

Manufacturing Priority Agenda **2017**

DRIVING INDUSTRIAL TRANSFORMATION FOR JOB CREATION AND INCLUSIVE ECONOMIC GROWTH



DRIVING INDUSTRIAL TRANSFORMATION FOR JOB CREATION AND INCLUSIVE ECONOMIC GROWTH

Contribution to Kenyan GDP

International Trade and Foreign Exchange earnings

Contribution to Job Creation

Consumer benefits of Manufacturing

Pillar One

Policy, Legal and Regulatory Reforms

- Ensure macroeconomic and fiscal policies predictability
- Create a Legal and Regulatory framework for industrial transformation
- Support Manufacturing under a Devolved System
- Facilitate Regional and International Trade Systems

Pillar Two

Level playing field for manufacturing in Kenya

- Fight illicit trade, contraband and substandard goods
- Formalise the Informal Economy
- Curb the surge in dumping
- Strengthen the protection of the Intellectual Property Rights (IPRs)
- Make SEZs and EPZs Favourable for Domestic Exports Development

Pillar Three

Competitive Local Manufacturing Sector

- Promote taxation that encourages local competitive production
- Streamline regulatory requirements to ease compliance
- Reduce import clearance time and costs for raw materials and industrial inputs
- Promote access to quality, affordable and reliable energy
- Promote Prompt Payment Culture
- Enhance Access to Land
- Enhance Access to Water and Sanitation for industrial use
- Timely Infrastructure rehabilitation and development

Pillar Four

Make Kenya a manufacturing hub for Exports

- Develop a National Exports Development Strategy
- Establish exports development long term financing
- Expand Regional and International Markets
- Targeted promotion of Foreign Direct Investment (FDI)

Pillar Five

Securing the future of Industry

- Align Kenya Trade and Industrial Policies to Fiscal Policies
- Access to affordable long term financing for manufacturing investments
- Supporting skills-based job creation agenda
- Innovation and technical upgrade
- Support the growth of Small and Medium Enterprises (SMEs)

Promote sustainable and inclusive industrialization
(Green growth, SDG 9 and Agenda 2063 of the African Union)

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PILLARS TO SUPPORT INDUSTRIAL TRANSFORMATION FOR JOB CREATION AND INCLUSIVE ECONOMIC GROWTH

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SPOTLIGHT: Promote sustainable and inclusive industrialization (Green growth, SDG 9 and Agenda 2063 of the African Union)

REFERENCES

Foreword

In the past, economic growth for countries has been viewed as a rush to reach a certain goal without much consideration for the process. The problems wrought by this type of hastened approach has had a negative impact on meaningful growth and any visions of economic sustainability. The setbacks have been detrimental, resulting in continued joblessness, environmental pollution and an increased gap in economic equality.

The post 2015 Sustainable Development Goals (SDGs) are a wakeup call to the fact that the material well-being of a nation cannot be sought in isolation and that development has to be at the service of the citizens of one's country. The SDG Goal no. 9 in particular addresses itself to industry, in particular, the manufacturing sector calling for inclusive and sustainable industrialisation of countries. Therefore, the 2017 Manufacturing Priority Agenda (MPA), seeks not just to advocate for better regulations for business, but rather for strategic policies that will address issues of inclusive growth and economic stability for the nation. KAM's strategic focus for the business development period 2017-2019 is to drive industrial transformation. We strongly believe industrialization of our country should be a priority for all citizens, with a view to drive the creation of wealth and productive jobs. KAM will continue to provide strategic advocacy to support the country's transformation into a newly industrialized economy.

This is the reason for theme undertaken in the MPA 2017 of 'Driving Industrial Transformation For Job Creation and Inclusive Economic Growth' within our usual activities, we would like to ensure that no one is left out as we industrialise and that our efforts to industrialise are sustainable.

Top on our Agenda this year is the need for a regulatory policy framework that addresses the concerns of the manufacturing sector. We would like to see both the national and sub national governments address the issues raised so far with regard to national policies, county revenue laws, levies and charges.

The second pillar calls for government to maximise domestic benefits for manufacturers by addressing factors that upset the level playing field for sector players. The third pillar addresses ways in which the sector can increase its productive activities by looking into inputs and other factors of production. The fourth pillar addresses the need to deepen integration in global value chains through exports. The development of human capital, technological processes and Small Medium Enterprises (SMEs) is addressed in the fifth pillar. Our focus on the SME sector is directed towards ensuring that Women and Youth Businesses are prioritised. To do this, the government has to incorporate vocational training in the educational curriculum so as to awaken interest in the manufacturing sector at an early age and amongst women who are underrepresented in the sector. To conclude, KAM aligns its agenda to SDG goal no. 9, and Agenda 2063 of the African Union both of which call for sustainable and inclusive industrialisation.

We acknowledge the great efforts led by government towards creating a suitable environment for both local businesses and investors to thrive. In particular, we laud Kenya's foray into the 100-mark territory in the Ease of Doing Business Index and the forward march, by two positions, in the Global Competitiveness Index. That Kenya was ranked 96th in the 2016-2017 index and number 3 worldwide in the most reformed countries is no small feat.

Being an election year the above achievement need not be undermined by any related disruptions. Elections are supposed to be a process and not a deterrent to our current democratic progress. Hence as the business community, we would like to see a show of leadership from both the opposition and current government in guiding a peaceful and transparent transition. We are to know that this year demonstrates to the world and mostly to our citizens that the leadership of this country prioritises long-term growth and stability over day to day politics.

I wish to thank the KAM Board and all members for continued support and initiatives that have made a difference in strengthening institutional leadership towards the advancement of the manufacturing sector agenda in Kenya. Our members' invaluable contributions are highly appreciated. Finally on behalf of KAM leadership, we extend our appreciation to the Government of Kenya who have continually given us an opportunity to dialogue and as a result, KAM contributions to industrial transformation have been immense. Our gratitude also goes to the development partners and all the stakeholders who have also given their time and efforts towards the industrialization vision for Kenya.

**Flora Mutahi,
Chairlady, Kenya Association of Manufacturers**



Our economy needs a large number of new non-agricultural jobs to diversify, to cut poverty sharply, and to employ our young people. Without a strong manufacturing sector, our chances of finding many more non-agricultural jobs are low.

H.E President Uhuru Kenyatta, CGH,
President and Commander in Chief of the Defence Forces of the Republic of Kenya
- 9th December, 2014

Preface

Since 1959, when Kenya Association of Manufacturers (KAM) was formed, we as an association have sought to develop the Kenyan manufacturing by pushing outward the fringes of the sector to new productive areas and activities. We have grown from a small club of like-minded manufacturers with a common vision to a powerful voice for the sector in this country. Our role has evolved over time to champion the overall goals outlined in 2008 by the Kenyan government in Vision 2030 which seeks to turn our nation into an industrialised nation. Kenya seeks to be a higher middle income economy driven by industrial transformation.

The journey to this vision is still underway as we come to a close with the second Medium Term Plan (MTP II) this year and prepare to transition to another phase of development in 2018 with MTP III. We are cognisant of the need not only to accelerate our efforts but to do so in a perceptive manner. The Kenya Industrial Transformation programme (KITP), in whose development KAM played a notable role, provides for a roadmap to enhance manufacturing and value addition, to stimulate exports and subsequently transform our economy. Among the key areas of focus is manufacturing sector's transformation, infrastructure expansion, enhancing local content, long term finance access, SMEs expansion to rising stars in the region and improvement of the manufacturing sector investment environment.

In this industrial development process, KAM aims to be a knowledge supplier to a world class manufacturing sector. Our objective is to outline the key strategic objectives which will lead to the structural transformation of this country from an agro based economy into an industrial one. These objectives have been developed into five pillars and are derived from the top most challenges that manufacturers face daily and which, if resolved, could lead to faster growth. Our approach is evidence based and focused only on viable interventions.

However, we are not just keen to attain economic growth but we are focused on seeing that this growth is inclusive and sustainable. In line with the Sustainable Development Goals (SDGs) we are committed to the inclusion of women and youth through the development of the SME sector. This desire is captured in our theme for this year and also in our focus on the SDG no. 9 in the entire document.

The Manufacturing Priority Agenda is our annual take on these strategic policy actions particularly as we head into elections later on this year and parties prepare their manifestos. It is important for both the current and incoming government to look at our recommendations and address the concerns of the sector if we are to continue on the growth trajectory we have undertaken.

Finally, I wish to thank the team at the Policy Research and Advocacy unit that was involved in preparing this document for their valuable insights, as well as all KAM staff who have given their commitment towards the achievement of these goals. As we move forward, as KAM secretariat, we seek to achieve excellence in meeting the needs of our members and more so, for our beloved country.

Phyllis Wakiaga
Chief Executive Officer



ABBREVIATIONS

ACA	Anti Counterfeit Authority
ADR	Alternative Dispute Resolution
AGOA	African Growth and Opportunity Act
AU	African Union
CET	Common External Tariff
CFTA	Continental Free Trade Area Agreement
COMESA	Common Market for Eastern and Southern Africa
CRA	Commission for Revenue Allocation
DRC	Democratic Republic of Congo
EAC	East African Community
EAC HQ	East African Community Headquarters
EACMA	East African Community Management Act
EPZ	Export Promotion Zones
ES	Enterprise Survey
EU	European Union
FDI	Financial Direct Investment
FTA	Free Trade Area Agreement
GDP	Gross Domestic Product
GMO	Genetically Modified Organisms
HCDA	Horticultural Crops Development Authority
IBEC	Intergovernmental Budget and Economic Council
ICT	Information and Communication Technology
IDF	Import Declaration Fee
IPOA	Independent Policing Oversight Authority
KAM	Kenya Association of Manufacturers
KARI	Kenya Agricultural Research Institute
KCB	Kenya Copyright Board
KEBS	Kenya Bureau of Standards
KEPHIS	Kenya Plant Health Inspectorate Service
KIPI	Kenya Industrial Property Institute
KITP	Kenya Industrial Transformation Programme

KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
Ksh	Kenya Shilling
KWS	Kenya Wildlife Service
LAPPSET	Lamu Port and South Sudan Ethiopia Transport
MSMEs	Micro, Small and Medium Enterprise
MTP II	Medium Term Plan II
MITC	Ministry of Industry Trade and Cooperatives
MW	Megawatts
NACOSTI	National Commission for Science, Technology and Innovation
NEMA	National Environment Management Authority
NLC	National Land Commission
NRICs	Non Resource Intensive Countries
NSSF	National Social Security Fund
R&D	Research and Development
SADC	Southern African Development Community
SCT	Single Customs Territory
SDGs	Sustainable Development Goals
SEZ	Special Economic Zones
SME	Small Medium sized Enterprises
SSA	Sub Saharan Africa
STI	Science, Technology and Innovation
TFDA	Tanzania Foods and Drugs Authority
TFTA	Tripartite Free Trade Agreement
TVETA	Technical and Vocational Education and Training Authority
UAE	United Arab Emirates
UK	United Kingdom
US	United States
USD	United States Dollars
VAT	Value Added Tax
WDI	World Development Indicators
WEF	World Economic Forum
WRMA	Water Resource Management Authority

2017 Environmental Analysis and Economic Outlook

External Environment and Global Industry

Global economic growth in 2017 is expected to be muted with a projected growth of 3.4%. This is mainly attributed to depressed demand by advanced economies and uncertainty with regard to the Brexit vote which is expected to have wide reaching effects particularly in EU states.

Sub Saharan Africa (SSA) economies have been experiencing a slowdown asynchronous with global growth in contrast to previous cycles. The performance of these economies will be structure-based since Non Resource Intensive Countries (NRICs) are expected to perform better than Resource Intensive Countries as the commodity price slump continues into 2017.

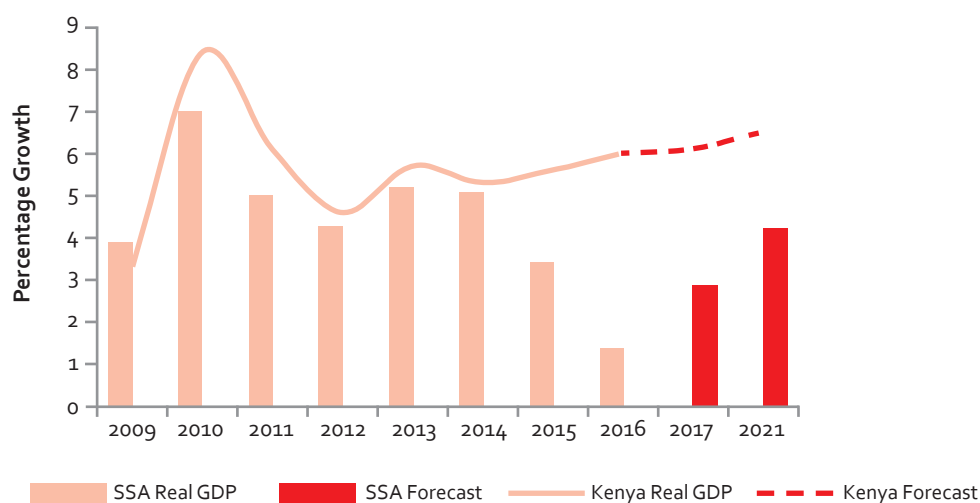
SSA performance in 2016 was affected by poor growth in three economies susceptible to commodity shocks, namely Angola, South Africa and Nigeria. The large size of the economies depressed the continental average growth rate. Oil export growth in SSA shrunk by 1.7% in 2016 leading to a (Gross Domestic Product) GDP erosion of up to 30% in some oil exporting nations. This resulted in inflation and exchange rate depreciation in these countries. We are therefore likely to see double digit inflation in some SSA countries which is expected to affect the poor and erode real income.

