



MANUFACTURING PRIORITY AGENDA 2019

**Closing the manufacturing gap through the Big 4
Agenda for shared prosperity**

Closing the manufacturing gap through the Big 4 Agenda for shared prosperity

- Contribution to Gross Domestic Product (GDP) from 8.4% in 2017 to 15% by 2022
- Increase value and volume of exports
- Contribution to job creation
- Consumer benefits of manufacturing

01

Competitiveness and level playing field

- 1) Promote access to quality, affordable and reliable energy for manufacturing
- 2) Lower the cost of imported industrial inputs
- 3) Incentivize prompt payment culture
- 4) Address multiple charges, fees and levies
- 5) Reduce transport and logistics costs
- 6) Sustain the Fight against illicit trade, contraband, substandard goods and dumping
- 7) Enhanced cash flow for manufacturers
- 8) Avail long term Financing to Manufacturers

02

Enhance market access

- 1) Enhance Local Market Access
- 2) Promote Regional market Access
- 3) Diversify International market access

03

Pro-industry policy and institutional framework

- 1) Ensure predictable and stable industrial policies development through industry consultation
- 2) Ensure certainty and predictability of tax policies
- 3) National policy and institutional coherence for the manufacturing sector

04

Government driven SME development

- 1) Enhance market access for SME's
- 2) Enhanced Governance
- 3) Access to Finance

05

Securing the future of manufacturing industry

- 1) Pro-industry skill development
- 2) Enhance access to land
- 3) Stable macroeconomic environment
- 4) Green Growth and sustainable Development through mainstreaming SGDs
- 5) Fight against corruption
- 6) Fit-For-Purpose public service
- 7) Enhance Digitalization in manufacturing industry



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ABBREVIATIONS AND ACRONYMS

ACA	Anti-Counterfeit Agency
AfCTA	Africa Continental Free Trade Area
AfDB	Africa Development Bank
AGOA	Africa Growth and Opportunity Act
ARM	Athi-River Mining Ltd
BKBK	Buy Kenya Build Kenya Strategy
BPD	Barrel per Day
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CET	Common External Tariff
CoG	Council of Governors
EAC	East Africa Community
EPC	Export Promotion Council
EPZ	Export Promotion Zone
EPZA	Export Promotion Zone Authority
ERC	Energy Regulatory Commission
ERSP	Economic Recovery and Strategy Paper
FDI	Foreign Direct Investment
FMCGs	Fast Moving Consumer Goods
GDP	Gross Domestic Product
GoK	Government of Kenya
ICDC	Industrial and Commercial Development Corporation
IDF	Import Declaration Fees
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IT	Information Technology
ITC	International Trade Centre
KAM	Kenya Association of Manufacturers
KEBS	Kenya Bureau of Standards
KeNHA	Kenya National Highway Authority
KIE	Kenya Industrial Estates
KIPI	Kenya Industrial Property Institute
KIPPRA	Kenya Institute for Public Policy, Research and Analysis
KIRDI	Kenya Industrial Research and Development Institute
KITP	Kenya Industrial Transformation Programme
KNBS	Kenya National Bureau of Statistics

KPLC	Kenya Power
KRA	Kenya Revenue Authority
KRB	Kenya Road Board
KURA	Kenya Urban Roads Authority
MAT	Multi-Agency Team
MDAs	Ministries Department and Agencies
MoITC	Ministry of Industry, Trade and Cooperatives
MPA	Manufacturing priority Agenda
MSEA	Micro and Small Enterprises Authority
MTPs	Medium Term Plans
NPL	Non-Performing loans
NEDPS	National Export Development and Promotion Strategy
NSSF	National Social Security Fund
NTBs	Non-Tariff Barriers
OECD	Organization of Petroleum Exporting Countries
PDU	Presidential Delivery Unit
PMI	Purchasing Managers Index
PPADA	Public Procurement and Asset Disposal Act
QEBR	Quarterly Economic Budgetary Report
RDL	Railway Development Levy
SEZ	Special Economic Zones
SGR	Standard Gauge Railway
SMEs	Small & Medium Enterprises
SSA	Sub-Saharan Africa
TFTA	Tripartite Free Trade Agreement
TVET	Technical and Vocational Education and Training
VAT	Value Added Tax
WDI	World Development Indicators

“Our aim is to sharply raise the contribution of manufacturing to our national income as a means to achieve shared prosperity”

H.E President Uhuru Kenyatta, CGH
President and Commander in Chief of the Defense Forces of the Republic of Kenya

-12th December, 2018



FOREWORD

For Kenya to achieve its desired economic goals and sustainable social change, our approach towards the manufacturing sector has to change. It must be business unusual.

Of the Big Four Agenda pillars, Manufacturing is the only one that is guaranteed to create jobs and enhance its contribution to GDP in the short to medium term. Hence we need to prioritize its productivity by making it profitable for local companies to export again, boosting their capacity to expand within the country and focusing on SME growth and productivity.

Though Kenya's position in the region as a preferred investment destination continues to remain strong, our competitiveness waivers due to a myriad of factors, the most critical of which have immediate solutions. These solutions, however, will require political goodwill and strong sustainable policies that will ensure their impact lasts for years to come. At present, Kenya is at a cost disadvantage of nearly 12% on most of the goods it manufactures, compared to competitor countries. It is absolutely vital that this cost imbalance is addressed as a matter of priority.

Additionally, a stable macroeconomic environment is a foundational necessity to re-ignite private sector dynamism and private investment. High levels of fiscal and current account deficits are some of the greatest threats to a stable macroeconomic environment, which are dependent on a stable exchange rate. One of the features that characterized the East Asian Miracle economies was a responsible macroeconomic environment particularly by ensuring that fiscal deficits are limited, and with reduced risk of increasing inflationary pressure.

Globally, manufacturing has acted as a growth escalator for economies that have succeeded in eventuating high incomes. Countries that have achieved rapid industrialization have done so by putting in place deliberate policies that promote and encourage value addition and diversification of manufactured goods.

The Government's intent to grow the manufacturing sector comes at a critical time for the country; a time to promote shared prosperity. This is only attainable if we realize inclusive growth, reduce inequality and accelerate poverty reduction.

For Kenya to experience this transformation, it must reaffirm its commitment to building, creating, adding value and taking pride in local industries. We must look at the existing opportunities within the manufacturing sector whilst creating a conducive environment for local industries to thrive.

We remain committed to working with the Government and other stakeholders in developing policies and sustainable frameworks to boost industry's productivity, creating jobs and situating Kenya as a force to reckon within the Global market.

I wish to thank all Members for the continued support in realizing the potential of the sector towards our economic sustainability.

Sachen Gudka,
KAM Chairman





EXECUTIVE SUMMARY

The Manufacturing sector plays a critical role in any economy through the creation of productive employment and opportunities for wealth generation with direct linkages to all sectors of the economy. The sector, however, continues to face myriad of challenges that have seen it not realize its full potential.

Through Vision 2030, the Kenya Industrial Transformation Program and most recently, the Big 4 Agenda, the Government has demonstrated a high-level of commitment towards revitalizing the sector. As a key stakeholder in driving Kenya's industrialization Agenda, KAM sets out to enhance the role of local industries to economic growth and development in the country.

Part of this initiative, has been our partnership with the Kenya Business Guide to launch the Sector Deep Dive Report last year. The report identified the main cross-cutting constraints to growth, possible solutions and sector-specific interventions to unlock the sector's growth potential.

It is within this context that we developed the 2019 Manufacturing Priority Agenda (MPA), themed "Closing the manufacturing gap through the Big 4 Agenda for shared prosperity". It outlines immediate action plans that will yield tangible results in the short term, which will see Kenya's manufacturing sector close the current gap of 6.6% by 2022 to attain the 15% GDP target under the Big 4 Agenda.

The MPA highlights the need for a competitive local manufacturing industry that can be achieved through policy frameworks that promote an efficient and effective business environment for industries to thrive in. It also highlights the need for creating a healthy manufacturing ecosystem through sound policy, regulatory and institutional frameworks that foster forward and backward linkages, dynamic economies of scale and innovation.

The Agenda also outlines the need to enhance market access, governance and finance for SMEs, as they play a critical role in promoting inclusive and sustainable economic growth through the creation of decent jobs, fostering innovation and reducing inequality.

Market expansion through diversification of exports and enhanced access to the local market is also key as it not only spurs economic growth and development but also plays a crucial role in overcoming limitations of small domestic markets and achieving economies of scale.

KAM is at the forefront spearheading the advancement of sustainable and inclusive industries through green growth and skills development. In this regard, this MPA is aligned to Sustainable Development Goals (SDGs) on Sustainable Cities and Communities, Responsible Consumption and Production, Affordable and clean energy and Quality Education.

The Association will continue to work closely with the National and County Governments and other stakeholders towards the development of our manufacturing sector. This Agenda is part of our contribution towards a thriving local industry and sustainable economy.

Phyllis Wakiaga
KAM Chief Executive





ACKNOWLEDGMENT

The development of the KAM Manufacturing Priority Agenda (MPA) 2019 has been made possible through participation of various Departmental Units within KAM. Acknowledgment is made to the KAM Board, led by the Chairman, Mr. Sachin Gudka for offering strategic direction for MPA 2019 and KAM Chief Executive Officer, Ms. Phyllis Wakiaga, for providing continued guidance in the preparation of the report.

Oversight of the development of the content for MPA 2019 was provided by Policy, Research and Advocacy Unit (PRAU) Team headed by Mr. Job Wanjohi. Special thanks goes to Dr. Simon Githuku (Research and Fiscal Policy Manager) and Mr. Jackson Wambua (Policy and Research Officer) for coordination and content development. Valuable comments were received from Mr. Joseph Wairiuko (Anti-Counterfeit & Illicit Trade Officer), Ms. Miriam Bomett (Manager, Legal and Regulatory Affairs) and Mr. Walter Kamau (Manager, Trade and Policy).

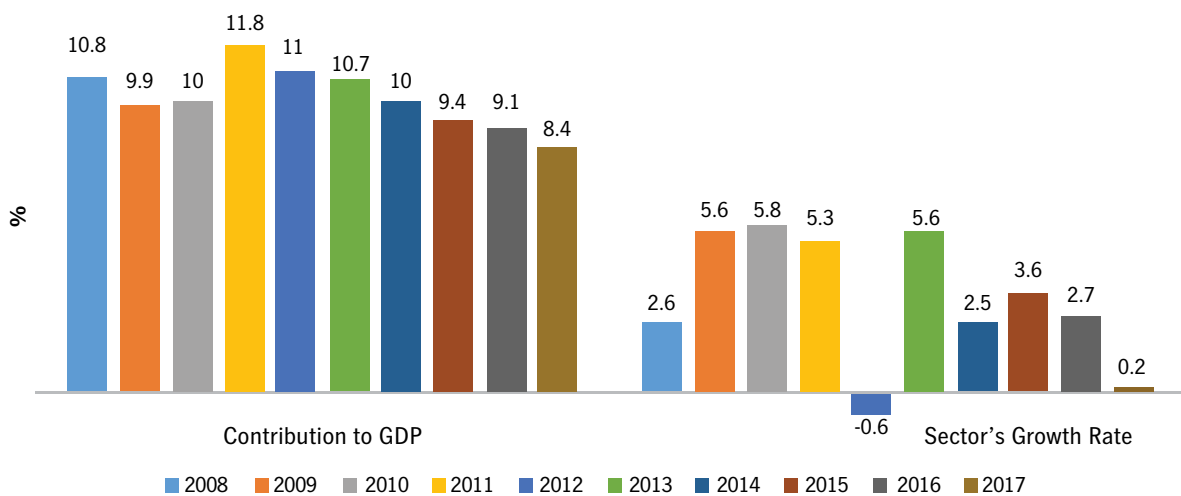
Sincere appreciation goes to Ms. Sally Kahi (Public Relations, Communications & Marketing Manager) and Ms. Grace Mbogo (Communication Assistant) for reviewing and editing the report.



1.1 Background information

Majority of the countries that are considered as developed, realized that status through the process of industrialization (Sheehan, 2008). Industrialization involves a shift of labour and capital from agricultural production into manufacturing sector, which should lead to an increase in the share of manufacturing value added in the Gross Domestic Product (GDP). Unfortunately for Kenya, the share of the manufacturing sector to GDP has been on a declining trend (Figure 1.1); declining from 11.8% in 2011 to 8.4% in 2017.

Figure 1.1: Manufacturing sector as a % of GDP & its contribution to economic growth in Kenya



Data source: KNBS-Economic surveys, various issues

The National Government intends to reverse this declining share of manufacturing sector through a raft of policy strategies. The latest initiative is the Big 4 Agenda in which the manufacturing sector is one of the pillars. According to the Big 4 Agenda, the share of the manufacturing sector should rise to 15% of GDP by 2022. Using 2017 as a base year, Kenya has to close a gap of 6.6% by 2022 if the target under the Big 4 Agenda is to be achieved. This is the very reason why the 2019 Manufacturing Priority Agenda (MPA) is themed **“Closing the manufacturing gap through the Big 4 Agenda for shared prosperity”**.

Shared prosperity should be an integral part of any development endeavour by both the National and County Governments. Shared growth is necessary to reduce income and regional disparities and in promoting social cohesion in Kenya. The principle of shared growth was inherent in industrial policies pursued by East Asian leaders of the High Performing Asian Economies (HPAEs) to win public support and gain legitimacy by demonstrating intent to have none excluded from the benefits of growth (World Bank, 1993).¹ The National Government is conscious about shared prosperity, which is evidenced by President Uhuru Kenyatta in his speech during Jamhuri Day on 12th December 2018 when he remarked, “Our aim is to sharply raise the contribution of manufacturing to our national income as a means to achieve shared prosperity”.²

Manufacturing sector has acted as a growth escalator in those economies that have succeeded in eventuating high incomes to earn developed country status. Manufacturers, who are Members of the Kenya Association of Manufacturers (KAM) are only in 22 out of 47 Counties (46.8% of Counties) meaning that there is a real possibility that there are no manufacturing activities in the other 25 Counties. This puts the country at risk of attaining shared prosperity because some regions may not enjoy localized benefits from manufacturing activities.

¹The HPAs includes eight economies of Japan; Four Asian Tigers-Hong Kong, South Korea, Singapore and Taiwan; and three newly industrializing economies (NIEs) of South East Asia-Indonesia, Malaysia and Thailand.

²For details, see: https://www.the-star.co.ke/news/2018/12/12/uhuru-speech-during-jamhuri-day-celebrations_c1864988.

The MPA is a document produced by KAM and launched early in the Year to guide the Association's advocacy agenda throughout the year. Most of the suggested actions should be achieved within a year while others can spill-over to another year(s). These suggestions will be useful in reducing the gap between the reality and the aspirations that Kenya has for the manufacturing sector.

1.2 An overview of 2018 MPA

The 2018 MPA was launched on 7th February 2018 under the theme "Sparking Kenya's Industrial Transformation for Job Creation". It was anchored on five pillars, namely: competitiveness and level playing field; export driven manufacturing; pro-industry policy and institutional framework; Government driven SME development and securing the future of the manufacturing industry. Approximately 82% of the proposed actions have been taken up by the Government Ministries, Departments and Agencies (MDAs) for implementation. The following are some of key wins for 2018:

- i) **Establishment of a Multi-Agency Team (drawn from various institutions) to fight illicit trade in Kenya:** Mr. Wanyama Musiambo, Deputy Head of Public Service was appointed to lead an inter-agency enforcement team against counterfeits and other forms of illicit trade. This was an immediate result of the KAM's lobby efforts against illicit trade.
- ii) **Passing of Energy Bill 2018 by the National Assembly:** The Bill is currently at the Senate. It seeks to resolve energy related issues in the country such a power quality, reliability and distribution of electricity. The Bill will also provide for electricity wheeling and net metering.
- iii) **Conclusion and signing of the Africa Continental Free Trade Area (AfCFTA):** AfCFTA was launched with the signing of the Agreement by the African Union Assembly of Heads of State and Governments in Kigali, Rwanda on 21st March 2018. Kenya has since ratified the Agreement and deposited the instruments of ratification with the African Union.
- iv) **The development and launch of the National Export Development and Promotion Strategy by the Ministry of Industry, Trade and Cooperative,** which seeks to reduce the balance of trade deficit by growing exports at an annual growth rate of 25%.
- v) **Implementation of the Buy Kenya Build Kenya (BKBK) strategy:** The Government through the Ministry of Industry, Trade and Cooperatives has kick started the development of a framework for locally sourcing of uniforms for discipline forces from local textile and apparel and leather and footwear firms under the BKBK initiative.
- vi) **Conclusion of phase 1 negotiations for the Tripartite Free Trade Area (TFTA) to increase market for Kenyan manufactured goods:** Kenya has signed and ratified the TFTA agreement. The outstanding work on Phase 1 negotiations is on Rules of Origin (Appendix on Product Specific Rules) and Tariff Schedules. Finalization on these two areas is underway, envisaged to be concluded by end of 2019. KAM has participated in all negotiations and ensured that the interests of manufacturers are taken onboard.
- vii) **Prompt Payment:** In 2018, the State Department of Trade established a technical committee comprising of KAM among other agencies to develop regulations on the governance of the retail sector and prompt payment.
- viii) **Availing long-term finances to manufacturers:** On 9th January 2018, the Cabinet approved the merger of the Industrial and Commercial Development Corporation (ICDC), the Industrial Development Bank (IDB) Ltd, and the Tourism Development Corporation to create the Kenya Development Bank. This is for purposes of creating "... a single cross-sector development finance institution with sufficient scale, scope and resources to play a catalytic role in Kenya's economic development"³



³For details, refer: <http://www.president.go.ke/2018/05/15/press-release-cabinet-meeting-held-on-15th-may-2018-3/>.

Some of the pending proposals made in 2018 MPA include the following:

- i) Zero rating of Import Declaration Fee (IDF) and Railway Development Levy (RDL) for industrial inputs for bona fide manufacturers.
- ii) Removal of VAT refund formula on manufactured goods for exports.
- iii) Establishment of a National Automotive Council to drive the sector's agenda.
- iv) Finalization of the review of the EAC Common External Tariff (CET), which is key in promoting value addition and industrialisation.
- v) Finalization and implementation of County Own Revenue Raising Policy which is key to providing guidelines on revenue collection by counties in accordance with the Constitution.
- vi) Creation of Kenyan brands for some key exports commodities such as tea and coffee.
- vii) Development and implementation a National Manufacturing Policy.



GLOBAL, REGIONAL AND KENYA'S ECONOMIC OUTLOOK

2.1 Global economic outlook

Global economic growth stagnated at 3% in 2018 and is projected to grow by 2.9% in 2019, according to the Global Economic Prospects report released by the World Bank on 8th January 2019. The report paints a gloomy economic outlook for 2019 on account of tight financial conditions at the global level, moderate industrial production, elevated trade tensions particularly between the United States (US) and China and financial market stress among the emerging markets and developing economies. Global trade in goods and industrial activity declined in 2018 mainly because of trade tension between the US and China. International trade is expected to be more subdued in 2019 because of trade policy uncertainty, rising interest rates in the advanced economies and the rebalancing of the Chinese economy (World Bank, 2019).

2.2 Regional economic outlook

According to the World Bank (2019), the Sub-Saharan African (SSA) countries economic growth is estimated to have reached 2.7% in 2018; a downward revision from previous projections. This reflects a sluggish expansion in the region amid moderate trade growth, tightening financial conditions, and weak prices for key metals and agricultural commodities. The region is expected to accelerate to 3.4% in 2019, and at an average of 3.7% in 2020-21 period supported by stable policy environment and improved investment in large economies (South Africa, Nigeria, Angola and Kenya) together with continued robust growth in non-resource intensive economies.

