Manufacturing Africa: Consumer electronics manufacturing in Kenya

Sector overview

March 2021

This study has been funded by UK aid from the UK Government; however, the views expressed do not necessarily reflect the UK government’s official policies

Consumer electronics manufacturing in Kenya

1. Manufacturing Africa supports investments into Kenya's manufacturing sectors

FCDO's MA programme addresses **Africa's challenges** of a growing labour force and an underdeveloped manufacturing sector by supporting job creation through Foreign Direct Investment into expanding manufacturing

MA provides neutral investment advisory services to **reduce the risk, cost and deal time of transactions** for prospective investors and manufacturers in order to catalyse high-potential scaleup opportunities

Support also includes technical assistance to governments and investment promotion agencies to **improve the business environment**

2. The consumer electronics sector is vibrant and growing in Kenya and East Africa

Consumer electronics spend in Kenya and the region is expected to grow to ~USD 5.1 Bn by 2030, supported by population growth (~3% CAGR) and income growth (~7% CAGR

TVs and fridges are the consumer electronics goods categories with the highest relative regional[1] market size representing ~40% of total consumer spend on consumer electronics (USD 624Mn for TVs and USD 475Mn for fridges)

The TV market is dominated by entry-level units (45% of the regional market), which could reflect the **price sensitivity of consumers**

For fridges, entry-level to mid-range units represent 60% of the market, with the mid-range segment dominated by private label brands

3. There is potential to build a regional hub for electronics manufacturing in Kenya

There is **limited TV and fridge assembly/ manufacturing capacity in Kenya and the region**

Regionally, the combined TV and fridge **demand-production gap could grow to nearly USD 1Bn by 2030**

Potential manufacturers could set up **basic final assembly or integrated manufacturing of TVs and fridges**

Implementation of different enabling initiatives could further improve the attractiveness of manufacturing TVs and fridges in Kenya

4. Kenya is a prime destination for manufacturing investments

Kenya is a leading economy in East Africa, with a GDP of USD 96Bn, growing ~6% over the **last decade**

With **GDP per capita in PPP terms of USD 4,500, Kenya's consumers** have a **higher purchasing power than regional peers**

In addition, due to **trade agreements and membership of key trading blocs** including the EAC and COMESA**, Kenya has preferential access to 1.3Bn customers globally**

Kenya's stable political environment is a major point of **attraction for investors,** with >35 multinationals choosing to set up their regional and continent-wide HQs in the country

Kenya has a strong enabling environment for business. It features as #3 in the World Bank's Ease of Doing Business rankings in Sub-Saharan Africa, has the highest quality education in Africa and a robust digital, road, rail, air and port infrastructure

1. Kenya, Rwanda, Uganda, Tanzania, Burundi, South Sudan, Comoros, Democratic Republic of Congo, Djibouti, Ethiopia, Malawi, Seychelles
2. UK Foreign, Commonwealth and Development Office

Content

Manufacturing Africa addresses two of Africa’s key challenges

A growing labour force…

100%

increase in **population** by 2050

2x

increase in **urban population** by 2050

18 million

new jobs needed a year until 2035

…and an underdeveloped manufacturing sector

low manufacturing productivity

struggle to move into high-value services

Manufacturing Africa programme overview

Programme goal
Reduce poverty by attracting £1.2 billion of foreign direct investment and create 90,000 jobs

Funding
UK Aid

Duration
7 years (2019-2026)

Focus sector
Manufacturing

Implementing consortium
McKinsey & Company, BDO, TechnoServe, Reformatics, Steward Redqueen

Support provided
Transaction facilitation for investors/ manufacturers; technical assistance to governments/ investment promotion agencies

Transaction facilitation support – overview

NON-EXHAUSTIVE

What we do

Transaction facilitation (TF)

- Offer **neutral investment advisory** services to reduce the risk, cost and deal time of manufacturing transactions
- Introduce potential strategic partners and **provide market linkage support** to current investment plans
- **Conduct technical, commercial and financial due diligence** and strengthen existing business cases

Who we work with

- **Manufacturers**
  To secure funding for expansion and working capital
- **Investors**
  To de-risk investments in the manufacturing sector
- **Industrial parks**
  To attract investment

What support we provide

Feasibility
- Assess markets
- Technical due diligence
- Review business cases

Permits
- Clarify regulation

Financing
- Develop investment memos
- Commercial due diligence
- Identify investors
- Capital structuring
- Develop strategies to attract tenants

Operations
- Create market linkages, e.g., identify suppliers and off-takers

In Kenya, 4 transactions worth ~USD 65Mn reached financial close, with 25 more actively being supported

NON-EXHAUSTIVE | FIGURES AS AT 17 MARCH 2021

Sector distribution

% of total potential transactions

- **Agro-processing 31%**
- **Consumer electronics 30%**
- **Textiles 9%**
- **Iron and steel 4%**
- **Vehicles and transport equipment 4%**
- **Pharmaceuticals 3%**
- **Others[1] 19%**

