

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

**FINAL REPORT
SUMMARY**

OCTOBER 1991

JAPAN INTERNATIONAL COOPERATION AGENCY

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国際協力事業団

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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.

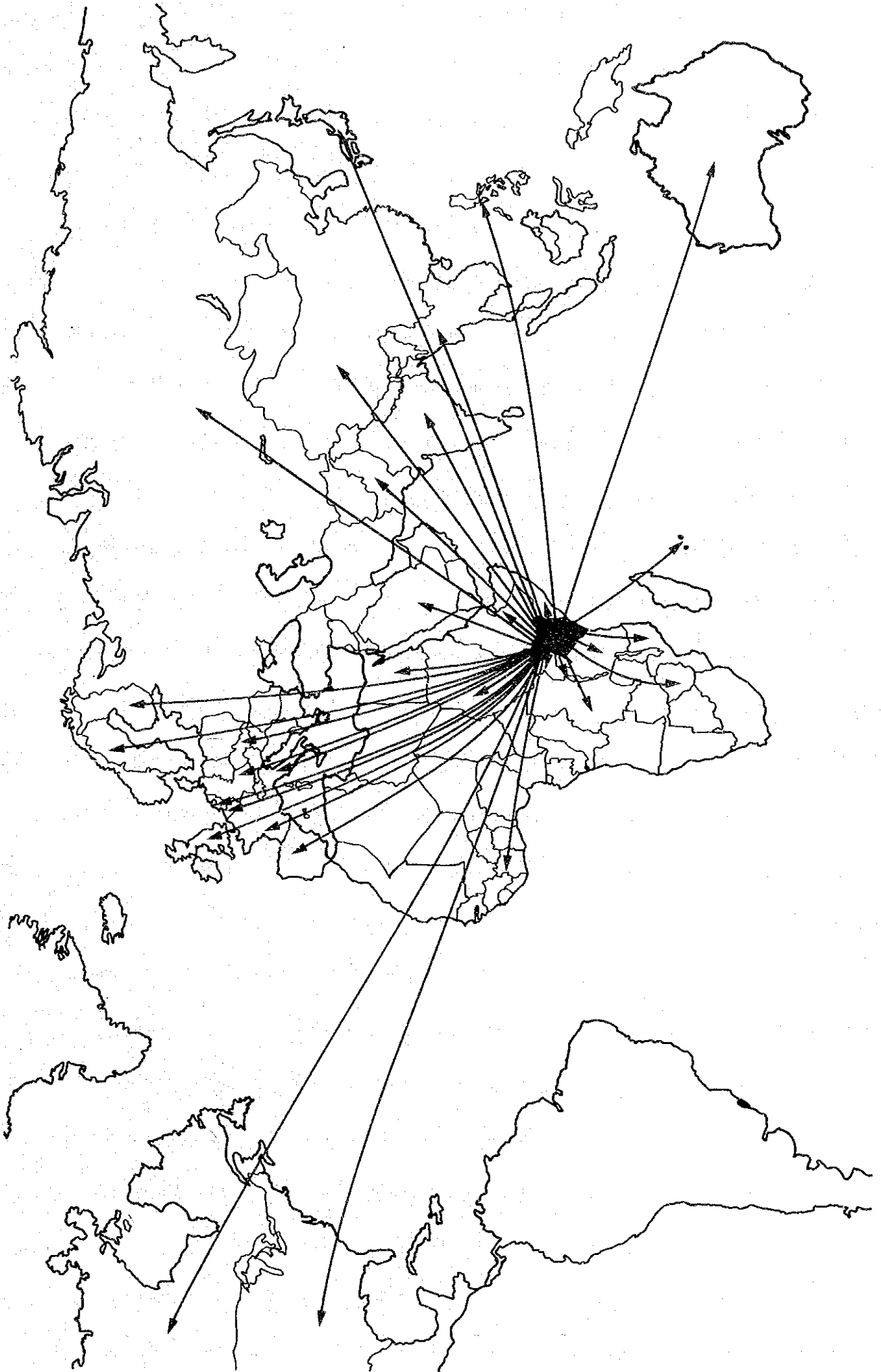
October, 1991

A handwritten signature in cursive script that reads "Kensuke Yanagiya". The signature is written in black ink and is positioned above the printed name and title.

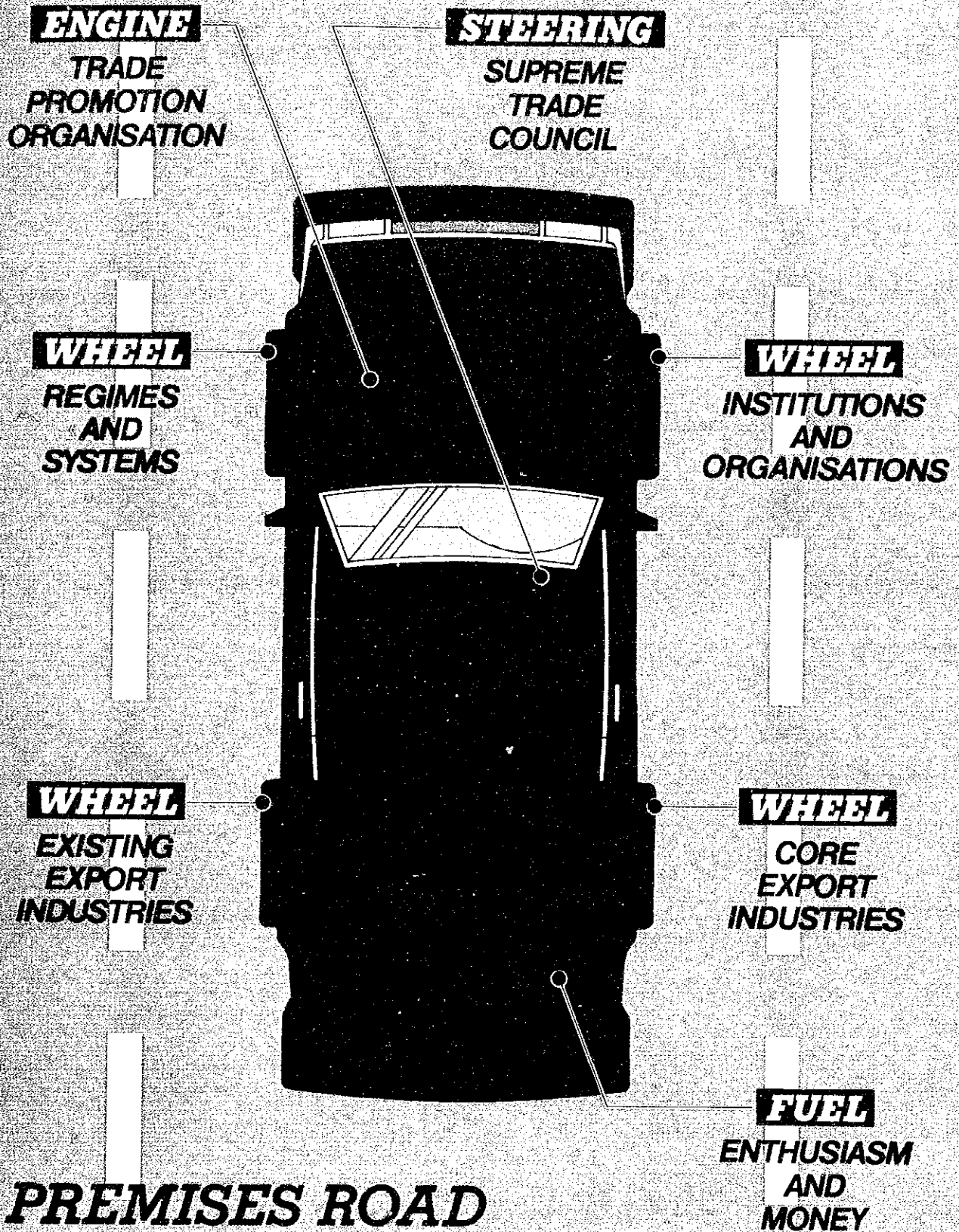
Kensuke Yanagiya
President

Japan International Cooperation Agency

Major Destinations of Export Products From KENYA in 1989



MODEL TPK-4WD



**SPIRIT OF OPERATION IS
SYNCHRONIZATION AND HARMONIZATION**

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INTRODUCTION

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 sixth development plan, was proposed in 1986 as Kenya's long-term 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 labor force, (2) prosperity for the rural masses, (3) equitable and widespread sharing of growth benefits, and (4) continuing provision of basic needs for all.

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). 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

(1) Growth Targets

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%.

(2) Sectoral Targets

1) Agriculture

The growth rate target is set at 4.5% per annum for the period of the Sixth Development Plan.

2) Manufacturing

The 6.4% average target growth rate during 1988-93 is expected.

3) Trade, Restaurants and Hotels

A relatively high rate of growth during 1988 is anticipated. 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

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

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.

(2) Gross Fixed Capital Formation by National Accounts Sectors

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**

Proportion of total gross investment to total consumption based on GDP was 23:77, which is almost the same as was recorded in 1987.

(4) **National Budget and Current Account**

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**

Exports and imports are targeted to grow at 5.8% and 5% respectively.

(2) **Current Account Balances**

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.

1.3 Industry and Trade Structures

1.3.1 Industrial Development Policy

(1) **Changes in Industrialization Policy**

Structural adjustment policies were introduced starting from about 1979. 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 industrialization

The Sessional Paper published in 1986 gave a clear, detailed account of the industrialization 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.

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

(3) Sixth Development Plan and Industrialization

The emphasis of industrialization from now on emphasis of industrialization is to be placed on the export of consumer and intermediate goods.

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

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 to 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.

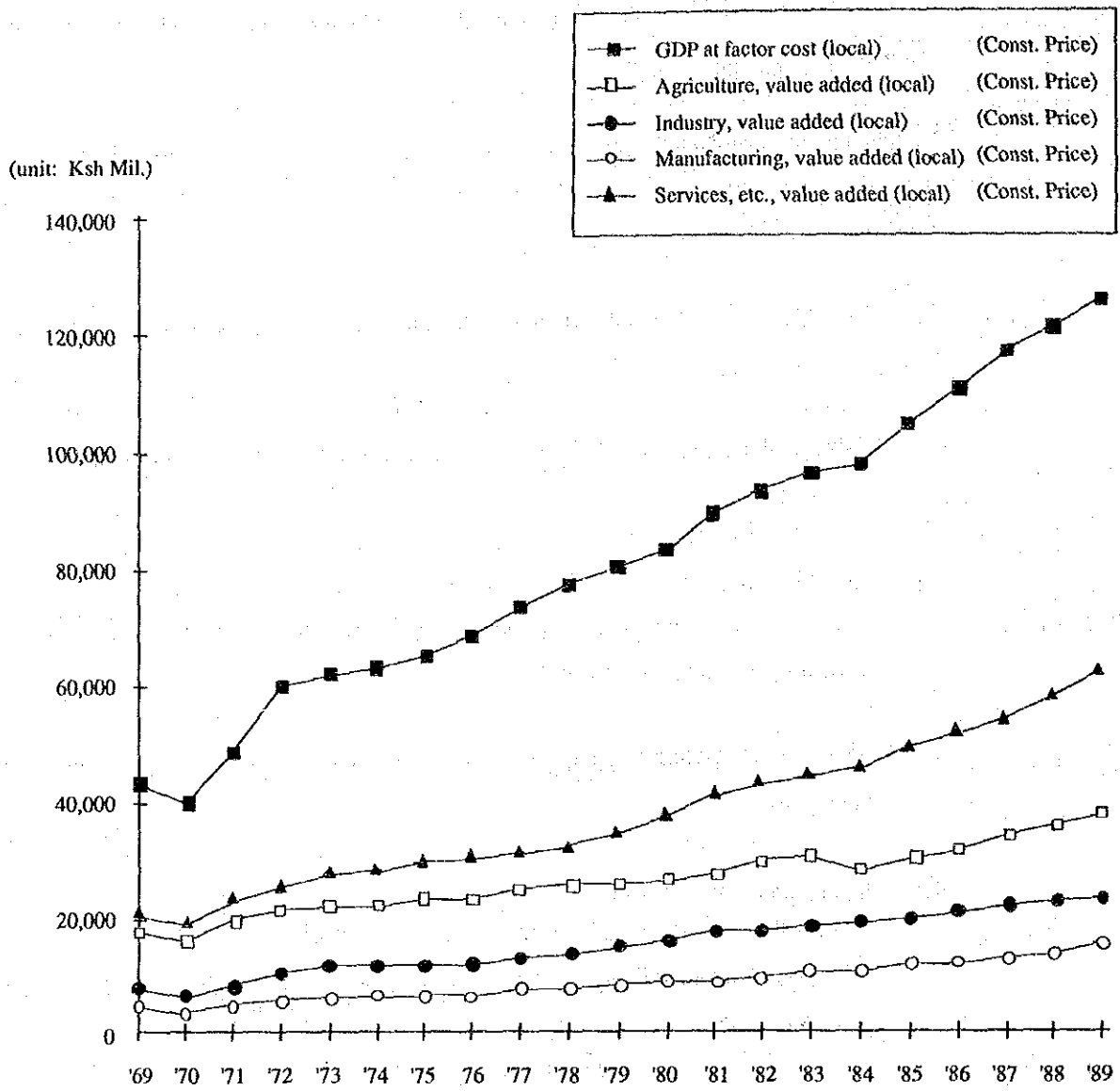
1.3.2 Position of Industrial/Manufacturing Sectors

