</td>
<td>5%</td>
<td>10%</td>
<td>0% for the first 10 years</td>
<td>Dividends paid to non-residents by the SEZ entity are exempt from tax. Withholding tax rate of 5% on payments made to non-residents (royalties, interest, management fees)</td>
</tr>
</tbody>
</table>

VAT

<table>
<thead>
<tr>
<th></th>
<th>16%</th>
<th>16%</th>
<th>Exempted, except on motor vehicles</th>
</tr>
</thead>
</table>

* Units in EPZs also enjoy stamp duty exemption of 100%, and 20-year investment deduction on capital outlays.

** Units in Special Economic Zones (EPZs) also enjoy stamp duty exemption of 100%, and 20-year investment deduction on capital outlays.

*** Corporate tax for companies newly listed on stock exchange:

<table>
<thead>
<tr>
<th>% age of share issued</th>
<th>Corporate tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least 20% of issued share capital listed (3 years)</td>
<td>27%</td>
</tr>
<tr>
<td>At least 30% of issued share capital listed (5 years)</td>
<td>25%</td>
</tr>
<tr>
<td>At least 40% of issued share capital listed (5 years)</td>
<td>20%</td>
</tr>
</tbody>
</table>

*** Dividends are exempted from tax when paid by a resident company that controls 12.5% or more of the share capital.

Foreign investors are able to obtain shares in a listed company dependent on a 25% minimum reserve ratio for domestic investors, with the balance of 75% deemed to be free float accessible by regional, local and foreign investors with no restrictions on the holding level. To promote skills and technology transfer, the Government of Kenya permits foreign investors to acquire as much as 100% of local private fund management firms and as much as 100% of local private stockbrokerage companies.

---

FOREIGN DIRECT INVESTMENT (FDI)

Foreign Direct Investment inflows increased by 25.6% from $1,139 million in 2016 to $1,430 million in 2017 and accounted for 33.7% and 34.1% of the total inflows, in 2016 and 2017, respectively.

FDI inflows to all industries increased except to construction and; human health and social work. Foreign Direct Investment inflows to finance and insurance economic activity, grew by 8.9% to $391 million in 2017, and contributed the highest share of total FDI inflows at 27.4%.

Table 1: FDI Inflows (in USD million)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,138.66</td>
<td>1,429.99</td>
</tr>
</tbody>
</table>

*Source: Foreign Investment Survey, KNBS 2018

There are no sectors or regions prohibiting foreign investment. There are no local participation requirements other than for investments in the telecommunication sector, where locals must hold at least 30% interest, and in listed companies, where locals must hold at least 25% shares. However, foreign investment in agriculture is controlled if it entails land ownership or leasing. In Kenya, foreigners may not own land, but they can rent it in 99-year increments. There is a need to obtain a license from the investment authorities in Kenya. To obtain the certificate, the amount to be invested by a foreign investor has to be at least $100,000 or the equivalent in any currency.

INDUSTRIAL ZONES

One of the main achievements of the efforts to promote investment is the establishment of export processing zones (EPZs) and special economic zones (SEZs). The objective is to support the transformation of Kenya into a newly industrialized middle income country providing a high-quality life to all its citizens by 2030. The smooth regulation of these zones is ensured by the Export Processing Zones Authority (EPZA) and Special Economic Zones Authority (SEZA). EPZs and SEZs offer a variety of advantages, which are summarized below.

EPZs provide incentives for:

a. Resource-based product manufacturing, including food processing, wood, leather and animal-based products, building material and minerals
b. Market-driven products, including cosmetics, pharmaceuticals, medicals, packaging material, and electrical and electronics equipment
c. Services, including printing, publishing, transport, audio, visual, education and consultancy

Commercial activities like trading and distributions are not eligible for the tax exemptions provided to these zones.

The Kenyan Government is planning the establishment of industrial parks in Naivasha, Mtwapa, Samburu and Voi.