Details on transactions which have reached financial close

Company	Business description	Transaction size, USD Mn
Organic waste composter looking to build a new facility to produce animal feed and fertiliser	Waste management company which applies the circular economy principle of turning organic waste (incl. human waste) into new products (e.g., fertilizer, animal feed), and drives social impact by reducing urban waste	7
Steel company looking to expand its operations	Established steel manufacturer in Kenya specialising in the production of hot-rolled steel products	17 Financed by IFC
Dairy manufacturer looking to expand	Dairy manufacturer aiming to roll out new product category and cold chain logistics	35
Cleaning chemicals company looking to expand production line	Contract manufacture of soaps, detergents, chemicals and cleaning solutions aiming to expand production of key ingredients for sanitisers	5.5
		Total = 64.5

1.Includes sectors such as rubber and plastics, building materials, chemicals, other electronics and waste management

4

Transactions reached financial close

25

transactions actively being supported

~USD 965Mn

Total value of transactions

Currently supported

20,000+

Potential jobs created or protected

Technical assistance support – overview

NON-EXHAUSTIVE

What we do

Provide **COVID-19 response and recovery support** to the manufacturing sector

Provide **assistance and training to investment promotion agencies**, strengthening governments' capacity to profile investment opportunities and facilitate deals

Support **policy changes at the sector level** to remove obstacles to investment and attract investors

Run **sector-wide strategic initiatives to help groups of manufacturers** improve project feasibility

Who we work with

Governments

Investment promotion agencies

Donors

What support we provide

Capacity building

- Build HR and skill capabilities at investment promotion agencies (IPAs)
- Enhance investment processes at IPAs (e.g. design digital marketing tools)
- Improve relationships between government stakeholders in investment ecosystem

Policy reform

- Support policy changes sector-level to remove recurrent barriers to investment and attract investors
- Engage IPAs, EPZs, customs and tax authorities, and industrial parks to co-develop policy reform frameworks

Strategic investment promotion

- Undertake sector-wide strategic initiatives to help groups of manufacturers improve project feasibility
- Design RFP processes to grow existing sectors or stimulate new ones
- Support value chain development

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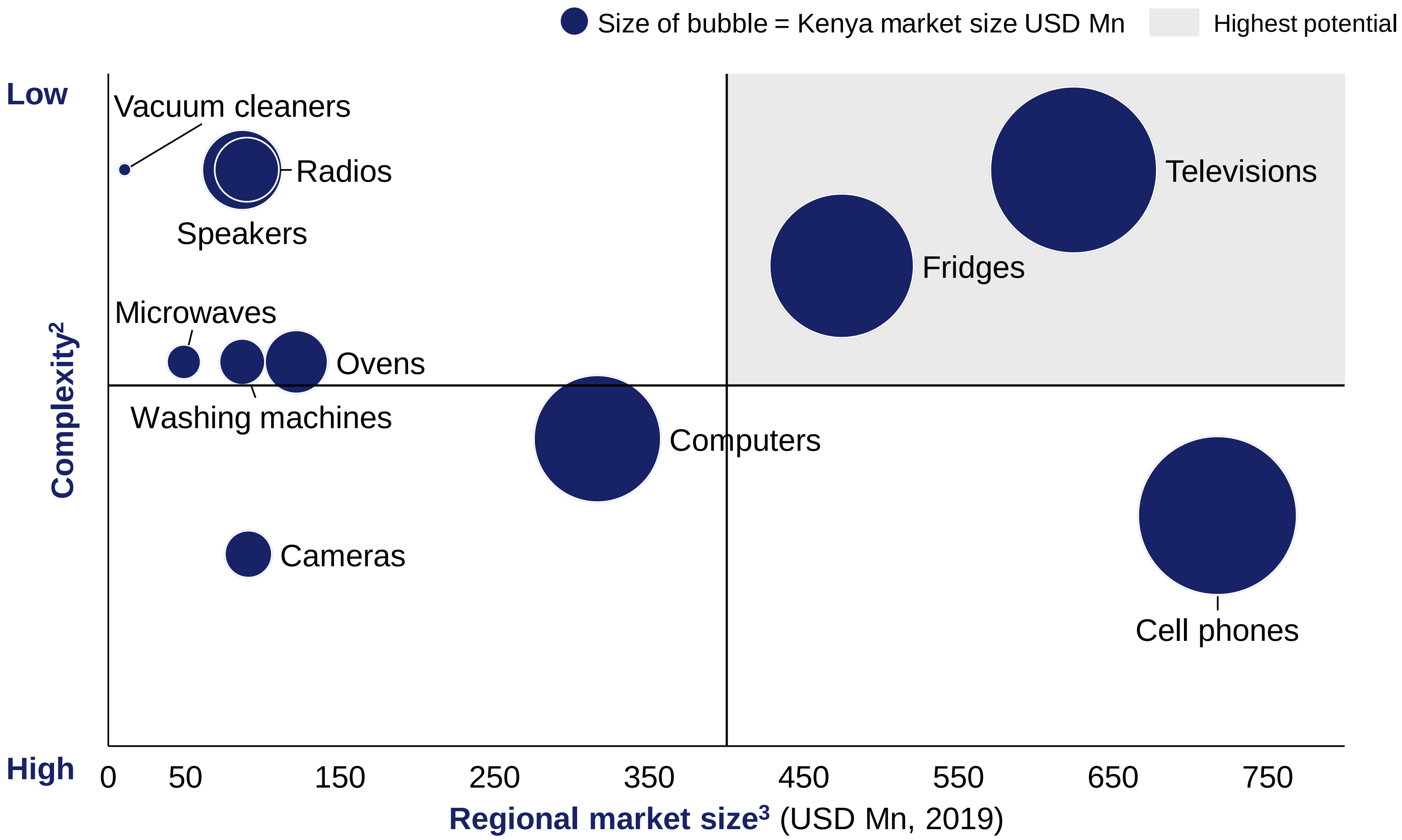
4. Kenya is a prime destination for manufacturing investments

