UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Advisory Services on Investment and Technology

Kenya

Investor Targeting Strategy

Refael (Rafi) Benvenisti
&
Jamshed Ali Abubakar

Draft Document – May 1999

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EXECUTIVE SUMMARY

1. FDI played a major role in the industrialization process of Kenya in the 1960s and 1970s. Today foreign owned firms account for about one fifth of total wage employment. In some sectors such as tourism, leather processing, textiles, clothing, chemicals and non-metallic minerals foreign firms contribute a third to a half of equity and output. With the liberalization policies, reduced regulatory burden, privatization and the opening up of the infrastructure sector to FDI, Kenya may experience a revival of FDI flows in the coming decade. In the 1990s most of the FDI[1] came from the U.K., U.S.A. and other European countries such as Italy, Switzerland and Germany. The sectors of investment were services, manufacturing, agro-industry, and tourism.

2. Kenya can adopt a pragmatic approach to promotion, which includes general promotion, and limited targeted promotion that will focus on privatization, infrastructure, regional integration opportunities and tourism.

3. The investment promotion vision for Kenya can be to harness private and public international resources to build a strong and efficient transport infrastructure and associated superstructure of agriculture, manufacturing and tourism activities to serve East Africa region and beyond. This vision sets up the infrastructure sector and especially transportation as the prime targets for FDI promotion in the coming years. Other sectors will be targeted according to the type of sectors that foreign investors will be interested in and those in which Kenya posses competitive advantage.

4. Kenya posses competitive advantage in its strategic location within East Africa; its efficient and diverse agro-climatic conditions; its abundant, diligent and low cost labor; and its diversified tourism assets.

5. The prime targets for investment promotion is market seeking investors. They are the majority types of investors in the world. Foreign firm with such a strategy will be interested in joint ventures with existing companies, in the Government's privatization programs, and in the plans to invite private sector investment in the infrastructure sector (utilities, transport and telecommunication).

6. The emerging regional markets of 80 million population – EAC, and 385 million of COMESA together with the establishment of an efficient transport system in Kenya will be a major attraction to foreign investors.

7. Targeting export oriented FDI has been the main investment promotion strategy of Kenya for many years. The policies and incentives resulted in vigorous response from private investors in the horticulture and garment sectors. In the 1990s the development in the textile sector stagnated due to problems in its ability to access its main market – the US (the introduction of quotas) – and serious infrastructure problems. With the liberalization of the international trade in textile and garments and the easing of the quota limitations in the US, it is expected that this sector will rebound and new foreign investors will be attracted to Kenya.

[1] The Investment Promotion Center (IPC).

8. The investment climate in Kenya is considered by investors as the major deterrent to implementation of an investor targeting strategy. Problems such as poor infrastructure, unstable economic and political environment and unsatisfactory judicial process have strong affects on location decisions by investors. The most affected by the conditions of the investment climate are the export-oriented investors because they can easily find alternative locations.

9. The most pressing issues that need to be addressed by the Government are the poor state of the infrastructure sector, the political and economic stability (with special emphasis on governance issues), and the situation of the judicial process.

10. Kenya resource endowment makes agriculture, tourism and labor intensive manufacturing the obvious targets for investment promotion strategy. This strategy is buttressed by the existing pattern of Kenya's export.

11. In manufacturing the sectors with strong potential are food, metals, non-metallic minerals, plastics, garment, leather products and wood products. These sectors show vigorous growth in output and export in recent years mainly to regional markets.

12. In the tourism sector the identified opportunities are beach resorts, wildlife and eco-tourism, mountain and highland resorts, cultural and cruise tourism, activity holiday, conventions and conference tourism.

13. Additional opportunities exist in the pending list of privatization that includes cereal, sugar and tea, reinsurance and oil refinery.

14. The infrastructure sector offer opportunities in port services, electricity, telecommunication, rail, ferry services, road improvement and construction on a BOT basis. Opportunities in the real estate sector exist in office buildings, commercial centers, industrial parks, export processing zones, and tourism infrastructure.

15. The agriculture sector present investment opportunities in the horticulture, sugar, fishing, tea and coffee sectors.

16. The European investors are probably the best targets for investment promotion because of their intimate knowledge of the country through long trade and investment relation and their market seeking strategies. Among the Europeans the UK, German, French, Italy and Netherlands are prime targets for all sectors.

17. The American investors are prime targets for infrastructure and privatization projects. The Far Eastern investors (South Korea, Malaysia, Singapore, Hong Kong and Taiwan) can be good targets for infrastructure projects and export oriented manufacturing.

18. Under the current conditions there is limited opportunities for Japanese investment in Kenya. The Japanese are most affected by political and economic instability and are reluctant to take the political heat involved in infrastructure and privatization projects. The only areas with possible Japanese interest is the hub investment aimed at the regional markets and the tourism sector geared to service Japanese tourists.

19. The South African investors are emerging as the prime target for domestic and regional markets FDI.

20. The targeting of companies must be based on criteria such as: the size of the company, its performance, involvement in international trade, financial position, market position etc. It is very important to identify the key executives in the company that will be involved in the location decision.

21. Successful investment promotion consists of three main elements: image building, investment generation and investor servicing. A detailed investment promotion strategy includes analysis of the phasing of the three elements and the emphasis placed on them over time. However, since this report does not cover the institutional aspect of investment promotion and the resources available to implement the strategy, this subject is only covered by general statements.

22. The investment promotion network of Kenya includes mainly: IPC, EPZA, EPC, and the Trade associations (KNCC&I, FKE, KAM, and EAA). The investment promotion activities of these institutions are very poor. The quality of publications is unsatisfactory (except for the EPZA investor's file). The only promotional activities are occasional missions and seminars. The prim initiative of these activities is coming from the donor community that usually finances part of the cost of the activity.

RECOMMENDATIONS

1. The Government should adopt a pragmatic approach to promotion, which includes general promotion activities such as publications and service provision, and limited targeted promotion that will focus on infrastructure, privatization, regional integration opportunities and tourism. EPZA can be engaged in limited targeted promotion in the Far East and Mauritius.

2. Based on the vision of Kenya as the supplier of infrastructure services for regional development and a hub for regional market oriented investment, the Government should target primarily the infrastructure sector for strategic foreign investors. Other key sectors should be targeted according to the country's competitive advantage.

3. The key sectors for targeted promotion are Agriculture (horticulture, fishing, sugar, tea and coffee), manufacturing (food, metals, non-metallic minerals, plastics, garment, leather and wood products), tourism (beach resorts, wildlife and eco-tourism, cultural and cruise tourism, and conventions and conference tourism). Additional opportunities exist in privatization and infrastructure (sea port services, electricity, telecommunication, railway, oil refinery and pipeline, reinsurance, sugar).

4. The European investors are the best targets for all type of investment promotion. The Americans are the prime targets for infrastructure and privatization projects. The Far Eastern investors can be good targets for export-oriented manufacturing and infrastructure projects. The Japanese investors can be targets for hub investment aimed at the regional markets and tourism. The South African investors should be prime targets for domestic and regional markets oriented FDI.

5. The criteria for targeting specific companies can be based on the size of the company, its recent performance, financial position, involvement in international trade, market position, technological level, etc.). Key executive in the companies should be the target of the promotion effort.

6. The tourism sector is a special case in targeting and promotion. The Government should study the investment process in the sector (a Road Map study) to identify and clear administrative barriers to investment. Special publications should be prepared to present the sector to the highly specialized investors.

7. The investment climate in Kenya is not considered conducive by foreign investors. Interviews, surveys and reports suggest that investors face major problems in: infrastructure, unstable or hostile economic and political environment and unsatisfactory judicial process. Most investors are expressing a “wait and see” attitude. This perceived difficult environment could strongly affect the investment promotion strategy. The Government is advised to deal with the pressing issues as soon as possible.

8. **The report suggests a pragmatic and low key promotion strategy until the investment climate will clear up**. **The strategy includes as main targets the promotion of FDI in the infrastructure, privatization and the expansion of existing foreign invested companies to supply the regional markets.**

9. The Minister of Industrial Development should appoint an **Investment Promotion Coordination Committee (IPCC)** that will be responsible to produce every year a **National Investor Targeting Strategy and a National Investment Promotion Program**. The strategy and the program will be prepared by the IPC in consultation and collaboration with the entire investment promotion network.

10. The program will include all the investment promotion events that are planned for the year with the listing of the organization responsible for the coordination of the event. The Committee membership will be made of the entire investment promotion network - IPC, EPZA, ESTU, KTDC, HCDA, KNCC&I, FKE, KAM, EAA, Ministries of Finance, Trade, Tourism, Economic Planning, Energy, Transportation and telecommunication.

11. The Permanent Secretary of the Ministry of Industrial Development will be the Chairman of the Committee and the IPC will serve as its Secretariat.

A. INTRODUCTION

1. This report is entitled "Kenya: Investor Targeting Strategy". Its purpose is to assist the Government of Kenya (GOK) in the design and implementation of a coordinated investment promotion strategy for the country. The rational for the study is that the GOK could more effectively take coordinated promotional efforts if they are based on analysis of the types of Foreign Direct Investment that Kenya can expect and towards what type of investments Kenya is geared to.

2. The study was commissioned by the Investment Promotion Center (IPC) of Kenya together with the UNCTAD Advisory Services on Investment and Technology (ASIT) as part of the Global Quick Response Window Program, which is financed by the Swiss Government.

3. A team of experts, consisting of an international consultant and a national consultant were involved in the study. The team conducted a field study in Early April 1999 that included meetings with foreign investors, private sector associations and government officials. The project team reviewed existing studies on the general behavior of foreign investors, as well as their behavior by country of origin and sectors of activity. The team analyzed available materials on Kenya past FDI performance, comparative advantage and development plans including plans for privatization of parastatals and FDI in infrastructure.

4. Investor targeting strategy is part of the investment promotion strategy. It is the part that tells policy makers and Investment Promotion Agencies (IPAs) executives **what to promote**. The other parts of investment promotion strategy are how to promote, how to structure the promotion program and how to develop a coordinated approach to targeting by the key players in the promotion network.

5. Countries can adopt any one of a number of basic approaches in moving to decide what to promote.

   - a **pragmatic approach** which includes general promotion and limited targeted promotion, with the latter focusing on sectors and countries already yielding the greatest level of FDI flows;

   - a **targeted approach** which is based on detailed competitive evaluations and on the policy actions required to enhance competitiveness in the targeted sectors; and

   - A combination or **multi-tier approach** which maintains a pragmatic and gradual approach while at the same time undertaking the work necessary to move to a more targeted approach later.

6. The main reason for the development of targeting strategies was the growing awareness within the IPAs that by using these techniques they can get better results for the resources used. The IPAs can concentrate their efforts on sectors where their country can offer competitive advantage or where there are reform programs that can offer opportunities to interested investors. The targeting can guide the promotional efforts such as publication, seminars and direct sale and make them more relevant and affective. Targeting investors and promoting them without clearing problems in the

investment climate can end up with wasted resources and even harming the country's image. Attracted investors that upon arrival to the country face investment climate problems can result in creating more image problems for the country.

7. The IPA can target either a particular type of investor or a particular type of project for investment. In targeting a particular type of investor, agencies can target by industry, by sector, by geographical region, or by attributes of a class of investors- for example, size, growth rate, export intensity of production, labor intensity of production, level of technology, value added of production, or any attribute that identify a group of prospective investors that can be matched with the competitive advantage a particular country has to offer.

8. The consultants were aware that the current investment climate in Kenya needs major improvements before a full-scale investor targeting strategy can be implemented, and that it is too early to launch an investment promotion campaign based on it. However, the consultants are of the opinion that the first option of targeting strategy – t**he pragmatic approach -** that appears in paragraph 5 is the right approach for Kenya.

9. The use of this approach will improve the existing efforts to promote the country through better coordination between the agencies. It will also improve the effectiveness of promotion programs such as missions and seminars in the export sector, privatization of parastatals and promotion of investment in the infrastructure sector. The implementation of this strategy can increase the understanding of private and public sector organizations of how to approach FDI promotion and what it takes to effectively promote FDI. As part of these objectives the current report can be used as background material for the training of promotion personnel. Later on when the investment climate improves and the country will be ready to invest in investment promotion programs this paper can be used to design outreach promotion programs.

10. Before attempting to embark on an investor targeting strategy the consultants were searching for a general strategic vision for Kenya that can serve as background for the targeting strategy.

The Investment Promotion Vision for Kenya

Kenya can harness private and public international resources to build a strong and efficient transport infrastructure and associated superstructure of agriculture, manufacturing and tourism activities to serve the East Africa region and beyond. The development of infrastructure will be based on its potentially excellent port of Mombasa and the location of the country within a large and populated area. The strategic location of the country, the international political interest in the region and a local determination to make it happen, can harness international public and private resources to build an efficient backbone transport system in Kenya. This system can include a modern rail system and a modern Trans-Kenya Highway from Mombasa to Kampala (via Nairobi) with extensions to the neighboring countries. The land transport system together with investment in human resources can help the country to exploit its big potential in agriculture, tourism, services and manufacturing. To materialize such a vision there is a need to establish an open economy that is capable of giving efficient services to its neighbors. Kenya will also need to achieve greater outward-orientation (maintaining an open environment for flows of goods, services, foreign investment, technology and all form of capital) and use a market-friendly policy approach.

11. General strategic visions like this were used to launch long term investment promotion strategies in Ireland in the late 1970s, in Singapore in the 1980s and in Israel in the Mid 1970s. The vision is needed to set up a framework of high targets for the country on the way it wants to harness its assets and its position in the world and within its regional context to achieve higher economic and social goals. During the mission we kept asking for the vision and it slowly emerged during our discussions with private and public people.

12. The following report is mainly about what to promote and how to coordinate the targeting activities of the IPC and other institutions involved in investment promotion. The detailed discussion on how to promote and how to organize the promotion function is beyond the scope of this report.

B. PROSPECTS, PLANS AND CONDITIONS

1. What types of FDI flows can a country expect?

13. There are two basic approaches to define investment promotion strategy for a country. The first is an analysis of the country's locational strengths and weaknesses (or as it is called sometimes the SWOT analysis – Strength, Weaknesses, Opportunities and Threats). This approach assumes that all countries can be the targets of FDI provided they build on their strength, take remedial actions to remove their weaknesses and be prepared to take advantage of new opportunities and protect themselves against developing threats. The weakness of this approach is its neglect of the decision process within multinational companies that determine their strategies and resulting preference for certain locations. This report start with the analysis of the various corporate strategies and preference and then analyze the strengths and weaknesses of Kenya as a location.

14. A recent study[2] suggests a clear divide between the attractiveness of countries to multinationals. The division was called "the four concentric circles on an attractiveness chart". At the center of the chart, in the first circle, we find North America, Europe and Japan (<u>the triad</u>). Most of global FDI flows happens in and between these regions. The second circle consists the "most attractive" countries to multinationals (<u>the core group</u>) that may include countries such as Malaysia, Thailand, Turkey, Hungary, Poland, Portugal and Russia[3]. Among these countries there are conditions for trade-off and they may substitute for each other. The third circle covers countries whose attractiveness is still <u>potential</u>. Finally the last circle represents the <u>periphery</u>. Countries in this group do not appear on the long list of countries that multinational companies made for themselves as potential sites.

