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RELPA
REGIONAL ENHANCED LIVELIHOODS
IN PASTORAL AREAS

ELMT
ENHANCED LIVELIHOODS IN
THE MANDERA TRIANGLE

ELSE
ENHANCED LIVELIHOODS IN
SOUTHERN ETHIOPIA

EXPANDING INVESTMENT FINANCE TO NORTHERN KENYA AND OTHER ARID LANDS

Market Assessment Task1 / Phase III
25th of February 2010



Expanding investment finance to Northern Kenya and other Arid Lands

Market assessment

Task1/phase III

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Introduction

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Market opportunities

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We looked at the environment for doing business, carried out a quick survey of entrepreneurial situation and outlined key investment opportunities

Entrepreneurial situation

What are the challenges and needs entrepreneurs are facing?

Investment opportunities

What kind of investment opportunities are there in the project region?

Objective: Inform the design of NKIF financing and technical assistance products, fund profile and size. Refine assessment of phase I and II

Content

Introduction

Business environment

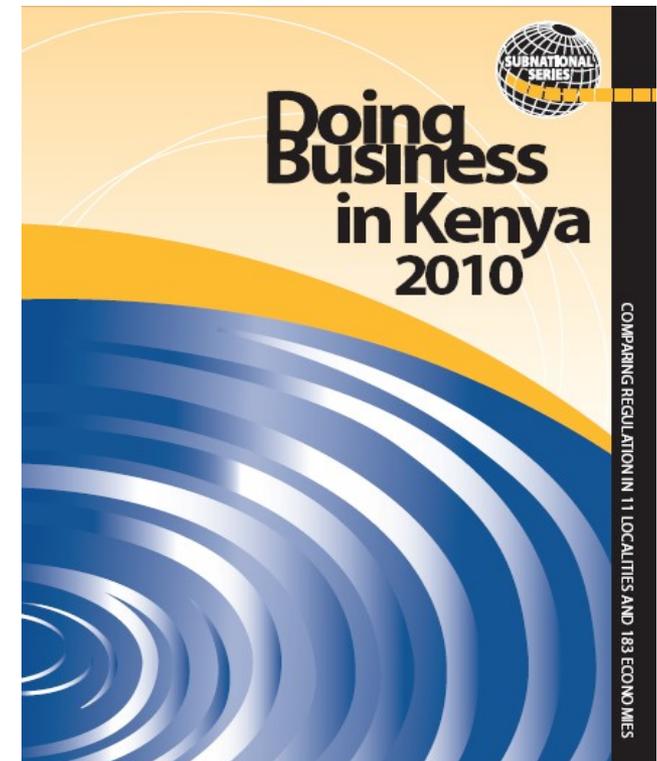
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We reviewed 'Doing business in Kenya 2010' focusing on the results for Garissa and Isiolo

- A Survey by the World Bank which compared business regulations and practice across 183 economies worldwide
- Sub-national report on Kenya revealed substantial differences across 11 Kenyan localities with respect to:
 - Starting a business
 - Dealing with construction permits
 - Registering property
 - Enforcing contract



Source: IBRD/World Bank (2009): Doing business in Kenya 2010, sub-national series on www.doingbusiness.org

There are wide variations in business environments across localities in Kenya

Best practices in Kenya compared internationally

Indicator	Kenya's performance in DB2010 (represented by Nairobi)	Best performing city	Best local practice	Global rank (183 economies)
				How Kenyan localities would compare globally
Number of procedures to build a warehouse	11 procedures	Kisumu	10 procedures	9
Days to build a warehouse	120 days	Narok	69 days	15
Days to enforce a contract	465 days	Malaba	330 days	23
Days to register property	64 days	Mombasa	23 days	51
Cost to register property	4.2% of the property value	Thika	4.1% of the property value	78
Cost to build a warehouse	161.7% of income per capita	Nyeri	132.4% of income per capita	88
Days to start a business	34 days	Nairobi	34 days	124
Cost to start a business	36.5% of income per capita	Nairobi	36.5% of income per capita	130
Number of procedures to register property	8 procedures	All localities	8 procedures	136
Cost to enforce a contract	47.2% of the claim value	Isiolo	38.4% of the claim value	140
Number of procedures to start a business	12 procedures	All localities	12 procedures	154
Hypothetical city of "Kenya"				78

Overall, Isiolo is the most difficult locality to do business in Kenya. Garissa is ranked 7th out of 11.

TABLE 1.1
Doing Business in Kenya—where is it easiest?

Locality	AGGREGATE RANK
Narok (easiest)	1
Malaba	2
Thika	3
Kisumu	4
Mombasa	5
Nyeri	6
Garissa	7
Eldoret	8
Kilifi	9
Nairobi	10
Isiolo (most difficult)	11

Note: The aggregate ranking index is calculated as the ranking on the simple average of locality percentile rankings on each of the 4 topics covered in *Doing Business in Kenya 2010*.

Source: *Doing Business* database.