However, in 2017, the oil market and non-fuel commodities like metals and agricultural commodities are expected to improve marginally. Against this backdrop, **SSA growth is expected to be 2.9% in 2017 up from 1.4% projected for 2016** as Nigeria's recession ends. The slight increase in growth is still in sharp contrast to the huge growth rates of the past 15 years' experience in the region.

Kenya Economic Outlook

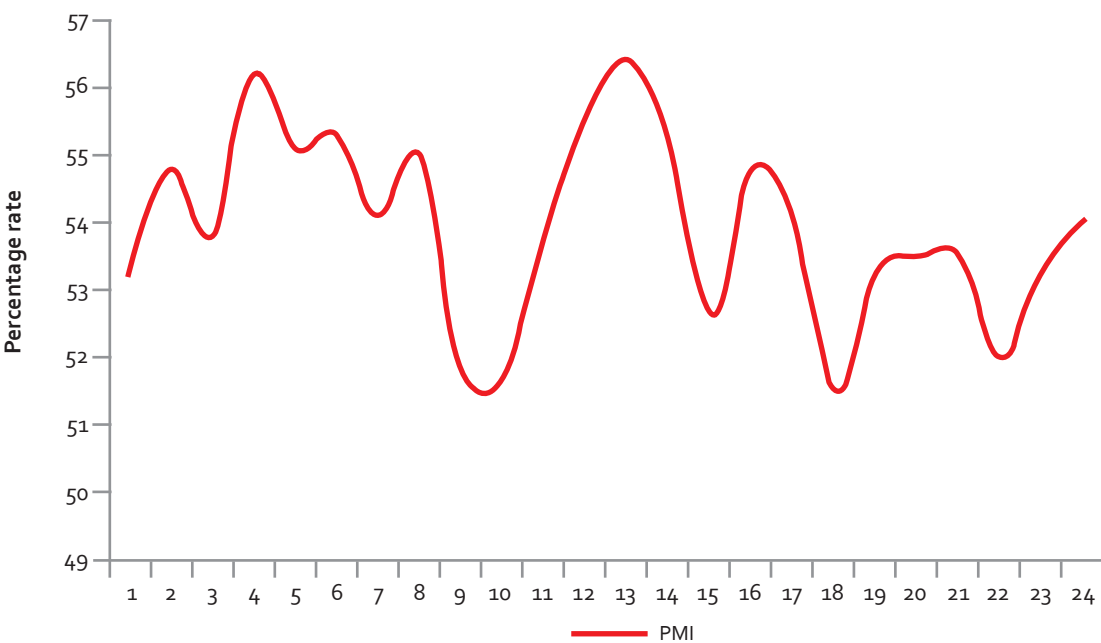
Kenya's economic performance is projected to lie between 5.5% and 6% in 2017 and expectations are high that this growth trend of over 5.5% will continue over the midterm as shown in chart 1. Though this falls short of the MTP II expectations for a double digit economic growth rate of over 10 percent, the outlook is optimistic. Kenya's growth stood to 5.7% in quarter three of 2016 slowing down from that of 6.2% in quarter two. Kenya's PMI – an indicator used to forecast future GDP growth – as shown in chart 2 indicates that growth in quarter four will not vary significantly from the 2016 quarter three growth rate and that this will likely to bring down the overall growth rate for 2016. Economic growth in 2016 was driven mainly by private consumption and government spending which should continue into 2017 as the government expenditure on infrastructure and energy development is expected to continue.

Chart 1: Real GDP Growth



Source: IMF

Chart 2: Kenya PMI

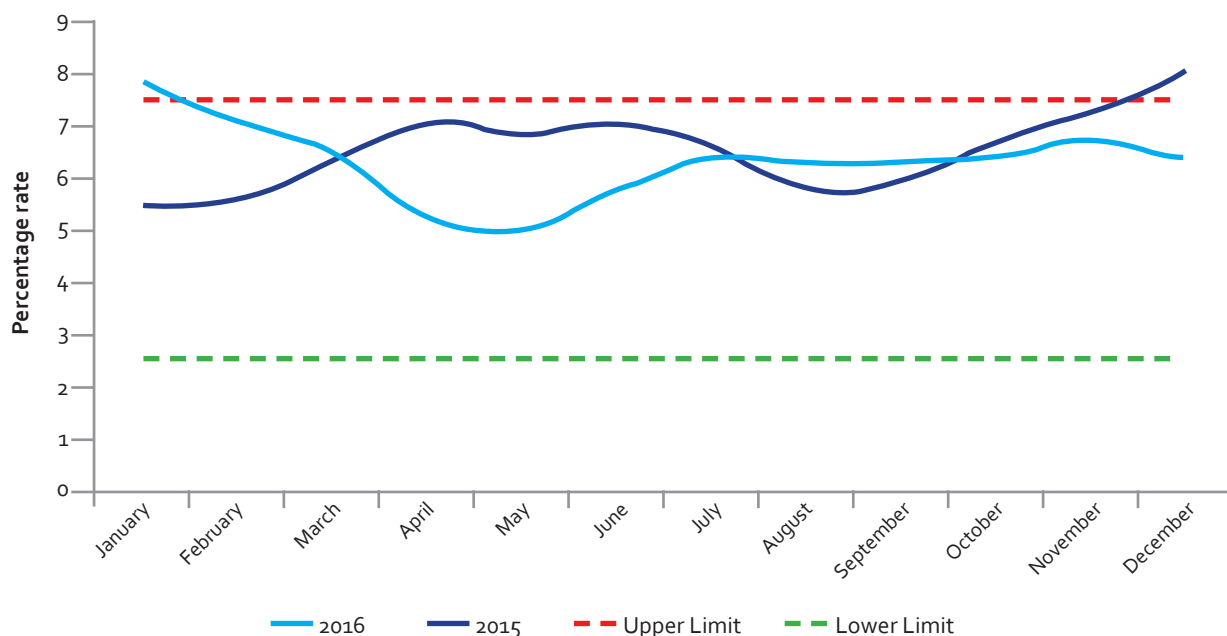


Source: CFC Stanbic/Markit



Headline Inflation has largely been contained within government policy parameters of 5% in the medium term. However, a noticeable increase was observed since March 2016 as a result of poor rainfall which in turn led to an increase in Food Inflation. Despite this, **inflation rates in 2016 performed much better than in 2015 and are expected to remain within policy limits in 2017** as depicted in chart 3.

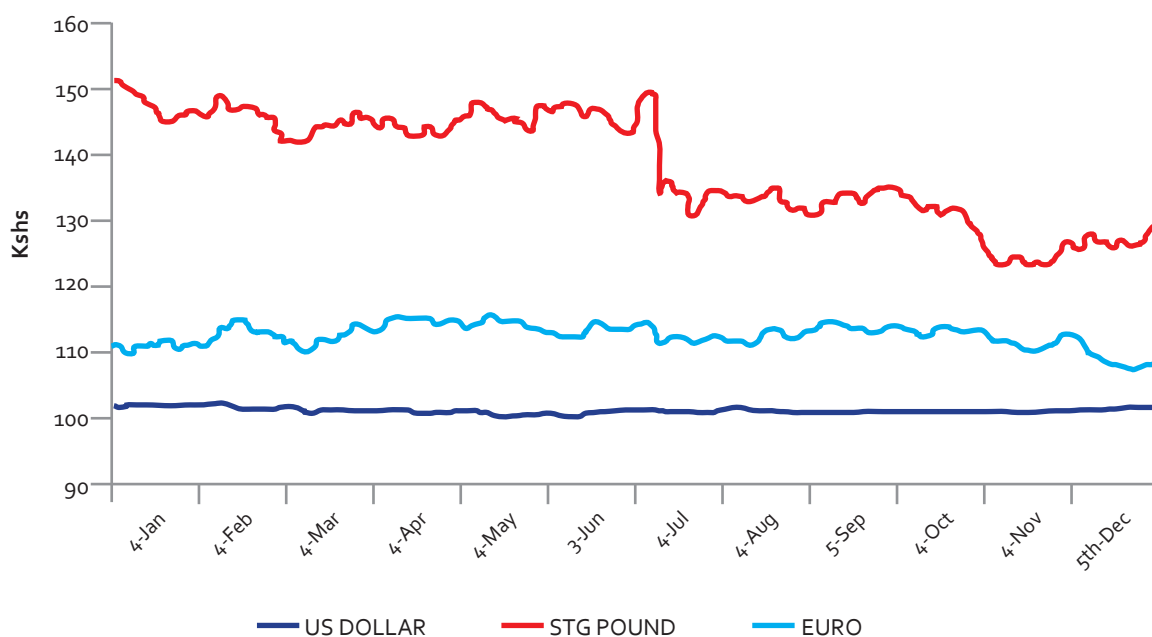
Chart 3: Inflation In 2016 - Kenya Inflation Rate (MoM)



Source: KNBS, CBK

Exchange Rate: The shilling remained largely stable in 2016 against the US dollar and the Euro but strengthened against the pound due to the U.K Brexit decision. As an important trading partner for Kenya, the depreciation of the pound is likely to affect the value of Kenyan exports in goods and services negatively. Forecasts for 2017 pit the shilling to the dollar at 105.6 by the year end. The shilling has held its own against regional currencies.

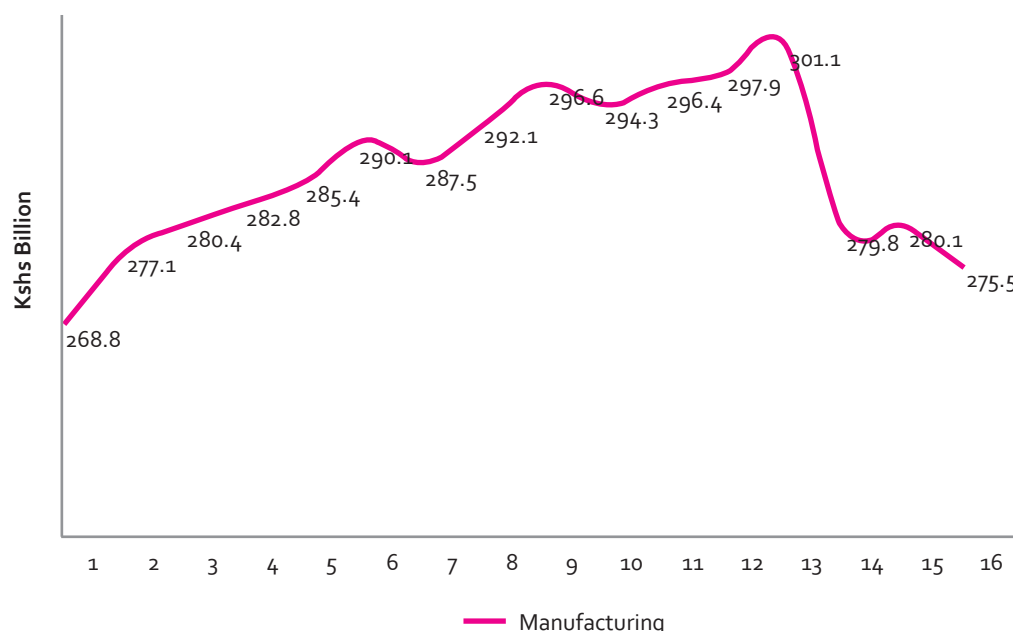
Chart 4: Exchange Rate against Major Currencies in 2016



Source: CBK

The amendment of the 2015 Banking Act assented to by the President in August 2016 has certain ramifications for the economy and will affect credit to the private sector. The amendment pegged interest rates to 4.5% above the Central Bank Rate (CBR) and introduced a minimum rate of interest on deposits. Interest rates have since dropped, but not to the low levels anticipated. The normal yield curve in Chart 6 inclines to the likelihood of increasing interest rates. The cap is bound to slow down lending if banks feel that they can't price loans according to risk. Though the relationship between private sector credit and economic growth is not too clear, there have been fears that setting a floor for interest rates may actually hamper economic growth.

Chart 5: Lending to the Manufacturing Sector - 2016 Credit Manufacturing (Ksh Billion)



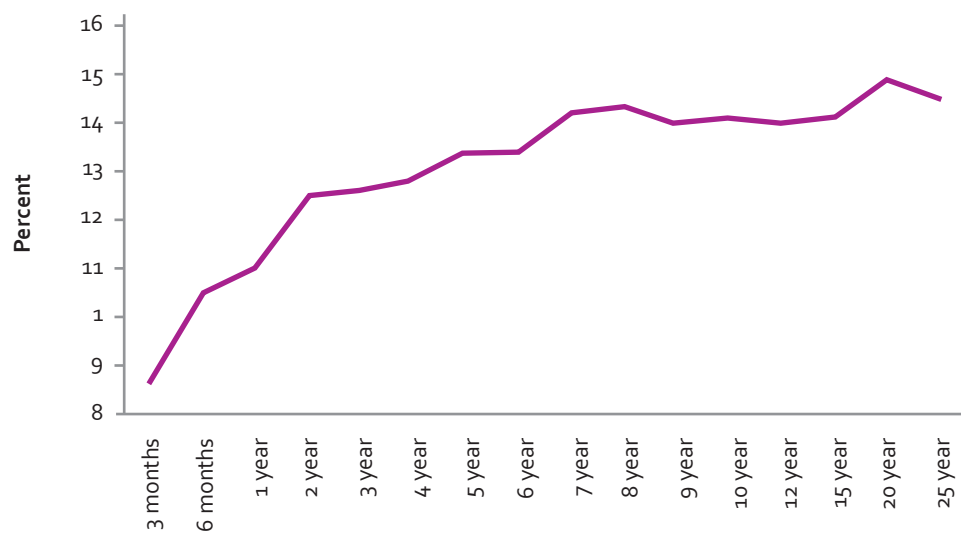
Source: CBK

In 2016, the central bank cut the CBR by 150 basis points to 10.0%. In 2017, the Monetary Policy Committee (MPC) is expected to maintain the CBR given the interest rate cap and the 91 day T-bill hitting a low of 7.1%.

