Manufacturing sector resilience and sustainability strategy

Report

September 2020

Glossary of terms

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
BKBK	Buy Kenya Build Kenya
CAGR	Compounded Annual Growth Rate
CARES	Coronavirus Aid, Relief, and Economic Security Act
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CRR	Cash Reserve Ratio
EAC	East African Community
EPZ	Export Processing Zones
EU	European Union
GBP	Great Britain Pound
GDP	Gross Domestic Product
GoK	Government of Kenya
HCE	Health Care Enhancement
HCEA	Health Care Enhancement Act
HS	Harmonised System
ICD	Inland Container Depot
IGO	Inter-Governmental Organisation
KAM	Kenya Association of Manufacturers
KEBS	Kenya Bureau of Standards
Kg	Kilogram
KITP	Kenya Industrial Transformation Program
KMSA	Kenya Medical Supplies Authority
KNBS	Kenya National Bureau of Statistics

KPA	Kenya Ports Authority
KRA	Kenya Revenue Authority
Ksh	Kenya Shilling
kWh	Kilowatt
LAPPSET	Lamu Port and Lamu-Southern Sudan-Ethiopia Transport
LCA	Local Content Act
LCP	Local Content Policy
MSME	Micro, Small and Medium Enterprise
MVA	Manufacturing Value Added
NAC	National Automotive Council
NAP	National Automotive Policy
NEMA	National Environment Management Authority of Kenya
NGO	Non-Governmental Organisation
NSD	National State of Disaster
NTB	Non Trade Barrier
OEM	Original Equipment Manufacturer
PPE	Personal Protective Equipment
PPP	Paycheck Protection Program
Q	Quarter
SESP	Social and Economic Support Package
SGR	Standard Gauge Railway
TACIT	Transnational Alliance to Combat Illicit Trade
TFTA	Tripartite Free Trade Area
TVET	Technical and Vocational Education and Training
UIF	Unemployment Insurance Fund
USA	United States of America
USD	United States Dollar
VAA	VAT Automated Assessment
VAT	Value Added Tax
ZAR	South African Rand

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Purpose of the strategy

- The global outbreak of COVID-19 has resulted in an economic downturn as countries continue to grapple with the adverse health and economic effects of the pandemic.
- COVID-19 has led to a rapid deterioration in the global economic environment resulting in reduced consumer demand and global supply chain disruptions as countries implement mitigation strategies to contain the spread of the coronavirus.
- In Kenya, the pandemic has had far-reaching implications on the economy. This is particularly true for the manufacturing sector as reflected in the survey, 'The impact of COVID-19 on the manufacturing sector in Kenya' conducted by the Kenya Association of Manufacturers (KAM) in collaboration with KPMG. From the survey findings, manufacturers are experiencing significant reduction in outputs, increased liquidity and logistics challenges, and workforce reduction. A crisis such as COVID-19 affects all businesses but has far worse consequences for the Micro, Small and Medium Enterprises (MSMEs).
- The COVID-19 pandemic has also affected the collaboration of the East African Community (EAC) which include partner states such Rwanda, Burundi, Uganda, South Sudan, and Tanzania. An important intervention includes review of the EAC Common External Tariff (CET) which, according to Kenya Association of Manufacturers (KAM), is aligned on the following three tariff band structure: 0% import tax on raw material and capital goods; 10% import tax on intermediate goods; and 25% import tax on final goods. However, the fourth band, which seeks to protect the manufacturing sector from illicit imports and protect and promote local investments, is yet to be agreed. The EAC CET review process, which started in 2016, has been affected by the COVID-19 pandemic.
- Due to the implications of COVID-19 on the manufacturing sector, this *Manufacturing Sector Resilience and Sustainability Strategy* has been developed to aid the recovery of the manufacturing sector. This will also complement the EAC CET review project intended to aid the development of local manufacturing capacity.

Approach

- In developing the strategy, subsector focus group discussions were carried out with members of KAM supplemented by insights across the globe. This strategy takes into consideration existing as well as emerging challenges in the 14 subsectors individually as well as the Micro, Small and Medium Enterprises (MSMEs).
- In the report, the term 'pre-existing challenges' refers to the issues that the sector was facing pre-COVID-19 (the period before the first positive case was confirmed in Kenya on 12 March 2020) and continue to do so, while 'emerging issues' summarises issues that have emerged or have been exacerbated as a result of the measures put in place to curb the spread of the pandemic.
- A time horizon for the proposed intervention to identify the practical timeframe to implement a solution is indicated. The time horizon is broken down into:
  - Short term – less than six months
  - Medium term – between six months and one year
  - Long term – more than one year

Executive summary

— Since the outbreak of COVID-19, manufacturers across the globe have faced numerous challenges that have stretched beyond the health crisis. Most businesses across the globe did not anticipate the economic crisis. However, businesses are constantly monitoring the situation as the uncertainty evolves each day. Agile businesses with the ability to reimagine their operating models and portfolio of offerings will find and have found opportunities during this crisis.

— A survey conducted by KAM in collaboration with KPMG on the impact of COVID-19 on the manufacturing sector in Kenya highlighted some key areas including cost reduction, job retention, and improving cash flows. In addition, the survey report highlighted the urgent need to prepare a resilience and sustainability strategy for the manufacturing sector given that the sector is a priority under the Government of Kenya's (GoK) Big Four Agenda and is critical to Kenya's economic growth and development.

— Some of the key emerging challenges identified are:

- reduction of consumers' purchasing power and spending choices as a result of pay cuts, reduced hours and redundancies.
- deferment of capital expenditure due to the unfavourable lending environment.
- unfavourable tax and regulatory environment resulting in an influx of imported products.
- loss of export markets due to the temporary closure of the borders.
- travel restrictions within land borders caused by delays in receiving permits have led to inventory pileups and consequently a drop in export sales; and
- limited access to finance as lenders have become stricter in their credit evaluation and approval process due to the uncertainty in the economy and supply chain disruptions.

As businesses try to navigate different supply chain challenges, stakeholders will proactively work together in minimising the risks and creating a road map to recovery. Examples of such measures include:

— Flattening the COVID-19 epidemic curve to slow down the spread of the coronavirus.

— Nurturing nascent and emergent business opportunities uncovered by the COVID-19 pandemic.

— Adopting a "do-no-harm" principle by government while intervening in the market by conducting a regulatory audit with the aim of creating a supportive regulatory environment in Kenya as well as deferring any tax policies that will increase the burden to taxpayers.

— Supporting MSME development through provision of affordable credit.

— Increasing the resilience of the manufacturing sector by ensuring long term policy stability, improving the ease of doing business and developing regional value chains to minimize exposure from external shocks.

— Setting up an unemployment insurance fund to pay benefits to covered workers who become involuntarily unemployed and meet specified eligibility requirements, to cushion them in times of unemployment.

— Creating fiscal space by rationalising government expenditure through operationalisation of the public investment management guidelines.

By taking these and other robust actions into account, stakeholders in the manufacturing sector will be in a position to better build business resilience plans and policies, prioritise their people, monitor potential pain points, and implement measures to stay resilient during this crisis and beyond.

Overview of the manufacturing sector

- The advancement of globalisation has ushered in a new era of manufacturing with much of the industrial production pattern shifting to global value chains. This has led to the emergence of China, the USA and Europe as core global value chain hubs as reflected in their market share of the global Manufacturing Value Added (MVA) as shown in Table 1.
- The COVID-19 pandemic has resulted in value chain disruptions as factories worldwide have curtailed production and/or shut down to contain the spread of the virus leading to a reduction in global manufacturing outputs.

Global context

- Global manufacturing has experienced a reduction in outputs declining by about 6.9% (Q4 2019 – Q1 2020). The reduction in global outputs is largely attributed to lockdown regulations that were put in place to contain the transmission of COVID-19, US-China trade tension, and uncertainties around Brexit. China experienced the biggest drop in manufacturing outputs of 18.1% between Q4 2019 to Q1 2020.
- Similarly, other regions have witnessed a decline in their manufacturing output with Africa registering only a slight drop of 0.4%. Manufacturing output in East Asian economies rose marginally by 0.7% compared to the Q4 2019. However, it is worth noting that these statistics do not capture the full impact that the pandemic has had on the sector, which was felt more in Q2 2020 and beyond.
- According to World Bank estimates, the impact of the pandemic will be deep and long term. Countries are responding in different ways to manage the current economic crisis as well as the need to contain the virus. Table 2 summarises the monetary and fiscal policies adopted by a few select countries.