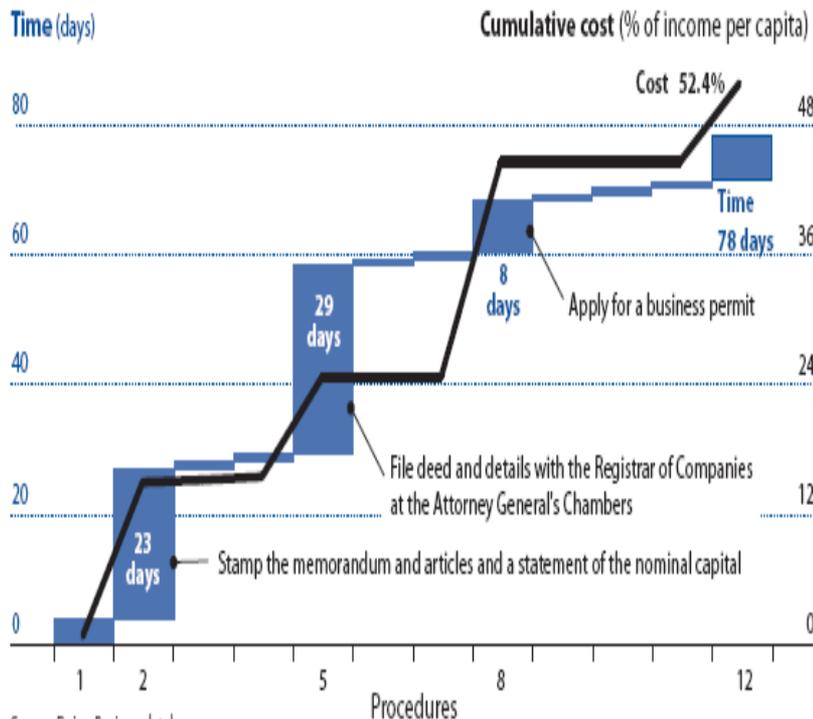
- Local business regulations and their enforcements differ across localities
- Narok's performance (e.g. building permits) is comparable to developed countries
- Indicators, however, do not account for macroeconomic conditions, infrastructure, workforce skills, quality of financial services or security.

Business environment: Starting a business

Garissa is the most difficult locality in Kenya to start a business (rank 11/11), whereas in Isiolo it is relatively easy (rank 4/11)

FIGURE 2.3

Starting a business in Garissa—the most difficult locality in Kenya



Source: Doing Business database.

Main reasons for delay:

- Filing the deed with the Registrar of Companies in Nairobi
 - Stamping memorandum, articles of association and nominal capital statement
 - Getting a municipal business permit
- Municipal business permit fees: KES 12000 in Garissa (and Isiolo) compared to KES 5000 in Nairobi**

Dealing with construction permits is easier in Garissa (rank 5/11) than in Isiolo (rank 11/11).

Where is dealing with construction permits easy—and where not?

RANK	Locality	Procedures	Time (days)	Cost (% of income per capita)
1	Narok	11	69	136.5
2	Nyeri	11	100	132.4
3	Malaba	11	111	137.0
4	Kisumu	10	99	237.1
5	Garissa	14	80	156.9
5	Nairobi	11	120	161.7
7	Eldoret	11	117	168.7
8	Kilifi	11	103	283.6
9	Mombasa	14	96	162.9
10	Thika	11	123	208.4
11	Isiolo	13	127	134.8

Note: Rankings are the average of the locality rankings on the number of procedures, the associated time and cost (% of GNI per capita) required to deal with construction permits. See the Data notes for details.

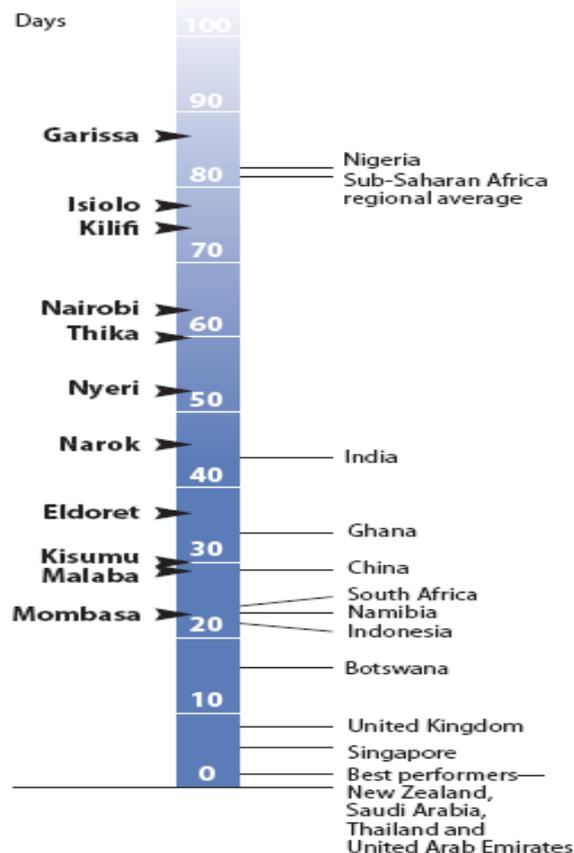
Source: *Doing Business* database

- Main bottlenecks: building-plan approval, building permits and utility connections (e.g. Isiolo relies on inspectors from Meru)
- Some localities do not apply EIA regulations – speedier process
- In both Garissa and Isiolo the costs for complying with regulations are below the average (174.5% income/cap)

Business environment: Registering property

There are big differences in time, costs and administration to register property with both Garissa and Isiolo at the bottom of the ranking

