Partner of choice for Chinese investors

Kenya-China ties strengthened on the road to 'Vision 2030'

The jewel in Africa's crown, Kenya is one of the continent's most beautiful countries and the region's leading trade, finance and investment hub.

The ambitious nation is currently striving to achieve the many socioeconomic goals set out in its groundbreaking Vision 2030 development plan, with government and trade officials actively pursuing foreign investors and offering them a range of financial incentives.

Strategically positioned on the continent's east coast and with a liberalized and diversified market economy, Kenya has for many centuries been an important trade route between Africa, the Middle East, and Asia, and is one of sub-Saharan Africa's five largest economies.

From this July, the country of 39 million people will benefit from the East African Community (EAC) common market protocol in a move expected to bring a wave of new investments. This breakthrough is sure to be embraced by Kenyans who are entrepreneurial, well educated, and multi-lingual.

Further afield, Kenya enjoys excellent connectivity to major hubs around the world, with its bustling capital, Nairobi, East Africa's transport hub, and the shipping city of Mombasa home to the region's most important deep-water port.

Famous for its magnificent landscapes and precious wildlife that roam the savannahs, Kenya has successfully combined its wealth of natural resources with a modern approach to business and commerce.

This positive and progressive attitude has been encouraged by Kenya's leader. Since coming to power in 2002, President Mwai Kibaki has overseen solid and consistent growth in an economy that displays impressive strength in a range of industries and areas, in particular in the agriculture, manufacturing, and service sectors.

This enviable reputation has been bolstered by the investment-friendly nation's excellent bilateral relations with global economic powerhouses such as the People's Republic of China. Through high-level exchange visits, discussions, and negotiations, the two countries enjoy stable and reciprocal cooperation in a broad range of fields. They first established diplomatic ties in 1963 and now enjoy impressive annual bilateral trade of around $1 billion.

Trade and political issues will be on the agenda when President Kibaki visits Beijing in early May. The trip is expected to lay the foundations for fresh Chinese investment in Kenya as the pair look to expand their cooperation in areas such as agriculture and infrastructure.

Closer cooperation with China and other major industrialized countries is one of the aims of Kenya's Vision 2030 long-term development project, which covers three pillars: economic, social and political.

> **Kenya Vision 2030 is a vehicle for accelerating the transformation of our country into a rapidly industrializing middle income nation by 2030."**
>
> MWAI KIBAKI
> PRESIDENT OF KENYA

The economic pillar aims to improve prosperity levels to an annual average GDP growth rate of 10 percent per year by 2012 that will be sustained until 2030.

In order to achieve the flagship projects in the six economic sectors covered by the economic pillar, the government and private sector are investing a staggering $6.5 billion through a combination of joint ventures and Public Private Partnerships (PPPs).

The social pillar seeks to build a fair and cohesive society with social equity in a clean and secure environment, while the political pillar will strengthen the nation's democratic system, and focus on issue-based politics that respect the rule of law and protect the rights and freedoms of all citizens.

"Kenya Vision 2030 is a vehicle for accelerating the transformation of our country into a rapidly industrializing middle-income nation by the year 2030," said President Kibaki. "The journey to 2030 will require sacrifice, hard work, self-discipline, and determination. I am confident that Kenyans will meet these challenges in order to make our country globally competitive and prosperous, where every person will enjoy a high quality of life.

"Vision 2030 will be implemented through five year, medium-term rolling plans, starting with the first one covering the period up to 2012. Thus, the performance of the government should in future be gauged on the basis of these medium-term benchmarks."

Spearheading governmental efforts as Kenya looks to achieve its Vision 2030 targets is Prime Minister, Raila Odinga. He believes Kenya needs to continue to diversify its fully liberalized economy and start adding value to the many goods produced there.

"We must move away from overdependence on one commodity and focus on processing," he said. "In addition, we are looking forward to making Kenya the regional information and communications technology (ICT) hub for the region and have rolled out a fiber optic network across the country.

"We see Nairobi as a major transport hub, so Jomo Kenyatta International Airport is being expanded as we look to transform the facility into a major transit point for the East African region."

With infrastructure projects planned throughout Kenya, Prime Minister Odinga regards China as an important development partner as the two nations look to benefit from the many foreign direct investment (FDI) opportunities in Kenya and build on previous cooperation in trade, education, health, energy, transport, and agriculture.

"We are investing heavily in infrastructure as it is a clear way of creating employment for Kenyans and opening the country up to investment," he said.

President Mwai Kibaki with Prime Minister Raila Odinga during a press conference in Nairobi.

Revealing some of the factors behind the success of Sino-Kenya relations and why Kenya is so keen to partner with the Asian giant, Prime Minister Odinga said:

"Kenya wants to move on quickly. Chinese companies are easy to deal with and they do not take a long time to process things.

"Over the years, the Chinese government has made available to us funds for many important projects. As we are keen to exploit our raw materials such as coal, iron ore and oil, there is a lot of scope for cooperation with China."

Highlighting political and social stability as one of Kenya's best assets, Prime Minister Odinga said the government is fully committed to creating good governance structures and a conducive environment for PPPs and joint ventures.

"I want to reassure investors — local and foreign — that Kenya welcomes them and is a safe place for their investments. The government will do everything necessary to ensure they reap maximum returns from their investments — Kenya is an ideal destination for investments, trade and tourism.

Prime Minister Odinga believes Chinese investors have a lot to gain from focusing on Kenya, while his country has much to gain from the transfer of skills, knowledge, experience, and technology.

> **I want to reassure investors — local and foreign — that Kenya welcomes them, and is a safe place for their investments."**
>
> RAILA ODINGA
> PRIME MINISTER OF KENYA

"China is a large country with industrious people. I would like to encourage Chinese investors to invest in Kenya but not just export finished products, as we need to create employment opportunities for our citizens," he said.

"Kenya is the hub to East and Central Africa; it allows investors to access a market that has 200 million people."

With such strong links to Asia's economic heavyweight, Kenya is well placed to cash in on China's growing presence on the world stage, both in trade and political terms.

Chinese President Hu Jintao has repeatedly expressed his satisfaction with Kenya and recently proposed that the two countries enhance this relationship through the sharing and exchange of innovative ideas and valuable skills.

So, as a new decade begins, one of the world's most promising nations is modernizing its economic, political, and social landscape, and moving forward at speed towards its proud portfolio of dynamic and rewarding Vision 2030 development goals.

Strategy that shines a light on Kenya's future

Kenya's Vision 2030 development blueprint was officially launched by President Kibaki and Prime Minister Odinga at a special ceremony in June 2008.

The comprehensive socioeconomic plan has already overcome a number of challenges caused by the global economic crisis, and having weathered the financial maelstrom, the country has emerged stronger, leaner, and more determined to achieve all of its goals.

In short, the plan aims to create a fair and prosperous society that offers people better access to quality health and education facilities and services, as well as decent housing and jobs.

Vision 2030 aims to ensure the necessary infrastructure is in place in order to fuel economic growth. New power stations, energy grids, roads, railways, ports, schools, hospitals, and communications networks will be among the foundations on which the country's future is built.

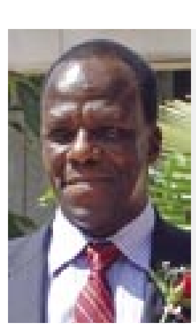
Investment opportunities are available right across the Kenyan economy and government ministers and trade officials are actively pursuing foreign investors and offering them a range of financial incentives such as tax breaks, tax holidays, and streamlined planning application processes.

The government is particularly keen to hear from Chinese investors eager to exploit the investment openings in key sectors and fields such as infrastructure, construction, energy, ICT, agriculture, financial services, and tourism.

The government expects such projects to be developed through PPPs like joint ventures. According to Wycliffe Oparanya, minister of state for Planning, National Development, and Vision 2030, Kenya needs Chinese expertise and finance in order to reach the many goals contained in the blueprint.

"The Kenyan government has come up with strategies to ensure that the economy is revived and one of the strategies is ensuring that there is more money set aside for infrastructure," Minister Oparanya said.

"I am happy that the Chinese government has been able to help us to the extent that it has. Apart from supporting us in infrastructure development we want to encourage the Chinese to invest in Kenya so that technology can be transferred to our people in areas that are critical to our economy."



Wycliffe Oparanya, Minister of State for Planning, National Dept and Vision 2030

Minister Oparanya, who has a wealth of private sector experience, says his predominantly rural country is especially keen to attract FDI in the agricultural sector as officials look to boost levels of self-sustainability.

"The agriculture sector is important because unless we have sufficient food for ourselves, then it will be difficult to progress," he said.

"With regards to our agricultural industry, coffee, tea and horticulture have all been doing very well, and Kenya is also one of the leading exporters of flowers and pyrethrum. We need to encourage the private sector to invest in these areas since the government is not experienced enough to develop them by itself."

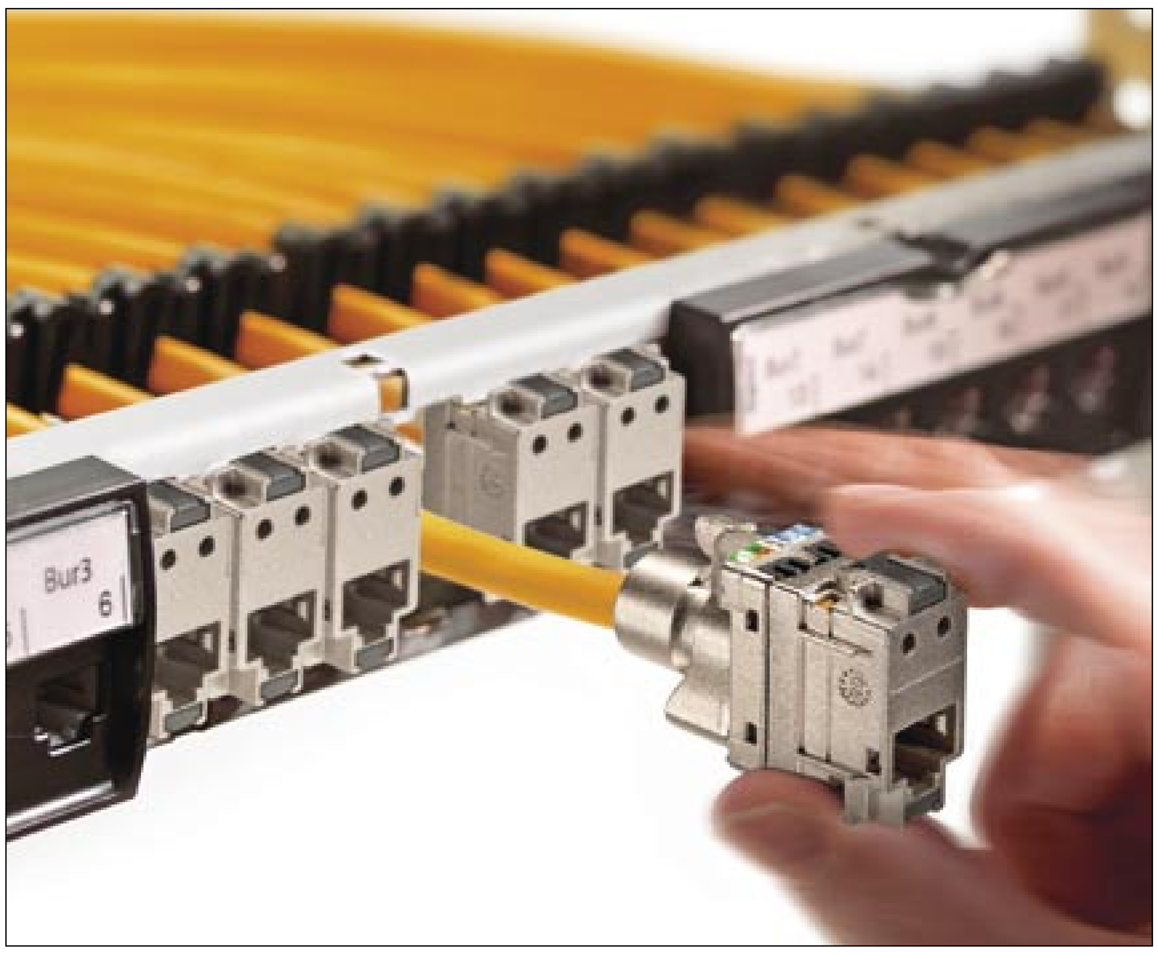
Graphic depiction of 'Vision 2030' strategic plan.