Table 1: Estimated growth rates of world manufacturing output in Q1, 2020 (%)

	Share in world MVA (2015)	Compared to Q4, 2019 (Oct – Dec)	Compared to Q1, 2019 (Jan – Mar)
World	100	(6.9)	(6.0)
Industrialised Economies	56.5	(1.4)	(2.5)
North America	19.4	(1.7)	(2.4)
Europe	22.4	(2.6)	(4.4)
East Asia	13.4	0.7	0
China	27.7	(18.1)	(14.1)
Africa	1.4	(0.4)	0.2
Asia & Pacific	7.6	(2.5)	(2.5)
Latin America	4.8	(2.5)	(2.8)

Source: UNIDO (2020). World Manufacturing Production. Statistics for Quarter 1, 2020

Table 2: COVID-19 pandemic policy response from selected countries

Country	Examples of policy responses
United States of America	■ USD 2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act which provides: loans and grants to corporations and small businesses; increased unemployment benefits for workers made redundant or working fewer hours amid the outbreak; and direct payments to low and middle income individuals and families. ■ USD 420 billion Paycheck Protection Program (PPP) and Health Care Enhancement (HCE) Act relief package broken down into: — USD 320 billion for the PPP, designed to help struggling small businesses keep their workers on the payroll in the form of loans and grants — USD 75 billion to support local hospitals and health care providers — USD 25 billion new funding for target COVID-19 testing in rural areas and for the uninsured ■ There is a possibility of a third round stimulus package as the crisis continues to evolve.
United Kingdom	■ Reducing interest rates to approximately 0.1% in anticipation of increased borrowing and money circulation in the economy. ■ Injecting GBP 200 billion into the economy through quantitative easing. This mainly involves buying large quantities of government bonds which should lead to a reduction in interest rates or 'yields' on the bonds and maintain low interest rates on mortgages and business loans. ■ Reduction of the capital requirement that banks and building societies need to set against their lending to UK businesses and households. This will lead to a liquidity injection of approximately GBP 190 billion into the economy. ■ Support to businesses to pay their staff and suppliers by offering large businesses cash for their corporate debt by working closely with the national government.
Bangladesh	■ A stimulus package of approximately USD 8 billion i.e. 2.5% of Gross Domestic Product (GDP) was announced. The primary focus of the stimulus is to boost businesses involved in exports. Of this: — USD 3.5 billion was allocated as working capital support to industries during the economic crisis — USD 2.4 billion for MSMEs — USD 1.5 billion related to an export development fund run by the Bangladesh Bank — USD 590 million new credit facility by the Bangladesh Bank — USD 590 million as emergency incentives for export oriented industries

Country	Examples of policy responses
South Africa	Economic response by the South African Government is divided into three phases: ■ **Phase 1**: The declaration of a National State of Disaster (NSD) on 15 March 2020 and subsequent measures to mitigate impact on businesses, communities, and individuals were announced. These include tax relief, disaster relief funds, emergency procurement, wage support through Unemployment Insurance Fund (UIF) and funding to small businesses. ■ **Phase 2:** On 21 April 2020, the President announced a Social and Economic Support Package (SESP) of ZAR 500 billion (approximately 10% of GDP). The key objective of the stimulus package was to: — **Stabilise:** Steadying the economy, addressing decline in supply and demand and protect jobs. — **Fund:** About ZAR 130 billion would be raised from reprioritisation of the budget while the remainder will be raised through domestic and external borrowing. — **Prioritise:** Budget estimates were revised to give priority to the fight against COVID-19 pandemic. — Fund the fight against COVID-19: About ZAR 20 billion has been set aside to fund community screening, testing and personal protective equipment (PPE) for health workers. — **Social grants:** ZAR 50 billion was set aside to cater for the most vulnerable groups. — **Municipalities:** ZAR 20 billion was set aside for provision of emergency water supplies, increased disinfection of public transport and facilities, and food and shelter for the homeless. — **Job protection and creation:** ZAR 100 billion was set aside to protect existing jobs and create new ones. In addition, the fund will also be used to support MSMEs, "spaza" shops and other informal businesses. — **Bank Guarantee Fund:** ZAR 200 billion loan guarantee scheme was deigned to help banks and MSMEs with a turnover of less than ZAR 300 million. — **Tax relief:** Estimated to be valued at ZAR 70 billion. ■ **Phase 3:** Economic strategy aimed at driving the recovery of the economy with a particular target on measures that will stimulate demand and supply through commissioning of large infrastructure projects and speedy implementation of economic reforms.

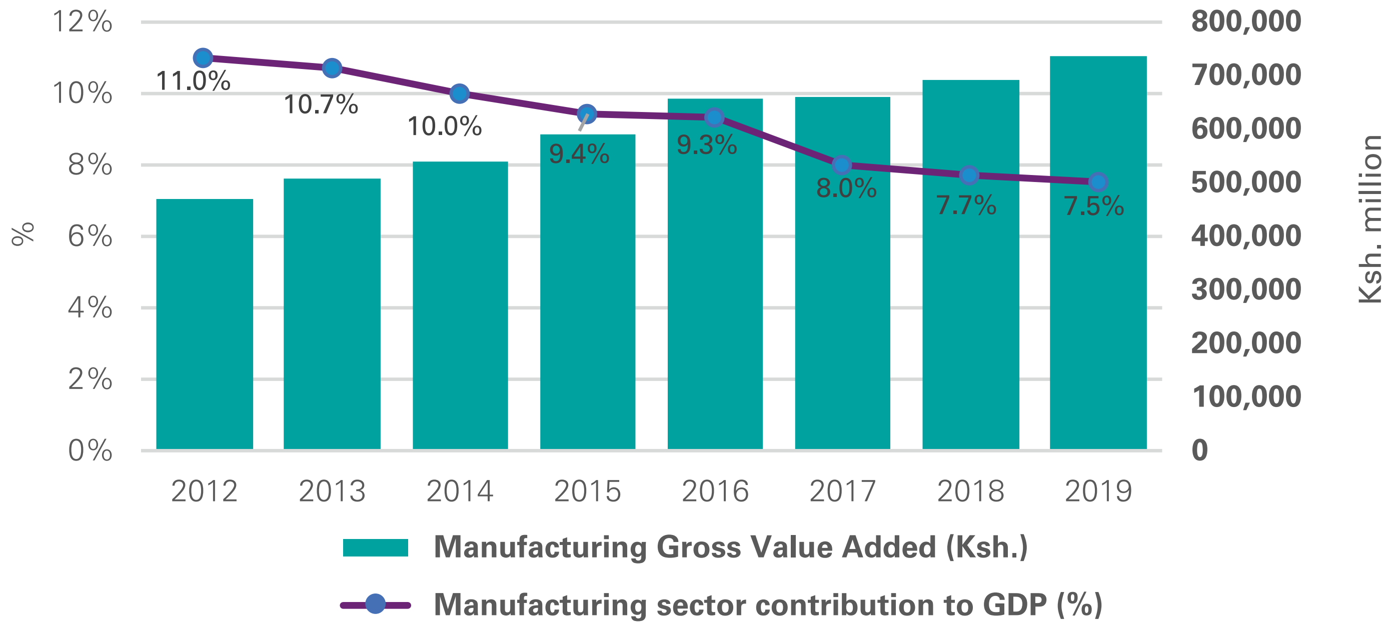
Sources: National Association of Counties - USA.
NY Times
Bank of England
Atlantic Council
Trade Law Centre
Lexology

Kenya context

— The manufacturing sector's contribution to Kenya's GDP has been on a declining trend, dropping from 11% in 2012 to 7.5% in 2019. This is due to a higher absolute growth rate in the construction and utilities sector (water and electricity). However, the manufacturing sector's Gross Value Added increased from Ksh. 469 billion in 2012 to Ksh. 734 billion in 2019. This is mainly driven by the agro processing sector.