Big range in time to register property



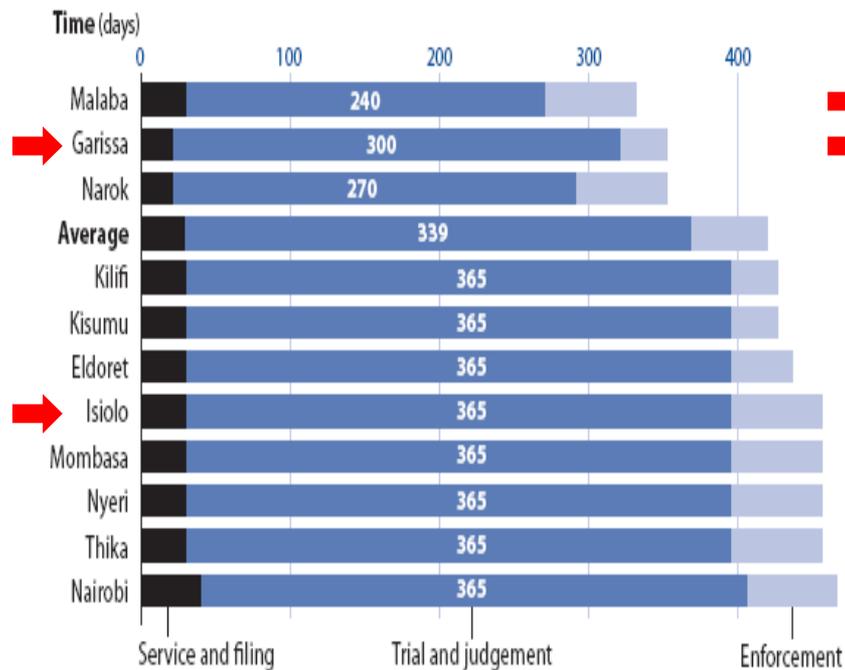
Source: Doing Business database.

- Time: It takes 87 (Garissa) and 77 (Isiolo) days to register property (53 days Kenyan average)
- Costs: Costs for property registration is 4.14% of property value for Garissa but **24.2% for Isiolo** (Kenyan average between 4.1 and 4.3%)
 - Main cost item: Sales tax levied by County Council to obtain the Council's consent (20%)

Business environment: Enforcing contracts

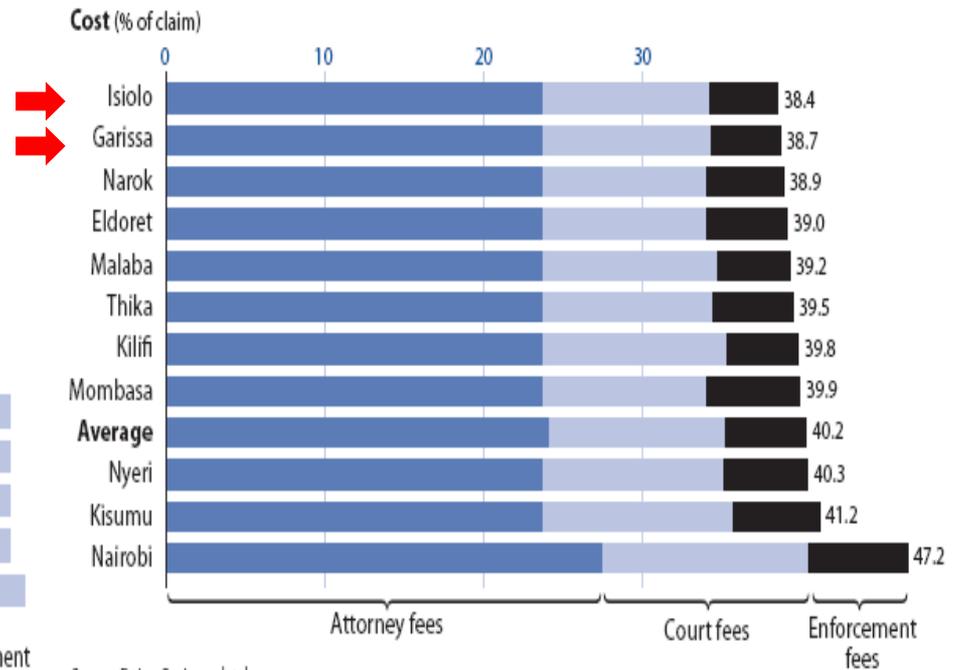
Enforcing contracts appears less costly in Isiolo (4th rank) and Garissa (1st rank), but procedures are still lengthy with 300 days (Garissa) and 365 days (Isiolo).

The lengthiest delays occur during the trial and judgment phase



Source: Doing Business database.

Cost of enforcing a commercial contract in court across Kenya



Source: Doing Business database.