Home to the region's leading financial services sector and with more than 40 commercial banks in operation, Kenya offers a wealth of excellent investment openings across the banking and financial services industry.

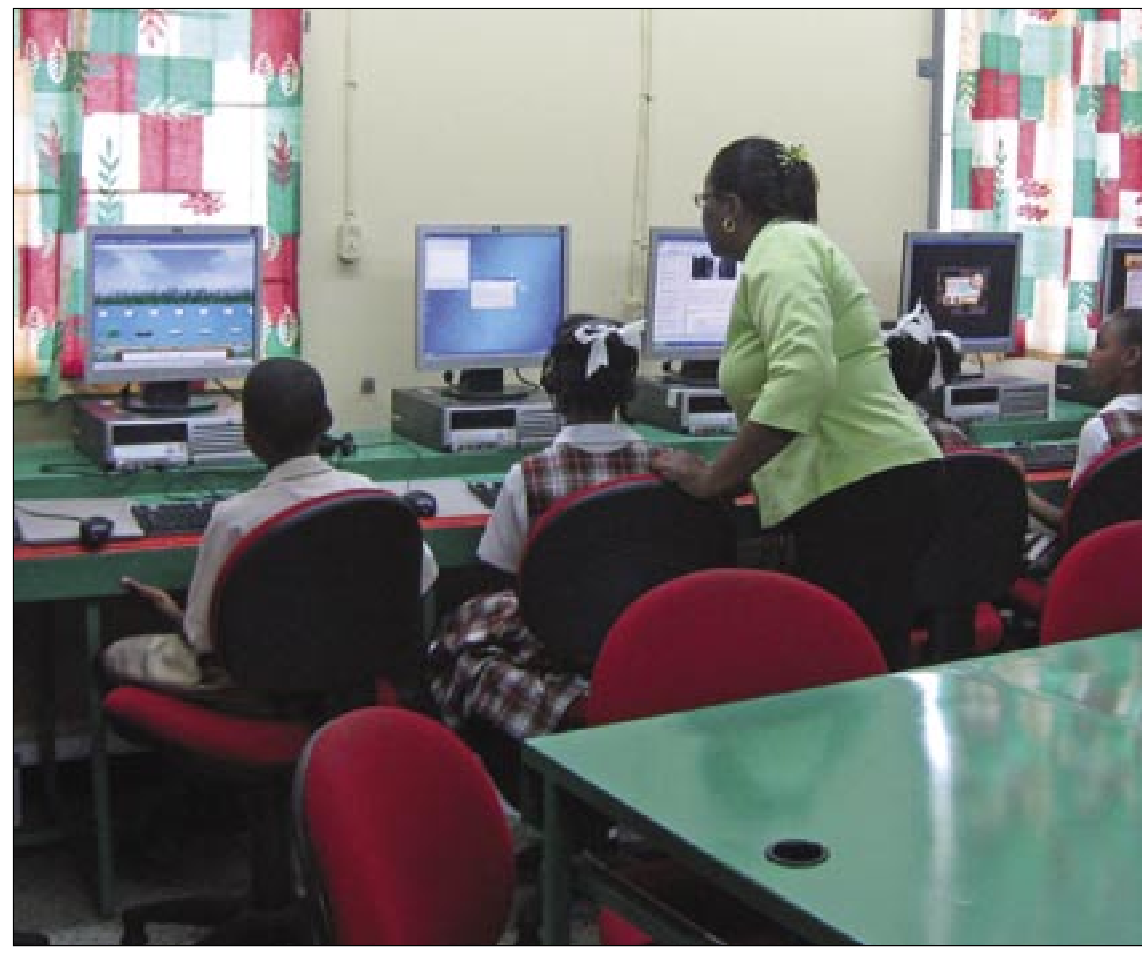
Another sector that has traditionally been a large revenue generator is tourism. With some of the most spectacular scenery in the world within its borders, Kenya is a leading holiday destination as visitors from the four corners of the world flock to enjoy its magnificent animals, genuine safari adventures, and pristine beaches lapped by the Indian Ocean.

While China's share of the tourism market remains relatively small, tourism chiefs are confident the numbers will grow, with the sector among those showcased later this year at the high-profile international business event of the Shanghai Expo 2010.

The massive six-month long event, on which China has placed as much importance as the 2008 Beijing Olympic Games, is expected to attract tens of millions of visitors, with Kenya sharing its colorful tradition, history, culture, hospitality, and beauty in the Pan-African Pavilion.



A billion-dollar fiber optic project is facilitating more widespread connectivity across Kenya.



Increased ICT use in Kenya's schools offer students modern skills they need.

Major ICT initiatives connect Kenya to the world

Investment and expertise sought to bring Kenya further into the information age

Removing the barriers of time and distance, Information and Communications Technology (ICT) is a powerful tool to accelerate both social cohesion and economic development, while increasing productivity across all sectors, including finance, agriculture, manufacturing and tourism.

Worldwide, the modern knowledge economy has created new and powerful industries in manufacturing, development of applications, service delivery, and research and development, and as such, Kenya is making sure ICT will play a key role in the country's development.

The Kenyan government has initiated some major steps to bridge the digital divide, lower the cost of telecommunications, and promote the use of ICT throughout the country.

As well as introducing innovative, on-the-ground schemes such as mobile banking for rural communities, the government has identified wider areas of ICT that will receive specific attention to cement the country's vision of becoming a regional technology hub.

Minister of Information and Technology, Samuel Lesuron Poghisio has pledged to level the playing field within the country through the development and implementation of policy and regulations in order to attract keener investment.

"Information is recognized as a resource which must be generated, collected, organized, leveraged, secured and preserved for national prosperity," he said.

With this in mind, the Kenyan government acknowledges the potential of ICT to help grow a knowledge-based economy, and has developed the ICT Sector Plan to enable its people, and outside investors, to get involved. The Plan, based on Kenya's Vision 2030, will see the implementation of four major programs: business process outsourcing (BPO), national ICT infrastructure, e-government strategy and the development of local digital content.

Under Vision 2030, ICT will be a major contributor to attaining the target of a 10 percent GDP growth rate by 2012 — it is currently 3 percent —and sustaining an average 10 percent growth rate thereafter.

BPO has been identified as the flagship project for the sector. However, for it to yield the expected outcomes, other enabling projects must be put in place.

The BPO sub-sector has been targeted to increase its contribution to the country's gross domestic product in the medium term by $300 millon, while creating more than 7,500 jobs for young professionals.

21st century city

Situated 60 km outside of Nairobi, Malili will be the site of Kenya's first smart city, a city built for technology firms that will propel Kenya into the global ICT arena.

The Kenyan equivalent of Silicon Valley, the Malili Technopolis is a technology business park project developed under the Ministry of Information and Communication aimed at transforming the Kenyan economy using IT-enabled services (ITES) by the year 2030.

The technopolis will host a BPO park, a financial district, a science park, a world-class convention center, a mega mall and several hotels. It will also have schools, hospitals and other recreational facilities, plus a high-speed train link to Jomo Kenyatta International Airport that will take just 11 minutes.

Samuel Poghisio, Minister of Information and Communications

Minister Poghisio said: "This development leverages Kenya's unique status as a cultural, political, economic and transportation hub for Eastern Africa to lead the region in joining the Global Information Economy."

Around the world, technology parks have become the norm for research-industry interactions and for stimulating growth of technologically intensive, knowledge-based businesses. They also facilitate links between research and industrial communities, often working with local businesses and scientific faculties of universities.

The Kenyan government is committed to building modern, off-site infrastructure and a techno village, with high quality housing, infrastructure and public services, health and education, transport links and commercial space.

It will be structuring innovative PPP transaction models to share risk and return between the public and private sector developers, with public underwriting in the initial years.

Growth within the smart city will be driven by BPO, software development, data centers, disaster recovery centers, call centers and light assembly manufacturing.

Minister Poghisio explained how Kenya will provide a favorable environment for investors keen to be involved in the scheme. "A comprehensive set of incentives is being designed and implemented to improve the attractiveness of Kenya as a BPO destination. This will include tailored incentive packages for target companies," he said.

The government is also endeavoring to improve the business environment, including the ease of obtaining licenses, filing tax returns and obtaining economic justice to lower transaction costs.

A "one-stop shop" for all investor needs (licensing and recruiting) will be housed within the technology park. The Minister said: "The park will link and provide infrastructure support to small and medium enterprises, and educational and research institutions.

"Information technology export-oriented businesses are also expected to benefit from the park through tax incentives from the government. In order to attract private participation, we are likely to offer concessions on land to those willing to construct IT offices there and some tax incentives on utility services such as water and electricity."

ICT sector plan

Kenya's ICT Sector plan is based on the national priorities of poverty reduction, infrastructure development, trade promotion and industrial development as outlined in Vision 2030.

To be consistent with these priorities, the sector has harmonized its activities in the plan and will be guided by both the existing and the new policy and legal frameworks to re-engineer the rapid growth of the ICT sector. The plan serves as a foundation for the current and future development of the sector.

For ICT to be the main economic driver, this sector will work closely with other sectors whose services contribute to its outcomes to ensure that all projects and programs are implemented successfully.

The resources needed to propel this booming sector still further include highly educated/skilled human resources, a society with a culture of ICT use, good supporting infrastructure and well-funded research and development investments to ensure sustained growth. The government, meanwhile, is continuing to implement projects and policies to ensure continued growth.

Kenya's high cost electricity and low supply remain a challenge, although huge efforts are being made in the energy sector to rectify this.

BPO/ITES industry

As global corporations continue to reap the cost and productivity gains of outsourcing their call centers, data management networks and other technologies, emerging markets such as Kenya are in prime position to capitalize.

Since licensing its first call center in 2004, the number of BPOs in Kenya has grown to 62, demonstrating investor-confidence in the sector.

> **The Technopolis development leverages Kenya's unique status as a cultural, political, economic and transportation hub for Eastern Africa to lead the region in joining the Global Information Economy."**
>
> SAMUEL POGHISIO
> KENYA'S MINISTER OF INFORMATION AND COMMUNICATIONS

Launched in 2005, Nairobi-based Kencall was the country's first indigenous international call center, and now serves a wide range of clients in the US, Europe, Kenya, and Tanzania. Its world-class facility, cutting-edge technologies and professional staff of university graduates have all contributed to Kencall's success as the company of choice for numerous telecommunications, banking, credit reporting and management, medical, media and insurance firms.