TVs and fridges are the consumer electronics goods with highest potential for manufacturing scaleup in the region

Assessment of scale up potential for consumer electronics goods[1]



1. Consumer electronics include personal devices and home appliances
2. Qualitative assessment based on level of automation required, number of parts, expertise required
3. Includes Kenya, Uganda, Rwanda, Tanzania, Burundi, South Sudan, Comoros, Djibouti, Ethiopia, Malawi, Seychelles, Democratic Republic of Congo

Source: ITC Trade data, expert interviews

Key insights

TVs and fridges have high relative market sizes (televisions USD 624M and fridges USD 475Mn) with low complexity (i.e., high ease of assembly)

Despite relatively smaller market sizes, other categories such as radios, washing machines, ovens and microwaves exhibit low complexity

TVs and fridges constitute 41% of total USD 2.7Bn regional spend on consumer electronics

Distribution of consumer electronics spend

Other COMESA[1] | Rest of EAC[2] | Kenya

Category	Consumer electronics spend[3], 2019 USD Mn (Other COMESA / Rest of EAC / Kenya)	Market size, USD Mn	Kenya share of spend, %	Category share of spend, %
Cell phones	294 / 296 / 128	718	18	27
Televisions	259 / 224 / 141	624	23	23
Refrigerators	197 / 172 / 106	475	22	18
Televisions + Refrigerators		1,099		41%
Computers	133 / 101 / 83	316	26	12
Ovens	50 / 51 / 21	90	24	3
Cameras	42 / 12	122	17	5
Radios	37 / 21 / 22	91	13	3
Washing machines	11	87	38	3
Speakers	37 / 16 / 33	87	13	3
Microwaves	20 / 23 / 6	49	13	2
Vacuum cleaners	5 / 1 / 4	11	10	0
Total		**2,668**	**Average 21**	

1. Other COMESA includes Comoros, D.R Congo, Djibouti, Ethiopia, Malawi, Seychelles; COMESA countries in closer proximity to Africa's main consumer electronics hubs, Egypt and South Africa were not included. These include Eritrea, Libya, Madagascar, Mauritius, Sudan, Swaziland, Zambia and Zimbabwe
2. Rest of EAC includes Rwanda, Uganda, Tanzania, Burundi, South Sudan
3. Import data used as a starting point for calculating spend; trade value multiplied by a factor of 1.5 to estimate consumer spend (50% increase covers customs duty, VAT & margins across the value chain); Country GDP used to triangulate market sizes in some instances. 2019 figures used vs. 2020 to isolate temporary impact of COVID-19

Source: ITC Trade data

Key insights

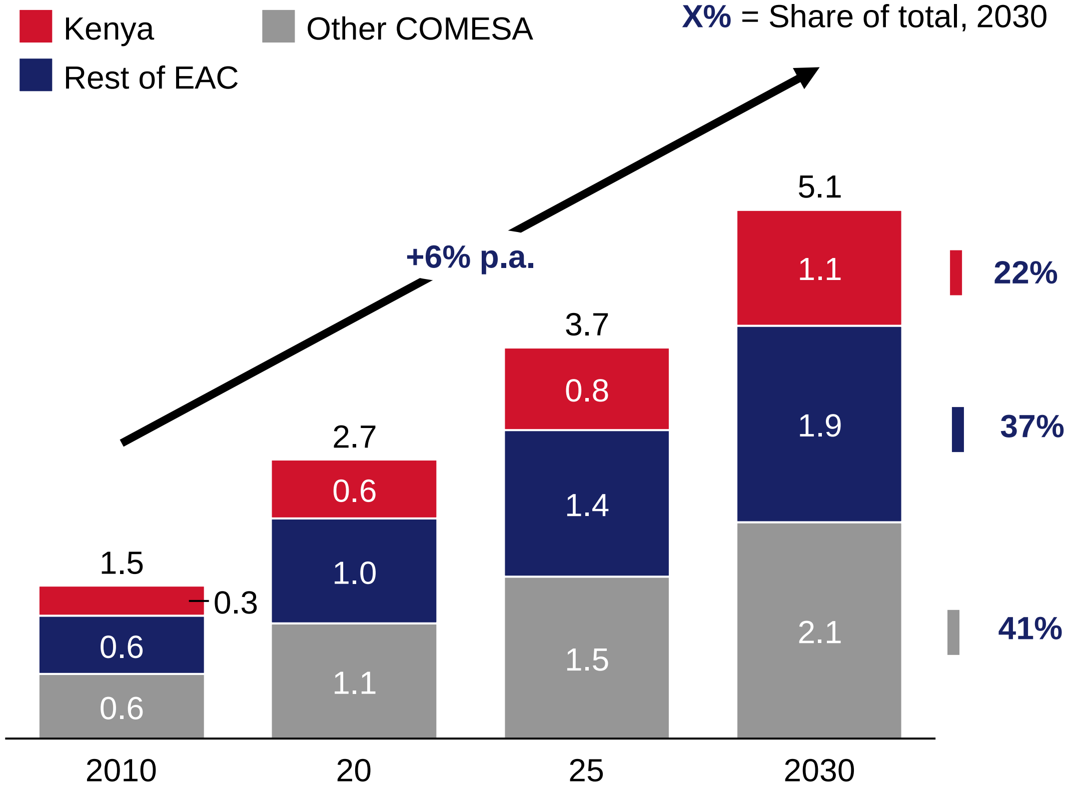
Kenya accounts for 21% of total **regional spend** on consumer electronics

