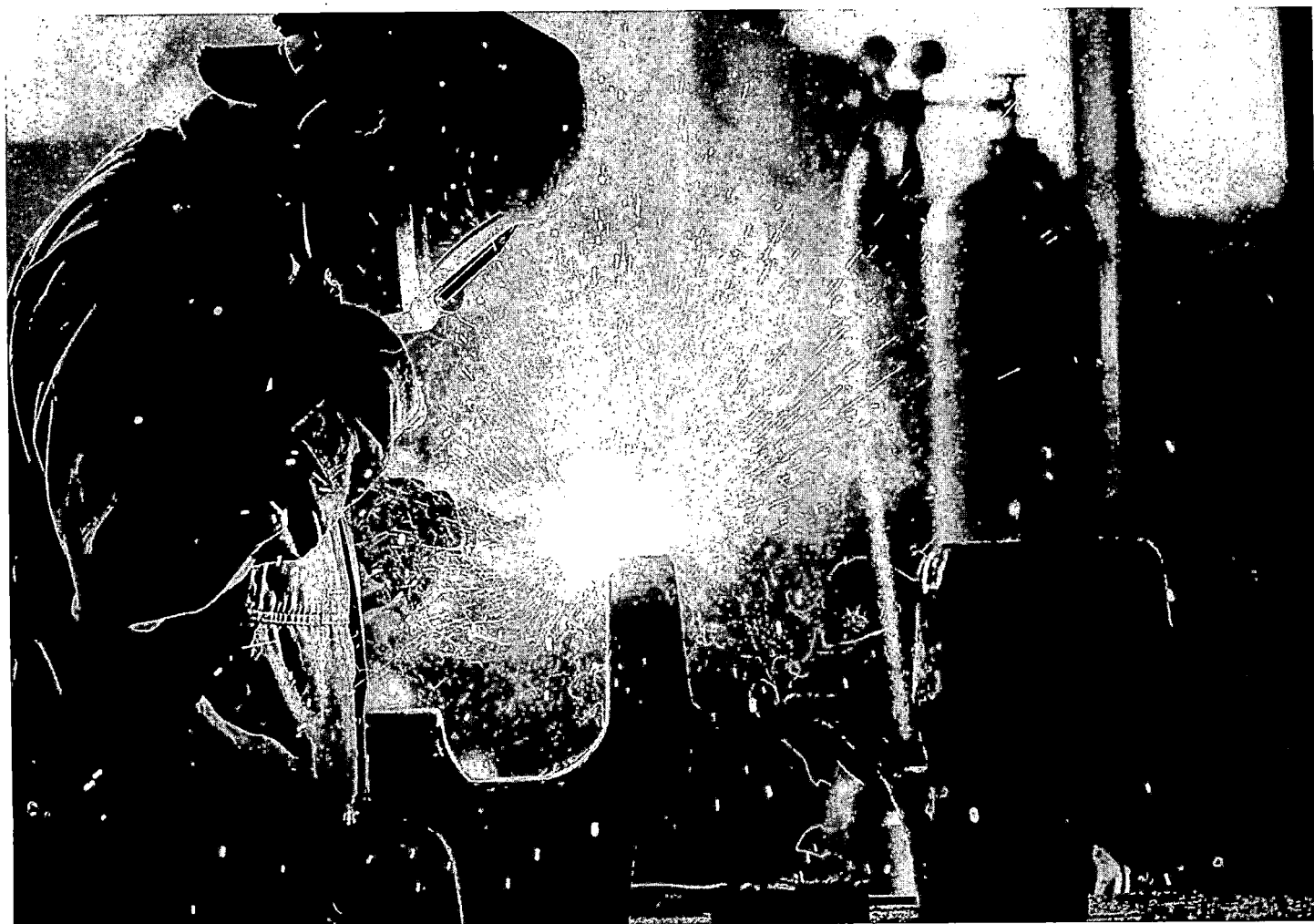




KENYA'S

INDUSTRIAL TRANSFORMATION PROGRAMME

MINISTRY OF INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT



KENYA'S INDUSTRIAL TRANSFORMATION PROGRAMME

MINISTRY OF INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT

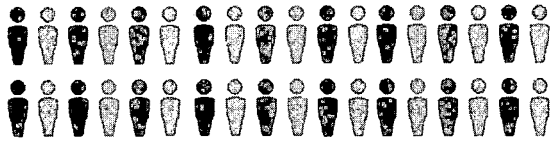
JULY 2015

12X INCREASE IN VALUE
OF LEATHER WHEN
MANUFACTURED
INTO SHOES



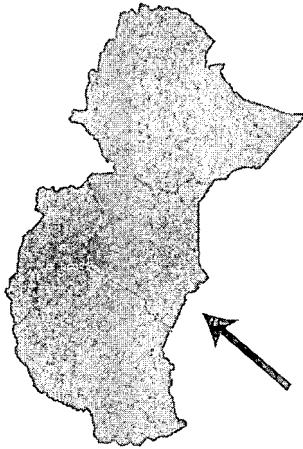
\$94 MILLION

SIZE OF OUR CURRENT LEATHER MARKET



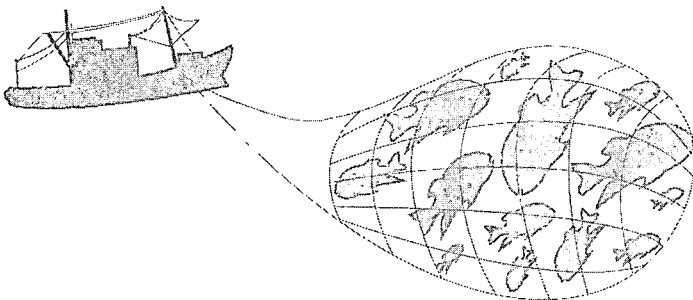
50%

(11 MILLION)
PERCENT OF EMPLOYMENT
CREATED BY SME SECTOR



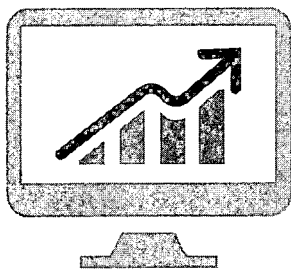
\$3.8 BILLION

AGRO-IMPORTS ENTERING REGION THAT COULD
BE REPLACED BY LOCAL PRODUCTION



1 MILLION

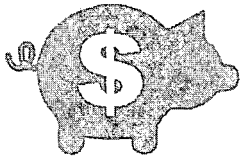
TONNES OF TUNA CAUGHT IN
THE INDIAN OCEAN YEARLY



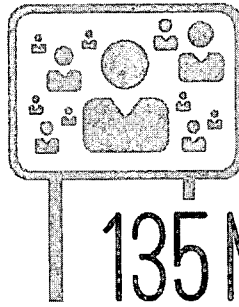
100% INCREASE

IN MANUFACTURING JOBS FROM INDUSTRIAL
TRANSFORMATION PROGRAMME INITIATIVES

\$55 BILLION



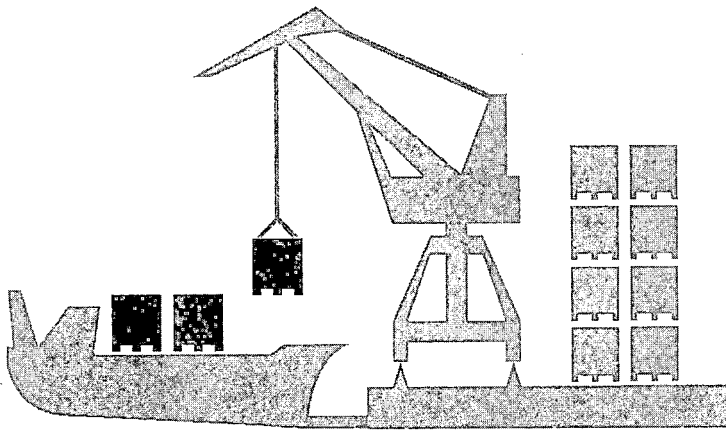
5TH LARGEST
ECONOMY IN SSA



44 MILLION

DOMESTIC POPULATION

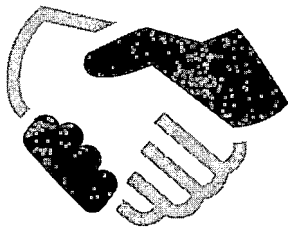
135 MILLION REGIONAL
POPULATION



1 MILLION

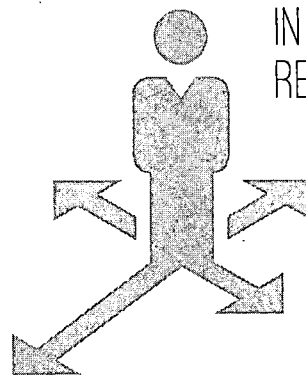
CONTAINERS OF THROUGHPUT IN
THE PORT OF MOMBASA PER YEAR

\$29 TRILLION

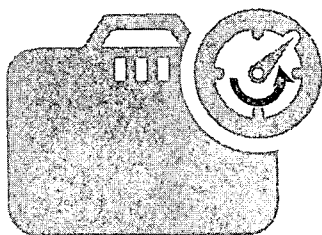


MARKET SIZE OF
COUNTRIES WITH
A MAJOR TRADE
AGREEMENT
WITH KENYA

4TH GLOBALLY

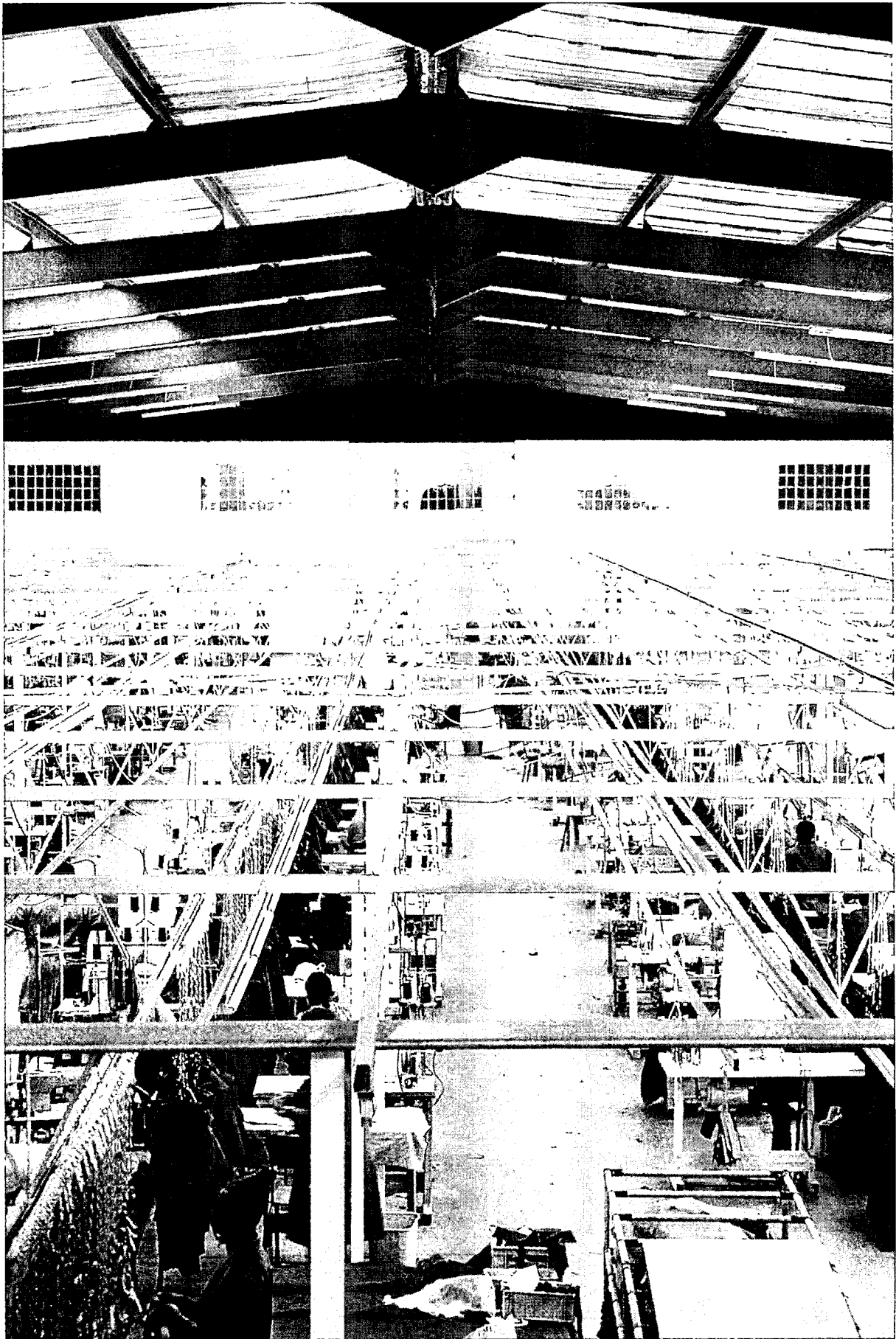


IN MOBILE PAYMENT
READINESS



3 DAYS