15. Economic analysis and company surveys suggest that there are two basic foreign investment strategies that explain this locational preference. The **market-seeking** firms or those that have horizontal strategy and the <u>cost-minimization</u> firms or those that take vertical approach. The FIAS study show that the market-seeking firms or

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[2] Strategies of Multinational and Competition for Foreign Direct Investment. The Opening of Central and eastern Europe. Charles-Albert Michalet. FIAS Occasional Paper 10. December 1997.
[3] The list of countries was part of the sample used for the study.

horizontal considerations are generally more important than vertical ones in guiding the locational strategies of investors. Thus, most multinationals (except in the textile and apparel or generally in light assembly industries) are market seeking and any country that can offer a large and dynamic domestic market including access to regional markets can expect to be on their lists. The market preference of multinational should not rule out the firms with cost-minimization or sourcing approach. The vertical (or "global") approach is determined by differentials in factor endowments among countries. The firms are locating production activities internationally and using the most productive factor in each country.

2. What Type of FDI can Kenya expect

16. The approach taken for this study is a combination of both analytical approaches. The attractiveness of Kenya is mainly determined by the matching of what Kenya can offer FDI against the demand of potential investors. Let us first look at what are the strength and potential of Kenya as an investment site.

Kenya Prospects as Investment Site

17. When investors look at Kenya they see some basic positive assets. The country is large and has a rich mix of climatic conditions that supports wide range efficient agriculture activities. It has limited mineral resources but ample tourist resources such as game reserves, the Indian Ocean beaches and the beautiful scenery.

18. The most important asset of the country is its strategic location in East Africa. Together with its Mombasa Port and Nairobi Airport, Kenya is in a position to create an efficient transport system to all countries in East and Central Africa. With a backbone of efficient ports and airports connected by main arteries of rail and highways Kenya can provide infrastructure services to all its neighboring countries. Based on this efficient infrastructure the country can than develop an efficient manufacturing conversion industry for the whole region. The tourism and agriculture potential can be realized to the fullest extent by the use of this modern infrastructure.

19. The Kenyan tourism assets[4] includes:

- Price competitiveness in major long-haul destinations from Europe;
- Established image as safari and beach tourism destination;
- Relative political stability and security conditions compared to safari competitors;
- Relative proximity to new markets in the Middle East, South and East Asia;
- Indistinct seasonally (that can mean potential all year round tourist arrival);
- Diversity of tourism resources; and
- Lower language barrier (most Kenyan speaks English).

20. Kenya labor resources can be considered one of its main assets. It is industrious, abundant, and inexpensive. The country has 5.7 million pupils enrolled in primary schools, 687,000 enrolled in secondary schools and 89,000 enrolled in post secondary institutions. The average Kenyan worker is well educated, English speaking and

[4] Kenya: National Tourism Development Master Plan. JICA, MOTW, Pacific Consultants International Nippon Koei Ltd. October 1995

extremely adaptable. Qualified professional staff can be hired at reasonably priced pay-scales, in all occupations and at all levels of expertise.

Country	School Enrolment as a % of Age Group		Adult Illiteracy %
	Primary	Secondary	
Kenya	92	26	22
Uganda	91	14	38
Tanzania	70	6	65

Source: World Development Report 1997. World Bank. 1993 Data

15. After analyzing the strength and potential of Kenya let us turn to the kind of things investors will be looking at when investigating investment opportunities in Kenya. We will start with the market seeking investors including those that will be interested in privatization, infrastructure, real estate and business services and regional markets or hub investment, and than analyze the overseas export oriented FDI.

Market Seeking

16. The market seekers (i.e. the multinationals with horizontal strategies) can be major targets for investment promotion. They are interested to establish local presence that can effectively use its own specific assets (technological capital, patents, and trademarks) that give it competitive advantage. In their quest for building a foothold in the market foreign companies are seeking an alliance with the very best local companies that can help them establish themselves. A major reason for choosing a certain local firm is the specific character of a company. Investors have been mainly interested in the acquisition of, or joint venture with firms with the following characteristics:

- The demand for their products has growth potential in the small local market and the regional market.
- The companies have established trade links with other parts of the regional markets (EAC and COMESA);
- They are export oriented and have established market shares in other African markets;
- They posses a relatively high level of management and technical expertise and can allow fast absorption of foreign technology.

17. In many cases foreign investors will be able to identify Kenyan companies with these characteristics because they already cooperate with them today or they have successfully cooperated with them in the past.

18. On the other side of the transaction, international experience identified the following motivations of local firms to enter joint ventures with foreign firms:

- The poor financial situation of the company and, thus, the need for a capital infusion.
- Desire to increase its penetration to the regional markets.
- A need to make investments in technology in order to stay competitive.
- Underdevelopment of the company's product line and trade marks.

19. Another option for investment promotion is to target existing investors to persuade them to increase their investment in the country through reinvestment of profits or new investment in new products and processes.

> The Welsh Development Agency (WDA) made an effort to increase FDI by working together with existing subsidiaries of foreign firms. The program included the following elements: encourage firms to reinvest their profits in new products and processes and to expand their production to new markets; and identify overseas suppliers of the firms to locate to Wales near their customers. The program has been a major success for the WDA. Reinvestment of profits was estimated to amount an additional 500 million $ in five years.
>
> Foreign Investment: Targeting and Promotional Strategies. Commonwealth Secretariat. Occasional Paper #2. 1996.

20. The consultants believe that there are opportunities among Kenyan companies that would appeal to foreign investors for joint ventures and even buy-outs. In fact, new potential is being created on a regular basis both by privatization and the development of the domestic private sector. This is a natural process that occurs in all developing countries, but there is perhaps greater potential for this in the Kenyan economy due to the privatization programs.

Privatization

21. Targeting investors to participate in the privatization program in Kenya can generate a large flow of FDI. A study on the affects of privatization on FDI flows[5] shows that during the period 1988-93, about 10% of total global FDI inflows resulted from privatization. An econometric analysis of a cross-section of 36 countries indicates that each dollar of privatization revenue attracted another 88 cents of FDI independent of the privatization sales themselves. The countries that conducted large, stable and reliable privatization programs such as Argentina, Chile, Czech Republic, Hungary and Mexico received substantially larger FDI per capita compared to the developing world as a whole. The study concluded that it appears that privatization has an important signaling function to foreign investors through its strong impact on the future development of the foreign investment climate. In fact, governments can use privatization programs as a highly effective advertisement tool to attract additional foreign investors

22. Privatization programs around the world are part of the reform strategy to turn the private sector into the prime force of economic development. In most countries[6] these programs are connected with increased liberalization in foreign investment regimes. In some countries, while generally acknowledging the benefits of FDI participation, governments succumb to political pressure, giving preferential treatment to domestic buyers. Short-term political goals rather than efficiency, increased competitiveness and economic growth considerations dominate this strategy. The exclusion of FDI

[5] Privatizing Public Enterprises and Foreign Investment in Developing Countries 1988-1993, F. Sader, FIAS Occasional Paper #5, 1995.
[6] Facilitating Foreign participation in Privatization. K. Megyery, F. Sader, FIAS. Occasional Paper # 8. 1997

from privatization denies the country the benefits of increased number of offers, higher sales prices, and higher probability of success of the programs. The fundamental principles of successful privatization are strong political commitment, business orientation of the programs, and fairness in its implementation. Additional aspects of the programs include a clear privatization strategy, the creation of the institutional and legal environment and a short and straightforward divestiture process. Most of the complaints about the privatization process in some countries are about the general sense of hesitance and indecisiveness foreign investors encountered when entering the privatization process. This, in turn, means longer process and higher risks and costs to the investors.

23. The privatization in Kenya is part of a comprehensive Public Enterprise Reform Program. The overall aims of the program are:

- Enhance the role of the private sector in the provision of goods and services;
- Create a more level playing field by eliminating preferential treatment, including monopoly rights, of the Public Enterprises (PE);
- Enable the private sector to enter the areas of activity of the PE on equitable basis; thereby broadening the ownership base and enhancing capital market development.
- Rationalize the operation of PE and reducing their burden on the budget.
- Improve the regulatory environment by eliminating the conflict of interest between the regulatory and commercial functions of PE.

24. The bodies responsible for the reform program are the Department of Government Investment and Public Enterprises (DGIPE) and the Executive Secretariat and Technical Unit of the Parastatal Reform Program Committee. More than 200 PEs have been selected to be included in the privatization program. The guiding principles of the privatization process are:

- Moratorium on new government investment in the privatized enterprises except for financial and restructuring purposes
- Divestment into competitive markets
- Purchases will be without credit on concessionaire terms
- No specific class of investors will be excluded from participation in the process
- All transactions will be conducted in an open and transparent manner including
  - a fair and equitable bidding procedure;
  - bids will be open to the public with full disclosure of information and offering memorandum and publication of the names of the purchasers;
  - established and publicized criteria for ranking of bids.

25. The program until now resulted in divestiture of government holding in manufacturing (cement and chemicals and cars), banking and financial services, airlines, and tourism. The pending list[7] of large enterprises includes the port services, cereals, sugar and tea, telecommunication, electricity, rail, oil refinery and pipeline ferry services and reinsurance. As stated above all these activities can attract substantial FDI and create development opportunities in the regional markets.

[7] Annex 7

Infrastructure

26. Infrastructure is the most important sector for investor targeting according to the investment promotion vision of this report. Targeting potential investors in the infrastructure sector can also lead to large FDI inflows.

27. Governments around the world are rethinking[8] their policies in the infrastructure sector as part of the liberalization and reform policies, and private sector development efforts. Private provision of infrastructure services became the norm in many countries. Several factors lie behind the renewed interest in private participation in infrastructure ownership, financing and management.

28. First, there is growing disenchantment with the experience of public monopoly ownership and provision of infrastructure services. There is increasing evidence that private sector generally performs better in terms of construction costs and times, operation and providing services that are consumer oriented. Second, fiscal constraints on the traditional sources of infrastructure finance to governments in developing countries have led to increasing use of private finance to address capacity shortages. Third, technological development in some infrastructure sub-sectors (such as electricity and telecommunication) reduced the competitive sizes of production units and introduces new service delivery means. These developments enabled small private operators to enter niche markets and compete with established monopolies. Fourth, new financial products appear in the market and the globalization of the financial markets increased the number of financial service providers and the volume of international capital available for infrastructure finance.

29. The framework[9] that would facilitate FDI in the infrastructure sector includes:

- a strategy of reform for each sector, explicitly incorporating the private sector as central element;
- an overarching legal framework across sectors to provide the basis for private sector involvement;
- effective institutions, and a clear and coherent allocation of powers and responsibilities among those institutions to manage the process; and
- a strong regulatory framework.

30. The Government of Kenya program[10] of involving the private sector in the infrastructure sector is far reaching. In the roads sector the provision of load control services, the operation of maintenance facilities of the government cars and equipment fleet will be privatized, and the private sector will be involved in road improvement and construction on a BOT basis. The Kenya Railways and Kenya Posts and Telecommunication Corporation will be privatized. A second cellular phone company will be licensed. Private sector operators will be invited to provide sea ports services. Government holdings in the petroleum sector will be privatized (refinery and pipelines).

[8] Financing Private Infrastructure Projects. Emerging Trends from IFC's Experience. December 1993
[9] The Policy Environment for Foreign Direct Investment in Infrastructure. P.T. Spiller. FIAS and UNDP. 1993
[10] Annex 8

31. In several African countries foreign investment in privatization and infrastructure has generated a big increase in FDI flows.

Selected African Countries with High FDI Flows
(Millions US $)

Country	1993	1994	1995	1996	1997 Estimate	1998 Estimate
Cote D'Ivoire	40.3	17.5	211.6	205.6	327.2	300.0
Ghana	125.0	233.0	106.5	120.0	130.0	133.0
Namibia	55.4	98.0	118.3	152.3	187.0	200.0
Tanzania	20.2	50.0	119.9	150.1	157.9	200.0
Uganda	54.6	88.2	121.2	121.0	175.0	200.0
Kenya	1.6	3.7	32.5	12.7	19.7	20.0

Source: IMF and the World Bank

Business Services and Real Estate

32. In most developing countries the service sector is weak and can benefit from the introduction of modern business practices and close cooperation with foreign strategic partners. In addition to the weak private service sector, Kenya has deficiencies in real estate infrastructure for industry, tourism, and services. In most developing countries one of the first sectors to pick up FDI flows are office buildings and industrial and tourism zones. The foreign investment in these sectors bring in addition to capital, the technology (efficient design and use of material) and management capacity. Over half of FDI worldwide is in service industries. Moreover, a substantial amount of FDI worldwide has gone into the development of industrial parks and export processing and tourism zones. Experience has shown very clearly that privately owned (both domestic and foreign) facilities of this sort have been more successful than facilities financed by governments. Kenya can target investors in this sector with its large industrial and tourism infrastructure projects.

Regional Markets – The Hub Investment

33. Kenya can target investors for the regional markets in East Africa and beyond. Indications for the sectors of interest are given by the structure of the existing export to the neighboring countries[11].

34. The ideal location for a firm with a market seeking strategy is a host country that can serve in addition to its own market as a launching pad to a dynamic regional market. For them the careful selection of an investment can reduce the need for direct investment in neighboring countries. This approach is quite similar to the "hub and spokes" model used by airline companies.

35. Kenya is one of a few countries around the world that has a long established position as a regional hub. This position was strong during the colonial period when regional institutions headquartered in Nairobi. During the 1970s and 1980s this position was

[11] See Annex 3

somehow diminished because of regional political tension and the inward policies of the regional governments. In the 1990s as a result of the outward policies of the government and renewed efforts for regional integration, Kenya regained its hub position.

36. The hub position of Kenya is enhanced with the establishment of the East African Cooperation (EAC) and the Common Market for Eastern and Southern Africa (COMESA). The first organization - the EAC includes Kenya, Tanzania, and Uganda and brings together about 80 million people with a common history, language, culture and infrastructure. The second – includes 21 countries with more than 360 million people. It stretches from Egypt in the north to Lesotho in the south and the Democratic Republic of Congo in the west.

> The Coca-Cola Company had a regional office in Kenya for many years. They moved the regional office to London in 1988 because of problems in communication, foreign exchange, import licensing and expatriate labor. In 1993 the worldwide corporate structure changed and the Coca – Cola Africa unit was established. This unit was divided into the Northern and Southern parts. Coca-Cola Northern Africa established its headquarters in Nairobi in 1993. It covers 39 Sub-Sahara countries. They employ in Kenya about 3,000 workers (including in bottling companies and a concentrate plant). In the head office they employ 200 workers. The reasons given for the Nairobi location is its strategic location and the change of policies that removed the difficulties they had in the past. Air transportation improved and Kenya is now connected directly to all parts of Africa. The company received a permit to use satellite communication to be connected to its corporate headquarters overseas. They also received permissions to have: stand by generators, their own short-wave communication system and water systems. The liberalization of import licenses and foreign exchange was very important to them. The local Coca-Cola management thinks that the Nairobi location for regional operation makes a lot of sense.

