No. 36

THE STUDY
ON
THE MASTER PLAN FOR TRADE PROMOTION
IN
THE REPUBLIC OF KENYA

FINAL REPORT

OCTOBER 1991

JAPAN INTERNATIONAL COOPERATION AGENCY

THE STUDY
ON
THE MASTER PLAN FOR TRADE PROMOTION
IN
THE REPUBLIC OF KENYA

FINAL REPORT

OCTOBER 1991

JAPAN INTERNATIONAL COOPERATION AGENCY

PREFACE

In response to a request from the Government of the Republic of Kenya, the Government of Japan decided to conduct the Study on Master Plan for Trade Promotion in the Republic of Kenya and entrusted the study to Japan International Cooperation Agency (JICA).

JICA sent to the Republic of Kenya a study team headed by Mr. Hisashi Kurokouchi, Executive Director, Yachiyo Engineering Co., Ltd. three times from September 1990 to September 1991.

The team held discussions with the officials concerned of the Government of the Republic of Kenya, and conducted field surveys at the study area. After the team returned to Japan, further studies were made and the present report was prepared.

I hope that this report will contribute to the promotion of the plan and to the enhancement of friendly relationship between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of the Republic of Kenya for their close cooperation extended to the team.

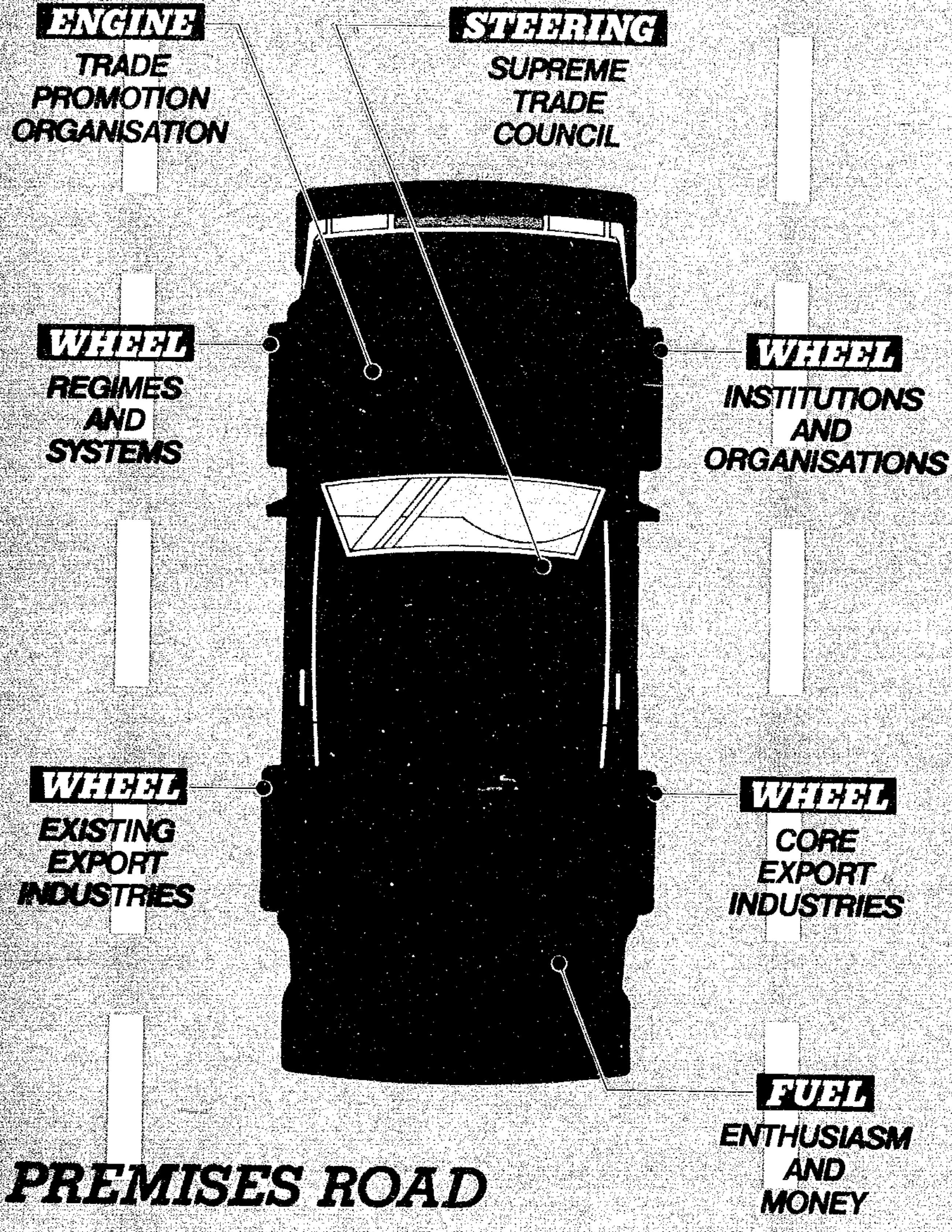
October, 1991

Kensuke Yanagiya

Kensuke Yanagiya
President
Japan International Cooperation Agency

Major Destinations of Export Products From KENYA in 1989

MODEL TPK-4WD



SPIRIT OF OPERATION IS SYNCHRONIZATION AND HARMONIZATION

CONTENTS

PART III ACTION PROGRAMMES

PART IV CONCLUSION AND RECOMMENDATIONS

APPENDIX

List of Table

PART II

PART III

List of Figures

PART II

PART III

Abbreviations

KENYA

MOF	:	Ministry of Finance
MOFA&IC	:	Ministry of Foreign Affairs & International Co-operation
MOPND	:	Ministry of Planning and National Development
MOC	:	Ministry of Commerce
MOI	:	Ministry of Industry
MOA	:	Ministry of Agriculture
MOH	:	Ministry of Health
MOE	:	Ministry of Education
MOPW	:	Ministry of Public Works
MOTC	:	Ministry of Transport and Communications
MOTW	:	Ministry of Tourism and Wildlife
MOLD	:	Ministry of Livestock Development
MOENR	:	Ministry of Environment and Natural Resources
MOCD	:	Ministry of Co-operative Development
MOTTAT	:	Ministry of Technical Training and Applied Technology
MORST	:	Ministry of Research, Science and Technology
IPC	:	Investment Promotion Centre
EPPO	:	Export Promotion Programme Office
KETA	:	Kenya External Trade Authority
CBS	:	Central Bureau of Statistics
CBK	:	Central Bank of Kenya
KNTC	:	Kenya National Trading Company
DFCK	:	Development Finance Company of Kenya
IDB	:	Industrial Development Bank
KIE	:	Kenya Industrial Estates
ICDC	:	Industrial and Commercial Development Corporation
KIBT	:	Kenya Institute of Business Training
KBS	:	Kenya Bureau of Standards
KIRDI	:	Kenya Industrial Research and Development Institute
KNLS	:	Kenya National Library Service
KICC	:	Kenyatta International Conference Centre
KNCC&I	:	Kenya National Chamber of Commerce and Industry
KAM	:	Kenya Association of Manufacturers

International Organisations and Others

IDA	:	International Development Association
UNDP	:	United Nations Development Programme
USAID	:	United States Agency for International Development
EC	:	European Community
PTA	:	Preferential Trade Area
ESATPTC	:	East & Southern African Trade Promotion & Training Centre
JICA	:	Japan International Corporation Agency
JETRO	:	Japan External Trade Organisation
KOTRA	:	Korea Trade Centre
Ksh	:	Kenya shilling, (1 Ksh = ¥5.4, Ksh 25.57/US$ = ¥138.90, on 18th March, 1991)
K£	:	Kenya pound, (1 K£ = ¥109 = 20 Ksh)
FY	:	Fiscal year of the Government of Kenya (1st July - 30th June)

INTRODUCTION

1. Objectives and Scope of the Study

1.1 Objectives of the Study

This study develops a master plan for export promotion based on the study of the current trade promotion systems, organisations and industries. Concrete recommendations are then derived from the important subjects studied, and formulated into a programme of actions.

1.2 Scope of the Study

This study was carried out according to the defined Scope of Work (S/W) shown in APPENDIX-I, with the aim of achieving the above objectives.

1.3 Progress of the Study

(1) Preparatory work in Japan : Preparation of Inception Report

(2) The first field survey (7th September - 5th December, 1990)

1) 13th September, 1990 : Submission of Inception Report
2) 3rd December, 1991 : Submission of Progress Report

(3) The first work in Japan : Preparation of Interim Report, over 2.5 months from early December 1990 until early March 1991

(4) The second field survey (7th March - 25th March, 1991)

12th March, 1991 : Submission of Interim Report

(5) The second work in Japan : Preparation of Draft Final Report, over 2.5 months from early June 1991 until mid-August

(6) Presentation of, and discussion on, Draft Final Report in Kenya (14th September - 23rd September, 1991)

16th September, 1991 : Submission of Draft Final Report

(7) The third work in Japan : Preparation of Final Report

1.4 Members of the Study Team

The members of the Study Team are as follows:

Assignment	Name	Organisation
Team Leader	Mr. Hisashi Kurokouchi	Yachiyo Engineering Co., Ltd.
Institutional Advice for Export Promotion	Mr. Keigo Maruyama	Yachiyo Engineering Co., Ltd.
Organisational Development for Export Promotion	Mr. Kuniyasu Kobayashi	Japan External Trade Organisation
Information System for Export Promotion	Mr. Koichi Kobayashi	Japan External Trade Organisation
Operational Planning for Trade Center	Mr. Nobuyuki Otera	Japan External Trade Organisation
Architectural Design	Mr. Toshiro Hamada	Yachiyo Engineering Co., Ltd.
Construction Cost Estimate	Mr. Shoichi Makino	Yachiyo Engineering Co., Ltd.
Industrial Development Planning	Mr. Masaaki Ueda	Yachiyo Engineering Co., Ltd.
Industrial Technology Planning	Mr. Tatsuo Hokugo	Yachiyo Engineering Co., Ltd.
Market Analysis	Mr. Tsuyoshi Kikuchi	Engineering Consulting Firms Association, Japan
Economic Analysis	Mr. Mikio Danno	Yachiyo Engineering Co., Ltd.

2. Steering Committee and Kenyan Counterparts

The member of the Steering Committee and Kenya Counterparts are as follows.

2.1 Steering Committee

Prof. T. C. I. Ryan	-	MOF
Mr. R. O. Ogana	-	Ag. Director - KETA
Mr. F. N. Macharia	-	Chairman, KNCC & I
Mr. C. K. Mwaniki	-	Deputy Director, KETA
Mr. Charles Gathirimu	-	Chief Executive, KNCC & I
Mr. A. N. Waluse	-	Assistant Director, KETA
Mr. Owen K. N. Makuu	-	E.T.O. I, KETA
Ms. Caroline Kabui	-	E.T.O. III, KETA
Ms. Muthoni Muturi	-	K.A.M.
Ms. Beatrice Muchai	-	MOI
Mr. L. Gatuguta	-	Headquarters, MOC
Mr. A. Thiru	-	MOI

2.2 Kenyan Counterparts

- Organisation and Systems
  1. Mr. M. Pondo : KETA
  2. Mrs. Muthoni Muturi : K.A.M.
  3. Mr Charles Gathirimu : KNCC & I
  4. Ms. Kadasia : MOF
- Information System
  1. Mr. Owen Makuu : KETA
  2. Mr. Kiongo : KNCC & I
- Exhibitions Management
  1. Mr. K. Mutunga : KETA
  2. Mr. Francis N. Macharia : KNCC & I
- Industrial Technology Planning
  1. Mr. Alex Thiru : MOI
  2. Mr. Kainga Kang'au : KNCC & I
  3. Mr. Simon Ihiga : K.A.M.
  4. Mr. E. K. Okara : KETA
- Market and Economic Analysis
  1. Mr. Bernard Gatuguta : MOC
  2. Dr. Francis Kerre : KETA
  3. Ms. Kadasia : MOF

3. Composition of the Report

This Final Report was based on the Inception Report and it has been compiled in two reports, as described below:

(1) Summary Report
(2) Main Report

The report consists of four parts, as described below:

Part I : Current situation for export promotion and determination of subjects which should be developed or improved

Through analysis of information and materials acquired through the field Study in Kenya, major subjects were extracted as targets for developing and enhancing Kenya's export capabilities and their main areas were dealt with individually.

