

# Manufacturing in Kenya Under the ‘Big 4 Agenda’

*A Sector Deep-dive Report*





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## FOREWARD

It is a stylized fact that very few countries in the world have realized high economic growth rates and incomes without the manufacturing sector playing a pivotal role. Manufacturing industry is crucial engine for sustaining economic growth and development, job creation and poverty alleviation. Historically, manufacturing sector's contribution to the economy in Kenya has stagnated at around 10% of the gross domestic product (GDP) and was about 8.4% in 2017. There is renewed interest in the manufacturing sector through the Big 4 Agenda which seeks to increase the GDP contribution of the sector to 15% by 2022.

To KAM and in general terms, there are four key ingredients to a flourishing manufacturing industry in Kenya. First is competitiveness which takes cognizance of the fact that there is globalization of world economy and reduction of trade barriers because of multilateral and bilateral trade negotiations. Quality and affordable energy, prompt payment of manufacturers, productive labour and efficient logistics and transport systems around a progressively integrated region are important prerequisites. Second, the fight against illicit trade is crucial because its practice denies manufacturers legitimate market shares and adverse implications on reputation.

Third, market access particularly for exports is important because of small domestic market. Enhanced market access through regional economic integration will offer the manufacturers an opportunity to produce at full capacity thereby creating job and enhancing national income. Finally, manufacturers require a predictable and stable policy environment due to the nature of production requiring long-term planning. This suggests that ad-hoc policy pronouncements affecting industry should be avoided. This is more so when such policy pronouncements are made with little or no stakeholder consultations.

This report, produced with the technical and advisory support of the Kenya Business Guide, is Kenya Association of Manufacturers (KAM's) effort to bring out sector specific concerns and those that cut across all the manufacturing subsectors to support the manufacturing pillar of the Big 4 Agenda. This report attempts to provide industry perspectives and insights into the manufacturing sector as a critical submission to the development of policies and strategies and makes suggestions at sector and macro levels of interventions that can be instituted for the benefit of the industry as a whole.



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## ABOUT THIS REPORT



This report seeks to provide an overview of the status of the manufacturing sector in Kenya through the dissection of each of the key sub-sectors that constitute the industry. Through a direct, industry-led research process, this report aggregates the expert opinions inherent in KAM's member base and places it within the context of wider studies on manufacturing in Kenya to provide a critical submission in the development of policy and strategy for the revival of the manufacturing sector under the Big 4 Agenda. It is expected that this report is taken as an industry submission with expert opinions of business persons engaged in all spheres of manufacturing in Kenya.

Interviews and expert input for this report were conducted up to June of 2018, and therefore it is important to note that the report reflects the state of the manufacturing sector up to that point.

## ACKNOWLEDGEMENTS

This report was prepared under the leadership of Mr. Sachin Gudka, Chairman of KAM. Overall guidance was provided by KAM CEO Ms. Phyllis Wakiaga. The reports benefitted from data and expert opinion from all value-add sectors of KAM including: Mr. Amir Parpia (Food and Beverage); Mr. Bimal Kantaria (Agriculture and Fresh Produce); Mr. Mohan Krishnaswami (Paper and Board); Mr. Hitesh Midiratta (Timber and Furniture); Ms. Susan Maingi (Building, Mining and Construction); Mr. Hirani Bid (Textiles and Apparels); Mr. Niaz Hirani (Leather and Footwear); Mr. Hezekiah Macharia (Chemical and Allied); Mr. Rohin Vora (Pharmaceuticals and Medical Equipment); Ms. Phyllis Njeri (Energy, Electricals and Electronics); Mr. Bobby Johnson (Metal and Allied Sector); Mr. Dip Shah (Plastics and Rubber) and Mr. Ashit Shah (Automotive).

Conceptual issues, research and writing was provided by Job Wanjohi (Head of Policy, Research and Advocacy Unit), Dr. Simon Githuku (Research & Fiscal Policy Manager) and Mr Jackson Wambua (Research and Policy Analyst) all from KAM secretariat.

The report further received substantial technical and advisory support from Mr. Sahil SR Shah and Mr. Titus Maina at the Kenya Business Guide, a private sector development think-tank supporting the improvement and strengthening of the business and investment environment in Kenya.

# INTRODUCTION

Across the World, the manufacturing sector has played an important role in driving economic development by stimulating and sustaining high productive growth, boosting employment opportunities for semi-skilled labour and building country competitiveness through exports. Very few countries in the world have managed to industrialize and develop without the manufacturing sector playing a leading role.

Kenya, like many other developing countries, has not managed to develop a robust manufacturing sector and growth has been primarily driven by the agriculture and services sectors respectively. The country has thus experienced a premature deindustrialization as evinced by the decline in GDP contribution by the manufacturing sector which was at a paltry 8.4% in 2017 and 9.2% in 2016. Deindustrialization has been characterized by a rising share of the services sector in GDP and fuelled debate as to whether services can replace the manufacturing sector as an engine of economic growth.

Despite this debate, boosting outcomes in the manufacturing sector remains an important strategy for countries such as Kenya seeking to boost economic outcomes. And this remains an important policy priority for the Government of Kenya as demonstrated by the raft of proposed interventions for the manufacturing sector developed over the years.

The Vision 2030, the Kenya Industrial Transformation Programme (KITP) and most recently Big 4 Agenda have all been designed by the Government to revamp the manufacturing sector. As expressed under the Medium-Term Plan 3 Concept Note, 'the low and declining shares in manufacturing, industrial and exporting sectors in GDP constitute a major challenge to economic growth'. Increasing the size of the country's manufacturing sector with an emphasis on exported goods is one of the Big Four Agenda.

This policy initiative, unveiled on 12th December 2017, places one of the four main targets of the Government's priorities up to the year 2022 as an increase contribution of the manufacturing to GDP from the current 8.4% to 15%. Key to this effort will be strategic efforts to improve economic areas that sit at the cross-section between manufacturing and other sectors of the economy. The Big 4 has identified 8 priority sectors under its manufacturing pillar including agro-processing, textile, leather, construction materials, oil and mining, iron and steel and ICT.

KAM is a key partner to the National Government as it sets out to enhance the role of the manufacturing sector to economic growth and development in Kenya. This "Sector Deep Dive Report" is KAM's own effort to support the government by identifying main cross-cutting constraints to growth, possible solutions and sector specific interventions to unlock growth potential. This document has been developed in collaboration with the Kenya

Business Guide think-tank and focuses on outlining the state of the manufacturing sector from the perspective of the industry players themselves.

As such, data and information collected in the development of this report relied heavily on KAM's internal member source focussing on 'expert roundtables' and using both qualitative and quantitative techniques. All 14 Sectors under KAM were engaged while developing this report. This information was then processed and analysed with cognizance of existing research and data from entities such as the Kenya National Bureau of Statistics (KNBS), the World Bank, the Kenya Institute of Public Policy Research and Analysis (KIPPRA) and others. The report is intended to augment and improve the design of appropriate policies for the manufacturing sector by succinctly presenting perspectives and suggestions from the industry players themselves.

## STATE OF THE MANUFACTURING SECTOR IN KENYA

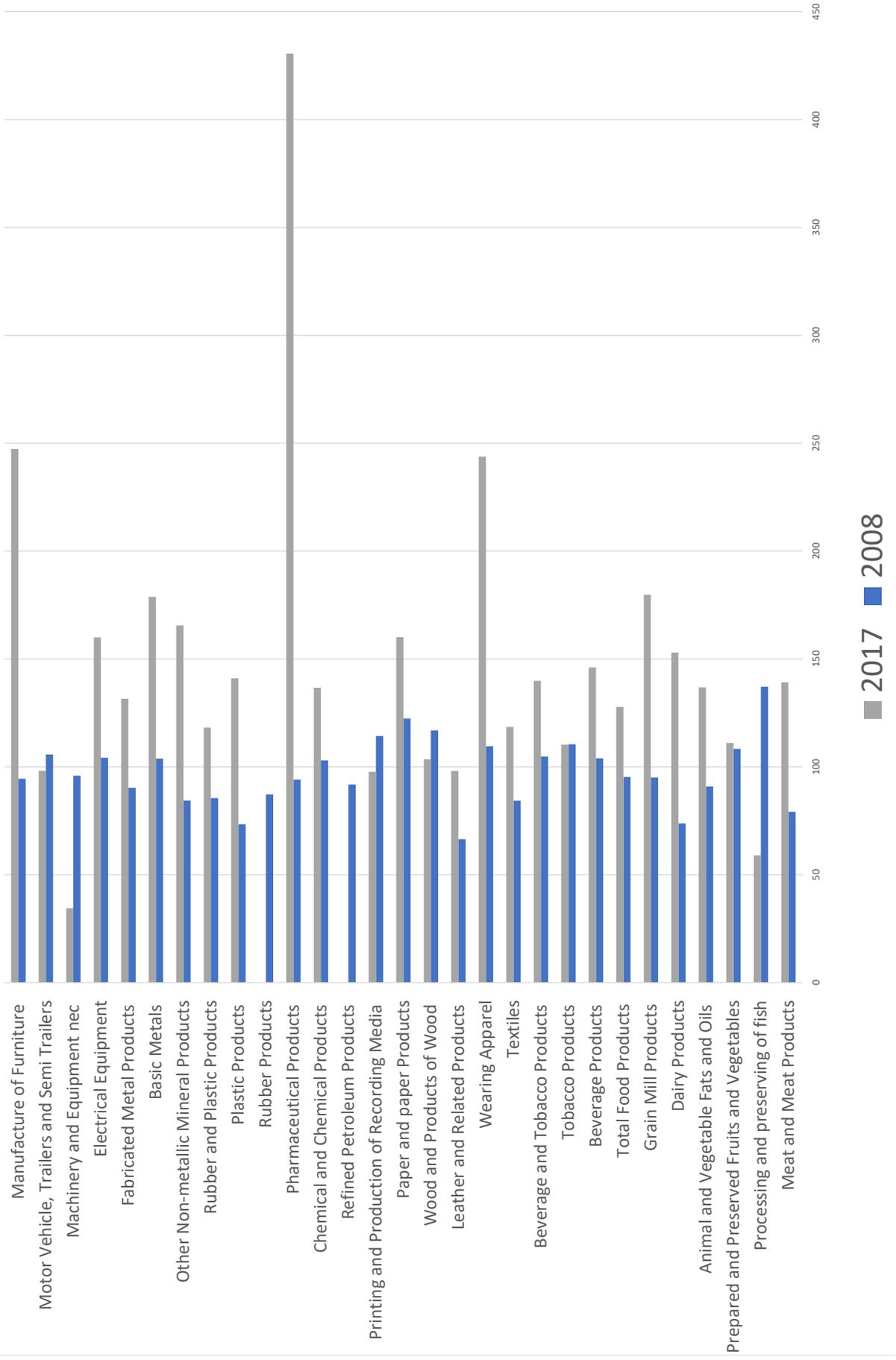
As aforementioned, the manufacturing sector in Kenya has faced significant challenges in the last 15 years. This has seen its contribution to GDP drop significantly giving rise to fears of a premature deindustrialisation phenomenon. The structure of the manufacturing sector has seen little change over the years despite targeted policy interventions attempting to adjust this. The manufacturing sector's share of GDP has remained stagnant with only limited increases in the last three decades, contributing an average of 10% from 1964-73 and rising marginally to 13.6% from 1990-2007 and averaging below 10% in recent years. Production in the manufacturing sector is predominantly geared towards consumer goods.

Despite the static nature of the manufacturing sector with regards to its overall role in the economy, there have been significant shifts in the production levels of various manufacturing sub-sectors over the last ten years alone. This is an important consideration in any economic analysis of the manufacturing sector. Often, the sector tends to be homogenised as one unit of analysis, but the undercurrents of different sub-sectors must be dissected to develop a holistic view of its performance and role in the economy.

The graph below shows the difference in manufacturing production for the various sub-sectors of manufacturing between 2008 and 2017. This is based on data extrapolated from the KNBS Quantum Index for manufacturing that has also been used in other section of the report. The ensuing sections of this report intend to provide an overview of each sub-sector of manufacturing as individual units of analysis in their own right, to provide the aforementioned holistic view of the manufacturing sector's performance and role in the economy.

**This policy initiative, unveiled on 12th December 2017, places one of the four main targets of the Government's priorities up to the year 2022 as an increase contribution of the manufacturing to GDP from the current 8.4% to 15%.**

# MANUFACTURING PRODUCTION 2008 VS. 2017 (KNBS QUANTAM INDEX)



## TEXTILE AND APPAREL SECTOR



Under KAM membership, there are 63 Textiles and Apparel manufacturers comprising 17 firms operating under the Export Processing Zones (EPZs) and 48 non-EPZs manufacturers.

### INTRODUCTION

This sector is one of the most labour-intensive and can play an important role in alleviating unemployment especially among the youth. EPZ based manufacturers employ 52,000 people. The local sector directly employs about 21,000 people in formal sector and over 30,000 informally. The two sub sectors cumulatively employ over 200,000 indirectly. Further, 40,000 cotton farmers are currently engaged. Total annual turnover of the apparel subsector is estimated to be Ksh 38 billion while the textile sector is about Ksh 24 billion. In 2017, 1,921 tonnes of textile yarn were exported valued at Ksh 859 million. Imports during the same year included textile fibres and their waste which were 20,125 tonnes valued at Ksh 5,387 million. Also second hand clothes a total of 135,868 tonnes valued at Ksh 13,061 million. Textile yarn was imported in the quantity of 19,696 tonnes valued at Ksh 3,882 million. It is estimated that the illicit trade in the local market is about Ksh 48 billion. Consequently, the government loses about Ksh 23.1 billion in revenue.

The sector is divided into two sub sectors namely local sector and the apparels exports subsector. The apparel exports sub sector is mainly based in the EPZ and is oriented towards manufacturing products for exports. The local sector has textiles mills and apparels manufacturers who service the local and regional markets.

### Key sub-sectors:

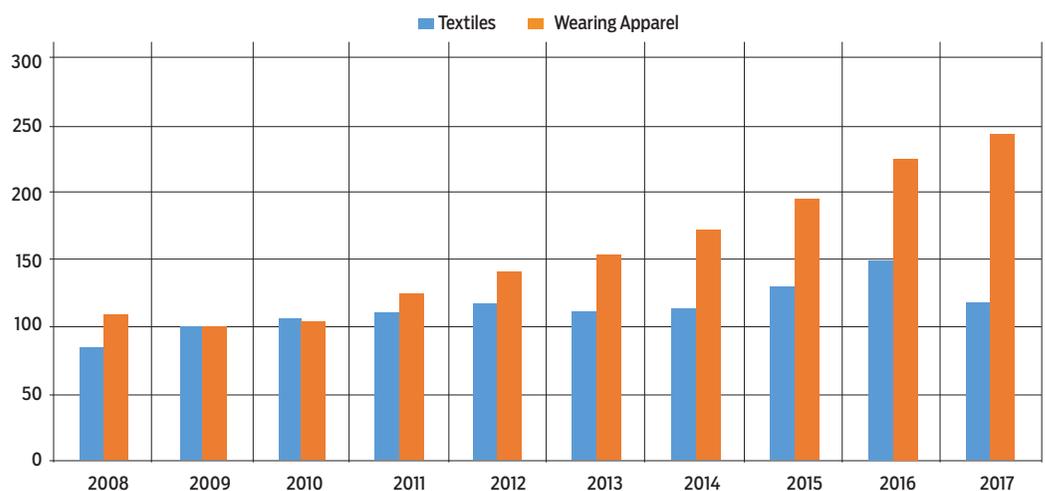
**Inputs:** Major inputs include fibres (natural / man made), dyes, chemicals, yarns, threads, fabrics, utilities such as water, electricity and fuel, machinery and skilled and semi-skilled labour.

**Cotton growing:** Cotton growing in Kenya is mainly undertaken by small-scale farmers in marginal and arid areas on small land holdings averaging about 1 hectare. It is estimated that Kenya has 40,000 small scale cotton farmers compared with over 200,000 in mid 1980s when the industry was at its peak. Annual lint production stands at only about 20,000 bales. As at now, Kenya is a net importer of cotton as the home production cannot satisfy the demand.

**Cotton ginning:** Ginning separates seed cotton into lint and cotton seeds. Ginneries are a focal point in the cotton industry and their location, efficiency and organisation are critical to it. The ginner's objective is to produce lint of satisfactory quality and to gin the cotton with minimum effect on fibre spinning quality. There are 24 ginneries in the country with an installed capacity of approximately 140,000 bales annually. But the utilised capacity is a meagre 20,000 bales (about 14%). Out of the 24 registered ginneries, there are only about 10 ginneries that are currently working.

Under the Manufacturing Pillar of the Government of Kenya's Big 4 Agenda, the textile, apparel and cotton subsector has been identified as a key priority with the potential for high growth and economic impact. By 2022, cumulative investments in the subsector are targeted to increase to \$2 billion, with 500,000 new cotton jobs and 100,000 new apparel jobs. This is expected to be achieved, in part, through policy and incentive reviews, the construction of 5 million square feet of industrial sheds, the planting of 200,000 hectares of cotton and the training of 50,000 youth and women in the sector.

### Textile and Apparel product (KNBS Quantam Index)



**Textile Mills:** Textile Mills convert fibres to fabrics through the spinning, weaving/knitting and fabric finishing.

**Yarn Spinning:** Cotton lint among other fibers goes through spinning to produce yarn. The yarn is then woven or knitted to produce different types of fabric. Before the decline of the textile industry in the early 1990s, there were 52 integrated textile mills devoted to yarn and fabric production and over 110 large-scale garment manufacturers registered with the Registrar of Industries. Only 15 of the 52 yarn mills are operational operating at 40-50% of installed capacity. Yarn and thread output is sold in Kenya and exported to Uganda, Rwanda and Tanzania among others.