TIME TO REGISTER A BUSINESS WITH
EASE OF DOING BUSINESS REFORMS



AN EXCITING TIME FOR KENYA



This is a very exciting time for Kenya and for our region. The world has recognised our country as one of the leading economies in Africa that will drive the growth of this region.

We have committed to our people that we will pursue an inclusive model of growth and reach one million new jobs in the near future, doubling the number of manufacturing jobs we have today. We believe that a significant portion of these jobs will come from the development of our industrial sector and the services linked to the priority sectors that we have selected in this programme.

The key to sustainable industrial growth and job creation lies in the growth of domestic companies and the attraction of local and foreign investors to invest capital and expertise into the economy. To achieve this, we have made improving the overall business climate and supporting selected sectors our top priorities. As a government, we are committed to overseeing this work and ensuring its implementation. We will play a part by actively pursuing favourable trade agreements in key markets, both regionally and globally.

Moreover, we recognise the role that the government will need to play in creating the infrastructure backbone to advance our economy. We have made significant headway on the construction of the Standard Gauge Railway, which will efficiently link the coast and the interior. The Port of Mombasa has been expanded, and we are continuing to improve the efficiency of its operations. We are actively pursuing our plans for the

generation of an additional 5,000 MW of electricity to drive down the cost of electricity. We have made substantial progress on the development of LAPSSET (Lamu Port/South Sudan/Ethiopia Transport Corridor Programme). Our international airport in Nairobi is being upgraded to become a world-class facility, positioning Nairobi as a commercial and services hub for the region. Finally, we are rapidly moving forward with the construction of 10,000 km of new roads that will form the transport corridors required to move products throughout Kenya and the region.

Our youth and small and medium enterprises will be the engine of our growth. This growth will be spread across the country, and we will support our counties by promoting the development of small businesses, creating vocational training programmes and preparing our youth with the right skills to contribute to the economy.

With a strong focus on implementation, we are dedicating the human capital and resources required to realise this Industrialization Transformation Programme. We also recognise that success can only be achieved through collaboration. We call on you – the public at large, our civil servants, business men and women, small and medium enterprises, large companies and foreign investors – to work with us to transform Kenya into an industrial hub, for the benefit of our people and the region.

