



(cc) Make it Kenya

WHY KENYA?

The Republic of Kenya is regarded as East Africa's regional hub for finance and trade. Investors can benefit from:

- Favourable geographical location and good infrastructure
- Political stability and progress
- Vibrant GDP performance
- Strong financial sector performance and effective monetary policy
- Rapid growth in global competitiveness
- Investor-friendly policies and fdi on upward trend
- Preferential market access
- Competitive operating and utility costs
- Attractive human resources pool and rising middle class

KENYAN LEATHER INDUSTRY OVERVIEW

The development of the leather sector is one of the top priorities of Kenya's Industrial Transformation Programme. Kenya has a big potential to develop its leather sector. The country contributes to only 3.5% of leather production on the African continent, despite having the third-biggest livestock resource in Africa. However, the leather sector has seen more than 34% export growth per year.

In 2014, Kenya's large livestock resource base had an estimated population of 17.5 million cattle, 27.7 million goats and 17.1 million sheep. These figures are projected to reach 27 million, 50 million and 29 million respectively by 2022.

The Kenyan leather value chain is inclusive of livestock farmers, livestock traders, butcheries, slaughter facilities owners, hides and skins traders and exporters, tanners, artisanal footwear and leather footwear manufacturers, and goods manufacturers.

Kenya has 15 registered tanneries, 25 formal footwear-manufacturing units, 11 registered leather products MSMEs, and 4 packaging and logistics companies.

The government has made big steps in moving away from exporting raw hides and skins to moving towards processed wet blue and crust. Indeed, barely 5% of hides and skins are exported unprocessed, whereas 89% of the produced hides and skins are exported in the form of wet blue and crust. The share of finished leather and finished leather products in the value chain is still very low (respectively 2% and 4% of quantity exported) as there is insufficient funding for investment in modern technology and facilities related to fine leather production.

Due to Kenya's growing middle-class, domestic demand of all consumer goods, including footwear and leather goods, is increasing. The domestic shoe supply falls short of the demand, which is seen in the rising value of leather footwear imports, which grew more than fivefold between 2001 and 2017. In 2017, the three biggest suppliers of imported Kenyan leather footwear were China, India and the Philippines, respectively.

Key facts	
Capital	Nairobi
Area	580 370km ²
Population	51.4 million (2018)
Urban population	27.33% (2018)
Literacy rate	82% (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)
Currency	Kenyan shillings (KES)
Exchange rate	1 USD = KES 101.5 (stand: 29.11.2019).
Other major cities	Mombasa, Kisumu, Nakuru
Official languages	English, Kiswahili

KENYAN TRADE AND INVESTMENT ENVIRONMENT

BUSINESS ENVIRONMENT

Kenya has made significant improvement to its business environment. Kenya has improved considerably in the World Bank's Ease of Doing Business ranking from position 170 in 2012 to position 56 out of 190 economies globally, and 3rd in Sub Saharan Africa after Mauritius and Rwanda. The favourable investment climate is reinforced by an effective monetary policy and inflation stability, as well as the pursuance of a flexible and realistic exchange rate that promotes exports. Further, Kenya has a strong banking sector, and its legal, regulatory and accounting systems are transparent and consistent with international norms.

Individual income tax		
Taxable income (in KES)	Approx. USD equiv.	Tax rate (%)
Up to 147,580	Up to 1,454	10%
147,581-286,623	1,455-2,823	15%
286,624-425,667	2,824-4,194	20%
425,668-564,709	4,195-5,563	25%
More than 564,709	More than 5,563	30%

Exchange rate: US\$ 1 = KES 101.50



GOVERNMENT INCENTIVES

- The Kenyan Government has put in place various incentives to encourage investment and exports, including duty drawback, investment allowance, offsetting of losses by future taxable profits, remissions from capital goods, Manufacturing under Bond Scheme, export promotion programmes like EPZs, capital deduction measures for investors.
- Kenya has a fully developed one-stop centre (OSC) under the Kenya Investment Authority (KenInvest) to provide information and advice and to facilitate business registration, acquisition of work permits and other permits. KenInvest also facilitates implementation of investment projects, including aftercare services.
- Export processing zones (EPZs) and special economic zones (SEZs) offer incentives focused on exports and regional markets, including tax incentives and holidays, VAT exemption, business allowance and investment deductions. Athi River Export Processing Zone is the largest public industrial park located in Athi River town, less than 30km from Nairobi. The smooth regulation of these zones is ensured by the Export Processing Zones Authority (EPZA) and Special Economic Zones Authority (SEZA).

BOOSTING THE LOCAL LEATHER PRODUCTION

- The Kenya Leather Development Council (KLDC) is a sector support institution for public and private entities and aims to transform the leather value chain into a vibrant value-adding and export-oriented one.
- The Kariokor Market Upgrade project aims to enhance the Kenyan leather sector's productivity and efficiency and go a step further on the value addition chain. The market situated at the heart of Nairobi is being transformed into

Category	Resident	Non-resident	EPZ units*	SEZ Units**
Corporate tax**	30%	37.5%	0% for the first 10 years and 25% for next 10 years. Thereafter 30%.	First 10 years 10% and 15% for next 10 years. Thereafter 30%.
Withholding tax on dividends ***	5%	10%	0% for the first 10 years	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)
VAT	16%	16%	Exempted, except on motor vehicles	Exempted, except on motor vehicles

* 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.

a common manufacturing facility for footwear and leather goods. The Kariokor Market is a concentration point for manufacturing companies (more than 200 stalls and thousands of MSMEs).

- The Ngozi Kenya Leather Park is being established 60km away from Nairobi International Airport. The Leather Park will promote value addition and innovation and the land has been provided by the EPZA.