In the last few years, the government has worked towards improving the business environment in the country and in 2016, Kenya breached the 100 mark in the Ease of Doing Business Index. It also improved by two points in the Global Competitiveness Index to rank 96. The improved climate will afford businesses a sound ecosystem in which to operate. Two international Rating agencies, Standard and Poor's and Moody's, both have a stable outlook for Kenya, while Fitch has a negative rating.

On the political front, Kenya will hold elections in August 2017. Economic growth has been noted to slow down in three out of five past election years, though the economy grew in 2013, the last election year. With the many uncertainties attendant to such years what will most likely happen is that sectors sensitive to security such as tourism will be affected as potential visitors wait for the later part of the year to visit. Investors are also likely to hold off pouring their money into the economy till the results are announced. The 2017 elections therefore introduce an element of uncertainty in an otherwise optimistic economic outlook.

Chart 6: The Yield Curve - Kenya Government Bonds



Source: Highcharts.com



THE PERFORMANCE AND IMPORTANCE OF THE MANUFACTURING SECTOR TO THE ECONOMY

Introduction

The manufacturing sector has been in existence in Kenya since pre-colonial times especially the iron industry which provided implements to both pastoralists and for agricultural use. However, with the building of the railway in 1896, the manufacturing industry as we know it today, began to develop. The sector currently consists of about 3700 firms which KAM classifies into 14 sectors.

Vision 2030 and Kenya Industrial Transformation Programme (KITP)

Kenya's industrialisation is mapped out in two key policy documents; Vision 2030 and the Kenya Industrial Transformation Programme (KITP).

Vision 2030 is the long term plan for the development of the country which includes various projects to be undertaken so that Kenya can be industrialised by the year 2030. The plan is divided into five year term plans. Industrialisation projects fall under the economic pillar and the goal is to attain and sustain our economic growth at 10 percent.

KITP has its foundation in Vision 2030 but focuses on the manufacturing sector. It goes into the details of how Kenya can create one million jobs and multiply current domestic and Foreign Direct Investment (FDI) fivefold and increase the contribution of manufacturing to 15 percent of GDP through the exploitation of already existing opportunities. To achieve this, the government seeks to create an industrial development fund to provide long term financing for industry.

Key Highlights of the KAM Business Development Plan, 2017-2019

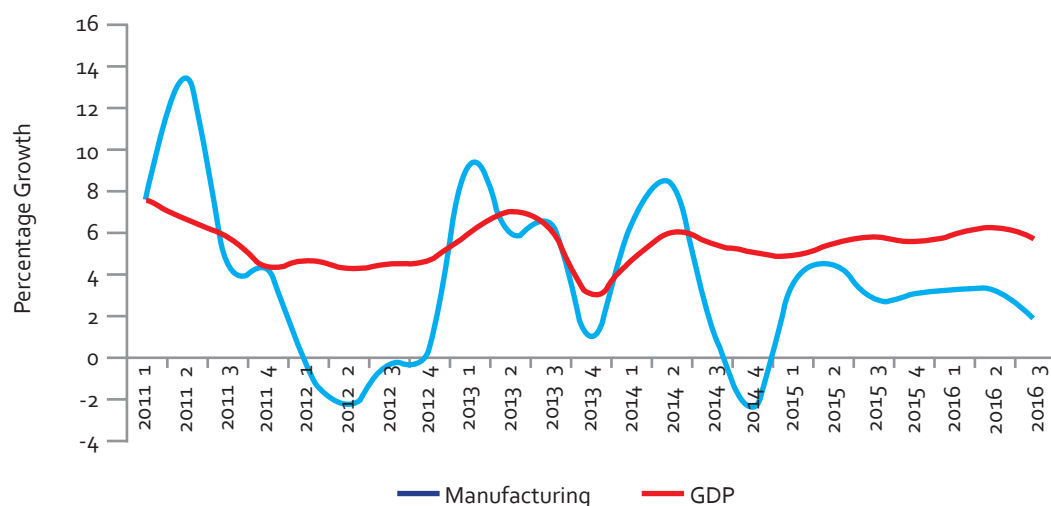
KAM's Strategic intent for the next three years was agreed upon by the KAM Board in 2016 and is closely aligned to attaining the aims of vision 2030 and KITP. It has five key goals as follows;

1. Driving industrial growth to realize 15% contribution of Manufacturing Sector to GDP by 2019
2. Supporting skill based job creation agenda and increasing the manufacturing sector jobs growth by 33%
3. Enhancing market access for products locally and globally to grow exports by 33% in 2019
4. Retaining and recruiting a broad membership base, and;
5. Operational excellence to in part, enhance institutional strengthening and sustainability.

Contribution to Kenya's Gross Domestic Product (GDP)

Growth in the Kenyan manufacturing sector in the last one year has been on a downward trajectory, with the growth rate of 1.9 percent in the last quarter of 2016 being the sectors worst performance since 2015 when the country grew at 3.5%. As shown in Chart 1, this performance is also slower than the country's overall economic growth rate and the deceleration is at odds with Kenya's plan to industrialise by 2030. It also falls short of the target set in the MTP II (2012 - 2017) for the sector to grow by 8.7%. The sector contributed 10.3% to GDP in 2015.

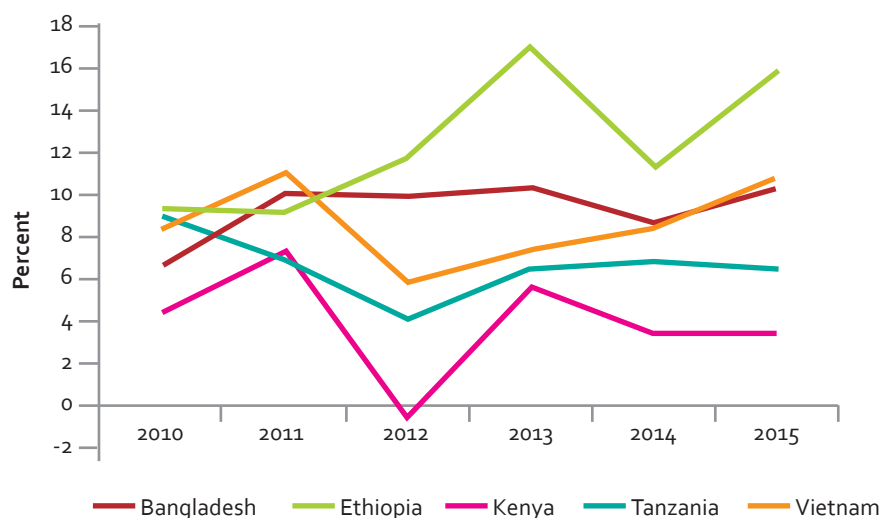
Chart 7: A Comparison of Kenya's Economic and Manufacturing Growth



Source: KNBS

When compared to other rapidly industrialising nations, Kenya's manufacturing sector growth rate is the lowest. Vietnam has grown at its highest ever rate in the last five years but it still falls short of Ethiopia which grew at 15.8%.

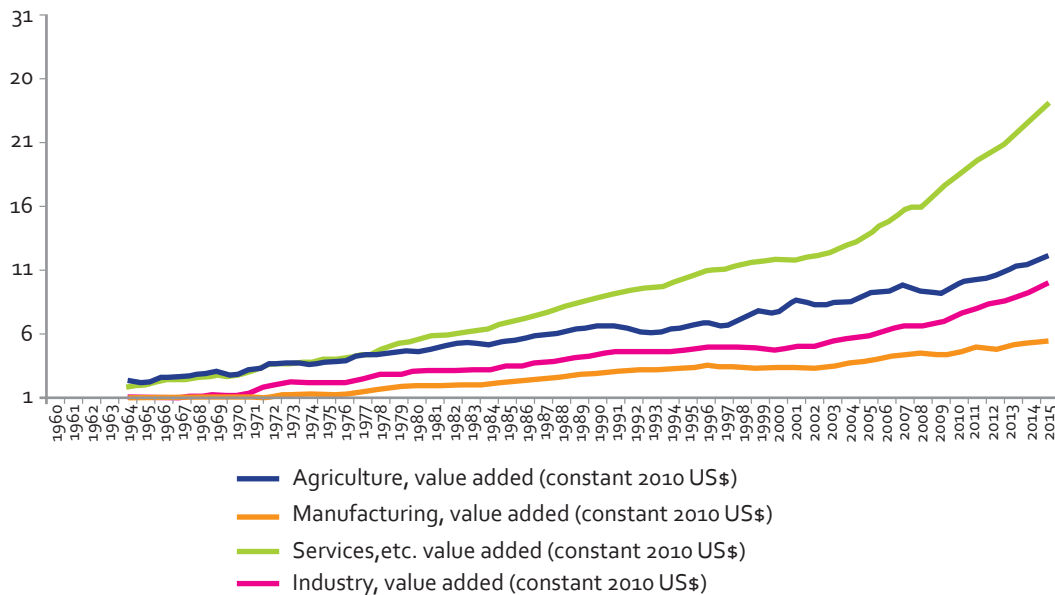
Chart 8: Manufacturing amongst peer countries - Manufacturing Growth and Comparator Countries



Source: WDI

Manufacturing value addition in Kenya is far outstripped by value addition in other sectors particularly the services sector. It is also an indicator of the fact that Kenya's economy is not experiencing the structural change away from agricultural based activities to broader economic activities where manufacturing plays a larger role. Though the growth of the service sector is a positive factor, it sets a worrying trend for the country in terms of employment as it could lead to Jobless economic growth which is unsustainable in the long term. Manufacturing on the hand tends to be labour intensive.

Chart 9: Value Addition by sector in Kenya

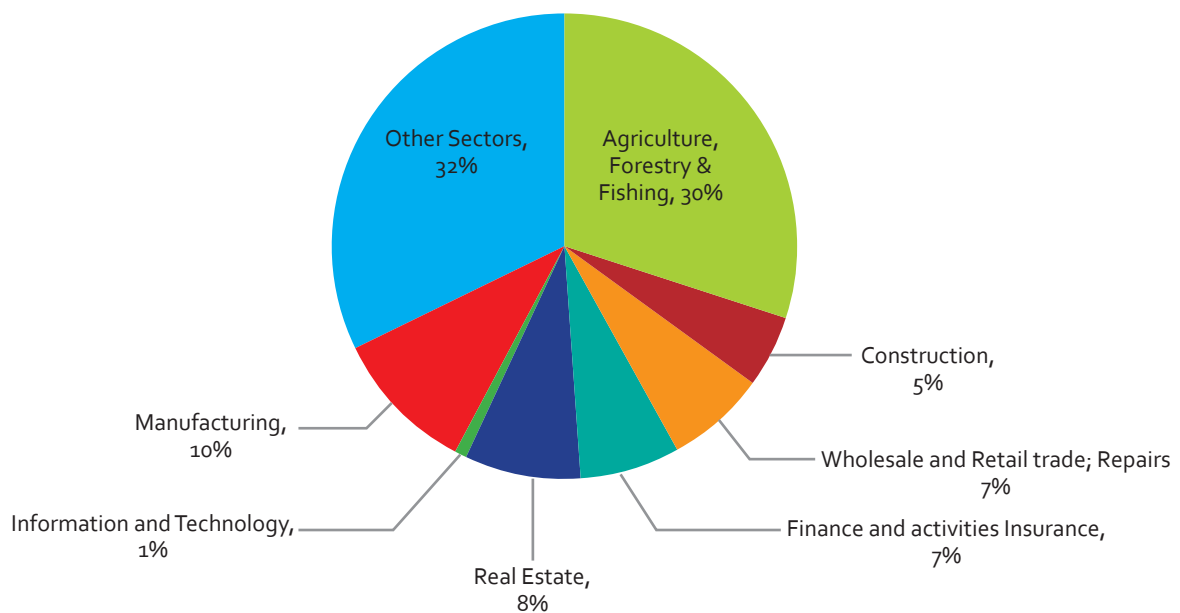


Source: WDI

Manufacturing Sub Sectors in Kenya

Manufacturing is one of the largest sectors in Kenya contributing 10.5% to GDP in 2015. Still the agricultural sector contributed most to GDP with 30%.