Some simple steps may improve the business environment in Northern Kenya in cooperation with other Government authorities*

- Open local branches of the Registrar of companies, Ardhi House etc.
- Set up one-stop-shops for business registration and promote online start ups, set up specialised commercial courts
- Sensitise local authorities for the need to simplify procedures, reduce costs and minimise delays:
 - Make business permits affordable and transparent
 - Consolidate required clearances for building permits and allow for online applications for building plan approvals
 - Publicly display information about the construction permit process
 - Address land use and urban planning constraint

* Including for example, the Business Regulatory Reform Unit (Ministry of Finance),

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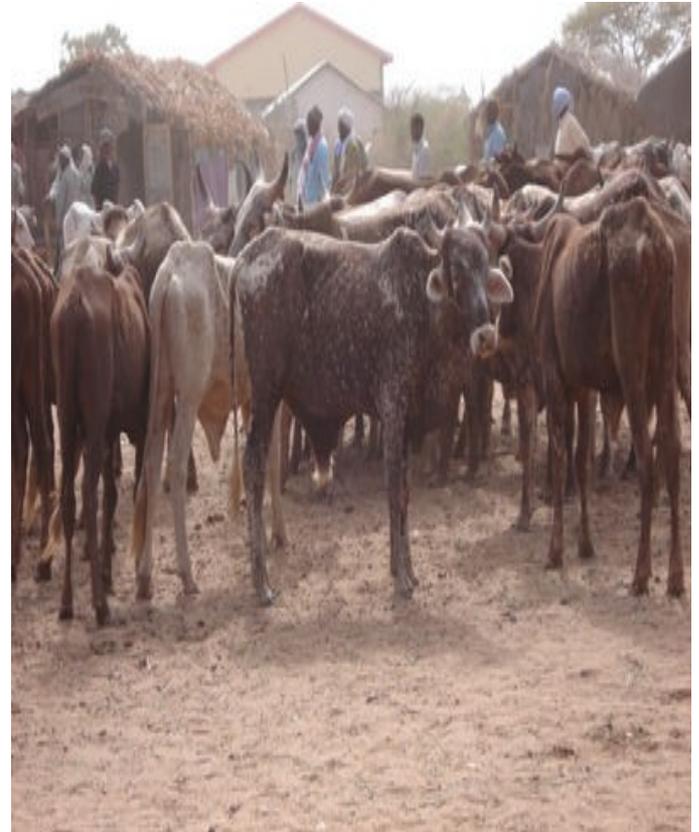
Enterprise survey

Market opportunities

Next steps

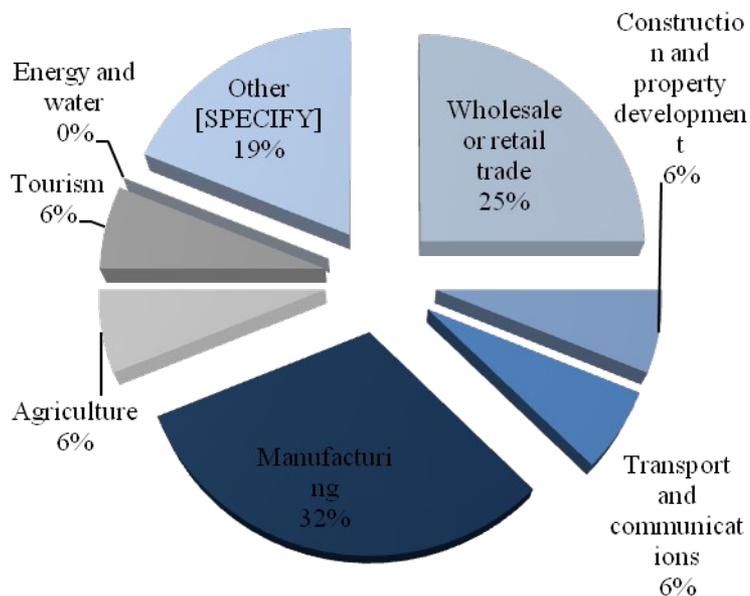
Our survey aimed at getting a better sense of the needs of entrepreneurs in the region

- 17 companies interviewed: contacts from phase I, trip to Garissa, Daily Nation advertisement (see Annex 1)
- Covered:
 - Organisation
 - Technology, innovation & growth
 - Finance
 - Capacity
 - Public support options
- Survey is not statistically rigorous due to time constraint, but provides some useful insights



We interviewed companies across various sectors and different sizes

What is the main activity of your company (Q112)?



- **Sectors:** trading, manufacturing, agriculture/livestock
- **Size:** 47 percent employ between 1 and 9 employees, 29 percent between 10 and 49 employees.
- **Ownership:** most companies owned by individuals and families
- **Age:** Relatively young companies (average 2004)

Enterprise survey: Organisation

We asked about the problems the company was facing and then, ‘the most pressing problem’.

Which problem is your company facing (QII 5)	in percent *
Cost of supply	6%
Reliability of supply	6%
Finding customers	11%
Competition	17%
Access to finance	17%
Cost of production and labour	2%
Availability of skilled staff/managers	7%
Regulations, licensing (national level)	4%
Regulations, licensing (municipal level)	13%
Tax rate	0%
Corruption and functioning of judiciary	4%
Lack of ICT	2%
Lack of roads	4%
Energy and water supply	9%

- Access to finance, the level of competition, municipal regulation and energy supply are major concerns for local entrepreneurs
- Access to finance was quoted as the most pressing problem by the highest number of respondents, followed by competition and energy/water supply infrastructure

*most pressing problem (in bold)

Most respondents consider themselves innovative and are optimistic about growth.