- (1) Percentage of GDP for Industrial/Manufacturing Sectors

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

- (2) Manufacturing Sectors in GDP

The percentage of the GDP for this sector is 11.3% in 1968, 12.3% in 1978 and 12.2% in 1988, respectively.



Source: World Table 1989-90

Fig. 1.3.1 Trend of GDP by Sector

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.

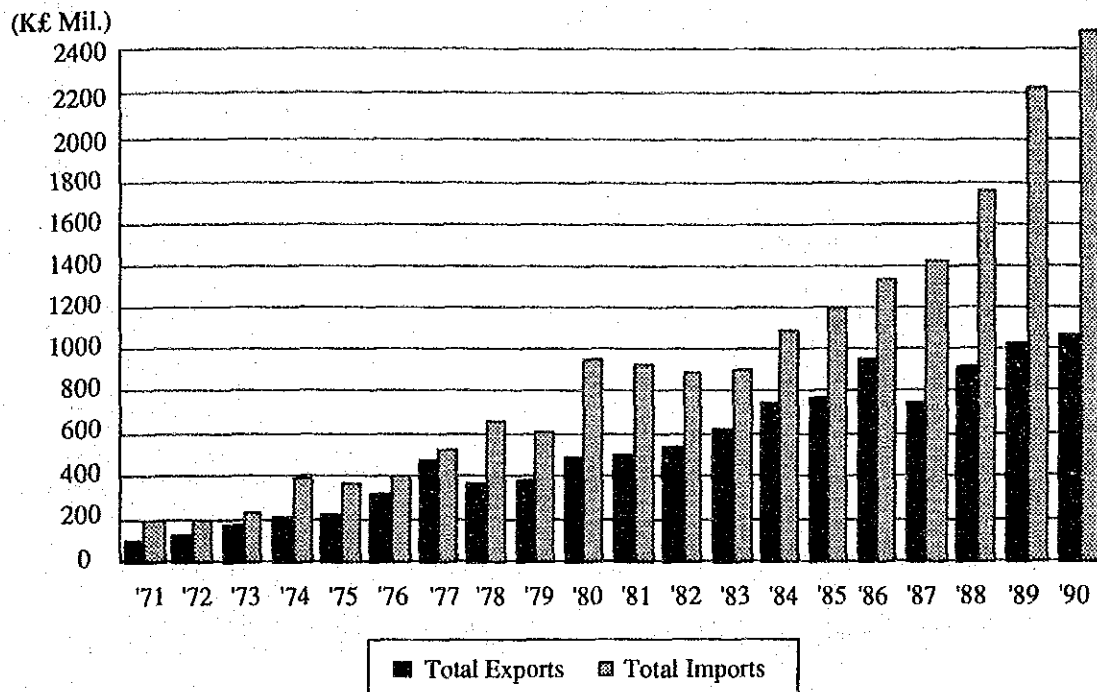


Fig. 1.3.2 Trend of Exports and Imports

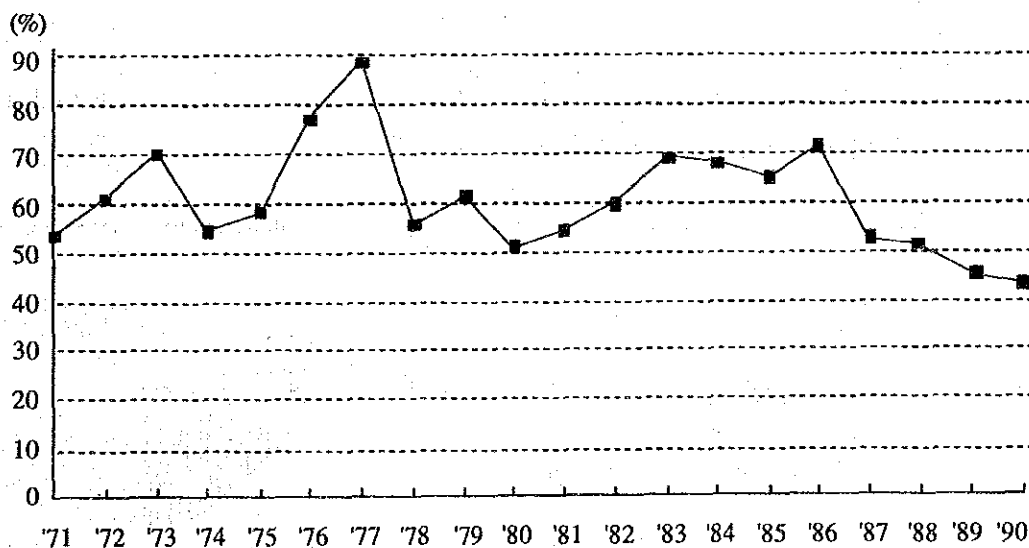


Fig. 1.3.3 Percentage of Exports to Imports

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

(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

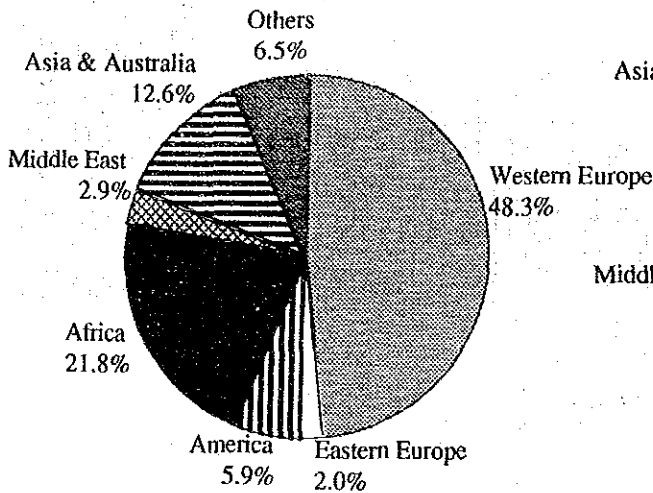


Fig. 1.3.4 Ratio of Exports by Area (1989)

Total Imports : K£2,238,971,000

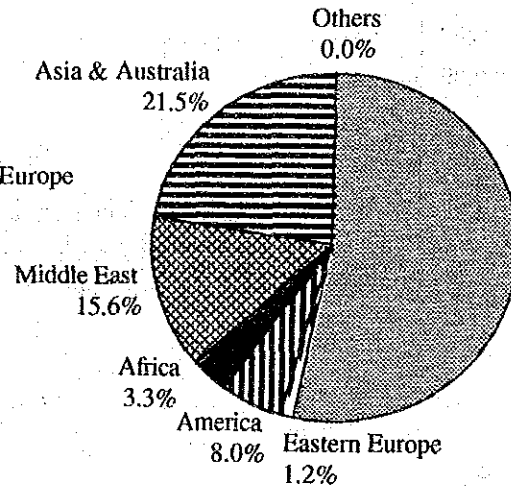


Fig. 1.3.5 Ratio of Imports by Area (1989)

(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

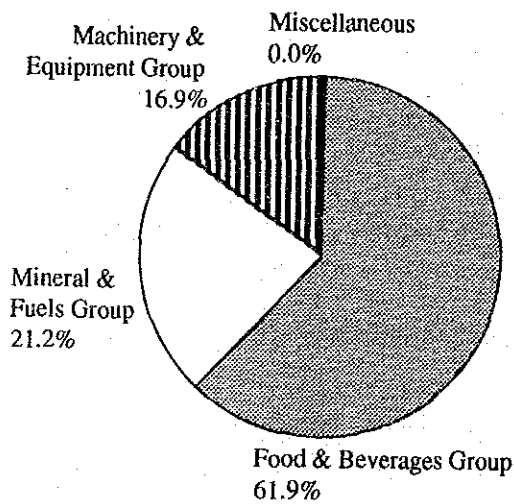


Fig. 1.3.6 Exports Ratio by Commodity (1989)

Total Exports : K£369,965,000

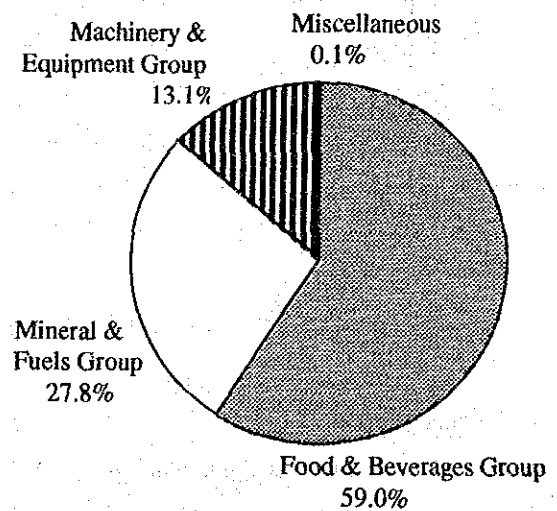


Fig. 1.3.7 Exports Ratio by Commodity (1978)

(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

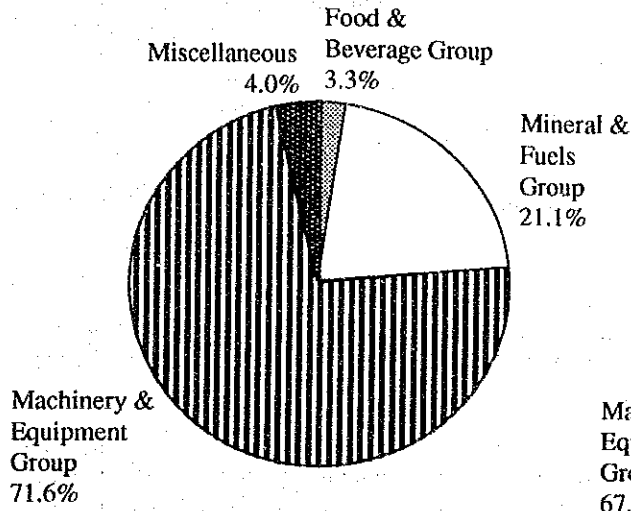


Fig. 1.3.8 Imports Ratio by Commodity (1989)