37. The agreement establishing the new EAC was signed in 1993. The EAC aim at the establishment of a single market. The Permanent Tripartite Commission concentrates its efforts in the identification and elimination of physical and policy related constraints, which could slow the establishment of a single market and investment area. The agenda of the Commission includes:
    - easing the movement of people, goods, services and capital;
    - provision of adequate and reliable basic infrastructure, particularly transport and communications facilities;
    - harmonization of standards, specification, trade documentation and investment policies;
    - harmonization of macro-economic and sectoral policies;
    - provision of trade financing; achievement of convertibility of the East African currencies.

38. By the end of 1998 tariffs were reduced by 80% and many NTBs were reduced or eliminated. By July 1999 the tariffs will be reduced by 90% with full elimination of customs duties on trade between members in the early 2000s.

39. The COMESA Treaty was signed in the end of 1993 and ratified in the end of 1994. The objectives of the Treaty are:
- a full free trade area guaranteeing the free movement of goods and services;
- a custom union under which goods imported from non-COMESA countries will attract an agreed single tariff;
- free movement of capital and investment; gradual establishment of payment union; and
- adoption of a common visa arrangement.

40. The COMESA leadership prepared a list of priorities for the next five to ten years it includes:
- significant and sustained increases in productivity in manufacturing and agro-industries;
- increase in agriculture production and cooperation in the development of lake and river basins to increase irrigated land;
- development of transport and telecommunication; new programs for trade promotion; and
- development of data information and data bases.
- Special emphasis will be placed on FDI climate and investment promotion.

41. The tariff reduction between the COMESA member countries reached 90% in January 1999. It is expected that the tariff level will reach zero in the year 2000. In addition to tariff reduction, facilitation and liberalization measures resulted in a large increase in intra-COMESA trade. COMESA has established several important institutions including a regional development bank, a clearinghouse and a re-insurance company. It also introduced traffic facilitation measures that resulted in a reduction of 25% of intra-regional transport costs.

42. Foreign firms are already taking advantage of the Kenya's strategic location and the regional trade opportunities. Kenya accounts for 25%[12] of total intra-COMESA trade and exports to the EAC partners (Uganda and Tanzania) is about 30% of total exports of Kenya[13].

Globalization Investment or Export Oriented FDI

43. Targeting export oriented FDI has been the promotion strategy of Kenya for many years. The Government adopted policies, introduced incentives and built institutions to promote this sector. The policies and incentives resulted in a vigorous response from private investors in the horticulture and garment sectors. The establishment of the Export Processing Zones gave this drive another dimension.

44. Export oriented FDI is closely associated with the current international trend of globalization. Globalization is a process whereby firms in all industries are forced by competition to find the best locations for all of the steps in their production value chains. In this process, firms will relocate any operations that are moveable from their home countries to places where improvements (e.g. lower costs, better service,

[12] 1994
[13] Annex 1

and higher quality) can be obtained. The operations relocated may be manufacturing (in a manufacturing firm), or even administrative (e.g. accounting operations).

45. The most notable sectors with this strategy[14] are the garment and footwear[15]. Both industries have similar market structure, are regulated by quantitative trade limitations in their export markets, and generally speaking their manufacturing processes are subject to the same technological and economic constraints. As a result they have tended to exhibit similar worldwide locational patterns. There is continuous pressure within the industry to keep prices low. As a result, the garment industry historically has been most driven to seek out the lowest-cost production environment. Because of rising labor costs in the traditional low labor costs in the Far East and countries such as Mauritius producers are seeking new investment site with low labor costs and free access to the European and US markets.

46. Kenya was considered one of those investment sites and foreign investors started to establish garment operations in the country. Garment export[16] from Kenya to the US grew fast and reached $ 38 million in 1994. In that year the US government introduced quotas on certain garment products from Kenya. Since than Kenya exports to the US declined to $31 million in 1997. Interviews with exporters reveal that an additional deterrents for export oriented FDI is the state of the infrastructure sector. Exporters complain about the low quality and high cost of land, sea and air transport and the quality and cost of utilities and telecommunication. These are essential services to these investors that face stiff international competition and have to stand to very demanding price and delivery times standards.

47. The development of the export oriented garment sector in Kenya can be aided by positive developments in the US and international markets. The new Africa Growth and Opportunity Act in the US would provide enhanced access of Kenyan export to the US market for textile and garment and the elimination of the quota, provided that the country establishes a ”visa system to guard against unlawful transshipment of sector goods”. Another development that may signal renewed opportunity for the textile and garment sector is the Uruguay Round Agreement on Textiles and Clothing (ATC). The ATC obligates WTO countries to phase out quotas maintained under Multifiber Arrangement (MFA) on sector imports from other WTO countries within 10 years in several stages. The last date for the quota system is January 1, 2005. In addition, annual quota growth rates were substantially increased. In recent months there is evidence of Far East investors’ renewed interest in investing in Kenya to establish garment manufacturing to the US market[17].

48. The conclusion from the above discussion is that Kenya should continue to target the export oriented manufacturing sector. The Export Processing Zones can be the prime promoters of this type of investment.

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[14] However, this statement should be qualified by saying that firms operating in this sector are pursuing other strategies than foreign investment such as direct purchase or sub-contracting according to a company network.
[15] Additional sectors with similar behavior are other light industries such as toys.
[16] US-Africa Trade Flows and Effects of the Uruguay Round agreement and US Trade and Development Policy. US International Trade Commission. Washington. October 1998.
[17] Frankfurter Allgemeine Zeitung May 17, 1999.

3. *Conditions for successful active investment promotion programs*

The Investment Climate

49. The competitive advantage of the country is an important factor in analyzing the potential for attracting FDI. However, this advantage will never materialize if the perceived investment climate will not be right. In the SWOT analysis the Weaknesses in the investment climate are analyzed to determine if the country is ready for FDI promotion.

50. Many firm's interviews through the years confirmed that market potential and its dynamics alone couldn't guaranty final decision on location. There are additional crucial factors that determine if the country appear on the list of potential sites: the political and economic stability, the legal climate, the presence of qualified labor and industrial strengths, communication systems, privatization programs and an acceptable fiscal regime.

51. The mission's sources of information on investment climate problems were a survey (1998) of the Eastern Africa Association and two "Road Map" studies financed by USAID and DFID. In the survey the members of the Association mentioned the following problem areas in the investment climate. The infrastructure was a matter of great concern. The situation of the road condition, telecommunication and ports services were considered seriously unsatisfactory and the situation are getting worse. The situation in electricity and water supply, rail services and judicial process were considered seriously to slightly unsatisfactory, and except for electricity and water, the situation was getting worse. The general perception is that corruption problems are very serious and the situation is getting worse. The perception of the general business situation is that there is deterioration in the general climate. The main constraints to increased trade in the region were: poor infrastructure, especially roads and telecommunications, import duty problems because the agreed EAC and COMESA tariff reductions were not implemented; and bureaucracy, red tape and excessive documentation. In addition to the survey, detailed analysis of the regulatory system done by two consulting firms in 1998 revealed the following problems in the investment climate.

52. The assessment of a country **economic and political stability** is an important element of the investment decision. Any negative perception in the area can put at risk the implementation of the investment plans and the their predicted profits. In cases where the general long-term interest is present the firms may adopt in difficult situations a "wait and see" attitude.

53. According to the World Bank (WB) and the IMF Kenya's overall economic performance has deteriorated in the 1990s. GDP grew on average by 2.2% per annum compared with 4% for Tanzania and 5.6% for Uganda over the same period. Kenya enjoyed strong macro economic management in recent years with single digit inflation and reasonable fiscal deficit. However, the other side of this stability was an inability of the government to provide and maintain the basic economic and social infrastructure to support private investment, high real interest rates (above 30%) and accumulation of non-performing loans by the commercial banks. The private sector was squeezed between the low growth (or even decline in some cases) of the market

and the high cost environment[18]. The external environment for Kenya, on the other hand, is quit favorable. Its major trading partners (Europe and East Africa) are expanding strongly with consequent increase in exports. The external terms of trade are favorable with strong and stable tea and coffee prices and weak oil prices. Potential positive effects are expected from the regional free trade initiatives of the EAC and COMESA. The tourism sector is reviving and Kenya is in a position to take advantage of its foreign investment potential and the favorable world financial markets.

54. The WB and the IMF identified the economic governance as the main issue in the current political environment. The donors' community is pressing this point in discussions with the government. Private investors also brought the issue to the attention of the mission. The nature of the poor economic governance in Kenya as identified by the WB is poor public sector performance, chronic fiscal instability and dysfunctional public expenditure management. As a result the capacity and integrity of public sector institutions have been weakened checks and balances have eroded and increasingly narrow political priorities dominate the public interest. The governance issue will be addressed in the coming years through comprehensive constitutional review measures, public sector restructuring, public expenditure management reform, and strengthening accountability mechanisms.

55. Investors would prefer a **stable, transparent and reliable legal and regulatory framework.** It entails stable rules of the game, a judicial system that can enforce laws and contracts effectively-promptly and honestly and a minimum bureaucratic interference and arbitrary decisions by the government.

56. The judicial and regulatory framework in Kenya has major problems according to investors and practitioners[19]. The regulatory framework was recently analyzed by two consulting groups[20] that identified issues in property rights, work permits, licensing and access to utilities. Because of poor registration facilities and their management the obtaining property right over land and building is lengthy, cumbersome and sometimes impossible. The registration of mortgages is non-operational. Because of fraud and the pressure of unemployment it is very difficult to get work permits to investors and their key personnel. The past major general problem of licensing became less acute in recent years. Automatic free licenses (Trade), a single general license in the municipalities, the General Authority (that covers many licenses) by the IPC, and the effective one stop shop in EPZA made life easier to investors. However, this does not cover all licenses and there are still problems with sector licenses, inspections by officials that portray an approach of harassment rather than facilitation. Access to utilities (water, electricity and telecommunication) is very difficult. The organizations supplying them are in some cases municipal or government offices or parastatals and their procedures are bureaucratic.

57. Investors and academic analysts mention, as one of the most important deterrents to investment in Kenya - the state of the **infrastructure services**. The provision of utilities (electricity and water) transport (air, land and sea) and communication is essential to efficient functioning of manufacturing and service operations.

[18] Real interest rates went down to a single digit in recent months.
[19] Interview with lawyers in February 1999
[20] Investor Roadmap of Kenya. The services Group. October, 1998. Funded by USAID.

Competitiveness in labor and material can be lost if utility services are inadequate and are provided at high costs. The quality of transport services can influence access to markets and ability to meet production and delivery deadlines.

58. Infrastructure services in Kenya lost in the competition for public resources in the period of tight budgets in the 1990s[21]. Capacity expansion was not coming and resources were not available for maintenance. For some of these utilities the capacity shortages were compounded by high cost and poor service resulting from poor management, corruption, bloated labor force and over-regulation and bureaucratic service provision procedures. Investors complain that land transport services to the Mombasa port and to the neighboring countries cost more than to ship product by sea to far away countries. The cost of water and electricity are more than twice the cost of the same services in competing locations in Africa. The problems with the quality and price of services are solved by self-providing of certain services. In a survey 70% of the large plants have their own security services, 25% have water systems, 20% stand by power generators, and 25% their own freight and labor transport. The self-provision of services add to production costs and decrease the competitiveness of the country as an investment site. The lack of infrastructure services is especially important in the export sector. Firms with cost minimizing strategy that

59. The main conclusion from the above analysis is that the investment climate in Kenya needs major improvements. The single most important issue is the state of the infrastructure sectors. It will be difficult to see large inflow of FDI to manufacturing, agro-business and tourism without a cardinal change in the quality and cost of the infrastructure services. The second subject that needs urgently to be addressed is the perception (and indeed the reality) of poor governance. Issues like corruption and the break down of the judicial process has strong affect on investors. As mentioned above, political and economic instability can lead to "wait and see" attitude by foreign investors. It is for these reasons that the consultants are cautious about the implementation of the targeting strategy. The poor investment climate will have the strongest affect on export oriented FDI. These investors have alternative locations with better conditions. Big investments in targeting investors from this group will not yield high returns. However, targeting market seekers in privatization, joint venture with existing firms, infrastructure, real estate, and hub investments to regional markets is problematic but still possible.

60. In the next part we will attempt to identify in detail what can be the targeted sectors, home countries of FDI and foreign companies. Let us first start with the resource endowment of Kenya and its competitive advantage.

[21] Industrial Policies for the Twenty First Century. P. Kimuyu. IPAR. 1998.

A. NATIONAL STRATEGY

4. Investor targeting strategy

Kenya Resource Endowments

61. Kenya lies across the equator, on the eastern seaboard of Africa. Kenya has a landmass of 582,646 sq. km - slightly larger than France does. It is endowed with a rich heritage of flora and fauna and natural resources, which allow for a wide range of economic activities. Kenya is strategically located within easy reach of export markets in the region, Middle East, Europe and Asia. Mombasa is the Principal seaport of Kenya and is one of the most modern ports in Africa providing connection to landlocked neighbouring countries. The port is linked to the world's major ports with over 200 sailing per week to ports in Europe, North and South America, Asia, the Middle East, Australia and the rest of Africa. Kenya through its capital Nairobi also serves as the major regional communication and telecommunications hub. Nairobi's Jomo Kenyatta International Airport serves more than 30 airlines providing direct scheduled service to major capitals in Europe and the rest of the world.

62. Kenya's strategic location at the heart of Eastern Africa means that Kenya lies within 4 hours flying time of the Middle East, the Indian Ocean islands and the whole of Central and Southern Africa, and within 8 hours flying time of most Western European cities. Kenya is thus particularly well suited as a production and distribution base to service Africa, Europe, the Middle East, South Asia and the Indian Ocean Islands.

The Structure of the Economy – Sector Considerations

63. Kenya resource endowment makes the agriculture, tourism and manufacturing based on its abundant labor the obvious targets for an investment promotion strategy. This strategy is buttressed by the existing pattern of Kenya’s exports (see Annex 3). More than two thirds of exports is agriculture and agro processed products. About 20% are mass produced manufactured products for the regional market such as petroleum products, cement, iron and steel, vegetable oil etc. The labor intensive manufactured products are only a small fraction of total exports with textile and garments and leather products as the leading product groups.

64. The private sector[22] (including agriculture) accounts for 70% of the Kenyan output and about a half each of wage employment and fixed investment. Most of the private sector activity is in the agriculture sector. Kenya has the most diversified structure of private sector in Africa. Interviewed private businessmen stressed the professional capacity of the small enterprises in Kenya whether in agriculture, services or manufacturing and their quick response to market signals. However, the performance of private investment and aggregate productivity in recent years is reported as disappointing[23]. In industry, the lower productivity reflects several factors: excess and often obsolete manufacturing capacities, heavy burden of regulation and involvement of inefficient parastatals and heavy protection. Because of the high real interest rates

[22] Kenya: Privet Sector Assessment. The World Bank. October 1992.
[23] Industrial Policies for the Twenty First Century. P. Kimuyu. IPAR. April 1998

there limited borrowing for new investment.

