

# **INVESTMENT OPPORTUNITIES IN KENYA : AN INDIAN PERSPECTIVE**



## **SUMMARY**

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# INVESTMENT OPPORTUNITIES IN KENYA: AN INDIAN PERSPECTIVE

The Study entitled "Investment Opportunities In Kenya: An Indian Perspective" was based mainly on published materials. For the theoretical side of the subject, works of several eminent economists and scholars, United Nations publications and relevant reports of the Governments of Kenya and India were consulted.

The periodicals, research journals and daily newspapers of both countries were consulted. Moreover a detailed and well conversed questionnaire relating to the subject matter of the topic was used to gather secondary data from diverse sources such as High Commission of Kenya at New Delhi, Indian Institute of Foreign Trade, Ministry of Commerce Government of India, planning Commission, Social Science Documentation Centre, Directorate of Commercial Intelligence and Statistics, State Trade Corporation and India Investment Centre.

The trade policy review published by the World Trade Organization was consulted extensively during the course of study and various reports of World Bank, International Monetary Fund, and Economic Commission for Africa were important source of data for the thesis.

The statistical abstract published yearly by the Central Bureau of Statistics Ministry of Planning and National Development Government of Kenya provided the main source for the statistics used in the thesis. In addition the various issues of economic survey and National Development Plans published by the Ministry of Finance and Planning Government of Kenya provided some useful data used in the thesis.

The thesis is divided into nine chapters. Chapter One deals with the Introduction part of the study including the location and climate, hypothesis of the study, basic terms and concepts of the subject, limitations of the study and significance of foreign investment.

Chapter Two deals with Investment Opportunities in Tourism in Kenya while Chapter Three dwells on Investment in Agriculture and its Allied Services in Kenya. Investment Opportunities in Financial Services and Investment Opportunities in Manufacturing Sector makeup Chapters Four and Five respectively.

In Chapter Six Investment Opportunities in trade is covered while Chapter Seven deals with The Import and Export Policies of the Governments of India and Kenya. The Role of Government Machinery in Promotion of Investments is covered in Chapter Eight and Chapter Nine gives the Findings, Suggestions and Conclusion of the study.

Throughout the thesis, the data collected are compiled into suitable tables using percentages and other ratios in order to draw conclusions.

The following are the Findings, Suggestions and Conclusion of the study:

### **Findings and suggestions to improve Kenya's tourism industry**

The tourism industry of Kenya has had a rapid growth since independence mainly because of the following factors:-

1. Rich natural tourism resources, particularly quality wildlife and beaches.
2. Customer awareness of Kenya as a safari destination with tropical weather.
3. Familiarity of overseas tour operators with Kenya's tourism products.
4. Retention of the country's name after independence so that Kenya remained readily familiar to overseas tourists.
5. Good access from Europe compared with other safari destinations in Africa because Nairobi, a regional hub, is served by international and regional airlines.
6. Relatively more developed tourist infrastructure (hotels, lodges, tour operating firms, guiding services, etc.) with an established track record and capacity compared with most safari competitors in sub-Saharan Africa other than South Africa.
7. Hospitality of the Kenyan people.
8. Indistinct seasonality with sunshine all year, a kin to a European summer.

9. Good medical and rescue facilities, particularly the internationally recognized flying doctor service.
10. Lack of a language barrier since English is widely spoken and is the official language of the country.

The depreciation of the Kenya currency following major reforms of the foreign exchange policy in 1993 made the country relatively cheap as a destination and contributed to the surge in tourist arrivals in 1993-94. However after the peak attained in 1994, Kenya's tourism experienced an unprecedented decline until 1999 when there was modest growth.

In general the factors which have contributed to the decline in Kenya's tourism industry can be summarized as below:-

1. Crumbling infrastructure – not just the poor roads which were seriously worsened by the EL-Nino rains of late 1998, but also poor rail services, poor telecommunications, congestion and inadequate facilities at the airports and the port of Mombasa, pilferage of luggage, inadequate supply of clean water, and frequent electricity disruption. Infrastructure rehabilitation and upgrading are needed urgently, particularly in the prime tourism areas.
2. A negative political image – official (political) corruption, in particular, is a deterrent to new investment in the tourism industry and other sectors of the economy.

