

Brief overview

Located in East Africa and sharing its borders with countries including Ethiopia, South Sudan, Tanzania and Uganda, Kenya has often been referred to as the commercial “gateway” to and regional hub of East Africa. This comes as a result of the strategic importance the coastal city of Mombasa plays, which is one of the busiest ports along the East African coastline.

Apart from being the largest and most advanced economy in East Africa, Kenya is also set to be among the fastest-growing countries in Africa, expected to continue to grow in excess of 5% per annum over the next five years. Nairobi, the country's capital city, is the business and financial centre of Kenya and the government is on a quest to establish it as a financial hub in the region, putting it on par with existing financial centres in the world.

Various sector growth drivers and a non-reliance on commodity exports have underpinned the continued notable economic performance of the country. Yet, Kenya will increasingly depend on innovation, on creating the broader enabling environment for business to thrive through infrastructure construction and reforms, and on reducing corruption to generate value, create employment opportunities, and serve a rapidly urbanising and rising middle class.

Given Kenya's diversifying and robust growth prospects, strong private-sector participation, ongoing pro-business reforms, as well as a rising domestic and regional consumer market, Kenya offers a wealth of investment opportunities across various priority sectors including infrastructure development, horticulture, manufacturing, tourism, power generation, natural resource extraction, and information and communications technology (ICT).

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Political snapshot

Kenya promulgated its new Constitution in August 2010. The Constitution decentralised the political system, limited the president's powers and also created 47 local governments, known as districts or counties, all of which are competing to position themselves as investment hubs in Kenya.

President Uhuru Kenyatta under the ruling Jubilee Coalition Party is expected to run for a second and final term during the 2017 general elections. During his first two years in office, Kenyatta has run a robust development agenda and has signed several major development agreements with international and regional partners. He is also credited for extending projects of the past government under the auspices of Vision 2030 – the country's development programme from 2008 to 2030 – and initiating large infrastructural projects including a standard gauge railway that forms part of the more than US\$20bn Lamu Port-Southern Sudan-Ethiopia transport corridor project, also known as LAPSET, and the largest geothermal plant in the world.

President Kenyatta has also maintained an aggressive foreign policy and has earned himself the title "the traveling president". His efforts have borne positive results leading to trade agreements with several countries, as well as increased foreign direct investment (FDI) flows (FDI inflows almost tripled between 2013 and 2015) and a rise in diaspora remittances.

In 2015 and 2016 the President has hosted high-level delegations of over 35 presidents

and prime ministers from Africa, including several foreign heads of states. Nairobi has also played host to high-level meetings such as the 10th World Trade Organisation (WTO) Ministerial Conference, the United Nations Conference on Trade and Development (UNCTAD) as well as the Tokyo International Conference on African Development (TICAD VI), showing the international community's confidence in the increase of security measures in the region.

Kenya was ranked in position 139 out of 168 countries according to the 2015 *Global Corruption Perception Index* (CPI) released by Transparency International. In his State of the Nation Address in November 2015, the President formally declared corruption a major threat to national security. Furthermore, in a bid to fight corruption, Kenya and the other members of the East African Community (EAC), signed the 2016 East Africa Code of Conduct which aims at enhancing ethical business practices in the region. The country also signed into law the 2016 Bribery Bill which set strict penalties for individuals or organisations involved in corruption. In addition, some high-ranking government officials suspected of corruption have been removed from public office and charged in court. However, the fight against corruption in Kenya is far from over.

Adverse weather and changing climatic conditions, regional insecurity threats (most notably from Al-Shabaab) and volatile global financial markets remain the biggest threats to Kenya's political economy going forward.



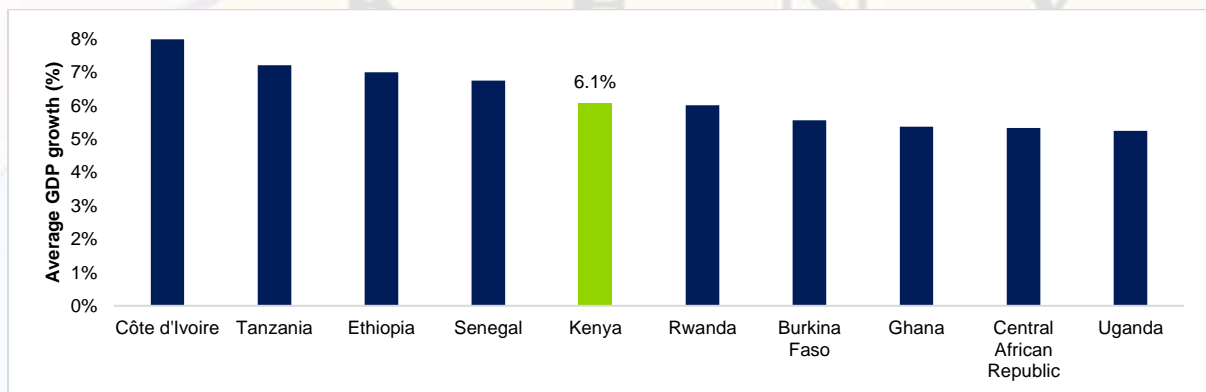


Kenya's growth outlook bucks the African trend

The majority of emerging and frontier markets, both globally and across the African continent, have struggled with various headwinds, particularly the aftermath of the global financial crisis and a lower commodity price environment over the last few years. According to the International Monetary Fund's October 2016 *World Economic Outlook* the average real growth rate of gross domestic product (GDP) for sub-Saharan Africa (SSA) is expected to moderate to 1.4% in 2016 and recover to 2.9% in 2017. For the first time in 15 years and since the onset of the commodity price boom, SSA's annual regional growth rate is expected to dip below world growth (3.1%).

Kenya is bucking this trend. After a statistical rebasing exercise in 2014, the World Bank reclassified Kenya's economy as a lower middle-income country making it the largest economy in East Africa and Africa's ninth-biggest. Having averaged above 5% GDP growth over the past decade, the country is expected to expand at a pace of 6.1% in 2016 and 2017 – continuing to outperform its major African peers (including South Africa, Nigeria and Angola) in the coming years. This makes Kenya the fifth-fastest growing and the most sizable economy in the top 10 SSA growth economies.