65. The **manufacturing sector'** share of GDP is about 14%. The sector experienced high growth in the 1960s and 1970s using an import substitution development strategy. The sector was built with large input of FDI. In some sectors such as leather processing, textiles, clothing, chemicals, and non-metallic minerals foreign owned companies contribute a third to a half of equity and output[24]. In the end of the 1980s the policy changed to export oriented manufacturing with export promotion programs.

66. The structure of the sector changed with an increase in the size of the food and beverages products rising to 49% of value added in 1995 from 33% in 1975. The non-metallic minerals and plastics products also increased their share from 7% to 10%. The textile, garment leather, wood and miscellaneous industries retained their share of 13% over the period. The chemical, petroleum, heavy metals, transport, machinery and equipment industries declined dramatically.

67. The general productivity in Kenya's manufacturing has declined in the 1990s[25] with large decline in the productivity of capital. The stagnation and even decline in demand in the early 1990s together with import liberalization and the poor state of the infrastructure are responsible for this decline.

68. The medium to large manufacturing enterprises in food products, textile, wood and metals has a strong tendency to export. In addition, labor intensive activities are more likely to export a greater share of their production.

69. The **tourism sector** in Kenya served about 750,000 tourists in 1997, most of them (two thirds) are from Europe. The sector contributed 9% to GDP and 18% to the current account. About half a million jobs were generated by the sector in the formal and informal sectors[26]. The country enjoys comparative advantage in this sector because of its tourism assets such as the Indian Ocean fine beaches, the game reserves, scenic countryside and its ethnic and culture diversity. The sector today faces major crisis of stagnation as a result of poor infrastructure, short-term security problems, a narrow product and lack of proper marketing. The government National Development Plan 1997-2001 projects expansion of the sector with support to broaden the tourism product to activities such as holiday cruses and eco-tourism.

70. The market opportunities identified by the Plan are:
- Beach resort tourism mainly for European tourists;
- Wildlife and Eco-tourism for tourists around the world;
- Mountain and highland resort tourism for regional tourism;
- Cultural tourism; Cruise tourism;
- Private ranch and village tourism;
- Special interest tourism such as archaeology, ornithology, botany and zoology;
- Activity holiday such as golf, trekking, mountain climbing, rafting, game fishing, and scuba diving; and
- Convention and conference tourism.

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[24] op. cit. WB PS Assessment Report.
[25] Op. cit. Industrial Policies by IPAR
[26] Strategies to Revive Kenya's Tourism. Daily Nation. April 9 1999

71. The **agriculture sector** continues to be the backbone of the Kenyan economy. It contributes a quarter of GDP and more than 80% of the country's labor force is in the rural area. The sector enjoys comparative advantage based on its agro-climatic diversity which allows for year round production of a wide range of products. The **horticulture sector**[27] is one of the most dynamic sectors in Kenya. Its export is growing by 15-20% per annum over the last two decades and Kenya became one of the major international players in the floricultural and the prepackaged vegetable markets. The sector is private driven (with over 350 private firms in the export business) with minimal government control. It employs directly and indirectly about two million people. The government encourages inflow of FDI into the sector and will welcome investment in the improvement of services to the farmers.

72. Annex 9 gives the summary of the government's sectoral plans[28]. It includes the planers' ideas on how the market will evolve and how the public sector will address issues in the sectors. These plans can be used as an indication of future policies and trends and can serve as good supporting material for targeting programs in each sector.

Targeting Home Countries or the Potential Origin of FDI

73. A very important part of a targeting strategy is to prioritize the decision of what groups of investors to target and where to promote. Surveys and studies[29] of investment behavior of investors from different home counties reveal a national preference.

74. The **American investors** are interested in the strategic location of Kenya and will be a good target for privatization and infrastructure projects. The hub type FDI will appeal to many US multinationals. On the other hand American firms are less interested in implementing cost minimizing strategies away from their home markets. Those interested in this type of strategy are implementing it in Mexico, near the US border and in Central America or the Caribbean. The US is an important trading partner with Kenya and has long trading experience in the region.

75. The **European investors** are probably the best targets as sources of FDI. The long trading relations and the large presence as foreign investors in the country signal the potential increase of FDI from European countries. The largest, of course, is the UK with its largest presence in the investors community in the country. British firms feel comfortable with the British legal and administration tradition, the universal use of the English language and their long trading relations. British firms can be targeted for FDI in privatization, infrastructure, and joint ventures for the regional market and tourism projects. They will probably less interested in globalization FDI because of their opportunities in the North Africa and Eastern and Central Europe. Germany, France, Italy and the Netherlands also have long trading relations with Kenya and probably can be interested in market seeking FDI.

[27] The Status of the Horticulture Industry, Challenges and Strategies, Now and Beyond the Year 2000. M.A.S. Mulandi. HCDA. August 1998
[28] National Development Plan 1997-2001. Ministry of Planning and National Development. Kenya.
[29] Op. Cit. Strategies of Multinationals.

76. The most interesting targets for cost minimizing FDI can be the **Far Eastern investors and investors from Mauritius**. Pressed by rising labor costs and in search for market access to Europe and the US these investors may be interested in locating in Kenya. These investors are mobile and are searching locations that can guarantee supply of low cost and productive labor, good infrastructure and efficient transportation system. The EPZs of Kenya may offer them an opportunity provided the government improves the access to the US market with quota renegotiations and better infrastructure. The best targets are in Taiwan, Singapore, Hong Kong, South Korea and Malaysia. The Malaysian, Korean and Singaporean, and Hong Kong investors can also be good targets to investment in infrastructure.

77. The **Japanese investors** are very sensitive to market potential the emerging COMESA and EAC may tempt them to investigate investment opportunities in Kenya for the regional markets. The Japanese investor’s strategic objective in FDI is to become “insiders”. Establishing production facilities inside the emerging regional markets will help them achieve this objective. Japanese firms are familiar with the Kenyan market, as they are one of the largest suppliers of imported goods.

78. However, they may feel themselves at disadvantage against European companies that have traditional ties in the region. And will be less interested in privatization opportunities because the are less keen to have to deal with problems of cutting surplus staff and the restructuring of parastatals. The most important deterrent for them will be the current economic and political instability and the sense of insecurity for expatriate personnel. This last point can induce the Japanese investors to take a “wait and see” attitude. One exception may be the tourism sector. There are growing numbers of Japanese tourists coming to Kenya. This may result in growing interest of Japanese investors in the sector.

79. Japanese firms will be less interested in export oriented manufacturing in Kenya. In surveys they complain about their perceived low quality of labor, limited local supply of manufacturing inputs and poor infrastructure – transportation, electricity, and telecommunication.

80. The recently emerging group of investors is the **South Africans**. South Africa was the number one country of origin of imports in 1997. Large South African investors invested in the beverages industry and other manufacturing sectors. In light of the South African corporate strategy to expand its position in Sub-Sahara Africa markets the investment promotion strategy should include the targeting of these investors.

Targeting Companies and Decision Makers

81. The targeting of companies and executives should be based on the understanding of the decision making process within multinational companies. The process of investigating a foreign investment opportunity is a complex procedure made in response to a specific strategy and motivating force[30]. Investigations are carried out in successive phases with built-in checkpoints (project reviews, feasibility studies etc.). The amounts and complexity of information gathered grows as the investigation advances. Other things being equal, the better the availability of information and the

[30] The Foreign Investment Decision Process. Yair Aharoni. Boston, the Harvard Business School, 1966.

higher the quality of information, the higher the probability that a multinational will be willing to investigate an investment opportunity. The higher the cost of obtaining information the less inclined will be the firm to investigate the opportunity. At all points during the investigation process, the interplay of the motivating forces and deterrents that emerge from the accumulation of information determine the kind of decision taken. Promotion institutions have a role to play in providing the information and by that in affecting the outcome of the decision process.

82. The targeting of companies in the chosen sectors and type of FDI can be based on certain criteria such as: the size of the company, its performance, involvement in international trade, financial position, the state of the competition in the sector in its home country and in international trade, position in the market and the strength of its trade marks, etc.

83. The size of the company may affect the type and intensity of the information needed. Small companies need more information and are good targets for large investigation missions. Targeting firms with international experience may increase the chances of success in getting the company interested. The financial position of the company may determine if the company has the resources to carry out an overseas investment. The position in the market may help the promoters to create a “bandwagon” affect if the investment promotion agency persuade the company to invest in the country.

The Decision Process of Site Selection within a Multinational Firm

The site selection process in giant electronics firm Intel in connection with the establishment of a large plant in Costa Rica was recently recorded in a special report. The company established a team headed by a VP for International Site Selection. The company had a long list of countries as potential sites based on Intel’s perception of its needs. The team began with basic desk research, looking for obvious reasons to exclude countries. The criteria for selection includes: stable economic and political conditions; human resources; reasonable cost structure; a “pro-business” environment; logistics and manufacturing lead time; and fast track permit process. At the desk stage they eliminate countries that present problems. In the next phase the team made site visits that includes interviews with consulting firms, accounting and law firms, government officials, and other US corporate executives. After a few visits to Costa Rica the company started a detail analysis of the country with negotiations to improve the investment conditions. Agreements were made on improvements in the infrastructure and human resource development that lead to a final decision to invest in Costa Rica. The investment promotion agency of Costa Rica CINDE was active in all phases to provide information and assist the decision making process of Intel.

Attracting High Technology Investment: Intel’s Costa Rica Plant. D. Spar. FIAS, Occasional Paper # 11. Washington, 1998.

84. The list of targeted companies can be obtained from database companies that can do the search according to the chosen criteria. The lists obtained can be used to employ direct sale techniques or working lists for participants in seminars or invitees for

missions.

85. It is not enough to target the companies. Within the companies there are specific people that are involved it the investigating process. They may include the Chief Executive, the Chief Financial Officer, the Regional Director, or the specific officer that is involved in the site selection process. Existing databases can provide this information to the investment promotion planners.

86. The targeting of potential investors in tourism[31] is a special case. The tourist product is complex and in its production there are a great number of companies and organization involved. The tourism facilities, and accordingly investment opportunities, can be grouped into original attractions and purpose made attractions. The original attractions include beaches and leisure spots, sports and adventure, cultural and historic, and natural scenery, wildlife and flora. The purpose made attractions includes special events, conventions, exhibitions and fairs, and special activities such as theme parks.

87. Large volume tour operators handle the beach and leisure tourism. Some of them invest in tourist facilities. The convention, fairs and exhibition facilities are usually connected to large accommodation projects that are owned by real estate developers and managed by the international chains. The targeting of these and other type of investors can be aided by participation in tourism fairs in which participating countries offer their projects to potential investors. Additional way to reach investor is by direct mail and telemarketing.

88. Targeting and promotion of tourism projects should be accompanied by proper policies to assist the development of the sector and the preparation of promotional material. The investment climate in the sectors needs improvement according to existing investors. Access to land and the approval of construction plans is a long process. The number of licenses needed is large and it takes a long time to get them. The consultants highly recommend conducting a "road map" study on the investment process in the sector. The Ministry of Tourism should prepare a summary of the investment program that appears in the National Tourism Development Master Plan.

5. A national approach to the implementation of the strategy

How to Promote Targeted Investors?

89. After deciding on the use of targeting technique and the type of investments and investors to promote it is time to decide how to promote. Successful investment promotion consists of three main elements: image building, investment generation and investor servicing[32].

90. **Image building** techniques include advertising in general and specialized media; participating in investment exhibitions; advertising in industry or sector-specific madia, conducting general investment missions from source countries; and conducting general information seminars on investment opportunities. These techniques set the

[31] How to Target the Segments in the Netherlands Market for Long-Haul Tourism. W. Reynders. CAV Tourism Consultants. December 1998
[32] See Louis T. Wells Jr. and Alvin Wint. Marketing a Country, FIAS Occasional Paper # 1, Washington, 1990

stage, helping convince prospective foreign investors that a certain country may be a good place to invest; no one expects them to directly generate investment. Image building is useful when the reality in a country is better than the perception held by the international investment community. Trying to create an image that is at variance with the facts is counter productive.

91. **Investment generation** activities are designed to interest a specific investor in investigating opportunities and then actually making the investment. Some of the techniques used include direct mail or telemarketing campaigns, conducting industry or sector-specific information seminars and missions, engaging in firm-specific research followed by "sales" presentation.

92. The best technique, one used by all successful investment promotion agencies, is direct presentations to specific targeted firms. This technique involves identifying opportunities in host-country industries and sectors. Firms that may want to invest in those industries are then identified and specific decision-makers within the firm are targeted for presentations by the promotion agency. The presentations outline the investment opportunity and try to get the decision-maker to investigate the opportunity on site. When the investor visits the country, the promotion agency prepares an itinerary and provides whatever information is requested. The agency then follows up with the investor to help the firm make an investment commitment.

93. **Investor servicing** is the third element of a promotion program. Its techniques include counseling, expediting the processing of applications and permits, and providing post investment services. These techniques are designed to convert an investment commitment into an actual investment and, later, to ensure that the investor is pleased with the investment environment. This process is intended to make the new investor an "ambassador" who will influence other firms to consider the country as an investment site.

94. A greater emphasis on servicing and facilitation techniques is needed when the inflow of potential investors is not being converted into a high percentage of actual investors. Singapore, which has a well developed investor servicing capability, claims to convert 80 percent of potential investors visiting the country into actual investors, whereas the conversion rate in some East European countries is only 20 percent or lower. Good servicing and facilitation improves the conversation rate and consequently is normally given high priority in all investment promotion strategies.

95. Servicing and facilitation techniques include three distinct elements:

- **pre-registration services -** including information, investor-visit support, and networking;
- **registration and public approval servicing -** including assistance in obtaining public sector and utility permits and approvals; and
- **post registration** services, including assistance in obtaining suitable sites and buildings, access to infrastructure, and help with the settling-in problems that arise for all new investments.

96. Promotion strategies need to decide on the priority to give these different servicing activities, and whether to provide these services in a pro-active or a passive way.

97. Image building, investment generation and investor servicing can influence the amount, character and location of investment in different ways. Each particular country will want to focus on different aspects of promotion depending on its circumstances. Investor servicing may need to be the focus if the investment environment has deficiencies that impede investment implementation. Image building will be useful when there is a good story to tell that is not properly appreciated by the international investment community.

98. The situation in Kenya is such that the general promotion campaigns will not yield the anticipated results. The best use of the limited resources will be in the following combination:
- General promotion activities mainly focused on provision of high quality information by the key players i.e., the IPC, EPZA, ESTU, and the ministries responsible on the infrastructure, agriculture and tourism sectors.
- Targeted promotion in privatization, infrastructure and tourism by initiating seminars, missions and direct mail.
- Provision of general investor services by the IPC and the trade associations.