Part II : Master plan for export promotion

Keeping in mind future goals for the areas designated for development and improvement in Part I, broad directions toward achievement of the desired aims were considered and coordinated into a master plan for promoting exports.

Part III : Action Programmes

Action programmes are being proposed outlining specific measures to permit achievement of each item described in the master plan established in Part II.

Part IV : Conclusion and Recommendations

This part covers the recommendations to actions and policies to be adopted by Kenya with respect to in Part II and III.

PART I

CURRENT SITUATION FOR EXPORT PROMOTION AND DETERMINATION OF SUBJECTS WHICH SHOULD BE DEVELOPED OR IMPROVED

CHAPTER 1 NATIONAL DEVELOPMENT AND INDUSTRIAL AND TRADE STRUCTURE

1.1 Long-term Development Plan

"Economic management for renewed growth," the basic concept behind the sixtl development plan, was proposed in 1986 as Kenya's long-term development strategy Prior to that time, development plans were basically founded on "African socialism anc its adaptation to Kenya's development plans". Starting with the Sixth Developmen Plan, however, the idea outlined in the Sessional Paper No.1 of 1986 became the country's fundamental development strategy. The central focus here was "economic renewal" encompassing a long-range vision for the year 2000, and four factors were given as imperative for its attainment: (1) provision of jobs for the growing laboı force, (2) prosperity for the rural masses, (3) equitable and widespread sharing of growth benefits, and (4) continuing provision of basic needs for all.

The same document targets an annual average growth rate of 5.6% for the period 1984-2000, with the highest hopes held for the manufacturing sector, where a 7.2% growth rate is targeted based on expansion of both domestic and external markets. An aggressive shift in industrial policy is also called for: namely, a shift from the production of import substitutes toward the manufacture of export goods. A growth rate of 5% per year is set for the agricultural sector to be achieved mainly through improved productivity and selective expansion of high-value agricultural products. To promote these fundamental policies, the structural adjustment program of the 1980s, started with loans from the IMF and World Bank, will be continued, complemented by specific measures such as ongoing import liberalization, industrial rationalization and free-market policies.

1.2 Sixth Development Plan

The Sixth Development Plan (1989-1993) was announced in March 1989. It sets a target of 5.4% annual growth in Gross Domestic Product (GDP) and suggests that achieving this objective will require acceleration of economic growth along with reduction in population growth. The theme of the plan is given as "Participation for Progress," and it is based on three main pillars: (1) accelerated growth rates in agriculture, (2) industrial diversification and advancement, and (3) greater emphasis on the urban informal sector.

1.2.1 GDP

GDP targets in the Sixth Plan are ambitious judged against the actual performance of the economy in recent years. This is because it is the first five year plan after the Sessional Paper No.1 of 1986.

(1) Growth Targets

The output targets by sector are shown in Table 1.2.1.

Table 1.2.1 Gross Domestic Product (Constant 1982 Prices)

(K£ Millions & Percentages)

	Actual 1983	Projected 1988	Target 1993	Annual Growth Rate 1983-88	Annual Growth Rate 1988-93
Traditional Economy	170.48	207.13	246.72	4.0	3.6
Monetary Economy Agriculture	938.85	1,059.85	1,323.29	2.5	4.5
Forestry	21.56	30.16	44.31	6.9	8.0
Fishing	10.59	15.10	21.18	7.4	7.0
Mining & Quarrying	6.42	9.43	1.385	8.0	8.0
Manufacturing	373.09	479.94	653.24	5.2	6.4
Building & Construction	105.44	111.60	138.81	1.1	4.5
Electricity & Water	47.42	63.33	88.82	6.0	7.0
Trade, Restaurants & Hotels	295.14	417.21	585.16	7.2	7.0
Transport, Storage & Communications	193.23	228.43	301.38	3.4	5.7
Finance & Insurance	214.39	270.61	352.34	4.8	5.4
Ownership of Dwellings	129.63	136.49	161.33	1.0	3.4
Other Services	65.65	94.90	140.73	7.6	8.2
Domestic Services	34.88	51.64	77.28	8.2	8.4
Government Services	459.89	586.69	748.78	5.0	5.0
Total Monetary Economy	2,896.16	3,555.37	4,650.50	4.2	5.5
Total Traditional & Monetary	3,066.64	3,762.50	4,897.23	4.2	5.4
Population (Mn)	18.75	22.66	27.21	3.8	3.7
GDP per capita (K£)	163.55	166.04	179.98	0.4	1.6

Source: Development Plan 1989-1993

The targeted growth rate of GDP per capita is set at 1.6% per annum. With population expected to grow at 3.7%, the projected annual growth rate of GDP is 5.4%.

The relationship between the targets and annual growth for sectors such as agriculture, government services, manufacturing, and trade, restaurants and hotels should be noted for their anticipated remarkable growth.

(2) Sectoral Targets

1) Agriculture

Agriculture will continue to play a leading role in generating employment and income, contributing to foreign exchange earnings and inducing growth in other sectors of the economy as well as feeding the population. The growth of this sector over the period 1983-88 was low, averaging only 2.5% per annum compared to the targeted growth rate of 4.6%. The growth rate target is set at 4.5% per annum for the period of the Sixth Development Plan.

2) Manufacturing

The performance of this sector has improved since 1985. An Industrial Sector Adjustment Programme started in 1988 with a variety of other measures aimed at raising the growth of investment and exports are being implemented. The 6.4% average target growth rate during 1988-93 is expected.

3) Trade, Restaurants and Hotels

Actual GDP growth rates in this sector have been higher in the years 1984 to 1987 than in the years 1981 to 1983, signifying recovery from its depressed state. A relatively high rate of growth in 1988 was anticipated, thus making the average annual growth rate of over the Fifth Plan period at 7.2%. The growth rate is expected to stabilize at around 7.0% during subsequent years.

4) Infrastructure

The target growth rates for the sectors of Transport and Communications, Building and Construction and Ownership of Dwellings for the Plan period have been set at 5.7%, 4.5% and 3.4% respectively.

1.2.2 Employment Generation

Table 1.2.2 gives a breakdown of total employment in the economy by various sectors.

Table 1.2.2 Employment by Sector, 1987-93

Sector	Actual 1987 ('000)	Projected 1988 ('000)	Targeted 1993 ('000)	Growth 1988-93 (% p.a.)
(i)	(ii)	(iii)	(iv)	(v)
Rural Employment	6,252.4	6,490.0	7,803.0	3.8
Urban Informal Employment	393.0	441.0	730.2	10.6
Modern Sector Wage Employment	1,362.3	1,326.0	1,620.9	4.1
Self-employment & Unpaid Family Workers	38.1	41.0	61.0	8.3
Total Economy	7,946.8	8,298.0	10,215.0	4.2

Source: Development Plan 1989-1993

Rural employment remains by far the largest source of employment in the economy accounting for over 70% of the total employment.

1.2.3 Investment and National Budget

(1) Trends in Gross Fixed Capital Formation

Table 1.2.3 Gross Fixed Capital Formation (GFCF), 1978-93
(Constant 1982 Prices)

(K£ Million)

Year	Actual GFCF	% of GDP	Year	Projected GFCF	% of GDP
1978	852.2	34.5	1988	741.4	19.7
1979	787.5	30.3	1989	781.6	19.7
1980	807.3	29.9	1990	823.2	19.7
1981	844.0	29.5	1991	863.7	19.6
1982	668.3	23.0	1992	916.0	19.7
1983	576.0	18.8	1993	976.7	19.9
1984	593.6	19.2			
1985	597.2	18.4			
1986	676.7	19.8			
1987	738.7	20.6			

Source: Development Plan 1989-1993

Gross Fixed Capital Formation (GFCF) in constant 1982 prices is projected to increase from a level of K£593.6 million in 1984 to approximately K£976.7 million in 1993.

According to the targets, GFCF will generate a substantially higher average growth rate of output from the 4.2% achieved during the Fifth Plan to 5.4% per annum targeted for the Sixth Plan.

(2) Gross Fixed Capital Formation by National Accounts Sectors

The targets relating to GFCF for individual sectors of the economy in constant 1982 prices are shown in Table 1.2.4.

Table 1.2.4 Investment by Sectors, 1989-93 (Constant 1982 Prices)

Sector	Additional capital required per unit of output (K£)	Average annual gross fixed investment (K£ millions)	% Share in total fixed investment 1989-93	Sector's % contribution to total GDP
(i)	(ii)	(iii)	(iv)	(v)
Non-Monetary	-	80.67	9.25	5.22
Agriculture	0.92	74.49	8.54	27.45
Forestry	0.42	1.49	0.17	0.86
Fishing	0.67	1.05	0.12	0.42
Mining & Quarrying	5.35	7.69	0.88	0.27
Manufacturing	1.80	115.85	13.28	13.11
Building & Construction	4.25	52.80	6.05	2.89
Electricity & Water	6.90	45.23	5.19	1.77
Transport & Communications	6.00	142.97	16.39	6.11
Trade, Restaurants & Hotels	0.70	40.32	4.62	11.63
Finance, Insurance	0.77	17.22	1.97	7.19
Ownership of Dwellings	8.32	68.71	7.88	3.42
Other Services	6.00	71.48	8.19	2.73
Domestic Services	-	-	-	1.50
Government Services	3.36	152.28	17.46	15.43
TOTAL		872.25	100.00	100.00

Source: Development Plan 1989-1993

The agricultural sector made a large contribution to GDP (about 27.5%), though its average annual gross fixed investment has been low. The contribution of the manufacturing sector (about 13.1%) ranked third after government services (about 15.4%).

(3) GDP, Gross Investment and Total Consumption

The targets for foreseeable GDP, gross investment and total consumption are shown in Table 1.2.5.

Table 1.2.5 Forecast of GDP, Gross Investment and Consumption in Current Prices

(K£ Millions)

	1987	1989	1990	1991	1992	1993
GDP at Factor Cost	5,702.5	7,286.5	8,136.2	9,009.3	9,979.7	11,059.1
Indirect Taxes, Less Subsidies	912.2	1,165.5	1,301.4	1,441.1	1,596.4	1,769.0
GDP at Market Prices	6,614.7	8,452.0	9,437.6	10,450.4	11,576.1	12,828.1
Imports of Goods & Non-factor Services	1,734.1	2,163.2	2,322.7	2,533.8	2,789.3	3,070.7
Exports of Goods & Non-factor Services	1,400.4	1,872.8	2,055.4	2,267.0	2,501.4	2,761.3
Import Surplus	333.7	290.4	267.3	266.8	287.9	309.4
Total Available Resources	6,948.4	8,742.4	9,704.9	10,717.2	11,864.0	13,137.5
Fixed Investment	1,334.7	1,663.1	1,856.9	2,045.7	2,278.0	2,550.4
Change in Stocks	316.9	298.2	332.9	368.7	408.4	452.6
Total Gross Investment	1,651.6	1,961.3	2,189.8	2,414.4	2,686.4	3,003.0
Public Consumption	1,282.8	1,502.9	1,657.2	1,813.0	1,977.1	2,158.8
Private Consumption	4,014.0	5,278.2	5,857.9	6,489.8	7,200.5	7,975.7
Total Consumption	5,296.8	6,781.1	7,515.1	8,302.8	9,177.6	10,134.5

Source: Development Plan 1989-1993

Proportion of total gross investment to total consumption based on GDP was 23:77, which is almost the same as was recorded in 1987. Total gross investment and total consumption are scheduled to be allocated at the same proportion for the period of the Sixth Development Plan. Proportion for allocation to total consumption is expected to increase from about 22% in 1987 to about 23% in 1993; the value-added will slightly increase.