**Weaving and Knitting:** There are some semi integrated mills, which cover the entire production value chain from spinning to Knitting, dyeing and finished. Two semi-integrated mills are oriented to Knitting and four to weaving. Standalone knitting and weaving companies import yarn mostly from India, Indonesia, China and Taiwan but also utilise domestic production.

**Dyeing and finishing:** This part of production value chain is deeply integrated with textile mills hence there are no standalone dyeing and finishing plants and services.

**Apparel companies:** There over 55 apparel/garment manufacturers in the country - 17 in EPZ and 48 outside.

## OPPORTUNITIES

1. Fashion Sub-Sector. Out of US\$1.7 trillion global value of the fashion sector & many countries exporting; Bangladesh did US\$33 billion Apparel Exports in 2017 with 5 million direct jobs in the sector against our US\$360M & 52000 direct jobs so growth opportunity is tremendous in Kenya. There are further opportunities to develop Kenyan brands in global fashion leveraging on cultural idiosyncrasies. With the growth in purchasing power of Kenyans, there is a growth in the capacity to purchase new clothing. The mitumba market still continues to provide a substantial number of people with access to decent and affordable clothing. However, there is a need to take care of the population that can afford new clothing by providing them with affordable clothing.
2. Leverage major global apparel buyers such as Levi's, H&M, Vanity Fair, PVH, Walmart and Otto who have a Sourcing Strategy in place for Africa & already produce in Kenya - there are willing buyers ready to commit \$1 billion per annum sourcing from the region. Kenya is a prime beneficiary of increased market demand from these buyers provided cost competitiveness challenges are addressed.
3. Full Value Chain Integration is a massive opportunity for Kenya which will create inclusive growth. This will impact several other sectors and demographic groups in society creating linkages and feedback benefits at large.

## CHALLENGES

1. **Different taxation regimes:** There are EPZ and non-EPZ manufacturers in this sector. Kenya applied for a stay of application in 2016, to offload 20% of annual production from EPZ firm's duty and VAT free to the Kenyan market. The stay of application was renewed in 2017. This has created uneven playing field for textiles and apparels manufacturers. Non-EPZ manufacturers cannot be able to compete with the highly incentivized products from the EPZ manufacturers.
2. **High cost of industrial inputs:** This is largely contributed by the railway development levy (RDL) and import declaration fees (IDF) at 1.5% CIF and 2.0% of CIF respectively.

3. **Illicit Trade:** Illicit trade is a major threat to the textiles and apparels market. The un-customed products for textiles and apparels market is approximated to be Ksh. 48 Billion. This is about 2 times the value of local textiles and apparels manufacturing turnover. As such, the government is losing about Ksh. 21.36 billion from 16% VAT, 25% CET, 1.5 RDL and 2% IDF charges.
4. **High Cost of electricity:** The cost of electricity is a major element of the unit cost of manufacture for textile products. It is sometimes as high as 40% of the unit cost of manufacture. This cost is too high as compared to other key textiles and apparels manufacturing companies.
5. **Non-preference of locally made product over imports:** The Buy Kenya Build Kenya-The Kenyan government and its agencies are a big consumer of textiles and apparels products. However, most of the products are imported into the country yet there is enough capacity to produce such products locally.
6. **High cost of Financing:** The cost of financing for the textiles and manufacturing investments and trade financing is very high as compared to the world market rates. With the textiles and apparels sector being driven by technology changes, it is imperative that the government provides competitive credit to facilitate investments, re-investments and trade financing in the textiles and apparels sector.
7. **The current CET structure:** The current 3 band EAC CET structure does not encourage value addition up to the finished products level. It has: 0% for fibres, 10% for yarns, 25 % for all fabrics and finished garments/apparels. This structure does not provide a value addition differential from fabric to apparels.
8. **Non-tariff barrier hindering exports:** The export market remains to be a lucrative market for textiles and apparels manufacturers. It is bigger than the local market. With the need to develop an export-oriented economy, it is important to enhance the export market development programs in place to ensure that the local manufacturers increase their exports outputs. Tariff and non-tariff barriers in target markets remain a major hindrance to export market development. Internally, there is need for fiscal and monetary interventions to drive export market development and incentivise the growth of an export economy.
9. **Inadequate training and capacity building:** Productivity is a key driver of the textiles and apparels sector. Currently, Kenya has a relatively productive workforce compared to competitor countries in Africa. However, the productivity is fairly lower as compared to global competitors.

## PROPOSED POLICY INTERVENTIONS

1. Removal of the current stay of application in EAC for Kenyan EPZ based textiles and apparels manufacturers that allow the EPZ firms to sell 20% of their annual production duty free and VAT free to the domestic market.
2. Zero rating input and output VAT for local textiles and apparels manufacturers. This is aimed at partially bridging the un-level playing field for all manufacturers in the textiles and apparels sector. As well as reducing manufacturers' unit cost of production and ultimately enable them to provide their products at a cheaper price, thus providing Kenyans with alternative new clothing.
3. Combat Illicit Trade by introducing a blanket taxation of Ksh. 2 million for a 20 foot container and Ksh. 4 million for a 40 foot container of textiles and apparels product. Pursuing 100% verification any uplift for importers and enhancing surveillance on porous borders that results in legal actions being taken against offender.
4. Set power tariff at \$ 0.04 per kWh and remove levies in the power bills -This will go a long way in improving sector competitiveness and enhance production diversification. It will promote and act as incentive for investors in the synthetic fibre and fabric manufacturers to set up base in Kenya



It is estimated that Kenya has 40,000 small scale cotton farmers compared with over 200,000 in mid 1980s when the industry was at its peak. Annual lint production stands at only about 20,000 bales.

5. Incentivize investments in Green Energy-The sector recommends that the government to subsidize investments in renewable energy such as solar. Currently, the investments required are about \$1.5-\$1.16 per Watt. Investments into such projects would be viable if the cost is about \$1.0 per Watt. This would give a 7.5 – 5 year payback period. The lower costs of energy resulting from this intervention will enhance the competitiveness of the manufacturers and also reduce the energy burden for the government.
6. Develop a clear procedure and guidelines for a smooth implementation of Buy Kenya Build Kenya and Local Content Policy. Drive local procurement of textiles and apparels products by the National and county government and related agencies. This initiative will provide a steady market for the local manufacturers.
7. Consumer Awareness Program. This should be a joint effort between the private sector and public sector to make the consumers aware of locally manufactured products and encourage them to buy more from local manufacturers. The program should also go hand in hand with developing 'Brand Kenya' locally and globally.
8. Establish and implement affordable concessional industry financing framework to facilitate trade (exports and imports) and company expansions. The current government financing facilities under KIE and ICDC can be developed to meet the needs of the manufacturing sector better. This will bridge the gap of high cost and unavailability of financing for the manufacturing sector.
9. Fast-track the EAC CET Review and adopt 0% for fibers, 10% for yarns, 25 % for all fabrics and 35% or \$5/Kg for finished garments/apparels.
10. Develop sector specific export incentives. There is a need to encourage local manufacturers to grow to the exports market.
11. Enhance Training and capacity development. Skills remain an important driver of the textiles and apparels sector. There is a pressing need to link academic training with industry needs. Curriculum development should be driven by industry needs in such a manner that the country trains for not only current needs, but also future/projected requirements. A deliberate program to support the local fashion designers so as to grow their entities into operational business ventures.

#### EPZ BASED FIRMS

1. Implement a Preferential Forex Premium of 15%. OR 15% credit note equivalent of the export investment payment received which can be off set against any GOK's related statutory payments/ taxes or any payments.
2. Reduce electricity to 0.04cents per unit, water to 0.25 cents per cubic litres.
3. Create Full Value Chain Integration.
4. Create increased duty free Market Access Agreements with countries such as Canada, China, India, Nigeria and South Africa, following the example of our neighbouring countries.
5. Address logistic challenges around water shortages and shortage of wood for boilers.



## FOOD AND BEVERAGE SECTOR



The food and beverage sector is the largest sector in the manufacturing industry and constitutes about 22% of KAM membership.

Under the Government’s Big 4 Agenda of Agro-processing, there is a target of an increase of percentage contribution to Manufacturing’s contribution to GDP from 16% to 50%, creation of 1000 SME’s that will in turn generate part of the 200,000 jobs that are also to be created. Additionally mapping tea, coffee, sugar, meat, dairy and crops value chains and developing warehousing and cold chain sites.

### INTRODUCTION

The food and beverages sector has seven sub-sectors: alcoholic beverages and spirits; bakers and millers; cocoa, chocolate and sugar confectionery; dairy products; juices/ water/carbonated soft drinks; slaughtering, preparation and preservation of meat; tobacco and edible oils.

There are many categories of players within this manufacturing sub-sector. These players operate across the country and in different sizes with a majority operating as informal businesses. Majority of enterprises in this sub sector are privately owned. In terms of contribution to GDP, the manufacture of food, beverages and tobacco is estimated to have contributed to about 3.5% of the GDP in 2017. Exports from food and beverages sector were valued at Ksh 254,686 million in 2017. In the same year, Ksh 245,280 million was spent on imports of food and beverages. The food-processing sector can therefore be a key driver of economic growth. Growth in the sector can have a direct and significant impact on the overall economy.

Food processing enterprises in Kenya get most of their raw materials directly from agricultural outputs. An increase or a decrease in both quantity and quality of agricultural outputs would therefore have significant implications for the sector.

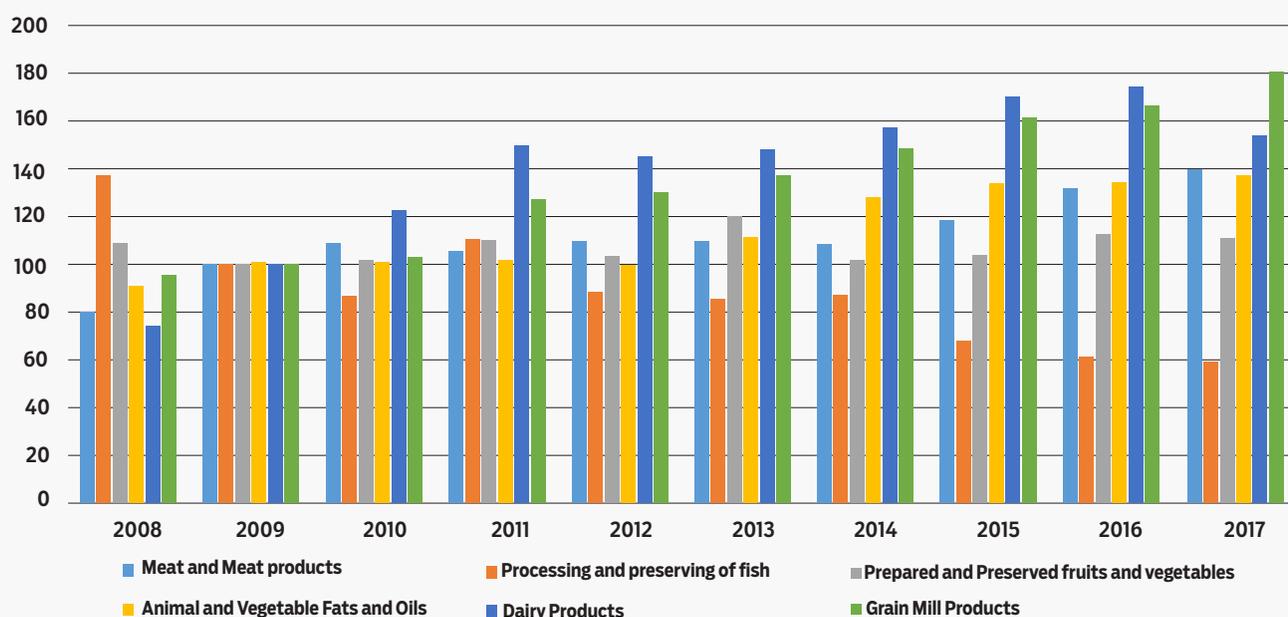
### Key Sub-sectors:

**Tobacco Manufacturers:** There are two competing firms in the manufacture of tobacco. These are BAT and Mastermind. The firms are both located in Nairobi.

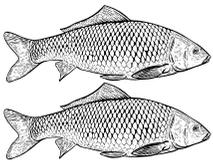
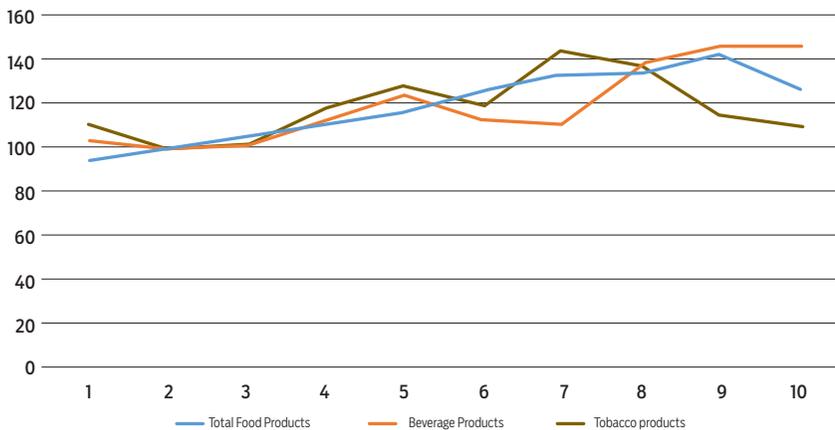
**Grain Milling:** There is a range of varying technology among millers from simple Posho mills in the village to large scale millers such as Pembe and Unga Limited.

**Vegetable Oil Industry:** Players under this category are refiners who convert vegetables for edible oils and secondary uses including the manufacture of soaps and detergents. Extracts are also used in animal feeds.

Food Products Output (KNBS Quantam Index)



Food vs Beverage vs Tobacco products output (KNBS Quantam Index)



Apart from fish from Lake Victoria and Lake Turkana, fish farming can be successfully done to supply the quantity and quality of fish needed to sustain fish products processing in a large scale for both local consumption and export.

**Dairy sub-sector:** Players in this category range from small and simple dairy products processors to large scale milk processors like Brookside Dairy and Spin Knit. They have installed latest technology machines like Tetra Pak Aseptic.

**Fish Processing Sub-sector:** In the European Union, the target market for fish product from Kenya has placed high quality demands. Kenyan companies exporting to EU had no alternative but to install modern technology for preserving and processing fish. Large processors include Kenya Cold Storage, Samaki Industries limited, Wananchi Marine Products, and Victoria Nile Perch.

**Beef Processing:** Players in beef processing range from small scale processors spread across the country to large scale processors like Kenya Meat Commission, Farmers Choice, NAS Airport Services, Kenya Cold Storage and KENCHIC. All these companies have embraced different types of technologies including modern cooling and storage facilities.

#### OPPORTUNITIES

- Vegetables and Fruits Processing:** There are great opportunities in horticultural products production and processing. These include but are not limited to French beans, snow peas and juice concentrates. Canned products like French beans, baby corn, juices, jams, marmalade, pineapple slices, pickled cucumbers, mango slices and juices; and dehydrated products like cabbages, onions, and carrots. These opportunities can be taken advantage of even by small scale farmers through contract farming.
- Vegetable Oil processing:** Feasibility studies have been done at the coastal province of Kenya with positive results that oil can be profitable by being processed from coconuts. Oil can also be extracted from cotton which can be grown in Nyanza and Western Kenya. Sunflower and groundnuts also have great potential in Rift Valley. With contract farming which ensures adequate supply of raw materials throughout the year, the area has a lot of potential.

**3. Fish products processing:** Apart from fish from Lake Victoria and Lake Turkana, fish farming can be successfully done to supply the quantity and quality of fish needed to sustain fish products processing in a large scale for both local consumption and export.

**4. Manufacture of Animal Feeds:** there are various potential inputs like "Omena" (*Engraulicypris Rastreneobola*), low grade oil crops, maize and wheat.

**5. Beef Processing:** Kenya can potentially produce enough beef to supply a large-scale canning factory which could process both for local consumption and export market.

#### CHALLENGES

- Lack of a prompt payment regulation which creates cash flow issues and stagnates growth.
- Lack of a level playing field for local manufacturers and foreign investors.
- High cost of credit.
- Poor infrastructure such as roads, utilities and security.
- Corruption.
- High cost of healthcare.

#### PROPOSED POLICY INTERVENTIONS

- Lending rates need to be conducive for business growth.
- Cost of doing business: Infrastructure and utilities providers should be more competitive and have healthy competition, monopoly should be discouraged.
- Tax refunds should be paid immediately in order to catalyse the growth.
- Remove VAT on exports.
- Corporate governance to be instilled among retailers and Commercial Banks so that manufacturers do not lose their money.
- Regulatory compliance - devolution etc. should be more harmonized for businesses to avoid additional cost and compliance which discourages business and SMEs to grow.