H.E. Hon. Uhuru Kenyatta, CGH
*President of the Republic of Kenya and
Commander-in-Chief of the Defence Forces*

INDUSTRY: KENYA'S GROWTH ENGINE



As global production costs continue to rise in the traditional markets of Asia and Europe, we expect manufacturing to move to Africa. As a country, we are preparing to be at the forefront to

capture this opportunity for growth. We are positioning our industrial sector to attract investments through the advantages of our well-trained labor force, low cost of operations, integrated industrial parks and our improving transportation and power infrastructure.

Kenya has extraordinary momentum today. The foreign direct investment in our country has more than doubled in the past two years and our domestic investment continues to rise. Our middle income population now comprises 45% of the populace. Our people continue to be the top talent in Africa. In fact, Kenya is ranked first in Africa for quality of educational system by the World Economic Forum. The World Bank estimates a 2015 growth rate of 6.7% per year for our region, a higher growth rate than that of Brazil, India or the rest of sub-Saharan Africa.

Industrialization has been the modernizing force in every developed and emerging economy and this will continue to be the case for Kenya. Industry will be the bedrock upon which we grow jobs, GDP and incomes. We are confident we can also transform the

wealth, employment and inclusiveness of our country over the next five to ten years through a targeted approach in sectors in which we have a competitive advantage.

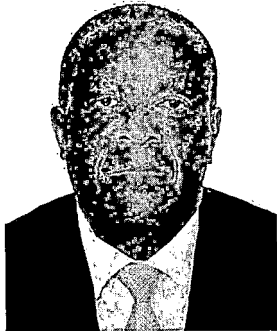
We believe that the industrial sector for Kenya is at a turning point. While there is significant domestic and foreign interest, a growing market and existing skills, there has not been a comprehensive effort to create an industrial hub. In this Industrial Transformation Programme, we have begun sector-specific initiatives that will turn Kenya into an industrial hub.

The achievements we have already seen while implementing part of the Industrial Transformation Programme over the past year will continue as we take advantage of our country's unique position in the region and beyond. We are excited to continue the work we have started and will call upon our colleagues in government, the private sector and the people of Kenya to support this programme

Adan Mohamed, EBS

*Cabinet Secretary of the Ministry of
Industrialization and Enterprise Development*

IMPLEMENTING OUR PRIORITIES



We are eager to share this Industrial Transformation Programme as we seek to revitalise the economy of Kenya. This is a strategy that we believe will drive Kenya towards becoming

a primary industrial hub of Africa and will enable the country to achieve its goals of creating meaningful jobs, increasing GDP and addressing its trade balance – all towards a better quality of life for Kenyans and the people of the region as a whole. The programme builds on strategies that Kenya has already developed with a strong focus on implementing our priorities.

The actions outlined in this programme are specific. Projects have clear owners and timelines, and the Ministry has developed detailed budgets to mobilize the resources required to achieve them. We have assigned dedicated implementation teams to focus on the flagship projects, drawing on resources from within the Ministry as well as relevant agencies. We are also building a dedicated Delivery Unit within the Ministry to drive the activities of the Industrialization Transformation Programme. The unit will track delivery of priority projects, ensure the appropriate levels of collaboration with other ministries, agencies and private sector players and mobilize expertise and tools to ensure success.

We will seek partners who can bring the required capital, technical and operational expertise to realise our projects. We look forward to welcoming the participation of our private sector and local and international investors who will support our journey to develop Kenya into an industrial hub for Africa.

Dr. Wilson Songa, MBS

Principal Secretary of the Ministry of Industrialization and Enterprise Development

EXECUTIVE SUMMARY

The Ministry of Industrialization and Enterprise Development (MOIED) has developed this strategic, comprehensive and integrated programme to guide Kenya on its journey to industrialization.