(4) National Budget and Current Account

Table 1.2.6 shows the estimates for Government revenues, expenditures and deficits from 1988/89 to 1992/93.

Table 1.2.6 Government Revenues, Expenditures and Budget Deficits

(K£ Millions)

	1988/89	1989/90	1990/91	1991/92	1992/93
REVENUE					
Ordinary Revenue	1,744.6	2,013.0	2,260.7	2,516.6	2,807.4
Appropriation-in-Aid	80.3	86.5	97.0	110.0	120.5
Total Revenue	1,824.9	2,099.5	2,357.7	2,626.7	2,927.9
% of GDP at Market Prices	22.9	23.5	23.7	23.8	24.0
Foreign Grants	367.4	327.0	280.0	280.0	290.0
Total (Revenue + Grants)	2,192.3	2,426.5	2,637.7	2,906.6	3,217.9
EXPENDITURE					
Recurrent Expenditure	1,287.8	1,416.6	1,528.5	1,665.3	1,833.9
Development Expenditure	775.4	833.1	877.4	955.9	1,052.7
Ministry Expenditure	2,063.2	2,249.7	2,405.9	2,621.2	2,886.6
Ministry Expenditure as % of GDP at Market Prices	25.9	25.2	24.2	23.8	23.7
Consolidated Fund Services	492.0	534.6	586.2	644.9	709.5
Total (C.F.S. + Min. Exp.)	2,555.2	2,784.3	2,992.1	3,266.1	3,596.1
Deficit	362.9	357.8	354.4	359.5	378.2
Deficit as % GDP at Market Prices	4.5	4.0	3.6	3.3	3.1

Source: Development Plan 1989-1993

The significant target shows an expected deficit from 4.5% of GDP at market prices in FY 1988/89 to 3.1% by FY 1992/93.

1.2.4 Balance of Trade and Current Account

(1) Balance of Trade Targets

The balance of trade targets for the Sixth Plan period are presented in Table 1.2.7.

Table 1.2.7 Actual and Projected Balance of Trade

(K£ Millions)

	1987 Actual	1988 Targets	1993 Targets	1988-93 Average Volume Growth (% p.a.)
Exports				
Coffee	194.6	235.5	344.4	5.6
Tea	163.4	185.3	328.7	5.6
Petroleum Products*	63.2	84.2	130.7	4.0
Other Exports	300.1	364.7	651.6	6.7
Special Exports	26.3	-	-	-
TOTAL	747.6	869.7	1,455.4	5.8
Imports				
Food and Beverages	85.7	79.4	131.6	4.2
Industrial Supplies	456.1	566.9	979.2	5.0
Fuels and Lubricants	282.4	280.4	436.6	4.0
Machinery & Cap. eq.	256.8	319.0	564.3	5.5
Transport Equipment	164.5	204.3	361.5	5.5
Other Consumer Goods	71.0	98.9	170.9	5.0
Total				
Normal Imports	1,316.5	1,548.9	2,644.1	5.0
Special Imports	232.2	186.1	49.1	-
Total Imports	1,548.7	1,735.0	2,693.2	-
Balance of Trade	-801.1	-865.3	-1,237.8	-
As % of GDP at Factor Cost	-14.0	-13.4	-11.2	

Source: Development Plan 1989-1993

* Excludes sales to Aircraft and Ships' Stores

Exports and imports are targeted to grow at 5.8% and 5% respectively. However, the value of exports currently amounts to about 50% of the value of normal imports. Thus the balance of trade is very unfavourable and hence the need for heavy external borrowing in the short-term.

Government policies will aim to reduce this external borrowing during the Plan period.

The actual value of the balance of trade in 1988 was -K£ 813 million as shown in the 1991 Economic Survey, it improved by about 6% against the target value of -K£ 865 million.

(2) Current Account Balances

Targeted current account balances over the Plan period are presented in Table 1.2.8.

Table 1.2.8 Target Current Account Balance

(K£ Millions)

	Provisional 1987	Target 1988	Target 1993
Balance of Trade	-801.1	-865.3	-1,237.8
Net Services			
Shipment	31.4	36.2	63.1
Other Transportation	114.1	130.5	202.0
Foreign Travel	272.1	316.6	549.9
Other Services	30.6	50.7	113.3
Investment Income	-232.3	-272.0	-291.8
Transfers	176.6	300.4	379.7
Invisible Balance	392.5	562.4	1,016.2
Current Account Balance	-408.6	-302.9	-221.6
% of GDP at Factor Cost	7.2	4.7	2.0

Source: Development Plan 1989-1993

This table shows an improvement in the current account balances over the Sixth Plan period. The major contribution to this improvement arises from earnings from tourism which were expected to grow at about 5.1% per annum in real terms.

However, the Gulf War broke out in 1990 and hurt Kenya's tourism. This changed the economic picture from that which the Sixth Plan was formulated.

The actual value of the current account balance in 1988 shown in the Economic Survey 1991 was -K£408 million, about 35% of the targeted balance of -K£309.9 million. It is assumed that it will be difficult to improve the target of current account balance during the plan period.

1.3 Industry and Trade Structures

1.3.1 Industrial Development Policy

(1) Changes in Industrialisation Policy

Like other developing countries, the industrialisation policy in Kenya after its independence was characterized by early import-substituting industrialisation. Its domestic market expansion and its supplying of products to the East African Community were the main factors in its rapid industrial development, this rapid development is called "the Kenyan Miracle".

The industrialisation policy implemented in this stage was characterized by a high degree of protection as typically seen in import-substituting industrialisation.

This strategy of industrialisation, however, was successful only up to the first half of the 1970s. After that, market and industrialisation structural problems started becoming pronounced and the rate of industrial growth declined. Market problems arose because an unfavorable primary market for products and goods including coffee had created a stagnant local market. In addition, the collapse of the East African Community in 1978 caused the loss of markets in Tanzania and Uganda, greatly reducing the size of the market size for Kenya's industries.

Structural adjustment policies were introduced starting from about 1979 to correct these problems. These policies utilized the loan provisions from IMF and the World Bank.

The economic reforms include the following:

1) Flexible exchange rate and proper devaluation
2) Positive real interest rate
3) Wage rate to encourage investors to use more labour-intensive production
4) Import liberation
5) Privatisation of firms

(2) Shift to the market-economy based industrialisation

The Sessional Paper published in 1986 gave a clear, detailed account of the industrialisation policy for the new era.

There are five aims for industrial growth:

1) Industrial development is indispensable to expand and diversify Kenya's exports.

2) Industry is important for creating opportunities for employment.

3) The industrial sector is a leading sector to enhance productivity.

4) Industrial development is extremely important in promoting Kenya's managers and entrepreneurs.

5) Industrial development is also highly effective to increase the value added of agricultural products.

It also gives a specific strategy based on the market economy structural adjustment strategy.

a) Exchange rate management must support industrial export activities and effective import substitution.

b) Tariffs and import licensing must permit industrial inputs to be obtained at reasonable prices where the inputs are processed and then exported.

c) Special export incentives must promote exportation.

d) Wage guidelines are to aid the investor to utilize labor-intensive production methods.

e) Interest rates must exceed the inflation rate to satisfy the investors who provide the capital.

f) Trade restrictions must be closely examined for fair market competition.

g) Price controls must be carried out promptly and flexibly.

With such considerations based on the market economy, three industrial groups are selected as sectors to be promoted.

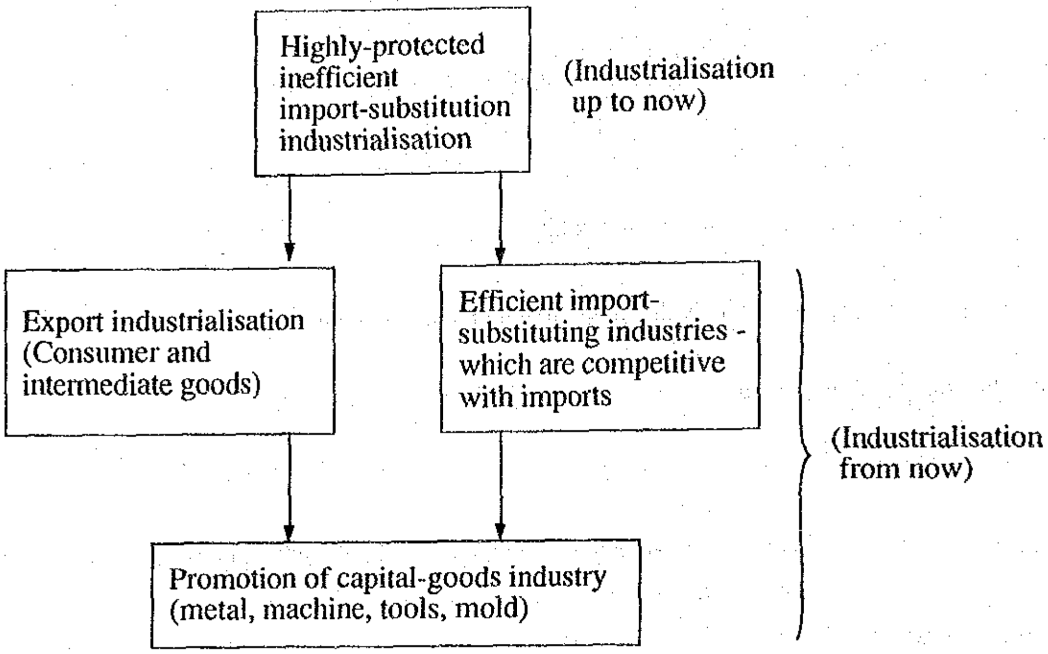
i) Export-oriented industry
ii) Efficient import substitution
iii) Informal sector industry

Under these conditions, the characteristics of the industrialisation policy were greatly changed from the highly-protected import-substituting industrialisation policy to an export-oriented industrialisation policy.

(3) Sixth Development Plan and Industrialisation

Industrialisation up to now has been based on import substitution industrialisation policy protected by high tariff rates and stringent administrative controls. As far as consumer goods are concerned, import substitution industrialisation has virtually accomplished its objective. Consumer goods which accounted for 27% of the total imports in the 1960s decreased to 6.4% in the 1980-to-87 period. The emphasis of industrialisation from now on emphasis of industrialisation is to be placed on the export of consumer and intermediate goods which is thought to lead eventually to capital goods production. In other words, industrialisation is shifting from import-substitution to export-oriented.

To implement such an industrialisation, the question is what development policies to take.



Industrialisation Process

The Government launched an industrial rehabilitation programme based largely on private sector participation, and covering already identified problems faced by firms in the textile, sugar, pulp and paper, transport equipment, metal and engineering and the cement industries.

In addition, the Government will take firm measures in the form of various incentives designed to promote the development of core industries with specific focus on:

1) Metallurgical industries centred around iron and steel production;

2) Capital goods industry, for the production of a wide range of machine and hand tools, and all types of gears, shafts and spares for the manufacture of machine tools and dyes;

3) Chemical and bio-technological industries to provide fertilizers, pesticides industrial process chemicals and packaging materials relevant especially tc agriculture and food production;

4) Pharmaceutical industries for the production of medicinal drugs and vaccines;

5) Local resource based industries especially those using wastes and by-products as well as agro-based industry including the processing of oilseeds, coffee, tea, pyrethrum, sugar, grains, hides and skins and dairy products; and

6) Telecommunications and information processing industries including the assembly of microcomputers and telecommunications equipment.

In accordance with this basic strategy, industrial development is attempted. Industrial output by subsectors is projected as shown in Table 1.3.1.