3. Inadequate and inappropriate marketing and image – making efforts in an environment of increasing competition for tourists in East Africa and the rest of the continent. Overseas tour operators now lead and control the marketing of the products they think Kenya has to offer rather than marketing the country as a holiday destination.
4. Lack of a public relations strategy for the country.
5. Continued reliance on and marketing of the same old products – beach and safari holidays – instead of diversifying to other products the country has to offer.
6. An inefficient bureaucracy largely incapable of coping with emergent regional and global competition for tourists.
7. Entry impediments for tourists in terms of visa requirements and non-competitive air passenger service charges.
8. Poor implementation of often appropriate tourism policies, for example, safety standards, licensing regulations and hotel classification requirements are not enforced, which leads to substantial illegal tourism business.
9. Poor quality of service largely because many facilities are aging, such as the hotels built in the 1970s and the minibuses used for wildlife viewing.
10. Inadequate interpretation or explanation for tourists of exhibits, monuments or other tourism resources.

11. Poor taxi services and public transport systems, including harassment of tourists by taxi drivers.
12. Poor coordination of the public and private sector tourism activities.
13. Environmental degradation in such key resources as the Maasai Mara and the Amboseli game parks. Wildlife populations in Maasai Mara have declined by 50-80 percent since the 1970s.
14. Inadequate information to guide tourists on the full range of products and services available. The inadequate number of tourist information offices in the country is a pointer to the seriousness of this problem.
15. Harassment of tourists by beach boys. An airport exit survey carried out a few years ago indicated that this was the most irritating problem for tourists.
16. Lack of incentives to encourage the conservation of natural and cultural resources by the local communities.
17. Lack of an effective Land-use and planning policy in the country. This has affected the location of tourism investments and led to the encroachment on wildlife dispersal areas.
18. Harassment of tourists by Government officials such as customs and immigration officials, policemen and health officials. Bureaucratic visa acquisition procedures have been a notable problem for many years.

In spite of the above factors, Kenya's tourism industry has great opportunities for investments including the following:-

- a. The natural resources mainly the wildlife, the great ecological diversity represented in the tropical Indian ocean beaches, the Rift Valley, the Central Highlands, and the snow-capped mount Kenya.
- b. The potential diversity into such products as deep-sea and freshwater fishing, horse riding, golfing, mountain climbing, hiking, culture, archeology, events around the equator, agri-business and photography.
- c. An ideal equatorial climate for beach, safari, and activity holidays of all kinds.
- d. Film making
- e. Museums (but these should be upgraded to provide better resources for tourism).
- f. Investment in accommodation, recreation and entertainment facilities.
- g. Development of new tourist class hotels, villas, and holiday centres.
- h. Development of water sports facilities e.g. windsurfing, and aquaculture farming.
- i. Beach hotel development along Lake Victoria.
- j. The East African cooperation provides opportunities for freer movement of people and cooperative marketing and development.



## **Suggestions to Improve Kenya's Tourism Industry**

The tourism industry of Kenya has been characterized by fluctuations in visitor arrivals. This has called for comprehensive review of the tourism policy in order for the country to benefit from the industry. The following are some suggestions to improve the industry:-

### **a) Community participation in tourism**

The local communities are the primary custodians of natural resource based tourism. Therefore the Government should encourage investors to establish linkages with the local communities. Parks and reserves revenue sharing policies should be reviewed to ensure local people benefit from tourism. The Government should also encourage farmers to adopt wildlife management along with their farming practices to allow free movement and migration of wild animals.

### **b) Tourism promotion and marketing**

Kenya Tourist Board which is charged with the responsibility of promoting Kenya as a leading tourist destination, should enhance its promotion and marketing with an objective of repositioning Kenya as an attractive tourist destination. In this regard the Government should increase its funding for tourism promotion activities. In addition the private sector should be encouraged to contribute towards these efforts. Moreover, diversification of products and market segmentation should be pursued if at all the promotional activities are

to be successful. Another area which should be looked carefully is promotion of domestic tourism. The Government in conjunction with all the stakeholders should increase efforts to create awareness among Kenyans and also pursue the revival of the domestic tourism council.