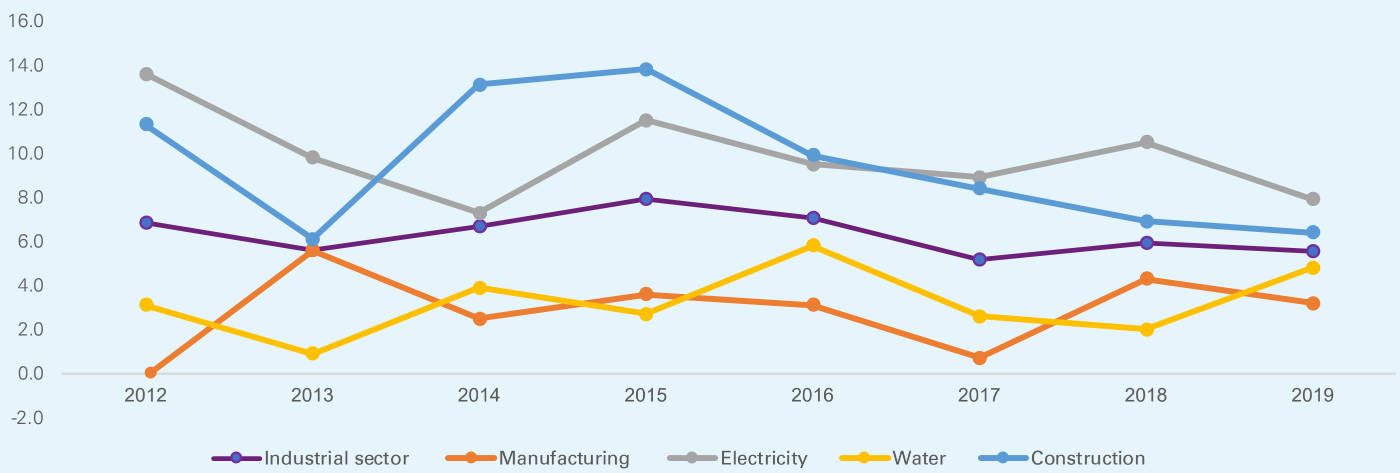
— According to the KAM-KPMG survey, 53% of the surveyed manufacturers are operating below 50% production capacity during the COVID-19 period as compared to 8% of respondents that were operating below 50% production capacity before COVID-19. This is due to temporary shutdown of production plants or reduction in operational capacity given the reduced demand for goods and services during this economic crisis.

Graph 1: Trend in value added in the manufacturing sector and sector's contribution to GDP, 2012-2019



Source: Kenya National Bureau of Statistics (KNBS), Economic Survey 2019 and 2020 Statistical Abstract

Graph 2: Trend in growth of the industrial sector, 2012-2019 (%)

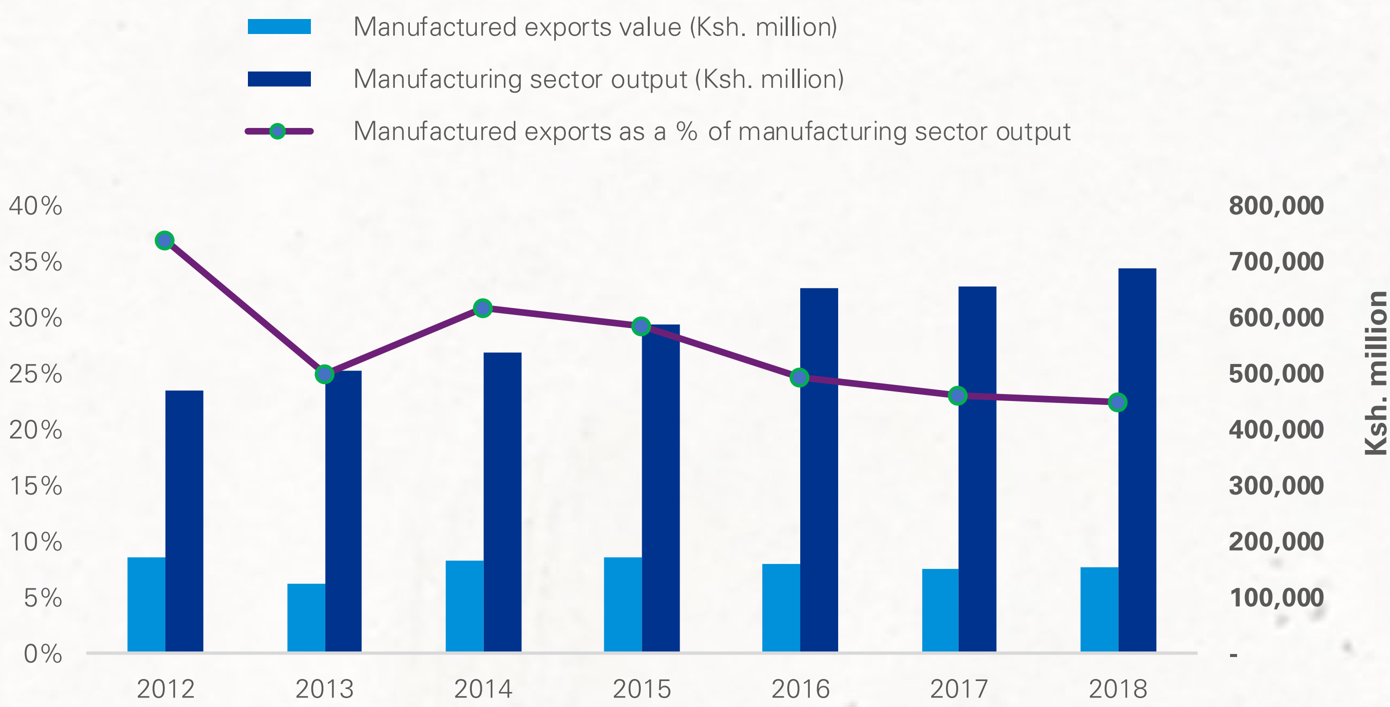


Source: KNBS, Economic Survey 2019 and 2020 Statistical Abstract

The value of manufactured exports has remained constant over the recent period as the sector's output increased. This is driven by an increase in local consumption and the corresponding decline in ratio between manufactured exports as a percentage of manufacturing from 37% (2012) to 23% (2018). The declining trend is in contrast to a projected increase in value of manufactured exports as a share of manufacturing output (23% in 2017, 36% in 2018 and 55% in 2022) as per the National Export Development and Promotion Strategy (2017).

In response to COVID-19, Kenya has adopted phased policy response approaches which are mainly monetary and fiscal in nature. These have been summarised in Table 3 below.

Graph 3: Trend in manufacturing output



Source: KNBS, Economic Survey 2019 and 2020 Statistical Abstract

Table 3: High level Kenya COVID-19 pandemic policy response

Phase	Commentary	Policy response	Specific measures
Phase 1	Expansionary monetary policy was targeted at increasing liquidity in the banking sector and lowering the cost of credit. Expansionary fiscal policy mainly through tax cuts, which is estimated to be approximately Ksh. 172 billion of tax revenue forgone, in order to boost domestic local demand and support retention of employees.	Monetary	■ Reduction of Central Bank Rate (CBR) from 8.3% to 7%, which encourages borrowing and spending in the economy. ■ Reduction of Cash Reserve Ratio (CRR) from 5.3% to 4.3% to increase liquidity of Ksh. 35.2 billion into the market. ■ Encouraged banks to extend flexibility to borrowers' loan terms.
		Tax	■ Allocating Ksh. 10.0 billion for Value Added Tax (VAT) refunds or allow offsetting of withholding VAT. ■ 100% tax relief for those earning below Ksh. 24,000. ■ Reduction of PAYE rate from 30% to 25%. ■ Corporate tax reduction from 30% to 25%. ■ Turnover tax rate reduction from 3% to 1% for all MSMEs.
		Other fiscal policies excluding tax	■ Increased expenditure on health. ■ Allocating Ksh. 13 billion for pending bills. ■ Allocating Ksh. 10 billion for the very vulnerable members of the society.