Table 1.3.1 Projected Industrial Output by Subsectors

(K£ Millions)

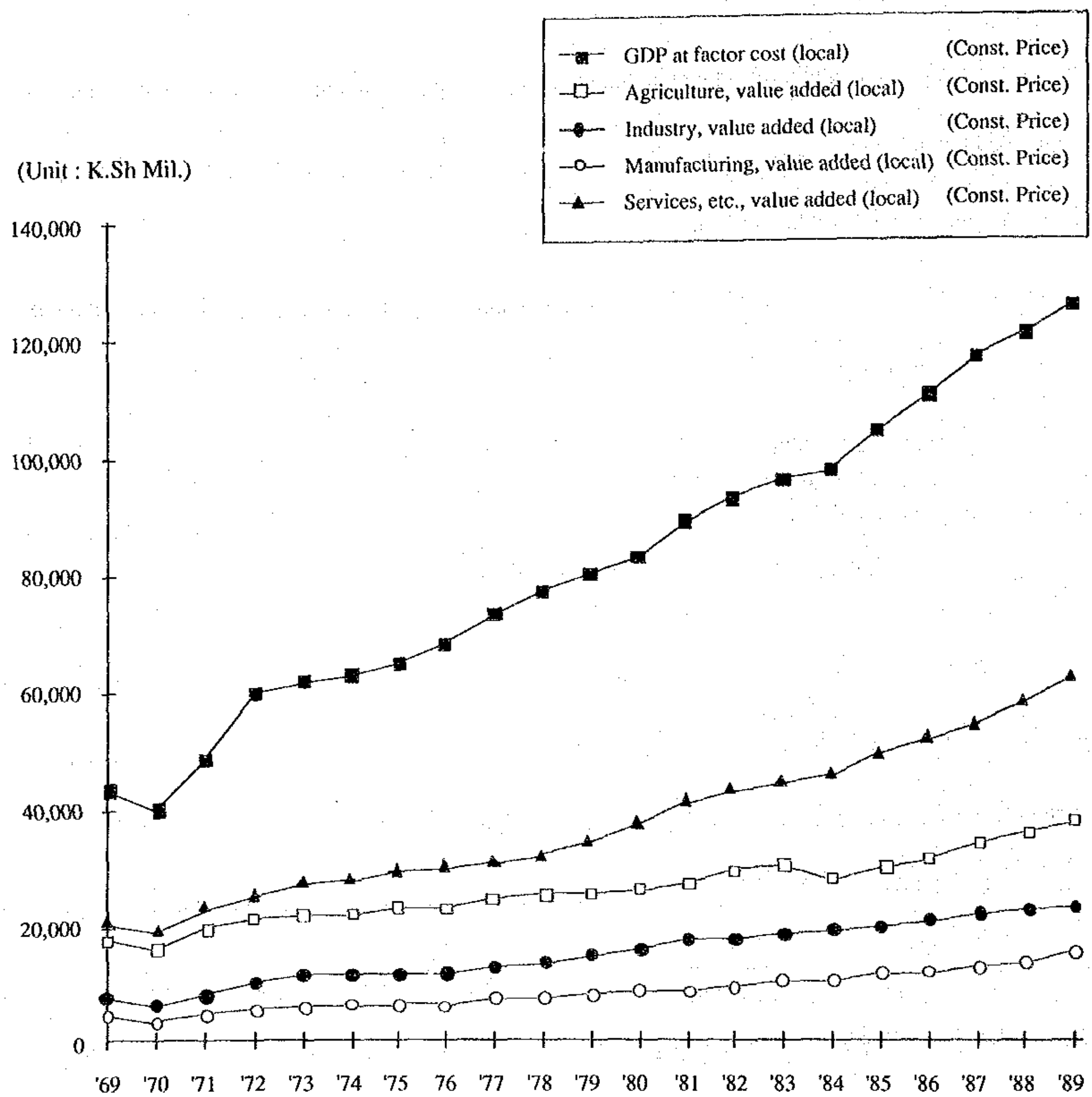
SUBSECTOR	1987	1991	1993
Food Processing	2,423.7	2,944.2	3,352.0
Beverage & Tobacco	318.7	387.1	440.0
Textile & Clothing	309.9	376.5	428.7
Leather & Footwear	58.5	71.17	80.9
Paper & Wood Products	137.1	166.5	189.6
Plastics & Pharmaceuticals	130.0	157.9	179.8
Basic Chemicals	112.0	136.1	154.9
Cement & Glass	8.1	9.9	11.3
Iron & Steel	369.7	449.1	511.3
Electrical & Transport	234.0	284.3	323.6
Total	4,101.7	4,982.7	5,672.1

Source: Development Plan 1989-1993

1.3.2 Position of Industrial/Manufacturing Sectors

(1) Percentage of GDP for Industrial/Manufacturing Sectors

Trend of GDP by sector is shown in Fig. 1.3.1.



Source: World Table 1989-90

Fig. 1.3.1 Trend of GDP by Sector

The Percentage of the GDP in 1968, 1978 and 1988 is shown in Table 1.3.2.

Table 1.3.2 Structure of Kenya Economy

(%)

Year / Sector	1968	1978	1988
GDP	100.0	100.0	100.0
Agriculture	34.5	36.9	30.7
Industry	19.3	20.1	20.1
(Manufactures)	(11.3)	(12.3)	(12.2)
Services, etc.	46.2	43.0	49.3

Source: World Table 1989-90

Table 1.3.2 indicates that the percentage at GDP for the agriculture sector decreased from 34.5% to 30.7% from 1968 to 1988 while the services sector increased from 46.2% to 49.3%, and the industrial sector increased by only 0.8% from 19.3% to 20.1%.

(2) Manufacturing Sectors in GDP

The industrial sector includes subsectors of mining, construction, utility (power, gas, water, etc.) as well as manufacturing. The percentage of the GDP for this sector is 11.3% in 1968, 12.3% in 1978 and 12.2% in 1988, respectively. Only a slight change among 1968, 1978 and 1988 can be observed from Table 1.3.2.

1.3.3 Characteristics of Trade

(1) Trend of Balance of Trade (1971 - 1990)

The trend of annual exports and imports is shown in Fig. 1.3.2 and the trend of export percentages against import amount is shown in Fig. 1.3.3.

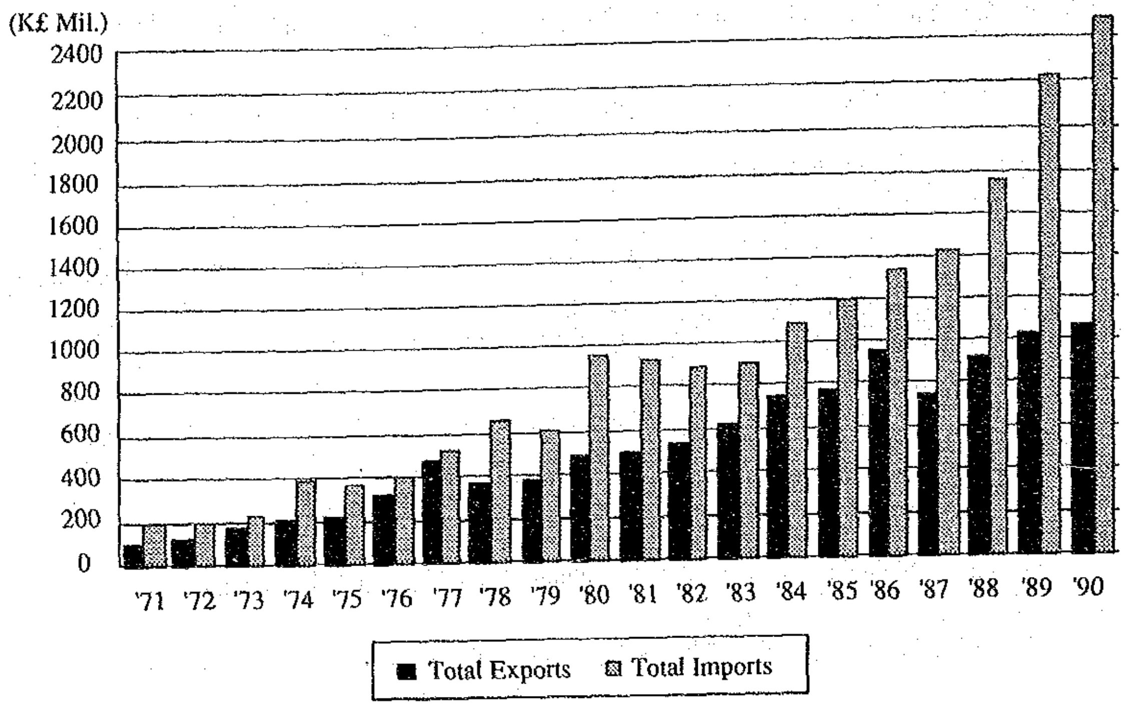


Fig. 1.3.2 Trend of Exports and Imports

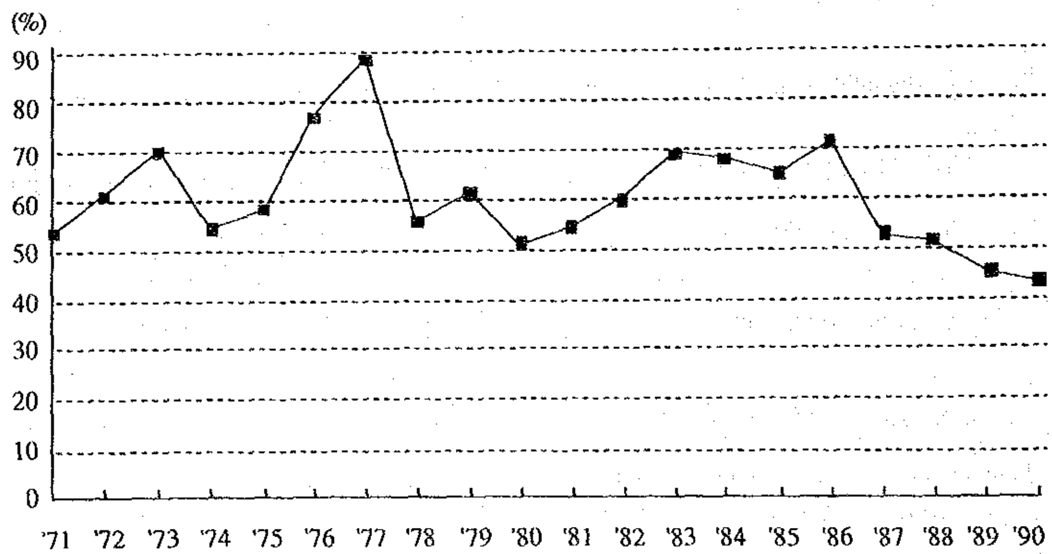


Fig. 1.3.3 Percentage of Exports to Imports

The balance of trade of Kenya for these 20 years or more has been showing a deficit. (Refer to Fig. 1.3.2.)

During the last ten years (1981 - 1990), the percentage of the export values to import values was about 70% for three years (1984 - 1986). However, the percentage decreased to 46% in 1989, and 43% in 1990. Export in 1989 and 1990 could pay only approx. 45% of the imports.

(2) Present situation of Trade by Area

Exports and imports for 1989 between Kenya and destinations by area is shown in Figs. 1.3.4 and 1.3.5.