**c) Infrastructure development**

Tourism industry cannot develop without infrastructure. Investments in water, electricity and communication facilities are essential for tourism development. The Government and the private sector should join hands and develop first class infrastructure in order to attract more visitors.

**d) Training of manpower**

The Government should increase the number of trained high caliber tourism manpower to equal the demand. At present the demand for trained manpower outstrips the supply and therefore the Government should create more training institutions to cope with the demand.

**e) Safety and security**

Safety and security of tourists is a priority responsibility of the Government. The Government should provide visitors with security and safety through establishment of tourist police unit. The unit should deal exclusively with the security and safety of the tourist and should cover all the regions that are of interest to tourists.

#### f) Regulatory issues

The Government should come up with a comprehensive legislative framework to regulate the industry. At present there are diverse legislations that are not under the control of one authority hence making it hard to implement these legislation. In addition the ministry responsible for tourism needs to study all the laws impinging on tourism and to produce a coherent document to guide the industry.

#### Findings and suggestions to improve Agricultural and allied services in Kenya

Agriculture is the main-stay of the Kenyan economy. The sector contributes about 30 percent of the Gross Domestic Product and has been the base for economic growth, employment creation and foreign exchange generation, besides having strong linkages with nearly all sectors of the economy. The sector is also a major source of the country's food supply and a stimulant to growth of off-farm employment.

Although agriculture contributes nearly 30 percent of Kenya's Gross Domestic Product, it is noteworthy that almost all agricultural production comes from the 20 percent of the country's land which is arable. The remaining 80 percent of the country's land is Arid and Semi-Arid Lands (ASAL).

The production structure of agricultural sector in Kenya is characterized by small scale farms and large scale farms. Small scale

The findings of agricultural and allied services in Kenya are as follows:

### **1. A mode of living only**

The agricultural activities of Kenya shows that farmers have chosen agriculture as a mode of living rather than a business choice.

### **2. Highly dependent on nature**

Agriculture in Kenya is highly dependent on nature. The agricultural production in the country comes from 20 percent of the county's land which is arable. This means that the sector largely depends on rains and there are no adequate irrigation facilities to convert the unproductive land into productive land.

### **3. Multiplicity of crops**

The agricultural sector of Kenya is characterized by multiplicity of crops. In other words the sector is multi-cultural in contrast to monocultural. This permits agriculture to meet the needs for different types of food, raw materials, and the fluctuating demand of exports. Besides, the harmful effects of uncertainties of agriculture can be minimized. The poor output of one crop may be compensated to some extent by a better record of other crops.

### **4. A mixture of subsistence and commercial farming**

The production structure of agricultural sector in Kenya is characterized by small scale farms and large scale farms. Small scale

farms produce mainly stable subsistence crops with some surplus for marketing. The large scale farms on the other hand produce both food and cash crops for local and export market.

### **5. Predominance of small scale farmers**

The agricultural sector in Kenya is largely dominated by small scale farming. After independence large farms were divided into small scale holdings through land transfers and resettlement programmes which were initiated by the Government after independence.

### **6. Low level of productivity**

Though there has been a tremendous development in the agricultural sector in Kenya, but still the sector has not attained the goal of self sufficiency in food production. This is visible for example when in some years the country runs short of food supply prompting the Government to import some basic foods to meet the demand. In addition the country is currently a net importer of basic foods such as wheat, rice, maize and sugar.

### **7. The investment opportunities in the agricultural sector in Kenya are enormous**

The agricultural sector of Kenya is dominated by activities like crop production, horticulture, dairy and livestock farming. The export base of the sector has remained largely dependent on coffee, tea and horticulture. There is considerable scope for diversification and expansion of the

agricultural sector through accelerated food crop production and growth of non-traditional exports. Moreover there are also opportunities for improvement in technological infrastructure such as packaging, storage and transportation. The areas identified for investment include, horticultural sector, agro-processing, fisheries, livestock, dipping & clinical services, fertilizer subsector, oil crops and agricultural support activities.