Kenya's BPO/ITES industry is particularly attractive to investors due to the many skilled laborers in the market who are cost efficient compared to other African and Asian destinations.

"These sectors, which require large bandwidth and high-speed connectivity, will drive development and further growth of the economy," Minister Poghisio said.

World-class connectivity

For the sector to really thrive and reach its full potential, Kenya's connectivity has to be up to speed. Thanks to the fruition of major infrastructural projects in the last year, the country now boasts a state-of-the-art ICT landscape, and is reaping the benefits.

All three of Kenya's fiber-optic live international cables—The East Africa Marine System, (TEAMS), SEACOM and EASSy—have been installed, ensuring optimal connectivity.

The TEAMS project was born from a joint venture with the United Arab Emirates (UAE) to lay a submarine cable system at a cost of $130 million. The cable connects the Port of Mombasa to the Port of Fujairah in UAE.

The project was set rolling via a Memorandum of Understanding entered into in late 2006 between Telkom the incumbent fixed network operator in Kenya and Etisalat, its counterpart in the UAE.

Bitange Ndemo, Permanent Secretary in the Ministry of Information and Communications

Permanent Secretary in the Ministry of Information and Communications, Bitange Ndemo, the driving force behind TEAMS, said: "The cable has rejuvenated the country by enhancing ICT uptake, which will in turn transform Kenya into a competitive and knowledge-based economy."

The National Optic Fiber Backbone Infrastructure (NOFBI) Network Project complements the TEAMS, SeaCom and EASSy projects by ensuring maximum utilization of capacity through connectivity to all districts in the country.

The project was executed by a company known as Fiber Optic Backbone National Network (FONN), which was established through the Companies Act at a cost of $63.3 million.

The installation of the revolutionary underwater cable and the other fiber optic projects means prices for connectivity have been dropping, thus closing the gap between Kenya and its competitors and raising the profile of the industry on a global scale. It is already attracting back office operational work, while medium-sized call centers, such as Horizon Call Center and Ken Tech Data, are growing in number.

"This connectivity will ensure universal access to ICT, the enhancement of Kenya's economic competitiveness, and improve Kenya's learning opportunities," Minister Poghisio said.

ICT incentives

In the meantime, the Kenyan government continues to tempt investors with attractive incentives to further grow the industry. Reduced income tax for both expatriates and key national employees, as well as corporate tax holidays for BPO/ITES firms, have all won major investments.

There are also exemptions on customs duties for ICT equipment and VAT exemptions for the local purchase of key inputs.

For BPO providers, the Ministry of Information and Communications offers simplified recruitment, expedited business set-ups, and training program subsidies. Discounts on rent in BPO-specific locations are also available, and the latest technologies continually sought.

"We need local content," Ndemo said. "We need to link universities, colleges and schools for on-line e-learning and applications.

"As well as education, I believe regional political, economic and social integration can only be achieved with a harmonized ICT policy.

"We must work together in a way that promotes regional cooperation and cross-border trade."

International fiber optic cables have given Kenya's ICT environment a considerable boost.

Energy sector offers major opportunities

China partners with Kenya to help bridge the energy gap

Kenya's energy sector will be a key enabler for Vision 2030, with opportunities in petroleum, Liquefied Petroleum Gas (LPG), the electricity sub-sector, coal, and renewable energies, including geothermal and hydropower.

Currently, the country depends on biomass (68 percent), hydrocarbons (22 percent), electricity (9 percent), solar, and other forms of energy (1 percent) for its energy needs, with petroleum and electricity dominating the commercial sector. Energy Minister Kiraitu Murungi and the Kibaki government are keen to reach out to Chinese investors to help bring the sector up to its full potential.

Hampered by under-developed infrastructure, the electric power supply in Kenya is far below demand. With an installed electricity generation capacity of 1,359 mW under average hydrological conditions, peak consumption demand stands at 1,200 mW, leaving a reserve margin of 13 percent that is being rapidly reduced by the country's expanding industrial activities. Urgent measures are, therefore, needed to generate additional capacity to meet the current and future energy demand.

Dry geological conditions experienced due to a drought between August and October 2009 meant capacity was reduced to 900 mW, and the government contracted an emergency power producer to fill the gap by generating 290 mW. Minister Murungi hopes Chinese cooperation will see the gap close further.

"I have visited China many times since 2004," he said. "The relationship between our two countries has always been of mutual benefit to our people. The greatest bottleneck we have had to develop in both Kenya, and Africa as a whole, is our infrastructure network, and we have realized that Chinese cooperation is really opening up the continent."

More than 80 percent of Kenyans live without electricity, and by 2012, analysts have predicted a peak electricity demand of 1,454 mW against an effective generation capacity of 1,923 mW. As challenging as this demand is, the Energy Minister remains confident that it represents an unmissable business opportunity.

Kiraitu Murungi, Kenya's Minister of Energy

"We are focusing on electricity generation," he said. "We are trying to upgrade our ageing transmission and distribution network, as well as expand it. We have a chronic shortage of power, which is a result of decades of neglect and underinvestment in the sector.

"Vision 2030 is an ambitious plan to transform Kenya from a backward, agriculture-based economy, to a medium-industrialized economy similar to say Malaysia or South Korea. The challenge is to ensure we provide an affordable, adequate, and reliable power supply as the engine for development whilst taking care of our environment."

Customer connections

Demand is expected to grow 7 percent year-on-year over the next 10 years, fueled by an accelerated consumer connection policy that aims to connect at least a million customers over the next five years, at a cost of $1.08 billion and the expected economic growth performance. Despite the bleak "80 percent without" statistic, customer connections rose rapidly between 2006 and 2008.

The projected growth rate will require corresponding increases in capital outlay to provide the needed incremental generation capacity and the associated supply and distribution infrastructure: the government connection charges will require 60,000 transformers, with another 2,000 requiring annual repairs. There is also high potential for the manufacturing of other related equipment, such as switchgears, insulators, and electricity meters.

A factory has been proposed to make the transformers, which will benefit from both the East Africa Community and the Common Market of Eastern and Southern Africa (COMESA).

Oil drilling

Other strategies to be deployed to increase energy supply in the country include the intensification of the ongoing exploration for oil, gas and coal in Mandera, Lamu, Nyanza and Mui Basins. The sector will also enhance the ongoing geothermal power exploration and development in collaboration with the private sector while LPG handling, storage, and bottling facilities will be constructed in Mombasa and Nairobi.

The Energy Minister believes the private sector will play a key role in providing the required capital either on its own or through public private partnerships. "We have a unique local resource in geothermal energy which can produce around 7,000 mW, that will meet the country's needs for now, and we are trying to invite investors to this sector.

"We are very happy to have an enthusiastic partner in the form of the Great Wall Drilling Company from China. We also have interests in green energy; specifically wind energy as Kenya has very good velocity, and we are calling upon investors to assist in this area also."

Investments still exist in the exploration of hydrocarbons and petroleum, and Kenya is currently working with China's CNOOC Ltd over plans to sink the deepest oil exploration well in the country, which will be 5,000 meters.

> **We are exploring for coal in Eastern Province and will soon be tendering for that. We are looking for experienced coal companies that can apply clean coal mechanisms."**
>
> KIRAITU MURUNGI
> KENYA'S MINISTER OF ENERGY

"We are very excited about the initiative and happy with the commitment CNOOC Ltd has shown," Minister Murungi said, "We are also happy with the fact our oil storage and transport system is expanding. We are working with Chinese consultants and contractors to build a pipeline from Nairobi to Eldoret, which is about 300 km.

"We are also working with them to expand our transmission networks. We have just completed two high voltage projects: the Kamburu in Meru and the Kisii Chemosit line, and are working on a new line from Mombasa to Lamu.

"As you can see, we are working with the Chinese in both the petroleum and renewable energy sectors and would like to strengthen this relationship," Murungi said.

Discussions are also ongoing with the government of Tanzania and the World Bank regarding the possibility of setting up a liquefied natural gas terminal in Mombasa that will use natural gas from Tanzania for electricity generation. If this is found to be feasible, the Ministry will invite private sector investment.

Coal exploration is another potentially lucrative investment opportunity. Mombasa Harbor was recently identified as the site for a 300 mW coal power plant, due to the availability of space and minimal amount of coal handling between ship and plant. The government hopes similar power plants can be built in the vicinity in the future, tapping into the coal unloading and grid connection facilities.

"We are exploring for coal in Eastern province and will soon be tendering for that," Murungi said, "We are looking for experienced coal companies that can apply clean coal mechanisms to help us generate energy from this resource."

The energy sector takes cognizance of the lack of strategic reserves, both electricity and petroleum, which cause disruptions in supply and prices. The sector has to mobilize enough financial resources to invest in the planned programs and projects that include renewable energy resources and petroleum to meet the target demand by 2012 as well as create the requisite reserves.

In view of this, the sector plans to undertake massive investments in the exploration, generation, transmission and distribution of energy over the plan period at an estimated cost of $8.3 billion.

A major project to connect Kenya to the Southern Africa power pool through Tanzania at a cost of $110 million is also planned.

Lake Bogoria Geysers

Geothermal and hydro development fuel growth

Capital and expertise from China aid clean fuel advance

Kenya is endowed with significant amounts of renewable energy resources, such as wind, solar, geothermal, small hydro and biomass. However, few renewable energy resources in the country have been fully assessed, mapped and appraised for their technical and economic viability.

If harnessed these resources could play a significant role in the country's energy supply mix, so the government is keen to get up to speed in the coming years.

As the most widely used form of energy in Kenya, biomass energy resources are derived from forest formations such as closed forests, woodlands, bush lands, farmlands, plantations and agricultural industrial residues. These resources include wood-fuels and agricultural residues.

Although biomass fuels are the most important sources of primary energy in Kenya, with wood fuel consumption accounting for over 68 percent of the total primary energy consumption, the development of these resources cuts across various sectors and requires a multisectoral approach.

With electricity demand expected to reach 15,000 mW by 2030, time is of the essence, so the government has identified Kenya's untapped geothermal potential (currently estimated at between 7,000 and 10,000) as the most suitable indigenous source of electricity generation. It is embarking on an ambitious program to realize 4,000–5,000 mW of power by 2030.

To accelerate this, the government formed the Geothermal Development Company (GDC) to undertake a comprehensive geothermal resources assessment. GDC, which is charged with exploration, drilling, assessment and development of geothermal resources, will sell steam to Kenya Electricity Generating Company (KENGEN) and interested private investors to develop power plants and the generation of electricity.

Endowed with vast geothermal resources, the Rift Valley province has an estimated potential of between 7,000 and 10,000 mW. Out of this, only 202 mW has so far been developed.

Appraisal drilling is currently in progress in the Olkaria geothermal field for the development of 280 mW electric power plants. Twenty-five wells with an output of over 170 have already been drilled. At least 40 wells will be required for the power plants to reach their full capacity at a cost of $231 million.

The People's Republic of China recently extended a loan agreement of $90 million for the drilling of 26 wells attached to this project, which have the potential of producing an additional 140 mW.

"Using local resources and the help of development partners, such as the Great Wall Drilling Company, we have embarked on an ambitious drilling program", Energy Minister Kiraitu Murungi said.

"We hope to be able to generate at least the minimum 4,000 mW from geothermal resources. It is a major investment and we are appealing to other investors to join hands with us."