Total Exports : K£999,842,000

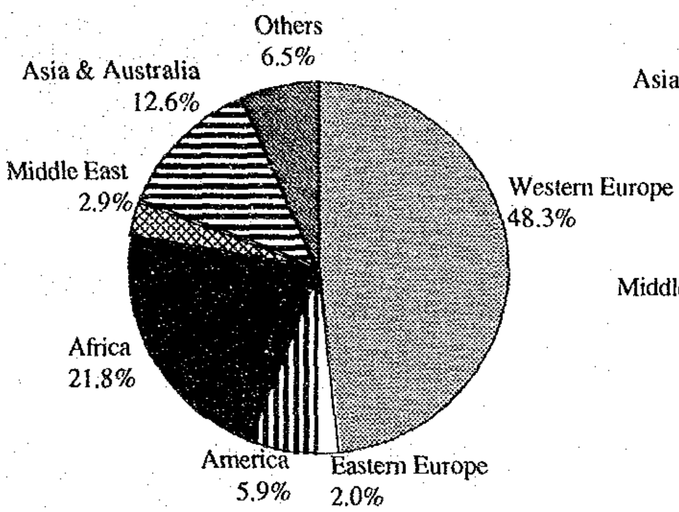


Fig. 1.3.4 Ratio of Exports by Area (1989)

Total Imports : K£2,238,971,000

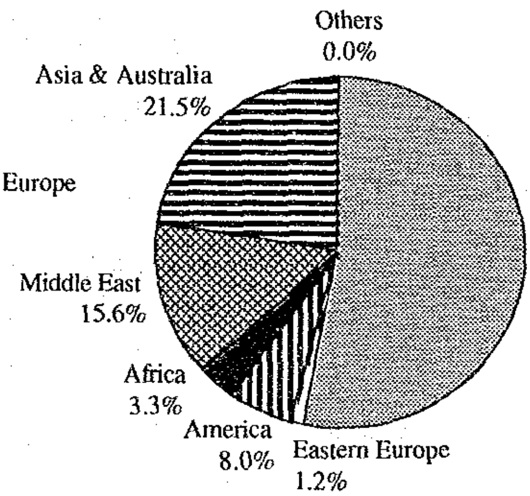


Fig. 1.3.5 Ratio of Imports by Area (1989)

In 1989, Western Europe, the biggest destination, covered 48.3% of the total exports from Kenya for 1989, and Africa accounts for 21.8%. These two areas account for 70.1%. Western Europe, the biggest importer from Kenya, accounts for 50.6% of the total imports; Asia and Australia, 21.5%; the Middle East, 15.6%.

The balance of trade of Kenya with all area except of Africa and other area is in a deficit.

(3) Types of Exports

The types of exports in 1989 and 1978 are shown in Figs. 1.3.6 and 1.3.7, respectively.

Total Exports : K£999,842,000

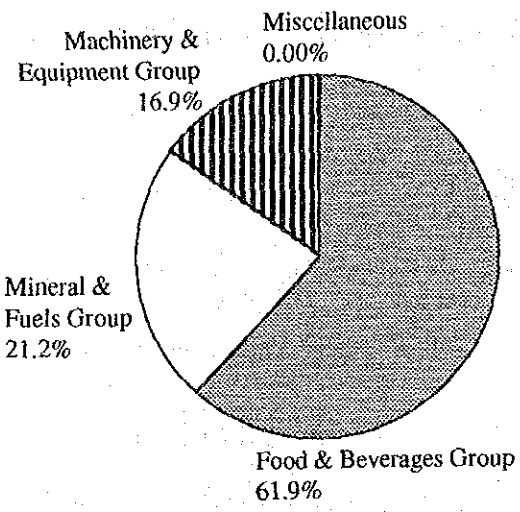


Fig. 1.3.6 Exports Ratio by Commodity (1989)

Total Exports : K£369,965,000

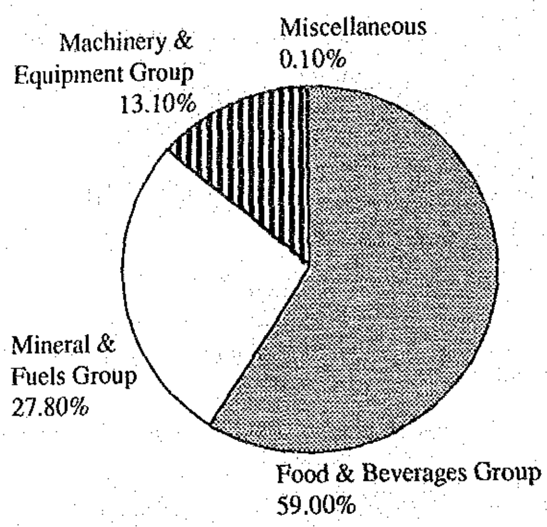


Fig. 1.3.7 Exports Ratio by Commodity (1978)

Fig. 1.3.6 indicates that the group consisting of food, beverage, tobacco, animals etc. accounted for 61.9% of the total exports for 1989. Mineral and fuel group including raw materials, oils extracted from animals and vegetables in addition to mineral & fuel accounted for 21.2%, and manufactured goods group including chemical products, machinery, transport equipment, etc. accounted for 16.9%. Based on these figures, primary products including food, mineral & fuel, etc. accounted for about 83% of total exports from Kenya, while manufactured goods group accounted for nearly 17%.

In the export structure in 1978, food group accounted for 59.0%, mineral & fuel group 27.8%, and manufactured goods group 13.1%.

(4) Types of Imports

Import structure in 1989 and 1978 are shown in Figs. 1.3.8 and 1.3.9 respectively.

Total Imports : K£ 2,238,971,000

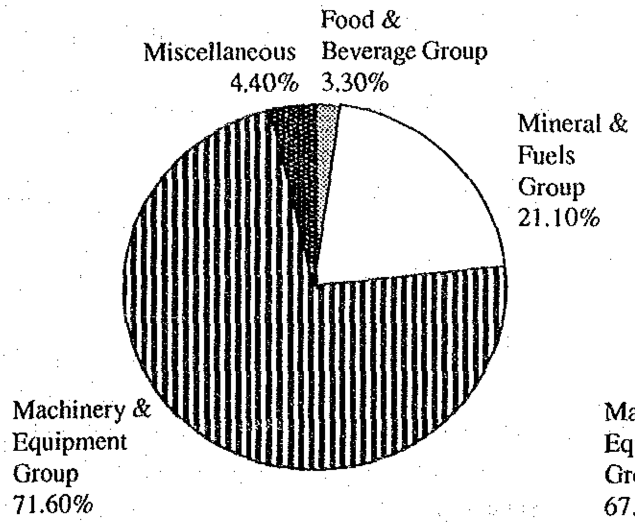


Fig. 1.3.8 Imports Ratio by Commodity (1989)

Total Imports : K£ 661,125,000

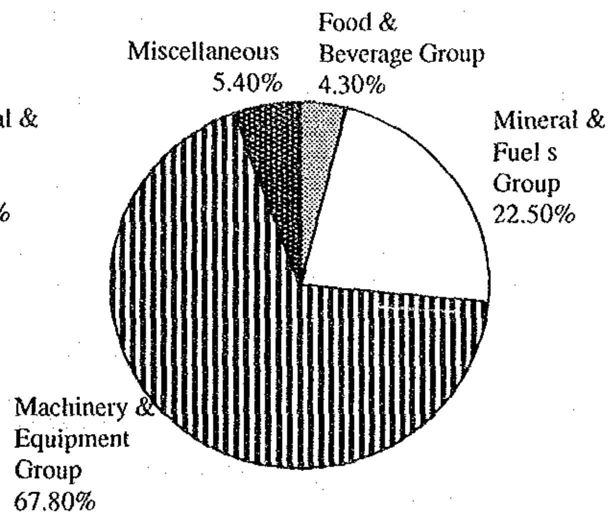


Fig. 1.3.9 Imports Ratio by Commodity (1978)

Based on import statistics (Fig. 1.3.8), the group of imported food accounted for 3.3%, mineral & fuel group 21.2%, manufactured group 71.6%, and others 4.0%,. It should be noted that the group of manufacturing goods accounted for more than 70% of total import.

As for the import structure in 1978 (Fig. 1.3.9), the group of imported food accounted for 4,3%, the mineral & fuel group 22.5%, the manufacturing goods group 67.8% and other group 5.4%.

(5) Ratio of Manufacturing Sector in Total Exports and Imports

As explained in Section 1.3.2 (1), the share of the manufacturing subsector of the GDP increased by less than 1% for last about 20 years from 1971 to 1989.

As for the ratio of manufactured products to total exports and imports, it is shown in Fig. 1.3.10.

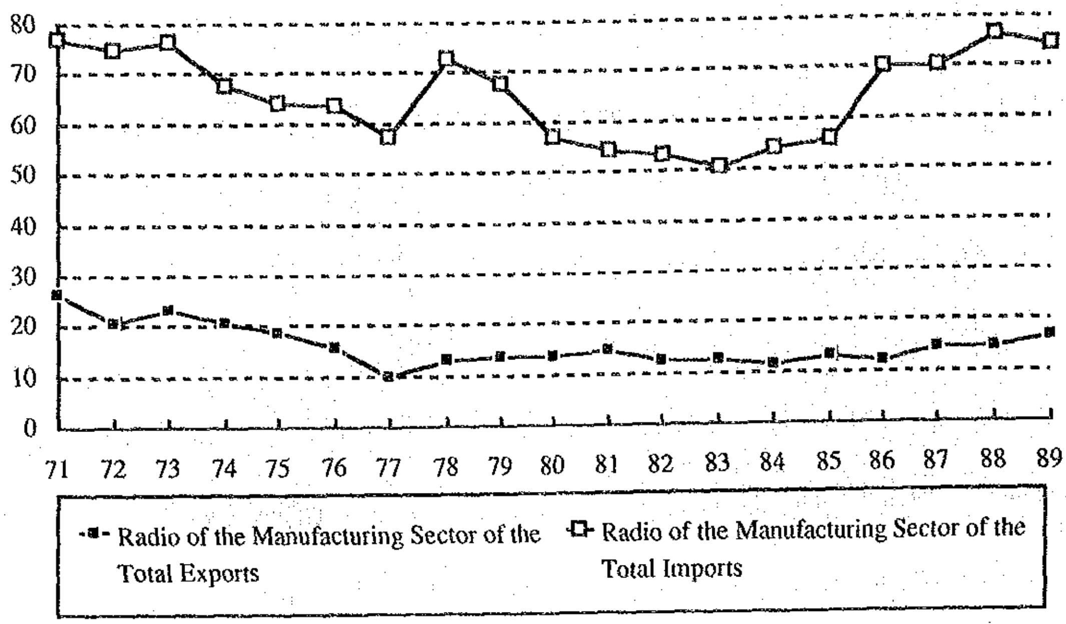


Fig. 1.3.10 Trends of the Manufacturing Sector of the Total Exports and Imports

The ratio of the manufactured products to total exports declined from 26% in 1971 to 10% in 1977. The ratio from 1977 onwards fluctuated between 11% and 17%.

The ratio of the manufactured products to total imports showed more than 50% year to year, and the ratio from 1986 onwards was more than 70%.

1.4 Key Issues for Trade Promotion at National Development Planning Level

The National Development Plans and industry and trade structures are reviewed in this chapter. Based on this review, the following key issues relating to trade promotion have been identified for further study:

(1) Priority Given to Trade Promotion

The quality and quantity of imports and exports, and the resulting balance of trade, provides an indication of the relative position of a nation in the international community. The market trends in domestic supply and demand will result in a dependance on imports. Consideration of both the relative position and dependence define the priority which should be given to trade promotion.

For the objectives to be achieved it is essential to take positive action to encourage and promote trade. Action is required on two fronts:

- The trade promotion system and organization should be improved and reinforced.
- Export-oriented industries should be encouraged and developed, for example by providing incentives.

(2) Improvement and Consolidation of Trade Promotion System and Organisation

Improvement and consolidation of the trade promotion system and organization should be implemented taking into account the following principles.

1) In order to achieve total effectiveness, the public and private sectors must work together.

2) Unreasonable local demands and duplication of functions should be avoided.

3) Incentives and enforcement must be applied fairly and openly.

4) To promote international relations, the new system should be considered in an international context.

(3) Development of Export-Oriented Industries

The development of export-oriented industries should aim at the production of products which are competitive in terms of price and quality in other countries, even though they may have no strong desire to buy Kenya's products. The most important criteria is that there is market access; this however, does not mean that success in sales is guaranteed.

Development should progress through the following steps:

1) Consider Kenya's basic characteristics such as natural resources, manpower and geographic position.

2) Formulate a management strategy that is sensitive to consumer market changes in other countries.

3) Secure proper places as to improve technologies meeting the domestic demand.

4) To improve product quality in order to compete in the international market.