### **8. Poor inputs and techniques**

The method and techniques of cultivation that are practiced in the agricultural sector in Kenya are old and inefficient. It results in high cost and low productivity. The investment in agriculture in the form of manures and fertilizers, improved seeds, irrigation, tools and implements and other capital assets have been miserably low.

### **9. Lack of non-farm services**

An efficient and progressive agriculture requires various non-farm services, such as marketing, credit, warehousing and storage. In Kenya these facilities are inadequate. There is delay of payments to farmers by agents responsible for marketing of farmers produce and there is lack of credit to farmers. In addition modern warehousing is inadequate and storing methods are defective and costly.

be exploited to assist in achieving the country's food requirements and

## **10. Inadequate research**

The agricultural sector of Kenya also lacks adequate research into high yielding varieties of crops, production of good quality seeds and extending the benefits of research and development to all farmers.

### **Suggestions to improve agricultural and allied services in Kenya:**

#### **1. Irrigation development**

Kenya's agricultural development has continued to rely heavily on rain fed agriculture. This has led to frequent food shortages occasioned by crop failures when rains fail. Overall, rainfall distribution in the country is not reliable and the country has continued to experience food deficits necessitating importation of critical agricultural commodities like maize, wheat, rice, oil seeds, and sugar to meet the shortfall. Irrigation is therefore crucial to the development of agriculture in the country.

The total potential land for irrigation and drainage is estimated at 540,000 and 600,000 hectares respectively. Out of the total irrigable land, only 109350 hectares have been developed. The growth of irrigation development for the last fifteen years has mainly been through small holder and private approaches. It is therefore suggested that there is potential for increased irrigation development that could

million people. Funds borrowed from these co-operatives are used for

be exploited to assist in achieving the country's food requirements and security.

In addition, it is suggested that the Government in consultation with the stakeholders should reformulate a national irrigation and drainage policy and restructure the irrigation sub sector. Moreover, the following strategies should be pursued:- The National Irrigation Board (NIB) Act should be repealed to be in line with the liberalized market; construction of dams and reservoirs in order to regulate, store and distribute water for irrigation; support self-sustaining community based irrigation schemes; and support to the use of appropriate irrigation technology.

## 2. Co-operative development

Co-operative development is essential for proper development of agriculture. In Kenya co-operatives have been involved in agricultural production, primary processing and marketing of agricultural and livestock commodities. In addition, they have served as a vehicle for mobilization of rural and urban savings, which have been an important source of funding for productive activities.

By 1999, over 9000 co-operative societies had been registered. Out of these 46 percent were agricultural co-operatives while 38 percent were savings and credit co-operative supporting over 2.5 million people. Funds borrowed from these co-operatives are used for



rural development in areas such as purchasing of farm inputs, irrigation, construction of wells and dams, and building decent shelter. However these co-operatives are faced with weak marketing structures; poor management and leadership capacity; and a weak capital base. As a result, co-operative performance has been declining and majority of them are not able to compete effectively. It is therefore suggested that the Government in collaboration with other stakeholders should revamp the co-operative movement; revise the current Co-operative Societies Act; support savings and credit co-operative and facilitate training and awareness creation.

### **3. Agricultural research**

Despite the long history of research in Kenya, agricultural research continues to suffer from poor management; inadequate funding; manpower instability; limited research-extension-farmer linkages; weak monitoring and evaluation and lack of policy framework for biotechnology development and use. It is suggested that Kenya Agricultural Research Institute should continue to lead the development of sustainable technologies and disseminate knowledge and information in a rapidly changing environment. In this regard, the research conducted by Kenya Agricultural Research Institute should be strategic in nature seeking to acquire and apply scientific knowledge to resolve generic agricultural constraints. Efforts should

also be made to strengthen the institute's adaptive research programmes, focusing on specific production systems and the varying social economic circumstances of the small holder farmers. In addition the institute should develop partnerships and methodologies that will ensure that appropriate technologies developed through research are relevant and are effectively disseminated to users. The country also has individual crop research foundations. These include the Coffee Research Foundation and Tea Research Foundation. It is suggested that these research foundations should develop and update technologies for different diseases and pest control methods, optimum irrigation rates and frequencies, develop appropriate varieties, and put in place effective mechanism that will ensure that the developed technologies reach and are adopted by the producers.