Opportunities for investment exist in various geothermal plants, which will produce between 50 mW and 140 mW in different sites around the Rift Valley within the next five years. Over the next eight years, the country plans to install additional geothermal capacity in excess of 720 mW, with GDC carrying out detailed surface exploration is Silali, Korosi, Barrier and Emuruangogolak. It will drill 566 wells, with a total amount of steam generation of 2,400 mW.

Minister Murungi, who oversees the GDC, said: "Total capital requirement for the project will be $2,567 million. Capital costs will be met from a government budget of $448 million, GDC net revenue from the sale of steam will be $520 million while support from development partners will be to the tune of $599 million."

Although hydropower plants have not been considered economical in the past, recent oil price increases now make them attractive for investment. The government has earmarked significant sites for small hydros, including stand-alone systems suitable to rural energy demand patterns.

The current known potential for mini and micro hydro is estimated to be 3,000 mW. Feasibility studies have been conducted and the Ministry of Energy has identified over 300 sites with a total potential of 600 mW. Private investors are being encouraged to aggregate several sites for joint ventures.

Wind farms will provide much-needed electricity in Kenya, which has abundant high-speed winds.

Renewable energies boost the grid

The Ministry of Energy has made significant strides in the promotion, development and utilization of renewable energy resources, resulting in an increase in the proportion of its contribution in meeting the country's energy demand. This has significant socioeconomic benefits, such as poverty alleviation and the improvement of the welfare of Kenyans and the country at large through income generation and employment and wealth creation.

Renewable energy technologies that have contributed in making a positive impact include solar, wind, micro hydro and modern biomass (co-generation and improved stoves).

As is fitting for a country so close to the Equator, solar energy is abundant in Kenya and offers a unique opportunity for a vibrant solar energy market that provides cheap electricity to homes and institutions, particularly those that are far from the national grid, in the Arid and Semi Arid Land (ASAL) areas. Although not yet fully exploited because of the initial capital outlay required to harness it, the private sector has done much to promote and install solar electricity (photovoltaic or PV) generators in the country, although data on installed capacity is as yet unavailable.

Important strides have been made in implementing a solar electricity program in schools, health centers and dispensaries in remote areas far from the grid. This PV program was initiated in 2005 and to date has benefited 134 boarding secondary and primary schools, health centers and dispensaries in 20 ASAL districts at a cost of $6 million.

Leading by example, the government will also introduce mandatory solar water heating in designated residential and commercial buildings within Kenya's municipalities, to enforce the usage of solar water heating and natural ventilation in all new buildings where technically feasible. As well as providing relief to the grid, solar water heating will reduce the oil import bill, develop the local solar industry and create employment. Water heating regulations have been developed and all formalities regarding by-laws approved.

The wind factor

A national Wind Atlas was prepared in 2001 with indicative wind regimes based on synoptic weather stations data. This was updated in 2005 using satellite data provided by several agencies including National Aeronautical and Space Administration (NASA) and ground validation. Since then the Ministry of Energy has installed 20 wind masts and data loggers to enable collection of more wind data to augment the wind atlas.

A new project which aims to acquire more data at reasonable heights (40 m) that will be used to update the wind atlas to provide a more realistic wind map to guide investors to sites with good potential for wind power development started in 2009. Under this project, masts and data loggers will be installed at 33 sites across the country to generate wind regime data to enable private investors to make informed decisions on wind power generation. This will be extended in the coming years.

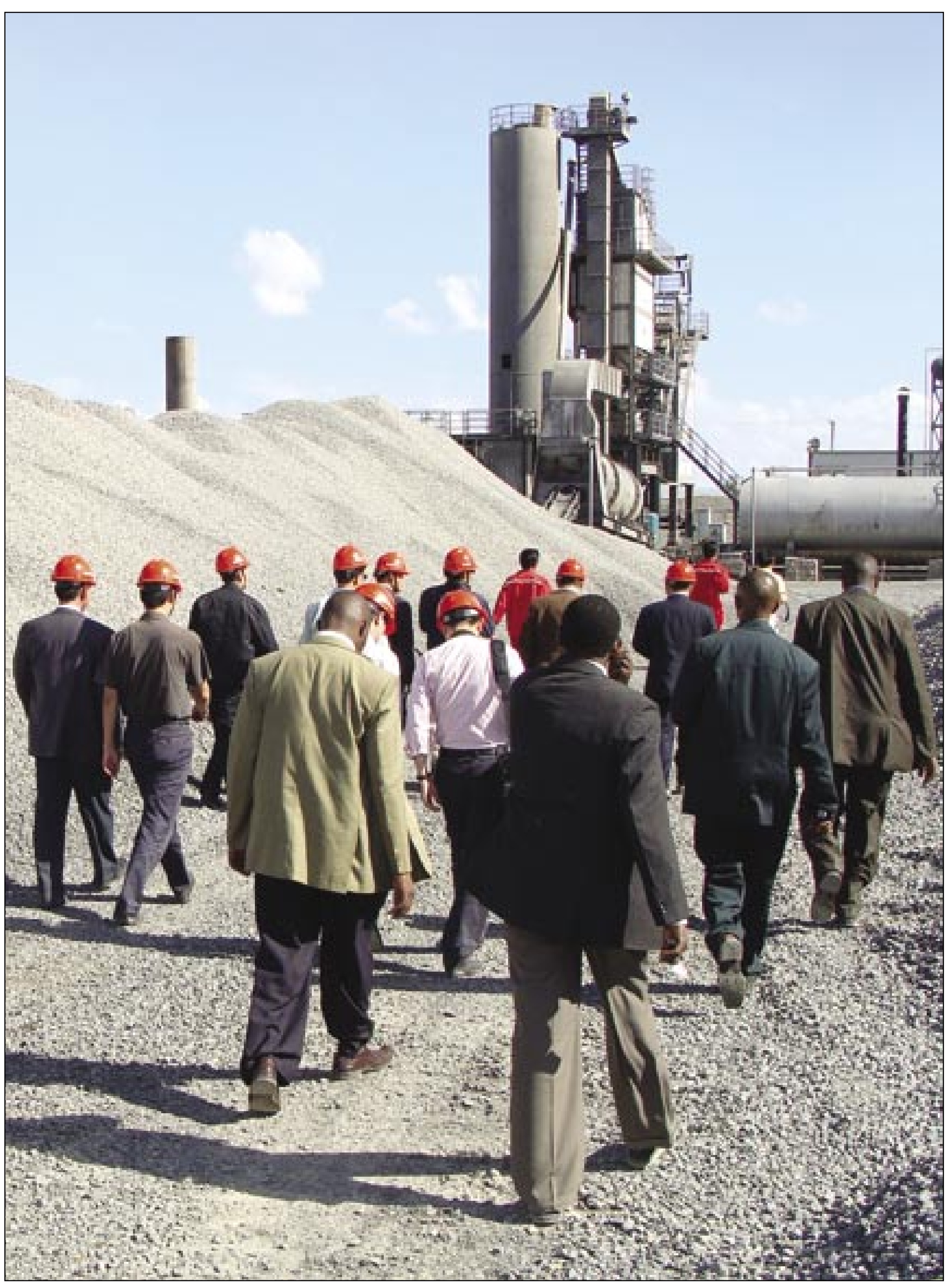
"We have just signed a contract with the Lake Turkana Wind Consortium for 300 mW in Northern Kenya, and there is enormous potential for tidal generation," said Energy Minister, Kiraitu Murungi, "We already have a proposal from an Israeli investor to generate electricity from the sea waves near Malindi, and invite more investors to come on board.

"To encourage accelerated investment in renewable energies, the Minstry has formulated new feed-in tariffs on wind, geothermal, biomass, and small hydropower systems. Under this policy Kenya Power and Lighting Company Ltd. is required to sign long-term Power Purchase Agreements with investors," Murungi concludes.

Investment in agriculture to boost exports

Transport and farming sectors offering vast opportunities

Port upgrades will greatly enhance trade between China and the East African Community market.



A major road-building scheme aims to ensure that by 2030 no region of Kenya will be termed remote.

Tea is one of the commodities that form the Kenya 'brand', along with coffee, flowers and produce.

With under-developed infrastructure a real impediment to growth, transport features strongly in the government's Vision 2030 plan. As well as under-serving Kenyan farmers and other businesses needing to transport goods around the country, the lack of effective road, sea and rail links significantly hampers Kenya's trading potential with its African neighbors and the rest of the world, including China.

Having pledged that "by 2030, it will become impossible to refer to any region of our country as remote", the government is now driving a far-reaching transport plan, covering roads, railways, ports, and airports. China has played a pivotal role in funding infrastructure projects in Kenya, and in Africa as a whole.

As President Kibaki has said: "The transport sector, and in particular, the roads sub-sector, play a key role in facilitating the marketing of agricultural produce, and exploitation of resources and opportunities, as well as the development of industries and import-export trade. Roads are also critical in facilitating provision of social services in health and education."

Mwai Kibaki, President Of Kenya

With this in mind, a commitment to the upgrade of the Nairobi-Thika Highway (50.4 km) from four to eight lanes has been made at a cost of $360 million. The road serves as a gateway to Northern Kenya, and neighbors Ethiopia and Somalia, and forms a vital stretch of the trans-Africa highway.

The project is expected to contribute immensely to the economic and social development of Kenya and neighboring countries as well as improving mobility and transport linkages between the Nairobi Metropolitan Area and satellite towns located along the highway. Public private partnership options are being considered for the highway's maintenance and management, and the numerous toll stations that will generate important funds for the road's upkeep.

Corridor port upgrade

Also slated for a multi-billion dollar development is the port and transport corridor on the northern coast of Kenya at Lamu which could greatly enhance trade between China and the East African community. During his New Year address, President Kibaki thanked the Chinese government for its commitment to funding parts of the Northern Corridor, and its work will begin this year.

"Kenya highly appreciates the development assistance extended by China, which has been substantial in financial terms and has had a considerable impact on Kenya's socioeconomic development."

Two major projects are also planned for the railways. A new standard gauge line will be laid from Mombasa to Kampala (Uganda) and Kigali (Rwanda), at a cost of $8.5 billion shared between the three countries. With its ability to handle more weight and speed, the new line will be useful for moving goods and people between the three countries.

Secondly, commuter rail services for Nairobi and its environs are being improved in a bid to drastically reduce congestion on the capital's roads. An additional line will be built from Embakasi to the Jomo Kenyatta International Airport.

The existing locomotive-hauled trains are also going to be replaced with diesel electric multiple units (DEMU), which have higher passenger capacity, faster transit speeds, and lower emissions. When completed, Nairobi's new railway system will have the capacity to carry at least 90,000 passengers daily, compared to the current 19,000.

Airport upgrades are also under way around the country. Kisumu Airport, Kenya's third busiest airport, is being expanded to meet international standards. China Overseas Engineering Group Co Ltd is facilitating the project.

> **Kenya highly appreciates the development assistance extended by China, which has been substantial in financial terms and has had a considerable impact on Kenya's socioeconomic development."**
>
> MWAI KIBAKI
> PRESIDENT OF KENYA

Chinese collaboration in all these projects is warmly welcomed by the Kenyan government, who are extremely appreciative of the skills and expertise the People's Republic can provide.

Prime Minister Raila Odinga, who visited China in October last year, said: "Whenever we undertake a major construction project, the young people who were employed in it acquire skills in various areas in which they got trained for that specific project.

"When the project ends, these former employees keep these skills and use them to support themselves and the rural economy. That is another reason why we are putting a lot of emphasis on infrastructure development as a way to spur our economy on."