- **Website:** Only 12 % of all respondents have a website
- **Innovation:** 71% of respondents have introduced a new product, process or service over the past 12 months, 65% will do so over the coming 12 months
- **Growth:** 35% of respondents expect to grow substantially, 59% of respondents will grow moderately. 88% agree that 'our company has sufficient capacity to grow and meet future challenges
- **Investment:** the average amount required for future investment to realise growth strategies is estimated at approx. KES 14m (lowest KES50,000, highest KES100m)

Most entrepreneurs use internal funds or loans from friends and family rather than bank loans. Only 24% of respondents ever applied for a loan.

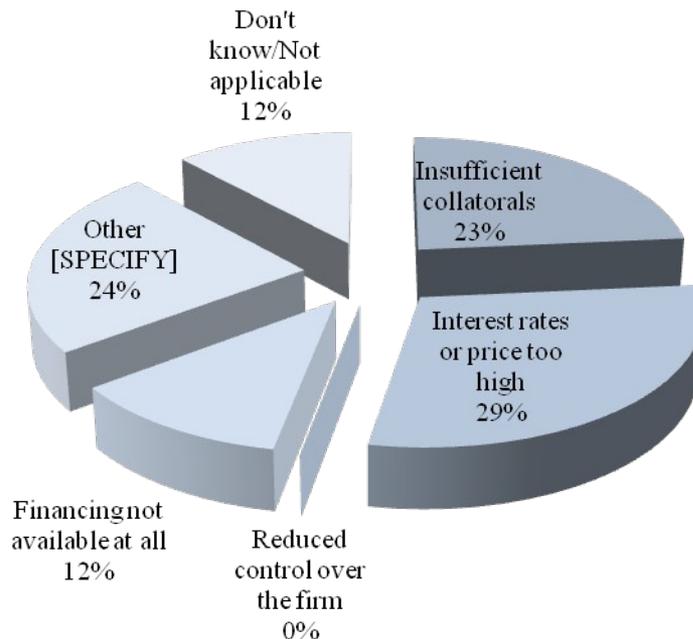
Sources of financing used in the past 12 months (Q IV1):	Yes	No	Don't Know
Internal funds	16	1	0
Grants and subsidised loans incl funding from public sources	0	17	0
Bank loan	1	16	0
Trade credit	0	17	0
Loans from family and friends	1	12	0
Money lenders or other informal sources (other than family and friends)	0	17	0
Equity issuance or external equity investors	1	15	1

Asked about external sources of financing for future investments, however, entrepreneurs appear open minded

- **Confidence:** Respondents say to be confident talking to a bank about a loan (65%) and even more confident talking to an equity investor/venture capital fund (82%)
- **External financing:** Almost half of respondents would prefer a bank loan (24%), equity investment (24%) or subordinated/mezzanine finance (6%) while 35% would still feel more comfortable with financing from friends and family.
- **Amount:** On average, entrepreneurs would aim to obtain KES 19,6 million (lowest KES 8m, highest 50m)

Concerns about insufficient collateral and high interest rates are the key limiting factors for debt financing

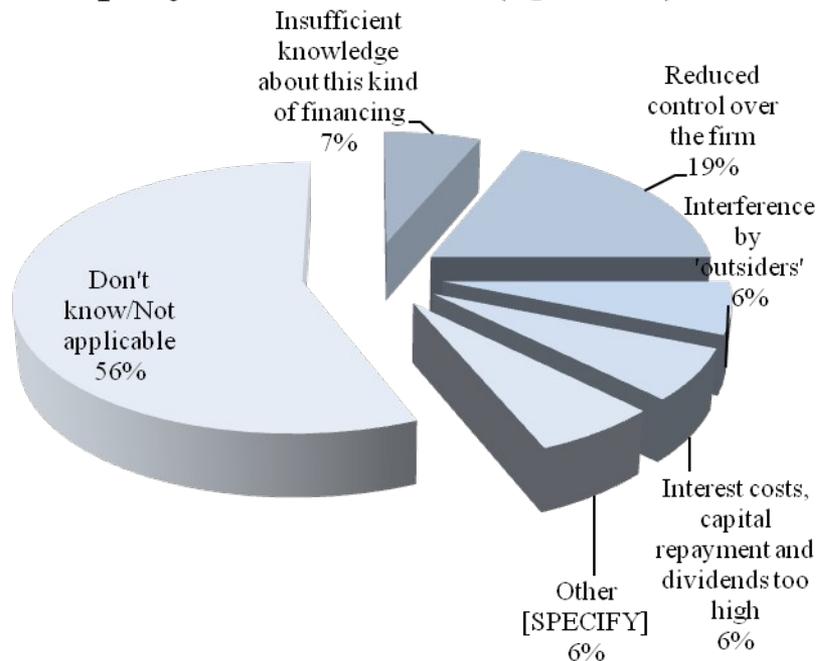
Most important limiting factor: bank loans (QIV 9A)



- Other important limiting factors include:
 - Lack of sharia compliant financing products
 - Attitudes 'I don't want debts'
 - Lack of products for start ups.