<table>
<thead>
<tr>
<th>Export processing zones (EPZs)</th>
<th>Special economic zones (SEZs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate tax holidays of 10 years</td>
<td>Corporate tax of 10% for the first 10 years</td>
</tr>
<tr>
<td>Corporate tax of 25% for another 10 years</td>
<td>Corporate tax of 15% for another 10 years and 30% for the 21st year</td>
</tr>
<tr>
<td>Withholding tax holidays of 10 years on remittances to non-residents</td>
<td>Withholding tax holidays of 10 years on remittances to non-residents</td>
</tr>
<tr>
<td>Stamp duty exemption</td>
<td>Stamp duty exemption</td>
</tr>
<tr>
<td>Import duty and VAT exemption on raw materials, machinery and other inputs</td>
<td>Import duty and VAT exemption on raw materials, machinery and other inputs</td>
</tr>
<tr>
<td>Investment deduction of 100% over 20 years on building and machinery</td>
<td>Investment deduction of 100% over 20 years on building and machinery</td>
</tr>
</tbody>
</table>

Other benefits

- Fully operational in under one year
- Project approval and licensing within 30 days
- Foreign currency account and offshore borrowing allowed - no exchange controls
- Unrestricted investment by foreigners
- One-stop shop service for facilitation and aftercare
- Ready-made factory building and office premises
- Readily available services - water, sewerage, electricity and landscaping, etc.
- High security standards - 24-hour security and illuminated perimeter fences
- On-site customs documentation

*Source: Keninvest, 2017.*
Why Kenya?

Cotton, textile and apparel sector investments in Kenya can benefit from the following six factors.

a. Preferential market access: Kenya has signed Preferential Trade Agreements with a total population of over 1.4 billion people and a market value of over $29 trillion. Kenya is a signatory and beneficiary to trade-enhancing schemes that include the Africa Growth and Opportunity Act (AGOA) with the USA, the Economic Partnership Agreement (EPA) with the European Union and the Generalized System of Preferences (GSP) scheme that grants preferential duty treatment to more than 3,000 of Kenya’s export products across different markets. Under the provisions of AGOA, more than 6,000 Kenyan products are allowed duty free, quota free access into the USA. Under the EPA, Kenyan products to the European Union are entitled to duty reductions or exemptions and freedom from all quota restrictions. Trade preferences include duty free entry of all industrial products and a wide range of agricultural products.

b. Labour availability: Kenya has an abundant, well-educated and easily trainable workforce available at reasonable rates. In addition, the presence of large export-oriented apparel manufacturing units has helped create a pool of relatively trained workers.

c. Good infrastructure: Kenya has the advantage of having a port of its own – Mombasa – which is East Africa’s biggest port and serves as the gateway for Central and East African markets. Kenya is also a regional centre for airlines, which enables easy access to and from any global destination. The general infrastructure – power, roads and upcoming railways – is superior to most of the other East African nations. The Mombasa port is considered 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.

d. Strong buyer linkages: The country has established an effective garment trade network of raw material as well as market linkages. Large buyers are present in the country and are aware of the competencies they can leverage. This is a key advantage that Kenya has over other competing East African countries, which are at the start of their sector growth cycle.

e. Stable political climate: Since independence, Kenya has become one of Africa’s most stable countries. Kenya is a multi-party democratic nation with a Human Development Index of 0.59, Kenya has the highest score in the East African Community (EAC). This is partly due to its recent political reform that stems from the passage of a new constitution in 2010 (introduction of a bicameral legislative house, devolved county government, and a constitutionally tenured judiciary and electoral body). Devolution remains the biggest gain from the August 2010 constitution, which ushered in a new political and economic governance system. It is transformative and has strengthened accountability as well as public service delivery at local levels.

f. Investor-friendly policies: Export-oriented businesses established in EPZ get attractive investment incentives, including tax holidays, duty exemptions and a flexible expatriate recruitment facility. Additionally, EPZ/SEZ Acts offer incentives focused on exports and regional markets.

As a member of the World Trade Organization (WTO) and Multilateral Investment Guarantee Agency (MIGA), Kenya enables its investors to insure their investment against a large variety of non-commercial risks. The country is also a member of the African Trade Insurance Agency (ATI), which is a multilateral political risk and export credit agency for COMESA member states, and of International Council for Settlement of Investment Disputes (ICSID), which provides investors with additional confidence that they will be treated fairly by the Kenyan Government.
Cotton, Textiles and Apparel Industry Structure

The cotton, textiles and apparel (CTA) industry is Kenya’s second largest manufacturing industry after food processing and has been classified as a core industry. Kenya’s CTA manufacturing value chain comprises researchers, ginners, farmers, spinners, input suppliers, textile manufacturers and extension service providers, to name but a few.

It is estimated that approximately 40,000 farmers are involved in cotton farming, while the overall sector provides livelihood to approximately 200,000 households.3

HISTORICAL OVERVIEW

In 1902, the British colonial administration introduced cotton into Kenya. The Cotton Lint and Seed Marketing Board was founded in 1953 to undertake processing, marketing and production in the cotton sector. Simultaneously, cooperative unions were also established to deal with key activities such as payment to farmers and input supply.