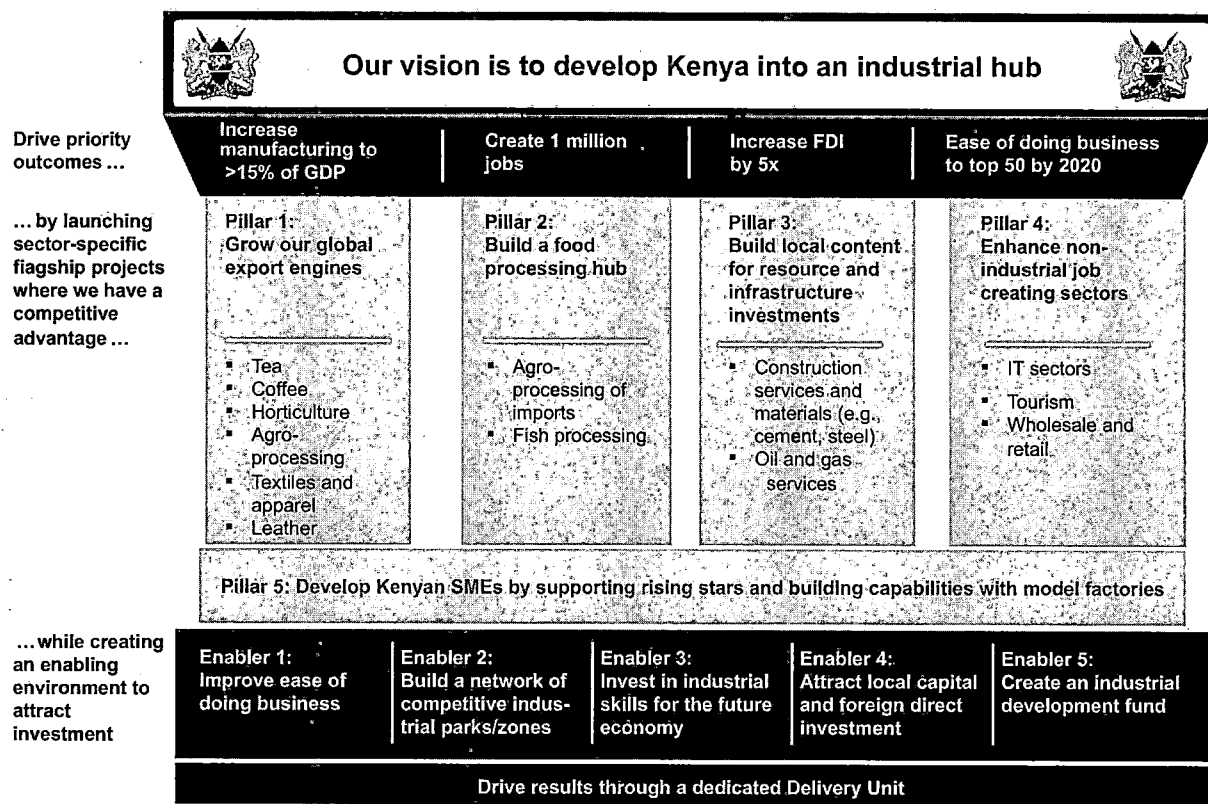
The programme is guided by Kenya Vision 2030, the country's economic development blueprint that aims to transform Kenya into a newly industrializing, "middle-income country providing a high-quality life to all its citizens by the year 2030". The objective of the Economic Pillar of Vision 2030 is to create a robust, diversified and competitive manufacturing sector in three ways: 1) boosting local production, 2) expanding to the regional market and 3) taking advantage of global market niches.

Over the past ten years, Kenya's manufacturing base has remained static at 11% of the country's GDP, and its industrial exports have decreased in absolute terms. Increasing this base is critical to job creation and economic growth as well as domestic and foreign investment. **We have identified opportunities that will more than double the amount of current formal manufacturing sector jobs to approximately seven hundred thousand and add USD 2 to 3 billion to our GDP.**

To realise these opportunities, we need to overcome six challenges: infrastructure and land availability, skills and capabilities in priority sectors, quality of inputs, cost of operation, access to markets and investor-friendly policies. We have developed a five-point strategy to capture these opportunities over the next ten years.

1. **Launch sector-specific flagship** projects in agro-processing, textiles, leather, construction services and materials, oil and gas and mining services and IT related sectors that build on our comparative advantages (Pillars 1 to 4).
2. **Develop Kenyan small and medium enterprises (SMEs)** by supporting rising stars and building capabilities with model factories (Pillar 5).
3. **Create an enabling environment to accelerate industrial development** through industrial parks/zones along infrastructure corridors, technical skills, supporting infrastructure and ease of doing business (Enablers 1 to 4).
4. **Create an industrial development fund** (Enabler 5).
5. **Drive results** through the newly formed Ministerial Delivery Unit.

Exhibit 1.0
INDUSTRIAL TRANSFORMATION PROGRAMME OVERALL STRATEGY



INDUSTRIALIZATION IS CRITICAL FOR KENYA'S DEVELOPMENT

Our goal is to develop Kenya into a new industrial hub in Africa. The programme is designed to accelerate the development of industries that will drive the country's economic growth.

We sit in a privileged position. We are the fifth-largest economy in sub-Saharan Africa; we have a well-educated labour force; our financial services and information technology capabilities are amongst the most developed in the region; and our infrastructure is the most advanced among peers as well (with substantial further investment being planned). We have access to vast agricultural resources and are home to some of the most innovative entrepreneurs globally.

Despite these advantages, our manufacturing sector has remained stagnant at 11% of GDP over the past ten years. As a result, the number of formal jobs in manufacturing has grown at just 7% per year over the past four years. Our exports have stagnated at 15% of GDP, while imports have grown to 40% of GDP, creating a trade imbalance, weakening the Kenyan Shilling and increasing inflationary pressure. These gaps can only be closed by revitalising our industrial sector and turning Kenya into an industrial hub.

WE HAVE A REAL OPPORTUNITY TO BOOST INDUSTRY IN KENYA

Kenya has a wide range of real and tangible opportunities where we have natural competitive advantages, both regionally and globally. We must take immediate advantage of these opportunities to develop our industrial base.

We have developed a strategy that aims to capture these opportunities over the next ten years by identifying flagship projects in sectors where we have a competitive advantage. These sectors include: agro-processing, fisheries, textiles and apparel, leather, construction materials and services, oil and gas and mining services, IT, tourism, wholesale and retail and small and medium enterprises. Our strategy focuses on creating a competitive environment to enable success across all sectors.