## AGRO-PROCESSING CASE STUDY: TEA

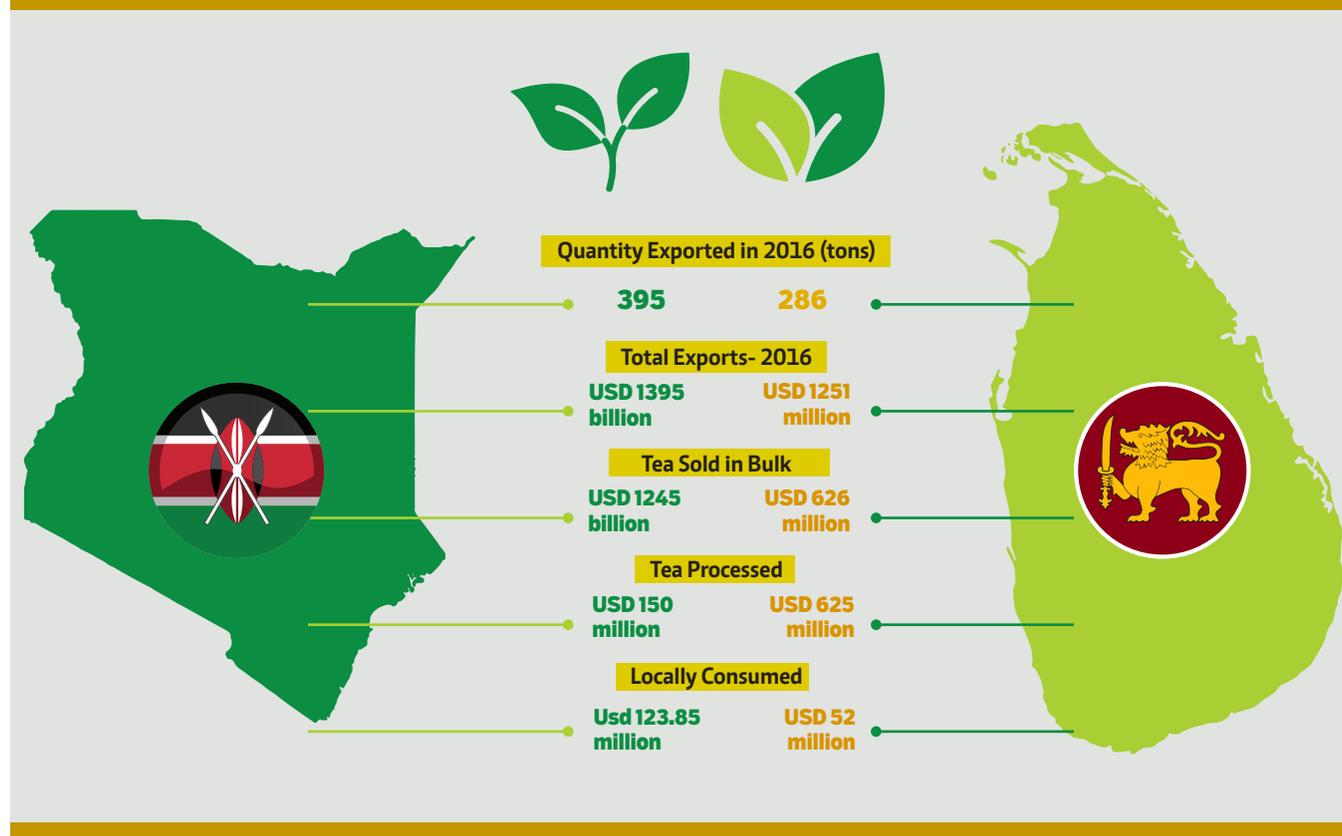
Tea forms one of the major cash crop grown in Kenya and it is the leading major foreign exchange earner for the country. Tea is manually grown in the country despite a few estates that have mechanized a few processes hence the sector is labour intensive with huge potential to grow jobs from farm upstream. There is further potential that lies around value-addition mechanisms and the opening of new markets for packaged tea. Most tea produced in Kenya is black tea, with green tea, yellow tea, and white tea following.

Consumers in key markets are increasingly expanding their preferences from Black CTC teas to green, flavoured and ready to drink teas; necessitating diversification to the niche segments by producers.

The Tea Sector has a USD 40.5 Billion market worldwide which is likely to grow to USD 44.3 Billion by 2022. The major tea exporters in the world include China, Sri Lanka, and Kenya coming in third.

### SRI LANKA VS KENYA EXPORT TEA VALUE

Sri Lanka exports 11% less tea than Kenya but adds value to at least 50% of her tea  
 Kenya earns only 11% higher than Sri Lanka from Foreign Earning  
 Sri Lanka consumes 4% of its tea locally and Kenya consumes 3.5%



Moving towards a value-addition strategy for tea could result to significant increases in Foreign Exchange income and reserves from the \$1.2B to \$2.4B in 2022. Current reforms in planting and ongoing replanting with higher yielding plants, could boost Kenya's production to the 600 million Kg mark by 2022. With this production increases, it is imperative that value addition strategies are concertedly developed and implemented, such as the pursuit of hubs such as the Dubai Tea Trade Centre which accounts for over 60% of all value added global tea exports. Launching a similar initiative in Kenya would strengthen the tea trade through the introduction of world-class facilities and international best practices.

The 'Kenya Tea Trading Center' would be a dedicated facility combining warehousing, blending and packaging, providing the most complete and convenient solution

for traders looking to maintain a stock capable of meeting the requirements of importers from Kenya of value-added tea. This must further be supplemented by a targeted branding strategy that seeks to create a unique identity and brand out of Kenyan tea. Country branding would be integral in creating a positive image, reputation and identity for a country and its products. Kenya would enhance her country branding to create a competitive identity which evokes the desirable image and enhances the country's competitiveness.

This is based on the recognition that a country is like a product. Kenya can be packaged and marketed to distinctive target audiences among them investors, businesses, corporations and its citizens. The tea value chain thus extends beyond agricultural production and extends towards processing, trading, marketing and indeed tourism.

## EDIBLE OILS SECTOR



The Edible Oils Sub-sector (EOSS) was formed when eight (8) manufacturers set up Secretariat within the larger parent Association – the Kenya Association of Manufacturers (KAM) - to try and resolve outstanding challenges experienced in the importation of their basic raw material and exportation of manufactured products. There are a total of ten companies in this subsector.

### INTRODUCTION

The edible oil refiners in Kenya engage in the production of cooking oils, fats, edible oil, copra oil and corn oil among other oils. Some oil refiners are involved in the growing of vegetable oil crops by contracting and supporting small scale farmers in better farming methods and have further partnered with different agencies to improve small holder farmers to increase vegetable oil production.

The basic raw material for the manufacture of edible oils is Crude Palm Oil (CPO), while those without capacity to fractionate may import the semi-processed CPO by-products namely Palm Stearin and Palm Olein. These are the main inputs in the manufacture of cooking oils and fats, soaps and detergents. In Kenya the mainstream manufacturers have invested heavily in production capacity and boast a substantial degree of value addition to raw materials (both imported and locally produced), in the production of their finished goods products.

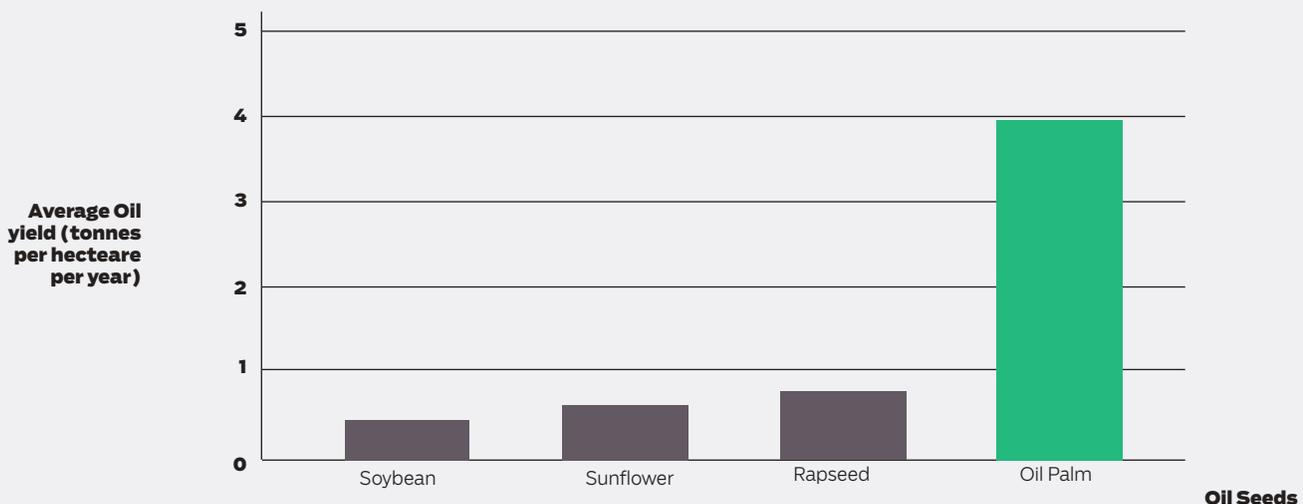
The manufacture of animal and vegetable fats and oils in Kenya increased by 6.5 % in 2015. The amount of processed vegetable oils increased by 12.2 % and that of vegetable

fats grew marginally by 0.8 %. The edible oil sub sector in Kenya has an installed capacity of 1,307,000 MT/year and a production capacity of 755,000 MT/year. The total investment as at December 2015 stood at US\$ 180 million while total import value for the sub sector is estimated to be US\$ 25 million/year. There has been a rising demand for vegetable oils compared to vegetable fats over the years mainly due to health awareness and concerns.

The edible oil manufacturers have invested approximately Kshs.1.6 trillion in the edible oil industry, their turnover amounts to Kshs.110 trillion annually. They have directly employed 7,000 employees and indirectly employed 23,000 employees in their supply chain links to the paper, plastic and transport sectors. They contribute 2% to the country's Gross Domestic Product (GDP). Kenya Revenue Authority collects taxes over Kshs.20B annually from the edible oil manufacturers.

Palm oil growing ties up more than 42 million acres worldwide, with Indonesia and Malaysia being the largest producers of palm oil. The two countries account for about 85 per cent of the world's palm oil production. The second-largest global vegetable oil, soya, takes up 120 million hectares, which

### Oil Palm Efficiency vs Other Major Oil Crops



produce about 48 million tons of soya oil. Oil palm therefore has the highest average productivity compared to other major crops. Oil palm is the most efficient oilseed crop in the world. One hectare of oil palm plantation can produce up to ten times more oil than other leading oilseed crops. The table below highlights the efficiency of oil palm as compared to other major oil crops

Kenya exports vegetable oil and fats products to mainly East and Horn of Africa countries, as well as Europe and the United States of America (USA). Kenya is ranked 15th worldwide in the export of vegetable fats and oils and their fractions. In order to supplement its local production which is currently inadequate to meet its local demand, Kenya imports vegetable oils and fats. According to the Nuts and Oil Crops Directorate which is an arm of Agriculture and Food Authority (AFA), about 95% of the oil imports in Kenya comprise crude palm oil from Asia (Indonesia and Malaysia).

Currently in Kenya and EAC as a whole, the oil seeds and crude oils production is not sufficient to feed the industries that produce refined edible oils in the region. Most edible oils manufacturing companies do not meet their daily production capacity due to the lack of adequate raw materials. The inadequate supply of raw materials to manufacturing companies results in high operational costs due to the inefficiency of their production capacity. It also lowers their profit margin.

#### CHALLENGES FACING THE EDIBLE OILS SUB-SECTOR

- Chapter 15 of the Rules of Origin classifies the imported raw materials of edible oils and the locally processed finished product (edible oil) under the same category hence they are deemed not to be originating from the Partner State. Due to this, EAC member states are not able to export their edible oil products as other EAC member states are levying 25% import tax on edible oils.

- Misdeclaration of imports in bulk & flexi tanks – some importers bring in Refined Palm Products & classify them as Crude in order to evade tax payment.
- Currently due to the free trade agreement under COMESA, refined edible oil imports from Egypt attract 0% duty yet the raw materials are imported duty free in Egypt whereas Kenya collects a 10% duty on Crude Sunflower Oil & Crude Corn Oil.

#### PROPOSED POLICY INTERVENTIONS

- A critical analysis on levying 25% import tax on edible oils clearly illustrates that it has negative consequences on intra EAC trade. To rectify this issue, and in order to ensure that it is aligned with the spirit of the Treaty, we propose that "conversion of goods from one tariff heading to a different tariff heading" be amended to read as follows "conversion of goods from one tariff sub-heading to a different tariff sub-heading". This shall give distinct differentiation of crude palm oil in one sub-heading (0% import duty) and processed/value added refined edible oil in another sub-heading (25% import duty). Secondly "manufacture in which the value of all non-originating materials used does not exceed 70% of the ex-works price of the product".
- In order to curb this unfair trade practice, KRA should reform the specifications for Crude Palm Oil, Crude Palm Olein & Crude Palm Stearine. Such imports should only be cleared by customs when accompanied by an outturn report of analysis to show quality & quantity of the product conducted by SGS Kenya.
- Importers are considering importing refined edible palm olein via Egypt under COMESA to avoid paying duty. Egypt imports refined edible oil from Malaysia therefore these products cannot qualify under the value addition criteria. KRA needs to be vigilant on this.

**The manufacture of animal and vegetable fats and oils in Kenya increased by 6.5 % in 2015. The amount of processed vegetable oils increased by 12.2 % and that of vegetable fats grew marginally by 0.8 %.**



## PAPER AND BOARD SECTOR



### INTRODUCTION

The Ministry of Industrialization estimates that the total consumption of paper and paperboard in Kenya will grow by approximately 4.4 % annually up to the year 2020. The demand for newsprint, printing and writing papers, boards, and tissue will grow faster than the average ranging from 4.4% and 4.9%. In 2017, Kenya exported approximately 32,770 tonnes valued at Ksh 4,855 million. Imports the same year were 365,371 tonnes valued at Ksh 33,010 million.

Under KAM, there are several paper manufacturers; one integrated paper mill, four recycled paper mills, and a few operators on anvil as well as over 100 converters.

In terms of employment, the sub-sector relies highly on skilled and experienced personnel. Out of over 20,000 employees working within the sector in 2010, about 8% were professionals and other top management, 81% employees were in the skilled level category, while unskilled workers constituted about 13% of total employment in the sub-sector. The sector has large informal establishments in the supply of stationeries and in printing and publishing mainly due to the increased availability of technology infrastructure driven by ICT developments in the country.

This sector constitutes about 8% of KAM members and can be further

disaggregated into 3 sub-sectors: manufacturers of pulp, paper and paperboard. Manufacturers of pulp, paper and paperboard articles and printing, publishing and allied industries. As shown in the chart below, the production of paper and paper products increased 30% in a ten-year period from 2008.

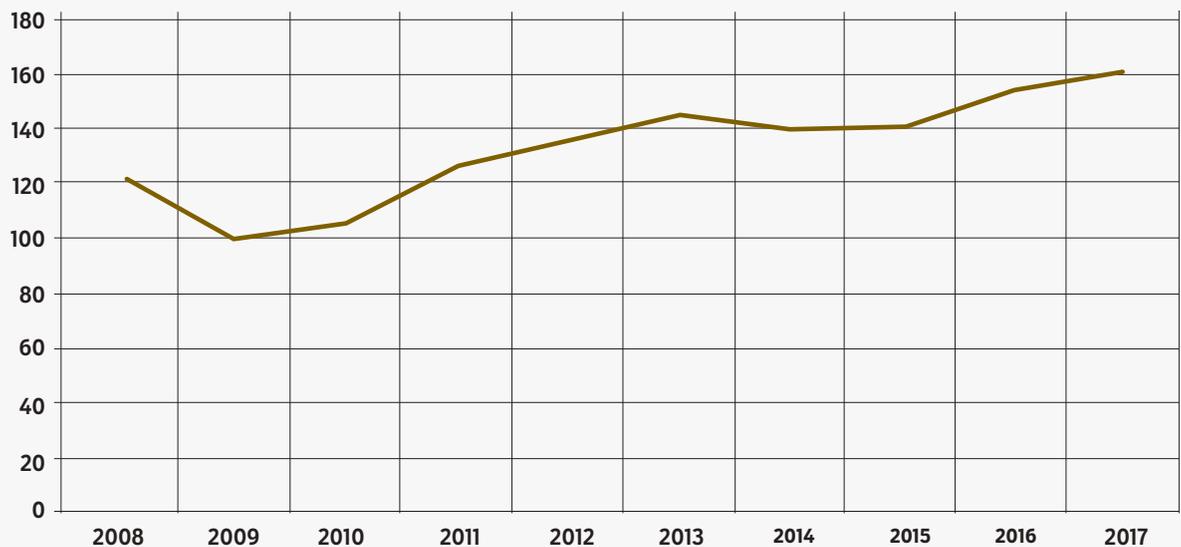
**Printing and converting sector:** The paper sub-sector converts approximately 180,000 -200,000 metric tonnes per year and has a turnover of about Ksh. 65 billion. The sector contributes about Ksh. 20 billion in the form of tax revenue. About 15000 are employed directly and about 25000 indirectly. Overall, the sector supports 200,000 dependants.

**Corrugated Cartons Market Size:** Market size in Kenya is approximately 130,000 MT while the rest of EAC is at about 50,000 MT per annum. There are 25 converters in Kenya, 7 in Tanzania and approximately 8 in Uganda, totalling to 40 converters currently in the region.

**Paper Bags Market Size:** Market size in Kenya is approximately 30,000 MT and is expected to grow to 40,000 MT in 2018 due to the recent ban in plastic bags, according to industry players. The rest of EAC market size is approximately 5,000 MT per annum. Total number of converters are increasing as effect of plastic bag ban continues.