At the time of independence in 1963, private ginners dominated Kenya’s CTA industry. In the following decade, government offered good support to the sector: it invested in textile mills, fixed producer prices, controlled marketing margins and aided cooperative societies in buying ginneries from the colonialists. The Government of Kenya also safeguarded the local industry by levying a 100% duty on imported goods. This enabled the local textile industry to grow fast, with a typical production capacity of more than 70%.

In the early 1990s, government decided to liberalize the sector. Government support started declining and the market was thrown open. A sector that was protected for decades was not ready to compete with inexpensive imports from Asian suppliers. Cotton production, too, started declining. As a result, influx of imported goods increased rapidly and the domestic industry entered a downward spiral.

At the turn of century, AGOA came into force and the sector started on a recovery path, albeit slowly. Realizing the exports and employment potential of the sector, in recent years, government also announced a number of policy measures to attract investment in the CTA sector and enhance exports. In 2014, Kenya replaced Lesotho as the largest garment exporter to the USA under AGOA. Kenya is expected to remain the largest beneficiary of the recent 10-year extension of AGOA.

3 Source: Cotton Development Authority, Kenya, and Kenya Labour Market Profile (2014) by Danish Trade Union
RAW MATERIAL SCENARIO

COTTON

Cotton in Kenya is mainly grown by about 30,000 to 45,000 smallholder farmers in arid and marginal regions, under rain-fed conditions on small land holdings of about one hectare. Most of the country’s cotton is cultivated in the Coast Province, Western Province and Eastern Province, and the rest is cultivated in Central and Rift Valley Provinces. Kenya has an estimated 385,000 ha of land that is suitable for cotton – 350,000 rain-fed and 35,000 irrigated – with a production potential of more than 300,000 tons of cotton seed. Nevertheless, only a fraction of that land 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.

The production has been volatile for the last few years and has not been sufficient to meet the domestic mill requirement. As a result, Kenyan firms import cotton from neighbouring cotton-producing countries such as Uganda and Tanzania.

*Source: United States Department of Agriculture

OTHER TEXTILE FIBRES

Wool is also produced in Kenya, but the production is relatively small. Kenya has a total sheep population of 18 million (2015)\(^4\), but only a fraction of it is wool sheep. Kenya’s chief wool breeds include Corriedale, merino and Romney Marsh. Another breed is Hampshire Down, and there are cross-breeds between two or more of the mentioned breeds. In addition, there are cross-breeds between the wool breeds, pure breed and indigenous sheep. The wool is processed locally or exported to world markets. In 2013, Kenya exported approx. two million kilograms of raw wool, out of which approx. 85% was exported to India.

Another fibre produced in Kenya is sisal, a bast fibre traditionally used for making ropes and twines. Sisal production in 2012 was reported at 28,000 tons, which is approx. 13% of global sisal production.\(^5\)

Kenya does not have any synthetic fibres and filament production facilities. All the demand for such inputs is catered for by imports, mainly from China and India. In 2013, Kenya imported US$ 55 million and US$ 30 million of manmade fibres and manmade filaments, respectively. In 2009, the corresponding values were US$ 21 million and US$ 13 million for manmade fibres and manmade filaments, respectively, indicating a significant growth of imports.\(^6\)

\(^{4}\) Source: FAOStat
\(^{5}\) Source: FAOStat
\(^{6}\) Source: UN Comtrade
MANUFACTURING VALUE CHAIN

GINNING

There are 23 ginneries in Kenya, with an installed capacity to gin roughly 140,000 bales yearly, but only eight of them are currently operational. The utilized capacity is presently only 20,000 bales (approximately 14%). The ginning units are mostly using outdated equipment; as such, Kenya’s ginning outturn is only 33.3%, which is quite low. The low utilisation rate leads to significantly reduced productivity, thereby inflating processing costs. The ginning overcapacity also harms the quality of Kenyan lint by fostering competition for inputs between ginneries.

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 spinning is mostly being done by semi-integrated and fully integrated textile mills. 10% to 20% of the yarn produced is exported, mainly to the Republic of Rwanda, Uganda, Tanzania and the Federal Republic of Nigeria. The remaining 80%–90% continues along the domestic value chain to the weaving and knitting segment. As with the spinning segment, fabric producers (weaving, knitting and processing) in Kenya operate well below capacity, operating at roughly 40%–50% utilisation levels. Most of the units are located in Mombasa, Nairobi and the nearby areas of Athi River and Thika. They rely mostly on imported yarns from the Republic of India, the Republic of Indonesia, the People’s Republic of China and Taiwan. Fabric production is mostly for the domestic and regional markets of Uganda, Tanzania, the Republic of Zimbabwe, Rwanda and Nigeria. Fabric supply to garment exporters is very limited.

