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KAM, on 7th October 2019, engaged Dr Fred Matiang'i, the Cabinet Secretary for Interior and Coordination of National Government and Chairman of the National Development Implementation and Communication Committee, to deliberate on the state of Kenya's Manufacturing Sector.

The meeting focused on fiscal and non-fiscal policy wins realized in the 2019 Budget, the status of KAM advocacy under the Presidential Round Table (PRT) and emerging key priority support areas by Government to realize the manufacturing sector aspirations as outlined in the Big 4 Agenda.

KAM Chairman, Mr Sachen Gudka noted that some of the challenges facing the sector include illicit trade,

unpredictable policy & regulatory environment, low liquidity, low demand, declining exports, low uptake of local content in national projects and competitiveness. Dr Matiang'i, noted that the Ministry is committed to working with the private sector in resolving the challenges facing them to drive global competitiveness and to grow the economy.

Highlights:

The National Treasury and the Kenya Revenue Authority (KRA) have been tasked to develop a legal mechanism to allow refund/offset of outstanding and future credit amounts arising out of the Export Refund Formula. The revised formula was gazetted on 17th June

2019.

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KAM HOSTS DEPUTY AMBASSADOR TO TUNISIA

KAM led by Chair Mr Sachen Gudka and CEO Ms Phyllis Wakiaga hosted a delegation from the Tunisian Embassy led by the Deputy Ambassador, Mohamed Salim Hafsi.

The meeting focused on possible areas of partnership between Kenyan and Tunisian manufacturers in the pharmaceutical, textiles and apparels, food processing sectors, and Small and Medium Enterprises (SME) growth.

Speaking during the meeting, KAM Chair Sachen Gudka noted that Tunisia has a thriving manufacturing sector, and has immense opportunities for local manufacturers.

"We look forward to partnering with Tunisia, to grow our market share in the region as we work towards achieving a 15% contribution to the GDP as envisioned in the Big Four Agenda," said Mr Gudka.

The Deputy Ambassador expressed his optimism on the partnership.

"This partnership will grow both our countries' economies and lead to job and wealth creation for our citizens," said Mr Hafsi.



KAM engages Interior CS on state of manufacturing

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- KRA has refunded Kshs 5.5B outstanding VAT amounts to the private sector. Ksh. 25B is outstanding from Export Refund Formula and another Ksh. 100 Billion from WHVAT. Due to the gravity of the situation, KRA has committed to meet KAM to discuss the matter and chart a way forward.
- With the help of Private Sector, the Government has developed a list of 271 products for exclusively local sourcing. The list is at Cabinet level for fine tuning and approval.
- Government has also directed that all expiring Power Purchasing Agreements (PPAs) to be renegotiated to promote their effectiveness in driving down the cost of electricity for manufacturers.
- The Government hosted a Regulatory Conference on 14th October 2019 at the KICC to address the regulatory overreach by the regulatory agencies. County Governments will also participate.
- Additionally, the Government will convene a Public-Private Sector Conference on 24th October 2019 to discuss ways in which the government will promote the private sector for economic growth and prosperity.
- Institutions represented in the meeting include The Presidency, the National Treasury, Ministry of Industry, Trade and Cooperatives, Ministry of Foreign Affairs, Presidential Delivery Unit (PDU), and KRA.

KAM engages new Industry PS on the state of manufacturing in Kenya



KAM engaged the new Industry Principal Secretary, Dr Francis Owino to discuss progress made on matters industry to appraise him on industry concerns and progress made on the same.

KAM Chair, Sachin Gudka, noted that the Manufacturing Sector's contribution to the GDP is declining, against a target of 15% in line with the aspirations of the manufacturing pillar under the Big Four Agenda. To promote the growth of the sector, The Association has been working hand in hand with the Ministry of Industry, Trade and Cooperatives to address priority areas that will see the Sector's contribution grow to a double-digit in the short and medium-term.

Some of the issues discussed include:

- Promoting a level playing field through expediting finalisation of regulations under the Public Procurement and Disposal Act to address payment issues and late payment penalties and the provision on preference for local goods.
- Promoting local and international markets access through the resolution of trade and non-trade barriers, following up on adherence to the executive order on procurement of public goods, introducing a local certificate of origin for authenticity, finalisation of the EAC CET review, NTB Act amendments and conclusion of TFTA and AfCFTA.
- Promoting SMEs through investing in product and innovation centres, integrating incubation centres with common user facilities, introducing import substitution strategies and development and implementation of an SMEs subcontracting policy.