**Folding Carton Packaging Market Size:** Market size in Kenya is

Production of Paper and Products (KNBS Quantam Index)



Out of over 20,000 employees working within the sector in 2010, about 8% were professionals and other top management, 81% employees were in the skilled level category, while unskilled workers constituted about 13% of total employment in the sub-sector.

approximately 12,000 MT per annum while the rest of EAC market size is approximately 11,000 MT per annum. There are a total of 16 major converters in Kenya, approximately 8 in Tanzania and approximately 6 in Uganda, totalling 29 major converters currently in EAC.

**Glue Applied Labels:** This has been a vibrant sub-sector but it is losing share to pressure sensitive (PS) and shrink sleeves. Major segments are beer, canned food, juices and water. Popularity declining due to consideration of total applied cost. Many converters for glue applied labels, printed on offset, gravure and flexo primarily. An estimated 15,000 MT per annum converted in the region.

**BOPP Wrap around/Shrink Sleeve Labels:** This is an emerging sub-sector that is rapidly gaining popularity. The high demand areas for BOPP are CSD's, juices and water. It is furthermore driven by the demand for cosmetics, juices and water. An estimated 5,000 MT per annum converted in the region.

**Pressure Sensitive (PS) Labels:** This is an increasingly popular sub-sector and is expected to encroach on the market share of glue applied labels. Roll form PS is dominant with major segments all catered for. Approximately 32 converters for roll form PS labels, mainly in Kenya, Tanzania and Uganda. Printed on gravure, letterpress and flexo. Market growth is at about 6-7%, with continuing investments in flexo and digital in the region an estimated 32 million sqm converted in the region every year, with Kenya accounting for approximately 25 million sqm.

#### OPPORTUNITIES

1. Printing of documents with security marks, for example bank cheques and insurance certificates owing to the rising vulnerability to forgery.
2. Out-door advertising and production of advertising materials for the print and electronic media.
3. Competitive packaging and labeling for various products, aimed at withstanding the onslaught of foreign competition,

and to enable successful penetration of export markets.

4. Printing and publishing of learning materials, exercise and text books for the free and compulsory education.
5. Producing more grades of paper, these are currently imported and provide an opportunity for local production.

#### CHALLENGES

1. Converters of waste paper-based products dispose of 20-30% of the inputs as process waste, due to de-inking sludge. The disposal must be carried out appropriately to avoid harmful environmental effects. The sub-sector therefore needs efficient methods for treating of waste while more disposal sites have to be explored within the urban areas.
2. Anomalies in tariff compared to COMESA and other RECs.
3. No differentiation between input and output tariffs. Paper, as an intermediate input needs to be at 10% import duty.
4. High cost of energy needs to be addressed to assist paper manufacturers.
5. Exports of packaging and printed materials from Kenya reversed to imports. This can be revived with level playing field.
6. Market access in Burundi and Rwanda is difficult as they remain over protected.
7. Trade barriers in the form of import tariffs that have been used to sustain production of unproductive processes need to be abolished to facilitate competitiveness of the sub-sector.

#### PROPOSED POLICY INTERVENTIONS

1. Introduce a levy for all imported finished books as the country has enough capacity to produce the required products and meet demand.
2. Develop a clear procedure and guideline for procuring all educational material under the BKBK strategy.
3. Increase consolidation in the marketplace amongst printers and converters.



## AUTOMOTIVE SECTOR



Under KAM membership, there are 63 companies in the automotive sector.

### INTRODUCTION

The Automotive industry is a key economic sector in Kenya. It is rapidly developing owing to a growing middle class in the economy. The industry has the following sub-sectors: Auto vehicle production and assembly – passenger cars, light commercial vehicles (LCVs) and pick-ups, and heavy commercial Vehicles (buses and trucks); and motorcycles production and assembly and Automotive parts and component manufacture. There are three (3) main motor vehicle assembly plants in Kenya with a total capacity of 34,000 units; and 21 motorcycle assemblers, 6 of which are assembling completely knocked down (CKD) model. The sector has four sub-sectors namely Assemblers, bus body builders, motorcycle and part and accessory manufacturers.

### Key Sub-sectors:

**Motor vehicle assembly industry, which has three vehicle assemblers:** Kenya Vehicle Manufacturers (KVM), Associated Vehicle Assemblers (AVA) and General Motors EA Ltd (GM). Assembled, imported fully built and Complete Knock down (CKD) vehicles, categorized under chapter 87 of the Harmonized System.

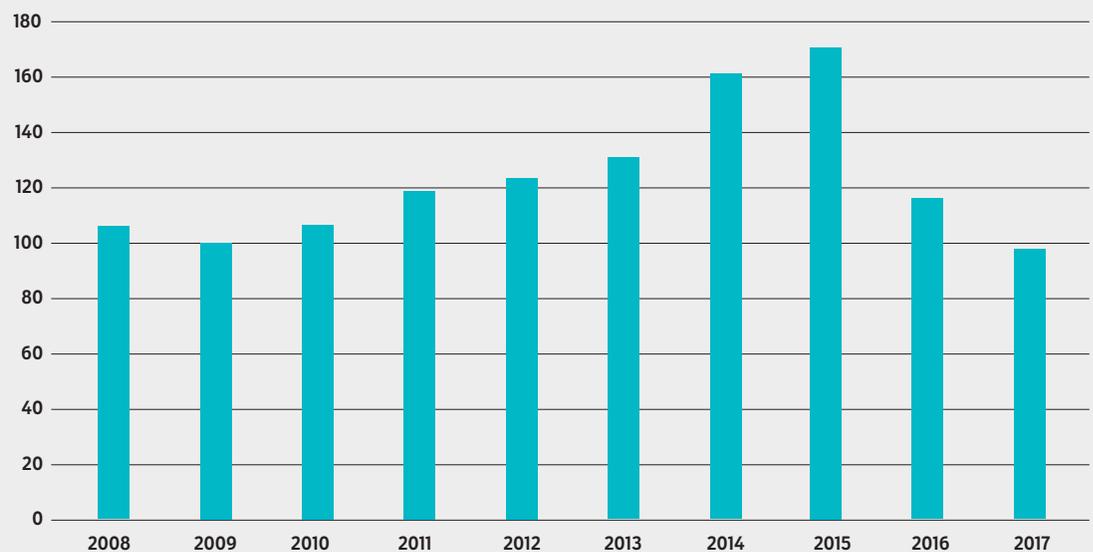
The installed capacity of the three main assemblers is 34,000 units per year which is sufficient to meet the demand of the EAC region of new vehicle which is 15000 units per year.

The Assemblers sub-sector operates only a single shift and has a capacity to do. Three shifts a day and it directly employs 3000 people and about 5000 indirectly.

Motor vehicle components sub-sector, which comprises of formal companies that manufacture various parts used during vehicle assembly and also for spare parts (replacement) market. These products are categorized under various tariff lines of the Harmonized System. This industry also comprises of numerous informal sector enterprises. The major local content in the assembly plants include the Arterials Batteries, Leaf springs for suspension systems, wiring harnesses, seats and trimming materials, lubricants, paints and other process materials, tyres and tubes, glass, welding metal, bolts and nuts, metal brackets and vehicle bodies to name but a few.

**Motorcycle:** There are 5 main motorcycle assemblers in Kenya, and about 55 different types of motorcycles. Some of these plants have a fully integrated manufacturing system involving design, component

### Motor Vehicle, Trailers and Semi Trailers Production (KNBS Quantam Index)



1. According to the International Standards on Industrial Classification (ISIC), automotive industry covers: manufacture of automotive; manufacture of trailer and semi-trailers and; manufacture of parts and accessories for automotive products. In the context of this report, the assembly of motorcycles has also been included

manufacture and assembly. The annual market for motorcycles is close to 125,000 units. The most prominent motorcycle dealerships in Kenya include: TVS, Yamaha, Hero and Suzuki. Motorcycle Assemblers, when combined, they have an investment of over US\$ 10 million and an installed 150,000 motorcycles. Nearly all motorcycles in Kenya are produced from CKD parts. A few participants produce based from SKDs but their market share is low at 5% to 10% (JICA report, 2017).

**Bus body builders:** Kenya has a vibrant passenger bus body building industry that dates back to early 1920. The industry is guided by National Standard on Passenger body construction regulation-KS 372 of 2014. Companies that meet the requirements are approved by NTSA to manufacture passenger bus bodies. There are many bus body builders in Kenya, but only 18 companies have been approved by NTSA as of March 2017 employing about 1000 people. Seven (7) major companies control close to 70% of the volume in the industry. The industry installed capacity of 4800 assorted units per year with 50% operating.

**Second hand cars:** This is a well-established industry in Kenya with heavy presence in the five major urban centres of Nairobi, Mombasa, Nakuru, Kisumu and Eldoret. Direct employment stands at 3000 people made up mainly of sales clerks. The second-hand car industry commands a market share of about 80% of the national market by volume. The second-hand car industry imports more than 90% of their cars from Japan. A majority of these units are Toyota, followed at a distance by Nissan and Mazda. Lately, the industry has started importing a few pick-ups and luxury vehicles, mainly Land Rover Discovery, from United Kingdom. Very little value addition is done in this sector. This industry draws its strength from income gap in the middle class. On average, a new car in Kenya would retail upward of Ksh 2,000,000. Second car industry offers cars in good conditions at prices starting at Ksh 600,000.00 (according to KABA, new car industry mainly sells to the Government, Government agencies and NGOs). Low import prices facilitated by a regulatory framework which allows imports of vehicles up to 8 years old, results in an average age of vehicles in Kenya of about 15 years. According to KMI, that is double the world norm and three times the average of the most efficient road transport systems.

## OPPORTUNITIES

1. Manufacture of various components, including leaf spring assembly, exhaust pipes and silencer spark plugs, filters, radiators, wiring harnesses, speedometer cables, shock absorbers, etc. further investments in the manufacture of these components would replace current imports.
2. Assembly of vehicles for the domestic and export markets. While the current capacity utilization within the three assembly plants is quite low at 30% there are tremendous opportunities especially within COMESA.
3. Local reconditioning of old vehicles, aimed at minimizing the market of imported complete built second hand vehicles.

## CHALLENGES

- **Lack of strong national coordination body for the automotive sector.** Each country with a major Auto-Industry in the world has a body which is in-charge of strategic growth and development of the auto-industry.
- **Lack of supportive standards and regulations** especially on account of health and environmental protection through reduction of poisonous emissions and elimination of unroadworthy vehicles. Specifically:
  - i) Vehicle age limit of 8 years is only applicable to Kenya side and this hampers business in the region for the local assemblers. There is need pursue a regional position.
  - ii) There is lack of national policies to drive local content especially in the motorcycle sector.
  - iii) In the motorcycle sector there is lack of sector regulation. There is a gap in the definition SKDs/CKDs that need to be well defined for duty remission. Anyone assembling less than 90

parts should not qualify as a CKD assembler.

- **Arbitrary implementation of CET.** The EAC has been arbitrarily suspending the CET rate for some partner states and this has given importers an advantage over local manufacturers.
- **Lack of homologation (rationalization of models):** Homologation is a national process to determine the types of Motor Vehicles to be manufactured locally to promote economies of scale and guarantee volumes for Assemblers, component manufacturers and after market operations. Influx of used vehicles of too many models due to inadequate regulation has driven down demand for new vehicles and discouraged local manufacture. There are about 5,000 models. There is no policy on imported spare parts for the used vehicles into the region.
- **Local content:** Kenya has an established parts and component manufacturing base supported by the existing legal framework (LN 363 and 489 which prescribes what items should be sourced locally which has never been implemented and the list of local content is as at today obsolete. Benefits from BKBK are yet to be fully realized as some of the Government Departments and Agencies are still importing vehicles.
- **Lack of specific policy for passenger vehicles:** saloons, station wagons and SUVs are currently not being produced locally and the current assembly regulations do not support the production of CKD and SKD vehicles hence influx of second hand cars.
- **No existing investment promotion incentive scheme for the automotive sector:** An investment promotion incentive scheme if well designed and developed in consultation with the industry will attract new investments and upgrade in motor vehicle assembly and manufacturing of parts. It should include Volume assembly allowance, Production incentive, investment allowance and export scheme.
- **Low Research, Design and Development:** There is little or no research and development (R&D) in the sector. R&D costs are high and require collaboration between Government and Private sector to get great results.
- **Capacity Building:** The country lacks adequate skilled labour to efficiently support the automotive industry as the skills taught in school are not in line with the market needs. In order to develop the sector it will be necessary to train the necessary manpower to support local assembly of vehicles.
- **Skill levels of employees in the machine tools industry requires improvement,** especially since this industry plays a big role in supplying machine tools and equipment used in the sub-sector. This would require identification of all required tools and equipment by the sub-sector, in order to subsequently identify the specific training needs in various skills, after which a focused training programs should be organized, to be conducted in one of the key strategic manufacturing countries of such items, for example Japan and India. A key issue for such training should be to emphasize on quality, finishing and tolerance.
- **Acquisition of required technology for machine tools manufacture and spare parts is greatly limited** by high cost of finance and its poor access, and lack of formal training facilities especially for small scale informal operators. The country's industrialization process should target this area, and also a substantial improvement of the engineering industry, which plays a big service and supply role within the sub-sector.

## PROPOSED POLICY INTERVENTIONS

1. Adopt and Implement a national motor vehicle policy which recommends amongst other things, the setting-up of a National Automotive Council (NAC) and harmonization of import used vehicles and spare part age limit.
2. Adoption and implementation of motorcycle regulation. The regulation amongst other things seeks to promote local sourcing of motorcycle parts from a vendor within the EAC the engine and chassis/frame separate from the other parts of a motorcycle are identified as completely knocked down kits.



Kenya has a vibrant passenger bus body building industry that dates back to early 1920. The industry is guided by National Standard on Passenger body construction regulation-KS 372 of 2014.

## METAL AND ALLIED SECTOR



**Under KAM, there are 99 members in the metal and allied sector.**

*Under the Government's Big 4 Agenda of Manufacturing, there is a target of \$1 billion of cumulative new investments in this sector, the development of an appropriate policy and incentive framework to establish the coal and iron deposits in the country and the conclusion of a joint-venture with a manufacturer that commits at least 30% of Government share in the project.*

### INTRODUCTION

The metal and steel industries are considered the backbone of economic activities of any given country. The per capita steel consumption is an internationally recognized indicator of the level of economic development of a country. In Kenya, the existing iron ore deposits have not been evaluated to facilitate commercial exploitation, and local steel mills therefore depend on imports of billets for production of items such as screws, bolts and nuts, nails, rivets etc. Other production activities depend on imported hot rolled coils, used for re-rolling into cold rolled coils, which in turn are processed into galvanized sheets, color coated sheets, bars, rods etc. In 2017, imports of iron and steel were 1.3 million tonnes valued at Ksh 83,580 million. Iron and steel exports during the same year are estimated to have been 108,717 tonnes valued at Ksh 11,717 million. The local deposits of iron ore and coal, which are the raw materials for the production of iron, have been identified in Kwale, Kitui and Tharaka Nithi but are yet to attract commercial interest.

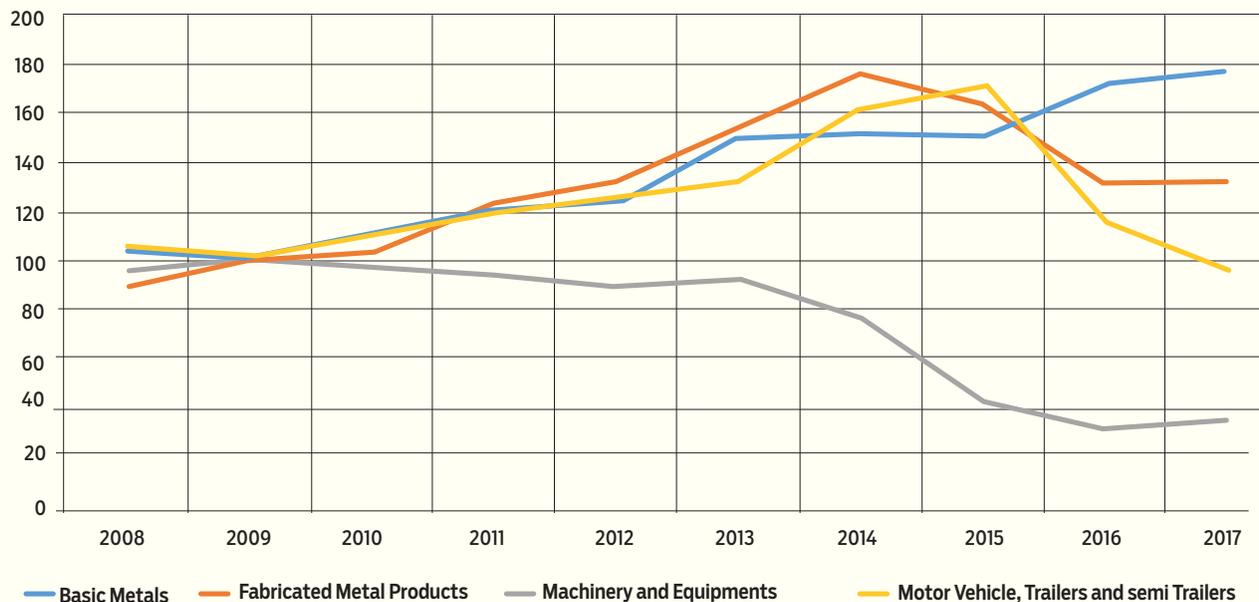
### Key Sub-Sectors:

**Smelting/Hot Rolling/Foundry and Forgers:** There are 27 companies under this sub-sector with an installed capacity of 2,268,000. It is currently operating at a production output of 630,000 MT annually and directly employs about 10,000 people directly and 30,000 indirectly. These companies are major consumers of electricity, at a tune of 254 MW per year.