Concerns about external interference and lack of understanding are the key limiting factors for equity finance

Most important limiting factor: equity or mezzanine (QIV 9B)



- **Knowledge:** Understanding about equity or mezzanine financing appears limited.
- **Third party:** concerns about reduced control and interference by outsiders (25%)
- **Others:** equity financing not available for start up companies

Almost half of the respondents have in the past experienced a shortage when hiring personnel

If you did experience a shortage, in which category (QV1)?	Number of responses
Manager level	0
Accountant and finance	0
Technical	6
Sales and marketing	3
Other [Cooks, hosts]	1
Don't know/not applicable	7

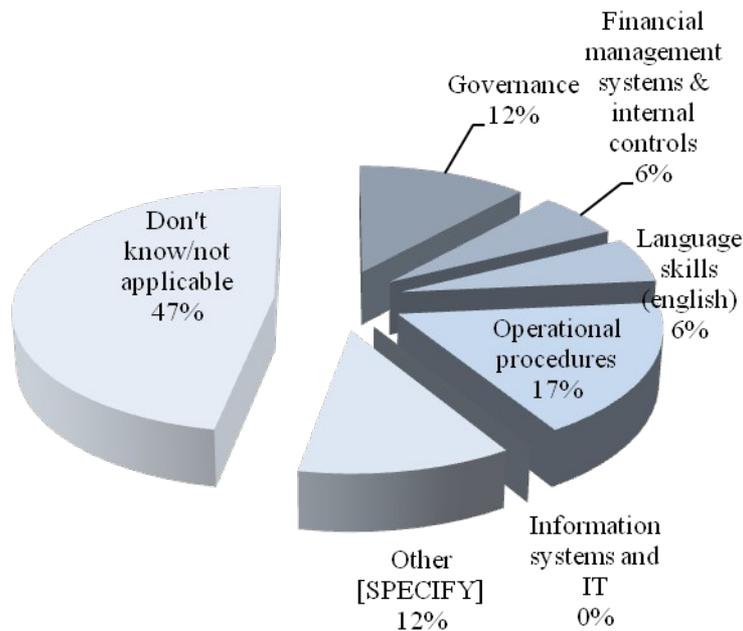
- The shortage appears to be in relation to technical staff, sales and marketing rather than in accounting, finance or management
- The shortage was felt across all sectors

Entrepreneurs rely mainly on (informal) business networks and associations as support service

For each of the following services, do you have access to good quality support services?	Yes	No	Don't Know
Professional service firms (accounting, law, consulting)	29%	71%	0%
Outsourcing	0%	76%	24%
Formal and informal business networks and associations	59%	35%	6%
Business incubators	0%	94%	6%
Relevant research from universities and research centres	24%	71%	6%

A large percentage (47%) did not identify any operational weakness that may put the growth of their organisation at risk.

Operational weaknesses (Q V4)



- Entrepreneurs who did identify a weakness in their business operations mentioned the following:
 - Operational procedures (17%)
 - Governance (12%)

Respondents are not aware of innovative, risk taking start up entrepreneurs

Amongst your professional and private network are you aware of any potential entrepreneur with a 'brilliant' business idea QVI 1?	In Percent
Yes, but he/she lacks the capacity of putting a business plan together [GO TO B]	12%
Yes, but he/she did not find anybody to finance his/her - otherwise solid - business plan [GO TO B]	6%
No, most business ideas I have come across are just the same old ideas	18%
No, entrepreneurship is not well regarded in my community (e.g. compared to NGO jobs, Government jobs etc)	0%
Other [SPECIFY]	12%
Don't know/not applicable	47%

Enterprise survey: Public support options

Entrepreneurs identified access to finance, project development support, municipal business regulation & security/infrastructure as priority areas for government intervention.

Which interventions should be a priority in promoting entrepreneurship and investment in Northern Kenya (Q V1)?	
Facilitate access to market based debt financing for existing companies	10%
Facilitate access to equity financing for existing companies	7%
Provide seed and start up capital	10%
Strengthen investment promotion	0%
Facilitate networking and industry clusters	4%
Tax incentives	4%
Simplify business regulations and procedures at municipal level	14%
Simplify business regulations at national level	5%
Set up cost based business incubator services	0%
Promote entrepreneurial mindset	6%
Assist entrepreneurs with loan application/project development	17%
Others (Security, infrastructure)	22%

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We reviewed and commented on market opportunities identified in the KIE report.

Livestock	
Meat processing	All of these businesses have potential application but some are inter-related, and there will be a certain amount of risk taking necessary in order to get started.
Tanneries	
Animal feeds/hay lofts	Animal feeds availability during the dry periods is essential for a well functioning livestock industry. It may be possible to transport feed in from outside the region, but there is good under-utilised agricultural land in the region, e.g around Garissa, which could be developed to improve the efficiency of this industry.
Cold storage facilities	Tanneries have worked in Kenya at a basic level of output. Most hides are exported from Kenya as semi-processed. It is possible to improve the quality of output, but this will require relatively large levels of investment. Infrastructure is clearly important for many of these businesses, particularly roads and energy for cold storage.
Dairy Industry (including camel, goat milk, cheese, yoghurt)	

Market opportunities continued (2/6)