Combined TVs and fridges market size is **USD1.1Bn**

Total spend on consumer electronics expected to reach USD 5.1Bn in the region by 2030[1]

Growth in consumer electronics spend in Kenya and the region is expected to continue

Projected consumer electronics spend, USD Mn

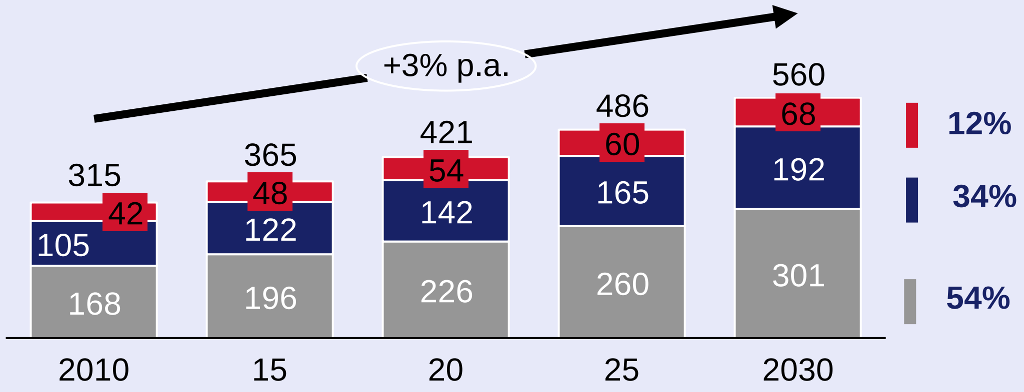


1. Assuming consumer electronics spend grows at the same rate over the next decade as previous decade
2. Purchasing power parity; Seychelles GDP per capita excluded from simple average for COMESA as it is an outlier (>5X regional GDP per capita and a population of <100k people)

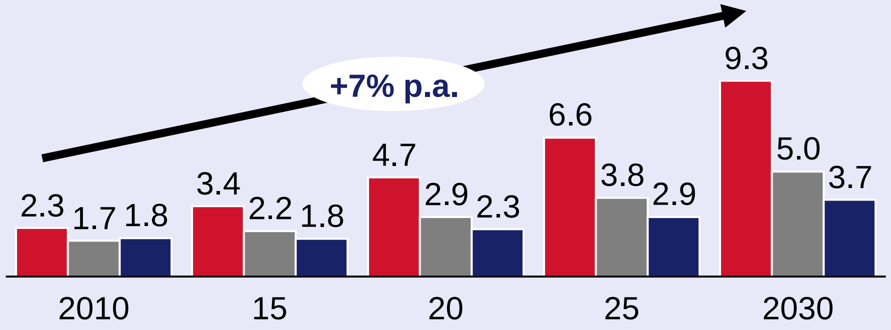
Source: ITC Trade, World Bank

Growth is supported by population (3% CAGR in the region) and income growth (7% CAGR in Kenya)

Projected population, Mn



Projected average GDP per capita PPP[2], USD '000



45% of the regional market for TVs is in entry-level units

Market share of TV categories in Kenya and East Africa region

x % of total

Categories	Kenya market share, '000 units		Regional market share, '000 units		Indicative price[1], USD	Example brands
High-end	150	30	550	25	230-250	SAMSUNG, LG, SONY
Mid-range	150	30	660	30	170-200	Hisense, TCL, Infinix
Entry-level	200	40	990	45	130-150	Royal, Syinix, VITRON

1. Prices are indicative for a basic 32" TV

Source: Expert interviews, Jumia Kenya

Key insights

Predominance of entry-level brands could reflect the price sensitivity of customers

High-end brands have a slightly **higher market share** in **Kenya compared** to **the region,** potentially due to higher customer **purchasing power in Kenya**

40% of the regional market for fridges is in high-end units

Market share of fridge categories in Kenya and East Africa region

x = % of total

Categories	Kenya market share, '000 units		Regional market share, '000 units		Entry-level price[1], USD	Example brands
High-end	86	30		40	350	BOSCH, LG, SAMSUNG
Mid-range	114	40	390	30	250	von HOTPOINT, ARMCO, Hisense, MIKA Inspired Living
Entry-level	86	30	390	30	180	IceCool Refrigeration & Air Conditioning

60% (mid-range + entry-level, regional market)

Key insights

Higher market share of high-end brands in **the region** compared to Kenya could be driven by lower availability of lower priced private-label brands outside of Kenya

60% of the fridge market in the region is in **entry-level and mid-range brands**

The mid-range brand segment is dominated by local **private label brands**

1. Entry-level prices are representative prices for double-door, top freezer, 120 litre capacity fridges or smallest available capacity