APPAREL

Approximately 170 large-scale and 75,000 small and micro apparel manufacturers are estimated to be in business in Kenya. Out of these, 37 units are export oriented and contribute to the bulk of the sector’s export revenue. Twenty-two of these export-oriented units are based at the export processing zones (EPZs) at Athi River and Mombasa.

| Table 3: Kenya’s garment factories in EPZA (2013-2017) |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Indicator       | 2013      | 2014      | 2015      | 2016      | 2017      |
| No. of enterprises | 22        | 21        | 21        | 21        | 21        |
| Employment      | 32,932    | 37,785    | 41,597    | 42,496    | 43,987    |
| Exports (US$ million) | 238     | 297       | 347       | 339       | 366       |
| Quantity of exports (million pieces) | 79.3   | 81.9      | 84.6      | 74        | 76.2      |
| Investment (US$ million) | 132     | 148       | 154       | 150       | 156       |

*Source: EPZA, Kenya Annual Performance Report

The local domestic market’s apparel product range includes:

- **For local and regional markets**
  - Uniforms, trousers, vests, overalls, inner garments
- **For export markets**
  - Trousers, pants, Jeans, shorts, blouses, shirts, dresses and nightwear

Kenya imports roughly 93% of its fabric supply, mainly from China, Hong Kong, Taiwan, the Islamic Republic of Pakistan and India. The local production of accessories (buttons and zippers, etc.) and garment trims is also limited when it comes to quality and variety; as a result, they are also imported.
Naivasha’s textile city

The Government of Kenya has launched an ambitious project to build a textile city at Nakuru County’s Naivasha town, north-west of Nairobi. It is situated on Lake Naivasha’s shore, and along Uganda Railway and the Nairobi-Nakuru highway. Due to being geothermally active, Olkaria area, situated to the south of Lake Naivasha, is being utilized to generate increasing amounts of clean electrical power. The region has an estimated potential of 2,000 MW. Units located in Naivasha’s textile city will have access to uninterrupted power at just 5 cents a kWh and inexpensive steam. This makes the location extremely attractive for textile projects such as spinning, fabric manufacturing and processing, since power is a major cost component of these projects.

Government plans to develop the entire city with complete support infrastructure to attract domestic and foreign investors to the zone.
Market Demand

GLOBAL MARKET ACCESS AND EXPORTS

Kenya enjoys duty-free market access to the US under the African Growth and Opportunity Act (AGOA) and to EU under the Economic Partnership Agreements (EPAs). Kenya-based garment exporters are also beneficiaries of third country fabric provision under AGOA as well as EPA, which means the garments qualifying for duty-free preferences can be made from imported fabric as well.

Kenya is among the few Sub-Saharan countries that have successfully leveraged duty-free advantage available under AGOA in the US market. Total apparel exports from Kenya to US increased marginally by 0.03% in year 2017 to stand at US$ 339.7 million from US$ 339.6 million recorded in 2016 (EPZ Annual Performance Report 2017). In 2014, Kenya replaced Lesotho as the largest garment exporter to the USA under AGOA.

The USA is the single largest market, accounting for almost 91% of Kenya’s CTA exports.

Also at the overall level, apparel categories (knitted and woven) command a major share of approx. 85%, while textiles is a minor export category.

<table>
<thead>
<tr>
<th>Table 4: Breakup of Kenya’s CTA Exports</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Articles of apparel and clothing accessories, not knitted or crocheted (HS 62)</td>
<td>51%</td>
<td>55%</td>
</tr>
<tr>
<td>Articles of apparel and clothing accessories, knitted or crocheted (HS 61)</td>
<td>33%</td>
<td>30%</td>
</tr>
<tr>
<td>Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn (HS 53)</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Other made-up textile articles; sets; worn clothing and worn textile articles; rags (HS 63)</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Source: UN Comtrade
REGIONAL MARKET ACCESS

In Africa, Kenya is a signatory to a Tripartite Agreement integrating three of Africa’s Regional Economic blocs; EAC-COMESA-SADC, with a membership of 26 countries and a population of more than 650 million people. The recently ratified African Continental Free Trade Agreement (AfCFTA) upon commencement from July 2020, will create a single continental market of more than 1.3 billion people, with a combined annual output of $2.2 trillion, encouraging intra-African trade.