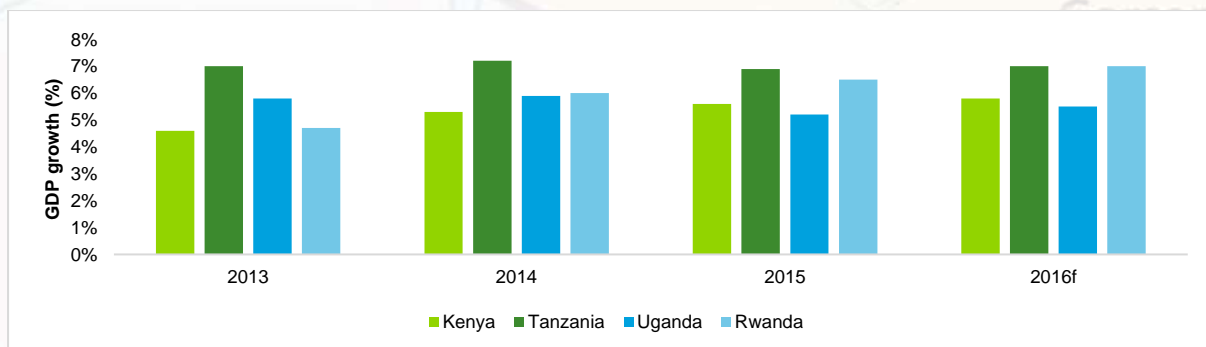
Average real GDP growth of SSA's 10 fastest-growing economies (%), 2016f-2017f



Source: IMF, 2016

The Kenya National Bureau of Statistics (KNBS) reported that the country's GDP grew by 5.6% in 2015 compared to 5.3% in 2014. This consistently exceeds the average growth rate for SSA countries since 2009, as per figures published by the World Bank and compares favourably to its East African peers. The KNBS predicts Kenya's economy will grow by 5.8% in 2016 while the IMF is more upbeat at 6%.

Real GDP growth rate of Kenya and its regional peers (%), 2013-2016f



Source: World Bank, 2016

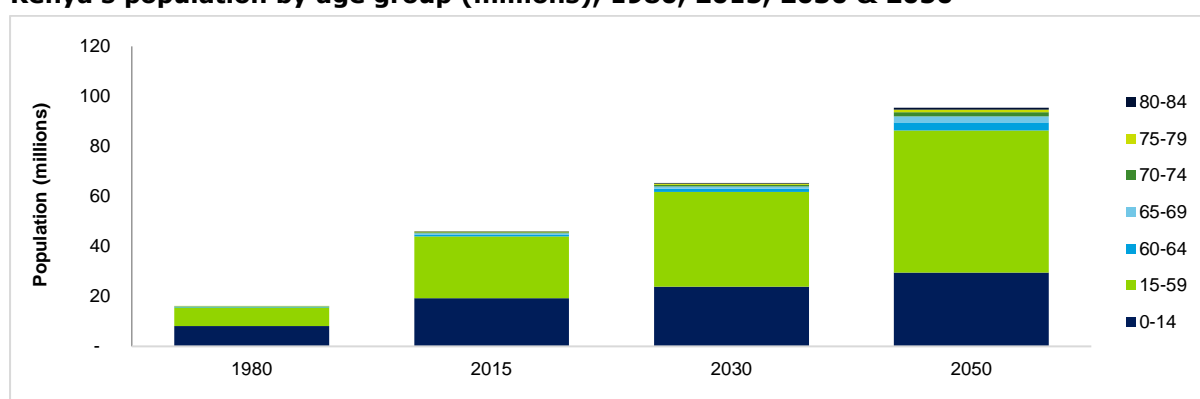
Kenya's growth trajectory has been underpinned by various sectors, ranging from agriculture and construction, to manufacturing and financial services. Going forward, Kenya's growth and by

extension that of East Africa will be supported by continued economic diversification and integration, allowing the region to outpace other sub-regions of SSA whose growth stories will be undermined by persistent low commodity prices (as well as the overreliance on sometimes single commodity exports) at least in the short to medium term.

With Kenya having been classified as a lower-middle income country, consumer spending is considered a key economic driver. BMI Research predicts that private spending will almost double in local currency terms, from Kes4.7tr (US\$47bn) in 2015 to Kes8.7tr (US\$87bn) in 2020 due to rising incomes, favourable demographics (Kenya's population is expected to more than double from 45 million in 2015 to 95 million in 2050, giving rise to an expanding working age population) and growing financial inclusion.

Kenya's middle class (44.9% of population) is expected to continue expanding by an average annual growth rate of 5%, giving rise to a thriving shopping-mall lifestyle, a booming housing market, growing automobile industry, expansion of retail banking and mobile money, as well as growing domestic tourism activity, amongst other things.