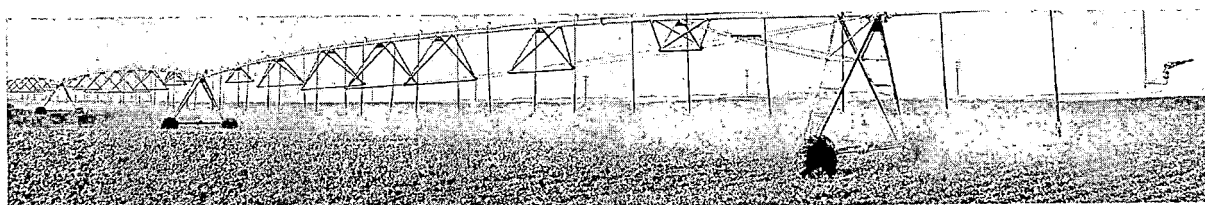
There are also other sectors that will have an impact on our economy. While these will also be important factors in our long-term development as a country, in cases where other ministries will develop their own strategies (e.g., healthcare) or where success is longer term (e.g., automotive), we will not cover these sectors in depth in this programme, or they will be considered within their own programmes.

In the immediate term, our goal is to deliver projects that will achieve quick and measurable results on GDP and employment growth. These will build momentum, generate interest and grow investor confidence and interest in Kenya.

AGRO-PROCESSING

More than half of Kenya's exports are related to agriculture, including tea, horticulture (i.e., cut flowers, fruits and vegetables) and coffee. We will continue to increase these exports and have identified additional opportunities in agro-processing that build on our vast agricultural potential.

- Tea is a staple of Kenya's exports, worth USD 1 billion annually. However, **97% of tea is exported in bulk form**. Kenya can attract a 50 to 100% price premium by promoting "Made in Kenya" brands internationally, attracting USD 200 million in value addition, and create 10,000 jobs.
- Only **16% of all exported agricultural output in Kenya is processed**; the rest is exported in raw form. By contrast, Tanzania processes 27%, Uganda 34% and Ivory Coast 32%. We can double the amount of our processed agricultural exports to boost agriculture, create an additional 110,000 jobs and earn USD 600 million.
- **Eastern Africa annually imports USD 3.8 billion in raw and processed commodities** such as wheat, palm oil and rice for local consumption. The majority of these imports come from outside of the region. We can take advantage of the strategic location of the Port of Mombasa into our priority sectors to set up a "food hub" where we import raw commodities in bulk and process and export consumer goods to serve the growing regional market. This could earn Kenya an additional USD 300 million in GDP and create 60,000 jobs.



FISHERIES

- Traditionally, approximately 80% of Kenya's fishing is based on Nile perch (for export) and tilapia (for local consumption) that is caught in Lake Victoria. Overfishing has resulted in the need for sustainable fishing practices and exploration of new waters. The Indian Ocean offers a substantial opportunity to develop a fishing industry on a commercial scale.
- Tuna catch in the Indian Ocean is estimated at almost one million tonnes. **Only 30 of the 8,600 fishing vessels off the East African Indian Ocean coast process their tuna in Kenya.** By establishing a fishing port and developing a fish processing industry, we could create an additional 12,000 jobs and USD 150 to 200 million in GDP.

TEXTILES AND APPAREL

Textiles are a major growth driver of industrial exports. Since the African Growth and Opportunity Act (AGOA) was signed in 2000, textile and garment exports have grown to roughly USD 415 million (accounting for 30% of growth in total exports over the past five years). Kenya is uniquely positioned to expand this sector. Our labour cost is relatively cheap compared to that of Asia, and our preferential access to global markets creates a cost advantage that appeals to buyers as they look to diversify their sourcing base.

- Despite its advantage over other low-cost countries, Kenya accounts for **only 0.4% of the USD 84 billion American textiles market.** Bangladesh, a low-cost favourite, is approximately 9% more expensive than Kenya but commands 6% of the US market (USD 225 billion). We have the opportunity to build our share of the US market, enter other new markets and expand our range into higher value products in order to generate an additional USD 140 to 200 million in GDP and create 105,000 jobs.

LEATHER

Kenya has one of the largest livestock herds in Africa (60 million heads) and an established, but underutilized, leather sector.

- **90% of Kenya's USD 94 million leather exports are unfinished wet blue leather.** Further processing of finished leather and leather goods will create an additional 35,000 jobs and USD 150 to 250 million in GDP and contribute to substituting a portion of **USD 86 million in shoe imports yearly.**