Agriculture/Agri-processing	
Rice mills	<p>There have been attempts to develop agricultural production, particularly around the Tana River, but most of the bigger projects, eg. Rice, sugar, cotton, were initiated by the Government, and have since collapsed.</p> <p>Despite this, it should be possible to revive some of these industries although the investment requirements are likely to be relatively large, ie. \$5m - \$20m.</p> <p>Businesses such as production of honey, spices, and fish farming can be implemented successfully at smaller scales, but access for small businesses to the major urban and regional markets will be a major constraint until the road and energy infrastructures improve.</p>
Sugar mills	
Fruit and vegetable processing	
Honey refineries	
Cotton Ginneries	
Spices	
Fish farming and processing	

Market opportunities continued (3/6)

Power generation	
Windmills	<p data-bbox="755 586 1792 832">Large power generation projects such as the Turkana Wind Project can take advantage of the space available in N Kenya, but these projects are targeting power supply to the larger consuming areas rather than providing energy locally. For these projects, there is unlikely to be much local benefit other than some nominal payment for land leases.</p> <p data-bbox="755 851 1808 1219">It seems unlikely that KPLC will extend the electricity grid into N Kenya anytime soon. Smaller energy projects may be feasible if tariffs can be set at levels which reflect the cost of power production. These projects may rely on renewable sources of energy such as wind, perhaps in combination with more conventional diesel generators. However, there may also be applications for distributed energy generation such as solar thermal systems, eg. to provide the chilling required for meat and milk cooling plants.</p>
Solar panels	

Market opportunities continued (4/6)

Industry / Manufacturing	
Cement factory	Cement is a very bulky product and is expensive to transport. Unless construction in N Kenya expands considerably, it is unlikely that cement production will be feasible. However, it may be possible to build a business on the back of exports into Ethiopia and S Sudan. Further work is required to assess this market potential.
Bakeries/confectioneries/pastry (Consumer driven)	
Chemical industries (cosmetics, gum, tanning, resins etc)	The other industries listed are much smaller and should work. Bakeries in Garissa have had difficulties because of unreliable power supplies; similar constraints operate to limit the establishment of other small industries.

Market opportunities continued (5/6)

Services / Commercial	
Transport services (trucks, taxis, buses, tour vans and commercial airlines)	Services businesses will follow where other businesses start, but a pre-requisite is infrastructure which allows easy access to the region and efficient operation.
Tourist Hotels and Sanctuaries (Eco tourism)	Tourism businesses are rather different in that many are set up as eco-lodges, whose assets are the ability to offer alternatives to an urban lifestyle. Even for these businesses, the poor road networks and perceptions of distance and insecurity are very difficult hurdles, and often these businesses are forced to increase their prices to cover costs, but as a result price themselves out of their markets.
Multi-purpose complex	

Market opportunities continued (6/6)

Collapsed businesses	
The Norwegian Government sponsored fish processing plant on Lake Turkana	<p>A lot of these businesses may still be viable but will require considerable investment to be rehabilitated. All of these businesses should be assessed and offered for privatisation. In some cases, the original business may no longer be possible, but alternative uses may be found for the assets.</p> <p>Although most of the businesses listed are old, some, such as the aloe vera processing plant in Baringo were installed very recently, and have stopped operating only because they have been badly managed.</p>
TARDA rice mill in Gamba, Tana River district	
Salawa cotton ginnery in Baringo and Bura ginnery in Tana River district	
Makatiat bakery in Kabarnet and Garissa bakery	
Aloe Vera processing factory in Baringo,	
Abattoir in Lokichogio, Turkana District, and	
Mini-tanneries in most of the districts	
Bura Irrigation Scheme, Tana River	
Garissa Tannery	

Contacts

Anja-Nadine Koenig
reformconsult
Email :anja.koenig@reformconsult.com
Mobile: +254 727 754 637
PO Box 25194
00603 Nairobi Kenya
www.reformconsult.com

Farid Mohamed
Pipal Limited
Email: farid@pipal.com
Tel: (020) 3742552
PO Box 42777-00100
Nairobi, Kenya
www.pipal.com

Annex 1: Advertisement in the Daily Nation (15th of February)



OFFICE OF THE PRIME MINISTER

Ministry of State for Development of Northern Kenya and other Arid Lands

Market Assessment

The Ministry of State for Development of Northern Kenya and Other Arid Lands was established in 2008 to strengthen the integration of Northern Kenya with the rest of the country and to coordinate development efforts in the arid and semi-arid lands. Under the Northern Kenya Investment Fund Project the Ministry's objective is to encourage entrepreneurship and to develop a market-based investment vehicle for the region. In order to inform the design of the project, the Ministry wishes to engage with entrepreneurs and investors in Northern Kenya who meet the following criteria:

- **Investors** of any size who have identified investment opportunities in the region larger than KES 50 million up to KES 500 million (total investment size) and have carried out an initial assessment to demonstrate that the opportunity would be financially viable.
- **Entrepreneurs** of any size registered in the region or with significant ongoing business interest in the region with a financially viable plan for expansion and growth.

If you fall into one of these categories, please respond to the following questions (max. the equivalent of two A4 pages)

- **Names:** Name of the company, your name, position
- **Contact details:** Company postal address, phone number, website, mobile phone and email contact
- A brief **description of main business activities** of your company
- A brief **description of any planned investment**
- Anticipated **financing** for planned investment (size, debt/equity)
- Description of **technical assistance** and **project development support** needs

Please send your document to northern.kenya@gmail.com by the 22nd of February 2010 close of business. Any correspondence that does not meet the above criteria, maximum length of document and submission date will not be considered. Please do not send individual enquiries at this stage. While not all respondents will be contacted immediately, all submissions will be filed for consideration at a later stage.