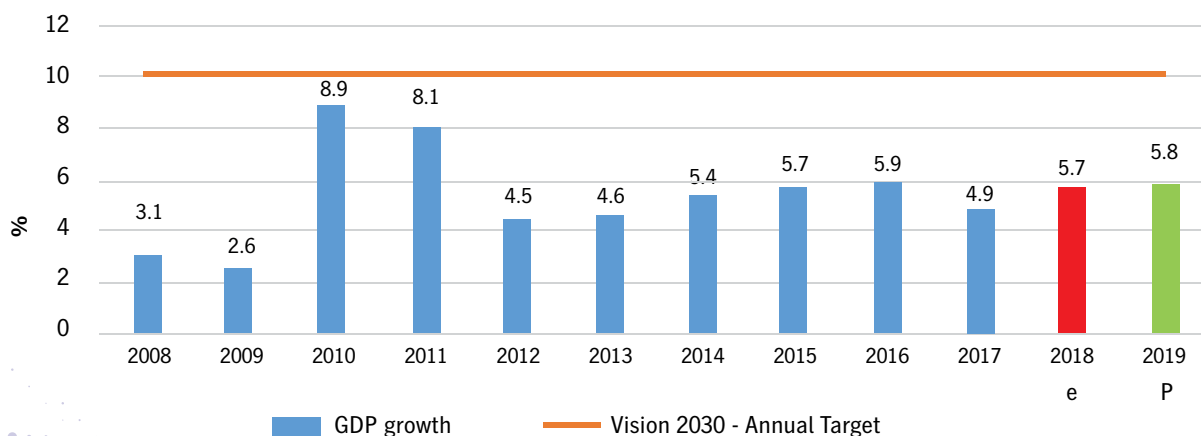
Growth in Nigeria is expected to rise to 2.2% in 2019, assuming that oil production will recover and a slow improvement in private demand will constrain growth in the non-oil industrial sector. Angola is forecast to grow 2.9% in 2019 as the oil sector recovers as new oil fields come on stream and reforms bolster the business environment. South Africa is projected to accelerate modestly to a 1.3% pace, amid constraints on domestic demand and limited Government spending.

2.3 Kenya's economic outlook

a) GDP growth rates

The Kenyan economy expanded by 5.7% in 2018 compared to 4.9% in 2017 and is projected to grow by 5.8% in 2019 (World Bank, 2019). GDP growth rate of 5.7 % achieved in 2018 is 4.3% away from Vision 2030 target of at least 10% per annum (Figure 2.1). Kenya's growth in 2019 will be supported by projected recovery in agriculture and domestic demand.

Figure 2.1: GDP growth rates and projections, 2008-2019



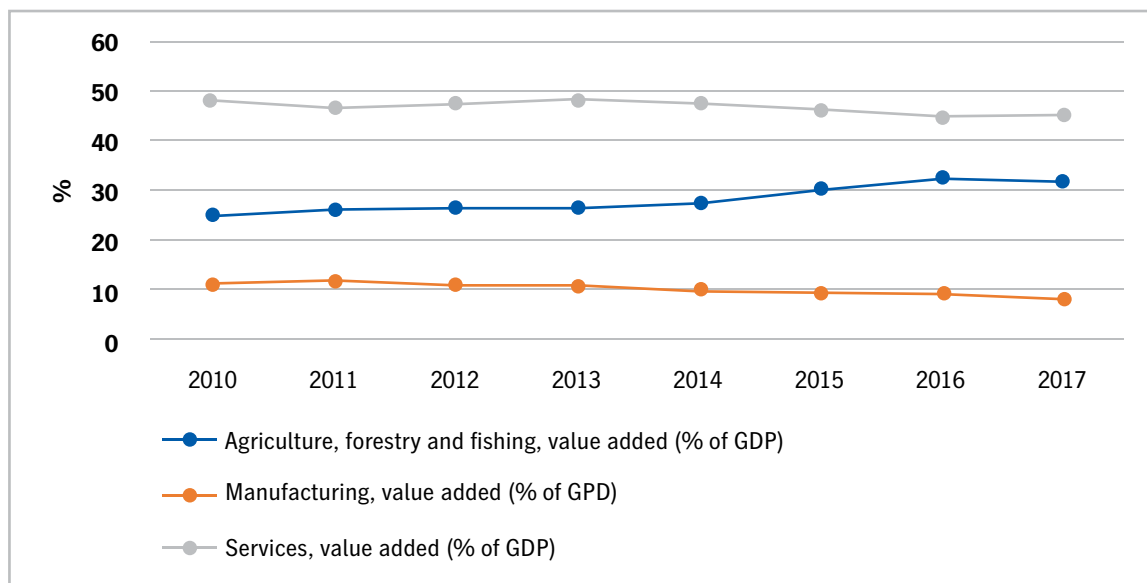
e- denotes estimated, p- denotes projection

Data source: KNBS and World Bank. e - Denotes an estimate, f - denotes Projection

b) Structure of the Kenyan economy

The services sector has emerged as the largest economic sector in Kenya, which contributed 45.4% to GDP in 2017 while agriculture and manufacturing sectors contributed 31.5% and 8.4% respectively for the same period (Figure 2.2). Expansion of the services sector at the expense of industrial manufacturing has been termed as deindustrialization (Rodrik, 2004). However, Ghani and O'Connell (2014) are of the view that services can act as a growth escalator, similar to the traditional role manufacturing sector has played in economic transformation of countries. However, Rodrik (2014) has two reasons to doubt services acting as the new manufacturing.⁴ First, most of the tradable services such as banking, finance and Information and Communication Technology (ICT) are skill-intensive with limited absorptive capacity for low-skilled workers who are in abundant supply in low-income countries. Second, low productivity non-tradable services cannot act as growth poles because they cannot expand without turning their terms of trade against themselves.

Figure 2.2: Sectoral contribution to GDP, 2010-2017



Data source: World Development Indicators (WDI)

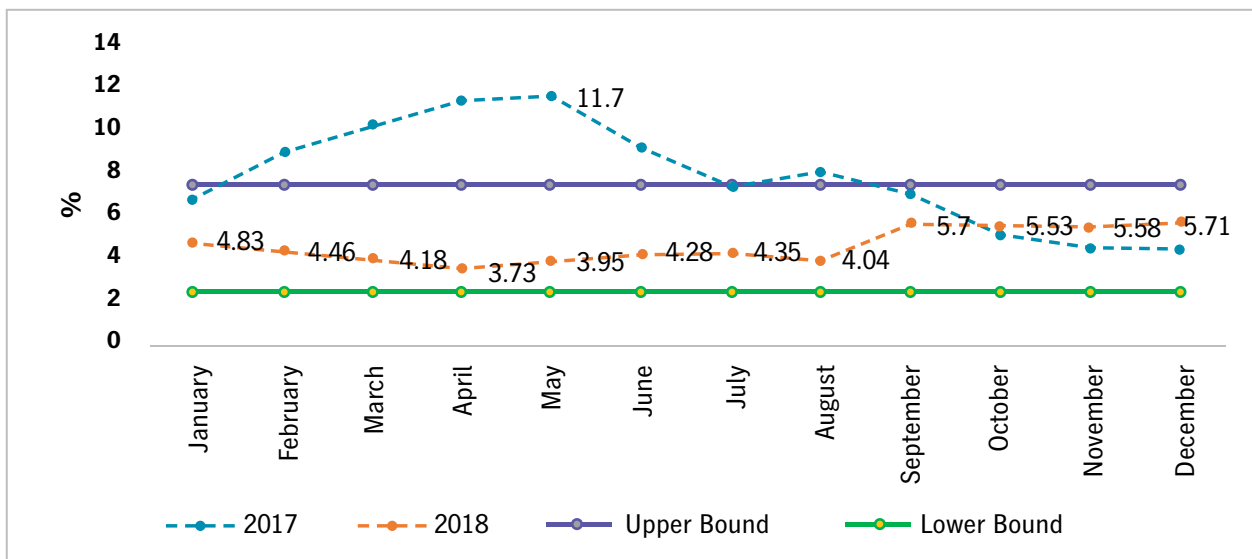
c) Inflation rate

The Central Bank of Kenya (CBK) applies inflation targeting as a monetary policy strategy where public announcement of inflation rate is a major element. Kenya has set an inflation target of 5% with a lower and upper bound of 2.5% and 7.5% respectively. From January to December 2018, inflation rate remained within the bounds (Figure 2.3). In 2017, inflation rate burst the upper-bound target of 7.5% six times on account of high food prices occasioned by drought. The highest inflation rate recorded in 2018 was 5.71% in month of December compared to a high of 11.7% in May 2017. In general terms, inflation rate averaged at 5.04% in 2018 – this can be considered as low and fairly stable because it has not exceeded the Government's target range of upper bound 7.5% and lower bound 2.5%. CBK forecasts the inflation rate to remain within policy limits, which the World Bank estimates to average at 6% in 2019 (World Bank, 2018).

⁴For details, see: <https://www.project-syndicate.org/commentary/are-services-the-new-manufactures-by-dani-rodrik-2014-10>.

⁵For details, see: <http://treasury.go.ke/pricestability/Price%20Stability%20Notice%20to%20Central%20Bank%20of%20Kenya.pdf>.

Figure 2.3: Inflation rates in Kenya, 2017 and January-December, 2018

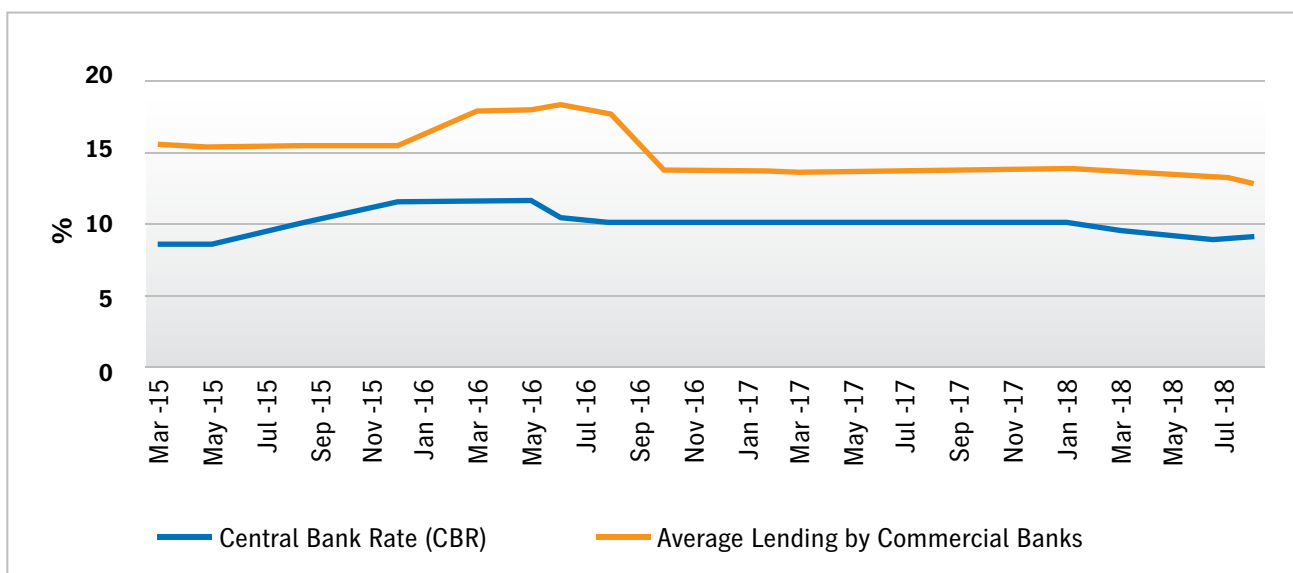


Data source: KNBS (monthly updates)

d) Interest rates

The Central Bank Rate (CBR) and lending rates by Commercial Banks appear to move in the same direction (Figure 2.4). The CBR appears to be stable for the entire period under review. There was a relatively sharp decline of lending rates by Commercial Banks from 17.7% in August 2017 to approximately 13.9% in September 2017 due to the Interest Rate Cap Law that was signed in August 2016 and became effective 14th September 2016. The law now limits lending rates to 4% above the CBR. Interest rate law was a reaction to public outcry over high interest rates charged by Commercial Banks and the anticipation was that the cost of borrowing would decline and therefore enhance access to credit. The average commercial bank lending rate declined to 13.22% in June 2018 compared to 13.66% in June 2017 following reduction in the CBR to 9.5% in June from 10% in February 2018.

Figure 2.4: Central Bank and Commercial Bank lending rates (%) for some selected months



Data source: Central Bank of Kenya Annual Report, 2018

e) Exchange rate

In 2018, the Kenyan shilling strengthened against the US dollar and Japanese Yen but weakened against other major international currencies especially the Euro, Pound Sterling and the South African Rand (Table 2.1). According to the 2018 CBK Annual Report, Kenya's foreign exchange market remained relatively stable in 2018, mainly supported by higher foreign exchange receipts from agricultural exports and tourism, resilient inflow from remittance and an adequate reserve buffer. In 2019, the exchange rate is expected to weaken largely due to likely economic growth headwinds including pressure from debt interest payment.⁶

Table 2.1: Kenya Shilling Exchange Rates.

	2015/16	2016/17	2017/18	Q1-2018	Q2-2018	Q3-2018	Q4-2018	% change (2017/18- 2016/17)
US\$	102.08	102.45	102.37	103.52	103.36	101.86	100.75	-0.1
Pound Sterling	151.59	129.97	137.86	135.38	137.12	141.64	137.26	6.1
Euro	113.28	111.71	122.14	121.51	121.65	125.11	120.19	9.3
100 Japanese Yen	87.59	94.13	92.84	93.29	91.61	93.96	92.38	-1.4
South Africa Rand	7.1	7.55	7.99	7.86	7.57	8.81	8	5.9
Uganda Shilling**	33.73	34.42	35.74	34.8	35.15	35.79	37.24	3.8
Tanzania Shilling**	21.24	21.55	22.01	21.64	21.7	22.01	22.6	2.1
Rwanda Franc**	7.31	7.86	8.29	8.02	8.16	8.39	8.62	5.6
Burundi Franc**	15.32	16.46	17.5	16.79	16.99	17.32	17.32	4.2

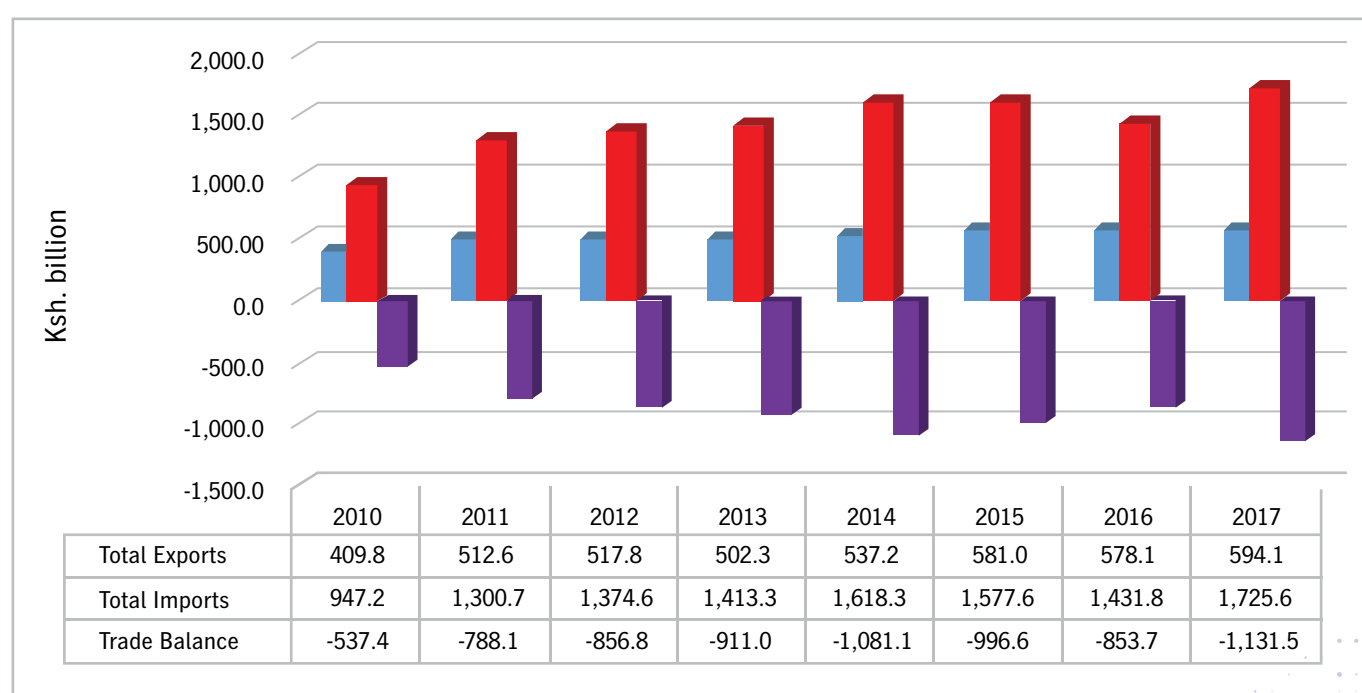
*FY- refers to the Government Financial Year (Starts July and End June) **Units of currency per Kenya Shilling

Data Source: Central Bank of Kenya Report, 2018

f) Kenya's external trade

Kenyan trade deficit widened from Ksh. 853.7 billion in 2016 to Ksh. 1,131.5 billion in 2017 (Figure 2.5). This was induced by an increase in imports, which rose by 20.5% from Ksh. 1,431.8 billion in 2016 to Ksh. 1,725.6 billion in 2017 whereas total exports rose marginally by 2.8 % from Ksh. 578.1 billion in 2016 to Ksh. 594.1 billion in 2017.

Figure 2.5: Balance of trade for Kenya, 2010-2017



Data source: KNBS, 2018a

⁶See-<https://www.fitchsolutions.com/country-risk-sovereigns/kenyan-shilling-will-face-greater-volatility-2019-18-12-2018>

In 2017, Africa accounted for 37.7% of Kenya's total exports, which is a decline from 40.60% in 2016 whereas, 11.6% of all Kenyan imports originated from Africa during the same period under review (Table 2.2 and Table 2.3). In terms of trade in regional blocs, COMESA and EAC accounted for 74% and 51% of total exports to Africa in 2017. It can be anticipated that exports to Africa will increase once the TFTA and AfCFTA trade negotiations are concluded.

Table 2.2: Total exports to Africa (Ksh. Billion), 2013-2017

	2013	2014	2015	2016	2017
Total Exports	502.3	537.2	581.0	578.1	594.1
Of which					
Africa	231.5	241.3	242.2	234.7	223.9
% of all exports	46.18%	44.93%	41.68%	40.60%	37.68%
Of which					
a) EAC	125.0	125.8	126.8	121.7	114.8
<i>EAC as % of total to Africa</i>	53.98%	52.12%	52.35%	51.86%	51.30%
b) COMESA*	163.7	170.0	179.1	170.2	166.4
<i>COMESA as % of total to Africa</i>	70.71%	70.42%	73.94%	72.54%	74.34%

Data source: KNBS, 2018a; *EAC Partner States are also members of COMESA except Tanzania

Table 2.3: Total imports from Africa (Ksh. Billion), 2013-2017

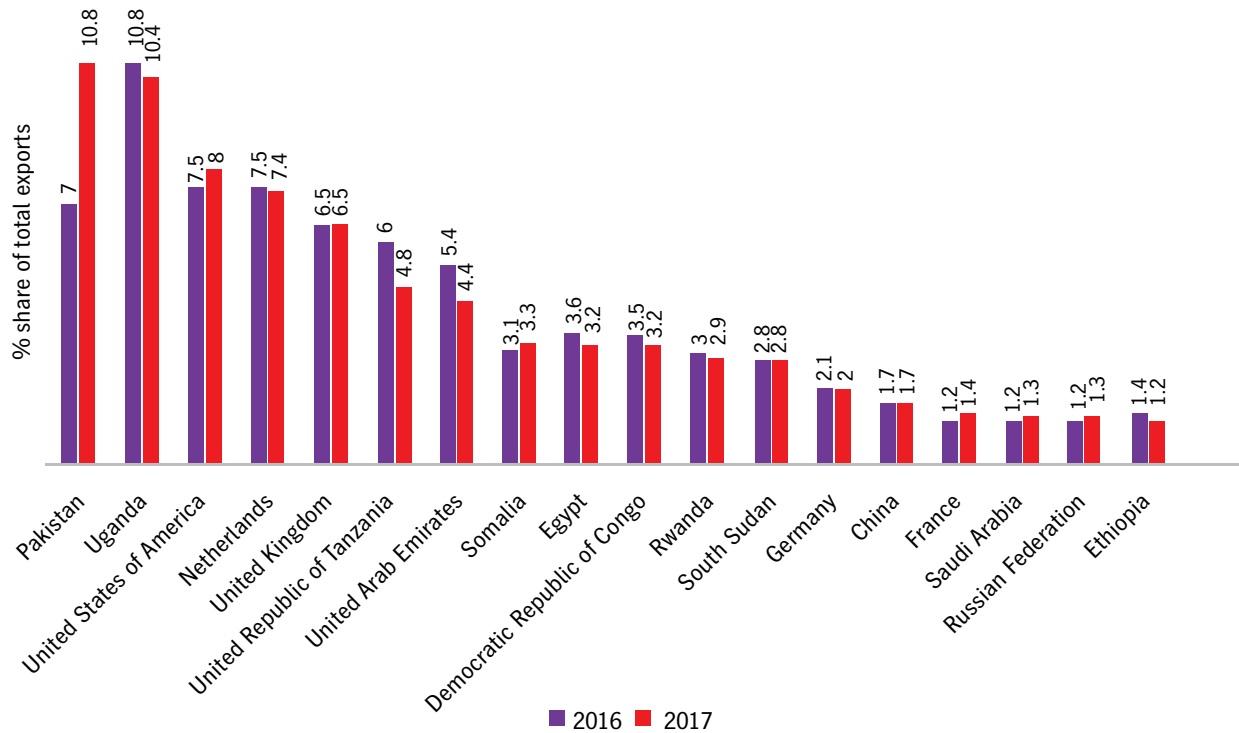
	2013	2014	2015	2016	2017
Total Imports	1,413.3	1,618.3	1,577.6	1,431.8	1,725.6
Of which					
Africa	147.8	146.1	149.1	140.2	200.5
% of all Imports	10.46%	9.03%	9.45%	9.80%	11.62%
Of which					
a) EAC	28.8	36.7	40.2	33.0	61.0
<i>% of total imports from Africa</i>	19.49%	25.08%	26.96%	23.48%	30.40%
b) COMESA	58.3	60.4	67.1	70.0	115.3
<i>% of total import from Africa</i>	39.41%	41.30%	45.03%	49.63%	57.50%

Data source: Economic survey, 2018.* EAC Partner States are also members of COMESA except Tanzania

Kenya's export destination market is narrow with over 70% of total exports being destined to only 15 countries globally (KIPPRA, 2017). Uganda has been Kenya's leading destination followed by Tanzania. However, Tanzania has been overtaken as the second export destination for Kenyan goods by Pakistan, the US, Netherlands and the United Kingdom (Figure 2.6). Kenya's exports to Uganda are on a declining trend, which decreased to 10.4% in 2017 from a share of 10.8 % in 2016.