Kenya's population by age group (millions), 1980, 2015, 2030 & 2050

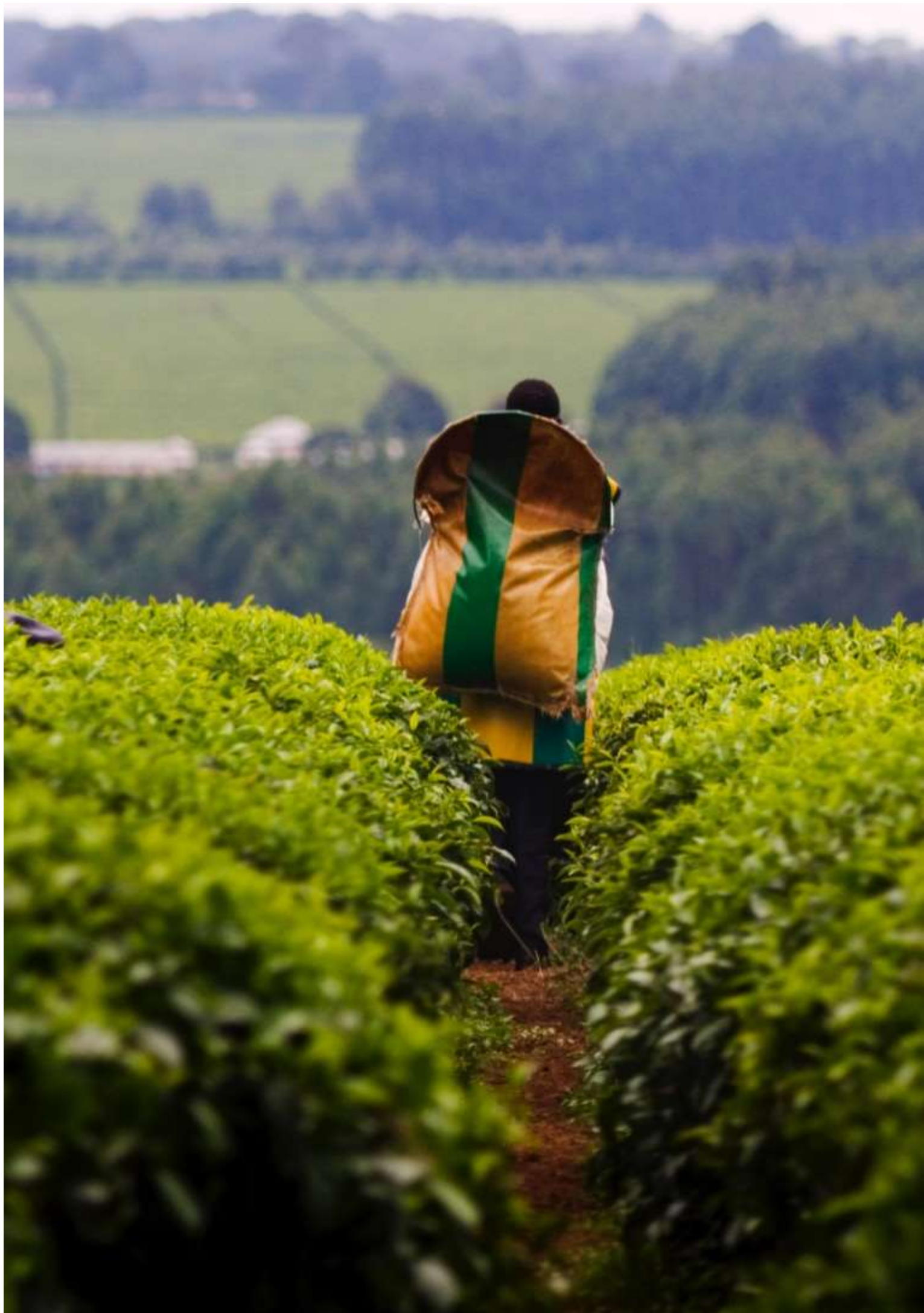


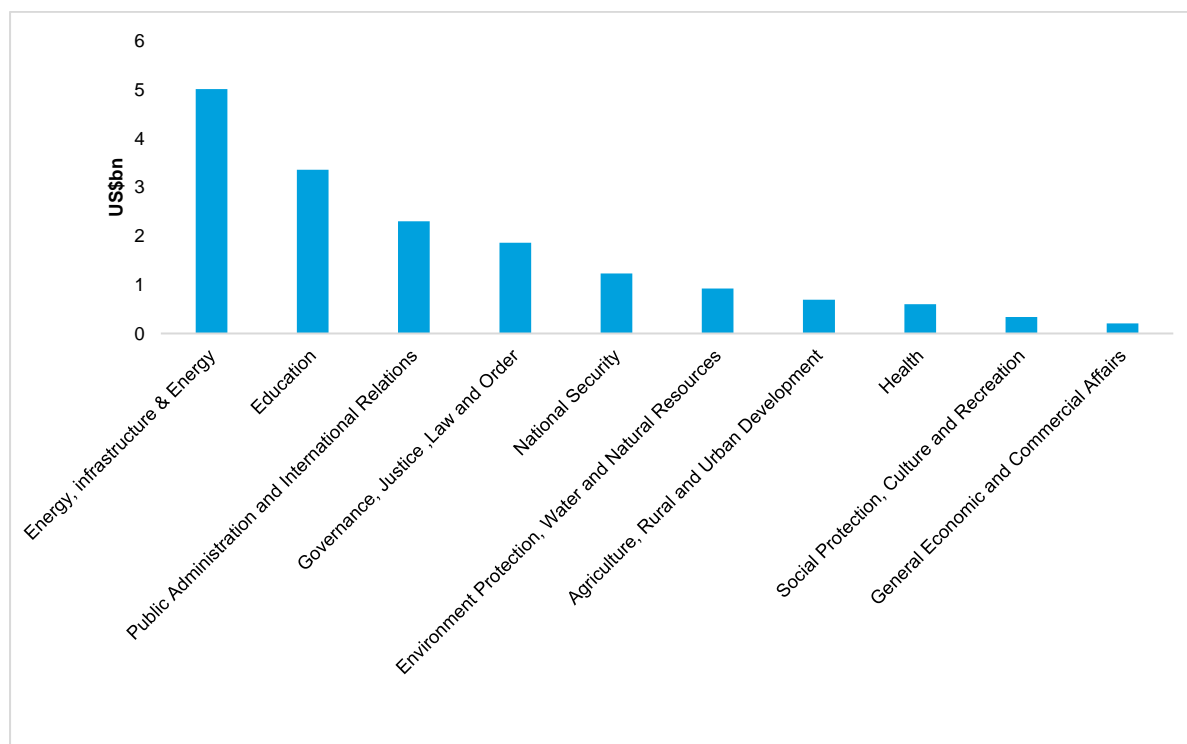
Source: United Nations Department of Economic and Social Affairs, Population Division, 2015

Fiscal framework

The government's fiscal performance has been relatively stable in recent years with public spending – which has been increasing largely owing to major infrastructure projects – supporting economic growth. Despite concerns raised over the country's debt levels at just over 50% of public debt to GDP, this remains at a sustainable level with low risks of external debt distress. To cushion against potential external future shocks, Kenya is hoping to access a US\$1.5bn precautionary loan agreement from the IMF.

The 2015/16 budget continues to emphasise resource allocation towards development in key sectors such as infrastructure, energy, agriculture, security, health, and youth empowerment. With government expenditure outpacing revenues at 8.7% of GDP in FY15, fiscal deficits are forecast to range between 6% and 8% over the medium term.

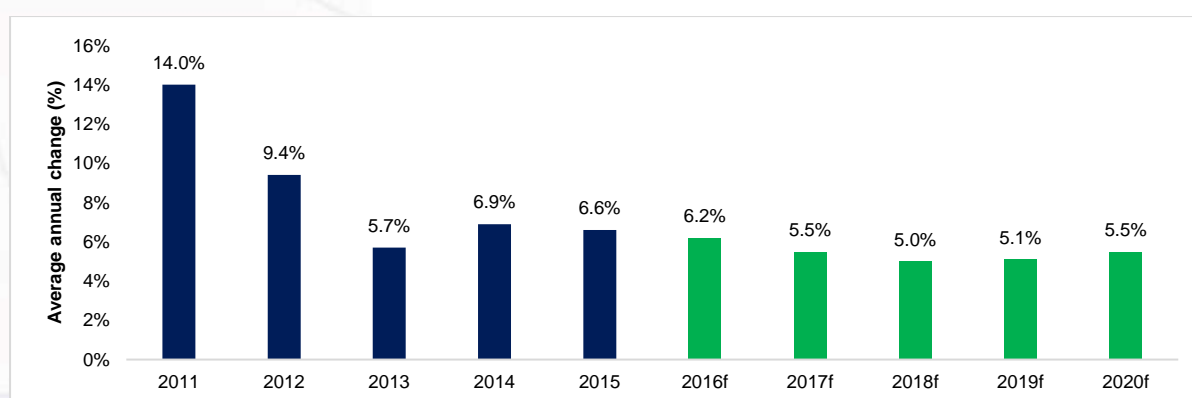


Kenya 2016-17 government budget allocations (US\$bn)

Source: International Budget Partnership, 2016

Inflation rate

According to the Central Bank of Kenya (CBK), overall inflation eased to 7% in the first quarter of 2016 from 7.35% in the fourth quarter of 2015 largely on account of declining food and fuel inflation. The Economist Intelligence Unit N.A. Incorporation expects inflation to average 6.2% in 2016 due to continuously subdued oil prices, lower electricity tariffs (given the increased reliance on drought-resistant geothermal power) and low food prices (because of improved rainfalls). It also forecasts inflation to average 5.3% between 2017 and 2020. Drought however remains a potential upside risk to inflation as the country is dependent on rainfed agriculture.