**Cold Rolling/Galvanizing/Color Coating:** There are 4 companies under this category of manufacturers with an installed capacity of 505,000 MT, directly employing 2000 and other 2000 people indirectly.

**Wire Products & Allied Manufacturers:** There are 17 companies manufacturing wire and allied products with an installed capacity of about 300,000 MT but operating at 50% (150,000 MT). This sub-sector directly employs about 2300 people directly and 2000 indirectly. Generally, these are manufacturers of black and galvanized products like nails, weld mesh, binding wire, reinforcing

**Metal Sector Production (KNBS Quantam Index)**



bars, rivets, barbed wire, welding rods, bolts, nuts etc. The main raw materials, which are all imported are hot rolled wires and rods in various sizes and grades. Zinc which is used for galvanizing and lead for annealing are imported.

**Pipes and Tubes Manufacturers:** There are 19 companies in this sub-sector with an installed capacity of 980,000 MT, directly and indirectly employing 2000 and 20,000 people respectively.

**General Fabricators:** There are 22 companies directly employing 5000 people and 20,000 indirectly. These are manufacturers in the heavy engineering industries, manufacturers of machines including tea and coffee machinery, mini-bus (matatu) & bus body builders, trailer manufacturers, boiler makers and manufacturers of electrical switchgear and fittings. Others are prefabricated and pre-engineered steel building manufacturers, building components (doors, windows) fabricators, manufacturers of furniture, steel utensils, steel kitchen equipment and many other small fabricators manufacturing miscellaneous steel items.

### OPPORTUNITIES

1. Production of grinding mill balls has been identified as a key opportunity by the Kenya Investment Authority owing to the rising demand of these products by cement manufacturers.
2. Manufacture of ductile iron rolls. Within COMESA, only Egypt currently manufactures such rolls. Gauging by the potential market among the 20 mills that exist in the country and the EAC region at large, a great deal of business opportunity exists in the manufacture of these products.
3. Production of casting sand/molding items. The majority of foundry industries in the country still employ sand casting techniques. Sand casting material is available in the country but has not been fully exploited for commercial purposes. Such a project would have a ready market among the foundry industries in the country. The design and production of dyes and patterns could go along with such a project, aimed at reducing the import bill on spare parts.
4. Production of high strength reinforcement bars. A hot-rolled square bar of mild steel subsequently twisted in cold form to produce the required strength is used almost exclusively in Kenya for concrete reinforcement purposes. This technology has completely been phased out in major steel companies in the world, and the trend is towards the production of high strength reinforcement steel bars using micro-alloy elements, tor bar and the newly introduced technology of Tempco process. The latter technology has gained wide acceptance as it has the ability of imparting the required mechanical properties to steel products, and therefore eliminates the costs associated with twisting or micro-alloy addition. Such technology is missing in Kenya.
5. Components manufacture. Design and local manufacture of components and parts for use in the steel plants, which have capacities to procure an estimated 10-30,000 tons per annum. The rate of growth of steel mills in the COMESA region has been steadily rising, which is a pointer to the existing business opportunities for supply of equipment to manufacture components and equipment. Currently these parts are being imported from India. Other investment opportunities are in forgings to manufacture wagon wheels, railway components, axles, powder metallurgy components for auto-spares, foundry and shops for the manufacture of pumps and motors, and centrifugal casting of pipes.



Kenya has a vibrant passenger bus body building industry that dates back to early 1920. The industry is guided by National Standard on Passenger body construction regulation-KS 372 of 2014.

### CHALLENGES

- **Evaluation of local deposits of base metals such as iron ore and limestone has not been undertaken** as required to facilitate exploration and commercial mining. These would act as a key raw material base for various enterprises in steel rolling. Without information, potential investors do not have a good basis of making sound investment decisions.
- **Poor information on the regional market;** channels like marketing journals in which manufacturers could advertise their products are also missing.
- **The process of reconciling VAT on imported raw materials is slow,** and each time an export order is being processed, the former pre-shipment companies must do a fresh factory inspection, which often involved a new and inexperienced officer in the sector's operations
- **Poor quality and high cost of electricity.** Electricity averages between 40 -50 % of total conversion cost. Frequent blackouts and low voltage have a huge impact on the cost and competitiveness of this sector's products in the market.
- **High finance costs.** Kenya has high pre and post shipment costs and high interest costs.
- **Infrastructure is another challenge facing the metal and allied sector.** Poor road conditions, rail services, port charges, city council services, water, and insecurity in Kenya have continued to increase the cost of production, which in turn has led to high prices of finished goods.
- **The 2% of import levy is an additional cost which makes Kenyan manufacturers uncompetitive within the regional markets.** The Railway Development Levy (RDL): 1.5% of RDL is also making local manufacturers uncompetitive.
- **Port charges are high** compared to the regional average further reducing the competitiveness of Kenya.
- **Duty free imports on foreign funded government projects** where such projects are agreed to have only 40% as local content.
- **Undervalued and substandard imported goods.**

### PROPOSED POLICY INTERVENTIONS

1. Develop and implement clear policies and incentives to encourage commercial exploitation of the minerals as per the Big 4 Agenda Manufacturing proposals.
2. Develop clear procedure and guidelines for smooth implementation of off peak power supply and pricing (hours of 10:00 PM and 6:00 AM).
3. Reduce the electricity tariff to heavy steel industries by at least 50% to make local products competitive in the regional markets.
4. Implement the Trade Remedies Act (2017) which seeks to deal with unfair trade practices such as dumping, subsidizing and import surges.
5. Develop and enforce a prompt payment policy to protect manufacturers against the high risk of defaulters by introducing stricter laws which are also enforced.
6. Incentivise insurance sector players to introduce affordable products to the sector.
7. Develop clear procedures and guidelines for smooth implementation of BKBK and local content – especially for large scale infrastructure project with a high demand of steel.
8. Zero rate IDF and RDL for all industry inputs to improve sector competitiveness.
9. Remove the VAT refund imposed on exports to incentivise exports.

## PHARMACEUTICAL AND MEDICAL EQUIPMENT SECTOR



There are 32 pharmaceutical companies under KAM members.

### INTRODUCTION

Kenya's local pharmaceutical industry plays a key role in the formulation and manufacture of pharmaceutical and health care products, although some of them are still being imported. The reliance on imported raw materials has been the biggest hindrance to the development of this industry. Kenya's pharmaceutical industry is the largest in the COMESA region with about 40 enterprises operating in the sector.

These industries produce over 90% of the products listed under Kenya's essential drug list, although the current overall capacity utilization is estimated by the enterprises at 40%. Nationally, about 4 companies are close to reach the highest quality standards defined by the World Health Organization (WHO).

The sector relies heavily on imported raw materials. Over 95% of the raw material inputs are imported, which is estimated to be over Ksh25 billion per annum. The bulk of these inputs originate from Asian countries, while some are sourced from Europe. Bulk drugs, (semi-finished medicaments), which form the major raw material inputs for these industries are all imported. Locally sourced raw materials include maize starch, refined sugar, glucose syrup, rectified

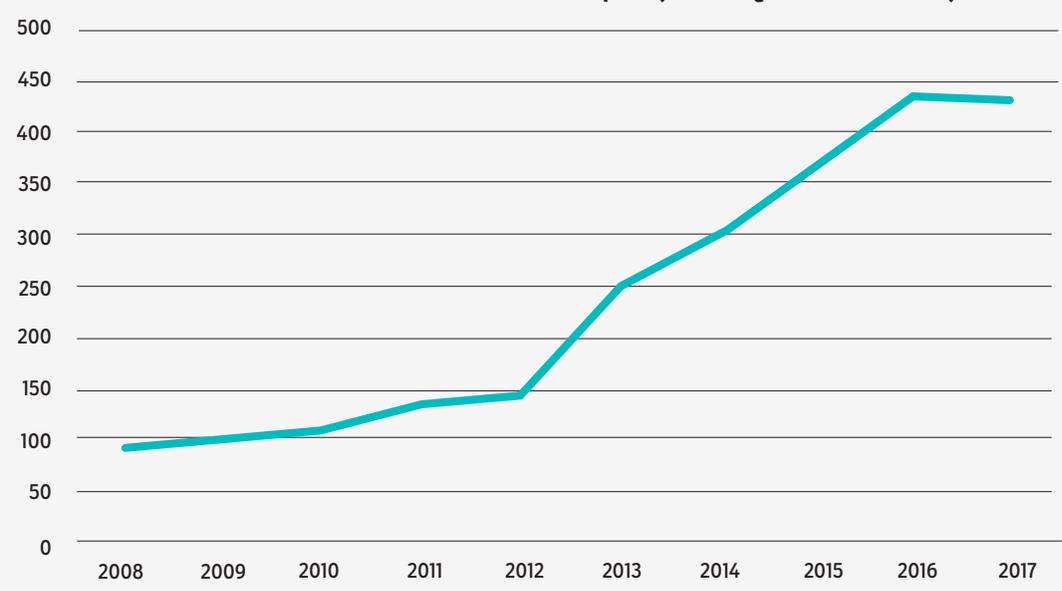
spirit, ethanol, and sodium chloride and packaging materials.

Kenya import medicines worth USD700 million annually. Imported medicines still covers 70% (in value terms) of the market demands (around US\$ 1 billion per year), with an average price almost 4 times higher than that of locally manufactured medicine of the same quality. Drug costs in Kenya can make up an average of 45% of patients hospital bills, causing losses in both, private and public health insurance sector.

There are 32 pharmaceutical companies under KAM members directly employing 4500 people and 20,000 people indirectly. The Government is the major institutional buyer of locally manufactured pharmaceutical products (through the KEMSA under the Ministry of medical Services). Almost 50% of pharmaceutical exports go to the neighbouring EAC and Sudan accounts for about 14%. Other African importers of Kenyan pharmaceuticals are Congo, Ethiopia, Malawi, Mozambique, Nigeria, Rwanda and Somalia. India is the dominant supplier of imported pharmaceutical products (raw materials and finished products taken together) accounting for almost 40 % of Kenya's imports. The other main suppliers are Switzerland, which provides about 10 % followed by Belgium, South Africa, the United Kingdom, Denmark, Netherlands, France and the United States.

The sub-sector is heavily dependent on imported raw materials, with about 95% of its raw materials having to be sourced from other countries increasing input costs significantly.

Pharmaceutical Products Output (KNBS Quantam Index)



## OPPORTUNITIES

1. Manufacture of raw material inputs. Considering that over 95% of raw materials used in the pharmaceutical industry are imported, there is ample scope for manufacture of these inputs for local manufacture, targeting the domestic and the entire COMESA region. Some of the potential projects that have been identified by the Ministry of Industrialization include a multipurpose chemical plant for bulk production of intermediate inputs such as paracetamol & aspirin; a chemical plant to manufacture the anti-tuberculosis, anti-leprosy, antibiotic rifampicin from the penultimate state; manufacture of Quinine by extraction from Cinchona bark and subsequent purification and synthesis to Quinine sulphate; extraction of Hecogenin from sisal waste and synthesis of Betamethasone from Hecogenin.
2. Manufacture of disposable surgical gloves, other latex gloves and condoms so as to replace imports, and as part of measures to deal with the increasing risk of HIV infections in the COMESA region.
3. Commercial processing of traditional medicines, considering the diverse flora in Kenya and the abundant basic knowledge on medicinal herbs.
4. Processing of locally available sugar, salt (sodium chloride) and ethanol to pharmaceutical grades for use as inputs by pharmaceutical industries.
5. Investment in manufacture of medical equipment, including electro-medical equipment (HS headings 9018, 9019 and 9022).
6. Electro-medical equipment market. Factors that could be expected to continue creating a demand for medical equipment include the growing emphasis to deal with the impact of HIV/AIDS, malaria and other diseases like cancer. Currently, this market is totally dependent on imports.
7. Investment in medical and hospital equipment targeted for local and COMESA market none of which has established the necessary production capacity. The equipment include electrocardiographs, ultra-scanning apparatus, electro-diagnostic apparatus, patient monitoring systems, ultrasonic therapeutic appliances, computed tomography apparatus, apparatus that use x-rays for medical, surgical and veterinary purposes, and others for dental purposes.

## CHALLENGES

- **The sub-sector is heavily dependent on imported raw materials**, with about 95% of its raw materials having to be sourced from other countries increasing input costs significantly.
- **The sub-sector is heavily affected by competition from imported drugs and medicines.** Counterfeit products also

affect the operations of existing enterprises.

- **The professional field, for example pharmacists and medical practitioners, is heavily infiltrated by quacks** which affects efficient administration of specified drugs and medicines for treatment of various diseases on-preference of locally manufactured medicine by Kenyan Government: Despite local drugs being cheaper, KEMSA still recognise imported drugs which are 4 times expensive than local drugs.
- **Lack of sufficient sector profession:** The professional field, for example pharmacists and medical practitioners, is heavily infiltrated by quacks which affects efficient administration of specified drugs and medicines for treatment of various diseases.

## PROPOSED POLICY INTERVENTIONS

1. An increase of verification fees from 0.75% to 12% (to be administered by the Pharmacy & Poisons Board) on certain list of pharmaceutical products that Kenya has sufficient capacity to manufacture.
2. A ban on foreign companies from selling imported pharmaceutical products in the country if the same products are produced locally by at least 2 or 3 manufacturers.
3. Imposition of Duty at a rate of 25% for products from outside the EAC on a list of medicines that the local pharmaceutical industry in Kenya has the capacity to manufacture locally at accepted quality.
4. Main stream the BKBK strategy in the implementation public procurement and Asset Disposal regulation - Public tenders should be open to only local manufactured products if at least 2/3 companies can supply at requested quantities and required quality, defined by KEMSA according to PPB/UNIDO GMP roadmap. In the event that, there are less than two or three companies' offerings required pharmaceutical products, preferential pricing to local manufacturers of net 25% should be granted against the imported products. Currently local manufacturers are given 15% while importers (based on shareholding) are given 10% preference of the tender value under the Public Procurement and Disposal Regulations, 2011 (Sections 14 and 15, see Annex 2). This creates an unlevel playing field in doing business with government.
5. Develop a clear framework to ensure Public and private hospitals procure directly from importers and distributors at higher prices than locally manufactured prices, increasing overall health costs. A wider and rational use of qualitative local manufactured generics will result in significant reduction in the costs of drugs contributing to universal healthcare goal. This sector proposes to impose all public health hospitals to purchase using generic denominations and enforce the prescribers to prescribe by generic denomination.



## LEATHER PRODUCTS AND FOOTWEAR SECTOR



**Under KAM membership base, there are 12 companies in the leather industry.**

### INTRODUCTION

Leather is one of the most widely traded commodity and this industry is estimated be worth over US\$100 billion a year. In 2017, leather exports were estimated at 24,271 tonnes valued at Ksh 5,088 million. The potential for growth in Kenya's leather Industry cannot be underrated. The Leather sector is the second priority sector under Manufacturing Sector of the Big 4 Agenda.

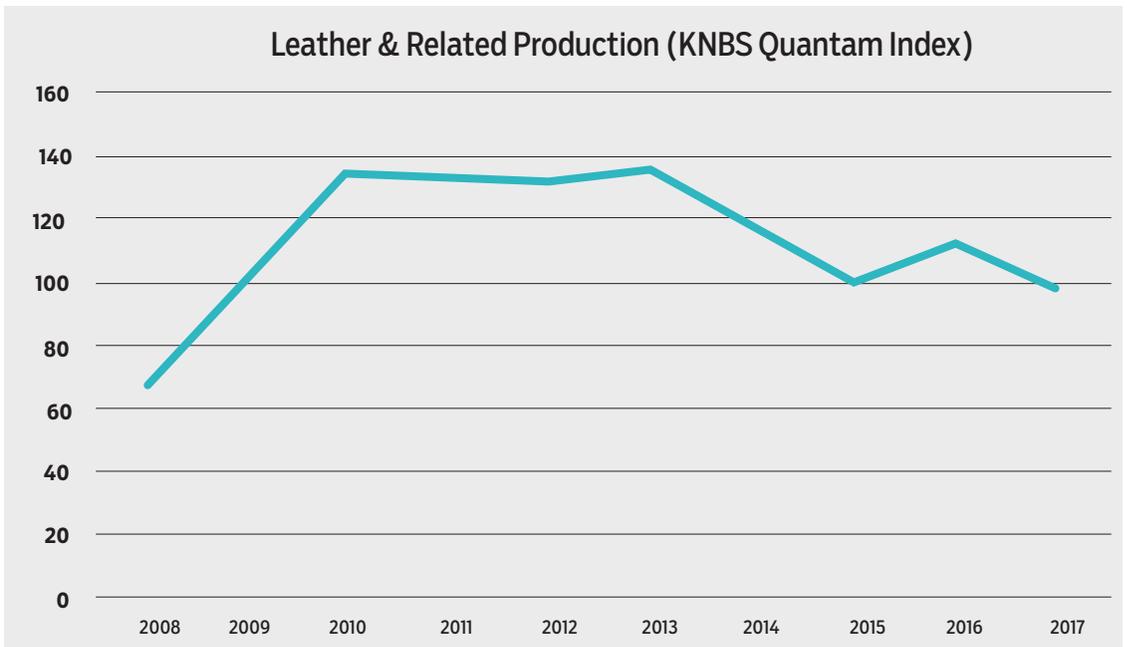
Under KAM membership base, there are 12 companies directly employing about 14000 (during peak times) and indirectly employing about 10,000 to 14,000 people. Currently the sector has a total of 15 tanneries out of which: 13 tanneries are processing raw hides and skins to wet blue, 8 tanneries processing raw hides and skins all the way up to crust and finished leather. Although Kenya served as a leather footwear hub for East Africa two decades ago, it is currently a very minor exporter of leather and leather products (World Bank, 2013). Kenya is also significantly less competitive than global Leaders including China, Italy, and Vietnam in all competitiveness indicators, except availability of and access to raw materials. According to the 2013 World Bank report, Kenya's leather exports consist of semi-processed tanned "wet blue" leather (89%),

raw hides and skins (5%), finished leather (2%), and leather footwear and handbags, travel ware, and other leather products (4%). Up until the imposition of an 80% export tariff on raw hides and skins in 2009, raw hides and skins accounted for more than 25% of Kenya's total leather exports.