Total Imports : K£ 661,125,000

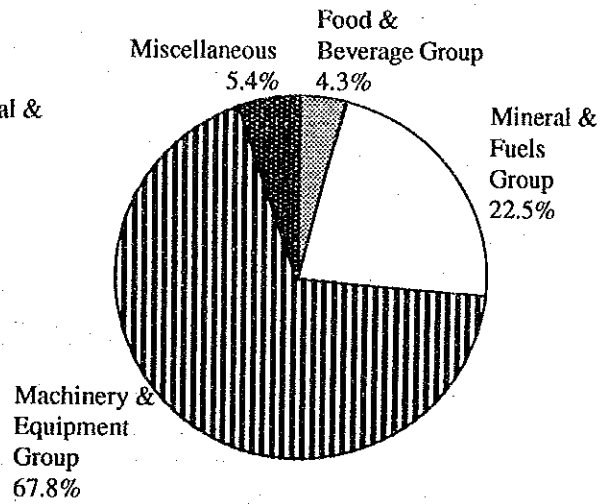


Fig. 1.3.9 Imports Ratio by Commodity (1978)

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

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

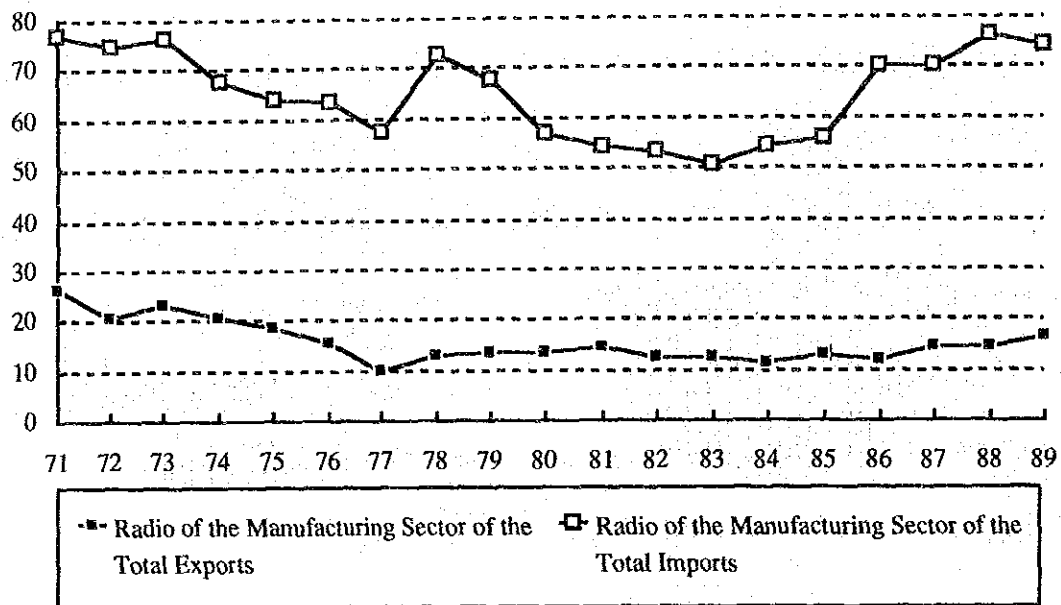


Fig. 1.3.10 Trends of the Manufacturing Sector of the Total Exports and Imports

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 dependence 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 organisation should be improved and reinforced.
- Export-oriented industries should be encouraged and developed, for example by providing incentives.

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

Improvement and enforcement of the trade promotion system and organisation 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 the market access.

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

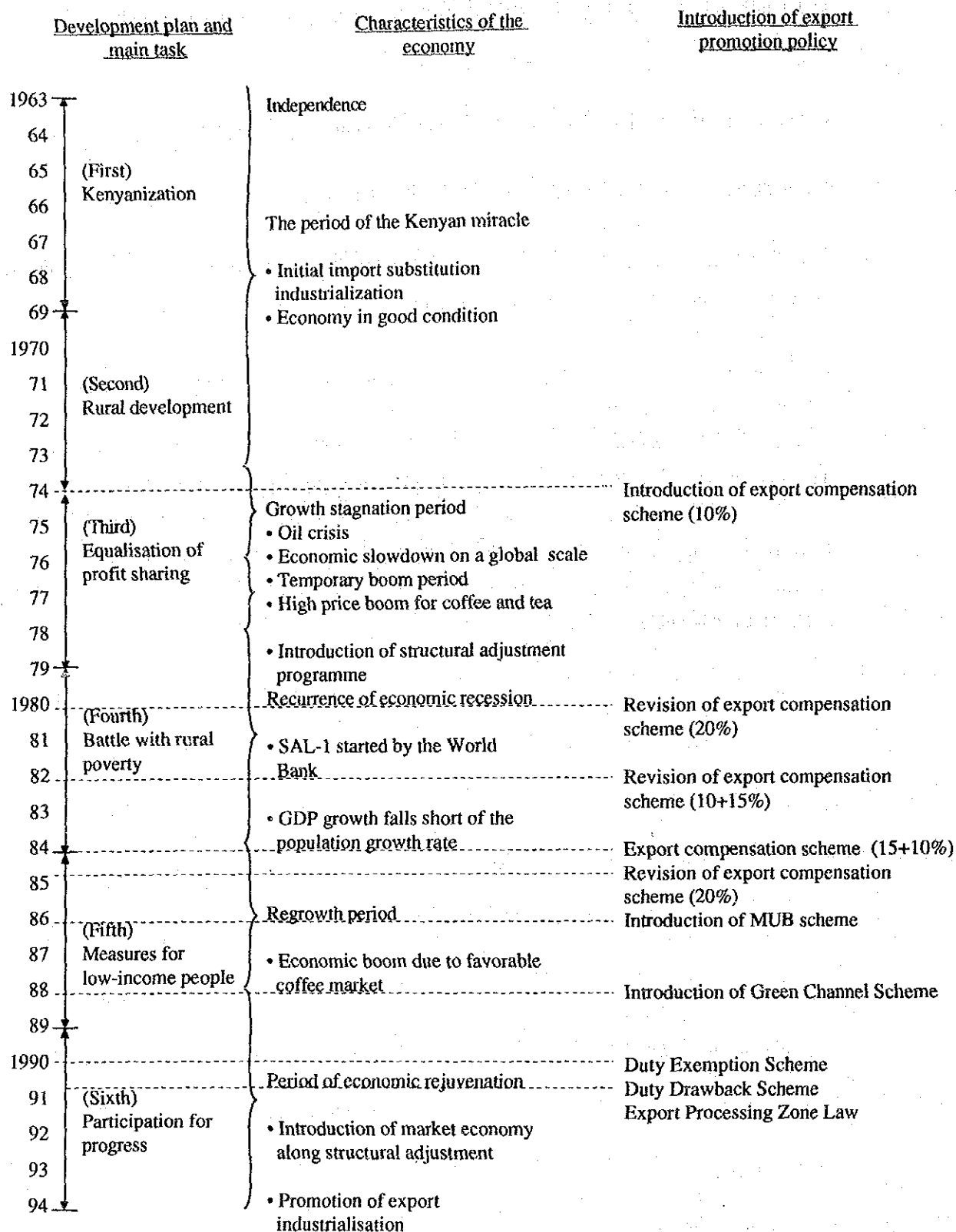
2.1 History of the Introduction of Export Promotion System

2.1.1 Import Substitution Policy

The 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.

2.1.2 Export Promotion System

The revision of the system 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).



(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.

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.

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.

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).

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.

2.3 Export Promotion Measures

In order to strengthen and accelerate exports, the Government in recent years has been promoting foreign investment by 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 export.

2.3.1 Manufacturing Under Bond (MUB)

The scheme for manufacturing under bond was established in 1986 and became operational in June 1988.

Currently there are 48 companies under of this scheme approved by the Government. Most of these companies are manufacturing garments, with only two that manufacture different products.

This will help activate the proposed Export Processing Zones (EPZs) as well as a 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.

2.4 Other Export Promotion Measures

2.4.1 Export Financing

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 export promotion strategies.

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.

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.

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 three main categories.

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

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.

2.5 Customs

The activities of the customs for controlling cargoes distribution will be expanded and become complicated.

2.6 Short and Medium Term Plans Proposed by Aid Organisations

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

2.6.1 IDA

- (1) Exchange rate policy
- (2) Streamlining and rationalizing procedures for duty and import licenses
- (3) Duty exemption
- (4) Export finance
- (5) Review of regulations for investment, trade and industry
- (6) Assistance for private sector
- (7) Infrastructure Development

2.6.2 USAID

- (1) Technical and material support for customs operation
- (2) Technical assistance for operation of export processing zones (EPZs)
- (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 programmes 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
- 2) Collection, grading, transportation and storage of horticultural products
- 3) Improved EPZ operation
- 4) Training marketing personnel
- 5) Development programmes for production technology

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) 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. Obligated 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 the major export companies and foreign aid organisations.

3.2 Survey Findings

- (1) Examination and formulation of export promotion policies is carried out independently by the Ministry of Finance, Ministry of Commerce and Ministry of Planning and National Development.

Consequently, export promotion policies are not always comprehensive and systematic.

- (2) Summary of Interview Comments

- 1) KETA's activities are insufficient to promote exports. KETA should be removed from the Ministry of Commerce. As long as KETA is a division of the Ministry of Commerce, it cannot get away from red tape and cannot fulfill its mission.
- 2) KETA should become an autonomous organisation.
- 3) KETA should be privatized.
- 4) The commercial attaches abroad should be required to be more involved in promoting export.
- 5) Training in trade practices is needed.
- 6) Information supplied by KETA is frequently out-of-date.

Many people were critical of KETA's activities.

3.3 Recommendations

- (1) At present, export promotion is carried out by KETA, a number of boards, KNCC&I, KAM, etc. It would be more effective for export promotion activities to be undertaken by a single organisation so that the limited resources, both financial and human, may be used effectively.
- (2) Though the leaflet mentioned before covers nearly all of the essential services required for export promotion, KETA's performance has failed to receive a favorable rating from private businesses.

Two main reasons attributed to this are:

- 1) Red tape

KETA is just one department within the Ministry of Commerce, which means it tends to become entangled in red tape quite often, which makes it difficult to carry out an effective, dynamic export promotion.

- 2) Inadequate budget

Insufficient fund is allocated for KETA's activities.

It would not be sufficient to simply remove KETA from the Ministry of Commerce in order to solve the two problems. Instead, it would be desirable to integrate and expand the export promoting functions of KETA, KIBT, KNCC&I, KAM, etc. into a new trade promotion organisation. Given the lack of trust which exists between the public and private sectors, the new trade promotion organisation is required to be established jointly by the public and private sectors.

In the Sixth National Development Plan, the government states that "..... due to various problems including shortage of funds, KETA was absorbed within the department of external trade in the Ministry of Commerce, a position from which it has not been able to efficiently play its originally intended role. During the plan period, Government will take steps to reactivate KETA with an independent status"

The EC also submitted a plan to the Ministry of Commerce in 1988 for the expansion and strengthening of KETA. Although an attempt was made in August 1990 to strengthen KETA, it will be difficult to revitalise KETA as long as the fundamental problems described herein remain unresolved.

- (3) For more comprehensive and systematic export promotion, it is necessary to bring together top officials from relevant government departments and private sector institutions to formulate strategies, plans, systems and policies for the Government.