The EAC’s objectives are to consolidate the customs union, establish a monetary union, move towards a common market and set the foundations for a political federation. The strategy also promotes the development of economic infrastructure (including energy) that would support and spur economic growth in the member states. A customs union was created and signed by the Republic of Kenya, Tanzania and Ethiopia in 2004. In 2008, the Republics of Burundi and Rwanda joined the customs union and, in July 2009, they began to apply its instruments. Kenya also enjoys duty-free access to the Republic of Burundi, Rwanda, Tanzania and Uganda under EAC. EAC member nations have adopted a three-band common external tariff regime – 25% for finished products, 10% for semi-processed products, and 0% for raw materials and capital goods.

Kenya is also a member state of COMESA, which provides it with duty-free access to the markets of Burundi, the Union of the Comoros, the Democratic Republic of the Congo, the Republic of Djibouti, the Arab Republic of Egypt, the Republic of Malawi, the State of Eritrea, Libya, the Republic of the Sudan, the Republic of Mauritius, the Republic of Madagascar, Rwanda, the Kingdom of Swaziland, Uganda, the Republic of Zambia, the Republic of Seychelles and Zimbabwe.

DOMESTIC DEMAND

At present, Kenya imports second-hand clothing or mitumba worth US$ 137 million (2013), which is a big deterrent for the domestic market. However, the aspirations and disposable incomes of the Kenyan population are growing rapidly. Domestic consumption of various consumer products, including textiles and apparel, have grown in recent years and can be linked to overall economy growth and an increase in consumer spending power. With a GDP per capita of $1,776 (2018), a population base of 51.4 million (2018) and good economy growth prospects, Kenya is soon going to be an attractive market for garment producers.

The Rules of Origin (ROO) for both EAC and COMESA state the following.

Garments may enjoy duty-free access if produced in a partner state wholly or partially from material imported from outside the partner state or of undetermined origin by a process of production that effects a substantial transformation of those materials such that:

- The CIF value of those materials does not exceed 60% of the total cost of the materials used in the production of the goods; or
- The value added resulting from the process of production accounts for at least 35% of the ex-factory cost of the goods; or
- The goods are classified or become classifiable under a tariff heading other than the tariff heading under which they were imported.

Kenya is also a part of Tripartite Free Trade Area (TFTA) between EAC, COMESA and Southern African Development Community (SADC). The tripartite has an integrated market with a combined population of almost 600 million people. This will further enhance the regional reach of Kenya’s garment exports, including that to South Africa, which is a large garment importer.
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. The Promotion Act guarantees foreign investors remittance of dividends, interest and capital repatriation. A new competition law that seeks to ensure a more competitive market was brought into effect in 2012. In June 2013, the Capital Markets (Futures Exchanges, and Licensing Requirements) Regulations and the Capital Markets (Real Estate Investment Trusts, and Collective Investment Schemes) Regulations came into force. Over the past few years, there have been major efforts to privatize commercial sectors that were previously government owned or managed and to encourage foreign investment in these sectors. The government’s stated aim is to have minimal interference in business and it is increasingly adopting the role of regulator rather than active market participant. To promote investment in Kenya, the government reduced the number of licenses required to set up a business from 300 to 11. The Business Regulatory Reform Unit in the Ministry of Finance continues streamline the process.

A new Public Private Partnerships Act, 2013 has been introduced and aims to expand the private sector’s participation in infrastructure and development projects through concessions or contractual profit-sharing arrangements.

LOGISTICS AND CONNECTIVITY

The transport sector plays a key role in enabling and supporting economic growth in other sectors of the economy. Therefore, improved transportation network is crucial in facilitating and promoting trade and investment as it enhances connectivity and mobility. In 2018, the value of output expanded by 14.6% from KSh 1,092.1 billion in 2017 to KSh 1,252.0 billion in 2018.

PORT

Kenya’s geographic location is its inherent advantage. There are three major sea ports in Kenya – Mombasa, Lamu and Malindi. Total cargo throughput handled at the Mombasa Port increased by 2.0% from 30.3 million tonnes in 2017 to 30.9 million tonnes in 2018. The volume of container traffic handled increased by 8.3% from 1.2 million Twenty-foot Equivalent Units (TEUs) in 2017 to 1.3 million TEUs in 2018. Total export traffic handled at the Port of Mombasa rose by 7.9% from 3.8 million tonnes in 2017 to 4.1 million tonnes in 2018.

ROADS

Kenya has witnessed a significant improvement in highway connectivity in recent years. Resurfacing and improvement of the Mombasa-Nairobi highway has reduced the transit times. Also, the introduction of High Speed Weigh-in-Motion, which weighs the vehicle while it is moving, has speeded the flow of traffic. In 2013, reduction in police roadblocks and weighbridges have reduced the transit times from 18 days to five days from Nairobi to Mombasa’s port.