Figure 2.6: Leading export destinations for Kenyan products, 2016-2017

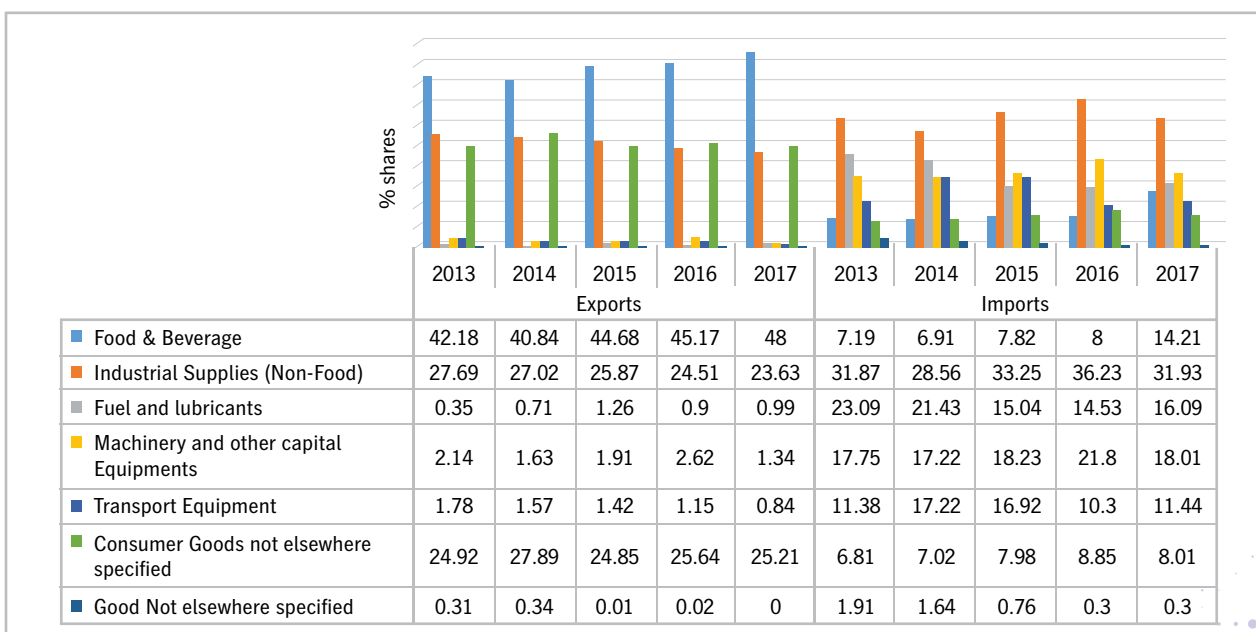


Data source: Computation based on ITC Trade Maps

g) Structure of exports and imports

Exports of food and beverage for household consumption accounted for 48% of total exports in 2017, an increase from 45.2% in 2016 while non-food industrial supplies remained the dominant category of imports accounting for 31.93% in 2017(Figure 2.7). Imports of food and beverage more than doubled moving from 8% in 2016 to about 14% in 2017. This was attributed to the Government’s move to cushion against food shortage as a result of drought experienced in the country in 2017 by allowing duty free importation of maize. According to Figure 2.7, it is clear that Kenyan exports are concentrated in a few products and therefore less diversified and are largely primary in nature.

Figure 2.7: Domestic Exports and imports by Broad Economic Category (% share), 2013 -2017



Data source: KNBS, 2018

⁷See: <https://www.businessdailyafrica.com/markets/commodities/Duty-free-window-for-maize-extended/3815530-4028634-8kelcw/index.html>

h) Kenya's public finance

• Government expenditure

The Government has been pursuing an expansionary fiscal policy characterised by rapid rise in Government expenditure in the last six years; rising from Ksh. 1,132.1 billion in 2012/13 to Ksh. 2,111,458 million in 2017/18 and is estimated to rise to Kshs 2,557.2 billion in 2018/19 (Table 2.4). Interest payment mounted the pressure on Kenyan's recurrent expenditure - it accounted for 25% of total recurrent expenditure in 2017/18 FY, up from 23% in 2016/17 financial year. This puts the country at risk of defaulting foreign loans. Without stability of exchange rate, the country will have a problem with payment of foreign loans, which account for above 50% of our total public debt. The share of wages and salaries expenditure has stabilized at 30% of the total recurrent expenditure in the last three financial years.

According to the Public Financial Management (PFM) Act, 2012, development expenditure should be at least 30% of the total Government expenditure. Table 2.5 indicates that, over the period under review, Kenya achieved this target only in the financial year 2014/2015 which was about 31.10%. Recurrent expenditure particularly wages and salaries component appear to have stabilized but interest payment on loans is on an upward trend, rising and almost doubling from 15% in 2012/2013 and is projected to be 27% for 2018/2019 financial year.

Table 2.4: Government expenditure, 2012/13 - 2018/19 (Ksh. Billion)

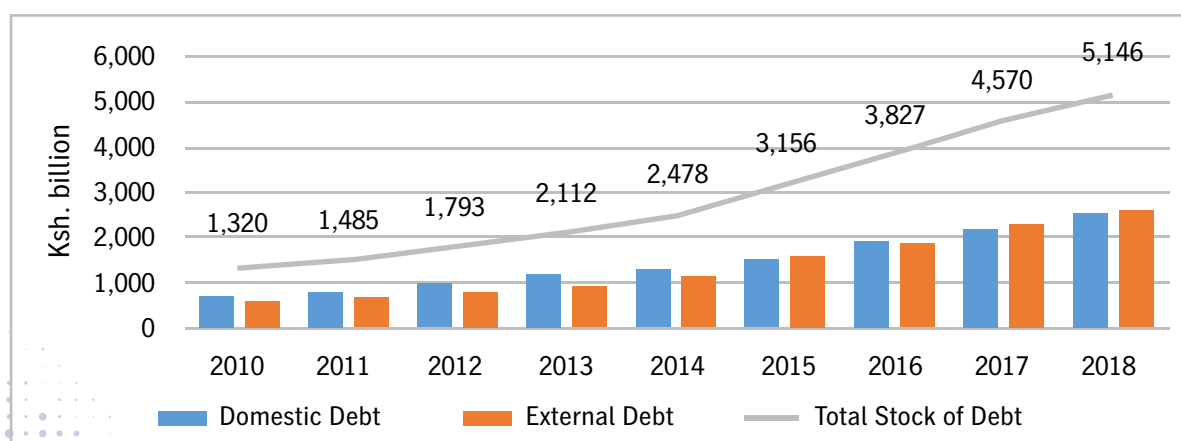
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19*
Total Expenditure	1,132.1	1,300.6	1,639.2	1,768.5	2,109.0	2,111.5	2,557.2
Of which							
(1) Recurrent Exp	816.4	752.5	860.6	1,014.1	1,178.5	1,283.4	1,505.3
As % of the total expenditure	72.11%	57.86%	52.50%	57.34%	55.88%	60.78%	58.86%
a) Wages and salaries as % of total recurrent exp.	34%	37%	35%	30%	29%	30%	30%
b) Interest Payment as % of total recurrent exp.	15%	18%	20%	21%	23%	25%	27%
(2) Development and net lending	306.0	319.3	509.7	454.0	610.0	485.7	666.2
As % of total expenditure	27.03%	24.55%	31.10%	25.67%	28.91%	23.00%	26.05%
(3) Transfer to counties	9.8	193.4	229.3	264.0	284.7	306.2	324.8
As % of the total expenditure	0.86%	14.87%	13.99%	14.93%	13.50%	14.50%	12.70%

Data source: The National Treasury- Provisional BOT June 2018- Published in QEBR June 2018

• Stock of public debt

According to Figure 2.8, the stock of public debt has been on an upward trend for the period under the review and increased sharply from the year 2014, rising from Ksh. 2.48 trillion to Ksh. 5.15 trillion by September 2018. The ratio between domestic and external debt is almost evenly distributed. Capping of interest rates in August 2016 appear to have majorly benefited the National Government as evidence by the increase in the stock of domestic debt from Ksh. 720 billion in 2010 to Ksh. 2.54 trillion as at September 2018.

Figure 2.8: Stock of public debt in Kenya: 2010- 2018

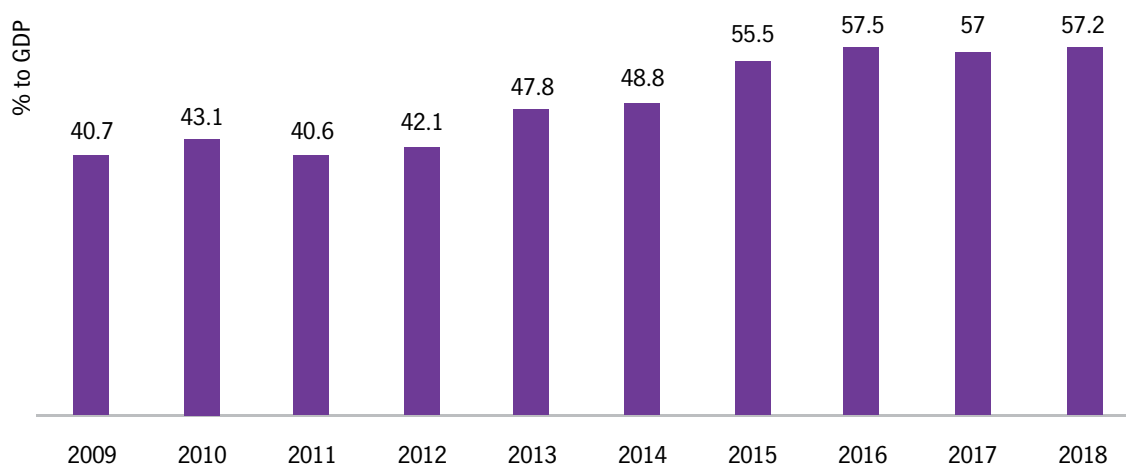


Data source: CBK. Note that data for 2018 is up to September

- **Debt-to-GDP ratio**

There are increasing concerns by the general public that the Kenyan debt is reaching unsustainable levels. Economists are yet to agree whether there is a threshold for debt-to-GDP ratio above which economic growth is compromised. Two influential papers by Reinhart and Rogoff (2010) and Reinhart, Reinhart and Rogoff (2012) are of the view that there is a threshold effect: a debt-to-GDP ratio above 90% for advanced economies and 60% for emerging markets has negative effect on economic growth. Others such as Herndon, Ash and Pollin (2013) hold that weak economic growth causes high debt rather than high debt causing depressed economic growth. Figure 2.9 shows that debt-to-GDP ratio for Kenya increased from 40.7% in 2009 to 57.2% in June 2018. This suggests that Kenya is 2.8% away from reaching the 60% threshold by Reinhart and Rogoff (2010) and above 50% debt ceiling required for macroeconomic convergence as per the EAC Monetary Union Protocol. According to the EAC Monetary Union Protocol, the Partner States should have attained a debt-to-GDP ratio of 50% before entering into a monetary union, by 2023.

Figure 2.9: Debt-to-GDP ratio for Kenya: 2009-June 2018



Data source: World Bank, 2018. Note that data for 2018 is up to June

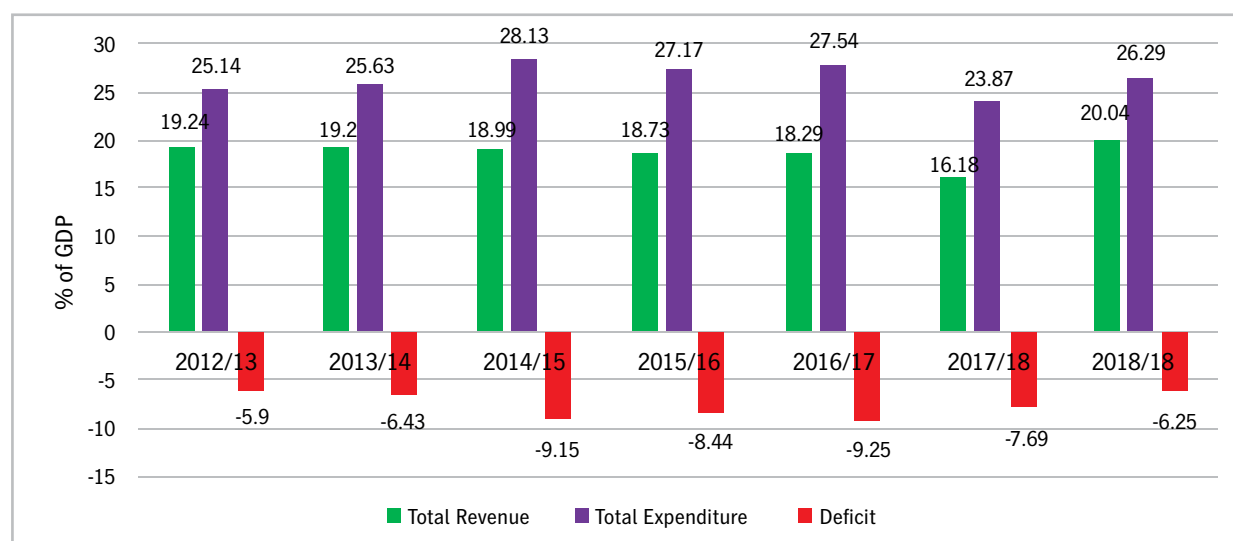
Even though there is no consensus on whether there is a debt-to-GDP threshold above which there is negative implication on economic growth, there are signs that indicate whether debt is burdensome to an economy. In February 2018, Kenya issued a second Eurobond to raise about US\$ 2 billion to finance development expenditure and to refinance some of the syndicated loans.⁸ Reinhart and Rogoff (2010) note “... countries that choose to rely excessively on short-term borrowing to fund growing debt levels are particularly vulnerable to crises in confidence that can provoke very sudden and “unexpected” financial crises”. p 578.

- **Fiscal deficit**

The EAC Monetary Union Protocol requires the EAC Partner States strive to attain and maintain for at least three consecutive years, a ceiling of fiscal deficit including grants of 3% of GDP. This has been a challenge for Kenya. Fiscal deficit has persistently been on an upward trend over the last five years from 5.9% in 2012/13 to 9.25% in 2016/17, and declined slightly to 7.69% in 2017/18 (Figure 2.10). Fiscal deficit is anticipated to be 6.25% in the 2018/19 financial year.

⁸For further reference, see: <http://www.treasury.go.ke/eurobond/Project%20Fahari.pdf>.

Figure 2.10: Fiscal deficit % of GDP, 2012/13 -2018/19



Data source: QEBR First Half FY 2017/18 and Statistical Annex 2017 Budget, National Treasury

* Denotes-estimate

i) Distribution of domestic credit

Access to credit particularly by the National Government and other public bodies has been rising since 2013, from about 20% in 2013 to 24% in 2017. On the other hand, credit to private sector slowed down by 6% from 78% in 2013 to 72% in 2017 (Table 2.6). Declining credit to the private sector has been attributed to several factors including the impact of liquidity shock in 2015/16; the impact of liquidation of the three commercial banks; the implementation of interest rate cap that came into effect September 2016; in ability of small banks to borrow in the interbank market and rise in non-performing loans (CBK, 2018). This notwithstanding, since the introduction of the interest rate cap, credit to the Government has increased significant thus crowding out important sectors of the economy including the manufacturing sector.

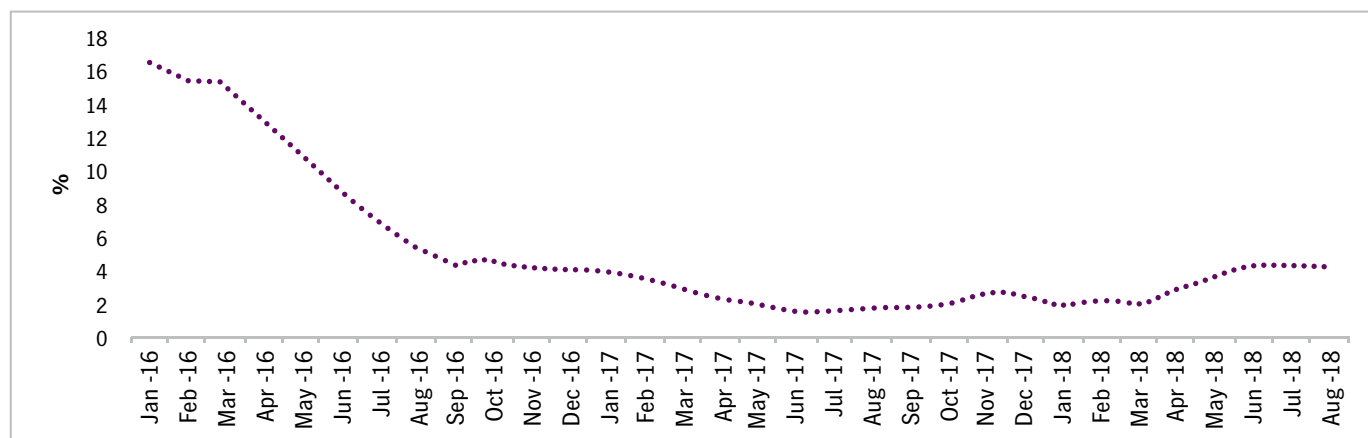
Table 2.6: Distribution of domestic credit, 2013-2017

	2013	2014	2015	2016	2017
Total Domestic credit (Ksh. million)	1,978,522	2,312,178	2,793,924	2,973,172	3,198,285
National Government	20.07%	16.41%	18.76%	19.94%	23.63%
Other Public bodies	2%	2.09%	2.33%	3.52%	3.51%
Private Sector	78%	81.50%	78.91%	76.54%	72.86%

Data source: KNBS, 2018a

Private sector credit from commercial banks is an important avenue for private investment in developing countries such as Kenya. Growth of credit to the private sector fell from its peak in 2016 at about 16% to its lowest of about 2% in June and July 2017 before it started to pick albeit sluggishly. According to the CBK report 2018, growth in banks' credit to the private sector improved from 1.5 % in June 2017 to 4.3% in August 2018. Even though credit to the private sector is picking up, the growth rate remains well below its historical average of about 19% (World Bank, 2018).

Figure 2.11: Growth of credit to the private sector, January 2016-August 2018



Data source: Central Bank of Kenya and World Bank (2018)

j) Non-performing loans in Kenya

The gross Non-Performing Loans (NPL) increased by 27.2% from Ksh. 234.6 billion in June 2017 to Ksh 298.4 billion in June 2018 (Table 2.7). Eight (8) out of the Eleven (11) economic sectors registered increased non-performing loans, which the Central Bank report attributes to: delayed payments by Government Agencies and private sector; business stagnation during and effect of prolonged electioneering period; and slow uptake of developed houses in the real estate sector. Tourist, restaurant and hotels, manufacturing, real estate and trade were the top 4 economic sectors with the highest non-performing loans with a record of 63.3% 62.8%, 48%, and 30.4% respectively. A rise in NPL indicates that businesses are facing cash-flow problems and therefore unable to meet their business obligations including repayment of debts.