Prime Minister Odinga promised that in five years' time, each part of the country will have had at least one major road built.

Innovative agriculture

With a tropical climate and terrain conducive to growing a range of important crops, like coffee, tea, and sugar, it is no surprise that agriculture is the mainstay of the Kenyan economy. Accounting for almost a quarter of the country's gross domestic product, the government intends to develop the sector significantly within the next 20 years.

Under Vision 2030, the agriculture sector is to be made more innovative, commercially oriented and modern. Investment opportunities will exist across the spectrum, in coffee, tea, flowers, meat, sugarcane development, value-addition in the setting up of small to medium scale industries in several agricultural commodities, and the sector's marketing infrastructure.

Incoming Agriculture Minister Sally Kosgei forecasts accelerated growth that will peak and then stabilize at about 10 percent in the medium term and she is keen for Chinese investors to make that a reality.

"To achieve the required transformation of the sector into a profitable economic activity, clear and achievable strategies have been proposed on how to seize emerging opportunities and also how to address the various challenges," she said.

"The results will be realized by focusing on growth areas, that will include raising the productivity and commercialization of the sector; development and management of key factors of production; development and delivery of sector support initiatives; and the establishment and roll-out of supportive organizational and implementation structures. Private sector participation will be vital."

Sugar factories for both increased sugar production and power generation are vitally needed. There are between 1,000 and 15,000 hectares of land suitable for development and the erection of sugar processing factories in the Homa Bay and Busia districts.

The value-addition program will involve the setting up of small to medium scale industries in several agricultural commodities including tea, coffee and fruits. The main projects will include decaffeinated tea, various branded teas, instant coffee and processed coffee, mango/citrus processing in Eastern, Coast and Nyanza and banana processing in Central, Eastern and Nyanza provinces.

Meanwhile, wholesale markets will be set up for fresh produce in Nairobi, Nakuru, and Mombasa.

There are more than five million smallholders engaged in various types of agriculture within the country, namely industrial crops, food crops, horticulture and livestock and fisheries.

Industrial crops contribute more than 55 percent of the agricultural exports. Industrial crops make up the largest segment of agriculture's contribution to GDP, at 17 percent.

Horticulture has recorded significant export-driven growth in recent years and is now the largest sub-sector. Around 90 percent of exports go to Europe, and exports have relied on a few key markets, but EU tariffs make the sector vulnerable. The sub-sector is now making proactive efforts to maintain existing markets while creating new ones, and increasing Kenya's bargaining power in global agricultural markets.

Overcoming challenges

Despite the central role agriculture plays in the Kenyan economy, the sector faces challenges in terms of productivity, land use, markets, and value addition.

Productivity is constrained by a number of factors, including high cost seeds and fertilizers, over dependence on rain-fed agriculture, a lack of markets and limited application of technology and innovation.

Under its Vision 2030 scheme, the government is launching investment initiatives in the areas of: fertilizer cost reduction, irrigation intensification and expansion, seed improvement, and livestock development.

Attention is also being given to strengthen producer organizations to enable them to discharge their mandates effectively. This will involve making producer organizations more accountable to farmers who fund them through levies on farm produce.

Incentives will also be given to those farmers investing in energy and water-efficient irrigation systems and technologies.

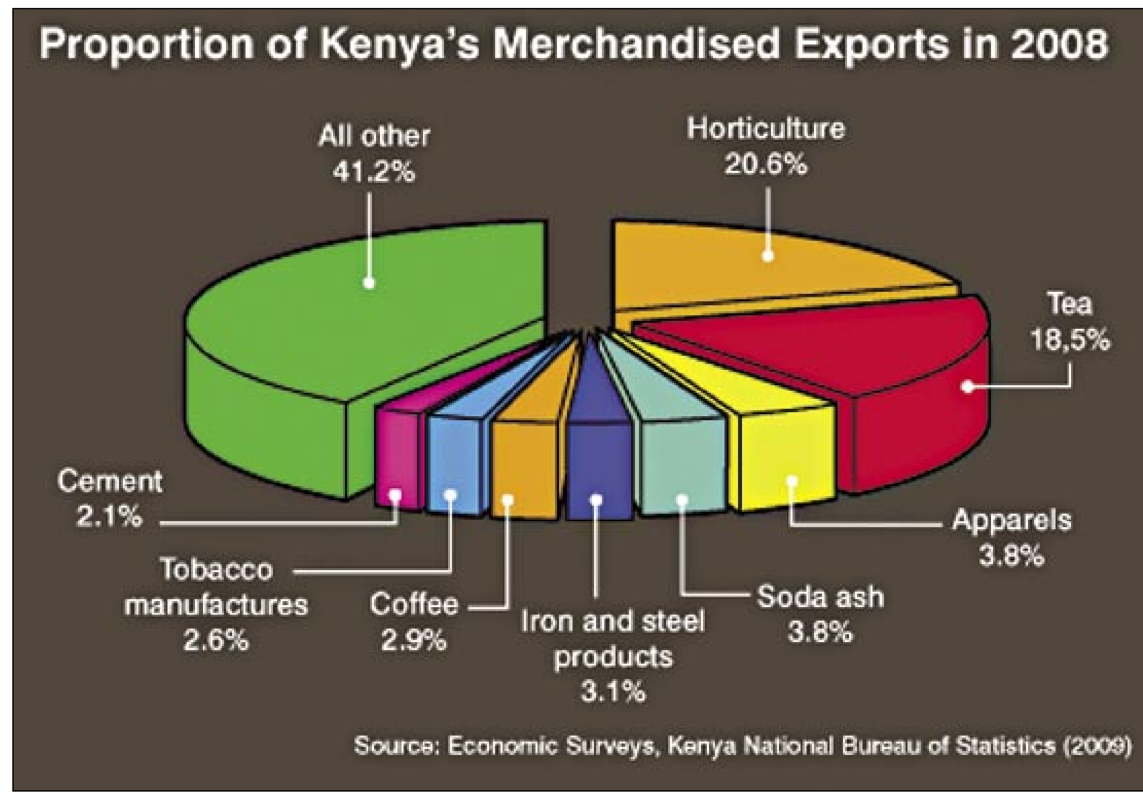
Agriculture has a crucial role to play in Kenya's future. It will ensure food security, job creation and income generation, foreign exchange earnings and linkages with other sectors. About 80 percent of the country's population derives their livelihoods from this sector and its related activities. It is, therefore, key in addressing poverty, and as such, a vital part of Kenya's new Vision.

Sino-Kenyan trade reaches record high

Bilateral relations strengthen as Kenya boosts exports and image

Amos Kimunya, Minister of Trade

Abdulrazak Aden Ali, Permanent Secretary of the Ministry of Trade



Kenya's manufacturing sector is rich in investment opportunities.

As a major producer of agricultural and industrial goods, Kenya boasts one of Africa's leading export-oriented economies and enjoys excellent trade relations with many foreign countries, particularly China, which has emerged as a key trade partner.

With trade a rapidly expanding sector of the Kenyan economy since the introduction of trade liberalization in the 1990s, the sector will play a vital role in ensuring that Vision 2030's wide range of economic goals are achieved.

Economic diversification and the development of solid international bilateral trade relations are two of Vision 2030's main aims as officials look to build a successful "Made in Kenya" brand and industry.

According to the latest figures compiled by Kenya's National Bureau of Statistics, the resource-rich nation exported goods worth $4.9 billion in 2008, of which items valued at $29 million were shipped or flown to China.

This figure represented less than 1 percent of total exports, with the main product categories including textile fibers, tea, leather, and scrap metals such as copper and aluminum waste.

Meanwhile, Kenya's imports from China increased steadily over the last decade to reach nearly $910 million in 2008 compared to $105.4 million in 2003 — an annual average increase of 54 percent.

Telecommunications equipment, electrical goods, cars, cotton fabrics and engineering goods were among the many Chinese products in great demand in Kenya, as well as fertilizers as local farmers look to develop their agricultural and horticultural base.

With China a growing destination for Kenyan products, Asia looks set to expand its share of Kenya's total exports from the current 12 percent and follow the lead of the European Union and the Common Market for Eastern and Southern Africa regions, which represented 26 percent and 32 percent, respectively, of Kenya's total exports in 2008.

This ambitious, but realistic, goal will receive a tremendous boost over the next six months through Kenya's presence at the top international trade show, the World Expo 2010 in Shanghai.

Up to 70 million people will attend the event and Kenya aims to catch the eye of investors by showcasing innovative trade policies and investment incentives built on encouraging sustainable development.

As such Expo 2010 will provide an international platform for Kenya's emergence as an economic, technological and cultural hub for East Africa, and help firms establish new partnerships and linkages with counterparts in Asia and, in particular, China.

"Kenya will utilize the window of opportunity provided by the 2010 Shanghai Expo to showcase the country's wonderful range of trade, investment and tourism opportunities," said Abdulrazak Aden Ali, Permanent Secretary of the Ministry of Trade.

> **The government is committed to supporting the trade sector by improving the regulatory framework and creating an attractive investment and business climate."**
>
> AMOS KIMUNYA
> KENYA'S MINISTER OF TRADE

"This world exposition will market Kenya as a preferred destination for trade, investment and tourism, and provide a golden opportunity for Kenyan companies to promote their products and services in the vast Chinese and Asian markets."

Kenya's participation in 2010 Shanghai Expo is expected to attract a fresh wave of Chinese investors in value addition sectors such as agriculture, fisheries, livestock, and manufacturing. This is in line with Kenya's Vision 2030 objective to create a robust, diverse and competitive manufacturing sector with the aim of increasing overall exports.

Manufacturing, wholesale and trade operations lie at the heart of Kenya's Vision 2030 economic pillar, with a modern and competitive industrial base seen as a key foundation for a prosperous and successful future.

The government of President Kibaki is setting aside substantial funds to achieve this goal and is inviting investors from China and beyond to participate in the expansion and modernization of its production and trade processes.

The sector will support Kenya's socioeconomic rise through the creation of new jobs — most manufacturing firms are family-owned and operated — as small enterprises employ over six million Kenyans. Predominantly agriculturally based, locally made goods comprise 25 percent of the nation's annual exports.

The plan features an extensive portfolio of projects, programs, and policies that will create a productive environment for industrialization.

They include two special economic sectors for manufacturing companies in the cities of Mombasa and Kisumu, together with at least five small and medium enterprises in major urban areas, plus new industrial parks and special economic zones. Other new measures that will lift its competitiveness are product and market diversification, research and development plans, and business and technology incubation programs.

Now is the ideal time for Chinese investors to begin or expand their operations in Kenya, with the country shortly gaining access to the vast market covered by the East African Community.

Kenya offers great investment opportunities right across the production and processing divisions, with the government having designated manufacturing as the industrialization spearhead to attract private sector knowledge, skills, technology, and investment.

Investors can take advantage of incentive packages such as tax holidays, duty exemptions on machinery, raw materials and intermediate inputs, as well as removal of restrictions on foreign capital repatriation.

Furthermore, as a beneficiary of the African Growth and Opportunity Act, Kenyan goods enjoy duty free access to the huge US market. In order to maximize this major competitive advantage, ministers want investors to focus on goods, such as textiles, leather, horticulture, fish, rubber, iron and steel products.

In addition, the East African nation also offers excellent investment openings in agro-processing, agro-chemicals, chemical, pharmaceutical, mining and mineral processing, metallurgy, engineering and construction.