Phase	Commentary	Policy response	Specific measures		
			Program	Details	Amount (Ksh. billion)
Phase 2	Launch of an 8-point economic stimulus programme, which is estimated to be approximately Ksh. 53.7 billion (about 0.6% of GDP), is targeting the most vulnerable households and businesses with the aim of boosting domestic demand.	Various	**Hire of local labour**	Rehabilitation of access roads and footbridges	5.0
			Expenditure on education	Hiring of 10,000 teachers, recruitment of 1,000 ICT interns to support digital learning and acquisition of 250,000 local fabricated desks	6.5
			Liquidity enhancement	VAT refunds and other pending payments to MSMEs, and MSME credit guarantee scheme	13.0
			Enhanced health expenditure	Hiring of 5,000 additional workers and expansion of bed capacity in public hospitals	1.7
			Expenditure on agriculture	Supply of farm inputs through e-vouchers targeting 200,000 small scale farmers and support to flower and horticultural producers to access international markets	4.5
			Support to the tourism sector	Soft loans to Hotels and related establishments, hiring of 5,500 community scouts and support to 160 community conservancies	4.0
			Water, flood control and environmental protection	Rehabilitation of wells, water pans and underground tanks in the arid and semi-arid areas, flood control measures, and Greening Kenya campaign	2.4
			Buy Kenya Build Kenya	Purchase of locally manufactured vehicles	0.6
			Others		16.0
			Total		**53.7**

Source: Executive Office of the President, 2020

Common issues in the manufacturing sector in Kenya

Introduction

- This summary highlights the common issues that have arisen from the various subsectors and affecting the manufacturing sector more broadly. Addressing these issues will provide focus on supporting the manufacturing sector.

Opportunities

- Manufacture and supply of medical equipment, for example, protective personal equipment.
- Investments in adopting new technology, for example, computer hardware, internet connectivity, home and office furniture.
- Increased attention to developing local value chains to reduce dependence on imports including component manufacturing in automotive, electronics, pharmaceutical and plastics.

Pre-existing challenges

- **Implementation of the BKBK strategy:** Inadequate guidance on the implementation of the BKBK strategy limits the growth of locally produced goods by MSMEs. This is mainly due to the GoK and other consumers relying on imports.
- **Unfavourable tax and regulatory environment:** This has led to an influx of imported products.
- **High cost of electricity:** The use of thermal power and gas turbines as well as an increase in tariffs has resulted in high-energy costs affecting most manufacturers.
- **Anomalies in the Common External Tariff (CET) structure:** Under the current duty structure, taxes/duties on raw materials and finished products are not differentiated. This suggests that businesses involved in value addition/creation are unable to fetch higher margins to incentivise companies to be innovative. In addition, Non-Tariff Barriers (NTBs) and the outdated EAC CET has led to reduced intra and inter EAC trade. Therefore, there is need for governments in the EAC to ensure uniformity of tariffs to enhance and promote local manufacturers and fair competition.
- **Lack of skilled labour force:** the low skilled labour force in the manufacturing sector drives down overall productivity. In addition, the Technical and Vocational Education and Training (TVET) centres offering technical courses make use of outdated technology, methods and approaches. This leads to a mismatch between actual skills available and the required skills in the market.

— **Pro industrial skill development:** The advancement of technology has widened the gap between the skills demand and supply despite the thousands of youth who graduate from higher education and enter the job market every year. This requires the Government to work with social partners, build policy coherence that links education and skills development to today's labour markets, and technology, investment, trade, and macroeconomic policies that generate future employment growth.

— **Regulatory overreach:** Government regulations are creating a business environment in which local manufacturers are finding it difficult to operate, innovate, and meet market needs due to inconsistent and unfavourable regulatory and fiscal policies.

— **Import reliance:** The local manufacturers' dependence on imported raw materials negatively affects the country's GDP, its exchange rate, and its level of inflation and interest rates.

— **Corruption:** Corruption in the tendering process has resulted in higher imports compared to locally manufactured goods.

— **Cost of transport and logistics:** Direct rail of all cargo destined to Nairobi via the Standard Gauge Railway (SGR) has resulted in an increase of the overall cost of transport and logistics among importers. This has been due to delays in clearance of cargo at Mombasa port and Inland Container Depot (ICD) in Nairobi occasioned by inefficiencies along the supply chain. Interventions by various government agencies has been attributed as a major cause of this.

— **Lack of access to credit/high cost of credit:** For MSMEs looking to supply to large retailers or distributors, the increase in sales may be difficult to finance given financial institutions' reluctance to lend for working capital requirements. Additionally, financial institutions charge high interest rates to mitigate the high risk of lending to MSMEs.

— **Illicit trade:** Illicit imports offer unfair competition to locally manufactured products and greatly undermine the level playing field in the domestic market. Illicit trade has continued to hurt the Kenyan economy for years despite the numerous legislative and regulatory efforts, in addition to the most recent intervention through the Presidential directives to curb the vice.

Emerging challenges

— **Travel permits:** Travel restrictions within land borders caused by delays in receiving permits have led to inventory pile-ups and consequently a drop in export sales.

— **Access to finance:** Companies are deferring capital expenditure due to difficulties in accessing long-term finance.

— **Payment delays:** There have been delays in payment by the GoK for goods supplied resulting from improper record keeping as well as delays in VAT refunds. Historically, this has resulted in liquidity challenges, which are now aggravated by the COVID-19 pandemic.

— **Lending environment:** Lack of affordable finance has been an issue in this sector; however, because of the current pandemic driving economic uncertainty, lending institutions have become stricter in their credit evaluation and approval process. This has resulted in lower access to credit in the market.

— **Limited local demand:** Similarly, the current pandemic has led to a reduction in purchasing power of local consumers and changes in priority spend from luxury goods to essential goods. This has slowed down the local demand, for example, leather and footwear products.

— **Supply chain disruptions:** To curb the current pandemic, the countries across the globe have imposed measures limiting movement. This has affected the supply chain for sectors that depend on the link with global supply chains.

— **Increased cost of production:** The Kenyan industries is burdened by high fixed and variable costs which have risen since the COVID-19 breakout. Examples include electricity costs, country-branding licences, delays in containers clearing and delivery from port to the ICD.

Note: The proposed intervention has been plotted on the priority matrix below this table.

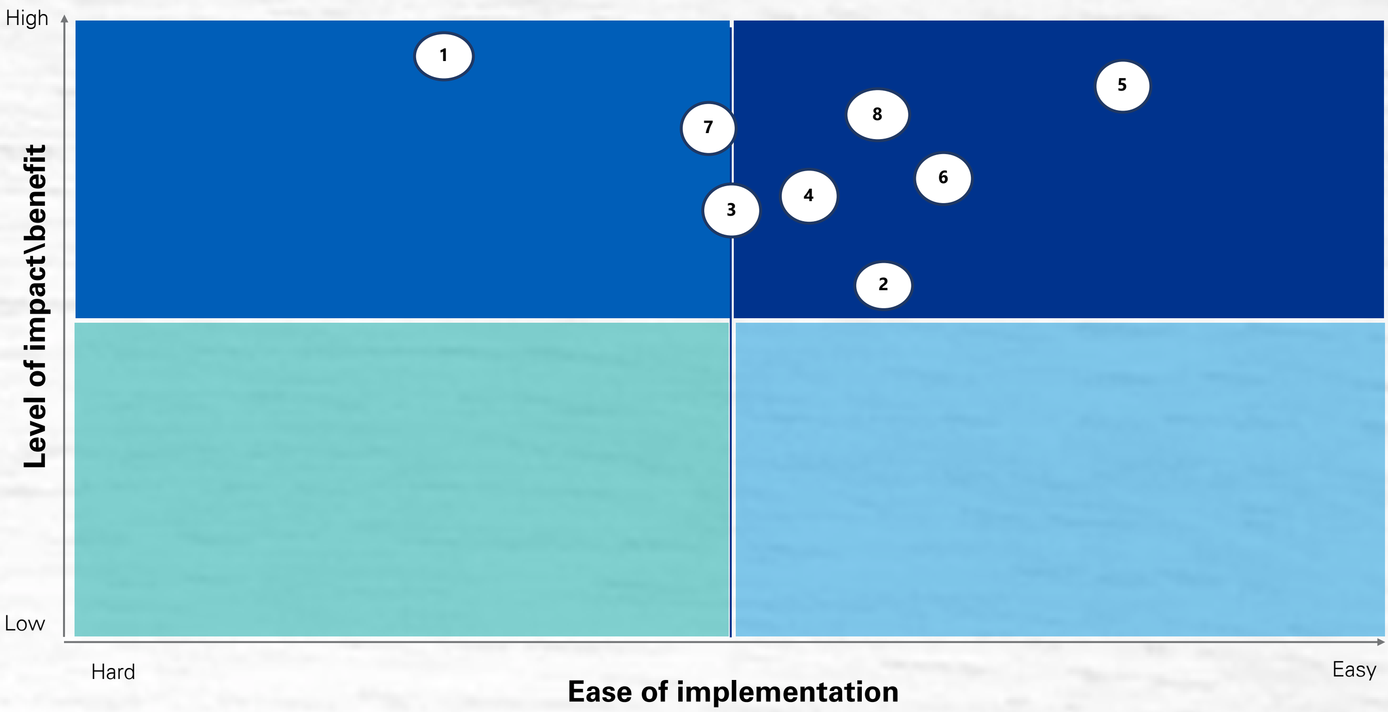
Intervention Number	Proposed intervention	Comments	Key stakeholder group	Time horizon
1	**Flattening the curve**	■ The two levels of government should enhance the capacity of health facilities to conduct COVID-19 tests, and public health officials to undertake contact tracing expediently to reduce the transmission rate in the country. ■ Map-out high-risk areas that can aid the spread of the virus and intervene as appropriate. ■ Reduce COVID-19 related compliance cost to facilitate manufacturing production locally.	■ Ministry of Health ■ County Governments	Short term
2	**Circular economy**	■ Localise and implement SDG Goal no. 12 on Responsible Production and Consumption under the circular economy. ■ Implement KAM's Plastic Action Plan 2019.	■ Ministry of Environment ■ National Environment Management Authority ■ KAM	Medium term
3	**Nurturing nascent and emergent business opportunities uncovered by COVID-19 pandemic**	■ Enforce the BKBK strategy to encourage consumers to buy locally manufactured products. ■ Fully operationalise the BKBK monitoring and evaluation framework i.e. periodic reporting of BKBK strategy implementation progress by MDAs. ■ Provide surgical masks and alcohol based hand sanitizers to schools when they reopen. ■ Enhance capacity for KEBS to develop standards for new inventions/innovations by manufacturers. ■ Exploit component manufacturing opportunities in pharmaceuticals, plastics, machinery, and expansion of an array of parts produced in the automotive sectors and electronic sectors.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term