Change in consumer prices (average %), 2011-2020f

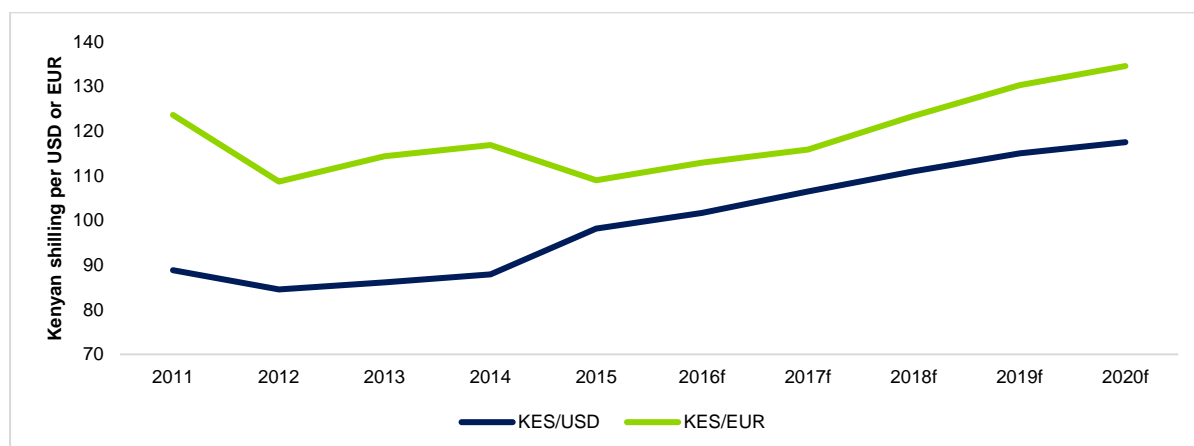
Source: Economist Intelligence Unit N.A. Incorporation, 2016

Exchange rates

Despite a roughly 10% depreciation of the value of the Kenyan shilling (KES) to the US dollar in 2015, the currency remained relatively resilient compared to other emerging market currencies as the dollar strengthened. In the EAC region, the Kenyan shilling strengthened against the Tanzanian shilling as well as the Rwandan and Burundian francs but weakened against the Ugandan shilling. The external price stability is largely attributed to the country's prudent

monetary policies, low dependencies on hydro-carbons, resilient export growth, and strong investment inflows and diaspora remittances among other reasons. The Economist Intelligence Unit N.A. Incorporation, however, expects the Kenyan shilling to depreciate gradually over the forecasted period.

Kenyan shilling versus major world currencies, 2011-2020f

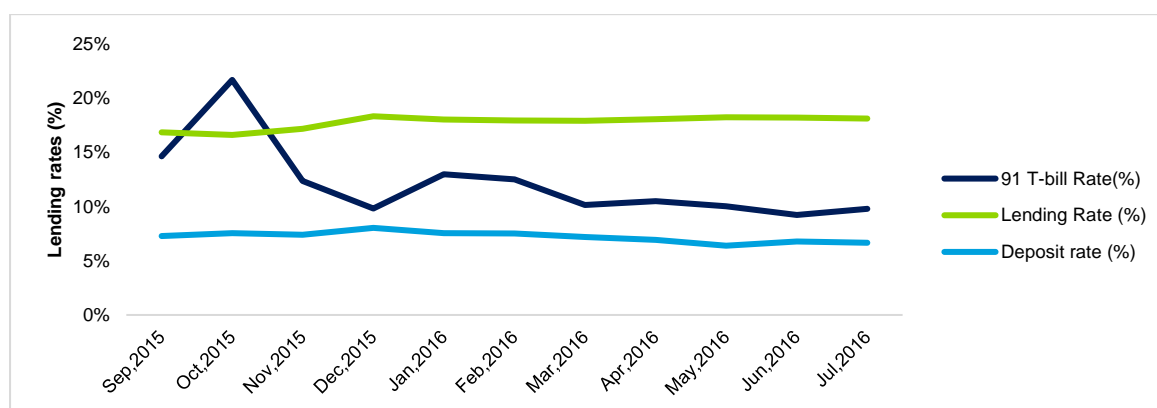


Source: Economist Intelligence Unit N.A. Incorporation, 2016

Lending rates

The average lending rate fell from 16.36% in June 2014 to 15.48% in June 2015. In August 2016, President Kenyatta signed into law a bill limiting how much interest banks can charge for loans. As at June 2016, banks extended loans at a weighted average rate of 18%, compared with 15.7% a year earlier. By September 2016 the government stated its intention that banks could only charge 4% on top of the Central Bank Rate (CBR) currently at 10.5%. Implementing the law remains a challenge for banks to restate their returns, though listed businesses are already projected to make savings of US\$8m over the next 12 months. The high interest rate spreads in Kenya are seen to relate to a lack of competitiveness in the banking sector and the high cost of financial intermediation.

Weighted lending rates (average %), September 2015-July 2016



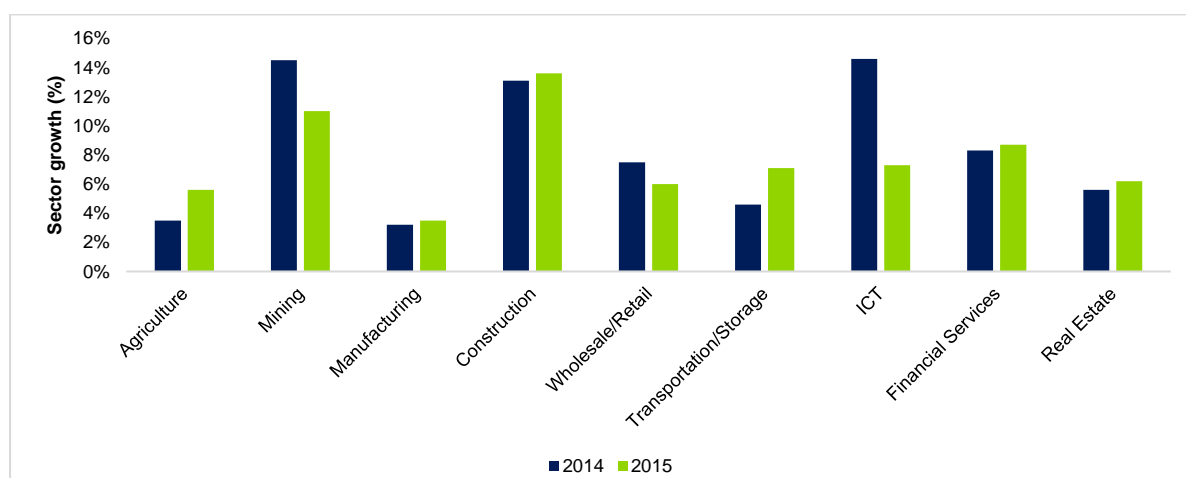
Source: CBK, 2016



Sustaining Kenya's growth performance

Kenya's continued economic growth performance can be attributed to a number of factors. KNBS reports that growth in 2015 was underpinned by improvements in the performance of key sectors such as agriculture, construction, transport and storage, real estate, and financial services. Whereas growth rates in sectors such as mining, wholesale and retail, as well as ICT slowed from 2014 to 2015, these were still significant at 11%, 6% and 7.3% respectively.