EXPORT AND IMPORT POLICIES

Duties are charged on exports, imports and particular services and goods. Usually, exports are not taxed if the person who profits from the services or goods being exported is not a Kenyan resident. Importing into Kenya entails using a clearing agent to electronically process the import documentation through Kenya's customs and clear the goods.

Kenya has entered into multilateral, regional, bilateral and preferential trade arrangements, including:

Cwustoms duties in Kenya	
Item	Rates (%)
Import duty	0%–25% (for some sensitive items 35%–100%)
Excise duty	0%- 100%
VAT	0% or 16%
Import declaration fee	2.25% or KES 5000, whichever is higher
Raw materials	0%
Intermediate goods	10%
Finished goods	25%
Import duty rate on: machinery, chemicals and components	Capital goods: 0% Chemical + components depending on the level of processing: <ul style="list-style-type: none"> ▪ 0% for basic materials; ▪ 7.5%–12% for semi-processed; ▪ 25% for final product.

Source: KRA, 2017.

Kenya's global and regional market access

Market access under	Markets
African Growth and Opportunity Act (AGOA)	United States of America
Trade and Investment Framework Agreement (TIFA)	United States of America
Everything But Arms (EBA)	European Union
African Caribbean Pacific European Union (ACP-EU) Partnership Agreement (Cotonou Agreement)	European Union
East African Community (EAC)	Regional market of 6 countries: Burundi, Kenya, Rwanda, South Sudan, the United Republic of Tanzania and Uganda
Common Market for Eastern and Southern Africa (COMESA)	Regional market of 21 countries and 16 are members of COMESA's Free Trade Area.
Northern Corridor Transit and Transport Agreement (NCTTA)	Regional market of 6 countries: Kenyan Port of Mombasa and the landlocked countries Burundi, Democratic Republic of Congo, Rwanda, Uganda and South Sudan
World Trade Organization (WTO)	More than 90% of world markets under most favoured-nation treatment

LOGISTICS AND CONNECTIVITY

- Mombasa, Kenya's main port, is the largest seaport in East Africa and serves as gateway to East and Central Africa with a direct connection to over 80 ports worldwide. The port has been equipped with modernized cargo handling technology and the numbers of containers being handled by Kenya Port Authority are increasing year by year as evidence of the port expansion.
- The primary way for transporting goods around the country is by road and a vital highway links Mombasa (seaport) to Nairobi. The approximate time for movement of goods between the port to the EPZ in Athi River/Nairobi is five working days.
- Kenya Railway also connects Mombasa to Nairobi through the new 472km Standard Gauge Railway (SGA). An expansion to Naivasha is under construction. In 2018, Kenya Railways introduced Madaraka Freight Service as the fastest mode of transporting cargo between Nairobi and Mombasa, with an average transit time of 8 hours.
- Kenya has four international airports in Kenya namely Jomo Kenyatta International Airport (JKIA) in Nairobi, Moi International Airport in Mombasa, Jomo Kenyatta International Airport, Eldoret International Airport and Kisumu Airport.

ACCESS TO ELECTRICITY

- Kenya now has the highest electricity access rate in East Africa: Total installed capacity increased by 13.7% to 2,711.7 MW in 2018.
- In 2018, the proportion of electricity from renewable sources stood at 86.0% compared to 75.5% in 2017.

- Kenya Power (KP) provides hydropower to all customers. Peak hours tariff (6am – 6pm) is approx. USD 0.12/kWh and off-peak hours tariff is approx. USD 0.70/kWh.

MANPOWER SCENARIO

- There is abundant availability of a relatively well-educated population.
- Current minimum wage for an unskilled worker is USD 150 per month.



(cc) Make it Kenya

INVESTMENT OPPORTUNITIES

MODERNIZED SLAUGHTERHOUSES

The availability of modern and well-functioning slaughterhouses is one of the main determinants of the quality of leather goods. Kenya can boast itself as a country with a growing number of potentially high-standard slaughterhouses. Indeed, Kenya's slaughterhouse sector (previously a government and parastatal activity) was stimulated by the entry of local private investors who brought in new ideas and approaches. Yet, the majority have not reached their full potential. Investment opportunities range from joint ventures with local companies to acquisition and modernizing of existing facilities.

PRODUCTION OF FINISHED LEATHER

The Republic of Kenya has 15 registered tanneries that are expected to increase to 21 after the completion of six mini leather-processing units under construction. The opportunities for investment in the tanning sector lie in joint ventures associated with installation of finishing lines in existing tanneries and their modernization as well as new tanneries.

PRODUCTION OF FOOTWEAR

Investing in men and women's formal shoes will generate positive returns in the short run. Of the

15.2 million pairs of leather shoes purchased annually in Kenya (36% of total footwear purchase), 3.3 million pairs are produced locally. There is growing demand for high-quality leather footwear, which may be explained by the growing Kenyan middle class. 25 enterprises are engaged in formal footwear and leather goods manufacturing. In addition, there are hundreds of informal footwear manufacturing units, small and medium-sized enterprises (SMEs), which cover 55%–60% of the local footwear production.



(cc) Make it Kenya



(cc) Make it Kenya

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
E-mail: enquire@invest.go.ke
Web: www.invest.go.ke

Export Processing Zones Authority (EPZA)

Tel: +254 45 662 1000
E-mail: info@epzakenya.com
Web: www.epzakenya.com

Kenya Leather Development Council

Tel: +254 704 617 705
+254 709 386 000
E-mail: info@leathercouncil.go.ke
Web: www.leathercouncil.go.ke