Kenya enjoyed strong annual economic growth for most of the last decade, but the global economic crisis and volatile commodity prices lately slowed the rate, with GDP up about 2 percent in 2009 from 2008.

Through large investment in new facilities, transport networks and technology, Kenya is facing the global trade and commerce revolution head-on as businesses and consumers globally benefit from better access to foreign markets and goods.

Among the projects the government believes will encourage and promote fresh economic growth are the construction of wholesale, retail and hawkers markets, and the creation of 1,500 producer groups.

> **Kenya will utilize the window of opportunity provided by the 2010 Shanghai World Expo to showcase the country's wonderful range of trade, investment and tourism opportunities."**
>
> ABDULRAZAK ADEN ALI
> PERMANENT SECRETARY OF THE MINISTRY OF TRADE

"The trade sector is the link between consumption and production within the economy and there is tremendous potential for trade to play a central role in driving and sustaining growth and poverty reduction in Kenya," said Amos Kimunya, Minister of Trade for Kenya.

"The government is committed to supporting the trade sector by improving the regulatory framework and creating an attractive investment and business climate."

Minister Kimunya said he is determined to reduce the burden of red tape, improve efficiency rates and crack down on counterfeit goods.

Combined with a drive to reduce costs associated with investment and use of new technology, Kenya is taking major steps to position itself for further market liberalization. These measures send a strong signal to investors of the solid progress Kenya is making as it grows its presence in the international trade arena.

"Trade has contributed a lot to our economic growth and we will soon benefit from a larger regional market that should facilitate the free movement of goods, capital and people," said Wycliffe Oparanya, Minister of State for Planning, National Development and Vision 2030.

"We need to broaden the export market and sensitize the business community on the need to diversify into non-traditional exports. We also need to simplify trade and investment-related regulations and confront stiff competition in preferential markets by developing new strategies to meet the ever changing global demands."

Kenya's financial sector seeks partners in growth

Offers most sophisticated financial sector in East Africa

Uhuru Kenyatta, Kenya's Deputy Prime Minister and Minister of Finance

Kenyatta International Conference Center.

Major investment in modern technology and facilities is playing a vital role in Kenya's journey towards its many Vision 2030 socioeconomic goals.

Ministers have identified investment in financial services as a key driver of the economy over the next two decades, with the Nairobi-based industry having a dual role as a magnet for foreign investment to fund Vision 2030 projects, and as an investment destination in its own right.

Vision 2030 aims to transform the banking and financial services industry into "a vibrant and globally competitive financial sector driving high levels of savings and financing Kenya's investment needs".

The sector — widely recognized as being safe, sound and transparent — generates about 5 percent of GDP and employs approximately 22,000 staff in areas such as banking, capital markets, brokerages, insurance, money transfer agencies, and credit providers.

Under the first medium-term plan of Vision 2030, the government of President Mwai Kibaki expects both local and foreign private investors to fund up to $3.25 billion of development projects through a series of public private partnerships.

With responsibility for ensuring these massive sums are obtained from sources such as China, the performance of the sector is absolutely vital to the overall success of Vision 2030.

"The importance and relevance of the financial sector in Kenya's growth and development can't be over emphasized," said Kenya's Deputy Prime Minister and Minister for Finance Uhuru Kenyatta.

"Our objective is to make Kenya the region's financial hub and the gateway to Africa for global investors. We want international partners to see Kenya as a stepping stone to the region and a market of 300 million people."

While the plan identifies several major challenges ahead, the sector is poised for take-off as legal, institutional and regulatory reforms encourage industrial expansion through such measures as the arrival of stronger and larger banks, increased access to finance and comprehensive overhauls of capital markets and pension and social security systems.

"We are focusing on economic reforms in the capital markets that will strengthen governance and ensure that Kenya is a regional center for capital markets and banking," said Kenyatta.

"We are de-mutualizing our stock exchange to ensure greater confidence for investors, strengthening our revenue collection processes and ensuring resources are utilized in a way that increases productivity and reduces waste."

In addition to Kenya establishing Nairobi as the region's financial services' capital, the government is determined to educate and inform businesses, entrepreneurs, and citizens, about the many benefits of financial products.

Only a fifth of people currently have access to such bank accounts and similar services, a figure that officials are keen to increase as the nation looks to reach middle-income status in the next 20 years.

In the commercial arena, innovative and sustainable strategies such as microfinance programs are being developed and streamlined and efficient fiscal systems being introduced across the sector as it prepares for consolidation.

As Kenya's leading international trade partner, China is paying close attention to the development of the sector as it looks to exploit its economic skills, knowledge and experience.

Lucrative business openings are present throughout the industry, with a fast-improving transparent and effective regulatory framework providing an attractive commercial investment climate.

"Our relationship with China is one of our most valued partnerships — being based on mutual respect, mutual understanding and mutual will," Kenyatta said.

"With China's growing interest and resources in the region, our bilateral relationship will improve infrastructure development and increase trade in Kenya and the East African region."


Kenya boasts World Heritage status and an incredible cultural history.


The famous wildebeest migration crosses Kenya's Masai Mara region.

Chinese visitors help tourism roar ahead

Revenues soar as travelers marvel at range of wildlife

Recognized as one of the world's leading tourism destinations for animal lovers, Kenya is setting the benchmark for wildlife and safari tourism as it showcases its precious species to the world and chases investors hungry to take advantage of business opportunities.

Home to a vast array of animals such as lions, elephants and giraffes, Kenya has put together an ambitious strategic development plan for the tourism sector that will treble annual earnings through a series of initiatives and programs.

With the help of the private sector, industry officials are confident this goal can be achieved through the boosting of tourism numbers from 1.8 million a year, to 3 million a year, while also increasing the tourist's average spending.

This follows a surge in international visitors between 2002 and 2007, when earnings more than tripled from $282 million to $851 million.

"Tourism has been a major revenue earner for Kenya for many years and the sector is one of the six economic pillars that will drive the economy forward and help us achieve our annual 10 percent economic growth target," says Minister of State for Planning, National Development and Vision 2030 Wycliffe Oparanya.

Statistics from the 2008 Economic Survey show international tourist arrivals soared from just over one million in 2002 to more than 1.8 million in 2007.

Attractions

Blessed with a unique and diverse landscape comprising gorgeous savannahs, tropical beaches and the stunning Lake Victoria, Kenya has boasted world heritage-status sites and a rich cultural history.

Popular with visitors of all ages and nationalities, Kenya's natural beauty and stunning wildlife means the tourism industry generates more than a tenth of the nation's total gross domestic product and provides jobs to thousands, while being a rich source of tax revenues.

Thousands of travelers from all over the globe arrive in the country each week by air with the international airport in the capital, Nairobi, served by dozens of top foreign airlines with direct connections to major cities worldwide.


Najib Balala, Minister of Tourism

In addition, the bustling port city of Mombasa is a popular stop-off point for cruise liners that provide local people with a key source of income as they sell their home made goods and wares.

According to a forecast from the World Trade Organization, international tourist arrivals are expected to top 1.6 billion by 2020, of which 378 million will be long-haul travelers.

It is against this backdrop that Kenya's tourism sector is strategically positioning itself in the short, medium, and long-term as it looks to tap into the global tourism market and maximize its potential and associated revenues.

But the sector is not without its problems and needs to overcome a series of hurdles and challenges in order to meet its Vision 2030 goals. Key infrastructure such as roads, railways and hotels need to be built if Kenya is to make progress, with these major projects featured in the tourism sector plan.

TOURISM ARRIVALS AND EARNINGS (2002-2007)

Year	Holiday/ Business Visitors	Visitors in Transit	Other	Visitors Total International (Tourist) Arrivals	Earnings in USD
2002	819,124	163,252	18,904	1,000,280	$282 million
2003	866,012	219,000	61,000	1,146,102	$335 million
2004	1,132,000	162,200	66,500	1,360,700	$510 million
2005	1,269,200	79,800	130,000	1,479,000	$635 million
2006	1,313,549	137,165	149,829	1,600,541	$730 million
2007	1,520,700	130,900	165,200	1,816,800	$851 million

Source: Economic Survey, 2008

In a bold move aimed at boosting room capacity and attracting fresh foreign direct investment, the Kenyan government has given the green light to the building of flagship projects that include the construction of three resort cities aimed at enhancing the visitors' overall experience and set the standard for future hotel developments.

New resort cities planned

The first resort will be located at Isiolo close to Mount Kenya and Meru National Park. The second, at Kilifi, will have 7,000 beds and focus on families and high-income tourists, and the third, at Diani, will have 4,000 beds and focus on Kenya's diverse cultures.

Other innovative ideas contained in the comprehensive tourism plan include the development of niche products like eco-tourism products and tours, cultural tourism activities focused on the country's 42 indigenous cultures and colorful festivals, sports and water-based tourism holidays along the coast, and cruise tourism featuring the development of a modern cruise terminal and steamboat service on Lake Victoria to serve a planned new five-star lake resort.

The plan calls for the development of facilities run by international hotel chains, health spas, exhibition galleries at museums, business conference facilities, plus the creation of a golf city and national music center in Nairobi.

Given the dynamic nature of the sector, major legal, institutional, and regulatory reforms will be required to ensure the smooth implementation of the programs, with building works closely monitored in order to limit their environmental impact.

"In pursuit of the Vision 2030 goals, the tourism sector will implement various strategies and programs in order to attract investment that will improve tourism facilities and raise the quality of hospitality services in Kenya," Oparanya said.

Visitors increasing

Charged with ensuring the sector grows at a sustainable rate is the Ministry of Tourism, which is led by Tourism Minister Najib Balala, who said he is pleased that the number of Chinese visitors to Kenya is continuing to increase and believes the tourism sector offers Chinese businessmen an abundance of lucrative investment opportunities.

> **Kenya remains the destination of choice for Chinese tourists due to its unique and unparalleled diverse product offering. Investment opportunities exist in tourism facilities such as hotels, restaurants, convention centers and safari tours."**
>
> NAJIB BALALA
> KENYA'S MINISTER OF TOURISM

"China is one of our key emerging markets and has high potential for us," he said.

"The number of Chinese visitors to Kenya has increased ever since China granted Kenya approved destination status in 2004 and following the launch of Kenya Airways flights to Asia. Investment opportunities exist in hotels, restaurants, convention centers, safari tour operations and related fields."

Outlining ways that Kenya's tourism sector can capitalize on this positive trend, Balala said "our objective in China is to enhance brand awareness among the trade and consumers through partnership campaigns with key tour operators in the market.

"We have strong representation in Beijing, Shanghai and Hong Kong through the proactive work of the embassy and the production of information material in Chinese. This includes a Chinese sub-site of our marketing website magicalkenya.com.