Source: Expert interviews, Jumia Kenya

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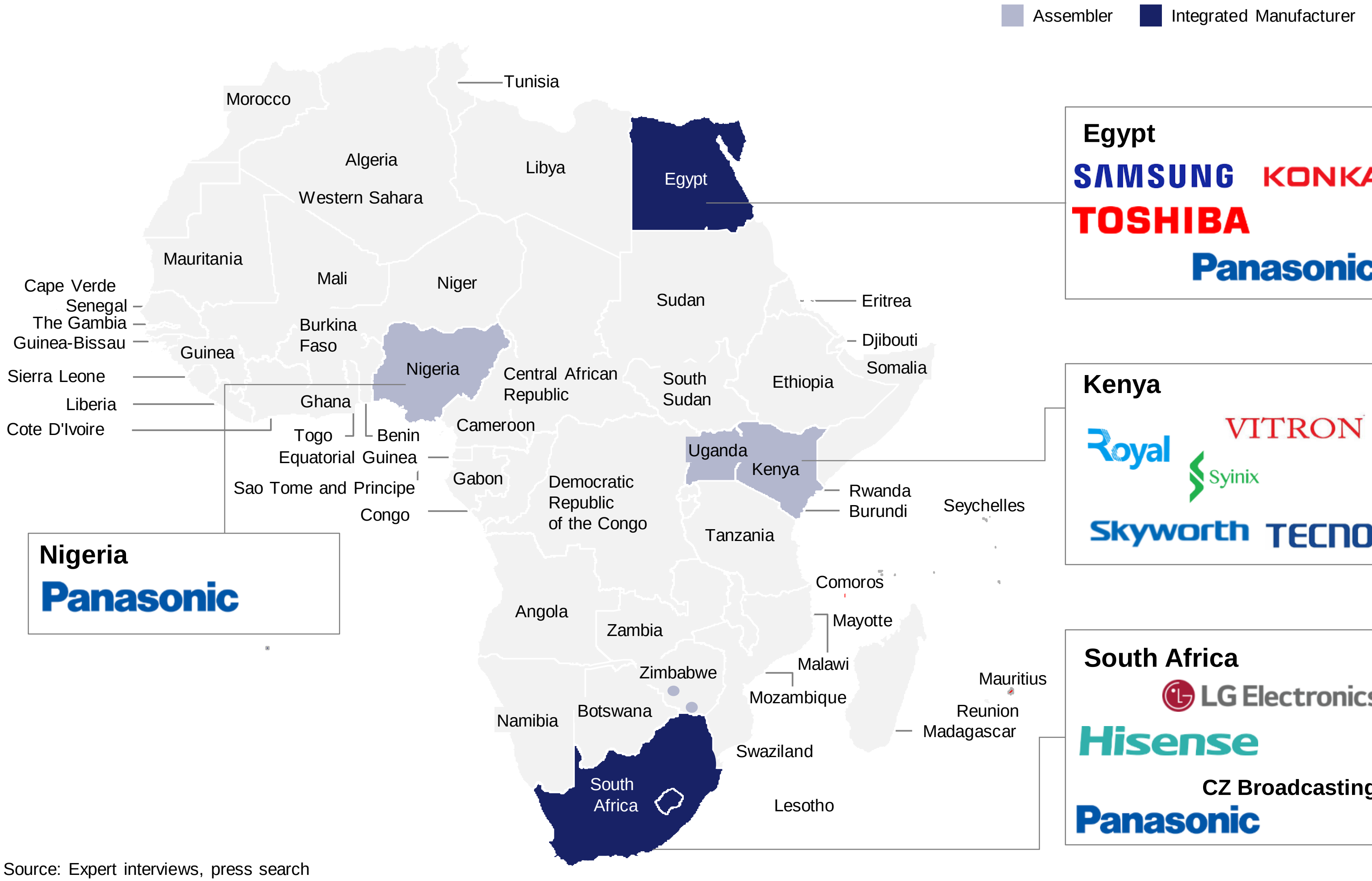
TV manufacturing in Africa is limited, with only basic assembly capacity present in East Africa

TV manufacturing and assembly plants in Africa (not exhaustive)



Egypt
SAMSUNG, KONKA, TOSHIBA, Panasonic

Kenya
Royal, VITRON, Syinix, Skyworth, TECNO

Nigeria
Panasonic

South Africa
LG Electronics, Hisense, CZ Broadcasting, Panasonic

Source: Expert interviews, press search

Key insights

Egypt and South Africa are currently the only countries with integrated manufacturing of TVs in Africa

Manufacturers in these countries serve primarily **COMESA, Middle Eastern (Egypt) and SADC** countries (South Africa)

Basic assemblers in Kenya, Uganda and Nigeria are largely **brands focusing on the lower end** of the market

Fridge manufacturing has a greater footprint on the continent, but little exists in the East Africa region

Fridge manufacturing and assembly plants in Africa (not exhaustive)