Table 2.7: Kenya banking sector gross non-performing loans (Ksh Billion)

Economic Sectors	Jun-2017	Jun-2018	% change
Trade	67.5	88	30.4%
Manufacturing	31.7	51.6	62.8%
Real Estate	30	44.4	48.0%
Personal/Household	40.5	44.2	9.1%
Building and Construction	23.4	22.9	-2.1%
Transport and Communication	17.2	15.8	-8.1%
Agriculture	8.6	10.8	25.6%
Tourist, restaurant and Hotels	4.9	8	63.3%
Energy and Water	6.1	5.8	-4.9%
Financial Services	3.2	5.3	65.6%
Mining Quarrying	1.5	1.6	6.7%
Total	234.6	298.4	27.2%

Data Source: Central Bank of Kenya, 2018

k) Performance of the Nairobi Securities Exchange

The equities market is an important barometer of the economic wellbeing of a country. In 2018, the Nairobi Securities Exchange (NSE) market recorded a downward trend with NSE All-Share Index (NASI), NSE 25 and NSE 20, declining by 18.0%, 17.1% and 23.7%, respectively. This was attributed to declines in most large capitalization stocks. In addition, eight companies issued profit warning as compared to six companies in 2017. This is despite the robust economic growth rate of 5.7% recorded in 2018 (see Figure 2.1). Companies are required to issue profit warning if they project a more than 25% decline in profit year on year. The eight companies are: Deacons, UAP Holdings, Bamburi, Sameer Africa, HF Group, Britam Holding, KPLC and Sanlam.⁹ Further, two companies, namely Deacons¹⁰ and Athi River Mining (ARM) Cement were suspended from trading at the Nairobi Securities Exchange.¹¹

⁹<https://www.standardmedia.co.ke/article/2001308141/britam-joins-list-of-firms-in-profit-dip>

¹⁰Deacons(East Africa) was suspended for 40 days effective November 19,2018 following invocation of the Insolvency Act as the company ran into financial distress

¹¹ARM cement, suspension took effect 30th August 2018, following its placement under administration after it became insolvent and was unable to meet its obligations to creditors.

l) Ease of Doing Business

According to the World Bank's Ease of Doing Business Report released in 2018, Kenya, for the fourth consecutive time improved in the ease of doing business ranking. Kenya improved by 19 places to position 61 in 2018 compared to position 80 in 2017 (Table 2.8). According to the report, Kenya was ranked 4th in Africa, behind Mauritius (Rank 20), Rwanda (rank 29) and Morocco (rank 60). The doing business indicators that improved were registering property, getting credit, protecting minority investors, paying taxes, enforcing contracts and resolving insolvency. The indicators that recorded a decline include starting a business, dealing with construction permits, getting electricity and trading across borders.

Table 2.8: Ease of doing business indicators that improved versus those that decline for 2016/17 and 2017/18 period

	2016/17	2017/18	Change
Overall Rank	80	61	19
Starting a business	117	126	-9
Dealing with construction permits	124	128	-4
Getting electricity	71	75	-4
Registering property	125	122	3
Getting credit	29	8	21
Protecting minority investors	62	11	51
Paying taxes	92	91	1
Trading across borders	106	112	-6

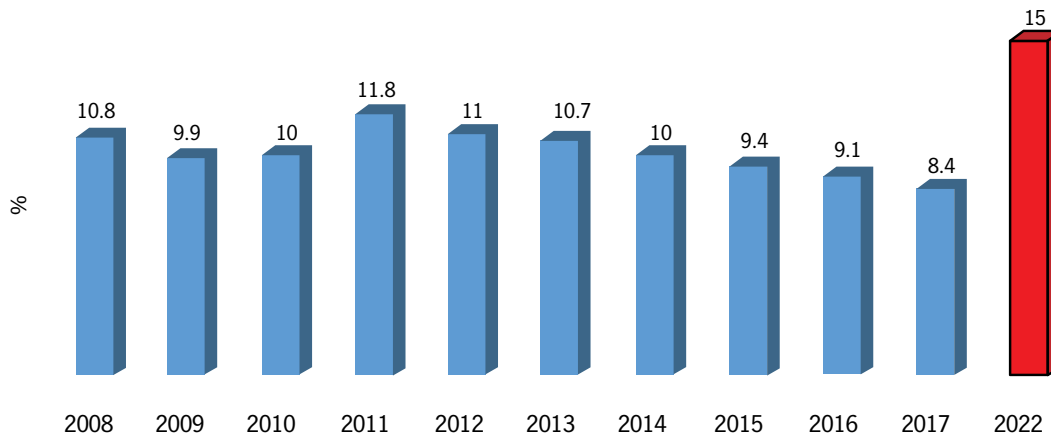
Data source: Doing Business Report, 2019

The Government under the MTP 3 targets to improve the rank from position 61 in 2018 to 45 by 2022. The focus for reforms will include enacting bills that affect company registration; putting in place online systems for business registration; linking the stamp duty collection with Kenya Revenue Authority (KRA) systems; simplifying the process of land registration, continuation of the automation/digitization of processes; reducing the time taken to connect a business to electricity and establishment a one-stop shop centre by Kenya Investment Authority to facilitate investors starting businesses and investing in the country.

3.1 Contribution to GDP and growth

The manufacturing sector’s contribution to GDP has averaged at 10% in the last seven years (2008 to 2014), and has been on a declining trend, contributing 8.4% to GDP in 2017 (Figure 3.1). It is apparent that instead of industrializing, Kenya is deindustrializing. This is because the share of the manufacturing sector (% of GDP) has been declining. According to Rodrik (2015), this is premature deindustrialization characterized by a shrinking manufacturing sector at lower levels of income than early industrializers. Therefore, developing countries such as Kenya are failing to experience industrialization where an economy transitions from agriculture, to manufacturing and eventually to the service industry (deindustrialization). Manufacturing growth has also been muted, for instance, the sector only grew by 0.2% in 2017. It is possible to reverse deindustrialization and low rates of growth through the Big 4 Agenda- the sector is expected to contribute 15% to GDP by 2022.

Figure 3.1: Manufacturing sector contribution to GDP, 2008- 2017



Data source: Economic KNBS, 2018a and Big 4 Agenda

3.2 Contribution to employment

According to the Kenya Integrated Household Budget Survey of 2015/2016, Kenya has an unemployment rate of 7.4%, which is more severe among youths aged between 20-24 years at 19.2% (KNBS, 2018a). Relative to other economic sectors, the manufacturing sector has the highest potential to generate additional output and create jobs. According to the Manufacturing Institute in the United States (US), \$1 worth of investment in the manufacturing sector, is \$1.89 added to the economy and for every one worker in manufacturing, four others are hired in other sectors.¹² Formal wage employment in private and public manufacturing grew by 0.95% and -0.38%, respectively in 2017 where approximately 303,300 were employed (Table 3.1). Informal employment is growing at a faster rate compared to formal employment, at 4.84% in 2017. Formal wage earnings including annual average wage registered a positive growth in the private manufacturing but negative in public manufacturing. Nonetheless, average annual wage in public manufacturing is higher than in the private manufacturing.

¹²For details, see: <http://www.nam.org/Newsroom/Facts-About-Manufacturing/>.

Table 3.1: Wage employment and earnings in the manufacturing: 2013-2017

	Sector	2013	2014	2015	2016	2017	% change 2016 & 2017
Formal wage employment (000)	Private	253.4	261.3	269	274.3	276.9	0.95
	Public	26	26.1	26.5	26.5	26.4	-0.38
Formal wage earnings employment (Ksh. Million)	Private	81,131.60	91,390.30	105,013.80	114,079.80	126,924.40	11.26
	Public	17,173.50	18,414.80	22,331.90	23,339.50	23,317.80	-0.09
Formal average annual wage per employee (Ksh)	Private	320,187.10	349,733.70	390,406.10	415,959.40	458,321.70	10.18
	Public	752,483.80	797,183.70	843,573.80	881,901.10	881,754.90	-0.02
Informal employment (000)		2,233.70	2,364.90	2,545.30	2,710.20	2,841.30	4.84

Data source: KNBS, 2018a

3.3 Manufacturing output

Value of output, intermediate consumption and value added in the manufacturing sector grew by 3.97%, 6.10% and -0.83% in 2017 (Table 3.2). It is quite surprising that there is a negative growth in value addition yet there was positive growth in intermediate consumption.

Table 3.2: Value of Output, and Intermediate Consumption and Value Added in the manufacturing sector (Ksh. billion)

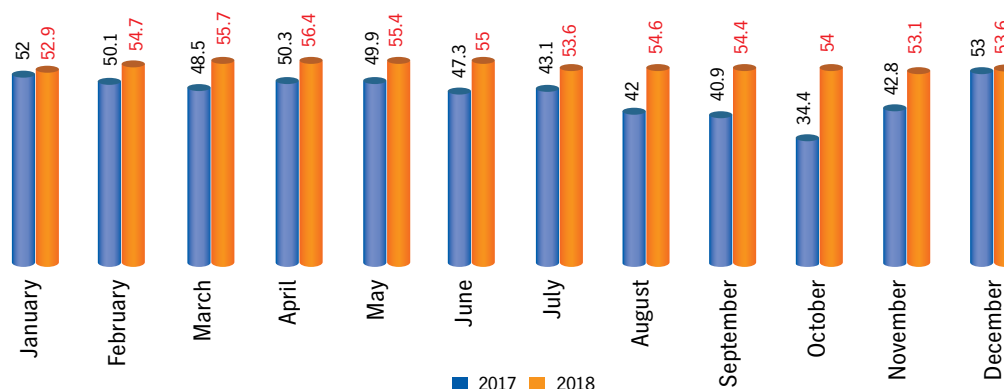
	2013	2014	2015	2016	2017	% change (2016-2017)
Value of output	1,737.70	1,820.37	1,977.17	2,120.72	2,204.81	3.97
Intermediate consumption	1,231.09	1,282.37	1,388.27	1,466.88	1,556.41	6.10
Value added	506.61	538.00	588.90	653.84	648.40	-0.83

Data source: KNBS, 2018

3.4 Purchasing Manager Index

The Purchasing Managers Index (PMI) is an indicator used to gauge the economic health of the private sector in which manufacturing sector activities/performance are monitored.¹³ The PMI is reported by Stanbic Bank Kenya and is based on five major indicators: new orders, inventory level, production, supplier deliveries and the employment environment.

Generally, the reduction in political uncertainty and subsequent rise in business confidence is evidenced in the improvement of PMI (Figure 3.1). The indicator ranges from a score of 0 to 100, with 50 declared neutral. Anything above 50 indicates that the activity level improved. 52 points were the lowest recorded in 2018 compared to 34.4 in 2017 while the highest recorded in the period under review was 56.4 points in April 2018. There is however room for improvement through the support of the Big 4 Agenda.

Figure 3.2: The purchasing managers' index for Kenya, 2017-2018

Data Source: The Markit & Stanbic Bank Kenya, 2018

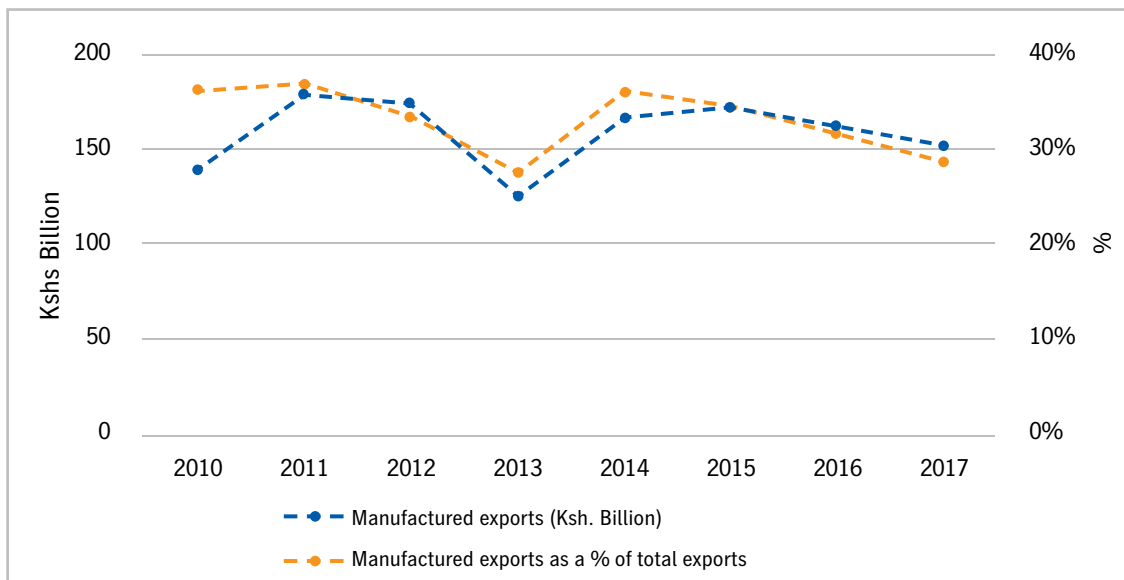
¹³See- <https://tradingeconomics.com/kenya/manufacturing-pmi>

3.5 Contribution to exports

Kenya's manufacturing industry is more advanced compared to those in the EAC region. Over the period under review, the performance of manufactured exports have been sluggish; Kenya exported Ksh. 151.4 billion worth of manufactured goods in 2017 compared to Ksh. 139.7 billion in 2010 (Figure 3.3). For the period, 2010-2017, manufactured goods as a share of total exports averaged 33% which is higher than 29% recorded in 2017. The value of manufactured goods have been on a declining trend from 2015-2017. A possible explanation is the declining exports into the EAC market (as shown in Table 2.3) - which is the main market for Kenya's manufactured goods.

The National Government seeks to boost exports and reverse the declining trend of manufactured exports through the National Export Development and Promotion Strategy (NEDPS). The Strategy that was launched in 2018 seeks to grow manufactured exports at an average of 31% per year over the period between 2018 to 2022. In the Strategy, the Government outlined the following sectors/sub-sectors of manufacturing industry as to priority: Food, Beverages and Tobacco; Textile and Apparels; Leather and Footwear; Metal and Allied; Chemical and Allied Industries; Pharmaceutical and Medical Equipment; Plastics; Light Engineering; Furniture; Motor vehicles and parts and accessories. One of the explanations for the "East Asian Miracle" was the active promotion of exports by the Government (World Bank, 1993).

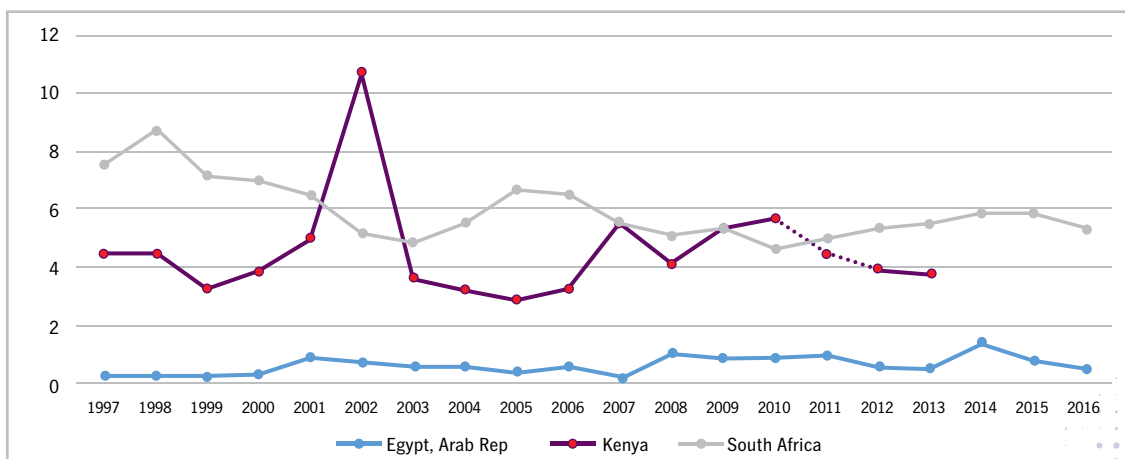
Figure 3.3: Manufactured products exports for Kenya: 2010-2017



Data source: Economic Survey, 2018

It is a stylized fact that countries that promote sophisticated exports tend to grow faster (Rodrik, 2007). Kenya's share of high-technology export is low and was about 3.8% in 2013 but it is not badly off compared to South Africa and Egypt (Figure 3.4).

Figure 3.4: High technology Exports (% of manufactured export) for selected countries, 1997-2016



Data source: World Development Indicators

3.6 Credit to the manufacturing sector

There is a mixed trend in terms of manufacturing projects that are approved for financing by financial institutions (Table 3.3). For instance, the number of approved projects were 549 in 2014 but declined to 293 in 2017. Majority of the projects are by KIE.

Table 3.3: Number of manufacturing projects approved by financial institutions

Institution	2013	2014	2015	2016	2017
Industrial Development Bank (IDB) limited	5	3	5	3	3
Development Bank of Kenya (DBK)	4	2	6	6	3
Kenya Industrial Estates (KIE) Limited	257	543	233	325	280
Industrial and Commercial Development Corporation (ICDC)	2	1	7	4	7
Commercial Banks *	...	...	...	...	...
Total	268	549	251	338	293

Data source: KNBS, 2018a

*Data not available

The main source of credit to the manufacturing sector is the commercial banks accounting for more than 99% of credit advanced to the sector (Table 3.4). KIE approved most of the projects (Table 3.3) but the amount allocated was relatively low (Table 3.4) indicating that majority of the projects were from Small and Medium Sized Enterprises. Allocation of credit by public financial institutions to the manufacturing sector is infinitesimal and this should change given the focus of the sector under the Big 4 Agenda.

Table 3.4: Amounts of credit advanced to the manufacturing sector by financial institutions (Ksh. Million)

Institution	Category	2013	2014	2015	2016	2017
Industrial Development Bank (IDB) limited	Public	339.1	74.2	252	129.8	200.1
Development Bank of Kenya (DBK)	Public	230	66.6	341	292.3	130.5
Kenya Industrial Estates (KIE) Limited	Public	104.5	194.3	120.8	165.3	181
Industrial and Commercial Development Corporation (ICDC)	Public	431.6	234	421.2	495.6	791
Sub-total		1105.2	569.1	1135	1083	1302.6
Commercial Banks	Private	181,457.10	237,355.80	289,727.80	274,725.40	310,502.90
Grand total		182,562.30	237,924.90	290,862.80	275,808.40	311,805.50
% of public sector credit to manufacturing		0.61	0.24	0.39	0.39	0.42
% of private sector credit to manufacturing		99.39	99.76	99.61	99.61	99.58

Data source: KNBS, 2018a

3.7 Performance of the Export Processing Zones

The Export Processing Zones (EPZs) is a strategy by the Kenyan Government to increase exports and is governed by EPZ Authority (EPZA), which was established in 1990. Majority of the investors in the EPZs are in the Textile and Apparel Sector and mainly export to the US under the African Growth and Opportunity Act (AGOA). The number of enterprises in the EPZ have stagnated since 2014, at 21 but the number of employees have increased and capital investments are almost constant for the period under review (Table 3.5). The EPZA may need to change tact to increase the number of EPZ firms and stock of capital investments.

Table 3.5: Selected performance indicators for EPZs in Kenya

	2013	2014	2015	2016	2017	% change
Number of enterprises	22	21	21	21	21	0.0
Number of employees	32,942	37,785	41,597	42,496	43,987	3.5
Capital investment (Ksh. Million)	13,465	15,051	15,708	15,300	14,096	-7.9

Data source: KNBS, 2018a

3.8 African Growth and Opportunity Act(AGOA)

The AGOA is a non-reciprocal trade preference arrangement by the US to eligible Sub-Saharan African (SSA) countries that allows duty free export of about 6,421 products (GOK, 2018). Majority of exports by Kenya to the US are manufactured and constituted 61.85% in 2017 with Textile and Apparels being the main beneficiary (about 60% of total exports in 2017) (Table 3.6). Exports of footwear to the US has been miniscule despite the huge potential that Kenya has courtesy of the vast Arid and Semi-Arid Lands (ASAL) where livestock keeping is the main economic activity. Table 3.6 also reveals high concentration of manufactured exports to the US despite the fact that Kenya is eligible to export 6,421 tariff lines.

Table 3.6: Kenya and US trade in manufactured goods (\$000)

Product category	Exports				Imports		
	2015	2016	2017	Jan-June 2018	2015	2016	2017
Chemicals and related products	5,913	5,069	5,136	5,635	26,035	50,421	45,115
Energy-related products	...	...	...	...	11,329	6,059	159
Textiles and apparel	369,059	341,052	339,021	165,352	14,094	12,504	11,808
Footwear	348	144	107	50	1,694	1,316	561
Machinery	452	308	285	633	34,355	33,273	43,041
Transportation equipment	396	758	539	287	661,374	106,199	163,840
Electronic products	1,052	2,664	1,065	22,388	49,268	63,667	34,132
Miscellaneous manufactures	8,647	7,644	7,605	2,712	5,879	7,077	3,095
Sub-Total	385,867	357,639	353,758	197,057	804,028	280,516	301,751
Total Kenya-US Trade	573,207	552,602	572,005	257,480	920,700	377,536	428,723
% of trade in exports	67.32	64.72	61.85	76.53	87.33	74.30	70.38

Data source: US Department of Commerce.