Chart 10: Sector contribution to GDP In Kenya

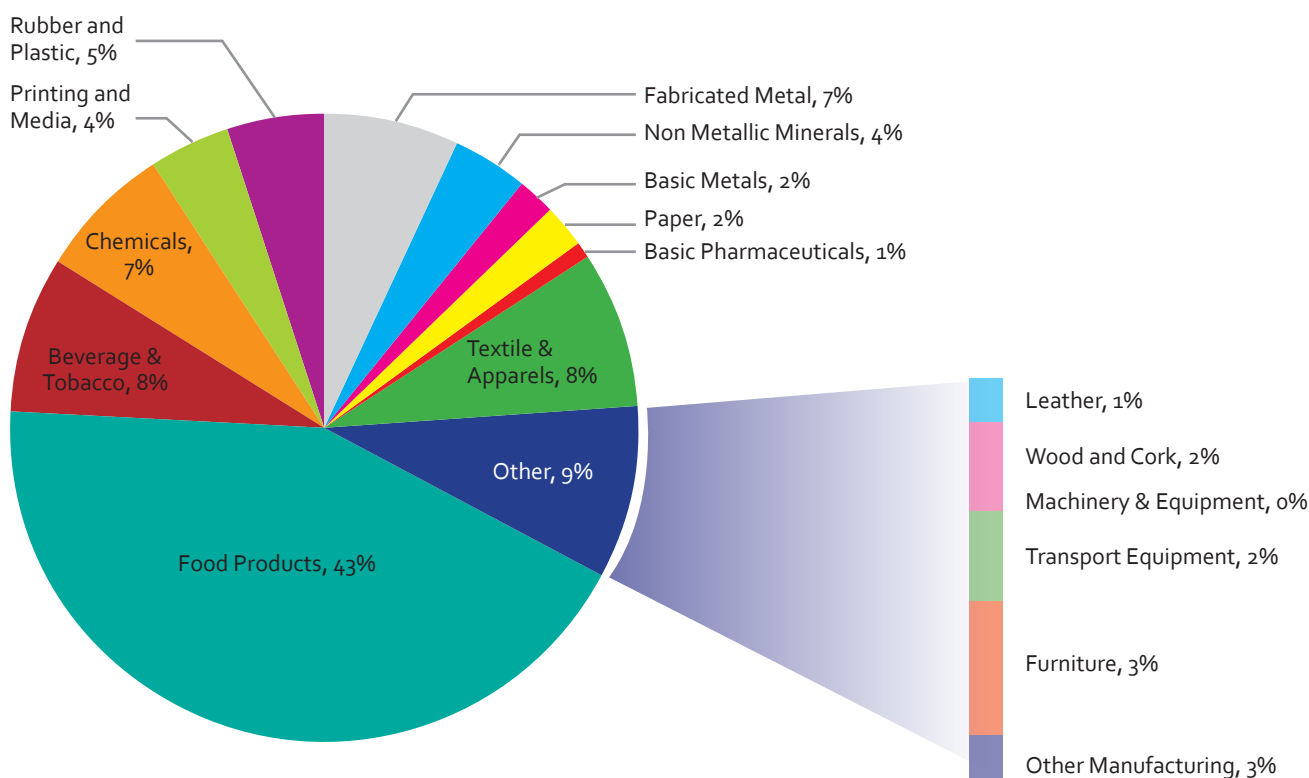


Source: KNBS

Within the manufacturing sector, the Food sub-sector is the largest sector contributing over 50% of total output when combined with the beverage and tobacco subsectors. Manufacturing firms source critical input from the agricultural economy and it is hardly surprising that this is the largest subsector.

It is closely followed by Textiles and Apparel, chemicals and fabricated metal sub sectors which combined make up 30 percent of the manufacturing.

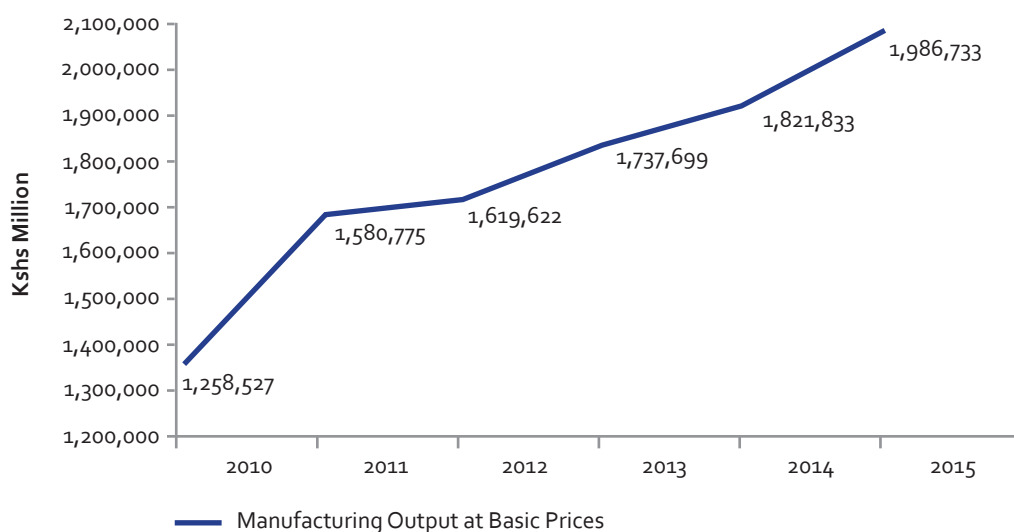
Chart 11: Breakdown of Sub sector contribution to Kenya



Manufacturing Sector Output

The sector comprises of an estimated 3,700 manufacturers and manufacturing output has grown by over 50% since 2010.

Chart 12: Manufacturing Output in Kenya

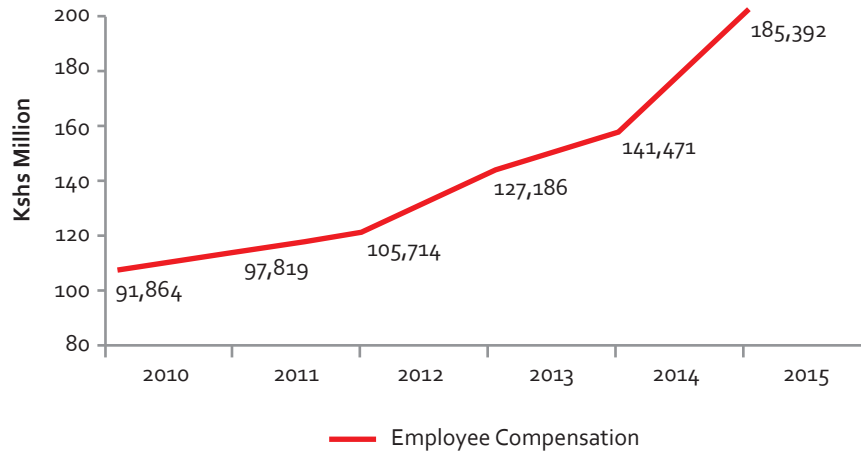


Source: KNBS

Contribution to Job Creation

Employment in the sector rose from 287,400 persons in 2014 to 295,400 persons in 2015, an increase of 2.7 percent. Employee compensation by the manufacturing sector has doubled since 2010 increasing by 30 percent from 2014 to 2015.

Chart 13: Employee Compensation by the Manufacturing Sector in Kenya

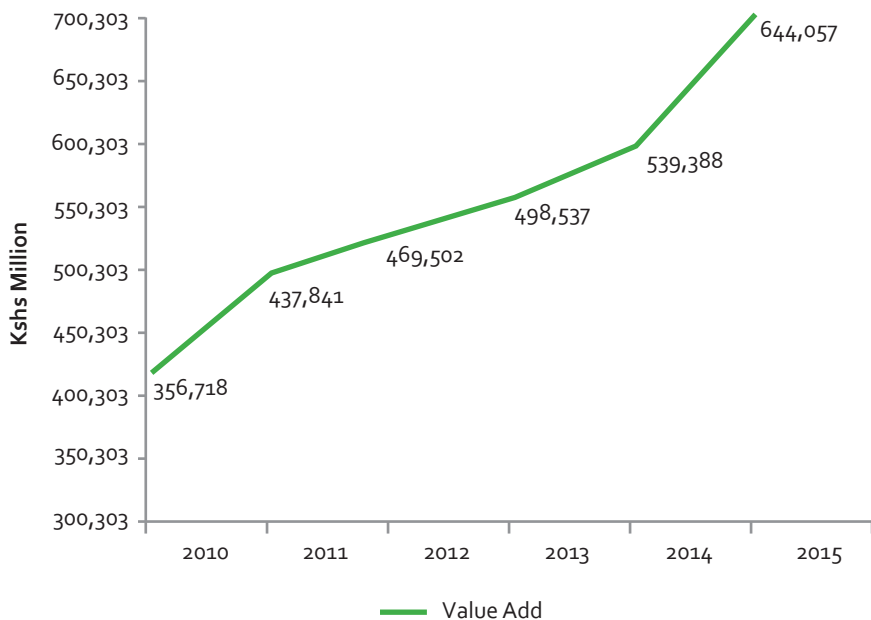


Source: KNBS

Value addition in the Manufacturing Sector

Value addition in the manufacturing sector has almost doubled since 2010.

Chart 14: Manufacturing Value Addition



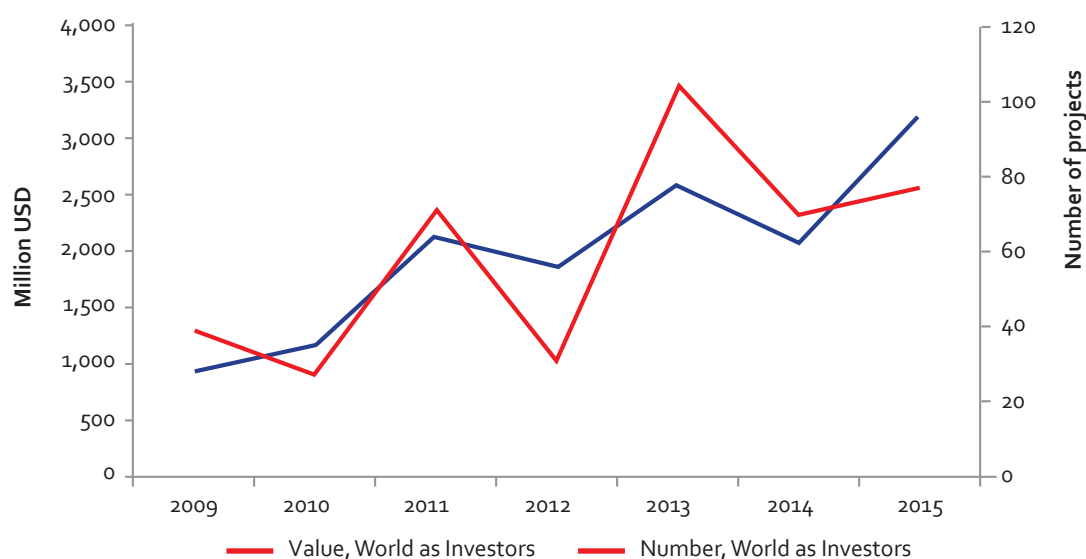
Source: KNBS

Domestic and Foreign Direct Investments in Manufacturing

One of the key aims of the manufacturing sector is to attract both foreign and direct domestic investment. Provisional figures from Kenya National Bureau of Statistics (KNBS) show that financial institutions and commercial banks in the country approved a total of 251 manufacturing projects in 2015 worth Kshs 291 billion. This was double the amount approved in 2014.

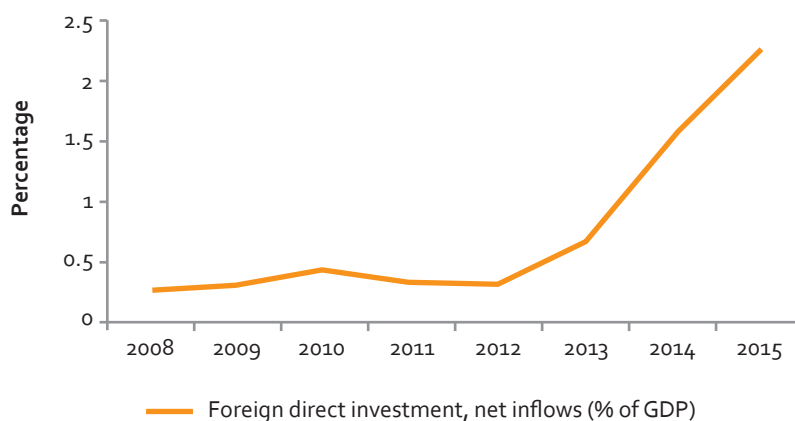
According to the 2016 World Investment Reports, "Kenya is becoming a favoured business hub, not only for oil and gas exploration but also for manufacturing exports, as well as consumer goods and services."¹ Kenya has been working towards attracting more FDI by allowing 100% foreign ownership for companies listed in the stock exchange and is currently implementing the SEZ Act 2015 so as to offer investment incentives such as tax benefits and work permits for skilled foreign employees. As a result, Volkswagen re-opened its vehicle production plant in Kenya while Toyota (Japan) has also announced plans to expand in Kenya. In the last two years, 122 FDI projects are estimated to have created 13,200 jobs.