### OPPORTUNITIES

1. Export to COMESA countries. A large potential market for leather goods exists within the COMESA region. The potential is demonstrated by the amount of imports of leather goods into the region, in relation to total exports by Kenya to all world countries. Even if Kenya was to concentrate just on exporting footwear and leather goods to COMESA countries, her current exports would form only a negligible proportion of total consumption in this market, which implies that there is a large potential for exports to the region. Investments can therefore be made with the COMESA market in mind, especially noting that for FTA countries, there is a 0% import duty.
2. Investment in a central collection system for all hides and skins. The implication of the low collection rates is that a huge potential lies in utilizing the number of hides and skins

Under the Manufacturing Pillar of the Government of Kenya's Big 4 Agenda, by 2022 the value of leather exports are targeted to increase from \$140 million to \$500 million, the sector is further targeted to manufacture 20 million shoes and create 50,000 new jobs. This is expected to be achieved through the setting up and training of 5,000 cottage industries, the completion of the Machakos Leather Park and the identification of three more leather parks.



- that currently goes to waste. However, the processors of leather (including tanneries), would need to invest in more efficient collection methods and offer better prices to slaughter houses.
- Investment in manufacture of high quality footwear and other leather products for the American market under the AGOA facility. These investments could be made under the Special Economic Zones scheme.
  - Rehabilitation of tanneries that have already closed. This could be done for example through joint venture partnerships aimed at rehabilitating the tanneries to increase their capacity utilization. For existing tanneries, they require modern technologies to enable them to process crust and finished leather, as opposed to the current practice where manufacture of wet blue leather dominates the sector (60% for hides, 90% for skins).
  - There are also potential investment in training institutes, aimed at offering skills in tannery and leather technology.

### CHALLENGES

- Informal and disorganized manner of collection of hides and skins, due to lack of a central collection point.** The disorganized collection system discourages entry of new investors, who cannot be assured of enough availability of raw materials.
- Low quality of skins and hides**, which is the main raw material for manufacturers of leather products. This problem arises from poor animal husbandry practices, which consequently result to the average size of hides in Kenya is 20 sq ft; while in the USA bovine hides measures on average 40 sq. Investors cannot therefore be assured of sufficient quality of raw materials.
- Low level of technical skills due to insufficient technical institutes.** The skills most important in this respect are tannery and leather technologies, and leather products designers. This problem leads to low productivity of workers.
- No common infrastructure for treatment of solid waste and affluent** (since in most cases tanneries are not connected to the

urban sewerage system, which itself is poor for most towns.)

- Difficult for local leather footwear producers to compete in the domestic market against the inflow of cheap and new leather and non-leather footwear imports** (mainly from China and India) and against the growth of the second-hand Mitumba market, which offers an enormous range of high and low-quality leather and non-leather footwear at bargain prices.
- Lack of capacity to meet bulk orders.** Attributed to a lack of funding and investment in research and development. As well as the absence of a Kenya leather brand that could be globally recognized.
- High concentration of tanneries near Nairobi area and poor infrastructure** hindering the industry to take advantage of rich livestock pool in rural areas.

### PROPOSED POLICY INTERVENTIONS

- Immediately resolve the competition that is existing between the Department of Veterinary services in Kabete and that of the Kenya Leather Development Council (KLDC).
- Re-introduction of agricultural extension services to ensure high quality of raw hides and skins through proper animal husbandry programs especially the control of pests and diseases and proper high quality breeding/control of livestock to address the shrinking sizes of raw hides and skins.
- Ensure there are enough abattoirs in the country that are fully and properly equipped in order to eliminate all the flaying defects/cuts.
- Increase local supply of raw hides and skins to enhance tanning capacity utilization which currently stands at 60%. This can be done through the full enforcement of the 80% export duty on raw hides and skins. As well as addressing the issue of smuggling of raw hides and skins through the porous borders.
- Address corruption in export of raw hides and skins from Kenya, which is done through:-Under-declaration/under-invoicing of exports in liaison with the Customs officers and clearing agents. The smuggled value of raw hides and skins is usually fixed at USD 0.4 or 0.5/kg but the actual export price should be USD 1.4/Kg. From this fact, the government loses about Ksh. 83M/ month (USD 8M/month) which translates to about USD 100M/years.
- Fast-tracking the completion of the Athi River (Kinanie) Leather Park as it is long overdue: Uncertainty on when it will be completed is currently discouraging investment and expansion in the leather value chain- Currently, all tanneries are waiting for its completion so that they may relocate their facilities to the leather park.
- Creation of a One-Stop-Shop for documentation processing so as to cut all the bureaucracies currently being experienced in the leather sector especially on licensing. Today, about 8 licenses are required for one to invest in a tannery in Kenya.
- Provide a ready market for finished leather products through government procurement entities through the promotion of the 2017 BKBK and Local Content Policy.
- Implement the Presidential directive that all leather and textile products for disciplined forces in Kenya should be sourced locally.
- Incentivize the sector to invest into the crust and finished leather. The incentives can be in the form of an allocation of 5% export incentive on crust and finished leather and a 10% export incentive on footwear, leather goods and leather garments.
- Restructure and upgrade the Training and Production Center for the Shoe Industry (TPCSI) and place it under the direction of KLDC. This should enhance the quality and standards of the Kenya leather products.
- Strengthen university leather design, technology, and marketing capacities in order to improve on acquisition of skills.
- Identify and establish other Leather Parks for SMEs across the country. This will enable the country to position itself in the production of the 20M pairs of shoes needed as the market is readily available.



## TIMBER, WOOD AND FURNITURE SECTOR



### INTRODUCTION

The timber, wood and furniture subsector in Kenya is not well developed to its full potential and there are prospects to expand the use of modern technology for increased furniture production.

There are 33 companies in the timber, wood and furniture sector under KAM members employing approximately 160,000 people –starting from forestry sector and extending through to manufacturing. The industry produces approximately Kshs 4.5billion of furniture per year and exports Kshs 0.2 billion. The sector contributes about 5% to the country's GDP.

The furniture and joinery industry consists of thousands of small-scale entrepreneurs both in the rural and urban areas, mainly in the informal sector. According to industry players, about 85% of the furniture market is controlled by the so-called Jua kali ("informal sector") artisans. The sector main activities include timber saw milling, manufacture of various types of boards (chip boards, ply woods etc.) veneer sheets, wooden boxes, crates and cases, furniture

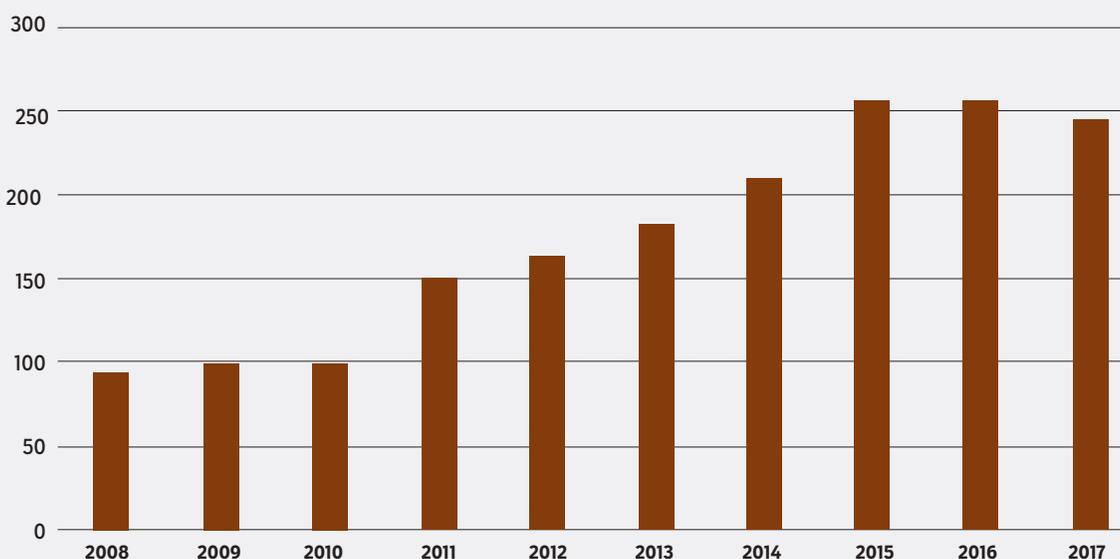
parts categorized under: sawmills, wooden containers, wood and cork and furniture manufacturing. According to Kenya Forest Service there are about 800 licensed saw millers in the country. The World Bank report on the sector (2014) indicates that there are three integrated plywood mills in the country each having a saw mill.

### OPPORTUNITIES

1. Manufacture of high quality furniture and wood based products for export markets, targeting to leverage the preferential market access within COMESA, USA and EU countries.
2. Manufacture of knock down furniture for supply to expanding educational institutions under the free primary and secondary education system; and for offices. (This is a growing market that some local companies and importers are already taking advantage of).
3. Manufacture of alternative raw materials to timber, for example utilization of sawdust to produce chip boards, as the current insufficient supply of timber is not expected to ease in

**There are 33 companies in the timber, wood and furniture sector under KAM members.**

Manufacture of Furniture (KNBS Quantam Index)



The industry produces approximately Kshs 4.5billion of furniture per year and exports Kshs 0.2 billion. The sector contributes about 5% to the country's GDP.

the near future.

4. Manufacture of sawn wood, for Middle East Arab and South East Asian countries. The Kenya Investment Authority estimates that, imports demand for these products range from 1.5 million m<sup>3</sup> and 2 million m<sup>3</sup> per year respectively for Egypt and Saudi Arabia

### CHALLENGES

- **Illicit trade:** This stems mainly from undervaluation of imports which has continued to expose manufacturers to unhealthy competition
- **Outdated EAC duty structure:** The current duty structure does not differentiate between intermediate and finished hence no incentive for value addition. In addition, the region has continued to witness increased stays of application which have continued to hurt and distort the market.
- **Delays in payment of supplies:** This has continued to hurt the companies especially the SMEs on day to day operations due financial lock-in.
- **Preference of imported furniture over locally manufactured products.**
- **Constrained input supply:** The Kenyan forestry sector is unable to meet local demand for timber and the country is a net importer of sawn timber from the region. Import licenses for timber are nevertheless required. These licenses lack transparency and create opaqueness across the industry.
- **Limited labor skills and poor production facilities:** The Kenyan furniture industry, and the informal sector in particular, suffers from low labor productivity as a result of limited training opportunities and low investment in new technologies.
- **Limited access to markets:** Kenyan furniture manufacturers are facing increasing competition from Asian imports, particularly in formal mass market retail channels. Local manufacturers are "crowded out", hampering their access to domestic and regional markets. Informal "Jua Kali" manufacturers are also losing their access to markets, as consumer buying habits change and mass retail becomes the channel of preference.
- **Limited engagement and collaboration between different stakeholders across the value chain, both within and between the formal sector and Jua Kali entities:** Across the value chain, there is fragmented stakeholder engagement and minimal linkages which result in limited collaboration within and between the formal sector and Jua Kali manufacturers, restricted scope for outsourcing and specialization, and reduced efficiency and opportunity for serial production.

### PROPOSED POLICY INTERVENTIONS

1. Implementation of BKBK Strategy: Especially under the Big 4 agenda, one million housing plan, the government should ensure all wood based joinery products are sourced from local manufacturers.
2. Review EAC CET and Eliminate stays of application. Kenya hardly exports furniture to the EAC region due to challenges emanating from stays of application. Ensure, the classification of raw materials, intermediary raw materials and finished products are done correctly. At present, products such as MDF, chipboard, and plywood and block board imported into the EAC are being wrongly classified as finished goods. These products are in fact intermediary products which cannot be used in their existing state and must be processed into a finished product.
3. Enhance institutional collaboration and sector support: Through the establishment of an industry association and developing a national policy framework for the subsector to inform incentives and implementation.
4. Enhance access to markets and induce greater demand for products through the promotion of regional trade agreements. The improvement of border logistics and regional transportation networks to strengthen regional integration
5. Improve productivity and innovation through better skills and technologies
  - Establish a Kenyan Centre for Excellence as a platform to provide relevant industry training and (in the longer-term), coordination of R&D
  - Set up prototyping facilities to develop new products
  - Provide incentives to upgrade technology and expand manufacturing facilities to move towards serial production
  - Enhance collaboration among Jua-Kali entities via clustering
6. Tackle supply-side constraints to increase production and quality by laying the foundations of a sustainable forestry sector that is able to meet Kenya's demand for timber. Further eliminating import licenses for timber and reduced import duties for intermediate products;
7. Develop and implement sector specific skills Advisory Committee (SSACs) that will guide in the development of occupation standards to influence curriculum development. Further popularise and strengthen TVET educations and training through National TVET conference and skills shows.
8. Promote the culture of promote payment through the implementation of regulation aimed at establishing a Regulator to govern the retail sector focusing on unfair trade practices and capital; and the development of a Joint Code of Practice for the Suppliers, Manufacturers and Retailers.



## ENERGY, ELECTRICAL AND ELECTRONICS



Under the KAM membership base, there are 61 companies under energy, electrical and electronics subsector.

### INTRODUCTION

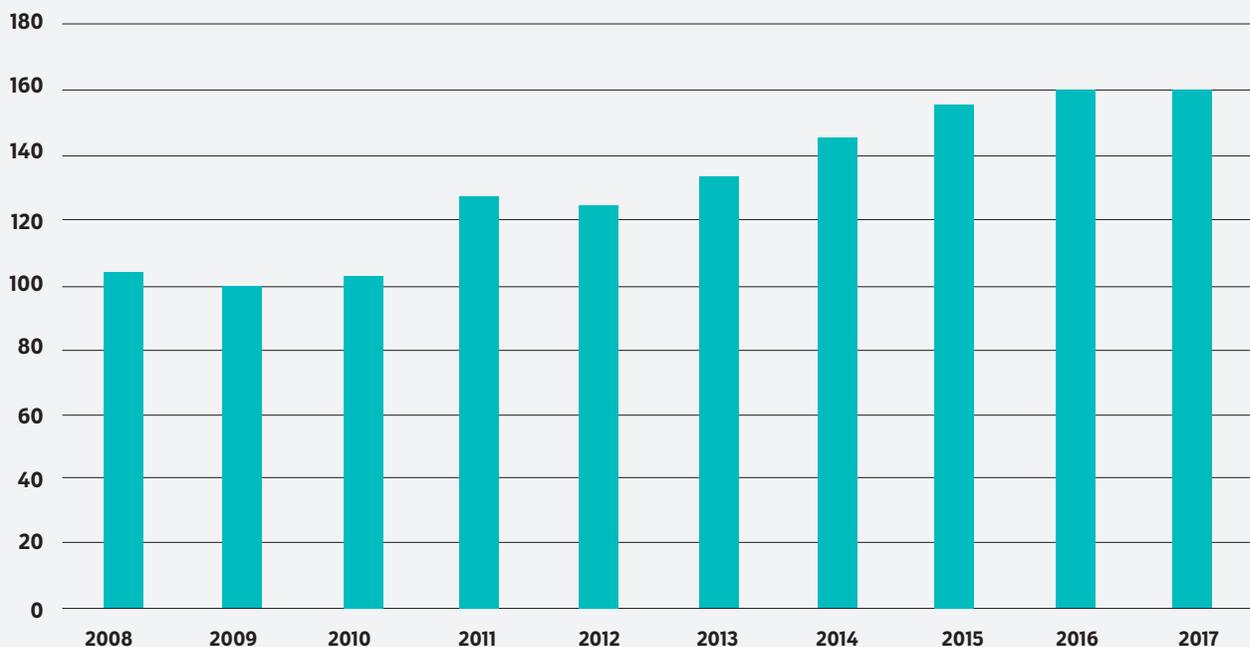
Although Kenya's electronic industry is still at its infancy, a number of firms in the assembly, testing, repair and maintenance of electronic goods are in operation and are rapidly increasing their scope of activities to meet the growing demands of the industry. It is estimated in 2017 exports in electrical machinery and apparatus were valued at Ksh 1,518 million. There is urgency in promoting high technology value addition for high yield productivity to sustain the projected manufacturing growth rate of 15% by 2022.

Under the KAM membership base, there are 61 companies under this sub-sector of manufacturing directly employing about 1500 people and indirectly over 5000. The products in this sector include energy generation and electrical machinery and equipment. These are broadly categorized as machinery that include the following: mechanical appliances, electrical machinery and equipment and parts thereof, sound recorders and reproducers and television, image reproducers.

### OPPORTUNITIES

1. Renewable Energy Production. There exists an immense unexploited reservoir of geothermal, solar, wind and biomass energy in the country. There is a further need to expand the exploitation of hydro-power generation, coal, nuclear and other renewable energy resources.
2. Manufacture of medical equipment including electro-medical equipment. Investment in such opportunities could be in form of assembly with the target market being EAC and COMESA.
3. Data communications equipment, especially in areas of information, communications and telecommunications equipment and appliances.
4. Assembling of data processing and transmission equipment and appliances like computers, mobile handsets, scanners, electric cables, computer accessories, photocopiers, mobile phones among others.