CHAPTER 4 INFORMATION SYSTEM RELATED TO EXPORT PROMOTION

4.1 Outline of Implementation of Survey

Manufacturers involved in exports earnestly wish to obtain information and materials related to expanding the export markets for their own company's products. In fact, they need to acquire information on production, distribution, and consumption trends in the countries to which they export, and information pertaining to production costs and export prices in countries with which they compete.

The present survey focuses mainly on the situation regarding the collection, classification, filing, and up-dating of data and information required for the promotion of exports and the provision. The method adopted for carrying out this survey involved the conducting of interviews and written questionnaires, and an on-the-spot survey undertaken in libraries.

4.2 Outline of the Survey Findings

4.2.1 Overall Findings

Organisations which collect and provide data and information relating to trade in Kenya are shown in Table 4.1.1. Though the MOF, MOPND, the Central Bank, and the ICDC collect data and information, they do not have a system by which they provide this information to manufacturers and exporters.

As for the MOC, KETA (described later) collects and provides materials in place of the ministry.

Though the MOA has an independent information centre with the exception of journals and newspapers, the majority of marketing reports are published before 1987.

With regard to the KNLS, most trade related materials, excluding magazines, are those printed in the first half of the 1980s. As a result, trade information is requested by the user, KNLS only recommends KETA.

Though private organisations such as the KNCC&I and KAM have their own libraries, there are problems in collection and classification of materials.

But even more fundamentally, the collection, classification, the filing and up-dating of the basic data have not been done satisfactorily because of budgetary constraints.

4.2.2 KETA

Although KETA maintains the largest organisation collecting foreign economic and trade materials in Kenya, as of September 1991 no systematic methods have been adopted for the collection and classification of materials and the provision of information to private corporations.

The most visible problems are listed below:

- (1) KETA is located on the same building which houses MOC, the businessmen and private individuals find difficulty in entering.
- (2) Its total space is about 300 square metres. It is little space for a Trade Information Centre.
- (3) There is no librarian specialising in economy and trade. With the current single clerk, there are limits for collecting, classifying, filing and providing related materials.
- (4) There is no system for the up-dating.
- (5) There are few reports of the latest year of reports on market trends for individual countries. The analysis of reports is considered to be insufficient.
- (6) Due to the absence of a system for information management, there is a lack of promptness of access when using materials.
- (7) Though some 5,000 copies of the monthly magazine titled "Kenya Export News" have been published, it is hard to say that KETA's survey and publishing activities are satisfactory.

Organisational reforms towards a "New KETA" were put into effect in August 1990, but there is little sign that its function as the "trade information centre" has been strengthened.

Most private companies in Kenya are negative about the KETA's function for collecting and providing economic and trade information.

4.2.3 Trade Related Public Corporations and Private Organisations

(1) KNTC

It has no library specialising in foreign trade and economy.

Neither does it supply the private sector with information required for the export promotion, nor does it have any system for answering enquiries.

(2) ICDC

Though it possesses a library which contains a limited range of material related to the commercial, trade, and industrial sectors, it does not provide an information service for private companies involved in exports.

(3) KIBT

Though some of the materials collected are somewhat old, there is a librarian on the premises and out of all the organisations covered by this survey, KIBT is the best in terms of the classification, filing, and management of materials.

(4) KNCC&I

The Chamber pays the most attention to the collection, analysis and provision of information required in relation to trade.

There are no materials concerning customs tariff schedules, trade regulation, and trade statistics. As a result, it is difficult to provide effective information to exporters.

(5) KAM

However, KAM has a library, it has hardly any marketing reports classified according to country or item, and it is not engaged in export consultation.

4.3 Importance of a Systematic Information Service

4.3.1 Function of the "Economic and Trade Information Centre"

Under the present situation, with the exception of strategic export cash crops, producers and exporters are forced to take steps themselves to develop new markets. Although each year KETA sends a "trade consultation mission" covering several product items to several countries, with the exception of those taking part in the missions, it is difficult for producers and exporters to obtain effective information from KETA.

In relation to the collection, classification, filing; analysis and providing of materials, the first step in the export promotion, KETA is currently facing restrictions with regard to its location, space, and its staffing setup.

In order to radically reform this situation, it is necessary to strengthen the KETA's Library, and to establish a new "Economic and Trade Information Centre" function for the purpose of establishing a systematic information system within new "TPO."

4.3.2 Structural Reform of Analysis and Information Service

In order to establish suitable conditions for export and to carry out dynamic export promotion, it is essential to have an accurate knowledge of market changes and trends in products through expanding and strengthening research and analysis activities on economies and trade. In addition, it is necessary to strengthen the function of providing information service to the companies engaged in export business on the basis of the findings of this analysis. That is to say, it is important to establish a structural relationship between research and analysis and to provide of information.

It should be stressed once again that the expansion and strengthening of activities related to the collection, analysis, processing and providing of data and information forms the basis of export promotion.

Table 4.1.1 Evaluation on Data and Information for Trade in Kenya

(March 1991)

	Data Collection	Library		Service		Enquiry	
		Open	Closed	Yes	No	Yes	No
MOF	S		o		o		o
MOA	B	o		o		o	
MOI	C	o		o		o	
MOPND	S		o		o		o
MOC/KETA	B	o		o		o	
KNCC&I	C	o		o		o	
KAM	C	o		o			o
IPC	C	o		o			o
KIBT	C	o		o			o
CBS	B	o		o			o
KNLS	C	o		o			o
CENTRAL BANK	C		o		o		o
KNTC	S				o	o	
ICDC	S		o		o		o
ESATPTC	B	o		o			o
UNDP	S		o		o		o
WORLD BANK	S		o		o		o
EC	S		o		o		o
American Culture Centre	A	o		o		o	
British High Commission	B	o		o		o	
French Commercial Commission	S		o	o		o	
Goethe Institute	C	o		o			o
Italy External Trade Authority	S			o		o	
KOTRA	A	o		o		o	
JETRO Nairobi	A	o		o		o	

(Notes) A: Good
 B: Satisfactory
 C: Unsatisfactory
 S: Staff Only

CHAPTER 5 TRADE CONSULTATION SERVICES, TRADE TRAINING, AND PUBLIC RELATIONS AND EXHIBITION ACTIVITIES

5.1 Outline of Implementation of the Survey

A survey, mainly in the form of interviews, was conducted of the government, government agencies, trade and economic associations, and major exporters to identify the present status with regard to export promotion activities in Kenya.

In addition to the survey on information services shown in Chapter 4, the survey also included an analysis of the main export promotion activities. These are: 1) trade consultation services, 2) trade training, and 3) public relations and exhibition activities.

5.2 Outline of the Survey Findings

At present, KETA, a number of boards, KNCC&I, KAM etc. are engaged in export promotion activities. Private sector expect export promotion organisation to assist their export business.

However, the export promotion activities of the above organisations have not satisfied the private sector.

The reason for this is that a number of organisations are engaged in their own projects and do not coordinate their activities with other organisations. As a result, their activities are duplicated. Also, due to financial constraints on carrying out individual projects, projects are sporadic and are not carried out in a systematic way. Assistance from foreign aid organisations is also sporadic, and it is difficult to implement project activities based on a comprehensive programme.

(1) Trade Consultation Services

Most of Kenya's private firms have no offices overseas, therefore they are forced to take a passive attitude in export business. Many exporters require the expansion of trade consultation services which can offer trade enquiry services on actual export transactions as well as various other trade-related consultation services.

Currently, KETA and KNCC&I are responsible for assisting export business. However, they are not well enough organised to respond quickly and appropriately to business opportunities

Trade promotion activities such as trade enquiry services require that the following functions be expanded and strengthened, and the establishment of a system linking these functions with another. These functions are: 1) the collection of information for reference, 2) the establishment of a prompt service for providing information, 3) the provision of data on exports and export products, and 4) providing information on export products to foreign importers.

(2) Trade Training and Staff Training

In line with the systematic development of export promotion activities, it is crucial that people who have extensive knowledge of the trade business be increased.

According to the results of the field survey, people in both the government and private sectors strongly believe that such training is necessary and they call for the establishment of a comprehensive training system and the enlargement and improvement of training facilities.

Currently, KIBT under the control of MOC is engaged in training as an official organisation. However, the curriculum is basic and not necessarily systematised.

With regard to trade training, it is advisable to expand and strengthen through a comprehensive staff training which incorporates all levels from basic training to advanced training, and the establishment of a training programme to meet actual needs.

(3) Public Relations and Exhibitions Activities

Currently, most Kenya's exporters still depend on traditional means such as mail and telex to develop overseas markets.

KETA, KNCC&I and various boards participate in overseas exhibitions and are engaged in public relations activities. Private companies are especially interested in overseas exhibitions and international trade fairs simply because they offer a chance to see prospective foreign importers and markets.

At present, however, participation in overseas exhibitions and international trade fairs is sporadic, and it is not based on a systematic export strategy.

When Kenya participates in overseas exhibitions, it is effective to carry out another export promotion activities such as: the dispatch of missions, the collection of good samples, and holding of business talks, and sending information to the manufacturers.

The strengthening of the role of international exhibitions is linked to the creation of opportunities for export transactions and the further strengthening of Nairobi's role as an international trade centre.

Implementation of systematic export promotion activities involves the expansion and strengthening of the individual functions of trade information services, trade promotion, trade training, and public relations and exhibitions. In addition, there is the need to establish integrated facilities which will make it possible to carry out these functions adequately. Consequently, moves to combine the "soft" and the "hard" aspects will create a multiplier effect, and this will in turn contribute to the promotion of exports.

CHAPTER 6 MANUFACTURING FIRMS

6.1 Current Conditions of the Manufacturing Sector

6.1.1 Number of Firms, Employees and Output by Manufacturing Sector

Large-scale firms are defined as firms having more than 50 employees. In 1988, there were 626 large scale firms which was 25% of the total number of firms (2,387) in the manufacturing sector. The number of employees in large-scale firms was 148,604, about 87% of the total employees (169,753), in the manufacturing sector. In terms of output, large-scale firms produced the equivalent of K£4,770.2 million, which was 78% of the total amount of K£6,102.7 million produced by the manufacturing sector.

6.1.2 Regional Distribution and Characteristics

Most of the manufacturing firms are concentrated in the six towns of Nairobi, Mombasa, Kisumu, Nakuru, Thika and Eldoret. However, it should be noted that distribution has changed due to growing urbanization. Firms in these towns account for 78% of the total manufacturing firms in the country, 85% of the total industrial labour force and 85% of the total value of industrial output.

6.1.3 Current Conditions of the Core Industries

The following is the present situation of the six industries classified as core industries by the Government of Kenya in the Sixth Development Plan.

(1) Metallurgical Industry Centred Around Iron and Steel Production

The annual imports of steel billets, steel scrap, pig iron, etc., total approximately 60,000 tonnes and coated and galvanized hot rolled coil etc., 195,000 tonnes in 1988.

The main export products are corrugated metal sheets, iron and steel windows and doors, wire rods, which are exported in small quantities to PTA countries such as Uganda, Tanzania, Rwanda and other countries.

- (2) Capital goods industry for production of machine tools and pre-fabrication of all types of gears, shafts and spares

This industry is one of the active sectors in the production. Import ratio is comparatively high, and imports tends to increase year by year.

- (3) Chemical and bio-technological industries for fertilizers, pesticides, industrial process chemicals and packaging materials

The production output shows that these industries rank second after the agro-processing industry.

The import percentage of fertilizers, plastic products, insecticides, etc. in total imports are high. These imports in 1988 accounted for about 18% of the total.