5) Search for less competitive manufacturing sectors that can compete in the international market.

(4) Improvement of Export Organisations

Improvement of export-promotion organisations under the joint public/private sector is indispensable to the improvement of trade promotion systems stated in (2) above, and the development of export-oriented industries.

CHAPTER 2 REGIMES AND SYSTEMS OF EXPORT PROMOTION

2.1 History of the Introduction of Export Promotion System

2.1.1 Import Substitution Policy

Soon after Kenya's independence, 12 December 1963, the Government adopted an import substitution policy in order to:

(1) Save foreign exchange that was used to import required consumer goods.

(2) Create employment.

(3) Encourage the use of the available domestic resources, hence creating indirect employment and distributing the benefits of economic growth.

(4) Encourage the transfer of technology and train Kenyans in new industrial fields.

The Government implemented protection through high tariffs, quotas, and even total bans on the importation of some consumer goods.

This policy worked well until the early 1970s when the benefits of import substitution were to be reduced and the country experienced an economic depression as a result of a world-wide economic depression and high crude oil prices in 1973. The Government also realized that agriculture should not be the only source of foreign exchange because it is sensitive to fluctuating world commodity prices for coffee and tea. The overall unemployment problem also became acute during this period.

Under these circumstances, the Government reviewed the import substitution policy and realized that it had to adopt an export promotion strategy in order to alleviate the economic problems the country suffered as a result of continued unemployment, lack of foreign exchange, falling standards of living and unfavourable balance of payments.

2.1.2 Export Promotion System

As trade conditions deteriorated with the oil crisis in 1973, the first attempt to promote export was made through the export compensation scheme introduced in 1974. Although the international balance of payments temporarily recovered during the coffee boom from 1976 to 1977, a sudden decline in coffee and tea prices in 1978 resulted in rapid deterioration of the balance of payments. This lead to a cumulative deficit problem, resulting in the revision of the export compensation system in 1980. This revision of the scheme was for the purpose of improving the external balance of payments while the First Structural Adjustment Loan (SAL-1) was started with the aim of radical improvement in the balance of payments. Therefore, it was not until the fourth five Year Development Plan in 1979 that promotion of exports began on a full scale (Refer to Fig. 2.1.1).

Year	Development plan and main task	Characteristics of the economy	Introduction of export promotion policy
1963		Independence	
64			
65	(First) Kenyanization		
66		The period of the Kenyan miracle	
67			
68		• Initial import substitution industrialization	
69		• Economy in good condition	
1970			
71	(Second) Rural development		
72			
73			
74		Growth stagnation period	Introduction of export compensation scheme (10%)
75	(Third) Equalisation of profit sharing	• Oil crisis	
76		• Economic slowdown on a global scale • Temporary boom period	
77		• High price boom for coffee and tea	
78			
79		• Introduction of structural adjustment programme	
1980	(Fourth) Battle with rural poverty	Recurrence of economic recession	Revision of export compensation scheme (20%)
81		• SAL-1 started by the World Bank	
82			Revision of export compensation scheme (10+15%)
83		• GDP growth falls short of the population growth rate	
84			Export compensation scheme (15+10%)
85			Revision of export compensation scheme (20%)
86	(Fifth) Measures for low-income people	Regrowth period	Introduction of MUB scheme
87		• Economic boom due to favorable coffee market	
88			Introduction of Green Channel Scheme
89			
1990			Duty Exemption Scheme
91	(Sixth) Participation for progress	Period of economic rejuvenation	Duty Drawback Scheme Export Processing Zone Law
92		• Introduction of market economy along structural adjustment	
93			
94		• Promotion of export industrialisation	

(Note) Economic Characteristics based on "Kenya, Country Profile"

Fig. 2.1.1 Characteristics of the Economy and Introduction Process of the Export Promotion Policy

2.2 Present Condition of the Export Promotion System

Present condition of the export promotion system is as follows.

2.2.1 Export Incentives

In order to encourage manufacturers to venture into the export markets and earn foreign exchange, the Government introduced various measures aimed at compensating exporting firms for production costs that are higher because of tariffs on imported goods or materials they use, or because of protected domestic suppliers that produce at higher costs.

These incentives are the Export Compensation Scheme, Duty Exemption Scheme, and the Duty Draw Back Scheme.

2.2.2 Export Compensation Scheme

The Scheme was introduced by the Government under the Local Manufacturer Act in 1974. The basic aim was to give incentives to exporters and encourage promotion of manufacturing for external markets.

Since its introduction, the scheme has proved unpopular with businessmen. The reasons for these complaints are:

- Delays in processing and payment claims.
- Susceptibility to abuse.
- Shortage of funds allocated to the scheme by the Government.

At its inception the compensatory rate was 10% which was latter raised to 20% in 1980.

Due to the complaints from the business community the scheme was discontinued in June 1982 only to be re-introduced in September of the same year at a basic compensatory rate of 10% for the current year and increased to 15% for incremental increases in the following year.

In June 1984 the basic compensatory rate was raised to 15% from 10% while incremental export rate was reduced to 10% from 15%.

At present the scheme offers the following two primary benefits to exporters of qualified products:

- a flat rate of 20% compensation in local currency payments based upon the F.O.B. value of the exported goods.

- a refund of the sales tax paid on the exported products.

After a complete analysis the Government is planning to set up another scheme to work in conjunction with this scheme. One such system is the Duty Exemption Scheme.

2.2.3 Import Duty Exemption Scheme

This scheme was implemented in FY 1990/91, enabling import manufacturers to obtain import license for raw materials, have priority foreign exchange allotment and be exempted from duty and value added tax (VAT). However, importers are required to post a bond equivalent to the duty and VAT on imported materials on receiving the goods from customs which will be returned to the exporter upon exportation of the goods.

This scheme is supervised by the Ministry of Finance and is managed directly by the newly established Export Promotion Programme Office (EPPO). At present, this scheme is used in combination with the existing export compensation scheme. Exporters can apply for either one.

2.2.4 Duty Draw Back Scheme

The main objective is to help export manufacturers using previously imported materials where the duty and VAT has already been paid by another local company. This means that once the material with the duty and VAT paid are passed to the export manufacturers, the exporters will be able to claim from the government an equivalent of cash as the import duty and VAT. This will be paid in accordance with criteria and guidelines to be worked out by the government.

This scheme is more comprehensive in the sense that exporters can apply for refund of import duty and VAT paid on the import of raw materials for export according to the rules prescribed by the Government, and that it can also be applied to materials imported by a third party.

Implementation of this scheme, in practical terms, will increase problems relating to the supervision of granting of import licenses and foreign exchange and the ensuing applications for duty drawback upon re-export.

2.3 Export Promotion Measures

In order to strengthen and accelerate exports, the Government in recent years has been promoting foreign investment through establishment of Manufacturing Under Bonds (MUBs) as well as export processing zones under the leadership of the Ministry of Finance. While promoting these activities through IPC and EPZ authorities, the Government also created EPPO to promote Kenya's exports.

In the Sixth development plan the Government is also planning to initiate and adjust necessary research by increasing the capabilities of the Ministry of Planning and National Development (MOPND) to obtain data and information that will be necessary for making decisions concerning reform and liberalisation of policies and strategies in the industrial and commercial sectors.

Activities of the Kenya External Trade Authority (KETA) under the jurisdiction of the Ministry of Commerce (MOC) are not sufficient. Concerted efforts by the ministries is desirable to solve many problems in areas such as financing, industrial development and marketing.

2.3.1 Manufacturing Under Bond (MUB)

The scheme for manufacturing under bond was established in 1986 and became operational in June 1988. The government introduced the scheme with the expectation that it will help create employment, earn foreign exchange for the country, help in transferring both technology and know-how to Kenyan. It was also aimed at tapping lucrative U.S. markets where manufacturers from Asian NIEs Countries face quota limitation on textiles.

Manufacturers who apply for this scheme must comply with regulations and conditions established by the Department of Customs. While machines and raw materials are brought into the country duty free, the applicant must go through IPC for evaluation and the factory must be bonded and inspected by Customs officials to ensure that it complies with regulations such as security and warehousing requirements. A Custom Officer is also stationed permanently at the factory for control purposes.

Currently there are 48 companies under this scheme approved by the Government, but only nine are fully operational and one is in receivership. Most of these companies are manufacturing garments, with only two that manufacture different products.

Few problems have been cited by the manufacturers in connection with this scheme. Some problems are:

- Refusal by banks to agree to open back to back letters of credit; Kenyan banks require tangible assets as collateral.
- Lack of export financing.
- Inadequate tax incentives.
- High bond fees.

Despite these problems, the scheme is expected to play a significant role in the promotion of exports and also to assist in the rapid transformation of the economy from an inward-looking import substitution to outward-looking export orientation.

This scheme will help activate the proposed Export Processing Zones (EPZs) as well as private sector participation in the economic development of the country particularly in export manufacturing.

2.3.2 Export Processing Zone (EPZ)

The Export Processing Zone Act was established in November 1990, and two districts, Nairobi and Mombasa, were designated as EPZs. The Nairobi processing zone is scheduled to open in 1992. In addition, Sameer Industrial Park, a private operation, opened on November 30, 1990.

The major objectives for the establishment of EPZs are:

- Promotion of employment
- Transfer of technology
- Provide an environment to facilitate the development of industry in general
- Provide a means of obtaining foreign currency over a long-term period

- International ties
- Ties with local industries
- Changing the people's working attitude

To induce foreign investors, the Government provides the following incentives given to the EPZ developers, operators, and enterprisers.

- Exemption from various domestic taxes (VAT, stamp duties)
- Exemption from corporate taxes for 10 years
  (25% tax for 10 years following the above 10 years)
- Exemption from import duties
- Unrestricted capital transfer (not applicable to capital raised in Kenya)
- Unrestricted remittance of dividends (not applicable to capital raised in Kenya)

More time and money are required to develop the EPZs. However, once the projects are started, the impact on Kenyan industries will be positive and the EPZs will play an important role in the industrial development in Kenya.

Administrative matters that are necessary for EPZs may be handled by IPC until the EPZ authority starts functioning.

2.4 Other Export Promotion Measures

The Kenyan Government is reviewing the import substitution policy which is the primary means of export promotion, and established the following policies in addition to the above mentioned export promotion measures.

2.4.1 Export Financing

A bill rediscount system by the central bank began in FY 1991 as one of the export financing measures that facilitates financing for pre- and post shipments. Since export financing is an extremely important measure for export promotion, its further expansion and development is expected.

2.4.2 Export Credit Insurance and Guarantee Scheme

For the last few years, the Government has been considering an export credit insurance and guarantee scheme to foster the smooth implementation of its export promotion strategies.

The main objective of establishing such a scheme is to insure exporters and decrease the risk of financing export trade.

A study has been conducted by the KETA in 1980, but it was not materialised. However the Government is now keen to introduce this system and a consultant work is ready to start in 1991.

2.4.3 Green Channel Scheme

A Green Channel Scheme (GCS) was created to solve delays in obtaining import licensing applications. This scheme was established in 1988 for MUBs to speed up the acquisition of import licenses and to allow the MUBs to meet order delivery schedules.

Unnecessary delays experienced in obtaining foreign exchange by both importers and exporters is a serious constraint to the increase of exports in Kenya. Establishing the GCS along with other schemes will help alleviate this problem.

2.4.4 Price Control

Currently, 13 items on the special items list, and 16 items on the general items list are subject to price control. The Government is moving to abolish price control on all items except for a very limited number of essential items; consequently the above items will be further reduced in number in the near future.

2.4.5 Corporate Tax Reduction

The Government reduced the corporate tax from 42.5% in FY 1988/89 to 40% in FY 1989/90.

2.4.6 Import Liberalisation

At the end of 1987, the import schedules were revamped into the following three main categories.

This schedule is reviewed every year in advance as necessary for import liberalization.

Schedule 1: Mainly high priority capital goods, essential commodities, raw materials and intermediate materials.