#### **4. Agricultural financial services**

Credit is key to agricultural development. However, its availability and accessibility to small holder farmers has been inadequate. This is due to the poor performance of the economy, low productive capacity, mismanagement of the cooperative sector and poor performance of the Agricultural Finance Co-operation. In addition the high risks associated with the agricultural enterprise makes potential creditors cautious of lending to this sector. Moreover high interest rates, low prices, poor management of marketing institutions and collateral

requirements continue to be serious bottlenecks. It is suggested that in order to improve the credit flow to farmers the Government should restructure the agricultural financial institutions, streamline the management of co-operative societies and improve access to credit through support to the micro financial institutions.

## **5. Agricultural processing and storage**

Kenya has not exploited the investment opportunities, which can add value to farm products. Most agricultural products are exported as raw materials. Investment opportunities for value adding activities through processing and packaging of agricultural commodities have not been exploited to increase farm incomes and off-farm employment. This is despite the fact that a crop like tea can fetch up to six times more revenue when processed and packaged. Other enterprises which can be promoted to add value include coffee, meat, hides and skins, bones, a wide range of horticultural produce, timber, fish, soyabeans, wattlebark, pyrethrum, sorghum, millet, cassava and bananas.

The withdrawal of public marketing agencies following liberalization has also left marketing of most commodities such as coffee, tea, maize and cotton in disarray. In most commodities, conflicts have arisen among various stakeholder over their marketing. In order to add value it is suggested that the Government should encourage agro processing through

exposure to appropriate technologies. The Government should enhance its negotiating capacity in regional as well as international trade and use safeguard measures in accordance with prevailing trade agreements to support local producers. In addition the Government should improve and develop the marketing infrastructure while enforcing the agricultural marketing regulation.

### **Findings and Suggestions to improve manufacturing sector in Kenya**

The performance of the manufacturing sector in Kenya has recorded a declining performance over the last decade. The sector is characterized by:

#### **1. Inadequate Power Supply**

The manufacturing sector in Kenya experiences shortage of power supply especially during the late 90's where periods of draught led to serious power rationing which affected industrial production.

#### **2. Low Capacity Utilization**

The manufacturing units in Kenya are performing below capacity. This in turn has contributed to the declining productivity of the whole sector. The reasons attributed to the low capacity are lack of capital for expansion, lack of raw materials and lack of technology to upgrade the industries.

Kenya's manufacturing sector is characterized by low value addition. Therefore an important aspect of Kenya's industrialization strategy should be to add value to our primary commodities. This can be achieved

### 3. Influx of Counterfeit Products

The manufacturing sector in Kenya also experiences competition from cheap and sometimes counterfeit products which are readily available in the country.

### 4. Lack of Adequate Technical Know-How

The technology employed in the manufacturing sector in Kenya is not adequate. This in turn contributes to low production and sometimes the finished products are not upto standard. Moreover there is inadequate research and development as well as lack of awareness of intellectual property rights which have constrained technological advancement that plays a key role in the development of the industry.

### 5. High Cost of Inputs

The manufacturing sector in Kenya mostly rely on imported inputs. This is reflected in the percentage of value addition in the sector which is very low. Consequently the average cost of production increases making the sector to loose out on imported cheap products. Moreover this situation is exacerbated by high duty charges on intermediate inputs.

## Suggestions to Improve Manufacturing Sector in Kenya

### 1. Revitalization of industrial growth

Kenya's manufacturing sector is characterized by low value addition. Therefore an important aspect of Kenya's industrialization strategy should be to add value to our primary commodities. This can be achieved

through promotion of local processors. Special emphasis should be placed on cotton and textiles, leather and leather products, paper and packaging, beverages and alcohol, sugar and pharmaceuticals.

## **2. Quality control and standards**

The intense competition at the market place has brought into sharper focus the need for gaining the confidence of the customer in the firm and its products. The confidence (of the customer) in the firm as a reliable supplier of goods can be gained by providing him consistently with better quality products. This alone helps a firm improve its image in the minds of its customers and enhance their satisfaction levels. This task becomes much easier if the firm manages the quality of its products and secures certification of its quality management system from an independent third party.