Major export items are wattle barks, sodium carbonates, insecticides, packaging materials.

- (4) Pharmaceutical industries for medicinal drugs and vaccines

Kenya depends heavily on imports for domestic consumption of pharmaceutical goods.

A small percentage of the products manufactured by big pharmaceutical firms is exported to the PTA countries.

- (5) Local resource based industries and agro-based industries for oil seeds, coffee, tea, pyrethrum, sugar, grains, hides and skins, etc.

Agro-based industries including the food-processing industry are the leading sectors of all the manufacturing industries in terms of the number of firms, employees, and production.

- (6) Telecommunications and information processing industries for microcomputers and telecommunications equipment

There are several foreign-affiliated manufacturers which assemble personal computers and telecommunications equipment on a complete knockdown basis.

6.1.4 Major Institutions Supporting Industrial Technologies

(1) Kenya Industrial Research and Development Institute (KIRDI)

The main functions of this institution which was established under the Ministry of Research, Science and Technology (MORST) in July 1980 are to:

- (a) Identify and develop process and product technologies appropriate for Kenya's domestic market and exports potential.
- (b) Facilitate replacement of imported products with domestic ones.
- (c) Assist and facilitate the transfer of technology through design development and adaptation of machinery, tools, equipment, instruments and processes suitable for introduction in the country.

(2) The Kenya Bureau of Standards (KBS)

The KBS established under the MOI in July, 1974 is one of the statutory organisations that are to contribute to the development of the national industry.

The main role of the KBS is to set minimum standards for various products made in Kenya.

The KBS has formulated 1,500 commodity and material standards in the past 15 years.

The KBS operates the certification marking scheme.

(3) Technical Training Centres

The Ministry of Technical Training and Applied Technology (MOTTAT) was formed in 1988 and it is charged with formulating technical training policies for the country. Its major departments include those responsible for "jua kali" (informal) sector development, Directorate of Industrial Training and Programmes of Youth Polytechnics spread all over the country.

(4) Kenya Industrial Estates (KIE)

The Kenya Industrial Estates (KIE) was established in 1967 as a financial and technical service institution to provide opportunities for indigenous entrepreneurs to start small-scale production. It was a subsidiary of ICDC operating under the Ministry of Commerce and Industry. In January 1978 it was restructured to operate as an independent institution.

KIE's roles are as follows.

- (a) Development of small- and medium-scale firms owned by African Kenyans.
- (b) Creation of employment opportunity in the manufacturing sector.
- (c) Saving of imports for the manufactured products.
- (d) Export promotion for the manufactured products.
- (e) Promotion of rural industrialization.

6.1.5 Flow of Export Products and Present Condition of Transportation-Related Infrastructure

(1) Flow of Export Products

Government organisations and large foreign-affiliated manufacturers export and import industrial products by themselves. Some medium-scale manufacturers have channels for exportation, while the small-scale manufacturers have insufficient channels.

(2) Present Condition of Transportation-related Infrastructure

1) Roads

There are about 150,600 km of major road in Kenya, 4.5% of which are paved as of 1989.

Big cargo transportation firms are providing cargo-transportation services mainly between Nairobi and Mombasa.

2) Railways

There is a total of 2,651 km of railway lines in Kenya as of 1989. The main feature is the large volume of the goods transported by train from Mombasa, the major port, to Nairobi, one of the largest consumption area.

3) Airports

There are two major airports in Kenya; Jomo Kenyatta International Airport (JKIA) in Nairobi and Moi International Airport in Mombasa.

Import cargos handled by KAHK include mechanical parts, medical supplies, audio and video equipment. Export cargoes are mainly agricultural products.

4) Ports

Since Mombasa, facing the Indian Ocean, is in a favourable location for a sea-port, it has developed as one of the leading ports in East Africa, and it has served as an important trade port for Uganda, Zaire, Rwanda, Burundi and Sudan.

Export goods handled in Mombasa Port in 1988 included coffee, tea, corns, soda ash, cement, fluoride and crude oil. Imported goods are steel, fertilizers, wheat, coals and palm oil.

6.2 Manufacturers Surveyed

6.2.1 Interviews with Manufacturers

(1) Survey Objectives

The objectives of the survey were to understand the current conditions of the manufacturers, and to identify potential export and import substitute products. The survey covered the following items:

- 1) Scale of manufacturers (Number of employees, output, etc.)
- 2) Management problems

- 3) Production technical problems
- 4) Exporting problems
- 5) Effective measures for export promotion

(2) Questionnaire Survey

The final number of selected firms was 128.

(3) Interview Survey

The interview survey was conducted in eight major towns.

- 1) Number of manufacturers interviewed : 105
- 2) Number of questionnaires collected : 78

6.2.2 Characteristics of Manufacturers

(1) Analysis of the questionnaires collected

The analysis of the questionnaires collected are tabulated by question in the following items.

- 1) Number of employees
- 2) Year of establishment
- 3) Sales amount per year
- 4) Operation ratio
- 5) Managerial problems
- 6) Product items
- 7) Products inspection
- 8) Production problems
- 9) Subcontracting system
- 10) Technical guidance
- 11) Competitors for export products
- 12) Effective measures for export promotion
- 13) Requests for trade promotion centre

(2) Common problems

According to the above, common problems faced by manufacturers in Kenya are summarized below.

- 1) Difficulty in acquiring raw material
- 2) Difficulty in obtaining spare parts
- 3) Insufficient market information
- 4) Insufficient linkage (especially in the metalworking sector)
- 5) Insufficient manpower training
- 6) Insufficient utilities

6.3 Study of Potential Export Products and Types of Industries

6.3.1 Basic Idea for the Study

Both studies on possibility of production and potential market are essential to the study of potential export products.

The studies on possibility of production in terms of availability of raw materials and technology can be categorized into the following four patterns:

- (a) production with a combination of local resources and existing technology
- (b) production with local resources and technology introduced from abroad
- (c) production with a combination of imported materials and existing technology
- (d) production with imported materials and technologies introduced from foreign countries

The four production patterns are tabulated below:

Raw materials	Technology	
	Kenya	Foreign countries (import)
Kenya	(a)	(b)
Foreign countries (import)	(c)	(d)

Process for study of potential export products and types of manufacturers is as follows.

- (1) The first step is that major products are selected from statistical data on trade, because major existing export products are regarded as being continuously exported in the short and medium term.
- (2) In the second step, potential export products which were selected as a result of interviewing manufacturers are cross-checked with those in terms of production and export possibility.
- (3) In the third step, similar products are grouped according to the above results, and the types of manufactures to be developed as export industries are designated.

6.3.2 First Step: Study of Existing Export Products and Destinations

(1) Major Export Products

The top three products only, that is coffee, tea and petroleum products, account for 57.6% and top ten products account for 72.7% of total export from Kenya.

Thirty nine export products which account for about 85% were selected as major products exported from Kenya.

(2) Major Destinations

According to statistical data of export from 1985 to 1989, major destinations for Kenya are EC and PTA countries which account for about 50% and 25%, respectively.

The top ten destinations account for 64% of the total export from Kenya.

6.3.3 Second Step: Review of Potential Export Items in Future

The Study Team interviewed Kenyan businessmen, officials of the Government of Kenya, Japanese and other foreign businessmen, foreign commercial attaches, personnel of international institutions about potential export items. The Study Team reviewed potential export items that can be produced by procuring raw materials and improving existing technologies. According to the interviews, more than 40 items are listed except for items obtained from statistical data.

6.3.4 Third Step: Designating the Types of Manufacturing and Subsectors

The existing export products and potential export products in the future are grouped according to the International Standard Industrial Classification (ISIC), the following types of industries can be designated as export industries with potential.

Types of Potential Export Industries

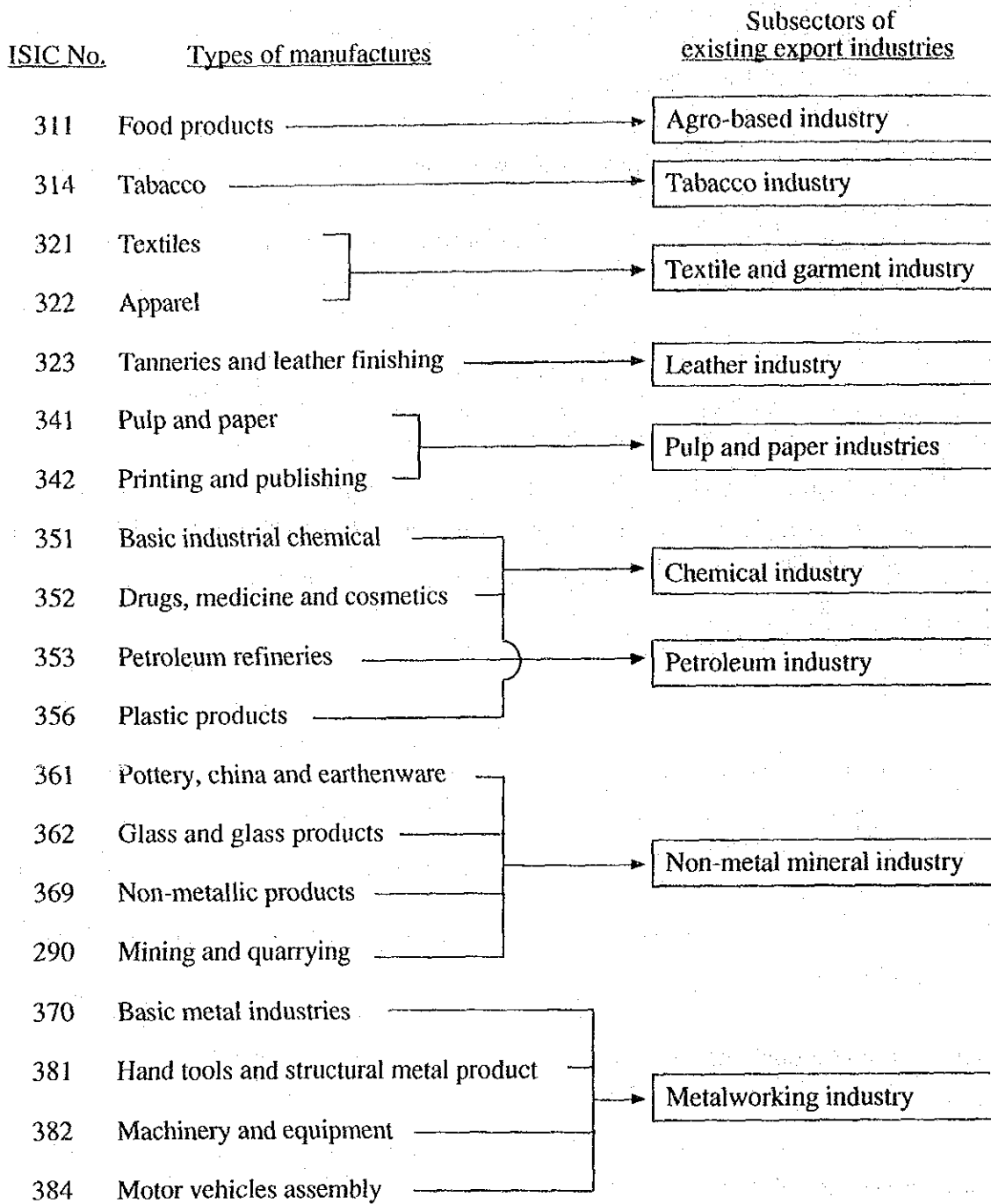


Fig. 6.3.2 Types of Potential Export Industries and Subsectors

6.4 Areas for Development and Improvement of Export Products

6.4.1 Existing Export Industries

(1) Expansion of Markets

Maintaining and expanding of the present export markets should be reviewed.