AIRPORTS

There are four international airports in Kenya – Mombasa International Airport (MOI), Jomo Kenyatta International Airport, Eldoret International Airport and Kisumu Airport. Nairobi’s Jomo Kenyatta International Airport is Kenya’s largest airport and serves most of the international destinations.

RAILWAYS

Freight traffic more than tripled from 1,147 thousand tonnes in 2017 to 3,544 thousand tonnes in 2018, mainly due to introduction of freight transportation services on the Standard Gauge Railway (SGR). As a result, revenue from freight increased substantially from KSh 3.0 billion in 2017 to KSh 9.8 billion in 2018. Similarly, passenger journeys increased by 45.0% from 3,096 thousand in 2017 to 4,489 thousand in 2018. Consequently, earnings from passenger traffic stream more than doubled to KSh 1.7 billion in 2018.

<table>
<thead>
<tr>
<th>Table 5: Transport and Storage (in KSh million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Road Transport</td>
</tr>
<tr>
<td>Railway Transport</td>
</tr>
<tr>
<td>Water Transport</td>
</tr>
<tr>
<td>Air Transport</td>
</tr>
<tr>
<td>Services Incidental to Transport</td>
</tr>
<tr>
<td>Pipeline Transport</td>
</tr>
<tr>
<td>Postal &amp; Courier Services</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

* Provisional
* Revised
MANPOWER SCENARIO

Kenya is very competitive in terms of human capital. As previously mentioned, there is an abundant and relatively well-educated population available at internationally competitive rates. It has a high literacy rate of 82%. Almost 58% of the 51.4 million population lies in the working age group of 15–64 years. Current wage rates for an unskilled worker in the textile and apparel sector range from US$ 70 to US$ 130, whereas that of a skilled worker ranges from US$ 125 to US$ 170.

Kenya’s constitution protects the right to trade union activities, reasonable working conditions and fair remuneration, as well as the right to strike in the Bill of Rights as an essential freedom. Labour laws mandate that the total hours that should be worked in a two-week period must not be more than 120 hours. Wage regulation is part of the Labour Institutions Act, and the Kenyan Government determines basic minimum wages by location and occupation, setting a minimum for hourly, daily and monthly work in each category. Conditions of employment and wages are negotiated between and established by management and unions. However, a substantial portion of Kenya’s employees depend largely on the informal sector for income, which results in them not being protected by minimum wage laws.

All expatriates need work permits in order to work in Kenya and any enterprise, both foreign and local, can employ expatriates in all categories of skilled labour if there are no Kenyans available. However, it is necessary for foreign firms to sign an agreement with Kenya’s government that defines training arrangements planned to phase out expatriates. Visas are normally valid for three months and an application for an extension can be made to the immigration department.

POWER SCENARIO

Kenya has one of the most well-established power sectors in Sub-Saharan Africa. Total installed capacity increased by 13.7% to 2,711.7 MW in 2018. Kenya’s reliance on renewable energy sources that are significantly less input intensive and favourable to the sector’s performance continued to grow in 2018 with the introduction of additional power from wind and solar to the national grid.

In 2018, the proportion of electricity from renewable sources stood at 86.0% compared to 75.5% in 2017. This was on account of a significant growth (43.6%) in hydroelectricity generation that was supported by heavy rains experienced in 2018 compared to a growth of 8.9% in 2017 partly as a consequence of the shift in the sources of generation from thermal to hydro generation. In 2018, geothermal electricity generation grew by 31.6% to stand at 5,127 Gigawatt hours (GWh). The sector’s performance was also boosted by a rise in wind and solar energy during the year. The substantial growth in hydro, wind and solar energy led to a considerable decline in generation from thermal sources (39.0%) and electricity imports (43.3%).

GOVERNMENT SUPPORT FOR CTA SECTOR

There is significant government support for the cotton, textile and apparel sector in Kenya. Cotton is one of the key industrial crops earmarked by Kenya’s government for value addition, promotion and integration with the manufacturing sector in order to generate employment opportunities in Vision 2030. Respective public sector ministries have made strategic interventions across the value chain a priority, beginning with processing, production and manufacturing.\(^7\)

The Government of Kenya does not offer a subsidy for cotton growing or price support for marketing, ginning or producers. Instead, it provides targeted support to smallholder farmers. This entails providing seeds to plant, and an advisory service through extension research and service. It also supports irrigation scheme rehabilitation to restore irrigated cotton production over the course of the next five to 10 years.