KENYA
ARID AND SEMI-ARID LANDS



Annex 2: Overview of investment opportunities

No	Project	Description	Investment size	Comments	Contact
	<i>Name of project</i>	<i>Description of investment opportunity</i>	<i>in USD @ 75</i>	<i>Comments</i>	<i>Name, position, email, mobile phone</i>
1	Water & Sanitation	Proposed development of a water distribution and sewage disposal services in Tharaka Districts	13,333,333		Abel Mainda, Mobitech, 0728038626
2	Water Bottling	Planned investment to setup a water bottling facility in Garissa	4,000,000		North & Eastern Beverage Co., 0720638628
3	Iron ore	Below surface mining of iron ore pebbles in Tharaka district eastern province	2,666,667		Abel Mainda, Tharaka Prospectors, 0728038626
4	Quality Protein Maize	Production of both QPM seed and maize for direct consumption on 10,000 acre farm in Bura, Hola, Taita	1,200,000		Ndonye Mackenzie, Florenzi Technologies, 0727736502
5	Hotel	Medium sized hotel complete with conference facilities on the outskirts of Wajir town. Project is underway.	666,667		Mohamed Mursal, Ilsan Hotels, 0737113807
6	Eco - Lodge	Proposed planning and setup of 5 eco-camps in Marsabit area	400,000		Dr. Christopher Field, camellot@wananchi.com, 0722361642
7	Fruit Canning & processing	Planning to add canning and processing plant to existing farm	266,667	Professionaly run farm with the ability to implement such a project	Gen. Mohamed,
8	Fuel Depot	Expansion of depot's current capacity by 500,000 liters of fuel and bulk storage and packaging of	266,667		Dekow Barrow, Heller petroleum, 0729817180

No	Project	Description	Investment size	Comments	Contact
	<i>Name of project</i>	<i>Description of investment opportunity</i>	<i>in USD @ 75</i>	<i>Comments</i>	<i>Name, position, email, mobile phone</i>
9	Mini tannery	Hides & skins processing upto wet blue stage	226,667	KIRDI conducted feasibility and has identified investors for this project	Ismail (KIRDI), 0721442978
10	Moyale Livestock Traders	Development of marketing infrastructure, setup of veterinary services and supply of transportation services to livestock industry in Moyale	200,000	Currently runs livestock trading and transporting business with turnover of ksh 20M	Jiddah Choke, jchoke1961@yahoo.co.uk, 0722654494
11	Garbage Collection	Garbage collection services and landscaping in Wajir, Mandera & Garissa. Also does courier services in northern areas	160,000		Mossam Service providers, 0729638628
12	Gum & resins	Operates a gum & resin business exporting to the USA	133,333	Financing to setup operation and to hire employees	5 Star Aromatic, Abdirahim Sheikh, 0720850940
13	Fuel Station	Construction of a fuel station in Laisamis, Moyale on the NBI-Moyale road which is also the Capetown to Cairo route.	133,333		Salim Kato, nyaur@yahoo.com, 0722435160
14	Eco - Lodge	Expansion of eco-lodge	106,667		Laura Allesandrini, laura@bush-adventures.com
15	Agro-processing	Has idea to setup a fruit processing plant	66,667	Still in the idea phase, no research/feasibility conducted	Abdi Hafiz, 0722219982
16	Mini Bus	Expansion of bus service	66,667	(KIRDI) conducted feasibility	Ismail (KIRDI), 0721442978

No	Project	Description	Investment size	Comments	Contact
	<i>Name of project</i>	<i>Description of investment opportunity</i>	<i>in USD</i>	<i>Comments</i>	<i>Name, position, email, mobile phone</i>
17	Aloe Processing	Domestication of local aloe species and sap extraction and processing	66,667		Jackson Lokwen, jlokwen@yahoo.com, 0738565484
18	Water Bottling	Setup a water purifying and bottling facility	26,667	Still in the idea phase, no research/fesibility conducted	Abdi Hafiz, 0722219982
19	Bakery	Local bakery supplying bread for local consumption	13,333	Needs financing to re-start existing bakery	Yasin Haji
20	Tomato Processing	Processing of tomato ketchup and juice for local consumption	13,333	Needs financing and technical assistance to re-start project	Waberi Farmers Association
21	Wezesha Consultancies	WC is providing quality consultancy services to individuals, grassroots organizations, NGOs and private institutions on the crucial areas of the Project Management Cycle	13,333	Looking for working capital to expand office branches in Garissa and Isiolo	Julius Marangu, wezesha@gmail.com, 0721840177
22	ICT	Creation of M-pesa shops, book shop, ICT equipment retail outlet in Turkana	9,333		Eliud Emeri Idoket, Lavington Computer & Information co. , 0724466982
23	Abbatoir	Wants to setup Abbatoir in North			Nadir Jessa, nadir@tilleygroup.com
24	Diesel Power Plant	Independent diesel power generator in Garissa			Omar Sharif, omarsharif24@yahoo.com, 0722308664
25	North	Finance	21,000,000		

Annex 3: Sector profiles (see separate report)