The Investment Promotion Network

99. The key players in the national investor targeting strategy are:- the Investment Promotion Centre (IPC), the Export Processing Zones Authority (EPZA), the Export Promotion Council (EPC), the trade associations (KFE, KAM, KNCC&I and EAA), the Executive Secretariat and Technical Unit (ESTU) in charge of privatisation of state corporations, the Kenya Tourist Development Corporation (KTDC), and the Horticultural Crops Development Authority (HCDA),

100. The following government Ministries are also active part of the investment promotion network: Ministry of Industrial Development (which oversees the IPC); the Ministry of Trade (which oversees the EPC and EPZA); the Ministry of Finance (which oversees the (ESTU); the Ministry of East African Co-operation in charge of regional co-operation agreements and regional economic integration; the Ministry of Tourism (which oversees the KTDC); The Ministry of Foreign Affairs which is in charge of various diplomatic missions hosting commercial attaches seconded by the Ministry of Trade; the Office of the Vice-President and Ministry of Planning and National Development.

The Investment Promotion Center (IPC)

101. The Investment Promotion Centre (IPC) is mandated to serve as the primary contact point for both local and foreign investors wishing to invest in Kenya. The IPC's primary objective is to promote growth through private investment. The Centre is thus mandated to provide information and support services to investors. In order to streamline investment applications and approval procedures, the Government has established a "One Stop" approval mechanism within the Centre. The Centre is under the Ministry of Industrial Development whose functions are: - Industrial Development Policy, Private Foreign Investment Policy, Maintenance of Industrial Standards, Development of Large and Small Scale Industries, and overseeing Industrial Regulation and Licensing.

The Export Processing Zones Authority (EPZA)

102. The Export Promotion Zone Authority – **EPZA** was established in the early 1990s to administer the Export Processing Zones Act of 1990. The act provides for streamlined bureaucratic procedures and generous incentives to establish and operated export oriented operations in Kenya within defined zones.

103. EPZA regulate 13 private zones and operate two zones. The zones are in Nairobi, Mombasa, Nakuru, Athi River and Malindi. There are more than 30 companies operating in the zones and employing 3,000 workers. The operating companies are in the textile and garment, pharmaceuticals, agro-processing, building materials, and services. The foreign investors operating in the zones are from the US, South Korea, Belgium, South Africa, Germany, Italy, Canada, France, UK, and Pakistan. As of the beginning of 1999 there are 85,000 square meters of built up factory space available for occupation.

104. There are four special incentives for developers/operators and firms in zones. Full deduction of the investment cost from corporate income tax. A ten-year tax holiday from corporate tax and 25% tax thereafter. A ten-year tax holiday from withholding tax on dividends. Duty and VAT exemption on all inputs (except vehicles and fuel) and Stamp Duty exemption on legal instruments. In addition to incentives, firms operating in the Zones enjoy minimum bureaucracy in project approval (one license), access to offshore borrowing facilities and ability to maintain accounts in foreign currency, exemption from Industrial Registration Act, Factories Act, Statistics Act, Trade Licensing Act, Import, Export, Essential Supplies Act. Firms operating in the zone get customs services on site and receive work permit for senior expatriate staff in a streamlined procedure. Criteria for approval of firms to operate in the zone are: export orientation (80% of output), manufacturing or processing activities, commercial activities, which are, related to the export activities in the zone and services (except financial services).

105. EPZA offer in the zones it manages: serviced land for lease; ready to enter industrial for rent; utilities connection (electricity, water, sewage), security services including illuminated fences and police post; office building, health center and food canteen for the staff. The Authority provides one stop shop service to investors for facilitation and after care.

106. EPZA is engaged in investment promotion activities such as preparation of promotion materials (publications, videos etc.), investment missions and seminars, dissemination of information to investors and the maintenance of database. Due to budgetary constraints the organization is allocating limited amount of resources to promotion.

The Export Promotion Council (EPC)

107. The EPC was established in 1992 with a principle objective to promote Kenyan exports. The council participates in trade policy formulation, provide information and assistance to Kenyan exporters, assist foreign buyers in sourcing Kenyan products and attract investment and finance to the export sector. The council has a board of directors with members from the private and the public sector. The public sector

members are the Governor of the Central Bank, the PS to the ministries of Finance, Trade and Agriculture.

108. To guide and assist its operations the Council use ten sectoral panels in banking; coffee and tea; tourism; textile and garments; export marketing; tobacco, pyrethrum, cotton and sisal; horticulture; energy; other manufactured goods; and trade development program special committee. Majority of the panel members is from the private sector. The panels guide the analysis of opportunities and constraints in each sector, identify export targets and recommend incentives to the Council.

109. The Council's development strategies includes: export market development programs such as market research, outgoing trade missions, incoming buying missions, trade fairs and exhibitions and buyers-sellers meetings. The trade information delivery system includes collection, analysis and dissemination of trade information; production of trade publication, business guides and export directories, provision of trade information network and internet services; operation of Business Information Centers. The product development and adaptation programs include the establishment of centers and exhibition halls; support in product development, improved packaging, product design and styling, identifying new exportable products. The trade policy and facilitation activities includes suggestions for improvement of trade policies and incentives, formulation of market strategies for specific products, attracting investment and finance to the export sector, and liaising and coordinating export promotion activities with relevant local, bilateral and multinational trade institutions on measures to boost exports. The development of exporting skills strategy is to conduct trade, investors and facilitators workshops; holding business seminars and export training courses; public relation campaigns to promote public awareness of the export sector.

110. Every year the Council prepares a National Export Market Development Program that describes the coordinated list of planned activities during the year. The plan is a result of consultations with a long list of government offices, private sector associations and parastatals. The consulted bodies includes the ministries of: Trade, Industrial Development, Tourism, Agriculture and Foreign Affairs and the following government entities, associations and parastatals: IPC, EPZA, KTB, KFC, ASK, KAM, KNCC&I, FPEAK, HCDA. The 1998 program includes trade missions to Sub-Sahara Africa: Rwanda, Democratic Republic of Congo, Sudan, Ethiopia, Malawi, Namibia, Uganda, Tanzania; and Middle East and North Africa: Egypt, Tunisia, the Gulf States, Saudi Arabia, Iran, Pakistan. The program also includes participation in trade fairs and exhibitions in Europe: Germany, the UK, Portugal, Poland, Belgium, France, Holland; and Sub-Sahara Africa: Zimbabwe, Mozambique, South Africa. The sector distribution of activities are: tea, coffee, horticulture, fishes and marine products, manufacturing, commercial crafts, food and beverages, healthcare products, industrial and consumer chemicals, packaging materials, plastics, construction materials, textiles and leather products.

Executive Secretariat and Technical Unit (ESTU)

111. The Executive Secretariat and Technical Unit (ESTU) of the parastatals reform programme is the technical body set up to effect the privatisation programme of public enterprises. The Unit works under the Government investment Department of

the Ministry of Finance. Also under the Ministry of Finance is the Capital Markets Authority, which is mandated to review the existing environment and identify impediments inhibiting the development of capital markets. The Authority also has the responsibility of ensuring the development and maintenance of appropriate legal and regulatory framework for ensuring investor confidence, enhance efficiency, and creation and maintenance of a fair and orderly capital market. The Central Bank of Kenya, which falls under the Ministry of Finance, is in charge of the foreign exchange regime, in this respect, the CBK has an important role to play in tracking inflows of foreign direct investment. Among the functions of Ministry of finance is overseeing the Parastatal Reform Programme and the Government Investment Division in charge of privatisation of public enterprises.

Kenya Tourism Development Corporation (KTDC)

112. The Kenya Tourism Development Corporation (KTDC) is mandated to promote investment in the tourism sector. The Corporation prepares detailed project proposals of interest to potential investors in the tourism sector. The Corporation participates actively in international fora held to promote foreign private investment in the tourism sector. The KTDC is under the Ministry of Tourism whose function is the Promotion and Development of Tourism.

The Horticultural Crops Development Authority (HCDA)

113. The Horticultural Crops Development Authority (HCDA) is a parastatal established under the Agriculture Act. The Authority is mandated to develop and promote the Horticulture sector. Among the services offered by the Authority are: - dissemination of market information and export statistics to investors, exporters, and producers; ; advising growers on the use of certified planting materials; training farmers on the proper use of inputs particularly pesticides; and advising producers and exporters on appropriate postharvest handling techniques as well as adhering to international regulations on quality requirements. The Authority also licences horticultural exports. The Authority is under the Ministry of Agriculture whose broad function is the development of the agricultural sector.

Trade Associations

114. The **Kenya National Chamber of Commerce and Industry (KNCC&I)** was formed in 1965 from three previous ethnic based chambers (African, Asian and English). It is a non-profit organization that was set up to present, protect and develop the interest of the business community. The Chamber has over 12,000 registered members in 66 branches (separate legal entities) around the country.

115. The Chamber aims its activities at influencing policies, strategies and support measures so as to achieve the best economic and business climate for the commercial, industrial and investment activities of its members. The main activities undertaken by the Chamber are: Information, advice, contacts, lobbying, trade opportunities consultancy and information, arbitration in disputes, training, seminars and conferences, organizing and participating in fairs and trade shows, liaising with regional and overseas trade and economic co-operation organizations.

116. The KNCC&I has limited resources and is supported by the government and donors. It was selected to house the Kenya Trade Point - an initiative of UNCTAF V111 to foster greater local participation in international trade of small and medium enterprises. The Chamber participates in trade fairs, seminars and missions organized by other organizations such as the EPC. It produces very limited range of publications suitable for foreign investors. The Chamber is very active in policy dialogue with the government and produces important position papers on issues affecting its members.

117. The **Federation of Kenya Employers (FKE)** is the largest trade organization in Kenya. It is engaged in the maintenance of amicable labor relations together with the government and the labor unions. It is a party in policy and strategy formulation with the government and submits position papers on economic and business issues on behalf of its members. It provides its members with management training, entrepreneurial development, Total Quality Management (TQM) and ISO 9000 training and consultancy, executive search and selection and export promotion.

118. The Federation was registered in January 1959, under the Trade Unions Act, (Cap.233), as an association representing the collective interests of Kenya employers. The Mission of the Federation is "to continuously raise the social consciousness as well as to protect the interests of Kenya employers through the promotion of modern management policies, public policy advocacy, fair labour practices and sound industrial relations in order to enable them to promote free enterprise, cultivate entrepreneurship culture, influence and control business environment, create quality and productivity awareness, improve profitability and faster growth and employment”. Membership of the Federation is open to trade associations and to individual employers engaging any number of employees both in the private and public sectors including local authorities but excluding the civil service and the Teachers Service Commission and the armed forces. The FKE total membership, including members of affiliated associations stands at just over 3000.

119. The areas of the Federation's mandate include the following services (i) Industrial Relations (ii) Management Consultancy Services (iii) Executive Selection Services (iv) Management Training Services (v) Research and Information (vi) International Relations (vii) Providing Secretariat Services to Trade Associations and (viii) Public Policy Advocacy. Under Management Consultancy Services the FKE provides its members and other subscribers with a host of services including -quality assurance and environmental programmes (ISO 9000 and ISO 14000); and productivity measurement and management. The Federation, as the most representative employer's body in Kenya, is accredited by the Government to represent employers at the ILO Conferences. It is affiliated to the International Organisation of Employers, and the Pan-African Employers' Confederation. It also has correspondence relations with national employers' centres in most English speaking countries and runs special technical programmes with selected donor agencies, which are of direct benefit to members. The FKE draws its financial resources from member’s subscriptions and from its commercial enterprises e.g fee from training and consultancies.

120. The **Kenya Association of Manufacturers (KAM)** is a representative organisation of industrialists in Kenya. It was constituted as a corporate body in 1959 to unite industrialists in Kenya in an organisation to encourage investment and develop the industrial potential of Kenya. The Association is non-political and non-profit making

organisation dependent upon annual subscriptions of its members for funds. Ordinary members are restricted to persons, firms and companies engaged in manufacturing, processing or any other productive methods. Associate membership is extended to other companies and firms who, by the very nature of their business, have direct interest in the expansion of industry, e.g. financial institutions, insurance companies and consulting firms.

121. The Association acts as the voice of manufacturers in Kenya providing an essential link for co-operation and communication between Government and the manufacturing sector. The corporate mission of the Association is to facilitate industrial growth and development by promoting and protecting the interests of manufacturers as well as encouraging discussions amongst its members on all problems that have direct effects on industries in Kenya. Examples are those that relate to adverse policies, availability and quality of manufacturing inputs, quality of products, identification of the markets and advising Government on possible measures to address those problems while collaborating with all concerned in seeking solutions that satisfy the needs of members.

122. The specific objectives of the Association are:
- Lobbying for policy changes in taxation, tariffs, incentives and licences and advising the members on their effect on trade and investment;
- Giving technical advisory services and conducting training courses and seminars for the members in specialised fields;
- Giving guidance on potential markets and marketing of manufactured goods both locally and abroad through trade fairs and exhibitions and the dissemination of information related to export trade;
- Maintenance of proper quality standards of manufactured goods in relation to pricing.

123. KAM has a computerised programme (TINET) which allows members access to information on other manufactures in the PTA/COMESA region. This facilitates sourcing of raw materials and helps to identify markets for export products. KAM in collaboration with Kenya Export Development Support (KEDS), Export Promotion Council (EPC) and the Department of External Trade (DET), Ministry of Commerce and Industry have participated in various trade fairs internationally and within the PTA/COMESA region. KAM in conjunction with the Ministry of Energy and the Ministry of Commerce and Industry has established Energy Conservation and Management Programme for its members. The Programme focuses on areas in which industry can conserve energy through efficient utilisation of installed equipment. KAM has established communications with Government, financial institutions, and international donor agencies.

124. KAM has relationship with counterparts in other countries e.g. Confederation of British Industries, (CBI), Confederation of Zimbabwe Industries (CZI), Uganda Manufacturers Association (UMA), Tanzania Manufacturers Association (TMA) etc. KAM also has a close relationship with USAID. The Association through funding from USAID has been able to conduct various policy studies. The policy studies so far implemented include Price Controls -1988, Export Incentives for Kenyan Industry - 1989, Analysis of Kenya's Trade with PTA countries, 1990, The Present and Future Financing Needs of Industrial Sector in Kenya - May 1992 etc. The Association has

continuously been holding seminars and workshops for the members in specialised areas to assist its members to become effective in their production and marketing activities. Some of these seminars have included Quality Control, Product Development, and skills improvement in Metal and Allied Trade and Export Marketing seminars etc. The Association has been publishing the Directory of Members highlighting products and in some cases individual company profiles and advertisements. KAM intends to launch an industrial magazine to become a channel of communication among its members on the one hand and the general public on the other. KAM also releases on a regular basis press statements and interviews in both print and electronic media.