The PS pledged his support to grow the manufacturing sector towards achieving the Big Four Agenda. He noted that the government is doing a lot to ensure all stakeholders are on track on matters industry.

KAM Timber and Plastic Sector engage the new Environment PS

On 9th October 2019, KAM Plastics and Timber sectors engaged the Principal Secretary for Environment and Forestry, Ms Betty Maina, on Environmental Sustainability Management in the manufacturing sector.

KAM Vice-Chair and PET Sub Sector Chair, Mr Mucai Kunyiha noted that businesses cannot avoid environmental issues, waste management being one of them. PS Betty Maina noted that the Ministry is working towards bringing on board other relevant stakeholders to promote waste management in the country.

Highlights from the plastic sector include:

- Re-convening the Plastic Technical Committee between KAM, the Ministry of Environment and Forestry, and the National Environment Management Authority (NEMA).
- Operationalizing the fiscal incentive on recycling upon the ascent of the Finance Bill 2019.
- Bringing on board the Council of Governors to discuss the investment in waste management at the county level.

Outcomes from the Plastic Sector include:

The Ministry was urged to form one multidisciplinary committee with representatives from the private sector for both PET and other plastic fractions.

- The Ministry to engage the private sector on the ban of single-use plastics in protected areas ahead of its implementation in June 2020.
- The Ministry was asked to convene a meeting with the Council of Governors to discuss waste management issues and also engage the Private Sector on the development of plastic waste management in schools' curriculum.
- KAM requested the Ministry to give recommendations and feedback on the monthly Framework Of Cooperation (FOC) reports delivered by KAM and PETCO Kenya.

Timber Sector Highlights

- With regard to the Timber Sector, the meeting focused on the following:
- The significant role played by different players in the timber value chain in realizing the

aspirations of the Affordable Housing and Manufacturing Pillars under the Big 4 Agenda.

- The role of a sustainable forestry sector as an important factor to the coexistence of many downstream industries, which rely fully on forestry. Additionally, other sector players depend on wood waste/pellets and briquettes as a source of energy for their manufacturing plants.
- The challenges facing the timber and furniture sector since the moratorium on logging came into effect, especially with regard to sourcing main raw materials and the impact of the same to the society at large.
- KAM Trade and Tax Committee Vice-Chair and Timber Sector Chairman, Mr Hitesh Mediretta noted that the involvement/engagement of the sector in various government forest sustainability initiatives geared towards forest cover recovery is critical.

Outcomes from the Timber Sector include:

- KAM requested for more sector involvement and engagement in various government forest sustainability initiatives geared towards forest cover recovery through the Ministry.
- KAM requested the Ministry of Environment and Forestry to co-opt the Timber and Furniture Sector to the 4 Multidisciplinary Technical Committees established by the Ministry to implement the national strategy of realizing 10% forest cover under the Forestry Acceleration Plans.
- The Ministry is willing to work with KAM on new and proposed strategies and initiatives towards preservation and expansion of existing forest cover in Kenya.
- The Ministry is embarking on reviewing the current policy and legislative framework on forests in Kenya and welcomes proposed amendments to the same from KAM.
- The Ministry shall involve KAM in the ongoing benchmarking exercise with South Africa's Gutsby Group on the development of a policy framework for commercial forests.
- The Ministry shall share Terms of Reference (ToRs) for the development of the policy framework with KAM.

KAM engages KRA Commissioner for Domestic Taxes



KAM, led by CEO Ms Phyllis Wakiaga and Trade and Tax Committee Chair Mr Bharat Shah engages KRA Commissioner for Domestic Taxes Ms Elizabeth Meyo to discuss Export Refund Formula, Withholding VAT (WHVAT), VAT credit amounts arising from the refund formula and WHVAT, Plastic recycling, Excisable Goods Management System (EGMS), Regulatory overreach by KRA, Internal process delays on tax ledgers and Taxation of excisable products.