(2) Improvement in Distribution System for Export Products

While channels for export products of small-scale enterprises need to be improved. In addition, the infrastructure which supports physical distribution needs to be improved.

(3) Manpower Development

Improvement of productivity and quality of products contributing to export promotion needs to be strengthened through manpower development.

(4) Technological Improvement and Development

In order that the manufactured products are highly competitive in the international markets, improvement of quality and reduction of production costs should be made.

(5) Basic Technical Conditions for Production Improvement

Improvement of quality and reduction of production cost should be realized through the establishment of a subcontracting system.

6.4.2 Core Industries

(1) Development of Core Industries

The development of the core industries is indispensable to the improvement of the balance of trade.

(2) Industrial Upgrading

Integration and upgrading of manufacturing sectors are required to switch over to the export-oriented industries based on cooperation with public and private sectors.

(3) Introduction of Foreign Capital and Technologies

The introduction of foreign capital and technologies from foreign countries is an effective method for developing the core industries. Therefore, the investment environment in Kenya should be improved.

(4) Effective Use of Industrial Conditions

Industrial conditions such as geographical location, existing industrial estate and labour force need to be fully utilized. Development is inevitable for Kenya's industries which are superior to those of PTA countries.

(5) Industrial Development and Types of Industries to be Developed

The leading industries have been shifted according to changes in the national economy and in the demands of international markets year by year. The important task is to identify types of export oriented industries which make the best use of Kenya's natural resources and which should be encouraged in the future.

PART II

MASTER PLAN FOR EXPORT PROMOTION

CHAPTER 1 MAIN PREMISES FOR EXPORT PROMOTION

The following five main premises are proposed as prerequisites for export promotion in Kenya.

(1) Economic "Democratization"

To achieve economic independence and vitalization, Kenya must promote "economic democratization" based on free-market principles.

(2) Economic Growth and Improved Industrial Base

To sustain stable GDP growth and improve the national balance of trade, Kenya must strengthen import-substitute industries and develop export-oriented industries through structural strengthening in its private industrial sector. For this purpose the Kenya Government should devise specific measures to promote EPZs and MUBs and to support the private sector through preferential policies.

By carrying out a programme of this nature, Kenya will benefit from increased vitality of its local industries, increased investments from foreign sources, scale expansion and broader technological capabilities in its domestic industries, and promotion of both its export-oriented and import-substitute industries.

(3) Implementation of Export Promotion Policies

To enhance its base for promoting exports, Kenya must vigorously enforce export promotion policies.

At the same time, to expand exports will require governmental clarification and proper implementation of preferential policies relating to exports, as well as clear designation of specific responsibilities at each level.

(4) Joint Promotion Efforts by Public and Private Sectors

Promotion of exports should be undertaken through the cooperation of public and private sectors.

(5) **Necessity of Changing Awareness**

Changing awareness is needed both in the production and marketing phases. Specifically, the traditional orientation toward local markets must change to an emphasis on developing internationally competitive exports.

CHAPTER 2 SYSTEMS FOR EXPORT PROMOTION

The government of Kenya has introduced a number of export promotion policies to create a sound economy by improving the country's trade balance through export promotion.

2.1 Classification of the System

Generally, export promotion systems can be classified as follows:

- (1) **Direct Compensation for Exports: Monetary compensation, duty exemption and export financing**

Export financing is the most important scheme for promoting exports. Kenya does not have a scheme for this and needs to introduce one immediately along with supporting schemes.

- (2) **Export Insurance as an Aid in Export Promotion**

A well-structured export insurance scheme will facilitate the development of export financing in Kenya and should be emphasized.

- (3) **Measures to Broaden the System**

Many firms are not able to effectively take advantage of the export promotion system. The forming of export manufacturing groups could allow them to do so.

- (4) **Application of the System**

Along with the export promotion measures, it is necessary to enforce clear regulations to be fair and to eliminating injustice.

2.2 Measures for Development and Improvement

2.2.1 Solutions to Structural Problems in the Export Promotion System

There is a lack of trust between government authorities that manage the export promotion system and businessmen who must apply under the system for export

benefits. This problem is deep-rooted, and is difficult to solve. The first area that needs to be improved is the contact level between the government and the public, i.e. face-to-face encounters at the lowest administrative levels (such as at government offices).

2.2.2 Integration of Export Promotion Measures

Export promotion is effective when the export schemes are coordinated and complement each other. Export promotion strategy must be consistent with export policy. In addition, the strategy itself must be feasible and it should reflect the ideas of the business community. Opportunities should be created for government and private representatives to discuss issues.

2.2.3 Improvement of the Existing System

In this initial stage of Kenya's export promotion, the areas not covered by the existing system need to be improved and developed as soon as possible.

(1) Export Financing

Stable financing should be provided to exporters by establishing an export financing scheme.

(2) Export Insurance Scheme

An export insurance scheme should be introduced as soon as possible to facilitate bank financing to exporters and to cover the financial risks of exporting.

(3) Expansion of Coverage of Export Promotion System

The export promotion system should be applied to a wider area to enhance exporting nationwide.

(4) Finance for Small- and Medium-Scale Exporters

Financing for small- and medium-scale exporters should be introduced to help further the activities of these firms and extend industrial linkage.

(5) Foreign Exchange Retention Scheme

A foreign exchange retention scheme for exporters should be established to help and encourage companies to pursue marketing in foreign countries and the updating of facilities.

(6) Customs

As various aid agencies have argued, customs operations and methods should be upgraded to cope with complicated arrangements for MUBs, EPZs, duty exemptions and duty drawback. Discipline should also be enforced.

CHAPTER 3 DEVELOPMENT OF ORGANISATION AND FUNCTION OF TRADE PROMOTION

3.1 Background and Necessity

(1) Amid the rapid changes in the international environment, the expansion of exports from Kenya will require systematic effort. For this, export promotion and export incentives are essential. Moreover, because the export-development capabilities of the private sector are generally limited and trading houses have not been fully developed yet, it is necessary to establish the following types of organisations in order to build a durable export base and supplement the basic functions of the trading house such as collecting trade information and providing access to overseas markets for Kenyan exporters.

- Supreme Trade Council (provisional name)

This council would consider on export-related strategies and measures and present them to the government.

- Trade Promotion Organisation (hereinafter called "TPO")

This organisation would involve participation by the public and private sectors and it would systematically promote exports.

At present in Kenya, some organisations with KETA as the nucleus, are individually undertaking export promotion activities, but their activities are not necessarily effective. In short, it can be said that they are not achieving the expected results.

(2) It is necessary to thoroughly review Kenya's export promotion activities and consider ways to enhance them in the long term.

The following fundamental improvements should be emphasized:

1) The system for collecting, classifying and filing data and information needs to be strengthened.

2) The methods of research and analysis and information provision need to be improved.

- 3) The channels for advising businesses and ways in which trade enquiries are handled need to be enhanced.
 - 4) Business training needs to be improved, in order to establish an export base.
 - 5) More active participation in overseas trade fairs is needed, as this is an important means of export promotion.
 - 6) Kenya's products need to be publicized in a systematic way, focusing mainly on promising export markets.
- (3) The network for quick implementation of the export promotion activities stated above needs to be expanded.
 - (4) The Kenyan government regards export promotion as the most important task and expects quick results. Cooperation with overseas experts and various export promotion activities are needed in order to expand exports.
 - (5) The expansion and improvement of facilities will also become important to cope with the increase in personnel and workload resulting from the expansion and strengthening of export promotion activities. Multi-purpose facilities for export promotion activities will be necessary for efficient operations.

3.2 Organisation and Function

- (1) A single export promotion organisation handling the export promotion functions presently undertaken by KETA, KIBT, KNCC&I, KAM, etc. is needed to systematically implement the comprehensive export promotion activities stated above.
- (2) The proposed TPO would have the following functions.
 - 1) Collection, analysis and provision of information
 - 2) Providing advice to businesses and handling trade enquiries
 - 3) Providing training on the business of trade
 - 4) Conducting public relations activities

The organisation would be engaged in systematic activities under an integrated export strategy.

In establishing this TPO, attention should be paid to the following points:

- 1) It should be an autonomous organisation able to carry out its mission in a business-like way. It is to be free of bureaucratic constraints as much as possible.
- 2) It should have a sound financial base. The success or failure of export promotion activities depends largely on financial backing because they involve long-term investments.
- 3) The TPO should be a jointly organised body involving the public and private sectors as such, it would benefit from both sectors.
 - Advantage of being a non-government agency
Export promotion activities involve measures which Government agencies bound by red tape cannot cope with.
 - Advantage of being a non-private enterprise
Generally speaking, private enterprises are involved in export activities only as far as they are directly benefited, whereas non-private organisations can operate from the broader perspective of promoting Kenya's products.
- 4) The TPO should act in cooperation with Boards, KNCC&I, KAM, etc.
- 5) Both public and private sectors should cooperate with the activities of the TPO.
- 6) The TPO requires people of high caliber with a high level of motivation. Therefore, it is desirable that salaries be competitive with the private sector in order to attract and retain the right personnel.
- 7) All staff within the TPO should be requested to keep abreast of the overall activities of the organisation.

- 8) Staff should be encouraged to speak up their opinions on trade promotion regardless of their rank.
- 9) The TPO should be flexible enough to adapt to changing circumstances.

3.3 Benefits of Establishing TPO

- (1) At present a variety of organisations are undertaking export promotion activities separately. If these activities were conducted by the TPO, this would make better use of financial resources and qualified personnel.
- (2) The programmes to be carry out by the TPO would:
 - 1) Increase exports
 - 2) Increase foreign exchange
 - 3) Reduce the balance of trade deficit
 - 4) Increase employment
 - 5) Vitalize export businesses in the private sector
 - 6) Contribute to the overall economic growth of Kenya