125. **The Eastern Africa Association (EAA)** was established in 1964. It has membership of 150 companies a large number of them from the U.K. Members include large multinational and small firms. The objective of the Association is to facilitate participation of the foreign business sector in economic development of Eastern Africa and the Indian Ocean regions (with members from Kenya, Uganda, Tanzania, Ethiopia, Eritrea, Mauritius, Seychelles and Madagascar). The association acts as a channel of communication between the investors and Government in dialogue on policies and the investment climate. It co-operates with the Government in promoting and encouraging FDI and assist its members in matters related to the conduct of their businesses. The Association is engaged in the following services to its members: circulates regular reports; convene a forum to exchange views; engage in informal discussions with Ministers, diplomatic representatives and senior officials; and conduct surveys on members views. The Association is an independent, non-political, body, financed entirely from the subscriptions of its members and its own investment income.

126. To ensure success for an Investor Targeting Strategy the public sector institutions will have to increase their dialogue and co-operation with private trade promotion associations. The Ministry of Industrial Development and the IPC will also need to work closely with Ministries such as the Ministry of Lands, the Attorney General Office, the Ministry of Local Authorities, the Ministry of Energy and the power utilities; to ensure that impediments such as inhibitive regulations and legislation, land availability, and power and water connections to investors are all handled in tandem with the investment approval process. In this regard the IPC and the Ministry of Industrial Development needs to maintain desk officers charged solely with co-ordinating this task.

Current Promotional Activities in Kenya

127. The IPC is currently working on production of an Investment Code, which is geared to assist foreign investors wishing to invest in Kenya. The Centre has established a web-site on the World Wide Web to provide information on investment opportunities in the country. The IPC also produces a publication detailing investment opportunities in Kenya (Kenya: A Guide for Investors). The Centre holds briefings for commercial attaches who are posted to Kenyan diplomatic missions abroad. IPC also participates in the bi-annual briefing of Kenyan High Commissioners and Ambassadors accredited to foreign countries. The IPC is however constrained in expanding its promotional activities due to budgetary constraints.

128. EPZA undertakes various promotional projects. The Commonwealth Secretariat is collaborating with the Authority on a project to create awareness among potential investors and arrange for possible joint ventures between Kenyan and investors from the Far East. The Commonwealth Secretariat is also assisting EPZA to promote investment opportunities among American investors. Other regions and countries in which EPZA aims at attracting investments are the UK, the Benelux Countries, South Africa, and the Gulf States. The Authority provides commercial attaches in Kenyan diplomatic missions with promotional materials for circulation to potential foreign investors.

129. EPC promotional activities involve participation in International Trade Fairs and exhibitions. The Council collaborates closely with private sector institutions such as KNCC&I and KAM in such promotional activities. Among the International exhibitions in which the Council has participated are: - International Fairs and Exhibitions in Birmingham, Leipzig, Liege, Paris, Munich, Lisbon, Johannesburg, Dubai, and various trade fairs in the COMESA region. The EPC maintains a Centre for Business Information, which is a computerised Business Information Delivery system with access to the Internet.

130. KTDC promotional activities include regular participation at annual ITB/WTM Fora in Berlin and London. The Corporation also produces brochures and Publications, which it submits to investors in these Fora.

131. The HDCA collaborates with a lot of bodies, both local and international, in promoting the horticulture sector. UNCTAD/WTO has also collaborated with the Authority on studies to promote growth of the sector. The HCDA participates in briefing sessions held for heads of Kenyan Diplomatic missions.

132. The ESTU promotional activities include the holding of briefing workshops on the privatisation program. The ESTU also maintains a web-site, which offers information on the privatisation programme to potential investors.

133. The other important areas identified for targeting foreign investment flows are the agro-based industries, manufacturing, and the tourism sector in the following manner:

- Thus bodies such as EPZA will have to assume a key role in attracting foreign investment in light manufacturing and in textiles);
- The HCDA will need to encourage foreign private sector investment in creation of higher value-added through agro-processing in the horticulture sector; and
- The KTDC to encourage foreign investment in the tourism sector.
- The EPC will develop a targeting strategy for the export sector with the assistance of UNCTAD (UNCTAD/KEN/C2/05 - Kenya: Priorities for Product and Market Diversification of Exports). The National Development Plan (1997-2001) puts emphasis on establishment by EPC of an export targeting system for both direct and indirect exports during the Plan period
- The EPZA is embarked on a targeting program. The Authority has established a "New Investment Department". EPZA has also initiated a Strategic study of Investment Targets through enrolment of the services of a consultant to delineate sectors with potential areas for investments

134. These institutions will have to play a key role in the investor targeting strategy by working closely with the IPC and key ministries such as the Ministry of Industrial Development, Ministry of Trade, and Ministry of Foreign Affairs.

135. The IPC being the primary focal point for promotion of investment will also need to co-ordinate with other promotion bodies such as EPC, EPZA, HCDA, and KTDC in the production of a consolidated program for investment opportunities in Kenya on a regular basis. Such a Program would then be used to regularly update the IPC website on the World Wide Web. Inter-linking the various computers information systems through modem connections can ease the process.

136. Other supporting mechanisms for the investor targeting strategy that should be considered carefully are the plans for establishment of investment promotion offices in carefully selected key countries/or regions world wide. Both the National Development Plan (1997-2001) and the Sessional Paper No.2 of 1997 (Industrial Transformation to 2020) call for such a measure. The stated intention is to have the offices maintained by highly qualified, experienced, result-oriented professionals to be attracted from the private or public sector by competitive remuneration packages. In addition, Kenya through the Ministry of Foreign Affairs and International Co-operation will need to continue to build up its image as the most suitable country to do business in the region.

137. The investor targeting strategy requires a good data base which enables one to take stock of existing investment and track new investment by sector. The Kenya Government develops an inventory and a data tracking system of the inflow of foreign direct investment (FDI) by country of origin and by sector. The IPC should work together the registrar of Companies (Office of the Attorney General), the Central Bureau of Statistics (OVP&MPND), the Central Bank of Kenya (CBK), and the Customs to develop the new system. The data capture system to be developed should also be able to capture the reinvested earnings by existing foreign firms. Since the CBK is charged with the responsibility of managing the exchange control regime and has the legal powers to collect data from commercial banks and the banking system, it is important that it assumes the lead role in the proposed system of capturing FDI data.

Towards a Coordinated Approach to Targeting and Promotion

138. The current situation in investment promotion in Kenya can be described as "too little and too uncoordinated". All the members of the promotion network devote little resources to investment promotion. There is no overall strategic thinking and no effort to cooperate in the delivery of the message.

139. Most of the FDI promotion is done as a result of donors' contributions in kind (advisors, consultants) or in finance. Thus, investor's manuals are printed when a donor is ready to finance its printing (and sometimes even donate the consultant that writes it) and seminars and missions abroad are conducted when the donor's counterpart organization is preparing the ground and financing it.

140. The privatization program and the effort to bring private investment (and FDI) to the infrastructure sector are done without strategy of how to approach the investors and

with minimum resources devoted to promotion. This in turn reduces the number of participants in the privatization process, reduce the price and diminish the benefits of having strategic partners.

141. This situation calls for a reform in the investment promotion programs in Kenya. The example of export promotion by the EPC can serve as a model for the needed change in investment promotion. The EPC has an annual program of preparation of an export targeting strategy and export market development program. Both are prepared in consultation and collaboration with the export promotion network. The network includes the relevant ministries and industry and trade associations. The export targeting strategy includes sectors in which the country has competitive advantage. The export market development program includes all the planned events by the participating organizations. The planned events include seminars, missions, participation in exhibitions and trade fairs, and missions to investigate potential markets. The EPC is serving as the secretariat to the program. The program is published and distributed among the export promotion network.

142. The consultants suggest that the Minister of Industrial Development should appoint an **Investment Promotion Coordination Committee (IPCC)**. Its objective will be to improve the effectiveness of the investment promotion efforts of the country. The committee will prepare every year an **investor targeting strategy and a national investment promotion program**. The Committee will be chaired by the Permanent Secretary of the Ministry of Industrial Development and include all the members of the investment promotion network including the trade and relevant industry associations, the ministries (and units within the ministries) involved with the privatization and private involvement in infrastructure, EPZA and EPC. The IPC will serve as the secretariat services to the Committee and will be in charge of the preparation of the targeting strategy and the annual promotion program.

LIST OF MEETINGS

Ministry of National Planning and Development

Ministry of Industrial Development

Ministry of Trade

Ministry of East African and Regional Cooperation

Ministry of Tourism and Wildlife

The Investment Promotion Council

Export Promotion Council

Export Processing Zones Authority

Horticulture Crops Development Authority

Kenya Tourist Development Corporation

Kenya National Chamber of Commerce and Industry

Federation of Kenya Employers

The Kenya Association of Manufacturers

The Eastern Africa Association

Institute of Policy Analysis and Research

Kenya Utalii Collage

AAR Health Services Ltd. (Health Industry)

Asango Enterprises (Commercial Craft)

Coca Cola Northern Africa (Concentrates and Beverages)

Gatoka Ltd. (Horticulture)

Haco Industries Kenya Ltd. (Miscellaneous Industries)

Locland Ltd. (Horticulture)

Total Kenya (Petroleum Industry)

T.S.S. Spinning & Weaving Ltd. (Textiles)

Barclays Bank of Kenya Ltd. (Banking)

Daima Bank (Banking)

Karuma Investments Ltd. (Real Estate and Trade)

Daly and Figgis (Lawyers)

Hamilton, Harrison and Mathews (Lawyers)

Kaplan and Stratton (Lawyers)

Annex 1 **Destination Of Exports** **K£ Millior**

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
WESTERN EUROPE:										
European Union										
United Kingdom	58.9	135.6	218.3	266.9	319.2	590.2	496.6	487.7	617.0	694.2
Belgium						86.0	91.2	98.9	109.2	93.7
Germany	56.0	93.5	137.9	123.5	113.3	267.8	332.7	369.4	441.0	382.6
Italy	23.7	17.8	27.8	39.2	55.5	66.2	78.8	80.3	103.0	112.7
France	6.4	27.2	30.4	40.4	46.2	72.9	82.1	91.9	99.1	128.5
Netherlands	17.7	52.8	69.9	66.4	70.9	145.7	182.0	214.6	319.1	284.6
Spain						47.4	43.6	40.6	68.4	44.7
Sweden						62.1	50.0	68.6	59.4	90.7
Finland						34.4	34.4	38.1	48.8	58.0
Other	12.5	19.5	67.1	96.3	86.1	44.8	60.5	65.7	88.2	76.0
Total European Union	175.1	346.2	551.4	632.6	691.3	1,417.4	1,451.9	1,555.7	1,953.2	1,965.6
Other Western Europe	23.6	35.5	52.8	59.4	53.4	34.0	26.4	40.2	60.2	69.7
TOTAL WESTERN EUROPE	198.7	381.7	604.2	692.0	744.7	1,451.4	1,478.3	1,595.9	2,013.4	2,035.3

Poland						0.8	5.2	3.1	8.2	12.2
Romania						0.5	0.0	0.3	1.9	1.0
Other Eastern Europe						5.4	1.9	1.9	5.3	4.2
TOTAL EASTERN EUROPE	4.9	13.7	19.8	2.9	1.0	6.7	7.1	5.3	15.4	17.4
TOTAL EUROPE	198.7	381.7	604.2	692.0	744.7	1,458.1	1,485.3	1,601.2	2,028.8	2,052.7
U.S.A	16.9	54.1	42.6	57.8	63.3	137.2	146.8	131.7	158.8	170.1
CANADA	5.1	5.4	10.9	10.3	11.5	29.8	28.9	31.0	32.4	29.6
AFRICA:										
South Africa						-	21.4	135.3	119.2	53.8
Tanzania	5.2	19.2	32.3	54.1	81.0	270.5	454.8	631.0	758.3	823.0
Uganda	66.4	70.1	64.0	107.3	122.8	326.0	544.3	766.7	953.2	909.8
Other	69.4	117.7	173.5	218.9	265.7	678.0	888.6	843.8	930.3	985.0
TOTAL AFRICA	141.0	206.9	269.8	380.3	469.5	1,274.5	1,909.1	2,376.8	2,761.0	2,771.5

MIDDLE EAST:

Saudi Arabia		9.2	10.5	11.0	11.9	26.3	16.6	27.3	21.7	18.1
United Arab Emirates		2.2	5.7	5.0	4.7	16.0	13.5	33.4	26.6	45.4
Iran	1.2	0.1	3.4	5.0	0.8	0.0	0.4	12.1	63.1	37.6
Israel						31.4	22.3	22.0	33.7	40.6
Jordan						2.2	1.1	6.3	6.3	3.2
Turkey						2.9	2.9	3.4	8.5	5.6
Other	18.2	14.9	28.7	25.8	33.1	26.1	17.6	11.3	37.7	47.7
TOTAL MIDDLE EAST	19.4	26.4	48.3	46.9	50.6	105.0	74.3	115.8	197.7	198.2

FAR EAST AND AUSTRALIA:										
Australia	1.6	2.4	4.4	6.8	6.6	12.8	16.2	11.6	20.6	19.0
Japan	3.8	6.2	15.1	15.9	23.8	33.4	33.3	32.9	47.9	44.3
India	4.1	5.1	19.5	9.1	11.3	29.6	25.7	34.6	36.4	59.4
Indonesia						8.9	5.1	4.7	6.2	3.1
China (Mainland)	2.0	2.4	0.5	1.1	3.1	4.0	2.1	3.9	2.8	1.8
Pakistan						255.5	296.2	317.8	261.7	258.6
South Korea						11.9	7.1	7.7	4.1	15.7
Singapore						29.4	28.3	13.5	78.0	38.3
Other	56.5	68.5	116.3	142.0	191.5	61.4	70.5	104.0	152.1	186.7
Total Far East and Australia	68.0	84.6	155.7	174.9	236.3	446.9	484.5	530.5	609.8	627.0
All Other Countries	3.6	1.0	1.8	6.7	11.8	27.5	18.6	32.8	18.8	11.4
Export Processing Zones						2.3	5.6	2.8	17.6	38.4
Aircraft and Ships Stores	58.2	37.6	91.0	180.3	153.7	197.1	129.0	44.3	85.2	123.4
ALL EXPORTS	515.7	811.4	1,244.0	1,552.1	1,742.3	3,678.3	4,282.1	4,867.0	5,910.0	6,022.3

Annex 2 **Origin Of Imports** K £ Million

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
Western Europe										
European Union:										
United Kingdom	162.4	164.3	466.7	430.3	338.4	602.4	757.6	980.5	1,113.2	1,077.8
Belgium						124.4	138.9	425.1	259.3	176.7
Germany	77.7	95.7	199.7	229.0	199.7	361.5	357.6	528.6	512.3	636.4
France	32.7	42.0	141.8	150.7	155.0	212.4	232.2	348.7	412.9	355.5
Italy	37.7	33.3	119.6	91.9	87.8	228.1	175.3	457.0	274.7	231.7
Netherlands	22.9	32.6	87.5	60.4	75.2	123.2	163.9	222.1	239.2	238.0
Spain						35.2	47.2	46.8	63.4	85.4
Sweden						35.6	36.7	68.7	82.9	80.5
Finland						48.2	42.7	45.0	45.8	50.6
Other	21.1	41.3	129.1	149.0	139.4	80.4	86.0	96.6	170.7	137.8
Total European Union	354.3	409.2	1,144.4	1,111.4	995.4	1,851.4	2,038.3	3,219.1	3,174.4	3,070.4
Other Western Europe	39.1	64.4	138.3	111.1	124.8	72.2	112.4	132.5	179.4	138.8
Total Western European	393.4	473.6	1,282.7	1,222.4	1,120.3	1,923.6	2,150.6	3,351.6	3,353.7	3,209.2