KAM engaged the Kenya Revenue Authority (KRA) Commissioner for Domestic Taxes, Ms Elizabeth Meyo on Monday, 15th October 2019, to discuss tax policy issues which include:

Export Refund Formula: KAM urged KRA to develop a legal mechanism to allow refund/offset of outstanding and future credit amounts. KRA noted that there is no legal mechanism to allow refunds for past credit amounts and urged KAM to prepare a technical report which they shall jointly present to The National Treasury.

Withholding VAT (WHVAT): KAM proposed the implementation of 2% WHVAT through the assent of the Finance Bill 2019. KRA indicated that a Module to allow claims for refunds/offset via iTax will be ready by the end of October 2019. KRA will issue a public notice so that Members can begin making applications.

VAT credit amounts arising from the refund formula and WHVAT: KAM proposed that KRA expedites the conclusion of the validation exercise, budgetary allocation and clearance of all tax refunds and bills in the next 3 - 6 months. KRA shall undertake a full audit of outstanding figures to obtain precise figures owed to manufacturers. Depending on the figures, the National Treasury will allocate funds for refunds/offset or issue a discountable bond at a commercial bank, which can also be held at a predetermined period of time and rate of interest.

Refund of excise and anti-adulteration levy for

users of industrial kerosene: KAM urged KRA to expedite excise tax refund and anti-adulteration levy mechanisms for kerosene for industrial use as per provisions in Miscellaneous, Fees and Levies Act, 2016. KRA committed that the module to allow claim of refunds via iTax has been delivered for testing and will be ready by the end of October 2019.

Plastic recycling: KAM proposed to KRA to expedite development of guidelines for VAT exemption for all services offered to plastic recycling plants and supply of machinery and equipment used and reduction of corporation tax to 15% for the first 5 years for any investor operating a plastic recycling plant. KRA shall communicate on the way forward.

Excisable Goods Management System (EGMS): KAM urged KRA to implement the EGMS system once all the concerns raised by manufacturers have been resolved. KRA reported that it is impossible to terminate the current contract due to legal implications. KAM will be engaging KRA further on this matter.

Regulatory overreach by KRA: KAM urged KRA to honour the Court Order in relation to seizures of confectionary products by KRA. KRA has stopped seizure of confectionary products with effect from 8th October 2019. KRA reported that they were seizing products because there was no order covering the period between the Finance Bill and Finance Act.

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KAM ENGAGES KRA

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KRA reported that it is owed approximately Ksh. 1 billion by manufacturers. KAM and KRA shall meet to resolve this.

Internal process delays on tax ledgers: KAM urged KRA to streamline and fast-track finalization of tax ledgers. KRA asked Manufacturers facing challenges to engage their respective MTO/LTO Managers at KRA.

Taxation of excisable products: Manufacturers expressed their frustration on the constant increase in excise tax rates which creates an arbitrage opportunity because of price differences, particularly in the EAC market. This creates an unstable business environment. KRA will liaise with the National Treasury to ensure policy stability on excisable goods, work with the Multi-Agency Taskforce to enhance border surveillance and support efforts to harmonize EAC tax rates.

KAM shall engage KRA in November 2019 to assess progress made.



Quarry sub-sector meets Kenya Power Ag MD

The KAM Quarry sub-sector engaged Kenya Power Ag. Engineer Jared Othieno. The meeting was the first one held by Kenya Power to mark Customer Service Week.

The sub-sector faces various challenges which lead to the loss of production time and repair costs rendering them uncompetitive.

The key challenges include highlighted by the Sub-Sector include frequent power outages, gaps in response time and billing and metering issues.

The Quarry sub-sector also proposed recommendations to best mitigate these challenges.

Way Forward

- **Frequent power outages:** Kenya Power shall reduce pole span, put mid-span poles and metallic cross-pans to separate the wires. They also plan to

stabilize the Juja line which serves many construction companies including quarries. Kenya Power will also come up with a strategy on how to best manage the response on power outages. KAM was tasked to engage county governments to manage the dumpsites at the quarry areas, which attract birds that hits the power lines causing power outages.

- **Gaps on response time:** Kenya Power appointed a focal person for Upper Eastern Region. They also plan to come up with a communication strategy to ensure prompt response to issues raised.
- **Billing and metering issues:** Kenya Power will take up the mismatched meter and billing issues on a case by case basis as they occur.