Assembler | Integrated Manufacturer

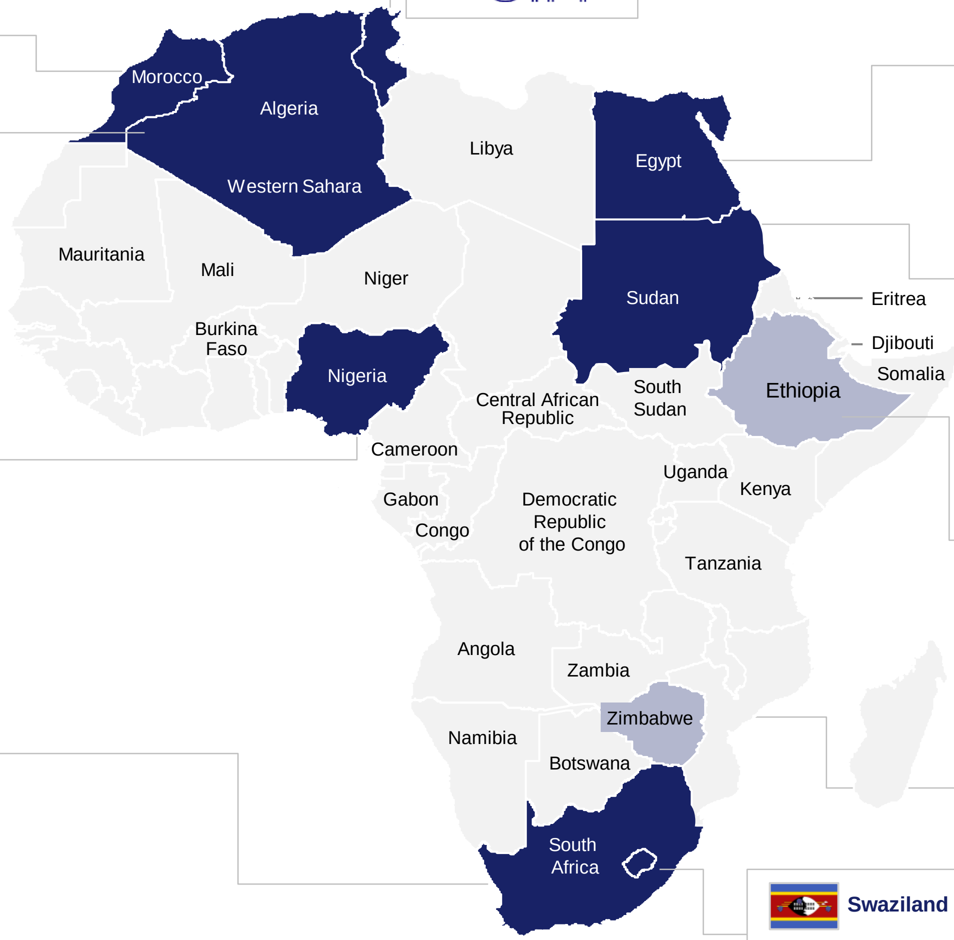
Tunisia
CIM

Morocco
Manufacture Nationale Pour La Refrigeration Et L'electronique
Manar

Algeria
Entreprise Nationale Des Industries L'electro-menagers SpA
ENIE

Nigeria
Haier

South Africa
DEFY
Electrolux
Fridgemaster
Hisense
Just
ZERO
MINUS 40
Whirlpool



Egypt
Alaska
DELTA
Electrolux
Electrostar
KIRIAZI

Sudan
COLDAIR Engineering Company Limited

Ethiopia
Azila Electronics
SAMSUNG
BEYO
LIEBHERR

Zimbabwe
IMPERIAL
ART
Saint Helena
SAMSUNG
SAMZIM

Swaziland
Palfridge

Source: Expert interviews, press search

Key insights

Samsung and Liebherr are the only global brands with presence in the EAC

Smaller local brands primarily serve their domestic markets and immediate neighbours

Global brands primarily serve broader regional blocs e.g., COMESA and SADC

Regionally, the combined TV and fridge demand-production gap could grow to nearly USD 1Bn

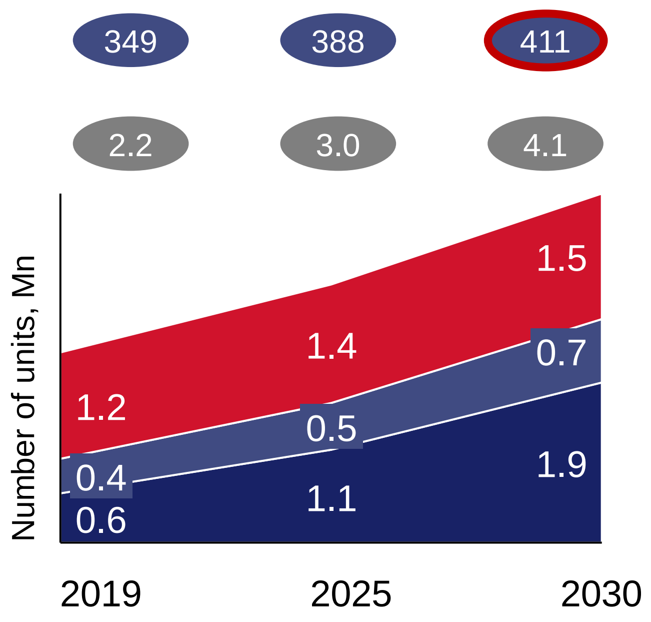
Demand-production gap | Regional production[1] | Continental production[2]