Intervention Number	Proposed intervention	Comments	Key stakeholder group	Time horizon
4	**Support to SMEs**	■ Operationalise the SME credit guarantee scheme. ■ Operationalisation of the Ksh. 712 million SME fund proposed in the National Budget Statement 2020.	■ The National Treasury and Planning ■ Ministry of Industrialisation, Trade and Enterprise Development ■ Micro, Small and Enterprise Authority ■ Commercial banks	Medium term
5	**Adopt a "do no harm" principle while intervening in the market**	■ Delete tax provisions that will increase the burden to taxpayers. ■ Reverse punitive tax policies as contained in the Tax Laws Amendment Act 2020 and Finance Act 2020. Specifically, the 1% minimum tax; VAT exemptions on pharmaceutical products; 14% VAT on plant, machinery, and spare parts; deferring the staggering of investment deductions on plant and machinery; VAT on transfer of a business as a going concern; and withdrawal of the 30% electricity rebate program. ■ Regulatory audit with the aim of creating a supportive regulatory environment in Kenya.	■ The National Treasury and Planning ■ Ministry of Industrialisation, Trade and Enterprise Development ■ KRA ■ Relevant government regulators	Long term
6	**Increase resilience of the manufacturing sector and ease of doing business**	■ Ensure long-term policy stability, particularly on taxation. A policy on taxation is required to ensure certainty and predictability. ■ Develop selected domestic and regional value-chains to minimise exposure to external shocks. ■ Ensure an effective legislative and institutional framework to support research and development. ■ Review policies at county and national level to ensure they improve the business environment and investment climate.	■ National Government ■ County Governments ■ The National Treasury and Planning	Long term

Intervention Number	Proposed intervention	Comments	Key stakeholder group	Time horizon
7	Unemployment Insurance Program for workers	■ Set up an unemployment insurance fund to pay benefits to covered workers who become involuntarily unemployed and meet specified eligibility requirements, to cushion them in times of unemployment. The insurance program may be designed in two ways: ■ Allow workers to work part-time. ■ Allow workers to remain formally with the business even if not working at all to ensure quick resumption of activity once normalcy returns.	■ Ministry of Labour and Social Services ■ The National Treasury and Planning	Long term
8	Fiscal consolidation	■ Operationalise the Public Investment Management (PIM) guidelines to ensure that only economically viable public projects are funded through the budget. This will ensure value for money.	■ The National Treasury and Planning	Long term

Prioritisation matrix on the common intervention for the manufacturing sector

The priority matrix seeks to understand the impacts/benefits versus the ease of implementation of the sector recommendations noted on the previous two pages.



Detailed report of the subsectors

Agriculture/fresh produce

Overview

- The agricultural sector is the backbone of the Kenyan economy accounting for 34.1% of the country's GDP in 2019[31]. In addition, nearly 75% of Kenyans earn part or all their income from this sector[32].
- The quantity of the fresh horticulture produced has continued to rise over the years; crop farming alone contributed to 27.8% of the country's GDP in 2019[33]. To date, tea, coffee and flowers are the main agricultural exports from Kenya. However, earnings from exports of fresh horticultural produce have been decreasing because of lower prices offered in the international market.
- Due to unfavourable weather patterns as well as the locust invasion, there has been reduced crop production in 2020. However, investment in value addition and more efficient agricultural practices will ensure continued growth of the sector and cost effectiveness of production.

Opportunities

- Opportunity to increase yield for crops by integrating modern farming practices.
- Currently, a large percentage of the farm outputs are exported in their raw form. Engaging in value addition will fetch higher margins from the export market. Examples include processing of avocadoes to make avocado oil and other extracts, processing of tea and pyrethrum.
- Explore the various linkages within the agricultural sector in Kenya to ensure that both large scale and small scale farmers as well as the final consumers are interlinked to produce a strong local supply chain system. For instance, 90% of agrochemicals are imported. Instead, these should be produced locally to adopt a value chain that benefits local manufacturers and invests back into the local economy.
- Investment in technology in the agro-processing sector will lead to efficiencies as better farming practices are adopted making the sector competitive in the global market.
- Investment in research and development on eco-friendly packaging materials given the current ban on plastics as well as the shift in customer preferences to biodegradable packaging.

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[31] BMI Research
[32] USAID, 2020
[32] Kenya National Bureau of Statistics Economic Survey 2019

Pre-existing challenges

- **Limited investment:** Lack of investment in research and development as well as capacity building in the agricultural sector. Investment will drive innovation through adoption of sustainable agriculture practices as well as improve overall yields for agribusinesses.
- **High input cost:** High cost of inputs such as fertilisers, pesticides and farming equipment required contribute to higher prices of finished produce. Many smallholder farmers are unable to afford the high input costs, opting for more traditional methods of farming. This affects the overall quality/yield of the produce.
- **High energy cost:** Electricity costs accounts for a large proportion of the conversion costs for the agro processors leading to lower gross profit margins on local and export sales.
- **Post-harvest storage:** Lack of proper post-harvest storage facilities increases the risk of expiration of farm produce and financial losses to farmers.
- **Investment in technology:** There is inadequate investment in technology to support the research and development of innovative efficient farming techniques such as soil analysis and crop husbandry.