Electrical Equipment Production (KNBS Quantam Index)





## CHALLENGES

- **Skills development:** Within technical training institutions, there is a lack of emphasis on capacity to handle equipment and materials, which results to underskilled workforce.
- **Competition from cheap imports:** The sector faces a major challenge in terms of competition from imported products from countries with huge incentives making their products cheaper. This includes the importation of counterfeits.
- **Transport and logistic inefficiency emanating from the port and customs related challenges.**
- **Lack of clear and directed policy guideline for incentives to the sub-sector**
- **Lack of industry infrastructure:** The completion of Konza City is expected to boost the investment in the sector but this has not been finalised.
- **Lack of the clear procedure for the implementation of BKBK strategy:** Government Ministries, Department and Agencies have continued to show preference to imported electronics over locally manufactured electronic

products.

- **Lack of sufficient funding in R&D** which has impacted on the industry ability to cope with every changing technological space.

## PROPOSED POLICY INTERVENTIONS

1. Provide incentives for the direct provision of renewable and green energy solutions to household lighting.
2. Set out clear procedures for the smooth implementation of Buy Kenya Build Kenya Strategy
3. Finalize the construction of Konza City and develop clear policy guidelines for the companies expected to operate in there. Further establishing Public-Private Partnerships for infrastructure development in the sub-sector.
4. Enforce 100% verification of all imported electronics at Port of Mombasa to curb counterfeit and substandard goods.

## CHEMICAL AND ALLIED SECTOR



Under KAM membership, there are 96 members in the chemical and allied sector.

### INTRODUCTION

Under KAM membership, there are 96 members in the chemical and allied sector directly employing over 3000 people and over 5000 indirectly. The sector has three (3) sub-sectors: paints and resins, agro-chemical and cosmetic and hygienic sub-sectors. The overall installed capacity is 35,000 MT powders per year and 50,000 MT liquids per year all operating at 98% capacity. The sector imports 98% of its raw material. There are many categories of players within this sub-sector. These players operate across the country and in different sizes with majority operating as informal businesses. There are further a number of large multinational players in the sub sector and is largely made up of private players with no identified public enterprise.

#### Key Sub-sectors:

**Paints and resin sub-sector:** Kenya's paint industry has been thriving growing at an annual growth rate of 10-15% mainly because of the construction industry. The leading paint manufacturers and painting companies in Kenya include Sadolin Paints, Basco Paints, Galaxy paints, Solai Paints and Crown Berger. Each company manufactures its own specialized product; with some also offering professional paint services and training.

**Agro-chemical sub-sector:** The sector is vital due to Kenya's largely agrarian economy. According to a report by Agrochemical association of Kenya, in 2017, Kenya imported 14,737 tonnes of pesticides valued at Ksh 12.70 billion hence its significance. The importation of finished products manufactured outside the

country is becoming more attractive compared to making them locally. Manufacturers are scaling down their operations and investments in local formulation of pesticides by up to 88%.

### OPPORTUNITIES

1. Growing demand of paint – there is an opportunity in the sub-sector given the growing construction industry in Kenya and the region.
2. Manufacturing of fertilizers. Fertilizer is one of the major farming inputs in the country and it is widely used. The majority of fertilizers used in the region are imported or simply blended in country.
3. There is also the potential to establish a bio-fertilizer plant in western Kenya (Mumias Sugar Co. Ltd) to utilize bagasse and wastes from timber industries.
4. Production of nitrogen fixing microorganisms such as Rhizobium which can be used in leguminous plants to increase crop yields.
5. Manufacture of dyes which are important for the textile industry.
6. Processing of Pyrethrum and other plants. Kenya produces a lot of pyrethrum which is exported in a semi-processed form or as dried flowers with limited monetary value in the world market.
7. Processing of neem tree extract as a source of a pesticide. The tree is being promoted by ICIPE in Kenya and it has been found that the extract has pesticide properties.

### Chemical and Chemical products Output (KNBS Quantam Index)



## CHALLENGES

- **Taxes on agro-chemicals:** The introduction of 16% tax on imported ingredients of pest control has encouraged importation of finished products manufactured outside the country. Prior to 2014, the VAT Act, (Chapter 476 of the Laws of Kenya) and previous Finance Acts had zero-rated pest control products. However, the VAT Act, 2013 introduced 16% tax on all imported ingredients of pest control products for local processing or formulation, but maintained zero-rated status for already formulated and packaged products. This has made locally manufactured pesticides more expensive.
- **Trade Rules introduced by the EAC Common Market regarding misclassification of some of finished products as raw materials,** presents new challenges to the sub-sector, and may play a big role in discouraging new investments into the sub-sector in future.

- **The high dependence on imported raw materials,** which implies that potential entrants into the sub-sector cannot be assured of their sufficient availability, since the import market and price of raw materials is influenced by many factors, key among them being the cost of oil.
- **High cost transport and logistics:** This has direct impact on the price of the final product.

## PROPOSED POLICY INTERVENTIONS

1. Finalize the development and implement a chemical policy that shall manage the lifecycle of chemicals from purchase, use and disposal.
2. Finalize the development and implement policies that propose the chemical and hazardous waste regulation by NEMA.
3. Incentive manufacturers for modal shift from road to railway.



## PLASTIC AND RUBBER SECTOR



Under KAM membership base, there about 100 companies under the plastic and rubber sector.

### INTRODUCTION

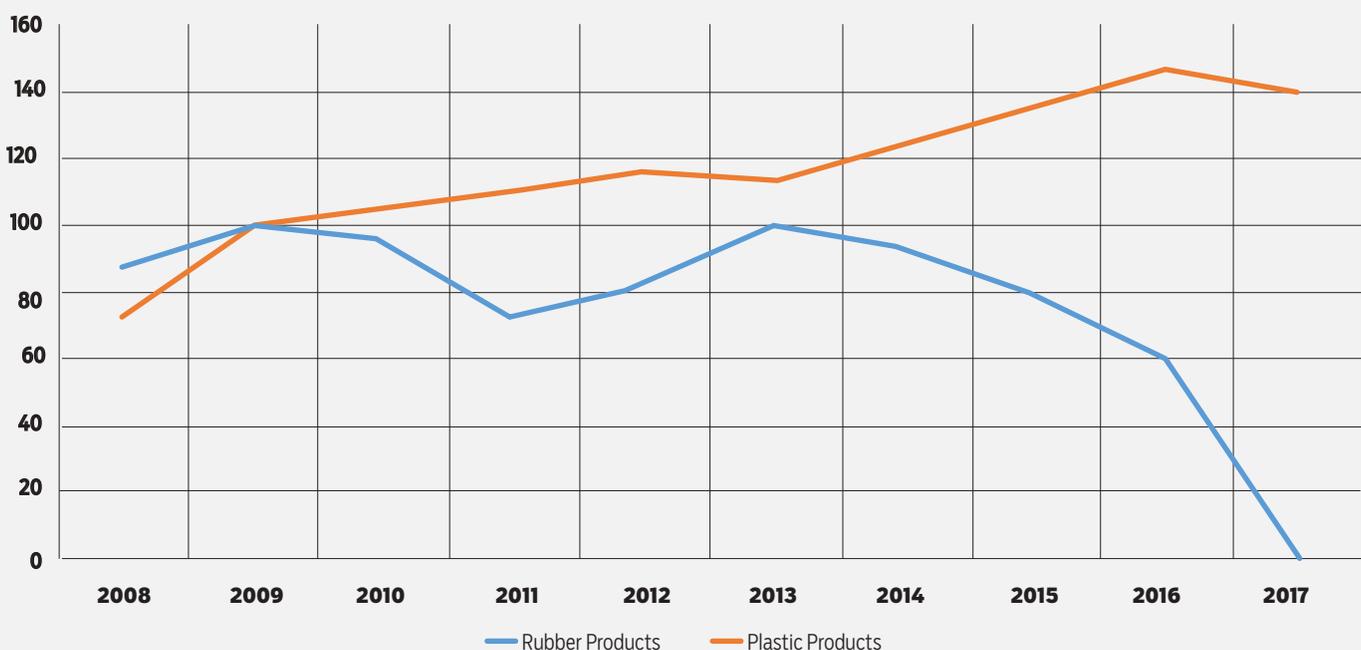
The plastics industry in Kenya is well-developed and produces goods made of polyvinyl chloride (PVC), polyethylene, polystyrene, and polypropylene. According to the KNBS, there are over 300 formal establishments producing various plastics and rubber products in the country out of which 140 are in the plastics industry and are involved in the production of various plastics articles such as PVC pipes and fittings, packaging bags, plastics shoes, crates, bottles, floor tiles, household wares and containers.

Under KAM membership base, there about 100 companies under the plastic and rubber sector with installed capacity of 360,000 tonnes plastic per annum and have been operating at a tune of 240,000 tonnes per annually. The sector's raw materials are all imported in the form of granules. The sector directly employs 30,000 people and 100,000 indirectly.

The plastic industry is estimated to be worth Kshs 170 billion as in 2017. Raw data from the KNBS shows that the subsector has made investments in excess of Ksh 50 billion in Kenya and relies heavily on imported raw materials. The industry has significant linkages to other sectors feeding into about 90% of other locally manufactured products such as dairy, sugar, bakeries, food and confectionery as well as other such sectors as agriculture, horticulture, hotels, packaging, health and pharmaceutical industries, retail outlets and general consumers.

The ban of plastic bags in August of 2017 had a significant impact on the subsector with the total output of plastic products declining by 3.8% in 2017. A total of 40 companies have closed down as a result of the ban and a pronounced aversion to capital expenditure and investment in the subsector is present due to the uncertainty in policy and regulation.

Rubber and Plastic production (KNBS Quantam Index)



## OPPORTUNITIES

1. Manufacture of quality plastics electrical appliances like sockets, plugs and automotive plastics spares, which currently are entirely imported, and whose consumption is on the increase in the domestic market.
2. Manufacture of household wares like plastics kitchenware.
3. Manufacture of petroleum based chemicals used in production of synthetic fibers for textile industry.
4. Manufacture of plastics spares and housings for electronics industry.

## CHALLENGES

- **Competition:** The bulk of the raw materials are imported, which means that any changes in key factors like oil prices and exchange rates immediately affects the cost of production.
- **Environmental issues:** For plastics, the increasing trends in use of plastic packaging have resulted into an increase in packaging waste generation, and since the products are non-bio-degradable, this has presented a challenge to their disposal and impact to environmental pollution.
- **Declining production:** The value of production has been on a decline, especially due to competition from imported equivalent products, which presents a threat to the future development of the sector.
- **Cost of production:** The cost of electricity and its provision presents a real challenge to the sector, which sub-sector heavily depends on electricity for any production. This is an area that affects all manufacturers and which requires serious redress.
- **Plastic waste and disposal:** The Ministry of Environment enacted a regulation that outlawed the use of certain gage of plastic bags due to environmental concerns relating to problems of disposal and recycling. This is an issue that requires to be addressed early enough, since if local

manufacture of plastics is stopped, wasted investments, employment and consequent incomes would go to waste.

- **No aluminium recycling centres in Kenya.**

## PROPOSED POLICY INTERVENTIONS

1. Develop and implement a national waste management policy.
2. Restructure the ban on flat bags to provide provisions for manufacture of bags for specific purposes namely: planting bags, hygiene bags, and food handling and garbage bags.
3. Develop a clear, predictable and long term regulation framework for sector: Manufacturers require a clear government policy touching on all plastics taking into account its value chain from imports, manufacturer, use, reuse, reduction, and disposal. This should be developed in at least 6 months. Currently all plastic manufacturers are faced with the challenge of unclear regulations. This has hugely impacted their investments and access to credit/finance.
4. Tax incentives to encourage plastic recycling through the provision of a 300% tax capital allowance on recycling and upcycling for plastic equipment.
5. Introduce a proposal for a ring fenced green levy at source "entry at port" and managed by KAM and stakeholders. This levy will be used for the environmental management (recycling and upcycling of plastics) and promote investments in the entire recycling and upcycling value chain with an emphasis to Take Back System and Extended Producer Responsibility implementation. Recycling should be further promoted in Special Economic Zones.
6. Transfer NEMA Clearances to KEBS - Clearances for plastic use and manufacturer that is currently done by NEMA should be done by KEBS, as part of the annual permit to manufacturer. This is streamline the process and avoid multiplicity of permits. This clearance should be reviewed after 3 years (currently manufacturers need to apply every year).

*The Ministry of Environment enacted a regulation that outlawed the use of certain gage of plastic bags due to environmental concerns relating to problems of disposal and recycling.*



## BUILDING, CONSTRUCTION AND MINING



**Under the KAM members, there are 40 members in the building, construction and mining sector.**

*Under the Government's Big 4 Agenda of Construction materials, there is a target of increasing exports to \$1 billion and ensuring 70% of the housing materials used in Kenya are locally produced.*

### INTRODUCTION

The Kenyan construction industry is set to grow steadily for the next decade attributed to an increased number of projects being carried out in the country. This industry is currently on an upward trend following rehabilitation and reconstruction of major roads and bridges across the country. Data from the KNBS indicates that the construction industry grew by 8.6% in 2017 compared to a 9.8% growth in 2016.

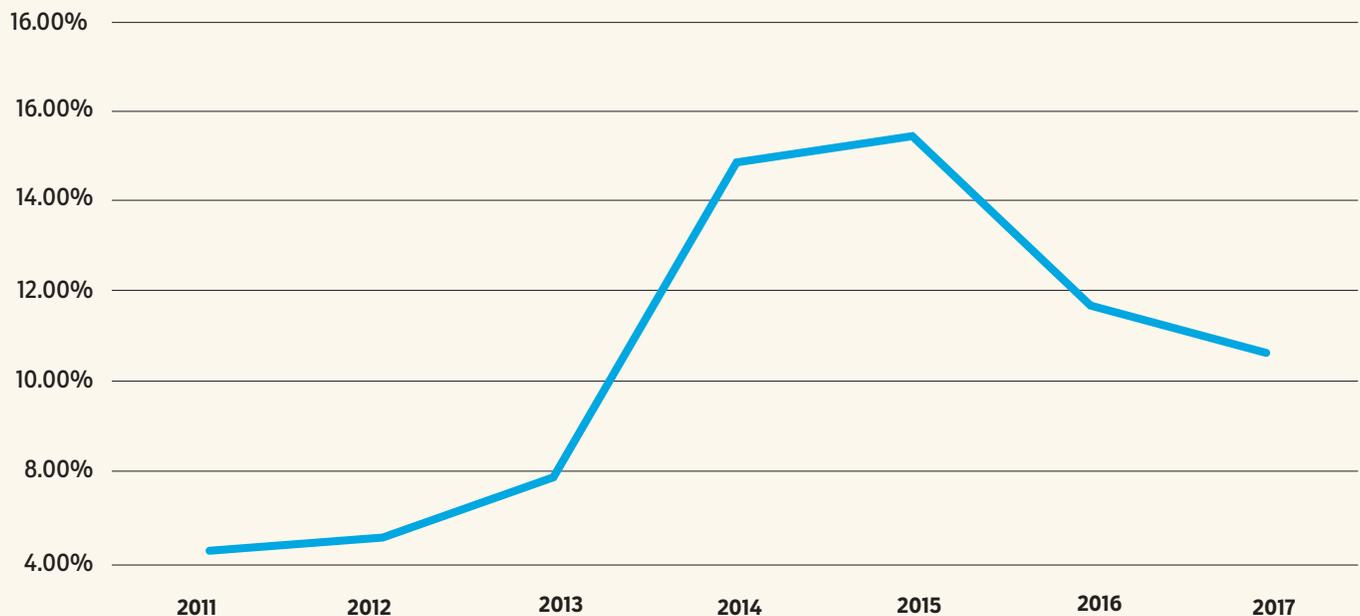
With increase in population, opportunities exist in the construction of residential, commercial and industrial buildings, including prefabricated low-cost buildings. The mining industry is dominated by the production of non-metallic minerals encompassing industrial minerals such as soda ash, fluorspar, kaolin and some gemstones dominate Kenya's minerals industry. The mining and quarrying sector makes a negligible contribution to the economy, accounting for less than 1% GDP, the majority of which is contributed by the soda ash, an important raw material in the construction sector.

### KEY SUB-SECTORS:

**Construction:** Data from KNBS indicates that the construction sector contributed 5.5% of the GDP in 2014 due to increased spending on infrastructural development by the Government and Improved construction activities from private sector. According to a report by National Construction Authority (NCA), there are a total of over 13,700 contractors registered by NCA with over 22,400 licenses in the above classes of work. Building works has the highest proportion of licensed contractors at 43% followed by Roads at 34%.

Water and Electrical works have proportions of 10% and 9% respectively. Mechanical has a paltry 3%. The sector is dominated by small and medium enterprise contractors which account for a total of 79% while large establishment contractors account for 21%. 71% of the construction firms are owned by men whilst 21% have joint ownership of both men and women. Women owned companies account for only 7%.The construction sector currently has a total of 511,676

**Growth of building and Construction Sector (KNBS)**



workers employed as skilled, semi-skilled and unskilled artisans. The sector depends mainly on unskilled labourers who account for 42% of the employed labor force within the sector. The report by NCA, indicates that 89% of contractors use mostly locally available construction materials whilst 8% use mostly imported materials. 3% rely mostly on both locally available and imported materials.