KAM hosts EAC Manufacturers Network



KAM CEO Ms Phyllis Wakiaga speaks during the EAC Manufacturers Network on Thursday 17th October 2019 to discuss issues affecting the manufacturing sector in the region. The discussions focused on EAC CET, EACCMA review, EAC region-wide duty remission scheme and develop a common industry position and validation of the final position on AfCFTA, TFTA and Post AGOA strategy.

KAM hosted the East African Community (EAC) Manufacturers Network on 17th October 2019 to discuss, among other issues, the EAC Common External Tariff (CET), resolution of tariff and non-tariff barriers and Post-Agoa Strategy.

The EAC Manufacturing Network aims to realize the potential of the manufacturing sector in the EAC region through a systematic approach to regional issues affecting the sector and to serve the interests of manufacturers in the region.

Speaking during the event, KAM CEO, Ms Phyllis Wakiaga noted that the Network has sought convergence on issues affecting manufacturers' competitiveness in the EAC region.

"The EAC has in place an Industrialization Strategy that aims to increase trade among the Partner States for manufactured products to at least 25% and exports of manufactured goods to countries outside the EAC to at least 60% by 2032. The Network seeks convergence on issues affecting the competitiveness of manufacturers in the region geared towards enhancing its productivity and competitiveness towards economic transformation," said Ms Wakiaga.

Since its inception, the Network has managed to advocate for the resolution of tariff and non-tariff barriers, review of EAC Customs Management Act, tax stamps management systems, harmonization

of domestic taxes, fight against illicit trade and EAC Common External Tariff (CET) Review.

The two-day forum will discuss the outcomes of the Sectoral Council on Trade, Industry, Finance and Investment (SCTIFI) meeting held in September 2019, including the review of the EAC CET. The EAC partner states have unanimously adopted a four (4) band structure of 0% (raw materials and capital goods), 10% (intermediate input/products not available in the EAC region), 25% (intermediate inputs/products available in the EAC Region) and either 30% or 35% (Finished products). However, the CET rate for the highest band, criteria and list of products above 25% are yet to be agreed upon.

The meeting will also discuss and agree on a common industry position and validation of the final position moving forward on African Continental Free Trade Area (AfCFTA), and Post AGOA strategy and its impact on industry.

Other matters being deliberated upon include the review of the EAC Customs Management Act (2004), EAC region-wide duty remission scheme, harmonization and adoption of IPR related laws in EAC and enactment of relevant regional Bills.

WE VALUE YOUR FEEDBACK

Dear Member,

Thank you for your support and partnership in advocating for competitive and sustainable manufacturing sector.

In order to best serve you, kindly share any issue(s) you are facing by clicking on the feedback form below.

[FEEDBACK FORM](#)

Thank you.

Regards,
KAM Team



KAM Multinationals Caucus meets

The KAM Multinationals Caucus met on Friday, 11th October 2019 where the Ipsos Kenya Managing Director, Mr Aggrey Oriwo took members through some of the micro-economic challenges and opportunities available for manufacturers. Mr Oriwo noted that while there is a decreased growth in the private sector, Kenya remains a cash economy. He added that the country's financial inclusion has been improving, especially because of the increased use of mobile money. Currently, mobile money usage stands at 75%.

Of importance to note is Kenya's consumer dynamism. According

to Ipsos, the Consumer Confidence Index has stabilized and awareness levels have greatly increased. Furthermore, consumers are enjoying plenty of choices from the brands in the market. The change in the consumer purchase process/decisions was attributed to E-commerce and technology. This is notable through the increased use of e-commerce platforms. Members present expressed interest in matters such as the Kadogo Economy and the role of manufacturers in this type of economy. Youth dynamics was also a concern for members, particularly on youth consumption patterns and their lack of propensity to buy.

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TOP 2 POLICY ISSUES IN THE MEDIA

1. Regulations

- Business Daily: [Regulations should reflect innovations in industrial sector](#)
- Dhahabu Kenya: [Regulation of innovation key for manufacturing to contribute to Big 4 Agenda](#)

2. Export Markets

- Daily Nation: [Exports to EAC bloc rise to Sh77bn](#)
- Business Daily: [Exports to EAC markets at three-year high of Sh77bn](#)