Emerging challenges

- **Restricted movement:** Due to the current pandemic, restricted movement across the counties as well as across borders has affected the supply chain for various companies.
- **Freight cost**: Expensive freight cost in Kenya compared to other countries reduces the cost competitiveness of local produce. This has become worse due to the decline in flight frequencies caused by the COVID-19 pandemic.
- **Tax incentives:** Lack of tax incentives for flower exports to countries outside of the European Union (EU) has contributed to the reduction in export.
- **VAT refunds:** There have been delays in VAT refunds and processing of payments by the GoK, creating a strain on working capital for many businesses over the years but more so during the current economic crisis.
- **Reduced demand for cut flowers:** Campaigns launched in the most part of Europe advocating for purchase of own locally grown flowers has contributed to a decline in the export market.
- **Cost of finance:** Financial institutions charge higher interest to companies seeking finance in the agribusiness, which creates a barrier to entry for MSMEs. This has worsened during the current economic crisis.
- **Increased tax burden:** Amendment of the Tax Act has resulted in higher cost of production. Examples of such deterrence include the turnover tax, removal of farm-work allowances and VAT on equipment and machinery.
- **Imports:** Reduction in local production and supply of cereals such as wheat, maize and millet does not satisfy local demand during the pandemic and so has to be supplemented by imports from the EAC.
- **Increased brokers/agents:** The weak link between the farmer and the consumer has resulted in an increase in the number of brokers that negotiate trades and make higher returns compared to the farmer. In addition, brokers have higher bargaining power and, therefore, farmers are often pressured to lower their price, which dispirits them.
- **Consumer confidence:** Cases of aflatoxins, especially in maize and groundnuts, are common leading to a reduction in consumer confidence in the local produce.
- **Regulations:** Overlap of regulators and regulations creates additional costs of compliance for a sector that is already highly regulated. An example is the KEBS and the Competition Authority of Kenya (CAK) who have a similar mandate over food quality.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Storage facilities	Investment in building proper storage facilities will ensure that farm produce stays fresh and is safe longer.	■ Businesses	Short term
Stimulus package	A proper framework should be established to ensure farmers benefit from the Government's economic stimulus. This will help in sustaining the growth of the agro processing sector especially during the pandemic and in the future.	■ Ministry of Agriculture	Short term
Digital platform	Current and potential digital platforms should be created and supported that seek to link the farmers to the end consumers. This will eliminate middlemen/brokers and provide higher returns for farmers. Additionally, the digital platform should be regulated to ensure that farmers are not exploited.	■ Businesses	Long term
Automation	The process of obtaining VAT refunds should be automated. The automation should track the progress of the application, ensure accountability and be transparent between various stakeholders.	■ KRA	Medium term
Market study	There is an opportunity to conduct an in-depth market study to understand the local agribusiness value chain in comparison with global agribusiness value chains and identify areas of cost improvement. This includes the freight cost. In addition, the market study would seek to identify factors that improve the current crop yields and identify the right crops to be grown in a particular area as part of the solution to the high cost of production.	■ Ministry of Agriculture ■ Businesses	Medium term
Flower exports	Increase in global promotional campaigns by the GoK for flowers will assist in promoting Kenyan grown flowers as a brand.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Eco-friendly packaging	Provision of tax concessions, rebates, and other incentives to encourage businesses to invest in technology for use in the manufacture of eco-friendly packaging material locally will enhance the value chain by reducing imports. Likewise, agribusinesses need to collaborate with industries in the paper and board sector who could supply eco-friendly packaging products. This will ensure businesses adopt a value chain that benefits local manufacturers and invests back into the local economy.	■ Businesses ■ KRA	Medium term
Role and mandates of regulators	Government should harmonise the roles and mandates of the various regulators. This will reduce duplication and the cost of compliance.	■ Government regulators	Medium term
Capacity building programs for MSMEs	The GoK should focus on capacity building programs for the MSMEs to ensure that the quality of produce processed by such companies are at par with the quality of the more established sector players.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term

Automotive

Overview

— Kenya has a well-established automotive industry compared to its peers in the EAC. The local automotive industry is continually developing owing to digital technology transformation, change in customer sentiment and economic health. The sector is grouped into four main subsectors namely: motor vehicle and trailer assemblers; motorcycle; parts and components; and the bus body builder subsector.

— The manufacture of motor vehicles, trailers and semi-trailers increased by 11.2% between 2017 and 2018[18]. This is driven by growth of the middle class population and an increase in annual disposable household income. Kenya is still dependent on imports to meet domestic demand. In 2019, used cars accounted for 88% of new registered motor vehicles in Kenya (KNBS). During the same year, Kenya Motor-vehicle Industry Association (KMI) reported a total of 12,981 units of new vehicles.

— Because of the COVID-19 pandemic, the projected increase of motor vehicle production will decline as consumers and businesses prioritise their cash on savings and spending on essential goods.

Opportunities

— Global Original Equipment Manufacturers (OEMs) are increasingly targeting component manufacturing by way of establishing regional hubs. Through contract manufacturing with OEMs, Kenya can position itself to be a regional supplier of parts. Growth of this sector is further buoyed by a stable political environment which provides an incentive for foreign direct investment.

— There is an opportunity to reduce the cost of reconditioning local old vehicles by negotiating lower prices for the OEM parts through local contract manufacturing. This will make local reconditioned vehicles competitively priced compared to imported complete built second hand vehicles.

— Strengthening of the local supply chain through access to low cost suppliers and use of modern, innovative technology will translate to economies of scale within the value chain; this will enable businesses within the sector to make better gross profit margins.

— There is an opportunity to develop a Local Content Policy (LCP) and understand the linkages between the various sectors. This will encourage local manufacturing as well as ensure sustainable economic and social outcomes.

Pre- existing challenges

— **Importation of used vehicles:** There is an increase in importation of used vehicles in the Kenyan market leading to reduced demand for locally manufactured vehicles. This is due to imported second hand products having an unfair cost competitiveness advantage which inhibits growth of local producers.

— **National Automotive Policy (NAP):** In the absence of an approved NAP and the National Automotive Council (NAC), there is a lack of an institutional, legal and regulatory framework for the automotive industry.

— **Lack of skilled labour force:** The automotive manufacturers are finding it difficult to fill positions requiring higher skilled employees such as engineering positions who cover a number of disciplines including design, manufacture,

[18]Kenya National Bureau of Statistics

programmes, and quality. This requires differing levels of skills, expertise and knowledge.

- **Research and development:** Lack of incentives to undertake research and development discourages innovation and new technological development within the automotive sector. Components used for development of prototypes are subjected to payment of duties and taxes which is a disincentive to research and development.
- **Technology:** Acquisition of the latest technology for assembling and manufacture of spare parts is hindered by the lack of affordable long term financing options for the sector.
- **Homologation of vehicles:** Homologation is a national process to determine the types of motor vehicles to be manufactured locally to promote economies of scale and guarantee volumes for assemblers, component manufacturers and after market operations. The absence of homologation of vehicles has affected local parts manufacturing in terms of perceived quality and market positioning.
- **Tax incentives:** There are inadequate tax incentives in place for the automotive sector, which discourages local manufacturing. Incentives aimed at increasing local manufacture of parts and vehicles for the domestic as well as the export market will ensure optimal utilisation of the sector's plant assembly capacity, whose current production utilisation is at 30%.
- **Lack of incentive to absorb local content:** The current framework does not incentivise assemblers to source components and parts from local parts manufacturers.

Emerging challenges

- **Consumer demand:** The COVID-19 pandemic and the resulting economic crisis has led to reduced consumer demand and reduced capacity utilisation in the short to medium term leading to subdued new vehicle sales and deferred spending on nonessential after sales maintenance.
- **Liquidity challenges:** The current liquidity challenges in Kenya have resulted in customers opting to defer spending on motor vehicles. Flexible financing and payment plans by financial institutions will encourage spending within the sector.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Finalisation and implementation of a NAP	Finalisation and implementation of the NAP will provide an institutional, legal and regulatory framework which will create transparency in economic activities in the automotive manufacturing sector in Kenya.	■ Ministry of Industrialisation, Trade and Enterprise Development	Short term
Setting up of a NAC	The primary role of the NAC would be to ensure the effective implementation of the NAP and establish a harmonised environment for the automotive sector.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Financing/ payment plans	During this economic crisis, end consumers in the automotive sector are focused on conserving cash. Flexible financing and payment plans by financial institutions may encourage spending within the sector.	■ Financial institutions	Medium term
Tax incentives and exemptions	Tax incentives and exemptions should be given on purchase of machinery used in the manufacture of motor vehicles including buses, tools and spare parts to incentivise local companies to manufacture motor vehicles. Additionally, this will enhance the local automotive value chain given that parts manufactured locally may be used to assemble new vehicles or recondition old vehicles.	■ National Treasury ■ KRA	Medium term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Value chain	Conducting a market study would be useful to understand areas within the automotive value chain that may be enhanced as well as identify the potential for motor vehicle parts being manufactured locally.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
CET	The Government should fast track the comprehensive review of EAC CET in order to minimise the number of stays of application among member states. This will ensure that local manufacturers face fair competition with importers as well as achieve an overall economic gain for the sector in the long term.	■ Ministry of East African Community and Regional Development ■ Ministry of Industrialisation, Trade and Enterprise Development ■ National Treasury	Medium term
Motor vehicle age limit	The GoK should advocate for harmonising the age limit for imported vehicles within the EAC and consider setting up assembly plants or (or invite investors OMEs) to spur growth of the local motor assembly industries.	■ Ministry of East African Community and Regional Development ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Incentives for research, design and development	At present, customer expectation of vehicle reliability, safety, and quality are at its highest. Therefore, increased spend on research, design and development will encourage innovation and new technological development within the automotive sector to meet the ever-changing customer demands.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Nation Treasury ■ Businesses	Long term
Finalisation and enforcement of a Local Content Policy (LCP)	It is imperative that local automotive manufacturers are incentivised by the GoK through purchase of locally assembled motor vehicles and vehicle spare parts for own use. This can be enforced through the finalisation and implementation of LCP.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term
Setting up of a modern national level training institute	The automotive manufacturers will find it easier to fill positions requiring higher skills given that the local workforce will have been trained. It is also important to get the Industry engaged in reviewing the training curriculum to ensure the training is in line with Industry needs. This will also help manage the longevity of the workforce particularly around working practices.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term
Financing	Access to capital (equity/debt) will cater for capital expenditure requirements, particularly for modern, innovative technology as well as working capital requirements.	■ Financial institutions ■ Strategic investors	Medium term