CHAPTER 4

PILLARS TO SUPPORT CLOSING THE GAP IN MANUFACTURING SECTOR FOR SHARED PROSPERITY



4.1 Pillar one: Competitiveness and level playing field for manufacturers in Kenya.

A competitive manufacturing industry is key for economic prosperity of any country through employment, wealth creation and consequently poverty reduction. Manufacturers in Kenya are operating in a globalized world with substantial reduction in barriers to international trade and have to contend with heightened competition in both the domestic and world markets. For manufacturers in Kenya to operate effectively and efficiently, a business environment that enhances competitiveness is of great necessity. For instance, in the process of industrialization, South Korea established a timetable for the attainment of international competitiveness in each of the industrial sector as one of the performance-based rule (World Bank, 1993). In order to increase the competitiveness of manufacturing enterprises, the following agendas should be pursued:

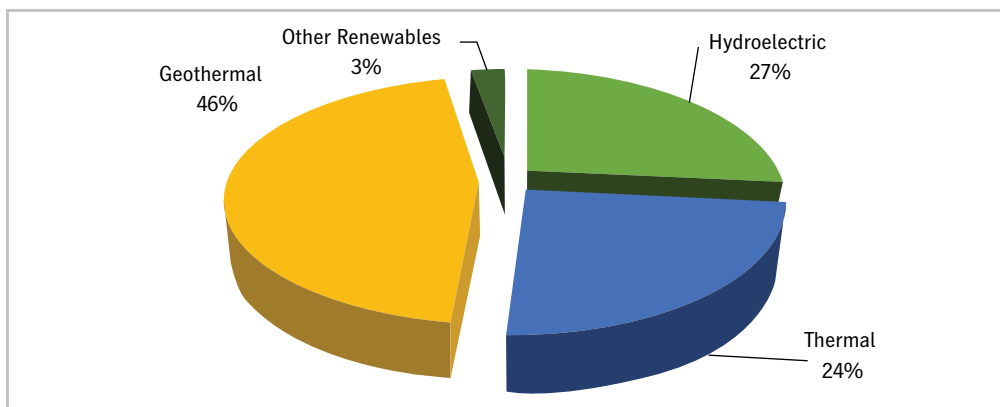


a) **Agenda one: Promote access to quality, affordable and reliable energy for manufacturing**

Energy is a key enabler under Vision 2030. Electricity is one of the main inputs in the manufacturing process with sectors such as metal and cement manufacturers being the highest consumers of electricity. It is estimated that in the Metal Sector, electricity accounts for 40-50% of total conversion cost (KAM, 2018). Almost all manufacturers have back-up generators indicating that outage of electricity and therefore reliability is of great concern. The World Bank estimates that back-up generators costs approximately \$0.40 per kilowatt-hour.¹⁴

On the supply side, the Government has done tremendous improvement in the generation of electricity for the last few years. According to KNBS (2018a), total electricity generation expanded by 3.0% to 10,359.9 GWh in 2017. Kenya is now among the few countries in the world that have successfully diversified electricity mix in favour of renewable sources. In 2017, 46%, 27% and 24% of electricity generated was from geothermal, hydroelectric and thermal sources, respectively (Figure 4.1).

Figure 4.1: Proportion of electricity generation by source, 2017

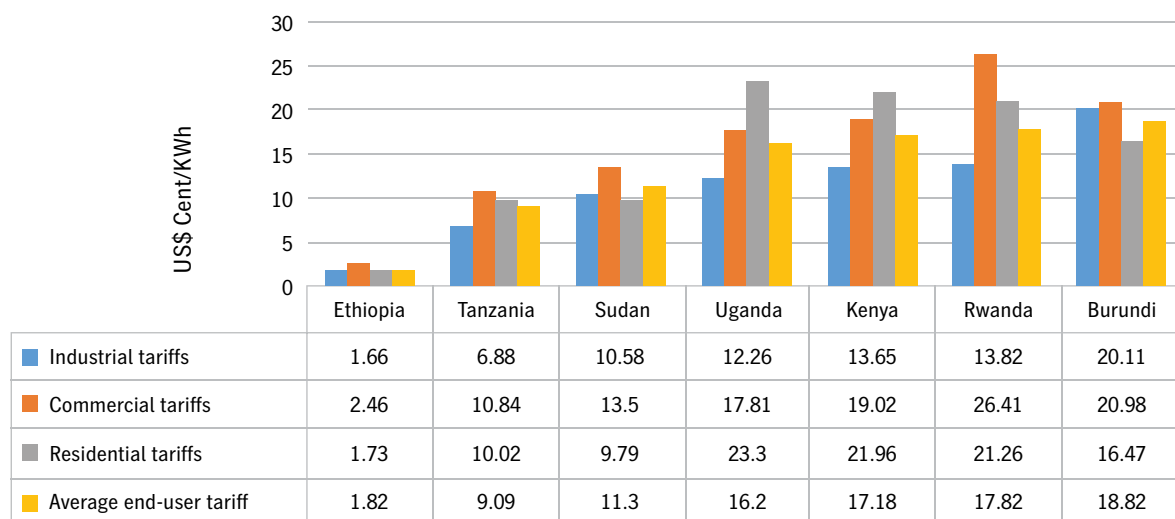


Data source: KNBS, 2018a

The anticipation has been that a shift towards renewable sources of energy, which is a cheaper source, will reduce tariff charges. However, this has not materialized and the cost of electricity has relatively remained high compared to other countries in the region (Figure 4.2). As of January 2018, average industrial tariff rate (kWh) for Kenya was 13.65 way higher than that of Ethiopia and Tanzania at 1.66 and 6.88, respectively. As of June 2018, the installed capacity stood at 2,669 MW while the peak demand at 1,802. This implies that Kenya is producing more electricity than it is consuming even at peak demand. The law of demand would dictate that when the supply is higher than demand, the price should decrease to restore equilibrium, but this is not the case in the electricity market and it is a puzzling outcome.

¹⁴See: http://siteresources.worldbank.org/INTAFRICA/Resources/aicd_factsheet_energy.pdf

Figure 4.2: Average end-user tariff for selected countries (US\$ cents/kWh) for January 2018



Source: AfDB, 2018

There are four possible reasons that could be militating against price reduction of electricity tariffs in Kenya. First, electricity lost during transmission has increased by 28% from 1507 GWh in 2013 to 1933 GWh in 2017 (KNBS, 2018a). This lost electricity is charged on consumers, therefore contributing to the increased charges. Second, contracts signed between Kenya Power and thermal Independent Power Producers (IPPs) do not help in reducing the cost of electricity. Kenya Power compensates them for fuel they use in operations. In 2017, Kenya Power paid Ksh. 22.1 billion for fuel costs, or 28% of its power purchase costs of Ksh. 78.9 billion, while foreign exchange costs, the cover for exchange rate fluctuations added 7.8 %.¹⁵ This cost is passed on to consumers hence ever increasing cost of power, rise in global oil prices notwithstanding. Third, the presence of profit oriented utility companies such as Kenya Power and Kenya Electricity Generating Company (KenGEN). And fourth, the multiple taxes, levies and charges to consumers across the board which account for about 30% of total cost of power hence pushing cost of electricity high.¹⁶

The Government is keen on addressing manufacturers' concerns of high cost of electricity. This is attested by the National Treasury's proposal to amend the Income Tax Act during 2018/2019 budget to provide a deduction of 30% corporate tax rebate on total electricity bill of manufacturers who register with the Rebate Program. This is subject to conditions that will be set by the Ministry of Energy. The Ministry of Energy, in conjunction with other Government Agencies and KAM are working to gazette the Electricity Cost Rebate Program before the end of January 2019. Of the 30% rebate, 20% will be non-conditional allowable expense while 10% rebate will be based on a set of Key Performance Indicators (KPI). The three KPIs include increase in electricity consumption, increase in capital investment and increase in sales revenue.

It is impossible for a country to be competitive and therefore industrialize in the absence of affordable, reliable, quality and sustainable electricity for the manufacturing industry. Besides the Rebate Program, the situation can be enhanced by undertaking the following actions:



- i) Remove all taxes, levies and charges on power bills for manufacturers to reduce the cost of power;
- ii) Make KenGen and Kenya Power profit neutral institutions;
- iii) Fast track enactment of the Energy Bill 2018, which seeks to resolve energy related issues in the country such as monopoly of distribution and allow for net metering feeding into national grid among others;
- iv) Allow generators of electricity to sell directly to bulk electricity consumers to enhance quality and reliability of electricity; and
- v) Review pre-condition for Time of Use Tariff to cover all night consumption

¹⁵See: <https://www.nation.co.ke/oped/opinion/Independent-power-producers-increase-cost-of-electricity-/440808-4541234-oonihm/index.html>

¹⁶See: <https://stima.regulusweb.com/>



b) Agenda two: Reduce transport and logistics costs

An efficient and effective transport and logistics system is a catalyst for rapid and sustained economic development (KNBS, 2018a). The Government has initiated a number of projects and programs in road, rail, maritime and non-motorized transport aimed at improving the logistics supply chain efficiency. Notable developments with regards Ports includes the completion and operationalization of phase one of the Second Container Terminal and the completion of the expansion of the Inland Container Depot Nairobi (ICDN). Other key milestones include the construction of the first three (3) berths of the Lamu Port (estimated to be 50% complete), expansion of gates and yard capacity and installation of the Integrated Port Security System among others. On rail, the Government successfully completed and launched phase one (Mombasa-Nairobi Standard Gauge Railway) –the SGR commercial freight service commenced in January, 2018. The SGR phase 2 B is on course for Nairobi–Naivasha route. The development and operationalization of Phase One of SGR was expected to:

- Reduced freight transport tariff charges from US\$0.20 per ton/kilometer on average to US\$0.083 per ton/kilometer;
- Reduced transit time of freight trains for instance from 30 hours on the average to less than 8 hours in the Mombasa –Nairobi section;
- An annual GDP growth of at least 1.5% during construction and subsequent;
- Increased rail transport share in the northern corridor hence reducing damage to the roads; and
- Reduced road accidents and damage to the road network.

One year evaluation of SGR by industrial manufacturers shows a grayish picture, save the reduction of haulage hours from Mombasa to Nairobi-estimated to be less than 8 hours. In fact the cost of moving a container from Mombasa to Nairobi under implementation of SGR has gone up albeit the implementation of the promotional freight rates by the Government through Kenya Railway, which ended 31st December 2018. According to a report by the Northern Corridor Transit and Transport Coordination Authority (2017), before the introduction of SGR freight services, the cost of moving a container from Mombasa to Nairobi on average was US\$ 850 and US\$ 1200 for 20ft and 40ft, respectively. However, even with promotional rate, cost of transport increased by approximately 55%% and 51%% for 20ft and 40ft containers respectively (Table 4.2). This has been largely attributed to poor coordination of Government Agencies that intervene during the clearance of cargo. This is compounded by huge payments of storage charges by Kenya Ports Authority (KPA), custom warehouse rents by the Kenya Revenue Authority and demurrage to shipping lines. In the 2018/19 Finance Bill, the Government has also introduced withholding tax (WHT) on demurrage paid to non-resident shipping lines at a rate of 20 per cent on the gross demurrage amount.

The promotional tariff came to an end on 31st December 2018 bringing to effect the full implementation of the approved tariff. Owing to the prevailing challenges in the industry, the transport cost from Mombasa to Nairobi and back is estimated to go up 159% and 144% for 20ft and 40% containers. This is a clear indication of a struggling industry that requires remedial measures.




Table 4.2: Estimated cost of transporting a container from Mombasa to Nairobi and Back

Item	Average Cost of transport during promotional period ¹⁸		Post-promotional period-Average Transport cost	
	20ft (US\$)	40FT(Upto 20 Tonnes (US\$))	20ft (US\$)	40FT(Upto 20 Tonnes (US\$))
Railage - Mombasa-Nairobi Full	250	350	500	700
KPA Storage (based on 10 days average clearing time)	180	360	200	400
Shipping Line add on	175	135	530	650
Re-marshalling charge	110	165	220	275
Transport to within 10km radius	250	300	250	300
Return of empty	100	100	100	100
Shunt from port to Shipping Line Depot	50	100	100	100
Average Demurrage Incurred	200	300	300	400
Total	1315	1810	2200	2925
Average Transport cost before the SGR (Up direction)	850	1200	850	1200
% increase	54.71%	50.83%	158.82%	143.75%

Source: KAM analysis

The Government has also made heavy investments to improve the roads status across the country.¹⁹ According to the Kenya Roads Board (KRB), 57% of country's total road network is currently in either good or fair shape, a slight improvement from 44% in 2009. Kenya has a total road network of about 230,000 kilometers. A World Bank report (2018) on Logistic Performance Index ranked Kenya's logistical attractiveness at position 63 in 2018, down from 42 in 2016, the last time the World Bank conducted the survey.²⁰ The index measures six core performance parameters namely; customs, infrastructure, international shipments, logistic quality and competence, tracking and tracing and timeliness. This implies that recent infrastructural developments and upgrades among them the SGR, dredging and automation of Mombasa port, and commissioning of major highways are yet to enhance efficiency in the logistic system suggesting that soft infrastructure issues cannot be overlooked. Some of the actions that can be undertaken to reduce the transport and logistics costs in Kenya include the following:

-  i) Establish a coordination framework for all Government agencies involved in clearance of cargo to reduce the duplication of intervention by various agencies- estimated to be about 26 of them in the supply chain;
- ii) Extend the implementation of promotional freight tariff to June 2019 and thereafter gradually increase at a rate of 5% after every 6 months;
- iii) Simplify and promote Authorized Economic Operator (AEO) accreditation processes to increase its uptake for enhanced import and export clearance processes;
- iv) Fast track development of Kenya Standard (Parameters) under the Pre-Verification for Conformity (PVOC) to be adopted and mutually recognized by all Government agencies; and
- v) Create framework between Kenya Urban Roads Authority (KURA) and County Government to enhance industrial road upgrading and Maintenance

 **c) Agenda three: Sustain the fight against illicit trade**
 International trade has grown in tandem with illicit trade. Illicit trade manifests itself in four major and interrelated ways: smuggling, counterfeiting/piracy/substandard goods, transit fraud/dumping and trade in prohibited goods/products.²² Illicit trade undermines the concept of a free and open market place, which is fundamental to improving competitiveness, increasing investment, creating jobs and improving the economic situations. The vice has continued to hurt the Kenyan economy for years in spite of the numerous legislative and regulatory efforts, in addition to the most recent intervention through Presidential directives to curb the vice.

¹⁸See: <https://www.businessdailyafrica.com/datahub/Tough-task-ahead-in-Kenya-s-drive-to-improve-its-roads/3815418-4767546-bw0a81/index.html>

¹⁹See: <https://lpi.worldbank.org/international/scorecard/line/254/C/KEN/2018>

²⁰<https://www.businessdailyafrica.com/datahub/Shipping-fraternity--shrugs-off-Kenya's-logistics/3815418-4722810-mb37tv/index.html>

²²See: <https://www.aca.go.ke/images/downloads/ENFORCEMENT-MANUAL-TO-COMBAT-ILLICIT-TRADE-IN-KENYA.pdf>

In 2008, KAM successfully advocated for the enactment of the Anti-Counterfeit Act, which formed the basis for the establishment of the Anti-Counterfeit Agency (ACA) in 2010 and outlawed production of counterfeits and enhanced protection of intellectual property rights (IPR). Despite this and many other initiatives, illicit trade remains a major concern, and has risen to alarming levels in recent years.

Through the MPA 2018, KAM proposed the establishment of an overarching institution to fight illicit trade after the industry got frustrated with the continued lack of interagency collaboration, coordination and cooperation among the key enforcement agencies and institutions mandated to fight against the various forms of illicit trade in Kenya.

On 10th May 2018, combating illicit trade was one the advocacy agenda presented to the President under the Presidential Round Table (PRT) with the Private Sector. One of the outcome of the PRT was the creation of a Multi-Agency Team (MAT), headed by Deputy Head of Public Service, Mr. Wanyama Musiambo. The team was composed of representatives from the ACA, Kenya Bureau of Standards (KEBS), Kenya Revenue Authority (KRA), Weights and Measures, National Police Service, National Intelligence Service (NIS), the Port/ Public Health, Pharmacy and Poisons Board among others. The core mandate of the team was to lead efforts towards the eradication of corruption and illicit trade including such products such as counterfeits, fake business stickers and malpractices (illegal practices) including dumping and entry of fake goods through all ports of entry.

The efforts of the MAT have yielded positive results in some manufacturing sectors including Food, Beverage and Tobacco sectors, who have reported on some percentage of recovery of their lost market share.²³ This is reflected in their increased sales over the period when the MAT scaled up its operations.

However, within the same period, new challenges have been reported by manufacturers as a result of MAT operations. Some of these challenges includes delays in clearance of industrial inputs, prolonged retesting of all good imported including industrial inputs like sugar and edible oils. The manufacturers have attributed all these challenges to the overall lack of Standing Operating Procedures (SOPs) to guide the different institutions that intervene in the clearance of cargo, including the MAT.

The obvious result of delays in the clearance of cargo has been unwarranted increase in the cost of doing business as a result of huge payments as storage fees, customs and warehouse rents and demurrage charges to shipping lines. Some manufacturers had to shut down some of their production lines due to lack of raw materials.

A KAM 2017 study on the Intellectual Property Rights (IPR) within the EAC identified lack of harmonized policy and legislation against counterfeit as the greatest bottleneck to curb illicit trade. There is no IPR policy framework within the EAC and hence no mutual recognition of IPRs across the EAC Partner States. In addition, there is no formal mechanism of bringing together the IP offices across the EAC Partner States for purpose of discussing common issues of concern. This has largely affected enforcement efforts in the fight against the illicit trade across the borders. KAM is advocating for the harmonization of IPR related laws in EAC as well as the creation of a centralized database for registered trademarks in order to curb the vice. Some of the actions that can be taken to enhance and sustain the fight against illicit trade at national and regional levels include the following:



- i. Fast track the implementation of the Trade Remedies Act (2017), which seeks to deal with unfair trade practices such as dumping, prohibited subsidies and import surges.
- ii. Fast track the development of Standard Operating Procedures (SOPs) for Multi-Agency-Team dedicated to the fight against illicit trade.
- iii. Fast track development of National Strategy for combating illicit trade in Kenya.
- iv. Harmonize EAC intellectual Property Rights (IPR) related legal framework in order to allow mutual recognition across the EAC Partner States.
- v. Fast track the process of enactment of the EAC Anti Counterfeit Bill.

²³ See: <http://kam.co.ke/the-fight-against-illicit-trade-is-bearing-fruit-and-should-be-sustained/>

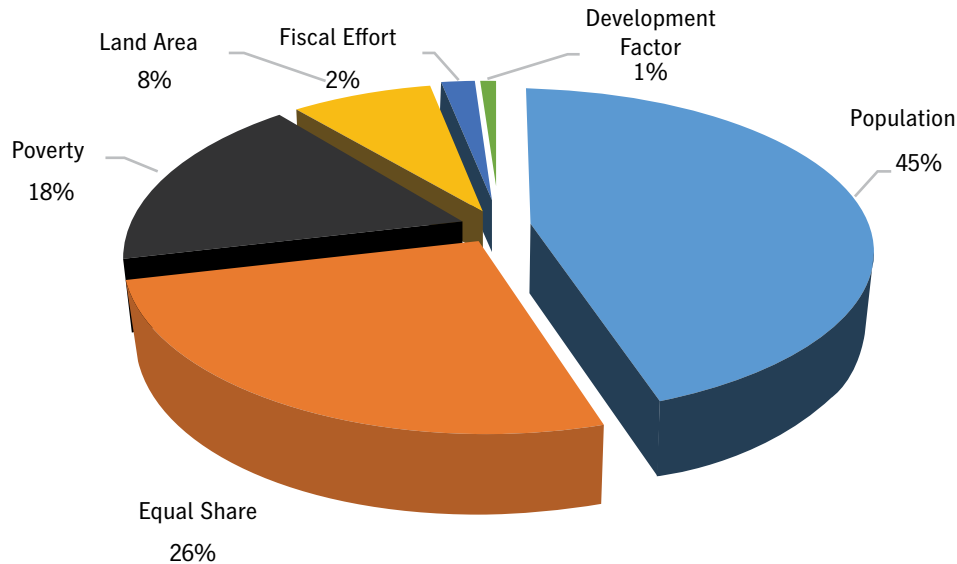


d) **Agenda Four: Address multiple charges, fees and levies by Counties**

There are three main sources of revenue for County Governments:

- **Equitable share**, which should be at least 15% of national revenue raised by the National Government and shared equitably by all Counties. It is the responsibility of the Commission on Revenue Allocation (CRA) to create the basis (formula) for revenue sharing among the Counties. The current formula, parameters and associated weights is presented in Figure 4.3.