**Cement:** comprises of more than cement manufactures, and covers other products like lime and earths based products including ballast, roofing tiles, limestone products, concrete products and ceramic tiles. The sector has over years shown resilience despite the headwinds stretching from power tariffs hikes, currency devaluation and high interest rate which curtailed vibrant construction activity, hence high cement consumption growth. Iron ore produced from localized small deposits is utilized in the manufacture of cement in the country.

**Mining:** In Kenya, it contributes about 0.4% of the country's GDP. Though mining activity has been present in the country for over 50 years, productivity has remained low. The scale of operations has been limited with only two projects - soda ash and mineral sands - comprising a large part of productive output by revenue. Exploration activity has also been limited even though geological surveys demonstrate a sizeable mineral potential. Reform in the mining sector The Government of Kenya has recognized the potential that exists and has directed efforts to improve mineral exploitation by establishing a ministry dedicated to the development of the mining sector.

Minerals (non-ferrous mining) is dominated by production of non-metallic minerals such as soda ash (trona), fluorspar, diatomite, vermiculite, natural carbon dioxide, kaolin, barytes, a variety of gemstones, limestone and lime products that include various construction materials. Commercial exploitation of titanium deposits in Kwale County is a recent undertaking, starting in 2005. Coal deposits exist in Kitui County, but their commercial exploitation has not been established.

Metallic Minerals, some quantities of gold are being produced in Migori County by local prospectors, but no commercial exploitation has been undertaken as yet, as the quantity and quality has not yet been assessed.

## OPPORTUNITIES

1. Mineral Exploration: There exists high mineral potential areas in the country, i.e. the gold bearing greenstone belt of Western Kenya and Mozambique Belt in Central and Southern Kenya, which potential investors could target to exploit. Several exploration licenses have been granted to prospecting and exploration companies for gold and base metals. Potential for joint ventures between such licensed companies and foreign investors could speed up the process of commercial mining, aimed at benefiting from modern foreign technologies.
2. Serbit/ Ortum: This opportunity is based on the local availability of vast deposits of limestone, and other raw materials like gypsum and iron ore. According to Kerio Valley Development Authority, the



proposed plant would have an initial capacity of 300,000 tonnes per annum and is considered strategic for the export of cement to the neighboring countries, including Eastern Uganda, Southern Sudan, Southern Ethiopia, Rwanda, Burundi and even Congo.

3. Koru: Vast amount of limestone exists in the Koru area of Western Kenya. Currently, only a small portion of the lime deposit in Koru is being exploited by Homa Lime Company Limited. The limestone deposits in Koru are contaminated with about 2% phosphate, which must be removed for quality cement manufacture. The phosphate so obtained could be used as fertilizer directly or be blended with other elements to manufacture compound fertilizers. Thus the Koru limestone deposits could be harnessed to produce fertilizer.
4. Shimoni: The south coast of Kenya is endowed with abundant coral limestone deposits that can be harnessed to produce quality cement. A study indicates that a cement factory with a capacity of 600,000 tonnes per annum can be established to run for at least 50 years. Such a factory would also benefit from the export markets already established by Bamburi, which is traditionally an export-oriented plant.
5. Gypsum, coal and iron ore: deposits exist but have not been exploited. This would reduce imports by companies involved in cement production.

## CHALLENGES

- **Lack of technical skills:** interested investors lack the required technical skills especially when it comes to registration by National Construction Authority.
- **Substantial Capital outlay:** The amount of initial capital outlay needed in exploration and commercial mining of precious and semi-precious minerals are prohibitive. In addition, lack of experience in this area is a big discouragement. Affordable and long term financing is still difficult to obtain; the commercial bank's average lending period is often 5 to 8 years, a period considered very short for the industry turnaround time.
- **The payment of royalties for all minerals has also remained a contentious issue** due to the negotiated rates with no standard that an investor can refer to.
- **Mining Act:** Concerns surrounding the Mining Act include the pre-emption rights of the government in relation to strategic minerals, the government's 10% free carried interest, and the requirement for the listing of 20% of the equity of large-scale projects. In effect, this all means investors could find a large percentage of their company not being under their ownership and, to some extent, given for free.
- **Administrative challenges on building quality assurance:** the construction industry has been facing many challenges in quality assurance from collapsing of buildings and constructions on road reserves and public utility spaces. This is compounded, by lack of capacity to facilitate the implementation of quality control and hence quality assurance is left to public health technicians.
- **Unskilled labour:** For years, Kenya has had challenges with unskilled draughtsman and quack contractors.
- **Occupational health & safety challenges on construction sites in Kenya:** The construction industry business in Kenya, as in other countries, cannot be tackled effectively without harnessing Occupational Health and Safety Standards (OHS), to safeguard the health of the workers and the entire community.

## PROPOSED POLICY INTERVENTIONS

1. Develop clear procedures and guidelines for smooth implementation of BKKB under the BIG 4 Agenda and further elaborate procedures on local content in the implementation and construction of large-scale infrastructure projects.
2. Strengthen NCA to provide training and capacity building to construction workers.
3. County and national government should work collaboratively in providing service on quality assurance.
4. Incentivise banks to provide long term financing to house developers and mortgage facilities to prospective homeowners to boost the growth in the industry.
5. Incentivise the pension funds to invest in the real estate especially for the first home owners.

## SMALL AND MEDIUM ENTERPRISES (SMEs)



There are 400 SMEs under KAM membership base drawn from all sector of the economy.

### INTRODUCTION

Kenya's record of SMEs is not as comprehensive. The economic survey report by KNBS 2017 indicates that there are 1.56 million licensed MSMEs in the country and about 5.85 million unlicensed businesses. The sector plays a key role in economic development and job creation. Most jobs created in the country are usually by SMEs. A majority SMEs fall under the informal sector called jua kali. Estimates put Kenya's MSMEs at about 7.5 million enterprises, contributing approximately 40% to the Kenyan GDP.

The informal sector is estimated to constitute 98% of business in Kenya, contributing 30% of jobs and 3% of Kenya's GDP. The government recognises the role of the informal sector and seeks ways to integrate these businesses into the formal sector. In Kenya, starting a business involves seven procedures, takes 22 days and costs 21.1% income per capita for both men and women. Although Kenya has generally made progress in making it easier to start a business, there are questions as to how easy starting a business is for SMEs.

### CHALLENGES TO SME SECTOR GROWTH IN KENYA

The following are challenges facing the SME sector in the country:

1. Low innovation on Product development. SME sector competitiveness and exploitation of economies scales is largely determined by the quality product development coupled with right pricing. Our low level of product development and innovation has allowed importation even for items that are produced locally.
2. Market Access-both local and international –various issues characterise the markets where finished products are sold. Unfair competition from cheap imports has continued to hinder the growth of the sector. Largely, the domestic market is shared out between a small portion of formal market that has preference for high quality products at reasonable price, but too small to bring down the unit cost of production through economies of scale; and a large segment of informal market. The international market is characterized by a big imbalance between exports and imports where the latter outweighs the former.
3. Lack of government enforcement mechanism on Buy Kenya Build Kenya strategy. Government in any country is the largest consumer of goods and services and this implies that it can be of great benefit to the SMEs especially by procuring their products. While the public

procurement market in Kenya, like other countries worldwide, deals with wide ranges of supplies, SMEs have been side-lined. Some contracts are within capabilities of SMEs but they are shelved from participating in public procurement despite their qualification, sizes and level of production because of a myriad of issues ranging from documentation, financials, to unfair processes.

4. Access to Affordable Finance. Access to finance is a key issue for the manufacturing sector. This is a critical component in any business venture and its importance in manufacturing segment cannot be underrated. If the SMEs sub-sector in manufacturing, is to grow, there is need to access more finances and at a lower cost. Several studies have consistently cited lack of financial access as a major problem among SMEs in the country. Access to financial resources is constrained by both internal and external factors. Internally, most SMEs lack creditworthiness and managerial capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products and investing in plant and equipment. From the external perspective, SMEs are regarded as insecure and costly businesses to deal with because they lack required collaterals and have low absorption capacity of funds. They are therefore rationed out in their access to credit due to high intermediated costs, including cost of monitoring and enforcement of loan contracts. Further, a challenge linked to expanding bank lending is the interest rates cap, which capped lending rates at 4% above the CBK base rate since August 2016. The interest rate capping has negatively affected the SMEs as banks have turned to risk profiling, a move which has seen the SMEs fall under the most risky category hence crowding them out.
5. Fragment and complex Supply chain/raw materials Management. Poor infrastructure and transport and logistical process is detrimental in the sector's growth. According to study by KAM, large portion of raw materials are imported. Manufacturers often face the challenge of seasonality of raw materials. The efficiency and effectiveness of the entire logistic supply chain is critical in ensuring smooth running of enterprises. In fact, the adoption of Japanese model of Just-in-time is important in provision of raw materials to sector.
6. Tedious and length process in quality standards and certifications. SMEs need to meet quality standards and use of a quality assurance program at the processing facility. Lengthy and subjective measures enforced to SMEs by Government Agencies has hindered the growth of the sector. Manufactured product quality is determined by the quality of the raw materials utilised

1. The term micro and small enterprises (MSEs) or micro, small and medium enterprises (MSMEs), is used to refer to SMEs in Kenya. Under the Micro and Small Enterprise Act of 2012, micro enterprises have a maximum annual turnover of KES 500,000 and employ less than 10 people. Small enterprises have between Ksh 500,000 and 5 million annual turnover and employ 10-49 people. Medium enterprises are not covered under the act, but have been reported as comprising of enterprises with a turnover of between KES 5 million and 800 million and employing 50-99 employees.

and the efficiency and care taken during handling, processing, storage and distribution. Process and procedures ought to clear and simple to enhance the growth of the sector.

7. Limited access to Technology/ICT. Many processors/manufacturers are using obsolete technology that has led to low processing capacity, less product diversification and low return on investment. With ever changing technological space, the need to upgrade systems and equipment's is inevitable to all including the SMEs.
8. Product Innovation and patenting. Presence of innovations, inventions and modifications are signs of growth. According to KAM study on Intellectual Property Rights, the findings reveal that only a few (30%) of firms have come up with innovations in the last 3 years of their existence. The rest are just adopting existing innovations established elsewhere. Most of the firms especially in the SME sector have not patented their innovations hence run the danger of copying and counterfeiting. The failure has to do with complexity of the process and lack of incentive by government to protect their intellectual property rights.
9. Unfriendly policies and regulatory regime are key hindrances to a conducive business environment .The government and affiliated institutions make policy pronouncements on different issues from time to time and in some instances, without stakeholder engagement. In other cases, laws are also made without supporting policies. This means that the operating environment is not captured and laws are prepared without reflection on what is on the ground due to lack of impact assessment. Further, too often regulations are drafted or enforced in a haphazard manner with total disregard of the realities of business sector hence affecting them negatively. This remain a key challenge to growth of the SMEs Sector.
10. Inadequate knowledge and skills –Majority of SMEs start at a very low level and with little know how on various Market and operating environment dynamism.
11. Corruption –This is a menace that has continues to hinder the sector reap the benefit that have accrued to them over time.

**PROPOSED POLICY INTERVENTION**

1. Introduction of a levy to curb importation of manufactured goods that are locally available. Introduce 3% Manufacturing Levy on imported products that can be manufactured locally and transfer this to Manufacturing Guarantee Fund to facilitate access to Finance for SME from the financial sector.
2. Establishment of manufacturing guarantee fund focused on SMEs. The fund will draw funds from the imposed levy. This will boost access and affordability of credit in the sector. This will enhance safe lending among commercial upon linkages.

3. Develop and implement SMEs subcontracting policy. This will go a long way in creation of linkages between large enterprise and SME through subcontracting hence boosting their firms.
4. Establish incubation centres for SMEs in all 47 counties in order to resolve issues such as product design, access to technology, production innovation and patenting.
5. Incentivize commercial banks (such as taxation rebates) to provide low interest rate loans targeting manufacturers and SMEs. By providing tax incentives, their cost of lending will be lower.
6. Reduce Corporate Tax payable by Private Equity Funds or Venture Capital companies for providing funds to upgrade manufacturing SMEs registered with the SME Board or Certified by KAM. This can be done for a period of 5 years and refined thereafter.
7. Remove the IDF ( Import Declaration Fees) and RDL (Railway Development Levy) on all import of less than USD 5000 in order to reduce cost of raw materials and enhance productions.
8. Incentivise Godown owners that are not in designated Industrial parks to offer working space to SMEs for manufacturing. This will reduce cost of inputs and as well reduce the cost of rent. KIE can also implement a program of acquiring such godowns at appropriate prices rather than constructing new ones.
9. Reduce Charges by KIRDI and KEBS on services to SMEs by at least by 50% of current charges. The result will be an increase in quality compliance and an increase in new product development.<sup>2</sup>
10. Reduce electricity to at least USD 0.04 per KW/h in order to reduce cost of production.
11. Set clear procedure or guidelines targeting SMEs for the smooth implementation of Buy Kenya Build Kenya strategy.
12. Formalize the informal segment of SMEs through promotion and simplification of business start-up procedures. This can be done through National and County government collaboration with county government in trade license from the County Government.
13. Introduce 100% refund for SME agro processors who invest in new machinery. This can be facilitated through a Guarantee Fund. This will go a long way in promotion of technological upgrading and to capture more value added from participation in value chains.
14. Create a special credit guarantee programme for agro processors to increase the level of value addition in the industry
15. Give a Corporate Tax relief for start-up SMEs for the first three years of operation.
16. Set up a stock exchange for SMEs and implementation of NSE's framework to boost the access of venture capital funds to small and medium enterprises.



2. Any reduction offered by KIRDI will be compensated from Manufacturing Guarantee Fund. All Universities and other Research Institutions (Private or Public) can claim refund for cost of tests/ services carried out for SMEs.



FORMALITY OF BUSINESSES INCREASES WITH SIZE OF ESTABLISHMENTS SINCE **21.8, 66.8 AND 72.5 PER CENT OF MICRO, SMALL AND MEDIUM BUSINESSES WERE REGISTERED, RESPECTIVELY.**



MEDIUM ESTABLISHMENTS EMPLOYING BETWEEN 50 TO 99 EMPLOYEES ONLY ACCOUNT FOR **0.7%** OF THE TOTAL NUMBER OF LICENSED MSMES IN THE COUNTRY.

**CLOSE TO HALF OF ALL MSMES IN KENYA ARE LOCATED IN NAIROBI COUNTY AND WITHIN A 100 KM RADIUS OF THE CAPITAL**

**92.2%**

OF THE LICENSED ESTABLISHMENTS IN THE MSME SECTOR ARE MICRO ESTABLISHMENTS EMPLOYING BETWEEN 1 TO 9 EMPLOYEES.

THE VALUE OF THE MSME'S OUTPUT IS ESTIMATED AT

**KSH 3,371.7 BILLION**

AGAINST A NATIONAL OUTPUT OF KSH 9,971.4 REPRESENTING A CONTRIBUTION

**33.8%**



## CROSS-CUTTING ISSUES

The contents of this report represent the insights, perspectives and expert input of various players in the sub-sectors identified. These industry players have provided the bulk of information contained in this report that was then supplemented by further research and analysis by a joint working team from the Kenya Business Guide and Kenya Association of Manufacturers. The section below sums up the key issues brought up by the industry players and highlights challenges and counter policy proposals that traverse all sectors.

## CROSS-CUTTING CHALLENGES

1. Lack of clear procedures and guidelines for smooth implementation of Buy Kenya Build Kenya strategy.
2. High cost of electricity.
3. Increase in costs of labour, attributed to an increase in the cost of living.
4. High cost of industrial inputs due to levies such as import declaration fees and Railway Development Levy among others.
5. Lack of clear strategy on ensuring that government ministries, departments and agencies procure locally manufactured goods.
6. Shrinking export markets.
7. Costly or inaccessible long-term financing.
8. Corruption
9. Illicit trade practices such as counterfeit goods, sub-standard goods etc.
10. Skill gaps.
11. Increase in inter-county trade costs because of multiple levies and taxes.
12. Lack of predictable and stable industrial policies.
13. Outdated EAC CET.
14. Non-supportive public service system.
15. Cost, time and complexity of transport and logistics system in the country.
16. Increasing Non-Tariff Barriers (NTBs) to trade in the EAC market.
17. Lack of export incentives.

## CROSS-CUTTING PROPOSALS

- Development of clear procedures and guidelines for smooth implementation of Buy Kenya Build Kenya.
- Fast track the EAC CET review and adopt a 4-band structure.
- Zero rate IDF and RDL for industrial raw material.
- Incentivise banks to finance machinery upgrade.
- Fight illicit trade, contrabands and substandard goods.
- Promote taxation that encourages local competitive production.
- Introduce preferential foreign exchange premium for exporting manufacturers.
- Implement the trade remedies Act (2017) which seek to deal with unfair trade practices such as dumping, subsidizing and import surges.
- Create a long lasting framework to deal with NTBs.
- Eliminate Corruption.
- Set power tariff at \$ 0.04 per kWh and remove levies in the power bills and promote investment in green energy.
- Encourage backward and forward linkages.
- Development and implementation of Sector Skills Advisory Committees (SSACs) that will guide in the development of occupation standards to influence curriculum development.
- Strengthen the links between industry and academic institutions through research.
- Clear outstanding VAT refunds and ensure VAT refunds processing and payment is undertaken within 60 days from the date of lodging application.

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Delegation der Deutschen Wirtschaft  
in Kenia  
Delegation of German Industry  
and Commerce in Kenya

Rödl & Partner

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*A Sector Deep-dive Report*



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