X Demand-production gap, USD Mn[3] | X Total demand, Mn units

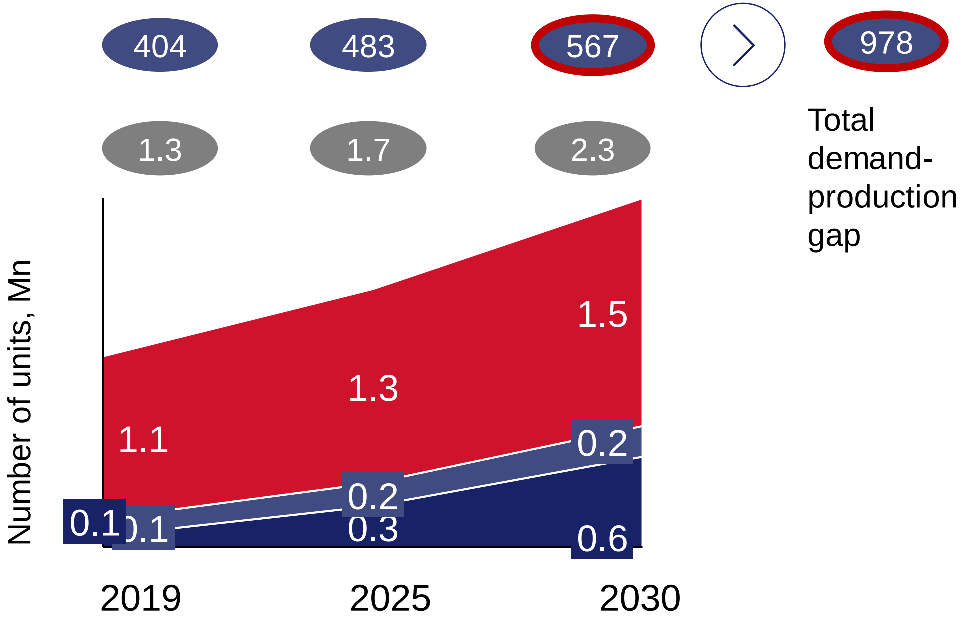
Regional demand and production, Mn units

CHARTS NOT THE SAME SCALE

TVs



Fridges



1. Regional production includes assembly and integrated manufacturing performed in target countries. Regional production for TVs and fridges is estimated at 18% and 9% based on expert input
2. Continental production includes imports from Egypt and South Africa. In 2019, imports of TVs and fridges represented 26% and 6% of total demand. Imports from the 2 countries have been estimated to grow by 2ppts/ year based on historical growth
3. Average consumer price per unit of TV and fridge estimated at USD 280 and USD 375 respectively
4. Kenya, Rwanda, Uganda, Tanzania, Burundi, South Sudan, Comoros, D.R. Congo, Djibouti, Ethiopia, Malawi, Seychelles

Source: UN Comtrade, expert interviews

Key insights

By 2030, there could be an **import substitution opportunity of USD 978Mn** driven by the widening gap between demand & production for TVs and fridges

The production gap takes into account regional production (i.e., units manufactured in EAC and selected COMESA countries[4]) and **continental production** (i.e., units manufactured in Egypt and South Africa)

Both Egypt and South Africa addressed this gap in their respective markets by innovating local manufacturing

Implementation of enabling initiatives could further improve the attractiveness of manufacturing TVs and fridges in Kenya

○ Low ● High

NOT EXHAUSTIVE

Revenue/ cost driver	Enabling initiatives	Description	Impact[1]	Ease of implementation
Sourcing of components	**Import duty**	**Review current duty rates for CKD and SKD components**, e.g. in Egypt, there is 0% Custom's duty on imports of CKD components for electronics manufacturing	●	◑
	Port protocols	**Strengthen Custom's duty and VAT compliance at the port** by reducing incidents of under-declaration which could disadvantage potential assemblers and manufacturers	●	◑
Operations	**Tax holidays**	**Evaluate tax holidays** for setting up manufacturing facilities	◕	◑
International shipping	**Access to regional markets**	Strengthen bilateral agreements with regional neighbours to improve access to EAC and COMESA markets	◕	◔
Finance	**Financing options**	Offer **cheaper financing options** for potential assemblers and manufacturers to improve financial attractiveness of investment	◑	◕
Labour	**Labour upskilling**	**Train workers** to meet skills gap in manufacturing industry and ensure a pipeline of talent	◑	◑

1. Impact on attracting further investment into the space

Source: Press search, expert interviews

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Why invest in Kenya?

A go-to market for foreign investment, and a gateway to Africa

Fast growing economy with access to large global market

USD 96Bn economy growing at ~6% per annum over the last 5 years

Highest consumer purchasing power in the region, USD 4.5k GDP per capita (PPP)

Preferential access to 1.3Bn customers and USD 29Tn in GDP through trade agreements

Stable political and macro-economic environment

Rated #1 in East Africa in the Economist Intelligence Unit's Global Democracy Index

Track record of democratic transitions and policy continuity

Conducive ease of doing business environment

#3 in Sub-Saharan Africa in World Bank's Ease of Doing Business rankings

6 in Sub-Saharan Africa in the Global Competitiveness Index

Robust infrastructure

Strong digital infrastructure with 100% Mobile penetration

Strong port infrastructure: largest port in East Africa, with greater efficiency compared to peer ports in the region