Chart 15: Greenfield FDI Projects in Kenya



Source: World Investment Report

Chart 16: Kenya FDI, Net inflows as a share of GDP



Source: WDI

1 World Investment Report 2016

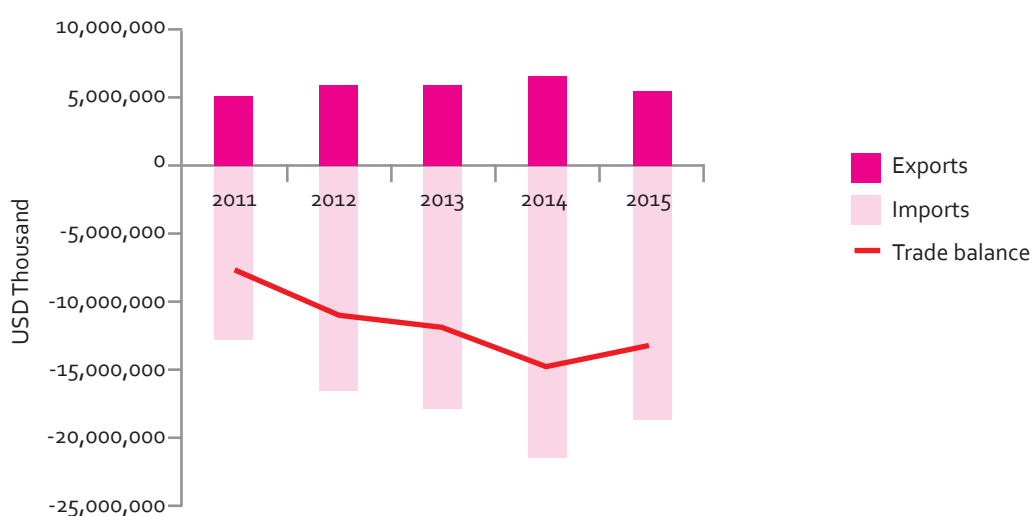
Consumer benefits of Manufacturing

Manufacturing reduces Import dependency by providing cheap and quality goods for local consumers both in the country and in the EAC region. Without the manufacturing sector, consumers would not be able to afford certain products and consumer's purchasing power would be much lower. Manufacturing also provides local alternatives to certain products offering alternatives more suited to local needs. The multiplier effect of the manufacturing sector means that many other sectors rely on locally manufactured goods in order to thrive since the manufacturing sector is also a consumer of inputs and raw materials from other sectors.

International Trade and Foreign Exchange earnings

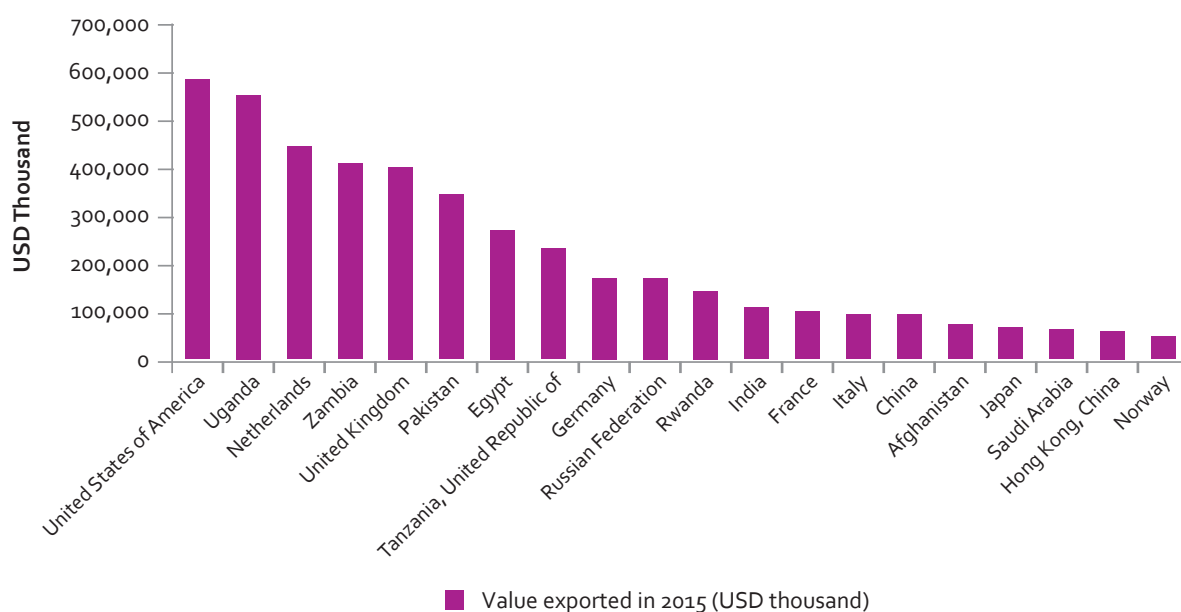
Manufacturing contributes about 25% of all foreign exchange earnings excluding remittances.² The sector is therefore important for trade in the country as trade in manufactured goods creates employment and helps to bring in much needed foreign exchange while offsetting the trade balance as shown in the table below. Kenya's biggest export market is the African continent followed closely by the European Union.

Chart 17: Trade Balance in Kenya



Source: ITC

Chart 18: Kenyan Exports by Destination



² Horticultural and Tea Exports excluded from computation of manufacturing exports

Contribution to Public Finance

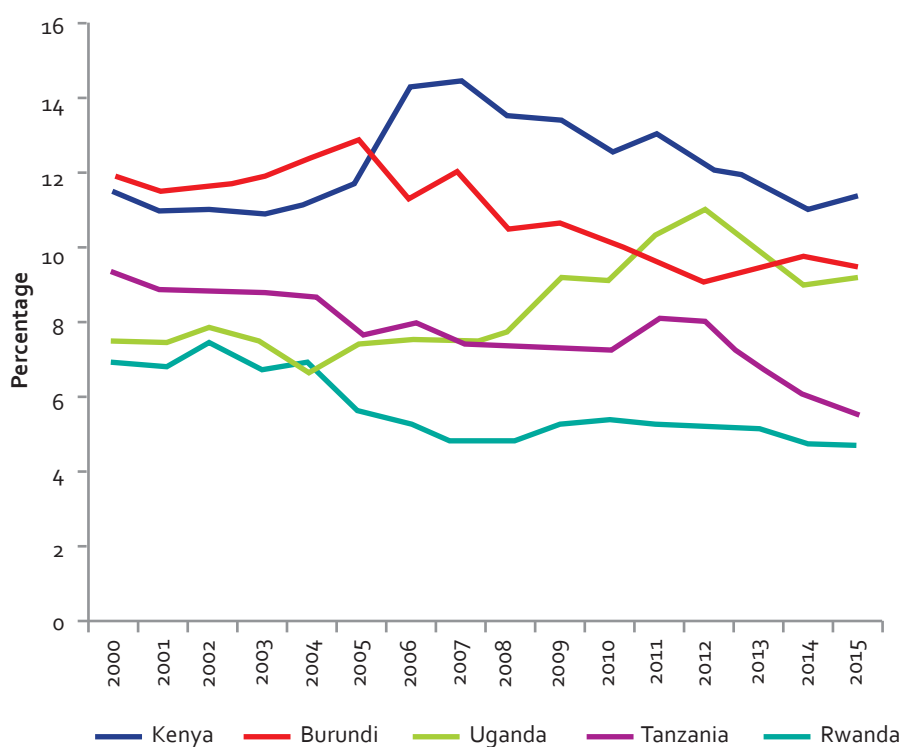
In the FY 2014/2015, Excise duty made up 13% of all collected taxes while import duty made up 8%. Excise duty is mainly collected from manufacturing entities though importers do pay a certain percent of excise tax. Imports of capital goods which form critical inputs for the manufacturing sector attract Duty and other levies such as the Railway Development Fund which contribute more than the Kshs 32 billion initially projected for the Standard Gauge Railway.

Contribution of manufacturing sector to regional integration

The manufacturing sector fosters regional integration since the players in this sector have to look for external markets and how to access them. The EAC region offers Kenyan manufacturers a market of 145 million people and integration to create one common market can only be beneficial to partner states if their manufactured goods can be exported within the region.

In the EAC region, Kenya's manufacturing sector contributes the highest to total output (GDP) in the EAC. However, this contribution has decreased for all countries in the region since 2006 showing a decline of the manufacturing sector region wide. The chart also indicates that the economic structure of these economies is not changing. This could be a sign of decreasing value addition in productive activities.

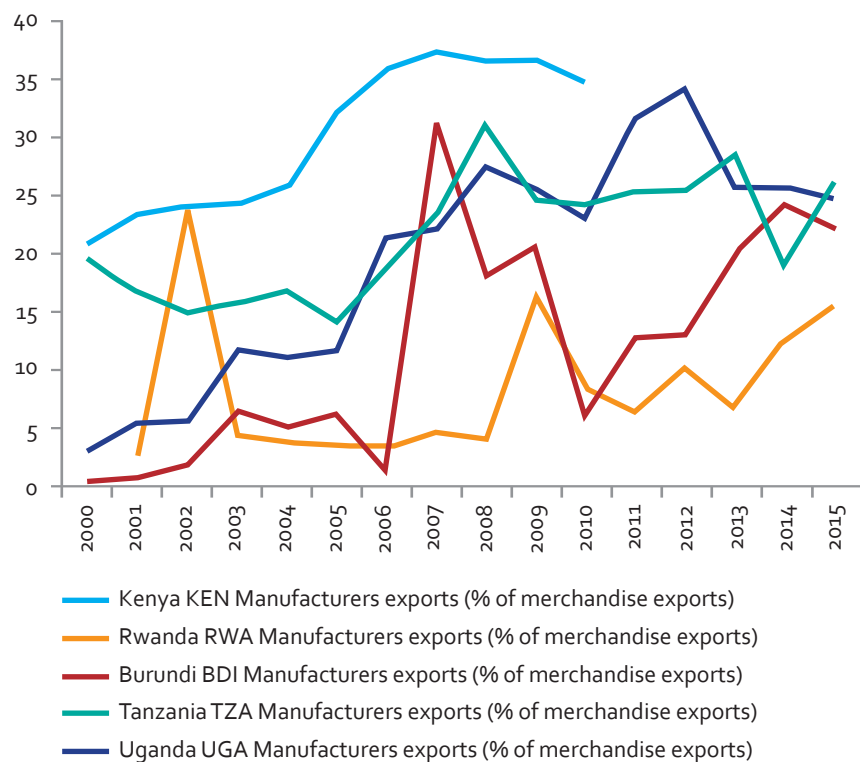
Chart 19: Manufacturing Value Addition as a Share of GDP in EAC countries



Source: INDSTAT

If the chart above is compared to the chart below, Kenya appears to have more capacity for production than for exports as only 36% percent of its exports were manufactured in 2013. This could be the result of various factors which need to be studied so as to determine how to increase manufactured exports from the region.

Chart 20: Manufacturing Exports as a Share of Total Exports in the EAC

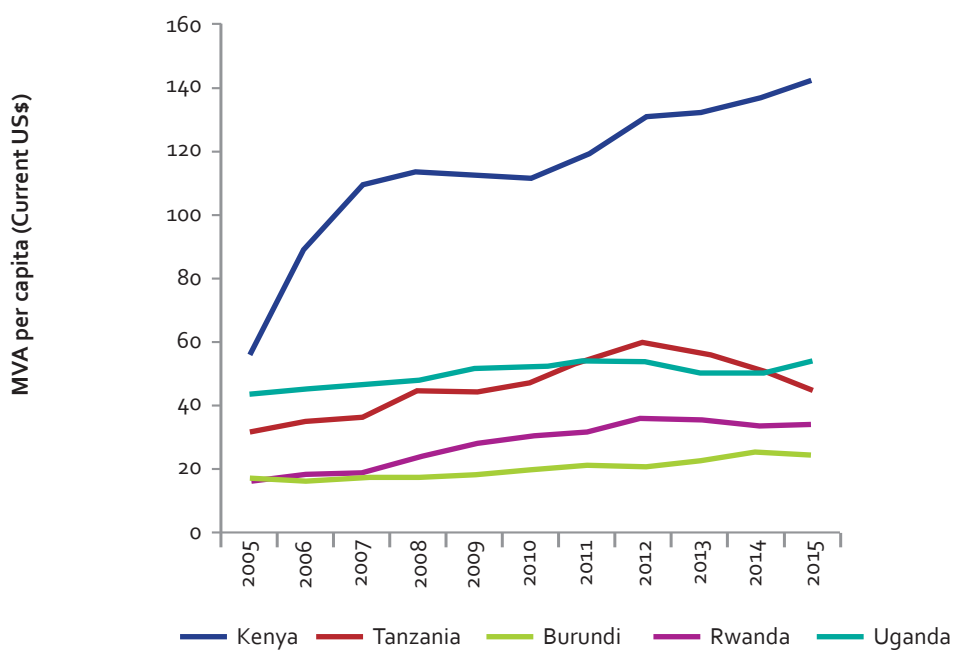


Source: WDI

Industrial Capacity and Manufactured Export Capacity

Kenya leads in region's partner states in terms of industrial capacity to produce as is illustrated in chart below and this capacity has been growing steadily over the years. It is therefore the most industrialised nation in the EAC region.

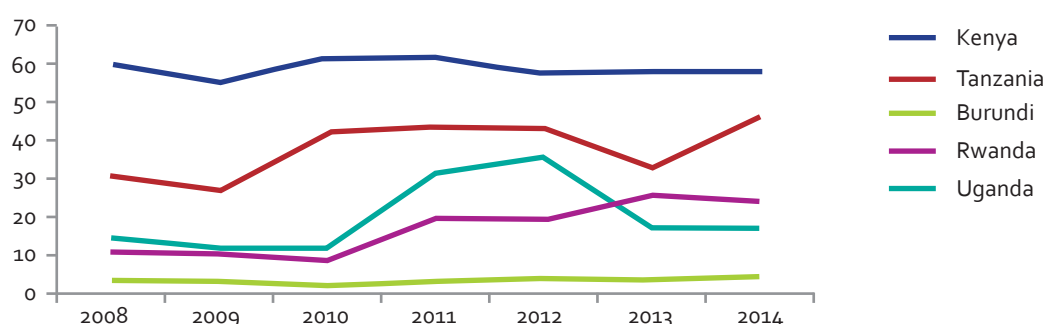
Chart 21: MVA per Capita in the EAC



Source: WDI

It also leads in amongst partner states in terms of the value companies contribute in terms of exports. However, unlike in industrial production, Kenya's manufactured exports capacity has fallen slightly over the last years due to among others to sluggish growth in the manufacturing sector, tariffs and non tariff barriers within and beyond borders.