In order for Kenyan manufactured goods to access global markets, the Kenya Bureau of Standards (KEBS) should ensure that domestic products do comply with internationally recognized quality management standards under ISO 9000 series and Environmental management standards under ISO 14000 series. In order to curb the flooding of domestic market by sub-standard, cheap and sometimes counterfeit products, the Government should strengthen the role of Kenya Bureau of Standards and Kenya Health Inspectorate Services to curb inflow of such products into the country.

### **3. Technology, Research and Development**

For any country to benefit from its industrial programme, there is need to have advanced technology, research and development. At the moment the industrial structure of Kenya is characterized by lack of adequate technology, research and development. It is therefore suggested that the Kenya Industrial and Research Institute in conjunction with local universities should continue to invest in development, acquisition and dissemination of appropriate technology. The Kenya Industrial property office should be strengthened to enhance patenting of new technologies. In addition lessons learnt from a number of programmes developed by United Nations Industrial Development Organisation (UNIDO) and other development agencies to promote technology transfer should be replicated. Moreover a trade and industry center should be established to collect, process and disseminate business information to the stakeholders.

### **4. Industrial skills development**

Kenya has little experience in managing industries except for a few industries like sugar and textiles. As Kenya proposes to set up several industries, the need for industrial skills development is paramount. Many institutions in the country including the country's polytechnics should be involved in imparting industrial skills in the country. In addition since India has experience in managing industries, the Government of Kenya can approach the Indian authorities for training of its personnel.

## **5. Private sector development**

As the Government of Kenya recognizes the role of the private sector in industrial development, the strategy for industrial promotion should shift from controls and regulatory interventions to promoting private sector development. In this connection avenues should be provided for dialogue and concerted action between public and private sectors. In addition efforts should be made to enhance the authority and capacities of business associations such as Kenya National Chamber of Commerce and Industry (KNCCI), the Kenya Association of Manufacturers (KAM) and Federation of Kenya Employees (FKE). Equally bodies representing the informal sectors must be strengthened and made truly representative. Moreover the private sector should be encouraged to develop or formulate action plans and programmes to address constraints and suggest specific support services that will enhance their efficiency and competitiveness.

## **6. Investment Promotion**

The manufacturing sector in Kenya is characterized by low investment especially direct private foreign investment. Investment approvals by the investment promotion center also show a marked decline in new investment in Kenya over the recent years. In addition the situation is compounded by evidence of disinvestments by some foreign companies. Therefore it is suggested that the country should actively seek direct



private foreign investment to supplement local capacity through among others finalisation of the investment code, aggressive investment promotion mission in foreign countries and meeting the export zone objectives.

### **Conclusion**

Overall the key priority of the new Kenyan Government has been the reduction of poverty through economic recovery and promotion of sustainable growth. In order to achieve this objective, the Government has addressed the structural weaknesses that have contributed to the decline in productivity and competitiveness of the economy in the last two decades. During this period, almost all sectors of economy experienced a slowdown in growth.

Agriculture in Kenya continues to play a critical role in the national economy as the main source of foreign exchange earner in addition to providing raw materials to the manufacturing sector. Trade, Tourism, manufacturing and financial services are other important sectors in Kenya contributing to the economic development in terms of foreign exchange earnings, employment and income generation.

Despite the slow economic growth, Kenya's potential as an investment area is undisputable. Since independence in 1963, the Government has pursued policies aimed at creating an enabling environment for private sector

participation. In 1964, the Government passed the foreign investment protection Act to safeguard all foreign investments in the country. But it was until in 1994 that Kenya became a land of opportunity after the introduction of open market economic reforms. Foreign exchange controls were lifted and imports were di-licensed. At present the Government has continued with the economic reforms aimed at strengthening investor's confidence in the Kenyan economy and accelerating private sector growth through attracting new foreign investments. Therefore India can take advantage of the vast potential that exists in Kenya for the better expansion of trade and investment.