Figure 4.3: Revenue sharing formula among counties



Data source: Commission on Revenue Allocation 2016

- **Conditional grants**, which involves additional revenue to Counties by the National Government, conditionally or unconditionally.
- **Own source revenue**, Article 209 of the Constitution allows Counties to collect revenue from various sources such as property rates, entertainment tax and service charges.

The challenge associated with multiple charges, fees and levies by County Governments can be traced to the revenue sharing formula. The fiscal effort parameter is not only used to encourage counties to manage their fiscal resources prudently and optimize revenue-raising potential but also to raise own resources. The ability to raise own resources as one of the proxies to measure fiscal effort has been attributed to as the major reason why Counties have introduced various levies, charges and fees, which are not linked to services including distribution fees, vehicle branding fees among others. Counties collect fees and charges without proffering the requisite services to business (Were,2016). While acknowledging the role of County Government in growth and development of the manufacturing sector, the challenge of multiple charges, fees and levies can be remedied through the following actions:



- Review the fiscal effort parameter in the revenue sharing formula to discourage counties from developing no-service linked fees, charges and levies.
- Fast track finalization of County Government Revenue Raising Regulation Process Bill (2018) that provides for a regulation of the process of introducing new taxes, fees and charges by county Governments.



e) **Agenda Five: Enhanced cash flow for manufacturers**

Cash flow is the lifeblood of any business enterprise including the manufacturing industry. There are two key tax policies that have continued to adversely affect the cash flow of manufacturers: Value Added Tax (VAT) export refund formula and withholding VAT (WHVAT). These two VAT issues have the following implications

on manufacturers:

- The 6% WHVAT is effectively an additional tax on manufacturers, notwithstanding additional administrative costs that comes with it.
- There is currently no provision in law allowing manufacturers to claim 6% of the WHVAT.

- VAT export refund formula is a disincentive to exports because as manufacturers increase volume of exports, VAT to be claimed increases.
- Paperwork associated with VAT export refund formula and WHVAT increases administrative burden and consequently adds to the cost of production.

There are usually delays when taxpayers make refund claims. In practice, VAT refunds are expected to be paid promptly by KRA following receipt of VAT returns that give rise to VAT excess credit. In most developed countries, refunds are usually made within four (4) weeks (KIPPRA, 2018).²⁴ However, in most developing countries like Kenya, the processing of refund claims takes several months and sometimes more than a year. Further, Kenya doesn't have statutory deadline for payment of VAT refunds, and tax payers are not entitled to interest for delayed refunds (as is the case in South Africa, Singapore and Tanzania).²⁵ However, it is expected that VAT refunds are made at the earliest time possible from the time the claim is registered to the time the payment is made.

According to the KRA Service Charter, refunds should be paid within a period of 60-90 days, but this period is surpassed most of the times. Some of the reasons for delays include the requirement that money must be remitted to the Exchequer before it is released by the National Treasury, to be paid back to the claimant through KRA. Due to numerous fraudulent claims, intense verification of the claims before approving is necessary. KRA estimates that at least 25% of the claims are rejected due to fraud. According to a survey by KAM survey in August 2018, 23 manufacturers were owed about Ksh 3.6 billion by the end of June 2018 (Table 4.3).

Table 4.3: Outstanding refunds owed to Manufacturers by end June 2018

Item	Amount (Ksh)
VAT Export Refund	908,555,133.65
WHVAT	2,683,961,008.42
Total	3,592,516,142.07

Data source: KAM internal survey, 2018

The Finance Act 2017, amending the provisions of the VAT Act No.35 of 2013 provides that “A registered person who makes taxable supplies at both the general rate and zero rate, shall only be entitled to a refund arising from making zero rated supplies” The Act further proposes the use of a formula: $R=Z/T \times e$ where R is the amount to be refunded, Z is the total value of zero rated supplies, T is the total Value of taxable supplies and e is excess input tax for the amount of supply.

The challenges with the formula are:

- It ignores variations created by product mix/realization difference. Normally, exports are at international prices and often lower than domestic prices
- Due to variations between import quantities covering three to four months, the input VAT will be higher than output (based on monthly sales)
- The formula limits refundable amount as credit is limited to monthly sales apportionments.



Cash flow challenges to manufacturers can be alleviated by implementing the following actions:

- Review the VAT refund formula; and
- Review Paragraph 8 of the VAT regulation (2013) to allow taxpayers claim VAT refund in full in case where there is excess input arising from both Zero rated and standard rated supplies.



f) **Agenda six: Lower the cost of imported industrial inputs**

Kenya is a net importer of raw materials and intermediate inputs for processing. For instance, 98% of raw materials used by manufacturers in the Chemical and Allied Sector are imported (KAM, 2018c). High cost of industrial inputs leads to high prices of locally manufactured products rendering them uncompetitive in the domestic, regional and international markets. Two miscellaneous levies, Import Declaration Fees (IDF) of 2.0% and Railway Development Levy (RDL) of 1.5% combined account for a burden of 3.5% of Cost, Insurance and Freight (CIF) import value, the highest burden in the region. In order to reduce the cost of imported industrial inputs for manufacturers and improve the competitiveness of manufactured goods especially in the EAC region, the following actions should be undertaken:

²⁴See: <http://kippra.or.ke/vat-refund-structure-in-kenya-and-its-challenges/>

²⁵See: <http://www.tra.go.tz/index.php/vat-refund>



- i. Zero rate Imported Declarations Fee (IDF) for industrial inputs for bonafide manufacturers or consider refund or waiver of IDF based on the % of exports by applying the following formula:
*Refund of IDF = Total IDF Fees paid * % of export sale*
- ii. Zero rate Railway Development Levy (RDL) for bonafide manufacturers or refund or waiver of RDL based on the % of exports:
*Refund of RDL = Total RDL paid * % of export sales.*
- iii. Fast track the EAC CET review that seeks to make industrial inputs affordable.



g) Agenda seven: Incentivize prompt payment culture

Money is the bloodline of any economy and for business to thrive and therefore, its steady flow and circulation are critical.²⁶ It impacts on business productivity, profitability and trust. There have been increasing cases of delayed payments by both the National and County Governments to numerous businesses countrywide. This is also becoming widespread in the private sector especially on the retail sector—a key gateway for manufactured goods. Delayed payment impedes effective circulation of money in the local economy, adding excessive strain to business that are already suffering from other local and global market factors. The vice poses a threat to the realization of the Vision 2030 goal to grow a vibrant manufactured sector as well as Government’s aspiration to have manufacturing sector contribute 15% of GDP by 2022 under the Big 4 Agenda. An audit report by the Auditor General in 2018 indicated that pending bills by the National Governments had reached Ksh. 100 billion owed to various suppliers and entities while for Counties for financial year 2016/17 amounted to Ksh. 35.8 billion.²⁷

In 2017, the Ministry of Industry, Trade and Cooperative stakeholders led by the Kenya Association of Manufacturers (KAM), conducted a study²⁸ on regulations for prompt payment and a Code of Practice to help to ‘*stop the bleeding*’. Recommendations included a review of the payment period to a shorter time and establishment of a legal framework to curb the culture of late payment, as per international best practices.

Globally, nations have developed and adopted policies and regulations to govern and manage the vice in both the public and private spheres. For instance, the European Union adopted directive 2011/7/EU, which provides for statutory interest as a redress for the aggrieved party in the supplier agreement. A supplier is entitled to interest from the day after the date or payment period. In order to address the culture of late payment, the following should be undertaken:



- i) Expedite finalization of regulations under the Public Procurement and Asset Disposal Act to address payment issues and penalties on late payment by Government.
- ii) Expedite finalization and adoption of draft retail sector regulation that seeks to address late payments of upto 4 to 6 month’s lags.



h) Agenda Eight: Avail long term financing to Manufacturers

Manufacturers require finances for investment and working capital. The current financial market in Kenya does not provide a long term financial product that manufactures require. Access to finance has consistently been cited as a problematic issue for manufacturers and cuts across all sectors (KAM, 2018). The Government has intervened in the credit market through its own financial institutions such as DBK, KIE and ICDC, but access to long-term finance and finance to the perceived high-risk sectors such as the SMEs remains a major challenge. Credit advanced by these public financial institutions is too low to be impactful, which averages about 0.5% of the total advanced to the manufacturing sector (see Table 3.4). What has been available to Kenya’s manufacturing industries has largely consisted in mainly short- and medium-terms loans (IMF, 2005; 2010); the time horizon of these is insufficient to support industrial development, which requires long-term financing. SMEs also lack collateral for use to guarantee loans. Some of the actions that can be undertaken to avail long-term finances to manufacturers include:



- i. Fast track finalization of the Movable Property Security Right Act, 2017 that provides for creation of electronic collateral registry for use by Kenyan Banks;
- ii. Incentivize saving institutions and pension funds to invest in the manufacturing sector.

²⁶See: <https://www.nation.co.ke/news/Govt-staring-at-crisis-over-Sh100bn-bills/1056-4698952-tp0ovn/index.html>.

²⁷See: http://www.trade.go.ke/sites/default/files/Study%20on%20Kenya%20Retail%20Trade%20Sector%20Prompt%20Payment%2C%20June%202017_0.pdf.

²⁸See: http://www.trade.go.ke/sites/default/files/Study%20on%20Kenya%20Retail%20Trade%20Sector%20Prompt%20Payment%2C%20June%202017_0.pdf.



4.2 Pillar Two: Enhance market access

Markets are central in the development of the manufacturing sector. It is for this reason that Kenya maintains an open trade policy. As the Government is looking into spurring economic growth and development through the Big Four (4) Agenda in which manufacturing sector is priority sector for investment, market expansion is inevitable. Market access dynamics for manufactured goods pertain to access to local, regional and global markets. Regional and global markets are crucial in overcoming limitations of small domestic markets and achieving economies of scale by taking advantage of opportunities in other markets.



a) Agenda one: Enhance Local Market Access

Kenya's manufacturing base has increased over the years and continues to provide Kenyans with a variety of goods and services. In order to grow the manufacturing sector, there is need for increased purchase of locally produced goods by both the Public and Private sectors. KAM Sector Deep Dive Report released in 2018 revealed that all 14 KAM sectors have limited access to Government opportunities and preference has been to foreign and imported goods and services.²⁹

In 2017, the Ministry of Industry, Trade and Cooperatives (MoITC) launched the Buy Kenya Build Kenya (BKBK) strategy whose aim is to encourage Kenyans to consume locally produced goods and services in order to support the domestic economy. The strategy encourages local production processes to pay special attention to local content and value addition requirement to enhance local market access for locally produced goods and services. In order to widen the local market access for locally manufactured produced goods, the following actions are proposed:



- i) Fast track finalization of the Public Procurement and Asset Disposal (PPAD) Regulations on provision of preference and reservation for locally manufactured goods and services;
- ii) Follow up on adherence to Executive Order on "Procurement of Public Goods, Work and Services by Public Entities" and recommend remedial measures in case of non-compliance; and
- iii) Introduce local certificate of origin for authenticity under BKBK strategy implementation.



b) Agenda two: Promote Regional Market Access

Regional markets of the EAC and COMESA are the main export destinations for manufactured goods. As indicated in Table 2.3, exports to the EAC are on a declining trend mainly because of increased Non-Tariff Barriers (NTBs) especially in relation to Tanzania and Uganda. Some of the NTBs include cumbersome and numerous customs documentation and administrative procedures; non-recognition of the certificates of origin; varying standards and stringent application of Sanitary and Phytosanitary (SPS) requirements; delays at border crossing, road blocks, weighbridges, police checks and attendant costs; un-harmonized transit charges and procedures.

Another factor constraining trade in the EAC is that the current Common External Tariff (CET) is outdated in the sense that the three (3) bands tariff structure is not flexible enough to allow different levels of manufacturing value add to take place due to limited tariff differentials to attract investments along the value chain of various sectors. The current CET structure has been in place since 2005. It is important to note that the level of industrialization and diversification of products has changed more than 10 years down the line therefore, there is need to review the EAC CET structure in terms of tariff bands based on sectors supply value chain. Partner States have shown capabilities of producing some of the products and thus creating another level of value chain and products.

Market opportunities for manufactured goods are set to expand under the Tripartite Free Trade Area (TFTA), which comprises of EAC, COMESA and SADC as negotiations on Tripartite Free Trade Area are expected to be concluded by April 2019. Key to the conclusion of the Tripartite Free Trade Area are the negotiations on the Tripartite list Rules of Origin which has seen 78 Chapters out of 96 Chapters (81.25%) agreed upon by Member States. Kenya is also party to the Africa Continental Free Trade Area (AfCFTA), which offers 1.3 billion people market and GDP of Ksh. 340 trillion. Kenya ratified the agreement on 10th May 2018. As of January 2019, 18 countries out of the required 22 to make the agreement enter force have ratified the agreement. These are Chad, Congo, Cote d'Ivoire, Djibouti, Eswatini, Ghana,

"My administration will continue to push the Buy Kenya Build Kenya philosophy, I expect all Kenyans to support this,"

H.E President Uhuru Kenyatta,
CGH President and Commander
in Chief of the Defense Forces of
the Republic of Kenya

-12th December, 2018

²⁹Open: <http://kam.co.ke/kam/wp-content/uploads/2018/10/KAM-Manufacturing-Deep-Dive-Report-2018.pdf>.

Guinea, Kenya, Mali, Mauritania, Namibia, Niger, Rwanda, Senegal, Sierra Leone, South Africa, Togo and Uganda.

Some of the actions that the Government can take to enhance market access for Kenyan products in the region include the following:



- i) Develop framework for prompt resolution of reported NTBs through bilateral initiatives between Kenya the EAC Partner states and other regional States outside the EAC;
- ii) Fast track finalization of the EAC CET review to promote value addition and industrialization;
- iii) Fast track the finalization of the NTB Act amendments and development of the regulations; and
- iv) Fast track the conclusion of TFTA and AfCFTA negotiations



c) Agenda Three: Diversify International Market Access

In terms of international market access, Kenya is party to preferential market access agreement such as AGOA with the US and Economic Partnership Agreement (EPAs) with the European Union (EU). Leveraging on this market can help Kenya bridge the widening trade balance (as shown in figure 2.5). The AGOA, which was renewed in 2015 and is set to expire in 2025, has immensely benefited Kenya. Kenya is the leading exporter of Textiles and Apparels in USA (see Table 3.6).

Kenya signed the Economic Partnership Agreement (EPA) with EU on 31st August 2016 and subsequently ratified the EPA on 20th September 2016. The main export product to the EU under EPA includes the flowers, horticulture and traditional exports of coffee and tea. There exists opportunity for Kenya to exploit market potential in the 28 EU member States, beyond traditional destination markets of Netherland, Britain, German, Belgium and Italy and diversify into manufactured goods since Kenya can export all goods duty-free-quota-free except arms. Kenya should broaden the export base using the flexible Rules of Origin that were negotiated under the EPA. There also exists great possibilities for exports in countries such as India and Canada.

Further, the Government developed and launched various strategic documents that aimed at bolstering Kenyan exports. In 2017, the Government launched the National Trade Policy which to seeks to transform Kenya into a competitive export-led economy. In addition, in 2018, the Government launched the National Export Development and Promotion Strategy (NEDPS) that seeks to reverse the downward trend of export performance through targeted sectoral export growth, and value chain approach, to ensure direct link of value chains to target destination markets. In 2018, the Kenya National Africa Growth and Opportunity Act (AGOA) strategy and action (2018 – 2023) was launched. It provides strategies and actions for increasing exports to the US, informed by an analysis of identified priority sectors. International market access can therefore be enhanced through implementation of the following actions:



- i) Strategically implement/operationalize various trade agreements to benefit local manufacturers;
- ii) Implement the 5 strategic objectives of the manufacturing chapter of the National Export Development and Promotion Strategy (NEPDS) namely; establishment of data base of manufacturing sector exporters and exporters support system for enhanced production and export of manufactured exports; development of enabling business environment for target manufactured products to ensure their competitiveness in destination market; promotion of production of manufactured products in all NEPDS focal sub-sectors for target export markets; promotion of market access of all target manufactured products in the identified destination market and resolving non-tariff barriers that Kenyan manufactured products face in the domestic and in destination markets.
- iii) Negotiate market access agreements with other countries with huge trade imbalance against Kenya such as India and Canada; and
- iv) Development of a framework for disseminating manufacturing market intelligence through the Kenya trade portal.



4.3 Pillar Three -Pro-industry policy and institutional framework

Industrialisation is essential if Kenya is to foster structural changes and translates its growth rate into significant social development.³⁰ Promoting structural changes hinges on sound industrial policies and selective Government interventions. Creation of a healthy manufacturing ecosystem requires a sound policy, regulatory and institutional framework. Kenya's manufacturing sector stagnated for long and can be partly attributed to poor and disparate policies and regulations. Sound policies will foster forward and backward linkages, dynamic economies of scale, innovation and technology diffusion and positive spillover effects within and across sectors.



a) **Agenda one: Ensure predictable and stable industrial policies development through industry consultation**

It is recognized that private sector development is a crucial factor for economic growth and development and that it cannot thrive under conditions of uncertainty. Despite this recognition, the Government and affiliated institutions have in the recent past continued to make policy pronouncements on different issues, from time to time, and in some instances, without industry stakeholder engagements. For example, minimum wage increment pronouncement done every year on 1st May and the recent ban of logging of timber. Such policy interventions are very disruptive to businesses. To guarantee sound, predictable and stable industry policy and regulation directions, the following actions can be undertaken:



- i) Gazette the proposed Investment Council to be chaired by The President that seeks to harmonize policy decision affecting manufacturing sector
- ii) Ensure formulation of overarching policies before an enactment of laws
- iii) Fast track finalization of Public Participation Bill (2018) that seeks to provide national framework for public participation; to promote transparency and accountability in governance processes.



b) **Agenda two: Ensure certainty and predictability of tax policies**

Certainty and predictability are key canons of taxation. Certainty requires that the amount to be paid by a taxpayer ought to be certain and not arbitrary. This is essential for business planning as business entities prefer to plan cost in advance, including tax liabilities. Predictable tax system makes business planning easy. Although tax system changes from time to time due to changes in the local economy, public participation as provided for in the Constitution and Public Financial Management (PFM) Act, 2012, with adequate lead-time should always be an important consideration before new taxes are imposed. In 2018, there was a proliferation of new tax proposals with little or no consultation with the public. Some of these proposals include excise tax of 0.05% of the amount transferred by banks; excise tax of Ksh. 20 per kg for confectioneries; 16% VAT on agricultural pest control products, just to mention a few. An indication of minimal stakeholder engagement when making new tax proposals is that aggrieved taxpayers seek Court intervention.

Certainty and predictability of tax policies can be enhanced by undertaking the following:



- Undertake stakeholder engagement in advance before new tax proposal are embedded in finance bill.



c) **Agenda three: Ensure National policy coherence for the manufacturing sector.**

There have been many policy initiatives aimed at propping up the manufacturing industry in Kenya and key ones include Vision 2030, Kenya Industrial Transformation Programme (KITP), and the Big 4 Agenda.

³⁰Kenya's vision 2030 seeks to transform Kenya into an industrialised middle income country providing a high quality of life to all its citizens by the year 2030.