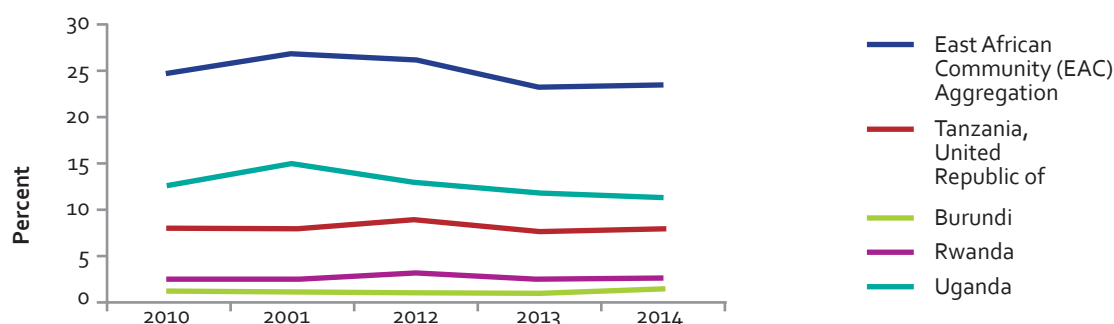
Chart 22: Manufactured Exports per Capita in the EAC (Current US\$)



Source: WDI

Still, the EAC is a big market for Kenya's export even though the share has declined from over 25 percent to 23.4 percent in 2014.

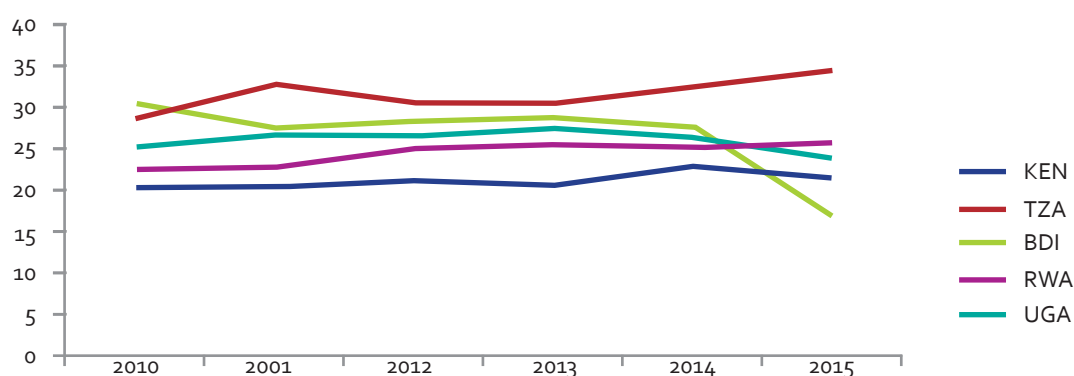
Chart 23: Kenya's Exports to the EAC



Source: WDI

The share of GFCF to GDP parameter refers to investments into fixed capital from both private and public sources as a share of GDP and is useful as a proxy to give an indication of a country's production ability. Tanzania is the best performer amongst all EAC countries, implying a strong ability to attract capital while Kenya lags behind most of the other countries. The fluctuations could point to other external factors which affect its ability to attract capital, such as political stability.

Chart 24: Gross Fixed Capital Formation as a Share of GDP



Source: WDI

All in all, Kenya needs to continue increasing its trade and industrial competitiveness by exploiting the potential that exists within the region. Kenya can also leverage on its leading position in terms of industrial and trade capacities.

Pillars of Inclusive and Sustainable Industrial Growth

Pillar One - Policy, Legal and Regulatory Reforms

Objective: Create a healthy Manufacturing Ecosystem through Sound Regulation

Improve competitiveness in the local manufacturing sector by creating a business friendly ecosystem. This can be achieved by enacting and implementing policies and legislation and policy that support the growth of the sector.

Challenge: The manufacturing sector is affected by poor and disparate policies and regulations both at the regional, national and sub-national level which have contributed greatly to its gradual decline. The sector can only thrive in a facilitative business atmosphere.

Evidence (Indicators):

- Surge in devolution levies and charges
- Little stakeholder involvement in drafting of laws that affect industries
- Overlapping regulations and institutions

Instruments

Ensure the predictability of Macroeconomic and fiscal policies

Interest rates and exchange rates are known to affect the manufacturing sector particularly the ability to attract finance, the cost of borrowing and the value of returns from manufactured exports. High fiscal deficits and debt-to-GDP ratio also result in higher taxation for the sector. Macroeconomic stability is therefore key to the growth of the sector. In the past, the country has experienced volatile periods forcing the Central bank to raise interest rates to curb inflationary pressures which erode national output.

Macroeconomic factors in Kenya are affected to a certain extent by political factors and in this election year, the government should curb unnecessary expenditure, rein in inflation and ensure that the elections are carried out peacefully so as to safeguard the economy.

Support Manufacturing under a Devolved System

Sub national governments were introduced in the 2010 constitution to bring services closer to the people regardless of political vagaries. The vision of inclusive and shared economic growth that led to devolution is admirable and praiseworthy but the transition to the system has not been easy since counties are mandated to regulate business according to article 209 of the constitution.

The major challenges have been the lack of proper county laws to regulate business within the county and overarching national laws to guide counties on trade and industrial matters. This has led to the collection of unlawful levies and what is tantamount to double taxation as multiple counties charge businesses the same fees collected elsewhere by other counties, parastatals or regulatory bodies particularly when goods move from one county to another.

Counties also collect fees and charges without proffering the requisite services to businesses. Counties need to acknowledge that improving service delivery is the key to attracting investment in the county and work towards enhancing offer on issues such as roads, garbage collection, access to water etc. They also enact legislation and introduce punitive levies without adequate stakeholder engagement. It is important for the national government harmonise the disparate policies in place at the county level through a proper policy framework.

Create a Legal and Regulatory framework for industrial transformation

Current emerging practices with regard to legislation affecting manufacturers is that laws are enacted without the antecedent development of overarching policies. This means that the operating environment is not captured and laws are prepared without any reflection on what is on the ground due to a lack of impact assessments.

The raft of existing policies is contradictory and confusing in nature. Too often regulations are drafted or enforced in a haphazard manner with total disregard of the realities on the business sector. Such regulations afterwards have to undergo several iterations before they can actually be implemented.

Eliminate Corruption

The government needs to be able to detect corruption when it occurs and this requires strong auditing mechanisms. Corruption and bad management practices eat into the nation's wealth, channelling money away from public projects. Countless studies have shown that high levels of corruption can interrupt investment, restrict trade, reduce economic growth and distort the facts and figures associated with Government spending. Corruption also harms the chances of success for small and medium enterprises and it has been demonstrated that around the world, small businesses pay more than twice as much of their earnings as larger companies, limiting their ability to grow and create jobs.³

Corrupt individuals should be punished to the full extent of the law. A greater auditing capacity by government control bodies and stiffer penalties for corruption, particularly in high profile cases, would set clear examples that would encourage public trust and participation in rooting out corrupt practices. The move by Chief Justice David Maraga to hasten procedures for corruption and economic crimes cases is commendable.

Efficient Commercial Dispute Resolution

Efficient commercial dispute resolution has many benefits and courts are essential for business as they interpret the rules of the market and protect economic rights. Efficiency in commercial dispute resolution not only entails effective courts, but more importantly, the establishment of Alternative Dispute Resolution (ADR) Mechanisms into regulatory bodies. ADR mechanisms offer faster and cheaper mechanisms to address disputes in a context of confidentiality and neutrality that is indifferent to the law, culture or practice and they do not block eventual recourse to courts in case of challenges.

Maintain momentum to ensure implementation and usefulness of the Business Court Users Committee (BCUC)

The judiciary engagement with the private sector was cemented when the Business Court Users Committee (BCUC) was launched in late 2015. The aim of the is to provide a forum for private sector and the judiciary to discuss ways in which commercial cases can be adjudicated in a fast and well informed manner. There is a need for continuous review meetings to ensure that judicial processes are sensitive to the time bound nature of business activities. This can be done by clearing up the backlog of business related cases, automating payment processes and eliminating delays in prosecuting cases.

Harmonise Regional and International Trade Systems

Regional integration is important for the local manufacturing sector. However, certain regional policies have the effect of hampering market access for our exports and should be reviewed. Internationally, Kenya has a number of agreements with support trade relations with other nations. It is important for the country to fast track some of these agreements for better market access.

3 Corruption Watch, <http://www.corruptionwatch.org.za/content/about-us-0> retrieved on 23 January 23, 2015

Intervention Areas

Policies	<ul style="list-style-type: none"> • Enact a national policy on public participation
Regulations	<ul style="list-style-type: none"> • Push for the enactment and implementation of the key county revenue laws developed together with key business associations to facilitate manufacturing e.g. public participation bill, trade licensing bills, revenue administration bill, property and rating bill and finance bills. • The Attorney General should expedite the gazettement of the advisory by the transition authority so as to regulate inter county trade • Counties should implement the requirements of the Statutory Instruments Act 2013 so that impact assessments are done before any business related legislation is passed • Review the VAT Act and Excise Act rates in accordance with KAM proposals to support local manufacturers • Implement the Bribery Act 2016 • Finalise and implement measures outlined in the PPOA code of Ethics • Pass the following EAC bills - EAC industrialisation bill, EAC Anti counterfeit bill and the Trade Remedies bill • Amend the Customs Management Act and Regulations • Hold Common Market Protocol Consultations • Prioritise the EAC Trade regulations
Incentives/ Disincentives	<ul style="list-style-type: none"> • Review and reduce intercounty fees, charges and levies • Review parallel fees and rate charged by both counties and parastatals for the same service • Resolve outstanding issues related to duplicative branding and advertising charges across counties • Review excise duty levied on the beverages and excise duty rates • Offer incentives for firms that sign up to and adhere to the Kenya Code of Ethics • Stiff penalties for companies engaging in corruption • Fast track judicial processes through automation of payments (E-payments via Mpesa or Ecitizen) for services to reduce • Harmonisation of Domestic Taxes i.e. n Excise and VAT across the Region business losses • Finalise and Pass the EAC Draft Regulations for Motor vehicle Assembly and Trucks • Approve the National Automotive Policy which gives guidelines on how the National Automotive Council should operate • Incentivise companies to comply with the stipulations of the PPOA code of ethics and the requirements of the Bribery Act 2016 • Through a regulation bill, Ease movement of business persons in the EAC through a common business visa for EAC and the Tripartite region
Information	<ul style="list-style-type: none"> • EACC to carry out sensitisation on the Bribery Act 2016 • Organise Business Ethics and Integrity Compliance Trainings for private sector • Audit county performance on business facilitation to improve competitiveness by rolling out the subnational ease of doing business report to all 47 counties • Continue engagements with counties so that they can pass friendly business related bills and with the due diligence, considerations and consultation with all stakeholders • Publish the EAC Industrial Competitiveness Report • Sensitisation for NTSA, KENAS, KEBs, KRA and TIIT on Motor transport and Manufacturing done by the Motor Vehicle Sector • Real Data on capacity utilisation in the Manufacturing Sector • PPOA to carry out sensitisation on the procurement regulations

Public Ownership

- Strengthen the Intergovernmental Budget and Economic Council
- Establish Alternative Dispute Resolution Mechanism (ADR) within all regulatory bodies
- Make it easier for Counties to establish PPPs as an alternative source of revenue so as to reduce levies and charges on business
- Government agencies such as CRA, IGTRC, CAF, COG to address county taxation
- Approve and establish the National Automotive Council

Key Stakeholders

County Governments, National Government, Parastatals, the Judiciary, COG, CAF.



Pillar Two: Level playing field for manufacturing in Kenya

Objective: Maximise Domestic Benefits for local firms

Competition requires a level playing field for all actors and without it local manufacturers are not able to gain a competitive edge.

Challenge: Various hindrances exist in the domestic market which make it difficult for manufacturing firms to grow. Only by creating a level playing field can local manufacturing firms gain a competitive advantage.

Evidence (Indicators):

- Proliferation of substandard goods in the market
- Increase in Imports and Reduction of exports
- Delays at Customs for export oriented goods

Agenda

Fight illicit trade, contraband and substandard goods

The production and sale of counterfeit goods is a global, multi-billion dollar problem and counterfeit goods account for nearly 10 percent of worldwide trade. Kenyan manufacturers lose over Ksh. 30 billion (US\$ 42 million) annually due to counterfeit products. According to a study conducted by Kenya Association of Manufacturers in 2012 to determine the severity of trade in counterfeit goods in Kenya, conducted on five key sectors with fast moving consumer products, it was established that manufacturers lose about 40% of their market share to counterfeiters

The security risks posed by illicit trade is serious. Organized crime networks exploit new technology, differences among national regulatory regimes and links between the global economic, finance and transportation systems for their own gain. They use the profits to fund other criminal activities such as drug trafficking, people smuggling and robbery.

Law enforcement agencies should take a tougher stand against counterfeiters and that stance ultimately has to be backed up by relevant and comprehensive local laws. There is need for improved interagency coordination in the fight against illicit goods as the mandate to enforce is vested with various agencies including the Kenya Police, Kenya Revenue Authority, Anti Counterfeit Agency, Kenya Bureau of Standards, Kenya Plant Health Inspectorate Services, Kenya Copyright Board, Kenya Wildlife Services, Pharmacy and Poisons Board and Public Health Officers.

Curb the surge in dumping

One of the biggest fears that local manufacturers face is competition from foreign firms that tend to be heavily supported industries rendering the local markets uncompetitive. Sometimes these firms engage in predatory pricing so that some of the imported products in the sectors are acquired at the expense of growth of the local industry. Other times, the competitiveness of these firms is heavily supported by WTO illegal subsidies.