Schedule 2: Those items of relatively high priority which require Ministerial or Government Agency approval prior to the granting of license.

Schedule 3: Items in this schedule are further categorised into three groups:

Schedule 3A: Items that are similar in many ways to those in Schedule 1, but also including some goods which would be subject to tariffs rather than administrative controls for protection.

Schedule 3B: Lower priority goods that can be imported relatively freely subject to tariffs rather than restrictions.

Schedule 3C: Those items for which the government would continuously review the desirability of importation.

2.4.7 Import Licenses

Import licenses are classified according to the above schedules at the time of the acceptance of application, and are approved according to the order of priority. However, the approval of import licenses are often delayed because of limited foreign currency allocations from the Central Bank.

If the duty exemption scheme (via the EPPO) is used for applications to import raw materials for use in export-oriented processing, foreign currency allocation and the import licenses can be received by importers generally within seven days of the application.

2.5 Customs

The role of customs is to supervise cargo passing over the borders of a country at it's ports and airports and on roads linking countries in order to maintain the country's trade control system. However, the introduction of MUBs and EPZs means that a different trade control system has been established for designated areas located in the country, but cargo moved in and out of these areas are subject to the regulations of the country. Moreover cargo moved within the MUB or EPZ areas and between areas are subject to different regulations, which means Customs' jurisdiction must be expanded.

The field of the Customs jurisdiction and operations is set out below.

1) From foreign countries
   - → Domestic market
     - Ordinary import (EI)
     - Duty exempt import (EI)
   - → Duty exempt import to MUB (EI)
   - → Duty exempt import to EPZ (EI)

2) From domestic market
   - → External market
     - With export compensation (EE)
     - Without export compensation (EE)
   - → To MUB, only VAT exempt (IE)
   - → To export processing zone
     - With export compensation (IE)
     - Without export compensation (IE)

3) From EPZ
   - → Export to external market, unlimited (EE)
   - → Export to domestic market, ordinary transfer with import tax (D)
   - → Transfer to MUB (TR)

4) From MUB
   - → Exported to external market (no export compensation) (EE)
   - → Transfer to EPZ (TR)

Fig. 2.5.1 shows the flow of cargoes and the coverage of customs operation.

The EPZs and MUBs are expected to be the nucleus for exports in Kenya, they should be smoothly operated.

Although the activities of the customs for controlling cargoes distribution will be expanded and become complicated, export formalities should be simplified and facilitated.

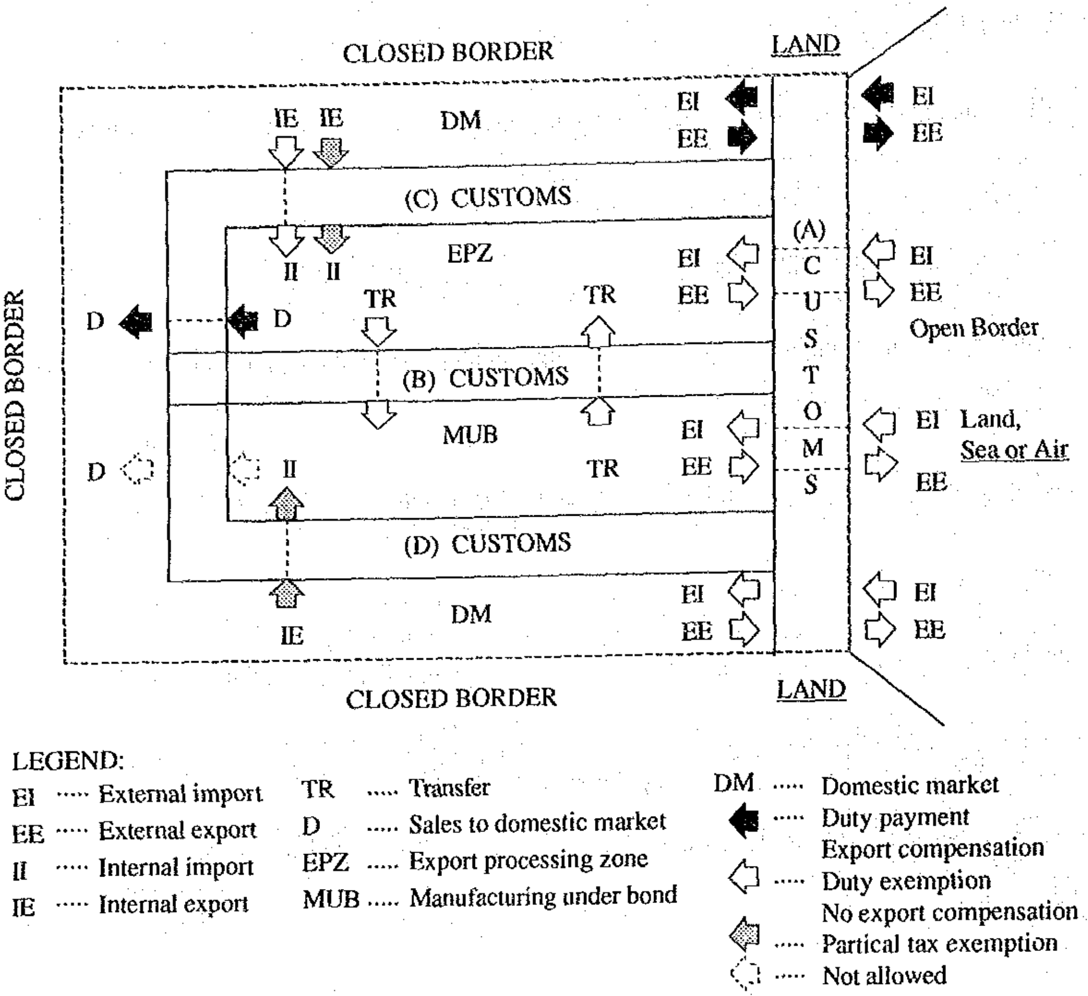


Fig. 2.5.1 Trading and Customs Relation

2.6 Short and Medium Term Plans Proposed by Aid Organisations

Ideas on export-promotion policies and international cooperation presently under study are as follows:

2.6.1 IDA

(1) Exchange rate policy

Maintenance of an appropriate exchange rate for smooth export promotion.

(2) Streamlining and rationalizing procedures for duty and import licenses

Measures for reduction of import duties and steps for import liberalisation.

(3) Duty exemption

Implementation of Duty Exemption Scheme and Duty Drawback Scheme to promote duty exemptions for raw and intermediate materials used in exports of manufacturing products.

(4) Export finance

Establishment of pre- and post-shipment financing and introduction of a bill rediscounting scheme by the Central Bank.

(5) Review of regulations for investment, trade and industry

Proposal for streamlining and rationalizing of various licenses.

(6) Assistance for the private sector

Technical assistance for engineering and consultation services for small and medium exporters.

(7) Infrastructure Development

Designing infrastructures for EPZs, establishment of basic infrastructures (i.e., harbour facilities, cold storages, etc.) and building infrastructures in potential export sectors.

2.6.2 USAID

(1) Technical and material support for customs operation

Technical and material support for supervision of the duty exemption scheme and simplification of export and import procedures.

(2) Technical assistance for operation of export processing zones (EPZs)

Technical and material support for EPZ authorities

(3) Financial assistance in foreign exchange to facilitate the participation of local enterprises in EPZs

(4) Technical assistance for the enhancement of functions of Trade Policy Unit

(5) Financial assistance for the Trade Policy Unit to plan export-promotion programs in the medium and long terms

(6) Financial assistance for non-traditional export products

(7) Assistance to private sector organisations related to small and medium enterprises and horticulture

2.6.3 EC

(1) Technical and financial assistance for qualitative and quantitative improvement of grain production.

(2) Technical and financial assistance for the Cereal Board.

In addition to the above, EC proposed the following projects.

1) Reforming of KETA as a Central Marketing Body

KETA should take the role of a central marketing body and provide the private exporters a full range of marketing services, and the body should be given the full responsibility of supervising export quality of all export products.

2) Collection, grading, transportation and storage of horticultural products

Assistance to small-scale farmers should be provided through the introduction of collection centres, refrigerated trucks and refrigerated warehouses which will bring about increased sales revenue.

3) Improved EPZ operation

The aim is to simplify the procedures for importing production materials for export products more cost-effectively compared to manufacturing under bond.

4) Training of marketing personnel

Training is needed for marketing personnel of KETA and exporters. Training areas include market development, packaging, product design, quality control and management improvement.

5) Development programmes for production technology

The aim is to increase the efficiency of production by providing appropriate technology to meet the demand of sophisticated foreign markets.

2.7 Subjects to be Developed or Improved

Table 2.7.1 shows applications of present export promotion systems. From these, the following are pointed out.

(1) Finance and export insurance which supports existing export promotion systems is insufficient.

(2) Inconsistency in the application of export promotion systems.

(3) As shown in Fig. 2.5.1, the role of customs has become very complicated due to introduction of the duty draw back scheme and the duty exemption scheme, MUBs and EPZs.

Improvement is required to reduce imbalances within the system and in addition, complicated customs procedures should be simplified as much as possible to create an environment conducive to export promotion.

Table 2.7.1 Current Export Promotion System

	1. Company registration	2. Marketing	3. Import License	4. Export License	5. Production	6. Customs	7. Finance	8. Export Promotion system: Export Compensation	Duty Exemption	Duty Drawback	Export Insurance	Other
Applied Law	Trade License Act Cap 497, 1980		The Imports Exports and Essential Supplies Act. Cap 502, 1980 Import Licensing schedule 1991	The Imports Exports and Essential Supplies Act. Cap 502, 1980		The Customs and Excise Act		The Local Manufacturers (Export Compensation) Act. Cap 482, 1985	Customs and Excise Act. Cap 472, 1990	Customs and Excise Act. Cap 472		Custom and Excise Regulation 1988. The Export Processing Zone Act., 1990
Manufacturers	MOI MOC				Difficult to reduce price due to 1. short of raw materials 2. short of foreign exchange 3. low operation ratio Toward to domestic market							
Export		Own marketing or by KETA, KNCC&I		To MOC immediate license obtainable	Low competitive power in both price and quality	Export clearance	Bill rediscount system of CBK	Compensation is received after 2-4 months through bank/customs		To be applied in 1991	Not yet	VAT exempted
Import for normal production		Through distributors	Apply to MOC screen at IMC and FEAC Takes 2-4 months		Short of foreign exchange short of raw materials low operation	Import clearance	No preference		NA	NA		NIL
Import of raw materials for export processing		Own marketing or by KETA, KNCC&I	To EPPO. available after 7 days		By applying to EPPO difficulty of obtaining raw materials is eased	Clearance under duty exemption	Bill re-discount system of CBK		Applied after 26/10/90 (Customs and excise regulation 1988)	To be applied in 1991		NIL
Trade House	MOC											
Export		Own marketing or by KETA, KNCC&I		To MOC immediate license obtainable		Export clearance	No preference	Compensation is received after 2-4 months through bank/customs		To be applied in 1991	Not yet	NIL
Import		Through distributors	To MOC/IMC/FEAC takes 2-4 months			Import clearance	No preference					NIL
Manufacturing under Bond (Customs and Excise Regulation 1988)	MOI MOC MOF (IPC)	Own marketing or some from KETA, KNCC&I	To EPPO available after 7 days of application	To MOC immediate license obtainable	Rely 100% on imported materials. Obliged to export 100% to overseas market.	1. Clearance at port 2. Clearance at container yard 3. Clearance at factory 4. Export clearance	Bill re-discount system of CBK	NA	Applied after 26/10/90 (Customs and excise regulation 1990)	To be applied in 1991	Not yet	VAT exempted
EPZ (The Export Processing Zone Act 1990)	MOC (IPC)	Own marketing	Free	Free	Expecting local materials in future. Export to domestic market is permitted.	1. EPZ Import clearance 2. EPZ Export clearance 3. EPZ-MUB clearance for transfer 4. MUB-EPZ clearance for transfer 5. EPZ-Domestic export clearance 6. Domestic-EPZ import clearance	NA	NA	Duty free	Duty free	NA	10 years tax holiday, 25% tax for next 10 years. VAT, stamp duty exempted
Ministry or Government agency in charge		KETA (MOC)	MOC MOF	MOC MOF	MOI	MOF	MOF	MOF	MOF	MOF	CBK MOF	MOF
Proposal for Improvement		Financing or technical assistance for engineering and consulting	Simplify the import license	NIL	Financing or technical assistance for engineering and consulting	Technical and commodities assistance for Customs operations	Rediscount systems pre/post shipment financing Maintenance of appropriate exchange rates	Move into duty exemption and drawback system	Assistance for EPPO for smooth operation of various export promotion scheme		Propose establishment	
Supporting donor agency		IDA	IDA/USAID		IDA	IDA/USAID		IDA/USAID	IDA/USAID	IDA/USAID	IDA	

CHAPTER 3 EXPORT PROMOTION ORGANISATIONS AND FUNCTIONS

3.1 Outline of Implementation of Survey

A survey was made of the roles and functions of the government institutions and private sector institutions. In order to find out the actual situation, the study team held interviews with key people from these institutions as well as major export companies and foreign aid organizations. People at the following institutions were interviewed.