Vision 2030

Vision 2030 is a long-term development strategy launched in 2008, which seeks to transform Kenya to a middle-income country by 2030. It is hinged on three pillars: Economic, Social and Political. Manufacturing sector, which is under the economic pillar, is expected to support social economic development through job creation, wealth generation and attracting foreign direct investment. The development of industrial and manufacturing zones in eight regions and development of SME industrial parks are identified as the two flagship projects to support the manufacturing sector. Under Vision 2030, agro processing, meat and fish processing are emphasized. Five year Medium-Term Plan (MTPs) are used in its implementation. Flagship programmes under the MPT 3 (2018-2022) include:

- **Ease of doing business programme:** The Government aims to improve Ease of Doing Business ranking from position 80 in 2017 to 45 by 2022.
- **Industrial Clusters programme,** aimed at increasing investments in the textile and apparel industries.
- **Agro-food processing programme,** which will involve value addition in agricultural, fisheries and livestock. Targeted products will include tea, coffee, nuts, legumes, cereals, fruits, vegetables, roots and tubers, animal feeds, dairy and meat.
- **Special Economic Zones (SEZ) programme,** which will involve resettling 1,500 squatters to pave way for the development of Dongo Kundu SEZ in Mombasa and acquisition of 30,000 acres of land for the development of infrastructure facilities and locating 400 factories in the Naivasha industrial park. The SEZ Authority will also roll-out industrial parks and zones and develop world class infrastructure facilities at Athi River Industrial Zones.
- **Industrial and Small and Medium Enterprises (SMEs) parks programme:** The National and County Governments in conjunction with private sector will collaborate in identification of land, infrastructure development and management of SMEs and industrial parks.
- **Micro, Small and Medium Enterprises (MSMEs) development programme:** This will include inculcation of entrepreneurial culture and skills development; development of Micro and Small Enterprises Centres of Excellence (MSE COE); provision of worksites; incubation, innovation and technology transfer; provision of financing; productivity and promotion of quality improvement of MSMEs products; intellectual property right registration; and branding and market access to MSMEs products. The One-Village-One-Product initiative as one of the strategies for promotion of value addition to local resources will be implemented in partnership with the county Governments.
- **Manufacture of industrial and agro-processing machinery, equipment, parts and tools programme:** This will involve facilitating establishment of a transformer manufacturing facility; manufacture of cement media balls; manufacture of sugar rollers; and manufacture of agro-processing machinery and equipment.
- **Manufacture of electrical products and electronics programme:** This will involve manufacturing of tools and accessories, tablets, laptops and other electronic equipment to support the Digital Learning Programme (DLP).
- **Automotive parts, motorcycles, components and auto-parts programme:** This will involve production of automotive parts and components to lay the foundation for a globally competitive steel production industry and support establishment of an automotive industry in Kenya.
- **Iron and steel programme:** The project will support import substitution worth Ksh.26 billion. The implementation of this project will be undertaken through the Numerical Machining Complex (NMC) which has been identified as a focal point for promoting development of the iron and steel industry.
- **Accreditation and standards infrastructure programme:** The programme will involve setting up of 135 Conformity Assessment Bodies (CABs) by 2022, aimed at improving compliance of products to standards in the market.
- **Other programmes and Projects will include:** Skills development and transformation of KITI to a Centre of Excellence; and Oil, gas and mineral processing.

Kenya Industrial Transformation Programme (KITP)

The Ministry of Industry, Trade and Cooperatives launched the KITP in 2015 to guide Kenya towards industrialization until 2025, drawing on Vision 2030. It has singled out five strategic areas of focus to drive industrialization agenda in Kenya including:

- i) Launching of sector-specific flagship projects in agro-processing, textiles, leather, construction services and materials, oil and gas and mining services and IT related sectors that builds on comparative advantage;
- ii) Development of Kenyan SMEs by supporting rising stars and building capabilities with model factories;

- iii) Creating an enabling environment to accelerate industrial development through industrial parks/zones along infrastructure corridors, technical skills, supporting infrastructure and ease of doing business;
- iv) Creating an industrial development fund; and

The responsibility of overseeing the implementation of the KITP rests with Ministerial Delivery Unit, which is yet to be formed.

The Big 4 Agenda

The Big 4 Agenda was pronounced by the President on 12th December 2017. It comprises of four pillars- Manufacturing, Affordable Housing, Food and Nutrition Security and Affordable Healthcare. Priority sectors under the manufacturing pillar include the following: textile apparel/cotton, leather, agro processing (tea, dairy & meat), fish processing, construction materials, oil, Mining and gas iron and steel and ICT. There is no detailed plan or roadmap explaining how the priority sectors will be developed. The responsibility of overseeing the implementation of the Big 4 Agenda rests with the Presidential Delivery Unit (PDU).

The link between Vision 2030 and Big 4 Agenda is presented in Table 4.3.

Table 4.3: Big 4 Agenda and Vision 2030

	Big 4 Agenda	Vision 2030
1	Manufacturing	Economic Pillar
2	Affordable housing	Social Pillar
3	Nutrition and food security	Economic Pillar
4	Affordable Healthcare	Social Pillar

Source: KAM analysis

Some observations on approaches that Kenya is using to industrialize:

- i) Under Big 4 agenda, the Government is yet to provide concrete proposals on how to develop the priority sectors, in order to facilitate budgeting and coordination.
- ii) The Government appreciates that without proper coordination, it might be impossible to achieve set goals. This is demonstrated through the creation of institutions such as the Vision 2030 Delivery Board, the proposals by the Ministry of Industry, Trade and Cooperatives to create a Ministerial Delivery Unit that will oversee the implementation of KITP and the PDU.
- iii) Even though, there is a clear link between the Vision 2030 and the Big 4 Agenda, it is not apparent how the Vision 2030 Delivery Board and the PDU are coordinating delivery of manufacturing agenda. Currently, the Head of PDU is a Board Member of Vision 2030 Delivery Board.
- iv) The role of Counties is not explicit under Vision 2030, which was prepared before emergence of Counties as a Governance structure in Kenya, the KITP and Big 4 Agenda.
- v) Coordination of development strategies is a daunting task especially where implementation and funding is scattered in different Government institutions and agencies; and the need for incorporating the Counties.

In order to realize national policy and institutional coherence for the manufacturing sector, the following actions can be taken:



- i) Develop and implement a National Manufacturing Policy to guide the manufacturing agenda at the National and County levels; and
- ii) Review of the current framework that coordinates, implements or fund manufacturing activities that brings on board the Counties.



4.4 Pillar Four- Government driven SME's development

Many countries in the world are experiencing low growth, weak trade and investment and rising inequality (OECD, 2016). Approximately 80% of companies in Kenya are SMEs and contribute approximately 40% of GDP (KNBS, 2016). The SMEs have a crucial role to play in achieving Sustainable Development Goals (SDGs), promoting inclusive and sustainable economic growth, creating employment and decent jobs, promoting sustainable industrialization and fostering innovation and reducing inequality (OECD, 2017). The Government of Kenya is appreciative of the role the SMEs can play in the economy and this is best demonstrated by the formation of Micro and Small Enterprises Authority (MSEA) in 2012. The MSEA is meant to promote, develop and regulate MSEs in Kenya. In addition, the President in 2018 issued a directive to Ministries to devise SMEs specific strategies. Some of the challenges that SME in manufacturing face include low innovation and product development, inability to access both domestic and international markets, inability to access affordable credit, tedious and lengthy process in quality standards and certification (KAM, 2018). There is an assumption that SME challenges are homogenous, implying that one-size-fits-all solution can be applied. An SME in trade is markedly different from the one in manufacturing. They may face the same problems, but they may require different interventions.



Agenda one: Enhance market access for SMEs

Limited access to markets remains a severe constraint to SME growth and competitiveness. Due to their small sizes, SMEs usually find it difficult to compete in the domestic economy with established enterprises and imported goods and lack requisite productive capacity and technologies to meet demand in the international markets. Affirmative action and selective interventions and preference schemes by the Government can enhance their market penetration. It is more difficult for SMEs to access public procurement opportunities compared to large firms (OECD, 2017). The following actions can be taken to enhance market access by SMEs:



- i) Invest in product and innovation centers for SMEs to enhance competitiveness and product portfolio
- ii) Integrate incubation centers with common user facilities for SMEs in all 47 counties in order to resolve issues such as product design, access to technology, production innovation and patenting among other challenges.
- iii) Introduce import substitution strategies on area where SMEs have comparative advantage in Kenya
- iv) Develop and implement SMEs subcontracting policy to boost linkages between SMEs and Large Firms



Agenda two: Enhanced Governance

Most of the large enterprises that exists in the world started as SMEs and largely as family businesses. As an enterprise grows and expands, management and business operations become complex and therefore requires an effective and efficient corporate governance structure to advance into the next level. KAM has been implementing a programme that seeks to educate SMEs on the need to puts in place measures to separate the two, through strategic management, leading to improved firm-level competitiveness. Filling this gap is critical for SMEs determined to tap into the next level of business growth. The widespread neglect of the corporate governance practices, with regard to SMEs in Kenya bears some considerable risks such as sustainability challenges; high staff turnover, increase of financial difficulties, loss of business opportunities, decrease in public confidence, problems related to top-management succession, increase in criminality in the SME sector and reduced profitability (Jimmy, 2006). Lack of appropriate corporate governance structure by SMEs is further compounded by limited finance, regulatory bottlenecks, administrative and tax burdens and small markets for business transfer (OECD, 2017). In order to address these challenges, the following key actions should be undertaken:



- i) Support institutions providing training focused on corporate governance to promote ethical business practices, cash flow management, marketing, intellectual Property Management among others.
- ii) Promote simplification of business startup procedures by review various certifications and fees.



Agenda three: Enhance Access to Finance

Money is the bloodline for any business, and it needs capital to survive the painstaking journey from ideation to growth. Loans are one of the most conventional sources of capital for any business. Accessibility and affordability of loans among Kenyan SMEs like in many other African countries, has been identified as a huge challenge that impedes the growth and development of the sub-sector of the economy (see KAM, 2018). According to a KNBS study in 2016, vast majority of SMEs do not take banks loans due to a myriad of challenges such as credit requirements, security needed, financial statements, certificates of registration, banking history among other challenges. Although the challenges have been prevalent for years, the situation seem to have been exacerbated by the introduction of the interest cap in August 2016. The capping was intended to increase credit accessibility to SMEs and among other groups of interest. However, a study on the impact of interest rate caps on the Kenyan Economy published by the Central Bank in 2018, reveals that the interest rate caps has instead led to a reduction of the number of loans going to SMEs. The study further revealed that one of many reasons why banks have reduced lending to SMEs is higher risk rating, focus by lenders on collateralized lending thereby locking out SMEs and individual borrowers, and that the cost of financing the loan remained the same while the repayment duration reduced. The study notes that since the inception of the interest capping law, the commercial banks, as part of re-engineered investment strategy, have enhanced lending to the Government. In December 2015, the share of banks holding of Government securities stood at 45.1 percent, at the inception of the interest rate capping law, the share increased to 50.5 % (CBK, 2018).

In 2018, the Government through a Cabinet memo expressed its intention to establish Biashara Bank by merging MSEA which was created under SME Act, Youth Enterprises Development Fund, Women Enterprise Fund, the SME Fund, the Uwezo Fund and related funds. Such an intervention must bear in mind that SMEs are not homogenous meaning that though they face similar problems, interventions can be different. Besides fast tracking the establishment and operationalization of the Biashara Bank, the following action should be undertaken to improve SMEs finance and credit accessibility:



- i) Fast track creation of the Kenya Development Bank (KDB) by merging Kenya Industrial Estates(KIE), IDB Capital, Industrial and Commercial Development Corporation (ICDC),Agricultural Finance Corporation and Tourism Finance Corporation. This should be focused on manufacturing.
- ii) Incentivize commercial banks (through introduction of tax rebates) to provide low interest loans targeting manufacturers and SMEs.

“We are currently working with the banking sector on redesigning the Micro & Small Enterprises Authority Fund so that we can unlock much needed affordable credit for our small businesses.”

H.E President Uhuru Kenyatta, CGH

President and Commander in Chief of the Defense Forces of the Republic of Kenya

-12th December, 2018



4.5 Pillar five- Securing the future of manufacturing industry

In the advent of globalisation and digitalization, manufacturing, along with virtually all other industries, is going through a significant period of change. To grow a resilient and sustainable manufacturing sector in future, supportive business and physical environment are important pre-requisites. In addition, manufacturing sector should keep pace with the ever changing technological advances which necessitates continuous skills development of the labour force. Also important is continues improvement of public service performance and at the same time containing corruption that fosters wastage of public resources.



Agenda one: Ensure Stable macroeconomic environment

A stable macroeconomic environment in Kenya is key to boost the growth and development of the manufacturing sector. This is a foundational necessity to re-ignite private sector dynamism and to crowd in private investment especially now, when the Government is focusing on the Big 4 Agenda. One of the features that characterized the East Asian Miracle economies was responsible macroeconomic environment particularly by ensuring that fiscal deficits are limited, and reducing the risk of increasing inflationary pressure (World Bank, 1993). The greatest threats to a stable macroeconomic environment are high levels of fiscal and current account deficits and debt- to- GDP ratio. These macroeconomic variables will have to depend on a stable exchange rate. Any sudden depreciation of the shilling can precipitate serious financial crisis and inflationary pressures in the economy. Stability of the macroeconomic environment can be ensured through the following:



- i) Progressively move toward a ceiling on fiscal deficit, including grants of 3% of GDP as per the EAC Monetary Union Protocol
- ii) Adhere to a gross public debt ceiling of 50% of GDP in Net Present Value terms as per the EAC Monetary Union Protocol



Agenda two: Pro-industry skill development

Development and implementation of industry led skill policies is key in the drive towards achievement of the Kenya's aspiration under the Big 4 Agenda. The future prosperity of the manufacturing industry in Kenya will depend ultimately on the number of persons in employment and how productive they are at work. According to a report by the World Economic Forum (WEF) 2018, 30% of the Kenyan workforce have inadequate skills, a situation that is negatively affecting labour productivity.³¹ The report also shows that 3 out of 10 Kenyans lack the required skills thereby reducing productivity and increasing the cost of doing business in the country. Further, a desktop survey by KAM on skills needs gaps, depicts a sector in a dire need of human resource development that connects effectively with labour market needs; 80% of those surveyed reported that they are not able to get the candidate with right skills set for available jobs in the manufacturing industry. The advancement of technology has widened the gap between the skills demand and supply. This is despite the fact that thousands of youth graduate from higher education, entering the job market every year.

Generally, education, vocational training and lifelong learning are central pillars of employability, employment of workers and sustainable enterprise development within the Decent Work and Economic Growth Agenda (Goal No.9), and thus contribute to achieving the Sustainable Development Goal to reduce poverty (Goal No.1). Skills development stimulates creation of sustainable development process and can make a contribution to transition from the informal to the formal economy. Further, they are essential to address the opportunities and challenges to meet new demands of changing economies and new technologies in the context of globalization.

While the Government has embarked on skills development, the need to be connected to broader growth, employment and development strategies is crucial. This requires the Government to work with social partners, build policy coherence in linking education and skills development to today's labour markets and to technology, investment, trade and macroeconomic policies that generate future employment growth.

To address the skills and capacity gaps reported in the industry, it is imperative to adopt innovative and strategic policies that enhance partnerships among key player: Government-Universities and the industry (Triple helix model) should create avenues for technology and skills transfer. Kenya has invigorated efforts towards bridging these gaps

³¹Note: Labour productivity reflects a firm's ability to generate higher production or value added.

through various initiatives such as the reforms in the Technical and Vocational Education and Training (TVET) sector and implementation of Competence Based Education and Training (CBET) curriculum in the desire to establish an intentionally competitive workforce.

The enactment of the TVET Act (2013) which provided the legal support needed to enact reforms in the TVET sector, the subsequent creation of TVET Bodies like TVET Authority, TVET Curriculum, Development, Assessment and Certification Council (CDACC), TVET Fund Board and Kenya National Qualification Authority (KNQA) as well as the construction, equipping and staffing of new institutions all over the country among other endeavors cannot be overemphasized. Since 2017, KAM has been implementing a TVET programme that aims at improving access of technical and vocation job and economic opportunities for youth in Kenya supported by The Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ).

The above mentioned notwithstanding, the Government can initiate the following policy actions:



- i) Amend legal notice No. 97 of Income Tax Act which provides set off Tax rebate for graduate apprenticeships to include Certificate and diploma graduates who are omitted in the programme
- ii) Fast track development and Operationalization of the Sector Skill Advisory Committee (SSACs) that will guide in the development of occupation standards to influence curriculum development
- iii) Popularize and strengthen Competence Based Education and Training (CBET) with industry for buy in through awareness creation.



Agenda three: Green Growth and sustainable development

Green growth can be seen as a way to pursue economic growth and development while preventing environmental degradation, biodiversity loss, and unsustainable natural resources use (OECD, 2011). For development to be sustainable, it has to meet the need of the current generation without compromising the ability to meet the needs of the future generation. Further, as emphasized in our theme and within the pillars, KAM intends to focus on shared prosperity. This specifically aligns the MPA 2019 to Sustainable Development Goal (SDG) goal 7 and 4: Affordable and clean energy and Quality Education. Nevertheless, the Government can incentive manufacturers through the following actions:



- i) Provide incentives for adoption of a circular economy
- ii) Incentivize industries excelling in energy management through a National award
- iii) Finalize the National Waste Management Policy and enact the Solid Waste Management Bill
- iv) Finalize and implement the National Water Policy



Agenda Four: Enhance access to land

Land is one of the basic factors of production. Price and ownership of land in Kenya is a historical legacy that has not been fully resolved and thus negatively affects investment in manufacturing, which is land-intensive (KAM, 2017). Prices of land have skyrocketed in recent past especially in areas with potential industrial expansion. The surge in prices is driven by land speculation. This drives up costs and deters investment, triggering a downward spiral of disinvestment and disengagement in the manufacturing sector. In addition, at the county level, county Governments often do not have land banks that they can assign to investors. This combination of acrimony over land title and the lack of county land banks stifle manufacturing investment. Further, the issue of Land ownership security, which is key for investment decision among investors remains unresolved. Land use policy stability provides manufacturing with security they require to re- invest in new equipment and machinery job training and to undertake energy efficiency upgrades and other sustainable practices.

The following action can foster access to investment land in Kenya:



- i) Proactively create land banks earmarked for industry, through institutions such as Kenya Industrial Estates,
- ii) Secure and develop land for Special Economic Zones (SEZs) before prices are pushed further upwards, as per KITP and Vision 2030
- iii) Fast track digitization of land registry across the country.



Agenda Five: Fight against corruption

Kenya's competitiveness is held back by high corruption levels that penetrate every sector of the economy. It is estimated that Kenya loses close to a third or more of its state budget to corruption every year. Corruption has high potential of derailing the Government aspiration under the Big 4 Agenda in which manufacturing sector is a priority sector for investment. The champions of Vision 2030, which is the development blueprint that seeks to transform Kenya into Industrialized middle income country by providing a high quality life to all its citizen by the year 2030, reckon that the vice of corruption is a real threat and Government should undertake the following actions:



- i) Replace case-based accounting system with accrual based accounting system in public finance.
- ii) Synchronize the Integrated Financial Management System (IFMS), Integrated Payroll and Personnel Database (IPPD) and iTax to reduce ghost worker and unplanned expenditure.



Agenda six: Fit-For-Purpose public service

An effective and efficient Public Service is critical to national economic growth and development. Public service plays a vital role in implementing Government policies and its efficiency is at the heart of competitiveness as it influences the cost of doing business in a country. It is therefore imperative that public service resources are deployed to their best effect during the implementation of Government policy priorities. To grow the manufacturing industry, there is need for re-calibration of business-as-usual attitude and a deliberate campaign to foster political will, as well as cohesion among policy-making agencies and institutions of Government towards this goal.

Good governance is the most critical aspect of public service delivery. This entails a strong commitment to integrity, ethical values, and rule of law, transparency and comprehensive public participation with clear reasoning for decisions made in order to demonstrate that the results will be in the public's best interest.

A fit for purpose public service must deliver better regulations to reduce the cost and administrative burden on business. Long term thinking in policy development enables businesses to plan for the long term and makes for an attractive investment destination. Some of the actions that can be implemented to achieve a desired fit-for- purpose public service delivery in Kenya include the following:



- i) Implement some key recommendation in the 2013 Parastatal Taskforce report to reduce duplication and overlaps
- ii) Strengthen performance contracting to enhance public service delivery
- iii) Initiate an annual presidential event to recognize top performing public institutions and public servants.



Agenda seven: Enhance Digitalization in manufacturing industry

According to Vaidya, Ambad and Bhosle (2018) "digitization and intelligentization of manufacturing process is the need for today's industry and the manufacturing industries are currently changing from mass production to customized production" p. 233. Rapid innovation and adoption of technology is not only acting as catalyze of improved market analysis, knowledge sharing, product and service design, renewable energy sources, distribution models and operational efficiencies but also key in lowering market entry costs for non-traditional actors and start-ups with innovative 'disruptive' business models. The following actions will be key to ensure that the Kenyan local industry can capitalize on digital technologies.



- i) Develop a national policy framework and programme to implement industry 4.0 with sectoral bias
- ii) Support a well-embedded manufacturing ecosystem of start-ups and technology hubs.