Building, mining and construction

Overview

- In 2019, the construction, mining and quarry industry contributed 5.6% and 0.7% of Kenya's GDP respectively[1].
- The construction industry grew at a Compounded Annual Growth Rate (CAGR) of 13.8% from USD 3.1 billion in 2015 to USD 5.2 billion in 2019[2]. Increased spending by the Government on capital projects such as extension of the Standard Gauge Railway (SGR) line from Nairobi to Naivasha and expansion of the road network across the country drove this growth. The sector is further expected to grow due to multiple projects such as the Lamu Port and Lamu-Southern Sudan-Ethiopia Transport (LAPSSET) corridor project, rehabilitation of the current 1(one) metre gauge railway and the government's affordable housing project in line with the Big 4 Agenda, as well as the expansion of the road network, that are earmarked for roll out.
- The mining industry grew at a CAGR of 9.6% from USD 0.5 billion in 2015 to USD 0.8 billion in 2019. This growth was largely driven by the early oil pilot scheme for which 240,000 barrels were explored over a two-year period. Although in its nascent stage, the ongoing exploration of oil in Kenya's Lokichar Basin will be key to the mining and quarrying industry, whose contribution to GDP has conventionally been insignificant.
- The proposed solutions in a white paper submitted to the State Department for Housing and Urban Development in response to COVID-19 are expected to drive the growth of this sector.

Opportunities

- The implementation of the affordable housing pillar under the Big 4 Agenda offers huge opportunity to the industry.
- Supply to the rising demand for construction materials in East Africa.
- Opportunities to leverage on the ongoing government investment in infrastructure.
- **Additionally,** The following opportunities as identified in the 2018 and 2019 deep dive reports still exist in the sector as the mining subsector is hugely unexplored in the country but bears very huge potential:

[1] According to Kenya National Bureau of Statistics (KNBS)
[2] KNBS

- Areas such as the Busia-Kakamega Greenstone Belt and Mozambique Belt have high mineral potential in the country that has not been explored. Local companies who possess mining rights can speed up the process of commercial mining through joint venture partnerships and investment in modern mining technologies.
- The abundant coral limestone deposits at the South Coast and Western region in Kenya can be used to produce high quality cement clinker for the local market as well as for the export market. This will also make the country become self-reliant on clinker. Additionally, phosphate, which is a by-product of limestone, can be used to manufacture fertiliser used by the agriculture sector.
- Local companies involved in cement production could take advantage of availability of local gypsum, coal and iron ore deposits as raw materials for cement production instead of relying on imported clinker.

Pre-existing challenges

— **High-energy costs:** On average, the building, mining and construction sector uses approximately 50% of the country's total energy from the national grid. Therefore, increases in cost of electricity have resulted in finished products being less competitive than imports.

— **High taxation on inputs:** Especially for raw materials that are not locally available with high duty rates need to be addressed through the ongoing Comprehensive EAC CET review.

— **Competition from imported finished products:** The duty charged on some imported products is quite low which makes it easier for traders to bring in these products.

— **List of government's preferred suppliers:** The Public Procurement Act requires that preferred local suppliers as well as their products are gazetted. Currently, this list of preferred products are benchmarked on the quality of imported goods as a standard of specification, which are occasionally of much lower quality compared to the locally manufactured goods.

— **Payment delays:** Delays in payment by the GoK and private sector developers has led to real estate contractors and their suppliers facing liquidity challenges.

— **Government approval processes:** The GoK's approval process for mining is lengthy and time consuming which deters MSMEs from venturing into this sector.

— **Mortgage market to finance home ownership:** Challenges such as high lending rates, difficulties in property registration and titling, and the inability to access long-term financing has slowed down growth for homeownership and in turn, demand for residential buildings.

— **Encroachment in designated mining areas:** Unauthorised residential buildings erected around areas that are designated as mining areas have led to businesses curtailing their expansion plans.

— **Cost of investment in technology:** Technology required for mining, production of building material and construction is relatively costly, creating a barrier to entry for MSMEs.

Emerging challenges

— **Limited demand:** At present, the cement manufacturing companies in Kenya grind between 5 million tonnes to 6 million tonnes of cement, which equates to 40% to 50% utilisation of the cement production plants This is driven by a slowdown in the construction sector.

— **Lending environment:** Lack of affordable finance has been an issue in this sector. However, because of the current pandemic driving economic uncertainty, lending institutions have become stricter in their credit evaluation and approval process. This has resulted in lesser access to credit in the market.

— **Introduction of compliance costs:** Businesses must comply with the new requirements to health and safety, resulting in an unanticipated increase in manufacturers' operational costs. This includes provision of PPE and cleaning products.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Infrastructure funds	The GoK should continue to spend on its infrastructure projects such as the expressways and housing projects under the Big 4 agenda. This will create demand for cement and other complementary products. The current infrastructure projects that are contracted but have stalled should be prioritised for completion.	■ Ministry of Transport, Infrastructure, Housing and Urban Development	Medium term
Development finance fund	There is a need to have a development finance fund to fund housing projects. This would ensure that developers are protected against lenders seeking to take advantage of the current lending environment.	■ Central Bank of Kenya (CBK) ■ Financial institutions	Medium term
Provision of subsidised PPEs	It is possible for the textile and apparel sector, through intervention from the GoK, to provide subsidised PPEs to the MSMEs. This will ensure such businesses are able to manage unanticipated operating costs.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Textile and apparel sector	Short term
Awareness of the COVID-19 virus	There is a need to create awareness and sensitise staff on the health risks associated with COVID-19 virus which may help contain the spread and transmission.	■ Businesses ■ Directorate of Occupational Safety and Health Services	Short term
Collaboration within the EAC market	The governments of the various countries within the EAC should work collaboratively to provide sufficient market data and analysis on demand, capacity and supply on cross selling of various manufactured products. This data should be made public.	■ Ministry of EAC and Regional Development	Medium term
Suppliers and goods	The government's list of preferred suppliers and goods should be comprehensive and should favour locally manufactured products instead of imports.	■ Public Procurement Regulatory Authority	Short term
Prompt payments	There is need to impose regulations on timely payment by the GoK and private sector developers. This will minimise cash flow constraints for contractors.	■ National Construction Authority	Medium term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Digitise regulatory processes	The regulatory processes from start to end should be urgently digitised through the development of an online platform which will facilitate the approvals required for businesses in the mining and construction industry. This will eliminate the current bureaucracies and ensure transparency within the sector.	■ National Construction Authority	Medium term
Enforcement of BKBK strategy	Implementation of the BKBK strategy will encourage consumers to buy locally manufactured products.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Conducive mortgage market	A framework should be developed to grow the mortgage market. This will ensure the challenges to homeownership, especially for first-time home buyers, are resolved.	■ National Construction Authority ■ CBK ■ Financial institutions	Long term
High-energy costs	The industries in this sector are considered to be energy intensive, consuming much of the energy from the national grid. For companies seeking licences to produce their own energy, the government should ensure that there is transparency and fairness in the process.	■ Ministry of Energy	Long term
Import duty	A reduction in import duty for raw materials that are not locally available will ensure that building and construction finished products locally manufactured are cheaper than imported finished.	■ The National Treasury ■ KRA	Long term
Revision of the building code	The current building code in Kenya should be reviewed to incorporate best practices, as the current code has been a roadblock to delivery of housing projects. The current building code is outdated and is inconsistent with emerging trends and technologies.	■ National Construction Authority	Medium term

Chemical and allied

Overview

- The chemical industry has been an integral part of the Kenyan economic landscape. According to the 2019 Economic Survey, chemicals used in the agriculture, industry and energy sectors account for 6% of Kenya's GDP[3]. The sector grew by 6.4% (2017 to 2018) due to increase in local demand for chemical based products such as fertilisers, paint, and pesticides[4].
- The sector is further divided into five sub sectors: agro-chemicals, cosmetics, foam mattress, paints and resins, and hygienic. The majority of the players' in the sub sectors operate as informal businesses; however, there are several large multinational players within the subsector.
- As the sector continues to grow, a key challenge will be the dependence on imported raw materials, which accounted for 98% of the total chemical consumed in 2019[5]. The supply chains continue being disrupted by the COVID-19 pandemic and therefore, the sector will have to adopt new, agile approaches to become more self-sufficient[6].