CONSTRUCTION MATERIALS AND SERVICES

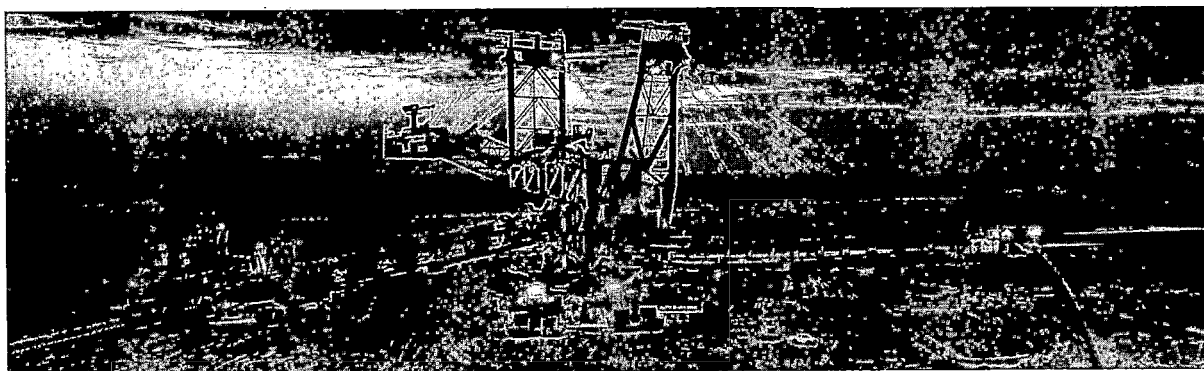
Construction is a major contributor to GDP (5%) and formal employment (6%) and one of the fastest-growing sectors in Kenya (7% per year over the past ten years), as evidenced by the boom in infrastructure construction, as well as commercial and residential construction. This creates a significant opportunity to grow local industry to service domestic and regional demand for services and materials.

- **Only 8% of the USD 60 billion regional infrastructure market is served by local firms, and most of this expenditure is in Kenya.** Kenyan firms tend to serve power projects and are missing out on valuable transportation projects because of a lack of scale and expertise. We can export our construction services by supporting our national champions to compete in both new types of projects (e.g., complex road building) or larger projects (e.g., high project values).
- High urban prices and capital costs, low access to mortgage financing and a low provision of social housing have created an **annual housing shortfall of 200,000 units in Kenya.** We can develop a low-cost housing ecosystem to address these challenges, which could contribute USD 200 million in the short term and over 30,000 jobs.
- A portion of our basic processed steel (beams, angles, sections, structures) imports of USD 485 million could be replaced with locally produced products to increase GDP by USD 80 to 150 million and create 28,000 jobs.

OIL, GAS AND MINING SERVICES

The recent discoveries of oil, gas and mineral resources in the East Africa region are substantial. Oil and gas proven resources include 17,000 million barrels of oil equivalent (mmboe) in Mozambique, 5,400 mmboe in Tanzania, 1,200 mmboe in South Sudan, 1,000 mmboe in Uganda and 700 mmboe in Kenya. These finds create an immediate opportunity to build a services hub for the region in Kenya.

- Oil and gas industry services such as drilling and maintenance are expected to grow by over 25% for the region each year and reach **USD 3.5 billion by 2020.**
- Capital expenditures in the mining industry are growing at roughly 10% p.a. in East Africa. A well-positioned "hub" in the region could offer **up to 70% of mining services to neighbouring countries**, with an estimated **value at stake of USD 1 billion annually**, of which we estimate that at least 35% could be captured locally.



INFORMATION-TECHNOLOGY-RELATED SECTORS

A strong IT market is a critical component of competitiveness in a global market and often enables other industrial sectors. Not only are technologies such as business IT services or mobile communication important for reducing costs but they also provide efficiency of operations that allows Kenyan industry to keep up with the rest of the world.

The sub-Saharan IT market is expected to be worth ~USD 128 billion by end of 2015. A number of factors are critical to increasing this market, including branding, investor attraction, infrastructure and talent. ***Kenya has already established itself as a high-growth market with a technology-enabled populace, and we can build on this to create a vibrant business process outsourcing (BPO) industry.***

- Kenya can leverage its reputation, competitive cost structure (70% cost advantage over the United Kingdom and 50% over South Africa), strong English speaking population, advanced IT and communications infrastructure and proximity to outsourcing markets, such as South Africa, to gain a vital edge over its competitors to earn USD 200 million in GDP and create an additional 45,000 jobs.

TOURISM

Accounting for over 4.8% of Kenya's GDP and 4.1% of the country's employment, tourism remains an important sector for Kenya. Opportunities exist to increase the number of visitors to the country from the current figure of 1.5 million. For example, Malaysia, a country with similar natural attractions to Kenya, is able to attract 25 million visitors per year with successful country marketing and a well-developed infrastructure.

Recent security threats have weakened the industry substantially but have also highlighted the need for proactive initiatives to redefine Kenya's profile in world tourism.

WHOLESALE AND RETAIL

The wholesale and retail sector enables overall industrial growth by creating a vehicle to the domestic and regional markets. Growth of any large industrial company relies on wholesale platforms and retail personnel, whether business to business or business to consumer. In SMEs, this link is even more important as businesses often make and sell their products from the same location and with the same people.

- Growth in wholesale and retail has been substantial. The sector has grown 8.8% per year over the past five years and created 1.6 million new jobs. This growth will only continue as our upper-middle class and the urban population grow.
- New capacity for formal retail establishments and formalization of SMEs and jua kali workers, informal craftsmen, will help develop the sector in the years to come.

SMALL AND MEDIUM ENTERPRISES

Small and medium enterprises (SMEs) form a core pillar of economic activity in Kenya and contribute close to 25% of our GDP. SMEs are the fastest growing business segment in the economy and employ the most people (50% or 11 million). In addition, there are a significant number of SMEs that have reached the size and level of complexity to participate in more sophisticated value addition and export activities. Initiatives to support SMEs, such as an SME accelerator, can help the sector grow by USD 150 million in GDP and employ many additional workers.