Kenya Investment Authority (KenInvest) is a legal body that aims to encourage investments in Kenya. It provides aftercare services for existing and new investments, facilitates the execution of new investment projects, and organizes local and international investment promotion activities. Pre-investment services include issuing necessary licenses, helping investors receive any applicable exemptions or incentives, providing information on opportunities and regulations, sources of capital and the business environment, etc., and coordinating with other government bodies to help investors obtain any other permits or approvals.

Government is also providing investment support under EPZs, which includes tax incentives and holidays, VAT exemption, business allowance and investment deductions. The Export Processing Zones Authority (EPZA) expedites product manufacturing for exports in the EPZ, and provides information for investments in the EPZ. It is also planning the establishment of industrial parks in Naivasha, Mtwapa, Samburu and Voi.

### Installed Capacity

<table>
<thead>
<tr>
<th>Year</th>
<th>Hydro</th>
<th>Thermal Oil</th>
<th>Geo thermal</th>
<th>Wind</th>
<th>Cogeneration</th>
<th>Solar</th>
<th>Total Hydro</th>
<th>Thermal Oil</th>
<th>Geo thermal</th>
<th>Wind</th>
<th>Cogeneration</th>
<th>Solar</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>818.3</td>
<td>751.3</td>
<td>573.4</td>
<td>26.3</td>
<td>26.0</td>
<td></td>
<td>2,195.3</td>
<td>797.5</td>
<td>712.6</td>
<td>558.0</td>
<td>5.3</td>
<td>21.5</td>
<td>2,094.9</td>
</tr>
<tr>
<td>2015</td>
<td>820.4</td>
<td>833.6</td>
<td>627.0</td>
<td>26.1</td>
<td>26.0</td>
<td>0.6</td>
<td>2,333.7</td>
<td>799.5</td>
<td>799.2</td>
<td>619.0</td>
<td>26.1</td>
<td>21.5</td>
<td>2,263.3</td>
</tr>
<tr>
<td>2016</td>
<td>818.7</td>
<td>801.6</td>
<td>652.0</td>
<td>26.1</td>
<td>28.0</td>
<td>0.6</td>
<td>2,327.0</td>
<td>797.5</td>
<td>762.9</td>
<td>644.0</td>
<td>26.0</td>
<td>23.5</td>
<td>2,254.1</td>
</tr>
<tr>
<td>2017</td>
<td>826.2</td>
<td>806.9</td>
<td>652.0</td>
<td>26.1</td>
<td>28.0</td>
<td>0.7</td>
<td>2,339.9</td>
<td>805.0</td>
<td>765.8</td>
<td>644.0</td>
<td>25.5</td>
<td>23.5</td>
<td>2,264.4</td>
</tr>
<tr>
<td>2018</td>
<td>826.2</td>
<td>807.7</td>
<td>663.0</td>
<td>336.1</td>
<td>28.0</td>
<td>50.7</td>
<td>2,711.7</td>
<td>805.5</td>
<td>768.2</td>
<td>655.0</td>
<td>335.5</td>
<td>23.5</td>
<td>2,637.8</td>
</tr>
</tbody>
</table>

*Source: Kenya Power & Lighting Company Ltd and Kenya Electricity Generation Company Ltd*
Key Investment Opportunities

There has been significant interest from the international investor community in the textile and apparel sector in Kenya. In 2013, 46 new textile and apparel sector projects were awarded licenses by Kenyan authorities, which is a historical high.

The key investment opportunities that exist in Kenya’s textile and apparel sector include the following.

a. Garment manufacturing
Garment manufacturing in Kenya remains the most attractive investment option for global investors due to the duty advantage under AGOA and other benefits as explained earlier. AGOA’s extension for the next 10 years has removed the cloud of uncertainty hovering over the future of this sector in Kenya.

Import duty in the US market for synthetic garments is much higher than that for cotton garments (32% vis-à-vis 10%). In other words, Kenya-made synthetic garments will be 32% cheaper than garments made in Asian countries that do not have duty advantage. For cotton garments, this duty advantage will only be 10%. Hence, Kenya is a more beneficial location to produce synthetic garments (as opposed to cotton garments) and export to US markets.

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

b. Textile (yarns and fabrics) manufacturing
Textile manufacturing set-up, including yarn manufacturing, weaving, knitting and fabric finishing, is not well developed in Kenya. The existing units have old technology machines that are not able to cater to the demand of export-oriented garment businesses. Hence, they are forced to operate at reduced utilisation and cater mainly to low-end domestic and regional markets.