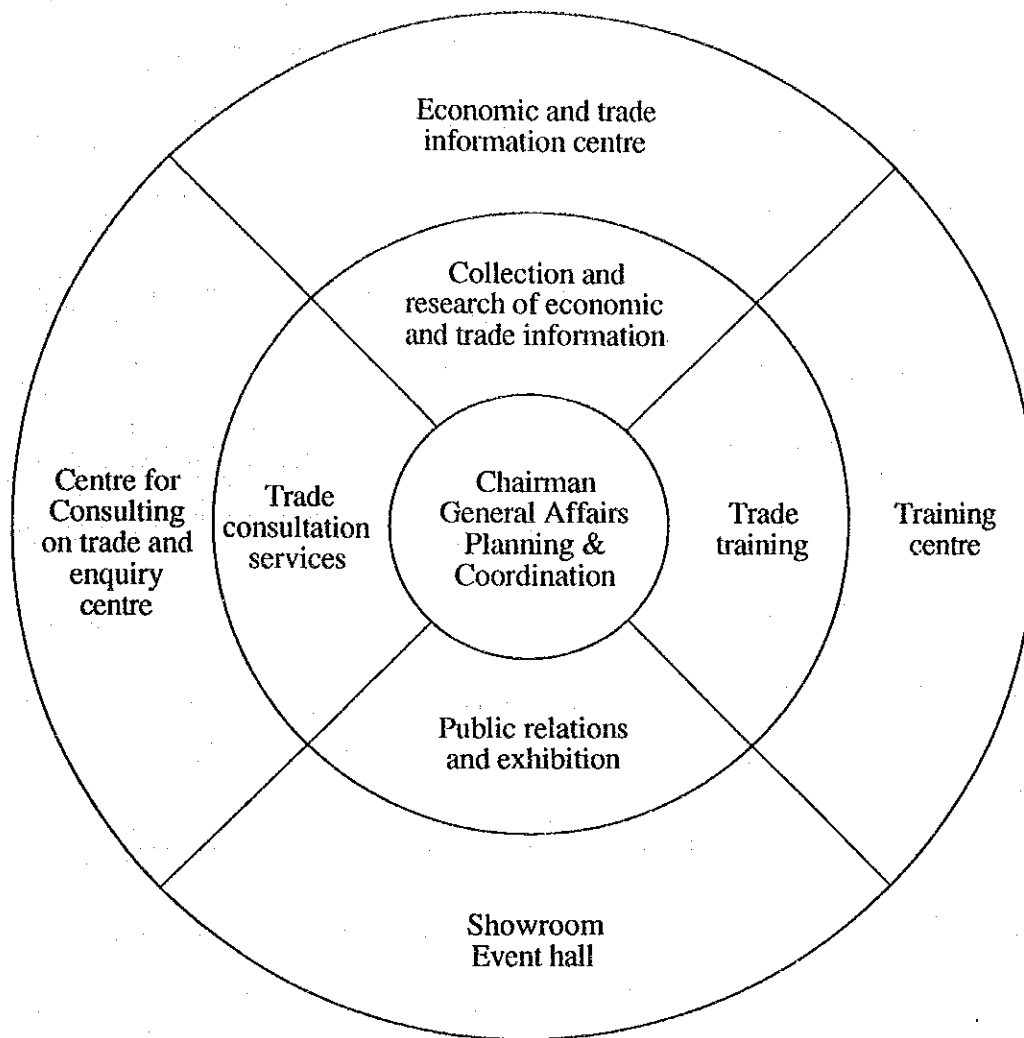


Fig. 3.2.1 Trade Promotion Organisation

CHAPTER 4 EXPANSION AND STRENGTHENING OF INFORMATION SYSTEM

4.1 Background and Necessity

- (1) The most significant for export promotion in particular is a quick precise identification of information relevant to the export transactions.

Information from original sources is the best among the effective information regarding systems, industrial trends and consumer demands to respond to the needs of user. However, this information can also be obtained through analysing existing data.

The collection, analysis, processing, and provision of information related to non-traditional Kenya's products should be systematized. As a result, prospects for new stage will appear.

- (2) Since the volume and diversity of data have increased on a global scale, there is a limit to application of "the principle of payment by beneficiaries" to the systematization of information.

The first step in export development taken by successful exporting countries and areas have been to collect data and information by establishing a national information organisation.

Data and information needed for continued export promotion must be accurate, up-to-date, and integrated. In those countries which have achieved sustained export growth, governments have provided assistance to establish comprehensive economic and trade information centres, and the ability to systematically gather, analyse, and provide relevant data and information has been expanded.

- (3) Under the current circumstances, producers in Kenya are largely left to their own devices to exploit markets. It has become difficult to obtain effective data and information directly connected with exports from KETA. KETA is currently facing problems in the fields of collection, classification, filing, analysis, and provision of data and information.

- (4) To drastically reform, it is first necessary to establish a systematic information system at KETA. And it is recommended that a comprehensive economic and trade information centre be established as part of the TPO. This centre will work to create an environment which is conducive to the drastic enhancement of information functions.

4.2 Enhancement of Collection, Classification and Filing of Data and Information

4.2.1 Formation of Data Collection Base

- (1) Data sections should be set up to collect and classify economic and trade data in an effort to drastically improve the information system.
- (2) Establishment of special library containing economic and trade data and information should be considered. It is desirable that this centre be assured of adequate space to allow the introduction of computer systems and the establishment of data and information systems in the future.

4.2.2 Improvement of Collection system for Data and Information about Individual Markets, Industries and Commodities

(1) Measures for Immediate Implementation

- 1) Improvement of basic economic and trade information regarding the main countries importing Kenya's products.
- 2) Establishment of a system to collect information about companies and their products and to provide it to overseas buyers.
- 3) Strengthening of collection of data and information concerning trade promotion systems and activities in the countries which have succeeded in expanding export.
- 4) The monitoring of international market trends affected by changes in global politics and economy.

(2) Measures for Implementation within Two Years

- 1) Strengthening of collection systems for data concerning export promotion in the countries whose products compete with Kenya's.
- 2) Efforts to collect data necessary for analysing the effects of the EC market integration in 1992, the situation in the Soviet Union and Eastern Europe and regional trends in PTA, etc., on Kenya's trade.

(3) Measures in Medium and Long Term

- 1) Establishment of collection, classification and filing system for data and information classified by subject and by region and country.
- 2) The arrangement of a system to monitor the actual situation of industries and products trends in the leading developing countries, demand and supply trends and distribution in the major import countries of Kenya's products.
- 3) In this stage, data and information will have to be processed by computer.

4.2.3 Establishment of a Data and Information System

A system to classify, file and store the data and information collected should be established so that they may be provided more quickly and used more effectively.

4.3 Strengthening of Research and Analysis

4.3.1 Establishment and Enhancement of Research Division

- (1) A research unit should be established and strengthened. The unit should be divided into two sections: one for market research (classified by region and country) and the other for industry and commodity research.
- (2) The market research section should analyse mainly: 1) regional trends and their effects on Kenya, and 2) trends in economy, trade and industry classified by country.

- (3) The industry and commodity research section should be responsible for analysing demand trends and distribution conditions around the world for 1) current Kenya's export products and 2) products with future export potential.

4.3.2 Analysis of Countries which Successfully Promoted Export

The market research section should analyse the following items in the leading developing countries which have successfully continued to expand exports: 1) policies and systems concerning the development of export industries and exports, 2) the process of development of export-oriented industries and 3) solutions to various problems.

4.4 Expansion and Strengthening of Information Service

- (1) The information service which precisely and quickly provides export-related firms with overseas market information, as well as expertises of trade offered by experienced businessmen, should be expanded and its function strengthened.
- (2) Provision of information should be improved to cope with the needs of consumers. A system should be developed to disseminate selective information to support firms.
- (3) The publication section should be drastically expanded and strengthened so as to enable the provision of effective information for export promotion.

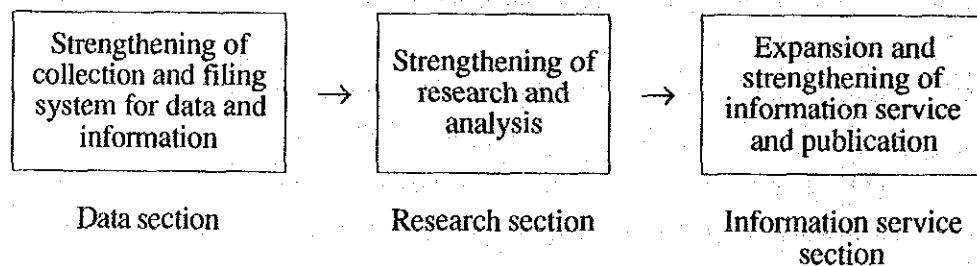


Fig. 4.4.1 Development flow of Master Plan for Information System

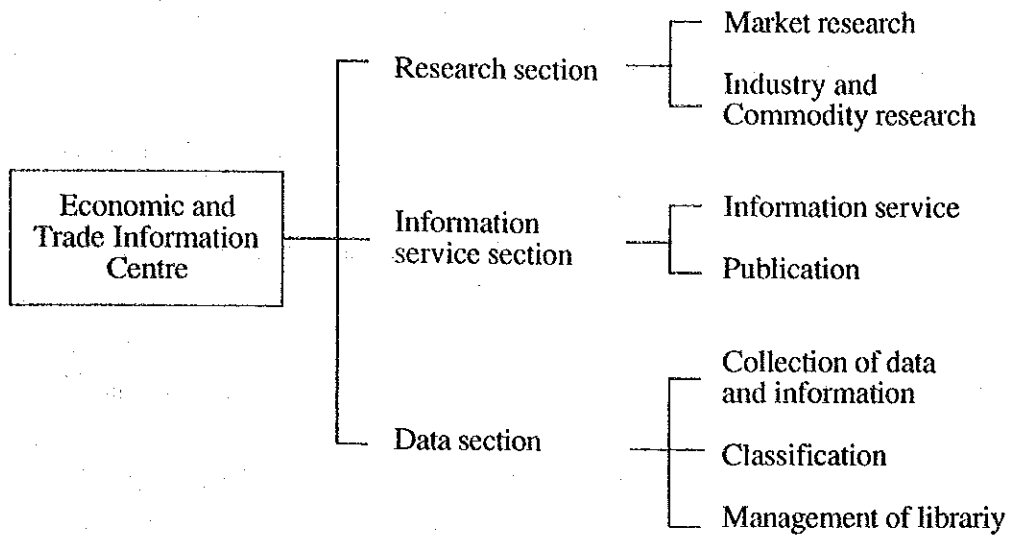


Fig. 4.4.2 Organisation of Economic and Trade Information Centre

CHAPTER 5 EXPANSION AND STRENGTHENING OF TRADE CONSULTATION SERVICES, TRADE TRAINING AND PUBLIC RELATIONS AND EXHIBITIONS ACTIVITIES

5.1 Background and Necessity

- (1) Under the current conditions, export promotion activities of Kenya are neither organic nor efficient.

In other words, people concerned both in the public and private industry are acting independently without communication and harmony. It is also notable that the export foundations of private firms are fragile.

Inadequate provision of information about the export industries, products and export opportunities of Kenya, lack of trade experience on the side of the private industry, etc are hindering improvement of the image of and conditions surrounding Kenya's exports.

- (2) Such being the situation, prerequisites for sustained expansion of Kenyan exports are, 1) to establish foundations for organic and efficient export promotion, 2) to improve the image and conditions surrounding Kenya's exports, 3) to encourage export efforts by private enterprises, 4) to expand the current export promotion activities both in quality and quantity and to establish a system of cooperation between public and private sectors, and 5) in particular, to strengthen the functions and activities of the official export promotion organisations.
- (3) Private sector is least expected to promote export by themselves at present. As a result, the cultivation of export competitiveness and the realisation of continuous expansion of Kenya's exports requires training on trade and development of public relations and exhibition activities. These activities should be undertaken by a trade promotion organisation established jointly by the public and private sectors.
- (4) Faced with the important task of improving its international balance of payments, Kenya must undertake qualitative and quantitative improvement of trade promotion activities including the strengthening of the role of commercial attaches

posted abroad. This should be done simultaneously with the development of various export promotion activities.

- (5) A plan to establish multi-purpose facilities equipped to provide trade promotion services, including a trade training institute, and an exhibition hall should also be considered as part of the programme to build a base for promoting exports.

5.2 Expansion and Improvement of Trade Consultation Services and Speed-up of Trade Procedures

To provide wide support and to activate trade business, the following activities would be needed. Trade services by trade promotion organisations would remain limited to consultation services to private corporations. Given the current undeveloped state of export and trading firm functions in Kenya, the ability to provide practical advice and guidance on commercial transactions should be cultivated.

(1) First Stage:

Data related to exporters and information regarding export products should be expanded and efficiently organised. A service system able to respond quickly to the needs of export businesses such as a trade enquiry and trade consultation corner should be set up and also trade procedures system be streamlined.

At the same time, export business opportunities should be increased through activities such as the dispatch of export promotion missions, holding business meetings and participation in trade fairs abroad.

(2) Second Stage:

Commercial attaches abroad should expand their activities and establish their own communication systems to expand and strengthen information collection and services. It should consider joining PTA trade information network.

(3) Third Stage:

Kenya should consider joining ITC's TISNET, the World Trade Centre Association (WTCA) and forming an trade enquiry exchange network linking the main cities of the world.