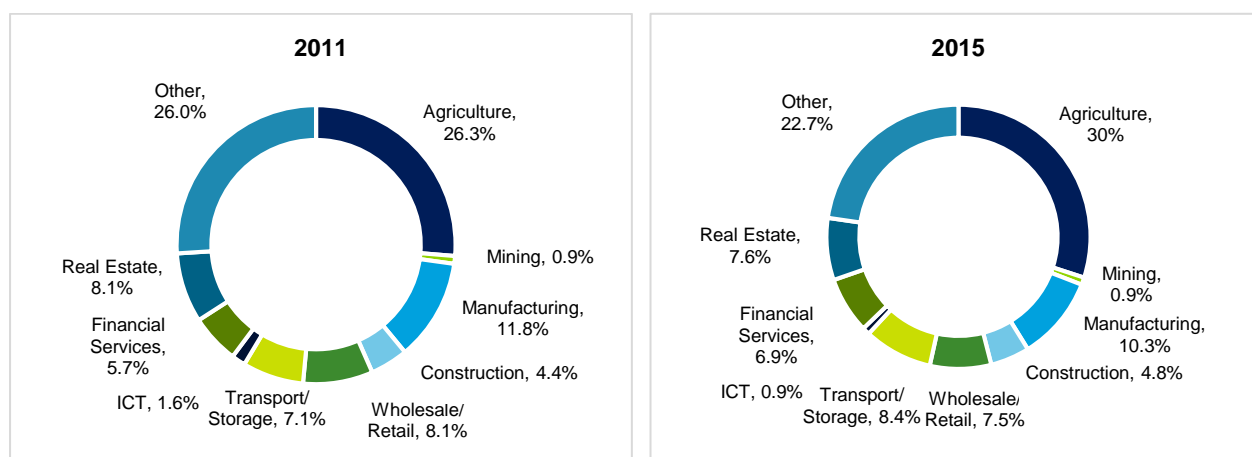
Key growth sectors (%), 2014 & 2015



Source: KNBS, 2015

By sector, agriculture was among the largest contributors to growth, given that it makes up about 30% of GDP in 2015. The sector accounts for roughly two-thirds of all exports and supports as much as 80% of the rural population directly or indirectly. The sector also links into some of the country's manufacturing value chains.

Sector contribution to GDP (%), 2011 & 2015



Source: KNBS, 2016

While Kenya is amongst the most industrially developed countries in the East African region, manufacturing only accounts for 10% of GDP owing to the fact that Kenya's exports such as tea and coffee require little or no processing. The manufacturing sector expanded by 3.5% in 2015, up

from 3.2% in 2014, below its annual growth target of 10% under Vision 2030. To assist with this, the government is in the process of establishing three Special Economic Zones (SEZs) which will help boost industrial manufacturing by allowing for lower tax levels and fewer regulatory hurdles. Kenya already has a manufacturing presence in textiles, food and grain milling, cement production, and oil refining.

Another key driver of Kenya's growth has been the construction sector. Although only contributing about 5% to the economy, the sector was the fastest-growing in 2015 at 13.7%, up from 13.1% in 2014. Growth in construction was mainly driven by the ongoing public infrastructure development projects but also expansion in the real estate sector. The ongoing implementation of mega-infrastructure and energy flagship projects under Kenya's Vision 2030 reflects government's commitment to increase the development of infrastructure during the current financial year, focusing firstly on ongoing projects rather than undertaking new ones in order to manage the widening fiscal deficit and high borrowing costs.

Infrastructure investment and project spend

The Vision 2030 Second Medium Term Plan (SMTP) which runs from 2013-2017, targets infrastructure spending of US\$2.7bn and prioritises expanding and modernising transport networks. The government has identified 69 projects in transport, energy, education, water, sanitation and health that will be achieved through public-private partnerships (PPPs). In fact, within the East African region, Kenya is a leader in the number of construction projects that had broken ground by 1 June 2016 and that were above US\$50m in value.

Some of the ongoing projects and their investment value are as below:

- Standard Gauge Railway (SGR): valued at approximately US\$3.8bn
- Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET): valued at approximately US\$1bn
- Various road projects: valued at approximately US\$1.19bn
- Mombasa Port Development Project: valued at approximately US\$50m
- Airport upgrading (Malindi Airport, Isiolo Airport, Suneka airstrip and Lokichogio): valued at approximately US\$7.9m
- Menengai Geothermal Development Project: valued at approximately US\$502.9m
- Lake Turkana Wind Power Project: valued at approximately US\$0.9bn
- Ethiopia-Kenya Power Interconnection: Phases I and II: valued at approximately US\$1.26bn
- Tatu City Project, Kiambu county: valued at approximately US\$2.1bn
- Lokichar-Lamu Pipeline: valued at approximately US\$4.5bn

Kenya is also among the countries experiencing a significant growth in retail, entertainment and lifestyle facilities and as a result a rise in real estate activity. Retail, Entertainment and Lifestyle facilities (REL), modern office parks, and hotel space are all attributed to expansion into cities, a growing middle class, as well as high yields in retail property. Construction in Nairobi and its environs is surging, with many shopping malls, office parks and residential developments under construction. According to the KNBS, the total number of private buildings completed in 2015 increased by 12.6%, with residential buildings accounting for 87.8% of completed private buildings.

Nairobi is expected to experience "phenomenal" growth in the commercial real estate market as the entry of multinationals, growth of local enterprises and an expanded government increase demand for office space. The city of Nairobi is heading for extreme shortages in urban middle class housing. Similarly, the Economist Intelligence Unit N.A. Incorporation predicts that by 2030, Kenya will be a predominantly urban country with more than half of its population living in urban centres.

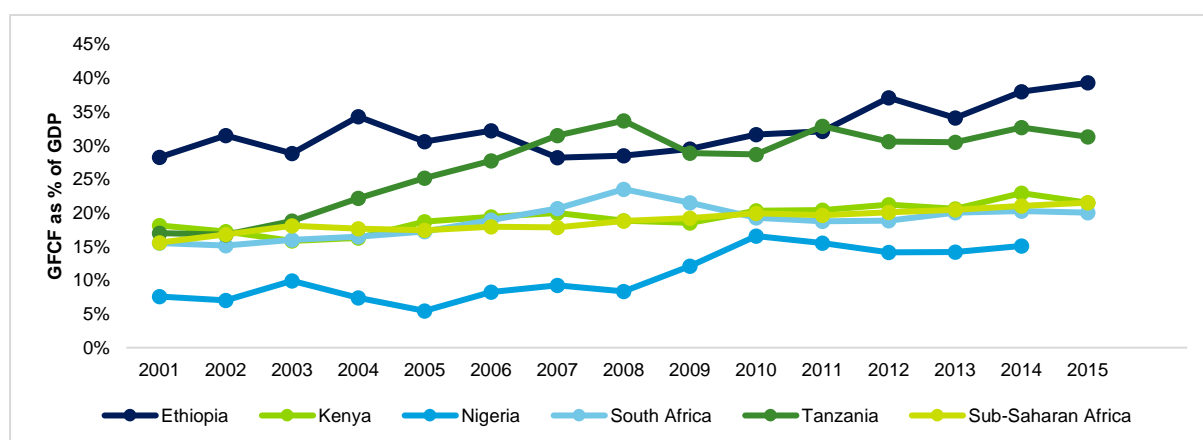
To fund ongoing infrastructure projects, government has stepped up its borrowing, raising debt on both domestic and international markets, including a US\$2bn Eurobond issue in 2014 and with Kenya likely to go to the Eurobond market again to issue debt. Much of this funding will be directed to funding infrastructure projects within the energy, infrastructure and ICT sectors which have been allocated about 30% of the 2016/17 budget.