CHALLENGES TO ADDRESS TO REALISE THESE OPPORTUNITIES

To realise these opportunities, a range of both general and sector-specific challenges need to be addressed. Below are examples of where challenges affect specific sectors.

Infrastructure and land access

- **Access to sizeable farm land** (>10,000 acres) connected by a good quality transport infrastructure to the farm gate is needed for agro-processing around the country.
- **Availability and cost of developing zone, logistics and energy infrastructure near the Port of Mombasa** critical for keeping costs low and unlocking processing and regional exports.
- **Access to a dedicated fishing port** and the **supporting infrastructure** (e.g., cold storage) are needed to attract the tuna processing industry.
- **The high price of land in urban centres** is restricting the development of low-cost housing.

Skills and capabilities in priority sectors

- There is a **lack of skills beyond basics in apparel production** (e.g., design and embellishments are needed for seasonal goods and fast fashion).
- **Low expertise** to produce finished leather and leather products are problematic.
- There is a **limited talent pool for engineers** in key sectors (e.g., construction, oil, mining) and for qualified professionals for BPO.
- **Limited SME know-how, access to market and credit** restrict company development.

Quality of inputs

- Farmers have **low quality agricultural inputs** (e.g., seeds, fertilizer).
- **Low hide quality** driven by poor farming and slaughtering practices limits leather potential.
- **Low quality and expensive animal feed** are driving high cost of livestock and aquaculture.

Cost of operation

- **High cost of labour, transport and overhead** are causing production costs of 10 to 20% more than the lowest cost of garment manufacturing.
- **High cost of capital is discouraging investment** (e.g., in manufacturing plants, mega projects or SME growth).

Access to markets

- **Lengthy time to market** for garment manufacturing (118 days from order to delivery to the US) driven by a **lack of local textiles** (76% imported) reduces competitiveness.
- There is **limited access to international markets** (e.g., Canada, South Africa, Turkey, Middle East) for Kenyan-branded tea, leather, textile products
- **Informal sales channels** (e.g., for meat and dairy) result in the consumption of unprocessed products under less safe conditions.

Investor-friendly policies

- There is **unfair competition** from counterfeit products, tax avoidance, illicit imports and dumping.
- There is a need to **further develop and enforce local content requirements**.
- **Extra fees paid** on imported raw materials reduce competitiveness.
- **High regulation of the tea market** constrains the value addition efforts.
- There is a **lack of comprehensive low-cost housing policies**.



KENYA'S STRATEGY TO ACHIEVE ITS INDUSTRIAL POTENTIAL

To take advantage of its opportunities, Kenya needs to put sector-specific and enabling strategies in place that will overcome the previously outlined challenges and position the country for a second industrial leap forward. Under the guidance of the Presidency of the Republic of Kenya and in collaboration with other ministries and agencies of the government, the Ministry of Industrialization and Enterprise Development will support and drive these strategies. We ask that the private sector also rises to the challenge to support the industrialization of Kenya.

We are excited and energized to move forward on our industrialization journey.

1. Launch sector specific flagship projects that build on competitive advantages

- Launch a **food processing hub** in Mombasa to process imported agro-based products (e.g., wheat, palm oil, rice).
- Launch **agro-processing zones** (e.g., Kisumu, Meru, Galana, Nakuru, Kwale) to **process local commodities** (e.g., avocado, mango, cassava, peas, passion fruit, potatoes).
- Establish a fishing port and **fish processing zone** in Lamu.
- Develop an integrated **textile cluster** in Naivasha and **attract anchor investors**.
- Launch a **leather cluster** in Machakos and two other locations.
- Build **national construction services champions** and support their participation in infrastructure mega-projects.
- Develop a **low-cost housing ecosystem** with an accessible and affordable environment to support social housing.
- Develop **local content requirements to support the local manufacturing** (e.g., the steel industry).
- Attract **international oil and gas and mining service firms** to locate in Kenya and build local capabilities.
- Set up and promote a **BPO cluster** with best-in-class infrastructure and an ideal location with a focus on catalysing innovation.

2. Develop Kenyan SMEs

- **Select 50 of the highest potential SMEs annually** in key sectors and support with credit, training and networking assistance.
- **Create model factories** to impart best in class manufacturing expertise to SMEs.
- **Strengthen subcontracting policy** to improve links between large and small players.

3. Create an enabling environment to accelerate industrial development

- **Drive ease of doing business reforms** and reach the top 50 by 2020.
- **Build a network of competitive industrial parks/zones** with sector-appropriate incentives and supporting infrastructure.
- **Invest in industrial skills** by enhancing the capacity of institutions and partners and encouraging youth to sign up for technical courses.
- **Attract local capital and foreign direct investment (FDI)** by marketing priority projects to anchor investors and establishing a one-stop shop to facilitate investment.

4. Create an industrial development fund

- **Establish an industrial development fund to:**
 - Respond quickly to investment opportunities in priority areas.
 - Accelerate the development of the required infrastructure for sector priority projects.

5. Drive results with Ministerial Delivery Unit

- **Establish a Ministerial Delivery Unit to drive results** and coordinate across ministries and implementing agencies.
- **Measure, track and report progress** on priority flagship projects.