	Number of institutions interviewed
Governmental ministries and related agencies	6
Trade and economic organizations	9
Private companies	17
Foreign aid organizations	9
Total	41

3.2 Roles and Functions of Institutions Related to Export Promotion

3.2.1 The Government Institutions

(1) Ministry of Finance

This ministry designs and manages monetary and fiscal policies. It is also in charge of exchange control, investment policy, duty exemption and import liberalization.

Several donor agencies including USAID, ADB, World Bank support the Kenyan Government's stated aim to enhance exports and increase the role of private sector in the Kenyan economy. This is called Kenya Export Development Programme. One of the achievements of this programme has been to establish an export promotion programme office in the office of the vice president, who is also the Minister of Finance.

This office provides expert advice to the Government on the multitude of issues that will inevitably emerge during the move towards a more outward-looking strategy, shifting away from the import substitution strategy that has been followed since independence.

(2) Department of External Trade, Ministry of Commerce

The Department of External Trade is responsible for the promotion of Kenya's exports. The major functions of the department are as follows:

1) Expansion and diversification of export products and markets
2) Bilateral trade relations and trade agreements
3) All aspects of multilateral trade relations including PTA, GATT, UNCTAD, EC, Lome Convention and International Commodity Agreements

The department has four divisions:

1) Administration Division
2) Kenya External Trade Authority (KETA) - Trade Promotion Division
3) Trade Policy and External Trade Relations Division
4) Trade Information and Training Division

For the budget for export promotion in FY 1990/91, please refer to Table 3.2.1.

The total budget in FY 1990/91 is k£ 3,325,750. This figure is less than the budget for Zimbabwe Trade Promotion Center in FY 1990/91, in terms of US dollar. (See APPENDIX-IV-2)

And this k£ 3,325,750 includes k£ 750,000 and k£ 500,000 which are the funds for this study "The Study on the Master Plan for Trade Promotion in the Republic of Kenya" and IDA's Export Development Project respectively. (See Table 3.2.2)

K£ 750,000
K£ 500,000
―――――――
K£1,250,000

The figure of K£ 1,250,000 should be deducted from the above K£ 3,325,750 if we are to compare the Kenyan budget with that of Zimbabwe.

(3) Kenya External Trade Authority (KETA)

When the government established KETA in 1976, the main aim was to take over the work previously done by the KEPC and to enlarge its scope of operation by coordinating and implementing activities aimed at expanding, diversifying and promoting Kenya's exports.

Although there was an idea of making KETA a parastatal organisation, this was not implemented and KETA continued to operate as a specialized unit within the Ministry of Commerce.

KETA continued to operate in this way until the mid 1980s when, owing to various problems including funding, its functions were absorbed by the Department of External Trade of the Ministry of Commerce.

The chairman and members of the board of KETA are appointed by the Government, through the Ministry of Commerce, under whose auspices KETA operates. These members are senior executives from private and public sectors with vast experience in export trade and business management. They serve on a honorary basis for a renewable term of three years. The secretary of KETA is the director of External Trade in the Ministry of Commerce.

KETA's activities, as outlined in the leaflet delivered at the launching ceremony of KETA in August 29, 1990, are as below:

1) Marketing section

This section undertakes marketing studies in foreign markets. It is also responsible for undertaking local supply studies in an effort to find out what products are available for exports and in what quantities. Through the efforts of the marketing section, Kenya producers and exporters are given an opportunity to explore, establish and sustain themselves in foreign markets.

2) *Trade fairs and exhibitions section*

This Section organizes Kenya's participation in trade fairs and exhibitions in foreign countries in order to publicise Kenya's products, attract foreign investment and assist in promotion of tourism into Kenya.

3) *Handicrafts section*

Through this section, curios and handicrafts dealers are advised on product design and development, graphic and advertising promotions and market development.

4) *Training and information services*

This section gathers, stores and disseminates information on export trade, both on the local and foreign markets. It operates a documentation service and maintains a specialized export reference library. It manages and distributes the Authority's monthly publication, the Kenya Export News, and other publications. This section also coordinates the export training programme. It also organizes short intensive courses on various subjects pertaining to exports, such as international marketing, costing and pricing, product development and adaptation for exports, packaging and labelling for exports, etc.

5) *Technical section*

This section carries out technical research aimed at improving efficiency and quality of export products by liaising with Kenya Bureau of Standards (KBS). Its other functions are to see that the design and packaging materials meet the standard requirements (international standards) and that export incentives offered are capable of increasing the export, etc.

This description makes it sound as though KETA's activities cover all aspects needed to promote export but, in reality, they leave much to be desired. Its performance has not gained the appreciation of the private sector.

(4) Ministry of Planning and National Development

This ministry carries out surveys on export incentives and draws up the National Development Plan. The Central Bureau of Statistics operates under the control of this ministry.

(5) Ministry of Industry

This Ministry is responsible for the promotion of industrial growth while working in close relationship with their parastatals, i.e., KIE, ICDC and KBS.

(6) Commercial attaches posted abroad

The 1990/1991 budget allows for 17 commercial attaches. However, as of March 1991 there are only five such people abroad, stationed as follows:

1) USA
2) Rwanda
3) Uganda
4) Tanzania
5) UK

(7) Tea Board of Kenya

The Tea Board of Kenya was established in 1950 and operates under the control of the Ministry of Agriculture. The board exercises license control over the planting and manufacturing of tea.

In addition, it is empowered to regulate the methods of planting, cultivating, processing and exporting of tea. It also conducts research on the control of pests and tea diseases. A large part of the board's activity is concerned with promoting Kenyan tea in the world market.

It participates in tea promotion campaigns in the major markets of North America and Europe in cooperation with the following tea councils:

UK Tea Council
Tea Council of the USA
Tea Council of Canada
German Tea Council

It also represents the government of Kenya in the various international organisations dealing with tea.

(8) Coffee Board of Kenya

The board was established in 1933 and operates under the control of the Ministry of Agriculture. It is responsible for the production, processing and marketing of coffee, licensing and control of producers and processors of coffee and research connected with the coffee industry.

The board's London office participates in several exhibitions which include: the Royal Show in Stoneleigh in England; Anuga in Cologne; Green Week in Berlin.

(9) Horticultural Crops Development Authority (HCDA)

HCDA, a parastatal organisation under the jurisdiction of the Ministry of Agriculture, was established in 1967 to promote the production and sale of horticultural products. To encourage exports, HCDA is engaged in such activities as participating in overseas trade fairs and dispatching trade missions abroad. It has 18 branches in Kenya.

HCDA charges exporters of horticultural crops 12 cents per kilogram as G8. To be an exporter of horticultural crops, exporters have to get an export license from HCDA, the fee for which is Kshs 1,000 per year.

(10) Investment Promotion Centre (IPC)

IPC was established to promote investment and provide support to investors. It operates a "one stop" approval system which accepts and processes applications from the investors. It also supplies information on investment opportunities in Kenya. It operates on an annual budget of roughly Kshs 15 million. Its financing comes from the Kenyan government and foreign donor agencies. IPC is an autonomous body affiliated with the Ministry of Finance.

(11) Kenyatta International Conference Centre (KICC)

KICC was launched on September 11, 1973 and belongs to the Ministry of Tourism and Wildlife. KICC is not a parastatal organisation. Its function is to offer conference and exhibition facilities.

The two main session halls in KICC are the Plenary Hall, with an unobstructed area of 26,000 square feet, and the smaller but tiered Amphitheatre.

The Amphitheatre is a mushroom-shaped auditorium laid out in three tiers around a circular floor and can hold 700 delegates in a three tier arrangement.

Key facilities at KICC are being upgraded by Philips for the third time since it opened. This latest upgrading has been carried out with a grant from the Netherland government. Closed circuit TV, simultaneous interpretation systems, infra-red conference systems, paging equipment and voting systems are to be supplied in two consignments. The first consignment was received in May 1991 and the second consignment will be received at the end of October 1991.

(12) Kenya National Trading Corporation Limited (KNTC)

KNTC was formed in 1965 with the aim of Africanising distributive trade in Kenya. The government identified some essential commodities for distribution by KNTC. Initially, these commodities were salt, sugar, cement and agricultural products such as seeds, fertilizers, etc. KNTC was later given a monopoly of the distribution of salt and sugar and the number of items KNTC handles gradually expanded.

However, KNTC seems to have failed to compete effectively with older and well established non-Kenyan businesses, as Sixth Development Plan admits. KNTC is engaged in exporting coffee, tea, sisal, etc. and importing fertilizers, tyres, agricultural implements, machine tools, etc.

KNTC once had a plan to establish an export house which would offer pre-export financing to local manufacturers and extend, where appropriate, credits to overseas buyers. This plan has not been realised yet.

3.2.2 Roles and Functions of the Private Sector Institutions

(1) Kenya National Chamber of Commerce and Industry (KNCC & I)

This is an autonomous, not-for-profit organisation which was set up to protect and develop the interests of the business community. It operates a network of 41 branches throughout Kenya.

Its major functions related to export promotion are:

1) Export promotion activities

These include organising trade missions to be dispatched abroad and hosting incoming trade missions from abroad.

2) Trade information services

KNCC&I provides trade information related to exports and imports.

3) Diplomatic representation

KNCC&I liaises between trade sections of foreign embassies in Kenya and Kenya's business interests. They also maintain constant contact with the commercial attaches in Kenya's embassies posted in foreign countries.

4) Certificate of origin

KNCC&I is the designated authority for issuing certificates of origin and certificating commercial invoices for certain countries.

5) Training and seminars

KNCC&I offers training courses and seminars.

6) Fairs and exhibitions

KNCC&I participates in overseas trade fairs and exhibitions by sponsoring such fairs and exhibitions in collaboration with foreign chambers of commerce and governments.

7) New Kenya Trade Exhibition

KNCC&I has organised the "New Kenya Trade Exhibition" for the last 17 years. The Exhibition was held at the Charter Hall in Nairobi in the first few years. The Charter Hall became too small and the Exhibition was moved to the KICC where the Exhibition has been held every year since then.

8) Publications

Every two years, KNCC&I publishes the comprehensive Trade Directory of members. It publishes monthly journals: one called "Business"; the other, known as "UFANISI", which contains export and import enquiries. It also publishes other documents such as "Kenya Business Information" and "Chamber Review".

9) Reference library

This library is open to the business community from Monday through Friday.

10) International organisations

KNCC&I is a member of the International Chamber of Commerce Organisation based in Paris and is also a member of ACP and PTA Chambers of Commerce and Industry.

(2) Kenya Association of Manufacturers (KAM)

KAM was established in 1959 and is a representative organisation of industrialists. It is a non-political, not-for-profit organisation, dependent upon