Infrastructure projects underway

Project Name	Main Sector	Value (US\$m)	Size	Timeframe Start	Timeframe End	Status
Old Housing Units Urban Renewal and Redevelopment Project, Nairobi	Construction	2,900		2016		In tender/Tender launched
Lake Victoria Ring Road, Bumala (Busia County) - Muhuru Bay (Migori County)	Transport	410	450km	2017		Feasibility studies/EIA underway
Mombasa Port Second Container Terminal Phase 2	Transport	213	550,000 TEU	2017	2019	At planning stage
Mwache Dam Project, Kwale County	Energy & Utilities	200		2016	2020	In tender/Tender launched
Nairobi Northern and Eastern Bypass	Transport	171	16.5 km	2016		Under construction
James Gichuru Road Junction - Mai Mahiu Turnoff Section, Waiyaki Way, Nairobi	Transport	158	25 km	2016		Contract awarded
Garissa Solar PV Plant	Energy & Utilities	128	55MW	2016	2017	Approved
New Oil Terminal, Port of Mombasa (Kipevu Oil Terminal Replacement)	Transport	120	600,000 tonnes	2016	2018	In tender/Tender launched

Source: KenInvest

Kenya's focus on infrastructure spend has increased its gross fixed capital formation (GFCF) ratio, however only marginally from 18% of GDP in 2001 to peak at 23% of GDP in 2014 – on par with the SSA average. This includes spending on land improvements, equipment purchases, the construction of roads and railways, as well as social, commercial and industrial buildings. Future room for infrastructure construction activity exists, with regional peers including Ethiopia and Tanzania spending between 30% and 40% of GDP on the same, in recent years.

Select economies by gross fixed capital formation, as % of GDP (2001-2015)

Source: World Bank, 2016

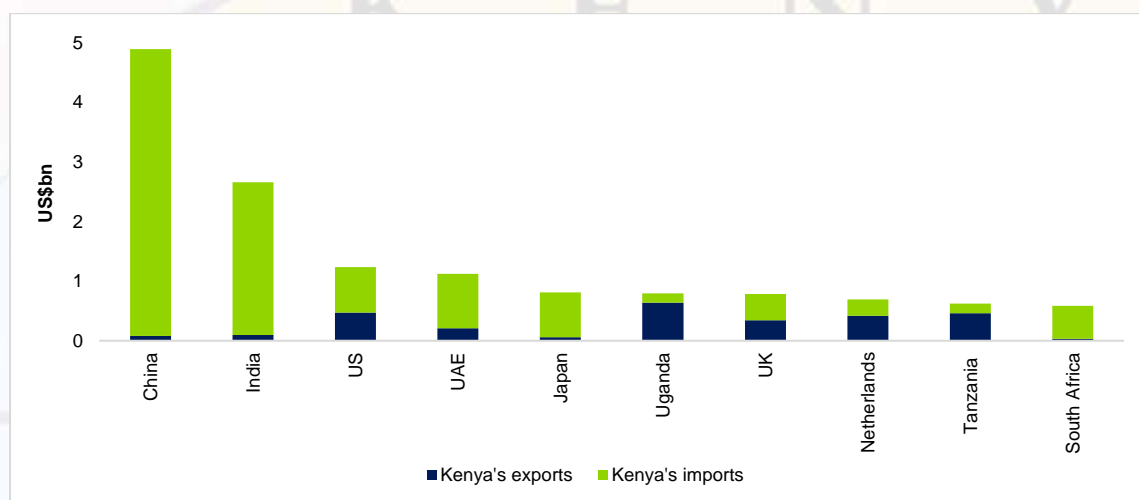


Bilateral relations and regional integration

Kenya looks to leverage the external trade sector more effectively as part of its Vision 2030 to transform its economy to middle class status by 2030. The country's trade policies are derived from bilateral trade agreements and regional trade memberships, with Kenya being a member of the World Trade Organization (WTO), the EAC, and the Common Market for East and Central African (COMESA). Kenya also qualifies for duty-free access to the United States (US) under the African Growth and Opportunity Act (AGOA). Kenya's major products that qualify for export under AGOA include textiles, apparels, and handicrafts.

Kenya's main trading partners in Africa in 2015 included Uganda (Kenya's largest export market) and Tanzania – both within the EAC – as well as South Africa. Further afield Kenya conducts most external trade with China, who is the country's single largest source of imports (29.8% of imports in 2015). India (Kenya's second largest source of imports at 15.9%), the United States (US), the United Arab Emirates (UAE), as well as Japan, the United Kingdom (UK) and the Netherlands make up its other key trading partners.

Kenya's top 10 trade partners (US\$bn), 2015



Source: UNCTAD, 2016

Kenya has been working closely with its regional neighbours to help create a peaceful and stable environment that will foster economic growth for the wider regional economic community. While its imports from the region have stayed relatively stable at about 2% of total imports between 2006 and 2015, Kenya's exports to the region have increased from about 21% to 24% over the same period. Kenya aims to see greater regional and pan-African cooperation, which is driven by its own ambition to increase market access for its products, improve the country's attractiveness to FDI, and to promote the country as a leading tourist destination.

Kenya's balance of trade continues to record a deficit over the period under review, to reach US\$10.5bn in 2015 as total merchandise exports (about US\$5.6bn in 2015) have remained relatively flat over the past seven years, while Kenya's imports increased nearly 50% over the same period to reach US\$16.1bn in 2015. Imports into the country have been rising as a result of several infrastructural projects supporting Kenya's economic growth and diversification ambitions. Industrial, transport and construction equipment, as well as the purchase of new aircrafts, engineering products from China, and tractors from the UK and Germany have contributed greatly to the increase in imports value.

Kenya's export structure is predominantly composed of agricultural commodities, followed by crude materials as well as manufactured goods. A combination of agri and manufactured goods, including tea, coffee, horticulture, and apparel clothing accessories accounted for 54.6% of the total export earnings, up from 52.1% in 2014, making these the leading export earners.

While Kenya has hopes to join the league of forex earners from crude oil by mid-2017, various challenges including the depressed global oil price environment and supply-side constraints (lack of pipeline infrastructure, for example) could delay these ambitions.