EASTERN EUROPE										
Poland						0.5	4.1	8.0	6.6	5.2
Romania						6.1	12.6	17.10	17.4	20.8
Other						32.0	48.8	44.7	80.6	84.9
Total Eastern Europe	6.6	8.2	18.0	24.1	18.2	38.6	65.6	69.7	104.5	110.8
TOTAL EUROPE	400.0	481.8	1,300.6	1,246.5	1,138.4	1,962.2	2,216.2	3,421.3	3,458.3	3,320.0
U.S.A	61.0	66.2	114.4	132.1	243.4	293.4	381.6	323.1	440.1	705.5
CANADA	5.1	11.2	15.7	24.4	21.3	40.2	26.6	32.0	89.6	79.7
AFRICA										
South Africa						-	621.6	601.4	638.6	1,087.7
Tanzania	0.3	1.7	12.5	11.3	14.5	24.4	54.5	31.1	46.4	43.2
Uganda	1.2	2.6	1.3	2.7	7.8	16.0	9.3	8.0	1.5	23.4
Other	27.9	23.8	61.8	65.1	71.8	81.2	105.5	61.0	118.4	283.9
TOTAL AFRICA	29.5	28.1	75.7	79.0	94.1	121.6	790.9	701.5	805.0	1,438.1

MIDDLE EAST

United Arab Emirates		223.5	339.2	328.8	482.1	759.1	643.6	520.3	693.1	950.6
Saudi Arabia		49.5	123.4	133.0	71.591	233.9	136.5	282.2	423.5	510.8
Iran	20.6	48.5	36.2	39.8	53.2	61.9	48.1	26.8	6.1	34.6
Israel						58.7	47.6	62.2	70.5	81.1
Jordan						0.0	0.4	0.2	0.1	0.1
Turkey						0.6	1.6	6.2	15.5	29.0
Other	281.6	41.8	25.4	26.6	37.9	37.9	8.0	109.1	165.7	57.1
TOTAL MIDDLE EAST	302.2	363.2	524.1	528.3	644.6	1,152.0	885.77	1,007.0	1,374.4	1,663.4

FAR EAST AND AUSTRALIA										
Japan	88.4	120.0	228.5	303.6	278.5	383.0	496.8	852.9	625.4	718.0
Australia	6.1	13.5	8.2	9.8	10.5	12.8	17.3	24.2	82.3	102.9
India	13.0	15.4	45.	50.4	85.6	136.5	217.1	416.1	480.6	410.5
Indonesia						19.4	127.2	179.7	332.60	315.8
China (Mainland)	7.2	10.9	22.2	24.9	29.4	68.7	76.4	159.6	145.3	185.9
Pakistan						18.9	105.8	19.9	27.5	50.4
South Korea						34.2	48.5	83.8	115.9	89.8
Singapore						48.3	87.9	86.	111.3	98.7
Other	36.4	81.3	160.3	209.2	272.0	227.2	216.5	282.6	233.2	201.0
TOTAL FAR EAST AND AUSTRALIA	151.1	241.1	464.1	597.79	676.0	949.0	1,393.5	2,104.9	2,154.1	2,173.0
All Other Countries	10.2	5.5	51.0	37.9	137.1	532.0	58.0	164.6	102.4	132.7
Export Processing Zones						5.8	1.5	4.1	0.4	7.8
Aircraft and Ships Stores						0.2	0.0	0.0	0.1	13.6
TOTAL IMPORTS	959.0	1,196.0	2,545.6	2,645.9	2,954.9	5,056.4	5,754.0	7,758.4	8,424.3	9,533.7

Annex 3	Export By Main Products			K£ million			
	1985	1991	1992	1994	1995	1996	1997
Coffee unroasted	230.6	281.4	206.3	652.9	722.1	821.4	842.81
Tea	191.7	381.6	474.9	844.1	899.5	1135.2	1206.3
Petroleum products	116.5	255.0	235.9	253.4	219.1	350.9	357.8
Meat and meat products	6.9	4.3	2.1	5.3	4.4	5.5	5.7
Pyrethrum extract	9.5	32.2	36.6	78.3	66.4	80.0	68.6
Sisal	14.4	17.7	17.4	33.1	29.4	40.7	36.2
Hides and skins (undressed)	10.0	0.6	0.9	14.2	14.6	11.6	8.2
Wattle extract	3.8	7.4	9.9	14.7	10.8	14.7	15.5
Soda ash	13.6	31.0	27.3	48.6	51.5	57.8	66.3
Fluorspar	4.1	7.0	7.1	11.7	12.9	17.9	18.3
Cement	15.4	16.3	24.4	81.7	80.9	127.2	114.5
Horticulture		184.8	209.2	414.9	531.3	681.6	687.6
Animal feeds	0.6	3.4	2.0	3.3	2.2	0.6	0.6
Wood carvings	1.2	2.8	4.2	10.7	10.9	12.0	13.2
Metal scrap	0.8	3.7	6.5	7.2	8.4	8.8	10.3
Fish and fish preparations						164.7	153.8
Live animals chiefly for food						2.45	2.23
Meals and flours of wheat						51.5	41.9
Animal and Vegetable oils						98.8	109.8
Tobacco and tobacco manufactures						88.7	86.2
Beer made from malt						44.7	34.2
Footwear						41.2	56.8
Margarine and shortening						32.5	49.8
Leather						33.2	30.1
Paper and paperboard						17.9	25.0
Iron and steel						262.8	260.0
Textile yarn						20.2	24.6
Insecticides and fungicides						30.6	30.1
Essential oils						165.1	163.3
All other Commodities	165.6	367.7	443.	1696.7	1988.0	1276.3	1203.4
TOTAL	785.1	1533.8	1708.1	4170.7	4656.2	5696.3	5723.0

Annex 4 **Exports By Main Sectors** K£ million

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
Food And Beverages	212.6	492.7	744.1	817.7	929.1	1,986.1	2,147.7	2,381.0	3,011.4	3,072.9
Primary	181.5	446.2	637.7	678.1	758.1	1,608.1	1,632.1	1,775.4	2,172.7	2,309.4
Processed	31.1	46.5	106.3	228.9	210.5	378.0	515.6	605.6	838.7	763.5
Industrial Supplies	89.7	128.1	245.6	320.6	371.5	877.7	1,099.5	1,252.6	1,484.6	1,282.2
Primary	48.4	64.1	118.6	121.5	128.0	224.6	249.0	372.3	943.2	320.4
Processed	41.3	64.1	127.0	199.1	243.5	653.1	850.6	880.3	541.4	961.8
Fuel And Lubricants	162.5	126.5	150.4	266.1	246.5	353.9	272.5	245.0	378.0	515.9
Machinery And Other Capital Equipment	2.5	2.6	6.9	10.5	13.8	23.4	37.3	64.5	51.0	32.7
Transport Equipment	1.7	1.6	2.6	4.4	8.1	30.6	47.0	24.9	26.1	24.1
Consumer Goods	18.4	33.4	82.2	113.5	139.1	353.6	566.6	688.2	745.2	795.2
Other Goods	0.4	0.2	0.6	1.1	0.0	0.0	0.1	0.0	0.0	0.0
TOTAL	487.6	785.1	1,232.4	1,533.8	1,708.1	3,625.2	4,170.7	4,656.2	5,696.3	5,723.0

Annex 5

Structure Of The Manufacturing Sector

Share of Manufacturing Sub-sectors in Total Manufacturing Value Added

	1975	1980	1985	1990	1995
Food Products	23.4	23.9	27.8	27.7	37.2
Beverages	10.4	10.4	12.9	11.2	12.1
Textiles	5.6	7.1	6.3	6.0	5.1
Clothing	2.6	2.1	2.8	1.7	1.7
Leather and leather substitutes	0.5	0.8	0.4	0.5	1.4
Leather footwear	1.0	1.5	0.9	1.4	1.8
Wood and cork products	2.3	2.5	2.0	1.8	1.8
Furniture and wood fixtures	1.7	1.3	1.5	1.2	1.4
Paper and paper products	3.1	4.5	3.5	4.6	4.1
Printing and publishing	4.4	3.1	3.0	3.0	2.4
Industrial chemicals	3.6	2.9	2.4	1.9	2
Non-industrial chemicals	6.1	5.3	7.6	7.4	3.5
Petroleum refineries	4.0	1.2	0.9	0.8	0.5
Rubber products	3.3	3.2	4.1	3.6	3.2
Plastic products	1.3	1.7	2.0	2.7	3.5
Pottery china and earthenware	0.1	0.1	0.2	0.1	0.5
Glass and glass products	0.5	0.4	0.6	0.6	0.5
Non-metallic minerals	5.4	2.9	4.6	4.6	6.9
Basic iron and steel	1.2	1.2	0.2	0.3	0.2
Metal products	5.8	5.9	4.4	7.0	6.2
Non-electrical machinery	1.0	0.8	0.6	0.6	0.5
Electrical machinery	3.8	6.8	5.4	0.8	3.7

Transport equipment	7.5	9.5	4.6	4.3	2.0
Scientific equipment	0.0	0.0	0.1	0.1	0.0
Miscellaneous manufacturing	1.4	1.1	1.5	2.2	2.7

Annex 6

Hotel Bed-Nights Occupied By Country Of Residence ('000')

	1981	1985	1990	1991	1992	1993	1994	1995	1996	1997
Permanent Occupants	364.2	261.4	168	158.7	123.2	82.1	108.5	99.2	41.8	28.3
Germany	1143.1	1161.9	1610.7	1755.4	1488.5	1430.1	1334.3	1201.4	1275.6	1135.1
Switzerland	450	522.1	494.9	502.3	324.5	363.1	339.9	312	301.9	272.6
United Kingdom	496.8	480.5	847.8	1222	1073.7	813.8	909.2	984.6	934.1	956
Italy	185	211.7	275.1	273.8	366.2	468.2	296.2	305.7	174.6	249.3
France	145.8	176	298.9	359.4	339.2	517.4	324.4	310.1	278	267.6
Scandinavia	91.5	80.3	122.7	114.8	91.4	121.4	90.2	86.3	135.4	152.1
Other Europe	248.1	228.4	346.2	359.3	301.5	388.7	289	289	360.9	321.9
EUROPE	2,760	2,861	3,996	4,587	3,985	4,103	3,583	3,489	3,461	3,355
Kenya Residents	794	820	876	938	656	895	690	689	783	777
Uganda	70	58	45	37	33	48	32	31	33	37
Tanzania	20	38	43	50	36	52	38	41	40	41
East and Central Africa		85	49	63	37	75	47	42	47	50
West Africa		34	16	41	30	29	29	28	18	22
North Africa		16	14	14	12	17	12	12	16	15
South Africa								23	32	44
Other Africa	163	18	84	107	91	135	90	90	70	64
AFRICA	1,047	1,068	1,126	1,250	895	1,251	937	956	1,038	1,049
U.S.A	268	381	443	249	276	386	243	266	233	226

Canada	45	41	54	48	47	81	46	52	28	30
Other America		7	29	16	14	28	15	15	15	23
AMERICA	312	429	525	313	337	495	304	333	276	279
Japan		11	34	35	35	52	33	33	42	50
India		8	29	31	28	43	27	28	54	31
Middle East		13	27	28	32	40	27	30	45	35
Other Asia		77	46	29	24	45	26	26	38	26
ASIA	110	109	135	123	119	180	112	116	180	142
Australia and New		9	39	31	29	46	28	25	34	30
All Other Countries	98	82	57	56	38	32	37	37	32	28
Total-Occupied	4,691	4,819	6,046	6,519	5,526	6,189	5,110	5,055	5,061	4,910
Total-Available	8,525	9,025	10,495	11,037	11,465	11,909	11,909	11,562	11,355	9,517
Occupancy rate %	55	53.4	57.6	59.1	48.2	52	43.1	43.7	44.6	51.6

Annex 7 - List of Pending Privatisation Programs of Large Parastatals

1. Kenya Ports Authority (KPA)
2. National Cereals Produce Board (NCPB)
3. Kenya Posts and Telecommunications (KPTC)
4. Kenya Power Company
5. Kenya Railways Corporation (KR)

8. Kenya Oil Refinery
9. Kenya Tea Development Authority (KTDA)
10. Mumias Sugar Company
11. Chemelil Sugar Company.
12. Kenya Ferry Services
13. Kenya Pipeline
14. Kenya Reinsurance Company.