Worldwide, the steel sector has been affected by an overabundance of Steel in China which the world's largest producer of steel. This global glut was caused by the decline of the construction industry in the east Asian country. The textiles sector is similarly afflicted.

The government needs to have recourse to WTO remedies curb dumping in the country. This calls for capacity building and the use of appropriate regulatory instruments.

Accord Preference to Local content in Government Procurement

The 'Buy Kenya, Build Kenya' policy needs to be implemented by the Cabinet so that it can inform all government purchasing decisions and preference can be given for locally manufacturers goods. In large, infrastructure projects, local manufacturers should be involved from the project design stage so that they can upgrade their facilities and capacities to produce goods to the required standards and quality.

PPDA Act and Regulations that now allow for local preference should also be looked into to seal loopholes that allow procurement agents to give contracts to foreign firms. They should also be stipulations for subcontracting to large firms. Formal monitoring mechanisms as well as periodic reporting of underperformance in contracting are critical.

Strengthen the Protection of the Intellectual Property Rights (IPRs)

Copyright based or creative industries include a wide spectrum of manufacturing industries that contribute to overall economic growth. Many local manufacturers fall under two categories of interdependent copyright based industries whose activities create instruments used in the promotion of copyrighted works and partial copyright-based industries where only a portion of their work is copyrighted. As Kenya seeks to transform itself into an industrial and innovation hub, more awareness of the need to protect intellectual property is necessary particularly amongst SMEs.

Formalise the Informal Economy

In markets tightly regulated through among others licensing, overregulation can be deterrent to formalisation. In fact, "Most entrepreneurs and the self-employed are amenable to and would welcome efforts to reduce barriers to registration."⁴ Business registration can open doors to access benefits available in the economy, notably access to capital or other supporting services for SMEs, legal enforcement of property rights, tax breaks and incentives.

Make SEZs and EPZs Favourable for the development of Domestic Exports

With the introduction of SEZs, in addition to EPZs many incentives will be offered to investors who locate there. However, it is important to also extend incentives to local manufacturers outside both SEZs and EPZs so that the incentives are not detrimental to local producers who feel that other countries are exploiting loopholes to export EPZ products to Kenya. This would also ensure level playing field as 20% of EPZ exports are allowed to domestic economy.

Intervention Areas

Regulations	<ul style="list-style-type: none">• Harmonise IPR laws across EAC partner states so that EAC becomes a single IP Territory and is recognised as such for ease of enforcement• Develop Local content requirements and review the Public Procurement and Asset Disposal Act, 2015 to incorporate them• Approve the Buy Kenya, Build Kenya Policy• Develop and enact a Trade Remedies Bill• Institute Policies to ensure the efficient processing of VAT refunds
Incentives/ Disincentives	<ul style="list-style-type: none">• Highly Punitive fines and jail terms for those IPR offenders• Extend EPZ and SEZ like incentives to domestic producers• Offer subsidies to strategic sectors (e.g. steel) with strong linkages• Offer protection and safeguards against dumping for local Industries such as the Steel and Textiles sector• Grant tax incentives for firms to strengthen backward linkage
Information	<ul style="list-style-type: none">• Finalise the Study on the EAC IPR Regime in order to harmonise IPR laws in the EAC• Create Awareness for the SGR Phase II and have the government procure all locally available products particularly Steel and Cement from local manufacturers• Cluster facilitation• Carry out awareness campaigns for consumers on counterfeits and illicit trade• Develop major awareness campaigns to support local industry• Create an EAC Patent Registration Office for registration of patents and trademarks• Hold awareness seminars for the new introductions in the Competition Amendment Bill 2016
Public Ownership	<ul style="list-style-type: none">• Enforce the Public procurement of domestic goods within government entities

Key Stakeholders

Government procurement entities, KIPi, KIRDI, MDAs.

Pillar Three: Competitive Local Manufacturing

Objective: Increase Productive Activities so that firms increase their output

Challenge: The cost of inputs in Kenya is very high making Kenyan manufacturing uncompetitive. If this continues it could herald a competitiveness crisis. Only by relooking at the factors of production and making them cheaper and more available can the competitiveness crisis be averted.

Evidence (Indicators):

- Pending VAT refunds
- Late payments to manufacturers from local retailers
- High energy costs compared to neighbouring countries
- High cost and unavailability of Land for manufacturing activities
- Increasing business risks associated with Water scarcity
- Market access issues for Agricultural Inputs

Agenda

Promote taxation that encourages local competitive production

An effective and efficient tax regime can boost employment, investment, and productivity which in turn would accelerate economic development. Fiscal incentives are needed to facilitate value added exports.

VAT refunds

Late VAT refunds shift the Tax burden from consumption into production. The issue of outstanding VAT refunds still remains a big pain for manufacturers who look forward to the expeditious payment of the refunds. KRA owes manufacturers billion of shillings in unpaid refunds which has resulted in serious cash flow issues in the sector. As a last resort, manufacturers are forced to get into debt to keep operations. This leads them to incur losses as they are required to pay high interest rates on loans to keep afloat.

Elimination of IDF and RDL

With the introduction of Pre-Export Verification of Conformity (PVOC) for exports to Kenya, the Import Declaration Fee (IDF) should have been totally eliminated since it duplicates the IDF. The Railway Development Levy (RDL) was also introduced temporarily to raise a fixed fee for the building of the SGR. These two charges should be done away with completely as they are duplicative in nature and they make Kenyan goods non-competitive.

Facilitate business compliance with regulation

Streamlining the business regulatory environment in Kenya further to devolution would enhance compliance. There is need for sustenance of business regulatory environment reforms undertaken. With the new devolved system of government, the national government should create a national policy and legislation to harmonize the criteria for introduction and application of new fees and charges that affect business. This would also ensure harmonized and coordinated institutional arrangement that curbs duplication and multiple taxation.

Promote Prompt payment culture

Manufacturers form part of a large supply chain in which money is constantly moving. In order for business to thrive, cash flow is necessary as the cost of borrowing eats into profits. A late payment culture is very damaging particularly to SMEs since every business unlocks its value by keeping money moving.

The government can promote a responsible payment culture as late payments force companies to turn to debt to finance their productive activities. This is an area where the government can lead by example, subjecting its own procurement to the highest standard.

Reduce Import clearance Time and costs for raw materials and Industrial Inputs

Kenya needs to continually improve port infrastructure, customs processes and the capacity to track and trace freight goods. This will improve efficiency of port or airport supply chains reduce costs and save time for improved efficiency

of trade in manufacturing. According to the World Bank Doing Business report 2015, import time and cost are binding constraints that make Kenya a difficult country for trading across borders.⁵

Implementing the WTO trade facilitation agreement, in part, should provide the momentum to address these barriers. The government needs to define an agenda for its implementation, and ensure that other EAC countries follow suit.

Address Factors of Production for Competitive Manufacturing

- **Promote Access to quality, affordable and reliable energy**

In September 2014, the country switched to geothermal generation and this led to lower fuel cost charges and reduced electricity costs to consumers. The falling price of crude oil worldwide in the last two years has contributed to lower energy costs.

Kenya's tariffs, at an average of US\$ 15/kWh for industrial consumers still remain high in this region in comparison to our neighbours which has led to Kenya's industrial sector remaining uncompetitive. An investor seeking cheaper energy cost is more likely to move the investment to neighbouring countries and sell manufactured goods to Kenya. There is therefore need to relook at the electricity tariff structure with a broader view to deliberately bring the prices down. With Ethiopia, Egypt, and Uganda electricity tariffs currently at US\$ 4/kWh, US\$ 6/kWh and US\$ 12/kWh respectively while Tanzania had their tariff reviewed to US\$ 14/kWh and South Africa's tariff is US\$ 9/kWh, What then makes Kenya's tariff so expensive?

Granted the government has done a lot to work on the energy situation in the country. With a major component of the energy mix being from renewable sources, the cost of energy in Kenya has since dropped from US\$ 18.7/kWh to the current US\$15/KWh. Investors are comfortable with stable tariff regime where they can have steady forecasts for business revenues. Tariff prices should therefore be stable and predictable.

Other useful interventions that the service provider could look into is a Time Of Use metering which would introduce a night time or an off peak tariff and encourage 24 hour production by industry.

- **Enhance Access to Water and Sanitation for Industrial Use**

There is a demand deficit problem where demand is more than supply. One of the ways of addressing this shortfall in the short term is to look carry out water audits in order to curtail consumption waste. Another way is to rethink the expansion of water sources.

KAM believes that the current situation calls for the implementation of the Water Act 2016 which was assented to in September 2016 to streamline water management in the country.

- **Enhance Access to Land**

Land, is a basic factor of production and it remains an important component for the manufacturing sector especially Agro Based industries. For Agro Processors, who make up the largest value-add sector in Kenya, land is an essential input. As more and more locally owned agro-processing industries take shape, there is need to ensure that there is certainty on land ownership.

- **Address the Agricultural Supply Chain and Inputs**

For the agro processing sector to grow, the supply has to meet demand. However the vagaries of a rain fed agricultural system make supply erratic and this tends to have an effect on agro processing firms. Value addition should also be encouraged so as to net in more money for goods sold overseas.

- **Green Growth and Sustainable Development**

Climate change is the new frontier on the sustainable development front. The African continent is particularly vulnerable to the adverse effects of climate change despite its low carbon emissions due to its geographical position, reliability on agriculture, the lack of mitigating measures and adaptive capacity. Kenya is also at a disadvantage like most other African countries but in the last few years, has worked towards coming up with a climate change action plan even as the effects of climate change sweep its landscape. Without the proper measures in place, manufacturing could face a debilitating blow should climate change destroy the agricultural sector on which the sector relies on so heavily.

Sustainable development therefore needs to take into account green growth and climate change adaptation measures to safeguard the country against these threats.

5 2016 Doing Business retrieved on January 2015 <http://www.doingbusiness.org/data/exploreeconomies/kenya#trading-across-borders>

• Timely Infrastructure rehabilitation and Development

While the country undertakes huge infrastructure projects such as the Standard Gauge Railway and energy development projects, it would be useful for both the national government and counties to look into existing infrastructure to ensure that it is rehabilitated. Manufacturers rely heavily on the existing road networks and issues such as traffic cause untold losses to the sector due to delays. Access roads, drainage, Sewage treatment etc are all issues that affect factories in various industrial areas and these should be looked into.

Intervention Areas

Policies	<ul style="list-style-type: none"> • Develop National policy and Legislation on harmonization of county Policies and legislations on fees and charges.
Regulations	<ul style="list-style-type: none"> • Simplification of business start-up procedures • Impose Export-bans for unprocessed raw materials to encourage local value addition • Impose Import bans and quotas for finished goods so as to stop dumping • Implement the Water Act 2016 and create regulations for Water Conservation • Develop a national water policy • Assent to the Energy Bill 2015 • Create a Legislative Framework for Prompt Payment • Review uncompetitive Excise Duty and VAT rates for the manufacturers • Eliminate the Railway Development Levy and the Import Declaration Fees • Clear up the backlog of VAT refunds accrued after 2013 • Start processing VAT refunds efficiently to be paid within 60 days • Implement the National Climate Change Policy Framework • Validate county action plans on clean energy • Implement the Climate Change Act by establishing various bodies such as the Climate Change Council • Review Harmonise NCA, County and NEMA levies related to Building and Construction to avoid double taxation and overregulation • Have the Building Code enforced at the Ministry of Infrastructure and housing • Effect the President's decree to remove the OS levy
Incentives	<ul style="list-style-type: none"> • Recognise Industries excelling in Energy Management • Offer startup finance for manufacturing entities • Offer manufacturing firms Capital expenditure grants or preferential loans • Offer Income tax exemptions • Set up land banks for Industrial use • Offer incentives for water and waste water audits • Incentivise energy audits to reduce GHG • Establish an Industrial Development Bank • Offer Loan guarantees to SMEs • Incentivise commercial banks to provide low rate loans targeting manufacturers and SMEs • Promote Self Regulation for Manufacturers on Environmental Issues • Offer Manufacturers quality, reliable and cost effective energy • Offer a Time of Use tariff for electricity • Facilitate pre arrival clearance for raw materials used in manufacturing • Apply the Green Climate Change Fund • Recognise the certification mark for responsible care • Hold Clean Environment Awards Ceremony

Information	<ul style="list-style-type: none"> • Entrepreneurship training programs • Provide market intelligence on the manufacturing sector • Launch Investment promotion campaigns • Technology extension and transfer services • Hold Industrial trade fairs • Create Awareness on the National Climate Change Policy Framework • Hold Clean Energy Awareness Forums in partnership with NEMA, Ministry of Energy & Petroleum and other civil societies and County Governments • Carry out feasibility studies for new ventures in the Industrial sector • Offer Capacity building on energy, water and waste water audits and on Water management • Create Awareness on the Energy Management Regulations 2012 and on the Conservation of Water • Hold Seminars on the new PVOC regulations for manufacturers and clearing agents, Electrical and E-waste Management for Industry,
Public Ownership	<ul style="list-style-type: none"> • Create state owned development banks • Public infrastructure investments

Key Stakeholders

WRMA, Kenya Power, ERC, NEMA, The National Treasury, All regulatory Institutions.



Pillar Four: Make Kenya a manufacturing hub for Exports

Objective: Promote Industrial Exports and deepen Global Market Integration

Increase Kenya's engagement in global trade, international investment and with multinational enterprises.

Challenge: High cost of production, Non-Tariff Barriers, Balance of payments, limited national resources, small and limited access to domestic markets.