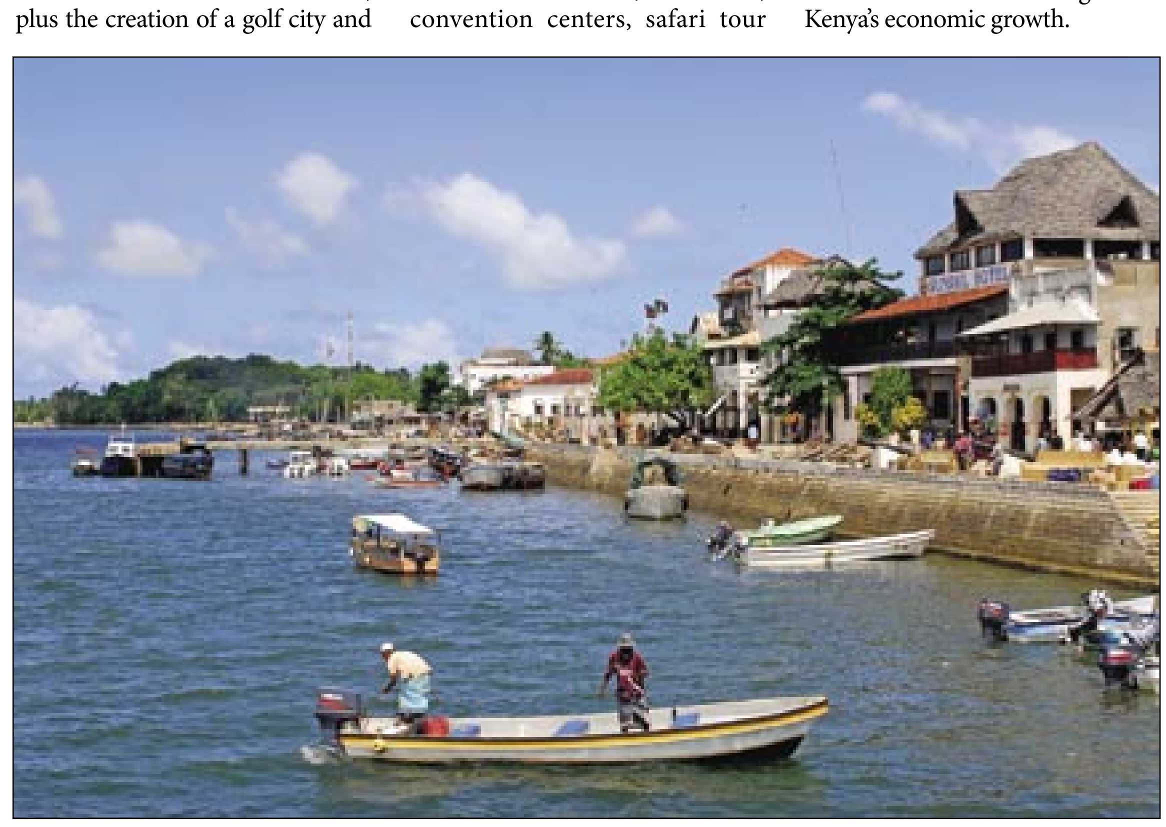
"During safety issues in 2008, China was not carried away by the false perceptions prevalent at the time which gave its people confidence to continue visiting Kenya. China certainly has a true and positive perception of Kenya."

In a further sign of close collaboration between China and Kenya, Chinese officials are helping Kenya preserve its endangered animal and other species as China has valuable experience of protecting the panda.

"Kenya remains the destination of choice for Chinese tourists," said Minister Balala. "The number of tourists from China continues to grow and tourism stakeholders are making their stay more comfortable by catering for their specific needs in areas like cuisine and facilities."

Tourism resources remain largely unexploited in certain geographical regions, but new tourism circuits are being opened up. Despite the challenges facing the sector, tourism will remain the engine of Kenya's economic growth.


Bird's eye view of breathtaking landscape and wildlife offered by a 'balloon safari'.


Seafront at Lamu

East Africa's commercial hub welcomes investors

Kenya's strengths offering vast business opportunities

Kenya has long recognized the benefits of inward investments and has welcomed overseas companies looking to do business in and with Kenya for decades. With its stable, pro-business government, and access to lucrative markets, Kenya is a perfect investment destination for Chinese investors.

As the strongest economy in East Africa, the safari kingdom offers a sizeable domestic market of more than 30 million people. A member of the East African Community (EAC), it is also within easy reach of a population of 120 million comprising five states and backed by a Customs Union protocol. The EAC came into effect in January 2005, and is expected to form a political federation by 2013.

Kenya is also a part of the Common Market for Eastern and Southern Africa, with a population of more than 385 million consumers. The country also celebrates a World Trade Organization-compatible Economic Partnership Agreement with the European Union, which provides instant access to European Markets, and the Tokyo International Conference on African Development for the Asian market.

As he looks forward to achieve the Vision 2030 goals, Wycliffe Oparanya, Minister of State for Planning, National Development and Vision 2030 invites investors, on behalf of the government, to look at what it has to offer.

"Vision 2030 is our window of opportunity to achieve transformation in Kenya and is about where we want to be in the future. There are ample opportunities available in key sectors of the economy."

Robust private sector

By African standards, Kenya has a well-established and mature private sector, including a significant number of foreign investors, and has been slated as one of the most resilient economies in the world.

The domestic private sector has been concentrated in certain kinds of manufacturing (mainly food-related) for both the domestic and the regional markets.

Foreign direct investment has played a key role in the horticulture industry (for export to the European Union) and certain service areas: transport, tourism and mobile communications, for example.

A strategic location

With a 536-km-long coastline on the Indian Ocean, and excellent air links, Kenya benefits from its geographical position within East Africa.

> **"Vision 2030 is our window of opportunity to achieve transformation in Kenya and is about where we want to be in the future. There are ample investment opportunities."**
>
> WYCLIFFE OPARANYA
> MINISTER OF STATE FOR PLANNING, NATIONAL DEPT AND VISION 2030

The country — and specifically Nairobi — stands as a major transport hub for East Africa, with Nairobi's Jomo Kenyatta International Airport (JKIA) the hub of East African air transport. JKIA has connections to many international cities, and with a convenient time zone (GMT+3), Kenya is well placed to position itself as a leading destination for call center, business process outsourcing (BPO), software development and other related activities.

Nairobi is the undisputed transportation hub of Eastern and Central Africa and the largest city between Cairo and Johannesburg.

Mombasa, Kenya's premier seaport, has also served as a major distribution hub for the lucrative East African market by providing connections to landlocked neighboring nations.

The port of Mombasa is linked to the world's major ports with over 210 sailings per week to ports in Asia, Europe, North and South America, the Middle East, Australia and rest of Africa, and is the most important deep-water port in the region, supplying the shipping needs of more than a dozen countries.

Kenya is connected to all the East African countries by the Transafrica Highway and has an extensive road network that connects to all the major commercial cities.

Liberal economy

Kenya has fully liberalized its economy by removing all obstacles that previously hampered the free flow of trade and foreign private investment.

Exchange controls, import and export licensing, and restrictions on remittances of profits and dividends, now no longer exist, creating the necessary environment to attract foreign investment. The government is taking further steps to create an enabling environment for both foreign and local investment.

Skilled workforce

Kenya prides itself on its large pool of professional workers, trained both within the country and at institutions in Europe, North America, Australia, and other parts of the world.

Kenya is known for producing well-educated professionals that are fluent in English and highly trained in various fields. The country also holds the distinction of having the highest number of university and college educated English-speaking professionals in East Africa.

This pool of educated and skilled manpower have made the country the manufacturing, commercial and financial hub in Eastern and Central Africa.

An artistic impression of Nairobi as it will look by the year 2030.

Kenya has a well-developed education system, with most of the teaching undertaken in English. There are 11 universities, 4 polytechnics, 41 technical training institutions, and several management-training institutions across the country.

Information technology (IT) degrees are offered by most of Kenyan universities, while diploma courses are also offered by both the public and private sector technical and management training institutions.

Kenya therefore has skilled personnel in the IT profession, including computer programmers, software developers, hardware maintenance engineers, systems analysts, and IT consultants. The Kenyan government has also started training its own staff on IT related subjects and proposes mainstreaming of IT training within all schools, colleges and universities.

High-ranked for business

The Vision 2030 objective focuses on a plethora of a new and lucrative investment opportunities and openings in agriculture, tourism, manufacturing, wholesale and retail trade, IT and BPO, financial services, energy, mining construction and infrastructure.

With business-friendly regulatory reforms — the 2008 World Bank Doing Business survey ranks Kenya among the top ten reformers in the world) for improving the regulatory framework — Chinese investors can rest assured that investing in Kenya is as safe and hassle-free as possible.

Investors are free to choose 100 percent ownership, although public private partnerships, particularly in certain infrastructural projects, are encouraged. Foreign investments in the telecommunications and insurance sectors may also be subject to specific requirements on the percentage of ownership.

Funded by the government, and headed by MD Susan Kikwai, Kenya Investment Authority (KenInvest) demonstrates the government's commitment to attracting inward investments by providing free, confidential services to prospective investors.

With a mission "to provide exceptional services to attract, facilitate, retain and expand investments in Kenya, KenInvest provides support to foreign and domestic companies looking to set up or expand in Kenya, by offering a fully integrated advisory service, assistance in acquiring licenses and requisite entry permits. It can also help with after-care support.

Specific services include:

- Key information on regulatory factors;
- Issuance of the investment certificate that facilitates immediate start of business, which is free of charge and takes around one to three days to administer, providing all business documents are present;

> **"Our team of accomplished and experienced experts can advise on sources of funding and land availability, and foreign companies may freely transfer profits after complying with tax regulations."**
>
> SUSAN KIKWAI
> KENYA INVESTMENT AUTHORITY MD

- Key information on location factors and business opportunities;
- Sector information and introduction to key sector networks;
- Support to build collaborative partnerships with Kenyan businesses;
- Continued support to companies once they have established.

The constitution of Kenya guarantees protection of the investment. Additionally, if the investment is from a country that has signed an investment promotion and protection agreement with Kenya, then there will be additional protection guarantees in the Agreement.

The Foreign Investment Protection Act guarantees against expropriation of private property by government. Kenya is a signatory to and Member of the Multilateral Investment Guarantee Agency, an affiliate of the World Bank, which guarantees investors against loss of investment to political problems in host countries.

Kenya is also a signatory to the International Center for Settlement of Investment Disputes, which is a channel for settling disputes between foreign investors and host governments.

"KenInvest's team of accomplished and experienced experts can advise on sources of funding and land availability, and foreign companies may freely transfer profits after complying with tax obligations," Kikwai said.

Setting up a company in Kenya also couldn't be easier, with the same procedures applied to local and international investors. There are four different types of Kenyan registered companies:

- Private company limited by shares — the members' liability is limited to the amount unpaid on shares they hold;
- Private company limited by guarantee — the members' liability is limited to the amount they have agreed to contribute to the company's assets if it is wound up;
- Private unlimited company — there is no limit to the members' liability;
- Public company limited by shares — the company's shares are offered for sale to the general public through a stock exchange and the members' liability is limited to the amount unpaid on shares held by them;
- Other business entities include: partnerships, limited partnerships, and limited liability partnerships.

Getting going

KenInvest will facilitate approvals of prospective investment projects which have the details submitted on a prescribed application form issued by the authority.

The project must comply with environmental, health and security standards set in the pertinent Kenyan laws. KenInvest will then issue an investment certificate to all projects that are ready to start operations and have complied with the standards above.

There are a number of tax-based incentives available in Kenya, mainly covering exemptions from duty and VAT on capital equipment and machinery to be used in the investment project.

Incentives are granted on a case-by-case basis and are approved by the Ministry of Finance.

New-Look NEPAD embraced by Kenyan officials

Having spent valuable time researching and re-evaluating its role, the New Partnership for Africa's Development (NEPAD) is now even newer, and back with a wider mandate and a clearer framework.

The development body, launched by the Organization of African Unity — an earlier version of the African Union (AU) — in 2001, has been given a complete overhaul and will now focus more prominently on sourcing funds and implementing economic, social and political projects.