Kenya's merchandise trade with the world (US\$bn), 2006-2015



Source: UNCTAD, 2016



Pro-business reforms seek to encourage investment

After seeing a drop in rankings over a number of consecutive years, Kenya has been a top reformer in the World Bank's *Ease of Doing Business* report in recent years. Kenya ranked 92nd out of 190 countries in the 2017 edition of the report, published in late-October 2016, up 21 places from the previous year and trailing only Mauritius, Rwanda, Botswana and South Africa in SSA. This improvement is attributed to the government's efforts to simplify procedures for setting up businesses, as well as improving access to credit and protecting minority investors. Kenya ranked third globally among countries that had made the most improvements on the index. Starting a business improved significantly, supported by a number of Acts that were enacted in 2015, including the Companies Act, the Insolvency Act, and the SEZ Act, amongst others.

Kenya was ranked 96th out of 140 economies in the World Economic Forum's (WEF) *Global Competitiveness Index* (GCI), published in 2016. This is down from 90th two years ago, and an improvement from 99th the previous year. While ahead of its regional neighbours of Ethiopia (109th), Uganda (113th) and Tanzania (116th), Rwanda (58th) continues to outcompete Kenya. Key contributors to Kenya's previous drop in ranking included the rising threat of insecurity from terrorism and crime in the country, high corporate taxes (38.1% of profits), and corruption aided by weaknesses in the institutions mandated to tackle the vice. However, according to the 2016 *Global Logistics Performance Index* (LPI) published by the World Bank, the country is in position 42 (out of 160), up from 74th giving credit to the government's efforts to improve trade and logistics related infrastructure.

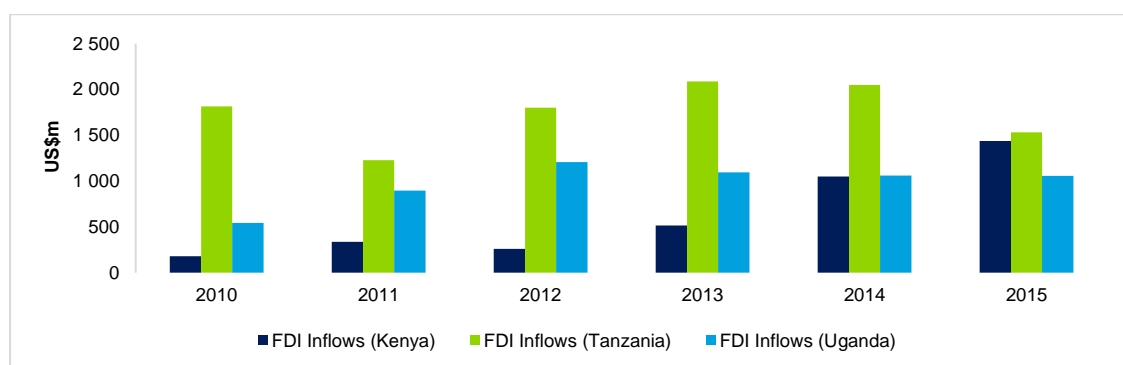
Given its economic size, market-based economy with ongoing reforms to improve the business environment, as well as its strategic gateway position and trade links into the region, and its status as a regional financial centre, Kenya has attracted many international firms seeking a location for their regional operations. More recently, firms such as Google, IBM, SGS, Honeywell, AVIC International Holdings, KFC, Radisson Hotels, Carrefour, Liberty, and others are enhancing

their footprint in Kenya and setting up local and regional operations. Three motor vehicle assembly plants are also set to open soon in Kiambu, Machakos and Mombasa. One of these includes the September 2016 announced plans of Volkswagen – the largest and leading producer of cars in the world – to open a car assembly plant in Kenya as it looks to sell more vehicles across the East African region. African Export-Import Bank (Afreximbank) is also seeking to set up its regional office in Kenya in September, while JW Marriott is set to build a 35-floor five-star hotel in Nairobi.

As a result, Kenya is leading in the number of mergers and acquisitions (M&A) regionally owing to a strong economy and increased investor appetite according to the World Bank. Most of these investments in the M&A space were in the real estate, financial, energy, education and telecommunication sectors.

Although lagging behind its regional neighbours, Kenya's FDI has risen consistently in recent years, up by almost 100% between 2012 and 2013, and more than doubling between 2013 and 2014. Research by StratLink Africa shows that Kenya clinched deals worth US\$85m between January and August 2016 putting it behind South Africa (US\$970m), Egypt (US\$446m), Ethiopia (US\$543m), the Democratic Republic of the Congo (US\$261m), Nigeria (US\$912m), Tunisia (US\$146m), Zambia (US\$213m) and Sudan (US\$93m). fDi Intelligence furthermore reports Kenya to be one of the African markets with the biggest increases in FDI by project numbers, increasing by 49% to 85 projects in 2015, and worth US\$2.4bn in investments.

Rising FDI flows have not only been on the back of hydrocarbon exploration, but also linked to Kenya serving as a favourite regional business hub, attracting inflows also into industrial activities. Top investors in Kenya include the US, India, the UK, Mauritius, Israel, Japan, the Netherlands, Belgium, China and South Africa. The auto industry, as well as the agriculture, logistics, infrastructure, hydrocarbons and ICT sectors are the top recipients of FDI.

FDI Inflows to Kenya, Tanzania & Uganda, US\$m (2010-2015)

Source: UNCTAD, 2016

Diversifying the manufacturing sector and creating jobs is a core objective of the country's Vision 2030 national development strategy. As such, the government in its 2015/16 budget allocated US\$33m for industrial development including the above-mentioned SEZs. The government aims to set up the first three zones in Kisumu, Mombasa and Lamu with the fourth one likely to be in Naivasha. These zones will be dedicated to agro-processing for blending tea, coffee and fertilisers; a facility to encourage offshore fishing; as well as other manufacturing activities.

The SEZs come with various incentives to attract investors, including the exemption from value-added tax (VAT), a corporate tax rate of 10% for the first 10 years, a 150% investment deduction for ventures worth more than US\$2.2m outside of Mombasa, Kisumu and Nairobi, and work permits for up to a fifth of those who work on a full-time basis in specialised sectors within the SEZs.

Kenya has various export processing zones (EPZs) in place that also focus on manufacturing activities. While these offer fewer incentives and tax benefits than the proposed SEZs, a number of EPZs exist, with the largest of these being the Athi-River EPZ, the planned site for the Textile City expected to house 100 companies. With an EPZ network of 50 zones including 20 in Mombasa, 10 in Kajiado, 9 in Nairobi, and 4 in Kilifi, some of the incentives include:

Tax incentives:

- 10-year corporate income tax holiday and a 25% tax rate for a further 10 years thereafter (except for EPZ commercial enterprises)
- 10-year withholding tax holiday on dividends and other remittances to non-resident parties (except for EPZ commercial license enterprises)
- Perpetual exemption from VAT and customs import duty on inputs

Procedures and operations incentives:

- Operation under essentially one license issued by the EPZ Authority (EPZA)
- Rapid project approval and licensing within 30 days
- No exchange controls

Physical infrastructure incentives:

- All zones are built to exacting international standards
- Serviced land and ready factory buildings available

Looking ahead, the simplification of the conditions for obtaining business licenses, the development of PPPs, the continued investment in and development of infrastructure, the advancement and adoption of technology, the discovery of large mineral deposits (titanium, coal, oil and gas), the development of SEZs, as well as a growing consumer base are expected to be a positive influence on FDI inflows. In addition, the current government has undertaken key policy initiatives to attract investors. These initiatives include: the enactment of the Public Private Partnership Act 2013; the roll-out of e-Procurement; the enactment of investor protection; the establishment of a "One-Stop-Shop" (see next section); and the reduction in the cost of power

amongst others. Although ambitious, government has indicated its aims to improve the business environment to such an extent that the country ranks amongst the top 50 easiest countries to do business in by 2020.