Evidence (Indicators):

- Kenya's declining share of value added exports in the EAC
- Kenya's insignificant impact in world global trade (Kenya's share of global trade is only 0.03%)
- Lack of exports development fiscal incentives and financing

Agenda

Develop a National Exports Development Strategy

Kenyan exports comprise mainly of primary agricultural exports with little to no value addition. In order to promote more value addition, particularly in agro processing, a national exports development strategy is imperative to power more exports and reduce our trade balance. This strategy should be closely aligned to other existing frameworks such as KITP and Industrial policies and will lay down a strategy for the country to export more.

SMEs in particular need the support of the government in terms of quality, standards, access to markets and finance in order to attain their true potential and such a strategy will be most beneficial to them.

Establish exports development long term financing

In order to compete against other regional countries in the EAC and COMESA regional blocs, Kenya needs to establish a way to finance exports. Countries such as Egypt already have an export development fund which we cannot compete against and which has proved very successful. In 2016, Egypt decreased its imports by USD 7 billion and increased its exports by USD 1 billion.

Without an exports development fund, Kenya cannot effectively support its national exports development strategy successfully not hope to realise an import substitution strategy. The efficient and quick verification of VAT refunds will also go a long way to ensuring exports are not jeopardised.

Expand Regional and International Markets

Bilateral and Plurilateral negotiations

Kenya has a number of trade negotiations that are still pending conclusion such as the Special Status Agreement with Ethiopia, the Tripartite Free Trade Area (TFTA), the ratification of the Economic Partnership Agreement, and the removal of trade restrictions between Kenya and Nigeria.

Regional Integration is still ongoing in the East African Community as partner states move forward towards a common market.

Access to EAC Markets

The EAC is Kenya's biggest market and as such problems such as Non-tariff barriers, harmonisation of the EAC Common External Tariff framework and other taxes such as Excise and VAT etc., all need to be tackled urgently in 2017. Single markets are attractive to investors Harmonisation of rules, regulations and taxes reduces non-tariff barriers.

Double taxation agreements (DTAs) with South Africa need to be concluded while the DTA with Mauritius, a tax haven, re-examined to ensure that Kenya is not losing out on domestic revenue.

Targeted promotion of Foreign Direct Investment (FDI)

Through the SEZ ACT 2015, Kenya has the proper framework to attract more foreign direct investment into the country. This however calls for the government to target the right companies and investors, create opportunities for these investors, set up the facilities as a soft landing for investors and offer incentives for such companies to set up here such as low wage costs. In order to position Kenya as an FDI destination, the country should target export oriented FDI and ensure the transfer of technology and skills through business partnerships and subcontracting with local firms.

Intervention Areas

Regulations	<ul style="list-style-type: none">• Implement the SEZ ACT 2015 so that free trade zones, industrial parks, free ports, ICT parks agricultural zones, tourist and recreational areas business service parks and livestock zone are established in the country• Review the EAC duty remission regulations 2008 and part F of the Customs union protocol to foment intra-regional trade• Finalise the review of the EAC Common External Tariff and review the sensitive list of goods, stays of application and exemptions regime within the EAC• Ensure Uniformity of• Develop the 25 standards prioritising the most tradeable goods• Review the EAC Rules of Origin• Ratification of EPA by all 5 partner states by January 2017• Continue Continental FTA negotiations• Conclude TFTA negotiations and ratify the agreement• Develop the National Export Development Strategy• Amend the Elimination of Non-tariff Barriers to Trade Bill
Incentives	<ul style="list-style-type: none">• Offer Exports Finance for local firms• Uniformity in the implementation of the Single Customs Territory since Tanzania's implementation is slightly different from that of the other partners states• Reduce Complaints related to valuation and classification of Imports and exports specifically for manufacturers and clearing agents as they are not clear on how to do it• Fast track the elimination of the current 18 Non Tariff Barriers in the EAC through stronger Integration mechanisms
Information	<ul style="list-style-type: none">• Campaigns to attract investors in Kenyan SEZs• Inform Manufacturers and SMEs about SEZs and the opportunities that exist• Organise Trade Seminars for Manufacturers• Carry out Investment Campaigns to attract foreign investors into the country and how to set up in the SEZs• Train manufacturers, particularly SMEs on international certification, labelling and quality standards so that exports met the requirement of export destinations• Create awareness on requirements for permits and passes applications• Hold Trade Missions• Hold Seminars on Industrial Spare parts and EAC duty remission, Harmonisation of Standards, Technical Barriers to Trade, Customs, Marine Cargo Insurance• Hold a manufacturing Expo• Hold sensitisation seminars on AGOA Visa Applications
Public Ownership	<ul style="list-style-type: none">• Public Procurement from SEZ firms• Public infrastructure development in SEZs

Key Stakeholders

EAC, COMESA, SADC, European Union, EPC, Ministry of Industry Trade and Cooperatives , National Treasury, CBK.

Pillar Five: Securing the future of Industry

Objective: Generate Productive Employment

Achieve employment-intensive growth through the generation of employment opportunities in productive sectors.

Challenge: Growth is not generating very many productive employment opportunities. Majority of the population are poor because they are based in informal employment. Skills taught in institutions do not match skills required by industry. Manufacturing Firms are also not as productive as they could be.

Evidence (Indicators):

- Service firms are more productive than manufacturing firms
- Labour misallocation in manufacturing firms
- Technological gaps in the manufacturing sector
- The large productivity gap in Kenyan firms
- Exporting firms are more productive than non-exporting firms

Agenda

Align Kenyan Trade and Industrial Policies to Fiscal policies

Coherence in policy is needed in Kenyan Trade, Industrial and Fiscal policies as the three policies don't talk to each other in Kenya. A review of our trade and industrial policies should be driven by a concern for our needs and small but attainable targets.

Access to affordable long term financing for manufacturing investments

While Kenya managed to attract more FDI investments in 2015 than in 2014, existing manufacturing firms find it difficult to access long term credit to expand or set up their plants. It is important for manufacturers to have alternatives to bank loans, overdrafts and other crippling debt instruments which are driven by the profit concerns of the lenders.

Domestic revenue mobilisation by encouraging people to increase their savings can generate revenue for the manufacturing sector. So far very few manufacturing companies are registered on the Nairobi Stock Exchange which means that many companies are unable to access capital from the public. The establishment of an Industrial Development Fund proposed by KAM and now introduced into the the Kenya Industrial Transformation Programme should be implemented. Such a fund would allow the establishment of manufacturing enterprises and allow the promotion of Kenyan exports.

Support skills-based job creation agenda

Authorities, academics and teachers must step up efforts to ensure that higher education meets the requirements of industry. The government should review curricula to be demand driven and better adapted to industrial needs. School administrators should pursue innovative approaches to stimulate the interaction between students and industry during their period of study combined with problem based learning bringing in problems from the "outside world".

The private sector has expressed its interest in supporting initiatives to establish Industry apprenticeship programs where university and technical school graduates are recruited into industry and trained. More investments to science and technology, research and development and vocational training are also needed. Further, establishment of strong linkages between tertiary institutions and industry would enhance production of competent and market ready graduates. The government should put particular emphasis on strengthening National polytechnics and technical institutes by emulating best practice educational models in Germany. National polytechnics and other technical training institutes also need to have their infrastructure and curricula upgraded in order to meet the needs of industry. KAM already supports government in these initiatives and currently runs the KAM Manufacturing Academy to promote the development of technical skills and is currently developing a TVET apprenticeship program to encourage manufacturing firms to take on students from TVET institutions on internship programs so as to promote the development of skills while undergoing training.

Foment Innovation and technical upgrade

In this age, technological developments are changing the global manufacturing landscape so rapidly that it is hard for developing countries to keep up. It will be difficult for Kenya to industrialise without technological growth. For example, the 2016 Industrial Development Report estimates that developing nations could earn \$0.81 trillion to \$1.86 trillion per year through the adoption of the Internet of Things technology. Kenya stands to lose if progress in this aspect is not made in good time. Technology is important for the manufacturing sector because it increases productivity, sometimes exponentially and keeps costs down and leads to better products that can compete. It can also lead to the production of niche products. Because it is difficult to measure technology adoption and use, the indicators used are proxies which can give an indication of the state of certain developments.

Kenya already has in place the institutional framework required to support innovation and technical upgrades. However, it is important to implement the Science, Technology and Innovation Act of 2013 and to look for other ways for local artisans to learn from global technology such as sending students abroad, inviting multinational companies to set up locally and engaging in international exchanges that can result in more access to new technology and innovation. The use of ICT will further open up these opportunities to learn and do something new.

Support the growth of Small and Medium Enterprises (SMEs)

Many thriving developed nations have a well-developed SMEs that specialise in niche manufacturing and high technology activities. These small firms offer specialised services to larger companies and support to their core manufacturing activities. This is because in such nations, backward and forward linkages are well developed and allow SMEs to take advantage of the spillover effects of interacting with bigger and more developed firms.

Kenya's data on backward and forward linkages shows the lack of such linkages in most manufacturing subsectors except in the Agricultural sector and the Food and Beverage subsectors, which are key sectors for agro based economies. Our manufacturing intensity is also low because most manufacturing firms in Kenya are low technology industries with a few falling into medium-high and medium- low categories. These two factors are important for a country to develop its industrial capacities because they touch on the ability to absorb and use new technology through skills transfer.

Kenya can grow its SMEs by creating linkages and developing a subcontracting framework to develop small firms. By offering trade finance to young people and women, the government can also encourage these groups to start small enterprises in manufacturing which in turn can create jobs and offer employment.

Intervention Areas

Regulations	<ul style="list-style-type: none">• Implementation of the Competence Based Education and Training (CBET) within training institution within the TVET ACT 2013• FDI employment quotas• Formalisation regulations• Mandatory education requirements• Business-start up regulations
Incentives	<ul style="list-style-type: none">• Job-hiring incentives• Cash grants for start-ups• SME-specific instruments and credit guarantee facilities• Preferential lending for labor-intensive activities• Tax exemptions for job hires or salaries• Training vouchers• Subsidized apprenticeship programs• Land banks for SMEs

Information	<ul style="list-style-type: none"> • Formation of Sector Skills Councils • Job matching databanks • Training for the self-employed and microenterprises in business literacy • Information on employment intensive approaches to production • 3D printing (Disruptive Technology) seminars • SME sensitisation Forums on standards and market development • Popularise TVET Education and Training through Skills Shows
Public Ownership	<ul style="list-style-type: none"> • Government-run training centres specialising in technical manufacturing skills such as welding, plumbing, fitting, turning, moulding, casting, boiler operations and plant maintenance. • Public works programs • Public procurement based on employment generation • Cooperation between Industry and education institutions to ensure that Competence Based Education and Training (CBET) • Industry involvement in the Curriculum Development of Occupational Standards

Key Stakeholders

IPOA, Counties, Ministry of Industry Trade and Cooperatives, Ministry of Education, NITA, TVETA.





Focus on promoting sustainable and inclusive industrialization

As highlighted by our theme and within our pillars, Kenya Association of Manufacturers intends to focus on promoting sustainable and inclusive industrialisation. This aligns the MPA 2017 to the **SDG 11** and **Agenda 2063 of the Africa Union** particularly on issues relating to the growth of the manufacturing sector, supporting SMEs, green growth and the encouraging women and youth to set up manufacturing enterprises.

The stipulations of SDG 11 which we have highlighted are contained in 5 key points which are mainly covered in Pillar 5 which looks to the future of the sector.

Agenda 2063 is the continental blueprint which was developed in 2013 and looks to attain seven aspirations in 50 years. One of these aspirations is 'an Africa whose development is people driven, relying on the potential offered by people, especially its women and youth and caring for children.' Under this aspiration, Agenda 2063 targets that 'Young African men and women will be the path breakers of the African knowledge society and will contribute significantly to innovation and entrepreneurship. The creativity, energy and innovation of Africa's youth shall be the driving force behind the continent's political, social, cultural and economic transformation.' The agenda has as one of its key flagship project the Continental Free Trade Area (CFTA) and though Industrialisation is not covered explicitly in the Agenda, there are plans to create regional manufacturing hubs and use ICT for innovation in the manufacturing sector.

The transformative shifts of the SDGs and the aspirations of Agenda 2063 have been adopted by the Kenya Association of Manufacturers particularly in Pillar Five and are woven into our strategic vision to ensure that we have a sustainable and inclusive manufacturing sector that creates jobs for women and the youth.

In particular, we have developed an SME advisory center and are currently working on mentorship programs for SME companies by big companies and subcontracting projects so that more collaboration is achieved between big and small manufacturing firms. We are also working on a Technical and Vocational Education and Training (TVET) program to offer internships to young people in the manufacturing sector.

The government of Kenya accords preference to women and young people in its procurement so that 30% of its procurement goes to these groups. KAM fully supports this initiative and would like to see more done in these areas to reach out to the future of manufacturing.

SUSTAINABLE DEVELOPMENT

GOAL 9

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

9.1

Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all

9.2

Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries

9.3

Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets

9.4

By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

9.5

Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending

9.a

Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States

9.b

Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities

9.c

Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020.



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Who we are

Established in 1959, Kenya Association of Manufacturers (KAM) is the largest manufacturing association in Kenya representing small and large manufacturers alike in every industrial sector. KAM is the consistent voice of the sector and the leading advocate for a policy agenda that helps manufacturers to create jobs and compete both within Kenya, regionally and globally.

Our Vision

To be a world class business membership organisation effectively delivering services to its members wherever they operate

Our Mission

To promote competitive local manufacturing in a liberalised market

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