New investments in these sub-segments with latest technology machines that are cost and quality competitive can get access to a ready market not only in Kenya, but also in other neighbouring countries where apparel exports are growing.

Kenya can specifically focus on building a strong export-oriented synthetic manufacturing value chain for catering to regional exporters, as there is hardly any such set-up available in the region.

c. Garment accessories
Local production of garment accessories (buttons, zippers, labels and tags, etc.) is quite restricted when it comes to quality and variety. Therefore, these accessories are imported by the majority of garment manufacturers. As the industry in the country and region grows, there will be a ready market available for such items. An investment targeted at manufacturing and import substitution of such items can be a good proposition.
Useful contacts

Ministry of Industrialization and Enterprise Development
Telephone: +254 20 273 1531
E-Mail: cs@industrialization.go.ke
Website: www.industrialization.go.ke

Kenya Investment Authority
UAP Old Mutual Tower, 15th Floor, Upper Hill Road
PO. Box 55704 - 00200 City Square
Nairobi, Kenya.
Telephone: +254 (730) 104-200
E-mail: enquire@invest.go.ke
Website: www.invest.go.ke

Cotton Fibre Directorate (formerly CODA) – Agriculture, Fisheries and Food Authority (AFFA)
Telephone: +254 722 200556
+254 734 600944
E-mail: nfo@agricultureauthority.go.ke
Website: www.agricultureauthority.go.ke

Export Processing Zone Authority
Administration Building, Viwanda Road, off Nairobi-Namanga Highway, Athi River, Kenya P.O.
Box 50563 Nairobi 00200 Kenya
Telephone: +254 45 6621000
E-mail: info@epzakenya.com
Website: www.epzakenya.com

Export Promotion Council
Telephone: +254 20 222 8534/8
Website: https://brand.ke/

Kenya Association of Manufacturers (KAM)
Telephone: +254 (0) 722 201 368
+254 (0) 734 646 004/5
Website: www.kam.co.ke
Annexes

ANNEX 1: STARTING A BUSINESS IN KENYA

1. Registering a branch of a foreign company
   The Companies Act under Section 995 provides for registration of foreign companies. A foreign company is a company that has been incorporated outside Kenya. Registration is done online through the eCitizen portal;
   a) Register with the eCitizen portal http://www.ecitizen.go.ke/
   b) Apply and pay for foreign company registration. The applicant will be required to fill in the eCitizen online forms and then download them for the Directors of the company to sign, then scan them back into the system together with;
      i. Certified copy of certificate of incorporation – duly certified by a notary public from the country of origin;
      ii. Certified memorandum and articles of association– duly certified by a notary public from the county of origin;
      iii. Passport – for each foreign Director and the local representative if foreign;
      iv. Passport photo – for each foreign Director and the authorized local representative
   For local representative if Kenyan;
      i. Pin certificate;
      ii. Identity card
   The foreign company is required to have a local representative in Kenya, which can be either a Kenyan or a resident foreigner. Certified professionals capable of acting as local representatives such as lawyers and accountants are available and the investor can contact them directly via the associations' websites: http://online.lsk.or.ke/ for lawyers or https://www.icpak.com/cpa-directory/ for certified public accountants firms.
   c) Next, the certificate of compliance must be obtained. The applicant will be issued with the certificate of registration and the list of shareholders (CR12) after three to five days.

The cost of registration of a foreign company is KSh 8,650.

2. Registering a local company
   a) Register with the eCitizen portal using a Director’s account or the agent’s account (lawyer or secretary): http://www.ecitizen.go.ke/ (business registration service).
   b) Apply and pay for company registration. The applicant will be required to pay KSh. 10,650 for the company registration, then fill in the eCitizen online forms in the portal and download them for signing, and then upload them back into the system. These forms include;
      i. Proposed company name for name search approval.
      ii. Objectives of the company. The nature of business/activities the company shall undertake.
      iii. Full names of the shareholders.
      iv. Full names of the directors if different from the shareholders.
      v. Postal addresses, e-mail addresses and telephone numbers of the shareholders and directors. The address of the directors can be foreign or Kenyan depending on the residence of the investor.
      vi. Number of shares to be held by each shareholder.
      vii. Proposed Kenyan physical address of the company and the directors, since the company shall be operating in Kenya. If the investor doesn’t have a physical address at the time of incorporating the company, he or she can procure the services of an advocate to help in incorporating the company, then use the advocate’s physical address as the initial physical address.
      viii. Copy of ID or passport biodata page of the shareholders and directors if they are foreigners.
      ix. Passport photos of the shareholders and directors.
   c) Obtain certificate of incorporation and CR12 form with a list of shareholders.