Robust road, rail and air transport links with >USD 11Bn in recent road & rail projects

Young, educated, and competitive workforce

#1 in quality education in Africa according to World Eco-nomic Forum ranking with 100% primary completion rate

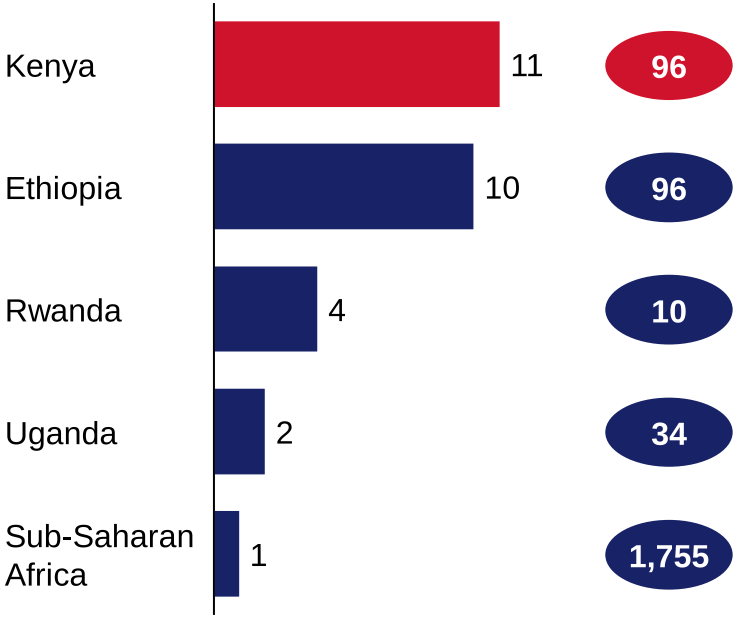
~USD 400/monthly net wage, 25% lower than South Africa's

Kenya provides a ready market for investors, with access to a large global market and a domestic market with high purchasing power

xx GDP, USD Bn

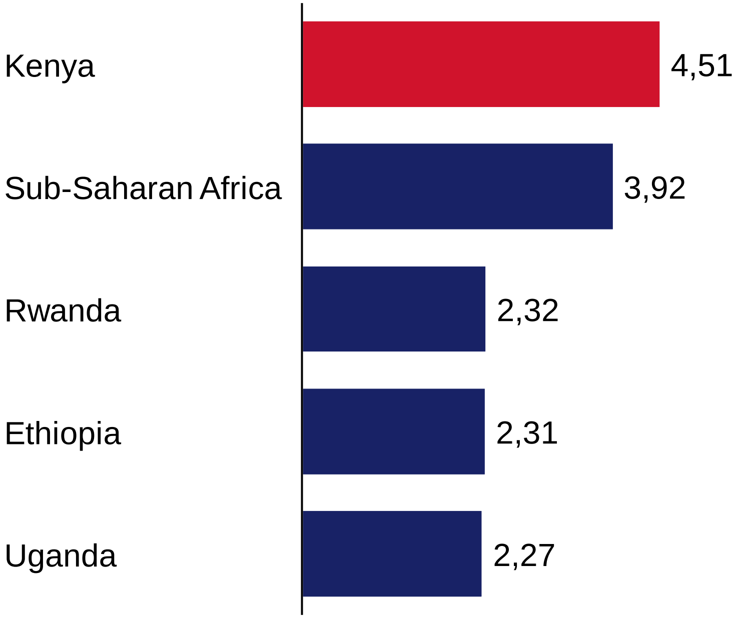
Fast growing economy in East Africa

CAGR GDP, 2015-19 (%)



High purchasing power compared to regional peers

GDP per capita, PPP[1] ('000 USD)



Preferential access to USD 29 Tn and **1.3 Bn customers** in global market agreements

Common Market for Eastern and Southern Africa (COMESA)

Customs Union agreement spanning 19 African countries

East African Community (EAC)

Customs Union & Economic Integration Agreement

The African Growth and Opportunity Act (AGOA)

Gives select African countries enhanced market access to the U.S

1. Purchasing power parity (PPP)

Source: World Bank data, WTO

Kenya has robust infrastructure, making it an ideal hub for business in the region

Digital infrastructure

100% Mobile penetration

With >85% internet penetration

#4 in the world in the Mobile Payments Readiness Index

M-PESA, Mula, PesaLink are world leaders in financial inclusion

Road, Rail, and Air

Highest road density in the region

>USD 11bn dedicated recently to rail and road infrastructure projects

4 International airports

JKIA 2nd fastest-growing airport for cargo handling globally

Port Infrastructure

Efficient export process

Mombasa, largest port in East Africa and is a hub in the region

Efficient export process

30% higher gross port productivity than Dar-es-Salam

Industrial Parks

40 export processing zones

Active and in development EPZs Nairobi, Mombasa, Voi, etc.

Fast developing SEZs

World-class SEZs in Naivasha, Mombasa, Lamu and Kisumu at different stages of development

The Ministry of Industrialization, Trade and Enterprise Development has set up a Business Situation Room to unlock investments and evaluate enabling initiatives in priority sectors including consumer electronics manufacturing

Source: Airports Council International, World Bank, MasterCard International, UNCTAD, Press Search

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