Key challenges facing businesses in Kenya however continue to include corruption – a notable drag on growth – and the rising threat of insecurity from terrorism and crime. In 2015, Transparency International's *Corruption Perception Index* (CPI) ranked Kenya 139th out of 167 countries with claims of corrupt dealings, particularly in land purchases and large government contracts persisting. Furthermore, the country's still underdeveloped physical infrastructure – although superior on a regional level – requires ongoing investment and is still seen as contributing as an obstacle to economic development.



Investment opportunities

To facilitate the entry of foreign investors and promote various project opportunities and incentives in order to industrialise the country and to raise living standards of its people, the Kenya Investment Authority (KenInvest) was established by the Investment Promotion Act, 2004. This "One-Stop-Shop" assists investors wanting to set up operations in Kenya by undertaking and finalising all necessary requirements and procedures in one single location.

Although many opportunities for investment across a variety of sectors exist, a number of projects are yet to pass through the requisite feasibility and bankability studies to make them investor ready.

Investment opportunities by industry

Industry	Background to opportunity/ies	Opportunities for investment	Key reforms
Agriculture	The agricultural and livestock sector	<ul style="list-style-type: none">• Disease free zones• Multipurpose dams• Lamu Fish Port• Irrigated Agriculture Programme• Agricultural Development along LAPSET corridor	Proposed Land Reform Bill seeks to set limits on the minimum and maximum amount of land that can be privately owned with maximum plot sizes ranging from over 1 ha to 25 ha.
Tourism	Tourism sector currently brings in: <ul style="list-style-type: none">• 1.8 million tourists annually, intend to increase tourists to 3 million by 2017	Development of 5 resort cities: <ul style="list-style-type: none">• Amusement parks• Business/conference tourism• Health medical tourism• Agro-tourism• High-end lodges in parks	Kenya is the only EAC member to levy a 16% VAT on sales. This is compounded by other taxes at country level e.g. Mombasa County introduced a monthly US\$5 bed tax for all hotels and resorts, plus a US\$40 per month levy on all tourist vehicles
Manufacturing	The manufacturing sector has a strategic role in technology and innovation as it is a major channel for diffusion of new technology to other sectors of the economy	<ul style="list-style-type: none">• Development of SME parks• Industrial & Technology parks• Energy provision• Special Economic Zones (SEZs) in Mombasa, Lamu and Kisumu focusing on meat processing, leather, dairy products and iron and mini steel mills	<ul style="list-style-type: none">• Discussions are ongoing in reducing taxes on importing raw materials• The EA Legislative Assembly approved the new Elimination of NTBs Act (2015), although this still requires ratification by each member state

Wholesale/retail trade	<p><u>Formal retail:</u></p> <ul style="list-style-type: none"> • Attract and develop large formal retail chains <p><u>Supply chain:</u></p> <p>Large wholesale hubs</p>	<ul style="list-style-type: none"> • Construction of 3 wholesale hubs • Construction of 3 Tier-1 Retail Markets • World Class Trade, Exhibition and Convention centre 	Excise Bill was introduced in June 2015
Telecoms and IT-enabled services (BPO/ICT)	<p>The rise of 4G and 4G LTE service, as well as the growing uptake of smartphones is set to drive future growth. Mobile penetration was at 83.9% in June 2015</p> <p>Kenya aims to create a knowledge-based economy. One ongoing project is Konza Technology City</p>	<ul style="list-style-type: none"> • Software Development • ICT Habitats • Development of BPO parks • Disaster Recovery 	<p>All companies with a license to provide telecoms services in Kenya are required to have a minimum of 20% Kenyan equity ownership. The CBK regulates mobile money</p>
Energy	<p>The rapid growth of the Kenyan industry and population necessitates the exploitation of alternative sources of energy. There is ongoing discovery of oil and coal reserves in Kenya.</p> <p>Electrification targets include adding 23 000 MW of generation capacity by 2030</p>	<ul style="list-style-type: none"> • Geothermal power • Wind power • Rural Electrification Programme • Photo-Voltaic Solar Assembly facility • Bio-fuel production • Power transmission • Coal-fired power 	The Kenya Nuclear Electricity Board (KNEB) was established in 2010 to begin the development of a nuclear energy programme
Infrastructure/Construction	<p>Continued development of physical infrastructure is pivotal to economic growth and lowering business costs</p> <p>The Second Medium Term Plan (SMTP) under Vision 2030, which runs from 2013-2017, targets infrastructure spending of US\$2.7bn and will prioritise expanding and modernising transport networks. The government has identified 69 new projects in transport, energy, education, water, sanitation and health that will be achieved through PPPs</p>	<ul style="list-style-type: none"> • Over 150 000 housing units deficit annually • Demand for "Master-planned cities" gaining traction e.g. Konza Technology City • Parking system • Expansion and maintenance of major roadways (e.g. 485km Mombasa-Nairobi highway) 	<ul style="list-style-type: none"> • The National Construction Authority (NCA) was formed in 2012 to oversee the sector • Duty of cement imports from non-EAC countries was lowered from 35% to 25%

Mining, Oil & Gas	<p>As an emerging industry, mining contributes 0.87% to Kenya's GDP and its development offers Kenya the highest immediate growth potential</p> <p>Kenya has 4 prospective sedimentary basins (Anza, Lamu, Mander and the Tertiary Rift). Discoveries of proven commercial hydrocarbons (Rift valley basin) are ongoing</p>	<p>Kenya is endowed with:</p> <ul style="list-style-type: none">• hydrocarbons (oil & gas)• gemstones• gold• industrial minerals (titanium ores, gypsum, iron ore, limestone, diatomite, fluorspar, vermiculite, soda ash/ trona, carbon dioxide) <p>Successful project: Kwale Titanium Project</p> <p>Opportunities:</p> <ul style="list-style-type: none">• Exploration and drilling• Construction in surrounding towns <p>Prospecting and mining of more mineral deposits</p>	<p>New Mining Act approved in November 2014 and the key component of the Act is a plan for an aerial geographical survey</p> <p>New royalty rates</p>
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Source: KenInvest, OBG, Ministry of Industrialization & Enterprise Development (2015) & KEPSA publication July-September 2016



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