5.1 Conclusion

The MPA 2019 is themed “Closing the manufacturing gap through the Big 4 Agenda for shared prosperity”. This is because under the Big 4 Agenda, the Government targets a GDP share of 15% from the manufacturing sector by 2022, whereas the sector contributed 8.4% to the GDP in 2017. This implies that a GDP gap of 6.6% has to be closed by 2022. Based on the analysis of the manufacturing sector in Kenya and keeping in mind the theme for MPA 2019, the following can be concluded:

- i) **State of the Kenyan economy:** The economy registered a fairly robust economic growth rate in 2018, estimated to be about 5.7% and projected to grow by 5.8% in 2019. However, in 2018, there was unprecedented number of companies that issued profit warnings, rise in non-performing loans and bear ran at the NSE. This is indicative of a difficult business environment with a generalized low levels of liquidity in the economy. The economic growth did not generate requisite purchasing power among different economic agents to oil the wheels of the economy, and to grow revenues for those in business.
- ii) **Stability of macroeconomic environment:** Key macro-economic indicators for Kenya are relatively stable. However, there is increasing risk to this stability arising from twin deficit (fiscal and current account deficits) and rising debt to GDP ratio. Any sudden appreciation of the exchange rate can trigger a severe financial crisis and run away inflationary pressure in the economy. The key variable that will determine the stability of the macroeconomic environment in 2019 is the stability of the exchange rate.
- iii) **Conducive domestic business environment:** Kenya improved in the Ease of Doing Business Report for 2018 rising to position 61 compared to position 80 in 2017. Policies including those related to taxes and implemented by the Government with little or no stakeholder engagement/consultation are the major risks to this favorable ranking.
- iv) **Competitiveness and level playing field for manufacturers in Kenya:** The main threats to a competitive manufacturing sector in Kenya include the high cost of electricity, inefficient transport and logistic system and high cost of industrial inputs mainly because of RDL and IDF. Illicit trade greatly undermines level playing field in the domestic market. Manufacturers will be relieved of the high cost of electricity through the implementation of the Electricity Cost Rebate Program and should lead to enhanced competitiveness.
- v) **Market access for manufactured goods:** Manufacturers have to contend with heightened competition in the domestic, regional and international markets and cannot overcome these challenges without the Government support. There is preference of imported goods/services over locally produced goods by Government, businesses and households. Another reality is that, the NTBs in the EAC market might be a permanent feature and this is why the conclusion of the TFTA and AfCFTA are of strategic interest to Kenya. Kenya is yet to fully exploit opportunities offered under the AGOA and EPA trade arrangements. This is evidenced by high concentration of exports in few products to these markets.
- vi) **Pro-industry policy and institutional framework:** Priority sectors for the manufacturing sector under Vision 2030, KITP and Manufacturing Pillar under the Big 4 Agenda are not uniform and lack details to allow for budgeting and implementation. Further, there are many coordinating bodies including MoITC, Vision 2030 Delivery Board and PDU. This creates a challenge in overall coordination of the manufacturing industry projects and programmes. Additionally the role of counties is not emphasized and they are the primary anchors of manufacturing enterprises.
- vii) **Government-driven SMEs growth and development:** Development of SMEs can contribute to sustainability, diversification and resilience of the economy and are a potent tool for achieving shared growth and reduction of inequality. SMEs can also be used to diversify manufactured exports as has happened in economies such as China, Hong Kong and Singapore. The growth of SMEs in Kenya is hindered by inadequate capital, high cost of electricity, limited market access, deprived and unsupportive infrastructure, inadequate knowledge and skills and rapid changes in technology, supply chain/raw material management, quality standard and certifications.
- viii) **Securing the future of manufacturing industry:** The future of the manufacturing industry will be determined by how Kenya sustains the following; the physical environment, development of pro-industry skills, creation of fit for purpose public service, innovation and adoption of technology and fights against corruption.

5.2 Policy recommendations

The following recommendations will help bridge the gaps in the manufacturing sector through the Big 4 Agenda for a shared prosperity:

- i) **State of the Kenyan economy:** In 2019, the Government should avoid policies that can further reduce liquidity in the economy. This is, keeping in mind that there are fears of a possible global economic recession, which Kenya is not immune from. The Government should also avoid increased taxation to households and businesses because this will be pro-cyclical intervention. The Government should not shy away from instituting a well-designed and targeted fiscal stimulus programs to inject more liquidity into the economy.
- ii) **Stability of macroeconomic environment:** Kenya should aim at progressively achieving thresholds of a fiscal deficit of 3% of GDP and a debt to GDP ratio of 50% as provided for under the macroeconomic convergence criteria in the EAC Monetary Union Protocol. The Central Bank of Kenya, which has done a commendable job in stabilizing the exchange rate in the year 2018, must continue to guard against depreciation of the shilling.
- iii) **Conducive domestic business environment:** The Government should at all times undertake stakeholder engagement before any policy is implemented. Adhoc and disruptive policies should be avoided.
- iv) **Competitiveness and level playing field for manufacturers in Kenya:** To improve the efficiency in the transport and logistics supply chain, the Government should consider establishing a coordination framework for all Government Agencies that intervene in the clearance of cargo and extend the implementation of promotion freight tariff to allow these cargo interveners to streamline their services. The fight against illicit trade should be sustained and operations of the MAT streamlined by developing an appropriate Standard Operating Procedure (SOP).
- v) **Market access for manufactured goods:** Preference of locally produced goods and services should be mainstreamed in all Government procurements in strict adherence to the BKBK strategy. Kenya should pursue finalization of the EAC CET review to promote value addition and industrialization. To reduce overreliance on the EAC market, Kenya should support speedy conclusion of the TFTA and AfCFTA negotiations. There should be a speedy implementation of the NEDPS to diversify and increase manufactured exports to take advantage of opportunities that will emerge under the TFTA and AfCFTA and those that already exist under AGOA and EPA.
- vi) **Pro-industry policy and institutional framework:** There is need for a clear plan and detailed implementation programme for all the sectors that have been identified under different policy documents. An appropriate coordination framework that incorporates the Counties is required for harmony and avoidance of duplication during implementation.
- vii) **Government driven SMEs growth and development:** The proposed Development Bank of Kenya to offer affordable and long-term credit to SMEs should take into account the fact that, the SMEs are not homogeneous. This suggests that they cannot have a one size fits all solution. For instance, SMEs in trade are very different from those in manufacturing business.
- viii) **Securing the future of manufacturing industry:** The income tax should be amended to allow for setting of tax rebates for TVET graduates with certification and diplomas. Loopholes that create opportunities for corruption should be sealed through Integration of IFMIS, Integrated Payroll and Personnel Database (IPPD) and iTax and by replacing the current cash based accounting system with accrual based accounting system in public finance.



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Closing the manufacturing gap through the Big 4 Agenda for shared prosperity

- Contribution to Gross Domestic Product (GDP) from 8.4% in 2017 to 15% by 2022
- Increase value and volume of exports
- Contribution to job creation
- Consumer benefits of manufacturing

S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
1	Competitiveness and level playing field	a) Promote access to quality, affordable and reliable energy for manufacturing	<ul style="list-style-type: none"> i) Remove all taxes, levies and charges on power bills for manufacturers to reduce the cost of power; ii) Make KenGen and Kenya Power profit neutral institutions; iii) Fast track enactment of the Energy Bill 2018 which seeks to resolve energy related issues in the country such monopoly of distribution and allow for net metering feeding into national grid among others; iv) Allow generators of electricity to sell directly to bulk electricity consumers to enhance quality and reliability of electricity; and v) Review pre-condition for time of use tariff to cover all nigh consumption.
		b) Reduce transport and logistics costs.	<ul style="list-style-type: none"> i) Establish a coordination framework for all Government agencies involved in clearance of cargo to reduce the duplication of intervention by various agencies-estimated to be about 26 of them in the supply chain; ii) Extend the implementation of promotional freight tariff to June, 2019 and thereafter gradually increase at a rate of 5% after every 6 months; iii) Simplify and promote Authorized Economic Operator (AEO) accreditation processes to increase its uptake for enhanced import and export clearance processes; iv) Fast track development of Kenya Standard (Parameters) under the Pre-Verification for Conformity (PVOC) to be adopted and mutually recognized by all Government agencies;and v) Create framework between Kenya Urban Roads Authority (KURA) and County Government to enhance industrial road upgrading and Maintenance.
		c) Sustain the fight against illicit trade	<ul style="list-style-type: none"> i. Fast track the implementation of the Trade Remedies Act (2017), which seek to deal with unfair trade practices such as dumping, prohibited subsidies and import surges; ii. Fast track the development of Standard Operating Procedures (SOPs) for Multi-Agency-Team dedicated to fight against illicit trade; iii. Fast track development of National Strategy for combating illicit trade in Kenya; iv. Harmonize EAC intellectual Property Rights (IPR) related legal framework in order to allow mutual recognition across the EAC Partner States;and v. Fast track the process of enactment of the EAC Anti Counterfeit Bill.

S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
		d) Address multiple charges, fees and levies by Counties	<ul style="list-style-type: none"> i) Review the fiscal effort parameter in the revenue sharing formula to discourage counties from developing no-service linked fees, charges and levies. ii) Fast track finalization of county Government Revenue Raising Regulation Process Bill (2018) that provides for a regulation of the process of introducing new taxes, fees and charges by county Governments.
		e) Enhanced cash flow for manufacturers	<ul style="list-style-type: none"> i) Review the VAT refund formula; and ii) Review Paragraph 8 of the VAT regulation (2013) to allow taxpayers claim VAT refund in full in case where there is excess in-put arising from both Zero rated and standard rated supplies
		f) Lower the cost of imported industrial in-puts	<ul style="list-style-type: none"> i) Zero rate Imported Declarations Fee (IDF) for industrial inputs for bona fide manufacturers. Or consider Refund or waiver of IDF based on the % of exports (Formula: Refund of IDF = Total IDF Fees paid * % of export sale ii) Zero rate Railway Development Levy (RDL) for bona fide manufacturers or Refund or waiver of RDL based on the % of exports: Refund of RDL = Total RDL paid * % of export sales iii) Fast track the EAC CET review that seeks to make industrial inputs affordable.
		g) Incentivize prompt payment culture	<ul style="list-style-type: none"> i) Expedite finalization of regulations under the Public Procurement and Asset Disposal Act to addresses payment issues and penalties on late payment by Government. ii) Expedite finalization and adoption of draft retail sector regulation that seeks to address late payments.
		h) Avail long term Financing to Manufacturers	<ul style="list-style-type: none"> i) Fast track finalization of the Movable Property Security Right Act, 2017 that provides for creation of electronic collateral registry for use by Kenyan Banks; ii) Incentivize saving institutions and pension funds to invest in the manufacturing sector.

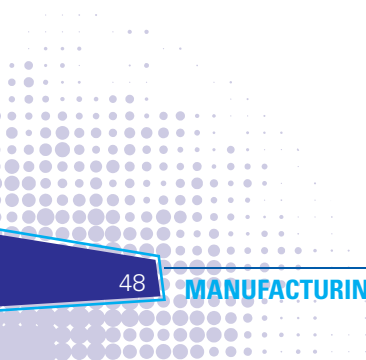
S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
2	Enhance market access	a) Enhance Local Market Access	<ul style="list-style-type: none"> i) Fast track finalization of the Public Procurement and Asset Disposal (PPAD) Regulations on provision of preference and reservation for locally manufactured goods and services; ii) Follow up on adherence to Executive Order on “Procurement of Public Goods, Work and Services by Public Entities” and recommend remedial measures in case of non-compliance; and iii) Introduce local certificate of origin for authenticity under BKBK strategy implementation.

S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
		b) Promote Regional market Access	<ul style="list-style-type: none"> i) Develop framework for prompt resolution of reported NTBs through bilateral initiatives between Kenya the EAC Partner states and other regional States outside the EAC; ii) Fast track finalization of the EAC CET review to promote value addition and industrialization; iii) Fast track the finalization of the NTB Act amendments and development of the regulations; and iv) Fast track the conclusion of TFTA and AfCFTA negotiations
		c) Diversify International market access	<ul style="list-style-type: none"> i) Strategically implement/operationalize various trade agreements to benefit local manufacturers; ii) Implement the 5 strategic objectives of the manufacturing chapter of the National Export Development and Promotion Strategy (NEPDS) namely iii) Negotiate market access agreements with other countries with huge trade imbalance against Kenya such as India and Canada; and iv) Development of a framework for disseminating manufacturing market intelligence through the Kenya trade portal.

S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
3	Pro-industry policy and institutional framework	a) Ensure predictable and stable industrial policies development through industry consultation	<ul style="list-style-type: none"> i) Gazette the proposed Investment Council to be chaired by The President that seeks to harmonize policy decision affecting manufacturing sector ii) Ensure formulation of overarching policies before an enactment of laws iii) Fast track finalization of Public Participation Bill (2018) that seeks to provide national framework for public participation; to promote transparency and accountability in governance processes.
		b) Ensure certainty and predictability of tax policies	<p>Undertake stakeholder engagement in advance before new tax proposal are embedded in finance bill.</p>
		c) Ensure National policy coherence for the manufacturing sector	<ul style="list-style-type: none"> i) Develop and implement a National Manufacturing Policy to guide the manufacturing agenda at the National and County levels; and ii) Review of the current framework that coordinates, implements or fund manufacturing activities that brings on board the Counties.

S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
4	Government driven SMEs development	a) Enhance market access for SMEs	<ul style="list-style-type: none"> i) Invest in product and innovation centers for SMEs to enhance competitiveness and product portfolio ii) Integrate incubation centers with common user facilities for SMEs in all 47 counties in order to resolve issues such as product design, access to technology, production innovation and patenting among other challenges. iii) Introduce import substitution strategies on area where SMEs have comparative advantage in Kenya iv) Develop and implement SMEs subcontracting policy to boost linkages between SMEs and Large Firms.
		b) Enhanced Governance	<ul style="list-style-type: none"> i) Support institutions providing SMEs focused training on corporate governance to promote ethical business practices, cash flow management, marketing, intellectual Property Management among others. ii) Promote simplification of business startup procedures by review various certifications and fees.
		c) Diversify International market access	<ul style="list-style-type: none"> i) Strategically implement/operationalize various trade agreements to benefit local manufacturers; ii) Implement the 5 strategic objectives of the manufacturing chapter outlined the National Export Development and Promotion Strategy (NEPDS) iii) Negotiate market access agreements with other countries with huge trade imbalance against Kenya such as India and Canada; and iv) Development of a framework for disseminating manufacturing market intelligence through the Kenya trade portal.
		d) Enhance Access to Finance	<ul style="list-style-type: none"> i) Fast track creation of the Kenya Development Bank (KDB) by merging Kenya Industrial Estates (KIE), IDB Capital, Industrial and Commercial Development Corporation (ICDC), Agricultural Finance Corporation and Tourism Finance Corporation. This should be focused on manufacturing. ii) Incentive commercial banks (through introduction of tax rebates) to provide low interest loans targeting manufacturers and SMEs.
S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
5	Securing the future of manufacturing industry	a) Ensure Stable macroeconomic environment	<ul style="list-style-type: none"> i) Progressively move toward a ceiling on fiscal deficit, including grants of 3% of GDP as per the EAC Monetary Union Protocol ii) Adhere to a gross public debt ceiling of 50% of GDP in Net Present Value terms as per the EAC Monetary Union Protocol
		b) Pro-industry skill development	<ul style="list-style-type: none"> i) Amend legal notice No. 97 of Income Tax Act which provides set off Tax rebate for graduate apprenticeships to include Certificate and diploma graduates who are omitted in the programme. ii) Fast track development and Operationalization of the Sector Skill Advisory Committee (SSACs) that will guide in the development of occupation standards to influence curriculum development.

S/N	NAME OF THE PILLAR	AGENDA	ACTIONS
			iii) Popularize and strengthen Competence Based Education and Training (CBET) with industry for buy in through awareness creation.
		c) Green Growth and sustainable development	<ul style="list-style-type: none"> i) Provide incentives for adoption of circular economy waste management ii) Incentive industries excelling in energy management through a National award. iii) Finalize the National Waste Management Policy and enact the Solid Waste Management Bill iv) Finalize and implement the National Water Policy.
		d) Enhance access to land	<ul style="list-style-type: none"> i) Pro actively create land banks earmarked for industry, through institutions such as Kenya Industrial Estates, as soon as possible ii) Secure and develop land for Special Economic Zones (SEZs) before prices are pushed further upwards, as per KITP and Vision 2030 iii) Fast track digitization of land registry across the country.
		e) Fight against corruption	<ul style="list-style-type: none"> i) Replace case-based accounting system with accrual based accounting system in public finance. ii) Synchronize the Integrated Financial Management System (IFMS), Integrated Payroll and Personnel Database (IPPD) and iTax to reduce ghost worker and unplanned expenditure.
		f) Fit-For-Purpose public service	<ul style="list-style-type: none"> i) Implement some key recommendation in the 2013 Parastatal Task-force report to reduce duplication and overlaps ii) Strengthen performance contracting to enhance public service delivery iii) Initiate an annual presidential event to recognize top performing public institutions and public servants.
		g) Enhance Digitalization in manufacturing industry	<ul style="list-style-type: none"> i) Develop a national policy framework and programme to implement industry 4.0 with sectoral bias ii) Support a well-embedded manufacturing ecosystem of start-ups and technology hubs.





Who we are

KAM is a Business Member Organization representing value-add companies and associate services in Kenya. Its members' significant contribution to the economy is estimated at a quarter of the country's Gross Domestic Product. The Association provides an essential link for co-operation, dialogue and understanding with the Government and other key stakeholders by representing its members' views and concerns through fact-based policy advocacy.

Our Vision

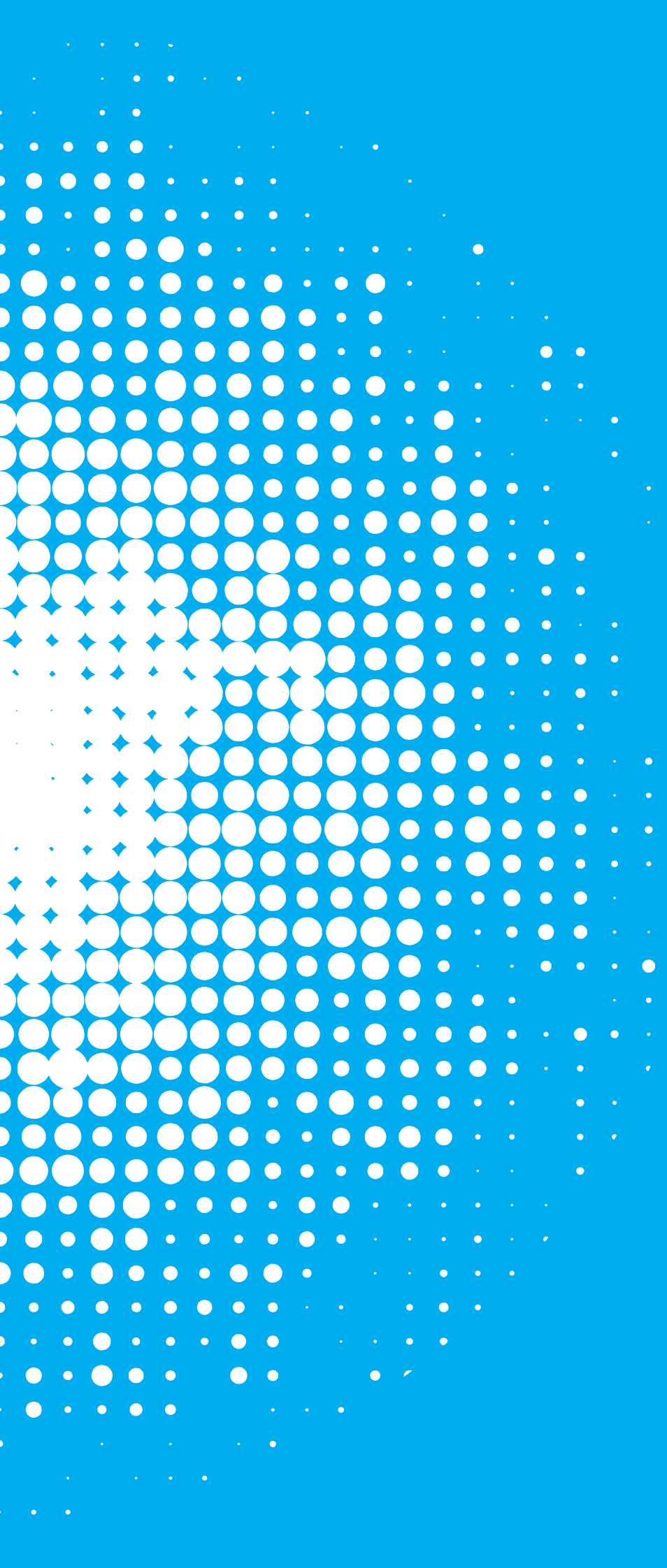
To be a world class business membership organisation effectively delivering services to its members wherever they operate.

Our Mission

To promote competitive local manufacturing in a liberalised market.

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