5.3 Expansion and Strengthening of Trade Training

Currently, KIBT under the jurisdiction of MOC is engaged in trade training as an official organisation. However, the curriculum is basic and not necessarily systematised. Therefore, it is proposed that:

(1) First Stage:

The TPO responsible for providing guidance to firms should give top priority to train officials as experts who have extensive practical experience in trade so that they are able to meet the diversified needs of industry.

A comprehensive programme aimed at improving the ability of people in charge of actual export business should be made and should include, training courses for mid-level managers on export marketing.

In carrying out training on trade in the immediate future, the functions of KIBT should be expanded, instructors increased and the equipment for training improved.

(2) Second Stage:

Training for improving the quality of export products would be needed. The functions of training organisations should be expanded so that they can meet the increasing needs of industry in the future.

The new export promotion organisation take over functions of KIBT and a comprehensive training programme should be drawn up.

(3) Third Stage:

An international business school for training personnel as future managing executives who are well versed in all aspects of international business should be established. This will contribute to developing a pool of personnel capable of responding to the rapidly changing international economic environment.

A course for training personnel as inspectors should also be included in the future for introduction of an export product inspection system. At the same time, new facilities and equipment for training should be needed to meet the expansion and improvement of the training system.

5.4 Expansion and Strengthening of Public Relations and Exhibitions

The promotion of exhibition activities should provide great motivation for entry into new markets. Lively publicity will create a basis for the expansion of sales of Kenya's products.

Therefore, it is proposed that:

(1) **First Stage:**

The selection of trade fairs and exhibitions to participate in should be considered on the basis of a comprehensive marketing strategies. Attention should also be given to expansion of existing markets and development of new markets, and expansion of economic exchanges within PTA not only for traditional export products but also for industrial products.

Participation in international trade fairs and exhibitions abroad offers not only good opportunities for export business and promotion of Kenya's products but also an ideal opportunity to survey the products developed by competing countries and grasp the needs of the markets. Therefore, participation in international trade fairs and exhibitions would be encouraged.

Within Kenya, meanwhile, basic measures such as the expansion of existing trade fairs and planning and holding of export business meetings should be taken.

(2) **Second and Third Stage:**

For the medium and long term, expansion of export business opportunities within Kenya should be promoted through the opening of a permanent exhibition hall and holding trade fairs specially designed for promising export industries.

Development of trade fairs will attract more foreign buyers, and the ripple effects of exhibitions on the economy will be great and also contribute to Nairobi's reputation as an international business city.

A wide range of measures should be designed to attract foreign buyers by participating in overseas trade fairs, receiving foreign missions and inviting influential buyers.

Taking advantage of every chance available within the Kenya and abroad, Kenya should publish Kenya's export products continuously using various means of mass media. It is recommending that Kenya publicize Kenyan industries through publications focusing on some promising products.

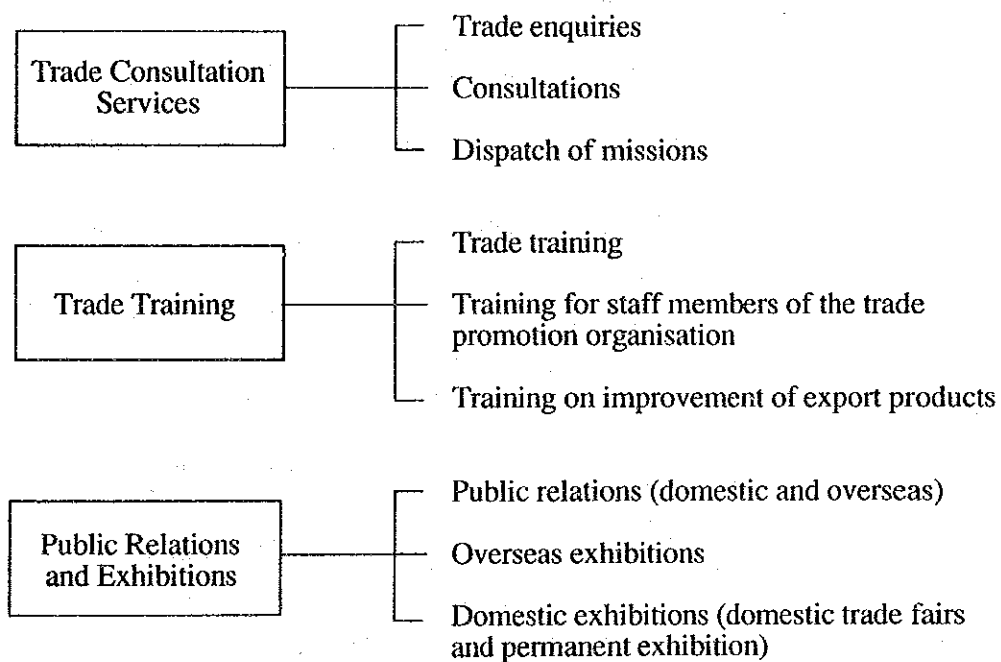


Fig. 5.4.1 Outline of Trade Consultation Services, Trade Training, Public Relations and Exhibition Activities

CHAPTER 6 DEVELOPMENT OF EXPORT-ORIENTED INDUSTRIES

6.1 Industrial Development Strategies

6.1.1 Strategies for Expansion and Strengthening of Existing Export Industries

(1) Short Term Strategy

The export strategy in short term should maintain the present foreign market share of major export items.

(2) Medium and Long Term Strategy

1) As a medium term strategy, the following activities are recommended:

- (a) Improvement the quality of existing export products.
- (b) Upgrading processing: from raw materials to intermediate products, or from intermediate to final products in order to increase the value added.
- (c) Development of new markets by manufacturing products that attract foreign consumers.

2) As a long term strategy, the quality of export products should be accomplished through the improvement of materials and processing technology. Export products could be expanded through the use of new materials making full use of Kenya's natural resources.

6.1.2 Development Strategies of Core Industries

Development of the core industries should be accelerated through the following policies.

- 1) Development of leading industries --- development of specific subsectors
- 2) Introduction of foreign capital and technology

(1) Development of Leading Industries

The Study Team evaluated those subsectors with a promising technological base in Kenya. Strategic development of those subsectors is an effective measure for furthering industrial growth.

For the reasons mentioned above, it is recommended to introduce the idea of leading industries which are selected from core industries.

(2) Introduction of Foreign Capital and Technology

The introduction of foreign capital and technology is indispensable to the strengthening of export capabilities for Kenya's industries.

The method of OEM is popular in Asia because firms from advanced countries provide technical guidance in order to strengthen production and the quality of manufactured products.

6.1.3. Reinforcement of Small- and Medium-Scale Firms

The experience of advanced exporting countries demonstrates that exports by small- and medium-scale manufacturers are supported by the small- and medium-scale trading firms, various cooperative associations, and the export industry cooperative association. A combination of these organisations will be effective for Kenya.

If small- and medium-scale trading firms are established in Kenya, the effects mentioned will be further accelerated.

6.2 Improvement and Expansion of Existing Export Industries

6.2.1 Existing Export Industries

In order to promote exports from Kenya, the existing export industries need strengthening based on current major export items.

6.2.2 Improvement and Expansion Measures by Industries

This section describes the measures to be taken by the government, industry, or individual firms related to the nine industries listed above.

Table 6.2.1 Measures to Improve or Develop the Agro-based Industry

Existing Export Items		Short-Term (1-2 years)	Mid-Term (3-5 years)	Long-Term (more than 5 years)	Remarks
<ul style="list-style-type: none"> · Coffee · Tea · Fruits · Juice · Cashew nuts · Cereal · Dairy & Meat · Fish, etc. 	System	<ul style="list-style-type: none"> · Enhancing export promotion incentives · Enforcement of Export financing 	<ul style="list-style-type: none"> · Financing for replacement of equipment & machinery 		
	Marketing	<ul style="list-style-type: none"> · Maintaining of existing foreign market share 	<ul style="list-style-type: none"> · Promotion of Marketing 		
	Production	<ul style="list-style-type: none"> · Stable supply of raw materials 	<ul style="list-style-type: none"> · Improvement of packing, design and technology · Quality control 	<ul style="list-style-type: none"> · Improvement of packing, design and technology · Standardization 	
New Export Items			<ul style="list-style-type: none"> · Marketing Campaigns to promote Kenyan products 		

Table 6.2.2 Measures to Improve or Develop the Textile and Garment Industry

Existing Export Items		Short-Term (1-2 years)	Mid-Term (3-5 years)	Long-Term (more than 5 years)	Remarks
<ul style="list-style-type: none"> · Cotton Yarn · Wool · Cloth · Garment 	System	<ul style="list-style-type: none"> · Export incentives · Liberalisation of I/L (Import License) · Export financing · Privatization 	<ul style="list-style-type: none"> · Financial assistance for replacement of equipment & machinery · Export financing 	Export financing	Grouping of garment industry
	Marketing	<ul style="list-style-type: none"> · Maintaining of existing foreign markets 	<ul style="list-style-type: none"> · Strengthening of marketing 	<ul style="list-style-type: none"> · Tie-up with internationally recognized brands 	
	Production	<ul style="list-style-type: none"> · Stable supply of raw materials, spare parts, other supplemental materials 	<ul style="list-style-type: none"> · Improvement of quality · Replacement of equipment and machinery 	<ul style="list-style-type: none"> · Quality improvement with advanced technology 	Introduction of anti-pollution measures
New Export Items			<ul style="list-style-type: none"> · Introduction of traditional fashion in international market 	<ul style="list-style-type: none"> · Production under licence of internationally recognized brands · Entering the fashion industry 	

Table 6.2.3 Measures to Improve or Develop the Leather Industry

Existing Export Items		Short-Term (1-2 years)	Mid-Term (3-5 years)	Long-Term (more than 5 years)	Remarks
<ul style="list-style-type: none"> · Hides & Skins (Bovine, Equine, Sheep, Goats) · Leather · Leather Goods 	System	<ul style="list-style-type: none"> · Thorough implementation of export promotion incentives · Export financing 	<ul style="list-style-type: none"> · Financial assistance for replacement of equipment & machinery 		
	Marketing	<ul style="list-style-type: none"> · Maintaining of existing foreign market share 	<ul style="list-style-type: none"> · Strengthening of marketing 		
	Production	<ul style="list-style-type: none"> · Stable supply of raw hides & skins · Stable supply of tanning materials · Quality improvement 	<ul style="list-style-type: none"> · Replacement and reinforcement of equipment & machinery · Increase of the value added to products 		Introduction of anti-pollution measures
New Export Items		<ul style="list-style-type: none"> · Increase of finished goods 	<ul style="list-style-type: none"> · Development of diversified products 		

Table 6.2.4 Measures to Improve or Develop the Non-Metal Mineral Industry

Existing Export Items		Short-Term (1-2 years)	Mid-Term (3-5 years)	Long-Term (more than 5 years)	Remarks
<ul style="list-style-type: none"> · Sodium · Cement · Fluorspar · Glass · Ceramics, etc. 	System	<ul style="list-style-type: none"> · Full use of export incentives · Export financing 			
	Marketing	<ul style="list-style-type: none"> · Foreign market information 	<ul style="list-style-type: none"> · Expansion into new markets 		
	Production	<ul style="list-style-type: none"> · Quality improvement & increase of production 	<ul style="list-style-type: none"> · Quality improvement with advanced technology · Improvement and increase of ceramic products 		Exploitation of potential minerals
New Export Items			<ul style="list-style-type: none"> · High-quality glass products · Ceramics products 	<ul style="list-style-type: none"> · High-quality glass products · Diversification of ceramics products 	