Annex 8 Plans for Private Sector Involvement in the Infrastructure Sector

sector	Strategies and Measures
1. ROADS	
1.1 Axle Load Control	The Private Sector is to be involved in Axle load controls. Private Sector weighbridge contractors will be licensed to operate weighbridges.
1.2 Commercialisation of Mechanical and Transport Department of the Ministry of Transport and Communications	The Government has decided to reduce its equipment holding and to commercialise the operations of the Mechanical and Transport Department. Terms of Reference for Consultancy and technical assistance for Commercialisation of the Department have been submitted to the World Bank
1.3 Road Improvements	The Government is seeking private sector investors in improving the standards of major roads. The improvement will entail widening to dual carriageway some sections of major roads. The possibility of inviting the private sector to undertake road construction on the basis of "Build Operate and Transfer" BOT Principles will be explored.
1.4 Kenya National Roads Board	Cabinet has approved Establishment of Kenya National Roads Board incorporating public and private sector stakeholders.
2. RAILWAYS	
2.1 Privatisation of Kenya Railways	The Government of Kenya is in the process of privatising Kenya Railways. A team of Canadian Consultants has been appointed to oversee the privatisation process. The privatisation is to be done through unitary concession. The Concessionaire is largely expected to be foreign but will be required to join up with local investors

3. TELECOMMUNICATIONS.	
3.1 Privatisation of KPTC	The Government is planning to privatise the Kenya Posts and Telecommunications Corporation (KPTC). The Kenya Communications Bill 1998 and the Postal Corporation of Kenya Bill 1998 have been passed by Parliament. The Bills provide for separation of postal and telecommunications operations into two distinct legal entities namely, the Postal Corporation of Kenya and TeleCom Kenya Limited. Private Investors have the opportunity to purchase 46 percent of the shares in TeleCom Kenya Limited. It is planned that 26 percent of the shares will be offered to a strategic partner as a first step.
3.2 Bidding for a Second Cellular Licence	Private Sector investors are invited to participate in the bidding of the Licence.
4. PORTS	
4.1 Commercialisation of Kenya Ports Authority (KPA)	The Government encourages private sector involvement in the provision of port services. The Government plans to commercialise and offer concessions for the General Cargo Terminals, Container Terminals, as well as commercialisation and privatisation of KPA's Inland Depots. The Conversion of Berths 13 and 14 into container terminals at Mombasa Port is estimated to cost US $ 36 million; Foreign investment is welcomed in this sector.
5. ENERGY	
5.1 Oil Refinery Rehabilitation at Mombasa	Private Sector investors are welcomed in this venture.
5.2 Oil Pipeline	

Annex 9 A Summary of Sectoral Plans

sector	Sector Plans
1. AGRICULTURE	
1.10 Agriculture Sector	The sector as a whole is targeted to Grow at average annual growth rate of 4.4 percent for the year 1999 to 2001.
1.11 Grain Marketing	The Government plans to ensure that the National Cereals and Produce Board (NCPB) is fully commercialised to facilitate private sector participation in grain marketing.
1.12 Tea Sector	Kenya's share of the world tea market has increased from 5.5 percent in 1970 to 16.5 percent in 1993. The crop is currently the country's leading export earner, accounting for nearly 20 percent of total export earnings. During the current Plan period (1997-2001) Kenya Tea Development Authority will encourage investments in expansion of tea-processing factories to enable the country realise the production target of over 280,000 tonnes. Legal and administrative factors, which inhibit the setting up of tea factories, will be removed.
1.13 Sugar Sector	Demand for sugar continues to outpace production. It is projected that the demand for sugar will reach 800,000 tonnes by the year 2000. Government owned factories with Mumias accounting for half of the domestic sugar production dominates the industry. The Government plans to continue with the on-going privatisation of sugar factories. Plans for privatisation of Mumias Sugar Company are underway. The Company has been exempted from the provisions of the State Corporations Act. As a matter of policy the privatisation will be through the "Rights Issue" and the proceeds will go towards the development of Busia Sugar Project. The approved shareholding of the privatised Mumias Sugar Company is : GOK to retain 30 %; farmers to acquire 20%; company employees 5 %; Kenya Commercial Finance Corporation (KCFC), a subsidiary of Kenya Commercial Bank now Private to acquire 5 %; and existing shareholders to acquire 40%. The following professional advisors have been identified and approved: Barclays Merchant Finance Limited; Price Waterhouse; Kaplan & Stratton; and Crawford and Ellis.

	Plans to privatise Chemelil Sugar Company are at an advanced stage. Barclays Merchant Finance has been appointed Financial advisors. So far the Company has been valued at Khs 3.2 billion.
1.14 Cotton Sector	To revamp the cotton industry, the Government has liberalised the sector by privatising cotton ginneries. The textile industries are expected to benefit from the liberalisation.
1.15 Horticulture Sector	The Sector has experienced one of the fastest growths in the economy. There are potentials for increased production and value-added through processing of horticultural products. The private sector is expected to exploit these potentials and invest in agro-processing of horticulture. The Ministry of Agriculture has drafted a Horticultural Development Project Proposal on the promotion of horticulture to cover the North Rift and Western Kenya. The Kenya National Chamber of Commerce and Industries (KNCCI) and Export Promotion Council (EPC) plan to conduct aggressive marketing campaigns, including the search for new markets in the Far East, Central and Eastern Europe, and regaining lost markets in the Middle East Countries.
1.16 Oil Crops	Over 95 % of domestic edible oil requirements of 200,000 metric tonnes are currently imported. The consumption of edible oil has been growing at about 13 percent per annum during the 1978-1992 period. The private sector is encouraged to participate in the production and processing of oil crops.
1.17 Bixa	Bixa is an industrial export crop. The crop does well in coastal areas, where its potential is still untapped. The crop is mainly used as a natural food colour and Kenya is one of the major suppliers. In view of the increasing awareness of the dangers of synthetic food colours, food laws in many countries now favour natural food colours. This gives Kenya an opportunity to expand its export base. The private sector is encouraged to invest in the crop.
1.18 Livestock Sector	The Ministry has liberalised the livestock sub-sector with a view to privatising or commercialising certain services such as Artificial Insemination, Dipping and Clinical Services. Projections indicate that the demand for major livestock products, such as beef, milk, and

	mutton will outstrip output leading to deficits. In view of these developments significant private sector investment are required in this sector.
1.19 Hides and Skins	With trade liberalisation, exports of raw hides and skins have increased due to favourable world market prices. As part of the industrialisation strategy, private sector investors are encouraged to invest in both primary and secondary processing plants close to domestic production areas. If necessary, these plants may import raw hides and skins from neighbouring countries. Approximately 60 % of the existing installed capacity is geared towards wet-blue leather for export. The declared Government policy is however to add maximum value possible to the raw material before export. This means fully converting the raw hides and skins into finished leather and even further to leather goods for both domestic and external markets. The estimated annual national kill is 1.6 million cattle, 2.8 million goats and 1.5 million sheep and hence the same number of raw hides and skins are available to the local tanning industry.
1.20 Dairy Production	Although the country has the potential to produce 4 billion litres of milk annually, the current annual production is only 2.1 billion litres. Dairy processing is one of the most important agro-based industries and Kenya is competitive in the region. The primary objective of promoting increased investments in this sector is to ensure domestic self-sufficiency and to expand production for the external market.
1.21 Fisheries	Despite having a coast line of 680 km, Kenya's marine fishing has not matched inland catches. The inshore fisheries contain an estimated 12,000 tonnes, while offshore fisheries, which include the Exclusive Economic Zone (EEZ), have a potential of up to 200,000 tonnes in tuna-like species. Currently, the annual marine fish production landed from offshore waters fluctuates between 5,000 and 7,000 tonnes. The full potential of the EEZ is yet to be fully exploited. There is thus potential for private sector investment in this area.
2.0 INDUSTRY	
2.10	The industry sector is targeted to grow at an annual average growth rate of 7.9 % in 1999 to 2001.
2.11 Light manufacturing and resource based	The National Development Plan (1997-2001) places emphasis on attraction of investments in

industries.	light manufacturing and resource-based industries. The following industries have been identified in Phase I of industrialisation. - agro-processing - food-processing - light manufacturing such as textiles and clothing - leather and leather goods - food, beverages, and tobacco
2.12 Pulp and paper sub-sectors	The Investment Promotion Centre (IPC) is to promote investment in the pulp and paper sub-sectors. The paper industry plays a major role in national development and contributes 2 % towards GDP. It also creates backward and forward linkages among the other sectors in the economy whether in manufacturing, printing, or packaging. The total production of pulp and paper is inadequate to meet the country's demand. Investment opportunities exist for more paper mills to close the local demand gap and also for the export market. Opportunities also exist for exploiting alternative sources of raw materials such as sisal waste, bamboo, rice straw, maize straw and spleen liner bagasse. Other opportunities include the manufacture of self-adhesive paper and coated paper.
2.13 Textiles	Opportunities for foreign investment exist in the textile and apparel making industry; especially in the EPZ areas.
2.14 Fish-Processing	Investment opportunities exist in the area of fish processing. There is also scope to set up a plant to manufacture fish meal from processing wastes emanating from fish filleting factories.
2.15 Cement	Kenya is endowed with quality raw materials that can be harnessed for cement manufacture. The cement industry is identified as one of the core industrial sectors, with ample scope to boost the other sectors of the economy, especially the building and construction industry. The Government of Kenya is promoting the establishment of cement plants both small and large. The COMESA region offers a huge market for the cement industry. The Ministry of Industrial Development will be very supportive and helpful to potential investors who pursue cement manufacturing in Kenya.

2.16 Sheet Glass	Kenya imports virtually all the sheet glass used by the building and construction industry. Sample surveys indicate that the 2 millimetres thickness is the most popular (50%), followed by 4 millimetres (29%) and glass of more than 6 millimetres (21%). Lack of a sheet glass manufacturing plant is a major constraint in the development of the glass sub-sector as part of the building materials sector. Investment in this sector is viable in view of the fact that the basic raw materials such as soda ash, high quality silica sand, feldspar and sodium sulphate are locally available in ample quantities. The COMESA region also offers export market.
2.17 Caustic Soda	There is need to seek foreign investors to collaborate in manufacture of caustic soda for the COMESA region. The estimated consumption is over 17,000 metric tonnes for Kenya and over 50,000 tonnes for the COMESA region.
2.18 Health and Pharmaceuticals	There is great potential for foreign investment in this area. Among the areas are- production of pharmaceuticals products, promotion of private heath insurance, vaccine development and production, and production of sterile medical supplies (e.g. fluids, injectibles, and dressings)
2.19 Furniture	There is potential for investment in the furniture sector. About 90 percent of the raw materials is supplied locally while only 10 percent is imported from Uganda, Tanzania, and United Kingdom.
2.20 Fertiliser	Most of fertiliser is imported, there is thus need to set up a fertiliser factory. There is a wide range of investment incentives offered by the Government, which apply to the fertiliser industry. The Government has also liberalised fertiliser pricing and marketing.
2.21 Pesticides	90 % of pyrethrum production is exported. The Government is encouraging private sector firms to add value on pyrethrum. There are also opportunities for manufacture of fungicides using some imported ingredients and mixing with locally available filler materials such as soapstone, limestone, clay etc.

3.1 Energy Sector.	Kenya's total demand for industrial and commercial energy has been rising steadily from 2.6 million Tonnes of Oil Equivalent (TOEs) in 1991 to over 3.5 million TOEs in 1995, representing a growth rate of 3.7 percent per annum. The Government policy is geared to attract foreign investment in the energy and petroleum sector. Foreign investment is thus welcomed in the exploration of hydrocarbons.
3.10 Electrical Energy	Kenya's current electricity generation capacity is inadequate, with demand regularly exceeding supply during peak hours. Apart from Government financed power projects, Kenya will rely on private sector investors, commonly referred to as Independent Power Producers (IPPs) to invest in the power sector. The Planned Electricity Generation capacity starting from fiscal year 1998/99 to 2000/2001 in MW is as follows:- - Hydro 629 MW to 702MW - Geothermal 45 MW to 173MW - Diesel 98 MW to 244MW Total Capacity is also planned to increase from 848.4 MW to 1118.4 MW over the 1998/99 to 2000/2001 period.
3.11 Liquefied Petroleum Gas (LPG) handling and storage facilities.	The annual consumption of LPG is about 30,000 metric tonnes while the potential demand is twice this quantity. Foreign investment is thus welcomed in this sector.
3.12 Refineries Rehabilitation at Mombasa	Private Sector involvement is welcomed in this venture.
3.2 Roads Sector	The Ministry of Public Works and Housing (MPWH) is to finalise the preparation of the Strategic Plan for roads sector management. The Strategic Plan will among other things provide for increased reliance on the private sector for roads maintenance and construction. The possibility of inviting the private sector to undertake road construction on the basis of "Build Operate and Transfer" (BOT) principles will also be exploited.

	Indicative costs of rehabilitation and reconstruction for two lane 7m wide high class roads is US $ 416,700 per km while new construction cost is approximately US $ 583,300 per km.
3.3 Railways Sector.	Plans are to undertake a feasibility and viability study on constructing a new railway line from the proposed second port at Lamu via Kitui, Embu, Meru and Isiolo to Uganda with branch lines to Ethiopia and Southern Sudan.
3.4 Ports. 3.41 Kenya Ferry Services	The expansion of international trade will demand enhanced port facilities. The feasibility of opening a second port in the Lamu area is to be investigated in the Plan period (1997-2001). Such a proposal will be dependent upon greatly improved communications between Lamu and inland Kenya and neighbouring countries. Currently the company runs a fleet of 6 vessels, 2 on the Likoni channel and 3 on Mtongwe and 1 standby. The Company urgently needs to strengthen its existing fleet by replacing to old ferries. The estimated cost of two new ferries is US $ 3.5 million for a flat-bottomed vessel.
3.5 Water and Sanitation Sector	- Current estimates of Kenyan water supply indicate that 75 % of the country's urban population has access to safe drinking water, while only 50 % of rural population has access to potable water. Besides the need for adequate water supplies for domestic, agricultural, and industrial uses, there is need for investment in a properly organised and efficient system of sanitation. Currently out of 142 gazetted urban areas in Kenya, only 30 % have sewerage systems. Local Authorities in Kenya are encouraged to seek private sector participation in the supply of water and sanitation systems.

	- Water Distribution NetWork for Nairobi. Investors operating in the Nairobi City Utilities will require undertaking total investment of US $ 40 million. - Mombasa and Coastal Water Supply. Investors interested in the management of this utility will require to undertake a total of US $ 220 million, of which US $ 200 million will be required to develop the proposed Second Mzima Water Pipeline. Build Operate and Transfer (BOT) contracts can be secured following the prevailing conducive policy and legal environment. There will also be need to improve waste water disposal in Mombasa and other coastal towns which are major
3.6 Oil-Pipeline	A feasibility study is to be undertaken on the economic potential for extending the oil pipeline from Eldoret to Kampala, under the aegis of the East African Co-operation arrangements during the Plan period (1997-2001)
3.7 Tele-communications	The total telephone exchange capacity is expected to increase from 376,948 lines in 1995 to 673,412 lines in the year 2001, an average annual growth rate of 10 percent. The total telephone exchange connections will also increase at 13.4 percent per annum from 249,604 lines to 505,966 lines during the Plan period (1997-2001). This is expected to raise the telephone density from 9.4 lines per 1,000 people to 15.2 lines per 1,000 people. Kenya has already joined the "information superhighway" following the convergence of computing, telecommunications and audio-visual technologies. It is now planned to develop a digital net work of these technologies in order to reap the benefits of this development. Thus foreign investment is required in this sector.
3.8 Infrastructure for the Fisheries Sector.	The Plan (1997-2001) calls for infrastructure development in and around landing points. This will involve among other thing construction of cold storage and ice-making plants. Private investment is needed in this area.
4 TOURISM	Foreign exchange earnings from tourism are expected to increase from K# 1,790 million in 1997 to K# 2,470 million in 2001, representing a nominal average growth rate of 8.4 percent per annum.

	Between 1999 and 2001 Bed-nights occupancy are expected to rise from 7.48 million to 9.07 million while over the same period the number of tourist arrivals are expected to increase from 941,000 to 1.16 million.
4.1 Mombasa Port Cruise-ship Project	Plans are to develop facilities for cruise ship industry at the Mombasa port.
4.2 Cruise-ship Project on Lake Victoria	The project involves installation of a luxury passenger vessel (5-star floating hotel) for upper class tourists comprising of 40 double cabins to accommodate 80 passengers. The proposed project can also be extended to cover Uganda and Tanzania within the East African Co-operation.
4.3 Nairobi Jomo Kenyatta Airport Hotel Project.	Jomo Kenyatta International Airport (JKIA) is one of the major gateways to Africa. There is need for a medium sized 3-4 star transit hotel to cater for the increasing demand from businessmen and tourists. A 9 acre site within the airport perimeter fence has been identified for development of the hotel. Foreign investment is welcomed in this venture.