The former Nepad organization was largely seen as unwieldy and difficult to manage, but the NEPAD Coordinating and Planning Agency, formed in February, aims to rectify this by bringing all 20 NEPAD member countries under its supervision.

As Grace Ongile, the NEPAD Kenya Secretariat's chief executive explains, NEPAD's newly defined powers will allow its directives to be more coordinated and inclusive and the NEPAD member countries to be more accountable and proactive.

"Now NEPAD is under the AU umbrella, working in harmony and not apart from the AU, it will be discussed at every AU meeting. It will be able to strengthen its knowledge, information, sharing and research, which means it will work more effectively with the international community, and therefore attract more funding.

"The new NEPAD will have muscles and teeth: it will be much stronger."

NEPAD's primary objectives are to eradicate poverty; to place African countries, both individually and collectively, on a path of sustainable growth and development; to halt the marginalization of Africa in the globalization process and enhance its full and beneficial integration into the global economy and to accelerate the empowerment of women.

Grace Ongile, chief executive, NEPAD Kenya Secretariat

> **"The new NEPAD will work more effectively within the international community. It will have muscles and teeth: it will be much stronger."**
>
> GRACE ONGILE
> CHIEF EXECUTIVE, NEPAD KENYA SECRETARIAT

Ongile notes: "If we don't get the governance right, everything we talk about will go down the drain. Given our mandate of poverty alleviation, marginalization of the continent, enhancing women's voices, this transformation needs to be put into a context of frank speaking, and remain relevant to the country, the region and Africa.

"Knowledge and information sharing are of key importance in terms of infrastructure and agricultural policy. We will be working across all ministries to achieve our Vision 2030 goals," Ongile states. "The NEPAD Kenya Secretariat, which comes under the Ministry of Planning, has a new African Peer Review Mechanism with a 16-member council that will guide the process here."

In Kenya, the primary focus will be on agriculture, a sector that still receives less than the investment target of 10 percent of the national budget as mandated in 2004.

"Agriculture is critical to the development of the country, for our food security, and we must ally with Malawi to see how we can turn this around. Other practical programs in hand are connected to infrastructure.

"Whether we are talking about the Kenyan/Ugandan oil pipeline, the Port of Mombasa, Lake Victoria or highway linkage s to Ethiopia and Sudan from the north of Kenya, the future will rely on the economic regional community."

The CEO is hopeful about the potential for links with Chinese investors and businesses to make these projects a reality. "Business is very straightforward with China, but it is important that the skills and technology set is passed on to our people," she says. "I went to China last year, and was extremely impressed with the infrastructure there."

NEPAD lists the following as priority sectors: Agriculture & Food Security, Infrastructure (Water & Sanitation, Transport, Energy, ICT), Human Resources Development (Education and Health), Science and Technology, Trade and Market, Access Environment and Climate Change, and Culture and Tourism, Governance and Capacity Development and Gender Development.

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Ten more reasons to invest in Kenya

1. Manufacturing Under Bond Program, guaranteeing 100 percent investment allowance and duty and VAT exemption on machinery, equipment and raw materials.

2. Export processing zones:
- 10-year tax holiday
- Duty and VAT exemption
- Single license
- Exemption from stamp duty
- Exemption for withholding tax
- 25 percent corporate tax for 10 years after the first 10 years expire
- 100 percent investment allowance.

3. Duty remission — exemption on duties and VAT on raw materials used to manufacture exports.

4. Liberal depreciation rates based on book value.

5. Capital expenditure, where
- Duties paid for capital expenditure in excess of $70,000 can be recovered from corporate tax.
- Capital goods and basic raw materials are zero-rated.

6. Tourism
- Investments in tourist hotels can apply for waiver of duties and VAT.
- 100 percent investment allowance for new investments in manufacturing and tourist hotels.

7. 25 percent corporate tax for companies issuing initial public offers in the Nairobi Stock Exchange.

8. The most developed stock market in the Eastern and Central Africa region including the NSE.

9. Great place to live: Kenya has a modern and vibrant social and economic fabric.

10. Kenyan people are known for being warm and hospitable, and English is widely spoken both in formal and informal situations.

Nation open for cooperation in oil drilling, exploration and storage projects.

Retail giant Nakumatt offers Kenyans the best selection of local and international goods at reasonable prices.

Open for business in every sector

Investors encouraged to grasp wealth of new opportunities

Promising foreign direct investment (FDI) opportunities can be found right throughout Kenya's diverse economy and range of business sectors, manufacturing industries and commercial services.

The government has identified the private sector and foreign investors as crucial to the achievement of Vision 2030's economic and social goals as Kenya looks to gain middle-income status and set the benchmark for other countries in East Africa and beyond.

Expanding the provision of housing and accommodation is one of the Vision 2030's key goals as ministers look to fulfill their pledge of building 200,000 new homes per year over the next two decades. As demand for housing reaches a record high — especially in the main urban areas of Nairobi and Mombasa — the country's building and construction industry is braced for one of the busiest periods in its history.

With the government seeing its role as a facilitator, the vast majority of new homes will be developed through private sector investment. Investors and developers are being encouraged to join forces with the National Housing Corp (NHC) — a State-owned organization that aims to ensure the efficient provision of adequate and affordable housing and housing-related services.

As the principal implementing agency of the government's housing policy, NHC has put in place a program of measures aimed at facilitating the acquisition of land and the subsequent construction and sale of new residential developments.

The corporation has developed countless projects since it was established 43 years ago, and is particularly keen to hear from Chinese investors and construction companies as it looks to develop land in cities and towns across the country.

With more than 20 branches across the country, retail goods giant Nakumatt Holdings Ltd is leading the stampede towards higher living standards in Kenya and is well positioned to cash in on the growing middle class market.

As Kenya works hard to boost its socioeconomic status, disposable income levels are rising rapidly, with the ripple effect seeing increasing numbers of Kenyans buying their own homes and household goods.

With a focus on quality, value, service, variety and lifestyle, Nakumatt Holdings Ltd's stores offer a wide variety of local and international brands at reasonable prices.

The company operates more than two dozen outlets and plans to increase that number through the opening of new stores in Kenya and neighboring countries like Rwanda, Uganda, and Tanzania.

Selest Kilinda, MD of Kenya Pipeline Company Ltd

"We are planning to expand to all five countries in southeast Africa and are already present in Rwanda and Uganda, as well as being the largest retailer in Kenya," says Nakumatt managing director, Atul Shah.

"We are looking for equity partners to help us achieve our growth plan. By 2015 we hope to have 50 or more stores spread across six or seven countries including Burundi, Ethiopia and Sudan."

China is playing a key role in the retailer's strategic development as Chinese manufacturers have a large presence in the enterprise's international supply chain.

"A third of our products are imported and 80 percent of them come from China so the Chinese are big suppliers to Nakumatt and they are playing an important part in our growth. I visit China every two years to look for new ideas and goods as they make good quality products at reasonable prices," said Atul Shah.

Construction opportunities can also be found in the education sector as the government looks to lay the foundations for future generations through the building of new primary and secondary schools, as well as colleges and universities.

Through this ambitious drive to boost education facilities and standards, Kenya is making a firm commitment to the development of a knowledge-based economy that will prepare its young people for today's competitive global environment.

"We need to construct more schools and universities, and expand and rehabilitate existing ones," said Kenyan President Mwai Kibaki.

"There is high demand for university education and the construction of private secondary schools is encouraged and offers excellent opportunities for investors in this sector."

These developments will be supported by a network of centers of excellence that focus on the hospitality, agriculture, trade, manufacturing, financial services, engineering, and information and communications technology (ICT) sectors.

A series of major improvements to old training and technical facilities is also planned, especially at the Kenya Textile Training Institute, the National Industrial and Vocational Training Center, and industrial training centers at Kisumu and Mombasa.

While not as richly endowed in natural resources as other African nations, Kenya's range of minerals includes ash, barite, lead, nickel, and chromite.

A comprehensive mining policy targets investors through the formation of joint ventures and public private partnerships (PPPs). FDI opportunities exist in mineral exploitation and prospecting, traditional mining, and value addition.

Meanwhile, with a firm commitment to environmentally friendly policies, Kenya runs sustainable programs that protect its precious land, wildlife and habitats.

In the past decade, climate change has had an adverse impact on Kenya's agricultural-based economy through droughts, floods, and mudslides that caused havoc and stunted economic growth.

Officials are seeking PPPs and foreign funding in environmental monitoring and early warning system technologies, as well as education, training and awareness programs, waste management programs, and pest control.

As a major trade and transit hub for East Africa, Kenya plays a very important role in the transportation of products to the wider region, including various landlocked countries such as Uganda, Ethiopia, Rwanda, and Burundi.

Established in 1973 as a state corporation run under the Ministry of Energy, Kenya Pipeline Co Ltd operates a modern, secure, and efficient pipeline system for the transportation of refined petroleum products from Mombasa to Nairobi, the western towns of Nakuru, Kisumu and Eldoret and the neighboring countries of Rwanda, Burundi, Uganda, Tanzania and the Democratic Republic of Congo.

> **"Our vision is to be a top notch, world-class petroleum products distribution, handling, storage, and supply network in this region and particularly in Kenya. Our relationship with China is going to grow as the Chinese are extremely professional and dedicated."**
>
> SELEST KILINDA
> MD OF KENYA PIPELINE CO LTD

In collaboration with the government, the forward-thinking company is the lead institution for the transportation, distribution and storage of petroleum products. From its base in Nairobi, Kenya Pipeline Co's highly skilled and experienced workforce coordinates projects nationwide.

The company's facilities and operations include over 900 km of pipeline, ancillary pumping, storage tanks, plant equipment and installations.

Led by managing director Selest Kilinda since August 2009, Kenya Pipeline Co provides the most cost-effective transportation network in East and Central Africa for refined petroleum products.

"Our vision is to be a top notch, world-class, petroleum products distribution, storage and supply network in Kenya and beyond," he says.

In order to meet growing demand and reduce the number of fuel trucks on the country's roads, Kenya Pipeline Co enhanced its capacity by putting up four new pump stations at Samburu, Manyani, Makindu and Konza which nearly doubled its flow rate from 440,000 liters per hour to 800,000 liters per hour.

Other major projects now being undertaken include the extension of the oil pipeline to Uganda and construction of liquefied petroleum gas import handling and storage facilities, as a joint venture with Kenya Petroleum Refineries and India's Bharat Petroleum.

A 325 km parallel pipeline from Nairobi to Eldoret is currently being built by the China Petroleum Pipeline Engineering Corp. On completion this project will boost the supply of petroleum products to western Kenya and beyond.

Kilinda sees his company playing a strategic role in the region's development especially as the recent discovery of oil fields in neighboring Uganda could result in a new refinery being built that would require the construction of new pipelines in Kenya.

He says the firm is open to strategic partnerships as it holds an advantage on "way leaves" (rights of way) for developing new infrastructure.

"Any investor who teams up with us will find us an ideal partner. We are in a very strong position to continue dominating the transportation, storage and distribution of oil in the region."

According to Kilinda, Chinese technology and experience will form an important part of this expansion plan. "Our relationship with China is going to grow. The Chinese are extremely professional and we admire their work ethic and dedication," he says. "We strongly feel they are the right people to work with and we know they have existing facilities for financing projects."

In a final message to potential investors, Kilinda adds: "There is a lot of Chinese investment in Kenya because the returns are good and our doors are open for more partnerships. The enhancement of our pipeline is an example of what good partnership can achieve."

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