Opportunities

- With a growing demand for both hand sanitizers and masks, there is an opportunity for the local chemical industry to scale up the supply of essential products – from raw materials for hand sanitizers to PPE such as chemical resistant gloves.

[3]Kenya National Bureau of Statics
[4]Kenya National Chemicals Profile

- Growth of this subsector is also driven by growth of other complementary sectors such as the agriculture, automotive, plastic and leather subsectors, which depend on the chemical sector for fertilisers, pesticides, synthetic materials, and leather processing. In addition, the sector could locally manufacture all farm pest control chemicals needed by the agriculture sector.
- Vehicle manufacturers are particularly large users of synthetic materials, so this provides the local chemical sector the opportunity to fulfil that demand by the automotive sector.
- KAM's 2019 deep dive report also mentioned opportunities, which are still relevant to the subsector as at the date of this report. These opportunities include:
    - The local demand for fertilisers presents an opportunity for the establishment of bio-fertiliser plants. Currently, Kenya imports significant amounts of fertiliser used in the country.
    - The proposed national housing project by the Government of Kenya provides an opportunity for local manufacturers in the subsector as there will be increased demand for paint and spirits.

Pre-existing challenges

- **Lack of automation:** There is a lack of automation in generating and managing required documentation and inspections at customs. Additionally, the lack of automated real-time control checks in and along the borders/ports creates an untimely clearing process and increases risks of noncompliance by companies seeking to quicken the process.
- **Classification of Harmonised System (HS) Codes**: Currently, there is a misclassification of some finished products as raw materials by the EAC Common Market, which has led to unnecessary delays and fines at customs.
- **Value chain sustainability:** It is difficult to gain visibility of their entire supply chain and stakeholders as chemical companies often have large, complex multi-tier value chains stretching across multiple regions and sectors. This makes it complicated for organisations trying to create local, sustainable supply chains.
- **Chemical waste and pollution:** There are significant imports of chemicals into the country designated by international regulatory bodies as highly toxic. However, there are currently no proper waste disposal facilities or systems, especially for laboratory chemicals. Kenya imports chemicals that are not manufactured locally or where local demand for the chemical is higher than what can be produced locally.
- **Dependence on imported raw materials:** The subsector heavily relies on imported raw materials (i.e. petroleum, acids, alcohols, and minerals), making it difficult to create a self-reliant sector.
- **Safety concerns:** A key risk to employees in this subsector is the long-term exposure to dangerous substances. This entails acute risks (fire, explosions, irritation/burns, poisoning, and asphyxiation) and chronic risks. In addition, there is the potential risk of exposure to COVID-19 for front line workers. The PPE used for the COVID-19 virus could be redesigned to address this concern.

Emerging challenges

- **Product competition:** Due to a shortage of hand sanitizers amid the COVID-19 pandemic, counterfeiters (largely MSMEs) seeking opportunities to make profits, are producing and selling non-compliant hand sanitizers.

Proposed intervention	Comments	Key stakeholder group	Time horizon
General safety awareness and training	In order to curb the amount of noncompliant and potentially harmful sanitizers, cleaning products and other chemical products being produced in the local market, the industry might consider providing technical expertise and training to MSMEs and relevant regulatory bodies (for example Kenya Bureau of Standards (KEBS) and Kenya Medical Supplies Authority (KEMSA)) to improve best practices, safety and quality of products in the market.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Businesses ■ KEBS ■ KEMSA	Short term
Finalisation and implementation of a chemical policy	Manufacturing, storing and disposing chemicals is a complex process that can have unforeseen consequences for people and the environment. Thus, it is vital for the industry to finalise and implement a chemical policy that will regulate the use and disposal of all chemical and hazardous waste.	■ Ministry of Environment and Forestry	Medium term
Safety policy and procedures	To minimise health risks for employees in the subsector, companies should maintain and periodically update their safety policies as well as provide training on the handling, recycling or disposal of hazardous compounds.	■ Businesses ■ Directorate of Occupational Safety and Health Services	Short term
Health and safety during COVID-19	Companies operating their businesses during the COVID-19 crisis must take appropriate measures to protect the health and safety of their workers, which includes ensuring safe work practices, providing employees with personal protective equipment, and training on risk factors and protective behaviours to avoid exposure and good hygiene. In addition, the government might consider subsidising production of masks and other PPE to increase affordability for use in manufacturing factories.	■ Ministry of Health ■ Businesses	Short term
Waste disposal systems	In order to minimise illegal dumping of hazardous chemical waste, local chemical manufacturers may consider collaborations to develop cost-effective waste disposal facilities to dispose, recycle, and reuse their chemical waste. This will aid in reducing the sectors' reliance on imported raw materials.	■ Ministry of Environment and Forestry ■ Businesses ■ National Environment Management Authority of Kenya (NEMA)	Long term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Digitisation of customs checks	The implementation of automated customs checks will permit timely and accurate compliance checks. This will not only assist in reducing the amount of manual work to be conducted by customs officers but also reduce any regulatory oversight and allow for an efficient clearing process.	■ KRA ■ Ministry of Industrialisation, Trade and Enterprise Development	Long term
Clarification of HS codes	Given the importance of proper classification and accuracy of HS codes KRA, in consultation with various stakeholders, should consider reviewing and updating current HS codes in order to minimise the misclassification between raw materials and finished products in the subsector.	■ KRA	Medium term

Energy, Electrical and Electronics

Overview

— Kenya has one of the most developed power sectors in sub-Saharan Africa. The power sector profits from ample renewable energy sources, a dynamic private sector, and Kenya Power and Lighting Company Limited being a creditworthy off-taker[7].

— Of the total installed capacity of 2,351 megawatt, 36% is from hydro while 33%, 29% and 2% is from thermal, geothermal and other renewable energy respectively[8].

— Kenya is also a regional leader in energy efficiency and thus has developed capacity to deliver on various projects around energy generation, transmission and management.

— Kenya's electronic industry is still in its early stages. However, several firms in the assembly, testing, repair and maintenance of electronic goods are in operation and are rapidly developing to meet the growing demands of the industry.

— The sector is also forging forward towards providing machinery and equipment for varying applications and as at now has a wide range of capacities ranging from PLCs, weighing machinery, cold rooms, HVAC among others

— The electric sector is also significantly developed and it has capacity to meet most of the high voltage and low voltage cable requirements for the country

— Lastly, the petroleum and gas subsector is well functional, mainly fuel for redistribution. There are advancements into making gas cylinders for LPG use. The subsector also manufactures a wide range of lubricants.

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[7] USAID
[8] USAID

Opportunities

- Electronics and machinery manufacturing and assembly
- Enhancement of lubricants access to domestic and export markets
- Manufacturer of cables for domestic and industrial applications
- Enhancing price stability of the petroleum products through enhanced logistics systems to take advantage of global price dips.
- Manufacture medical equipment and other electronic and electrical machinery and technology in line with the BKBK strategy.
- The creation of employment opportunities for the youth, women and disabled through establishment of credit guarantee facilities will enable such groups to fulfil the requirements of public procurement tenders.
- Explore renewable energy production given the vast unexploited reservoirs of wind, solar, biomass, and geothermal energy in the country and region.
- Provision of expertise in energy, electrical and electronics engineering to Kenya and rest of Africa.

Pre-existing challenges

- **Unfavourable tax and regulatory environment:** This has led to an influx of imported electrical goods.
- **Implementation of the BKBK strategy:** Inadequate guidance on the implementation of the BKBK strategy limits the growth of locally produced goods as cheaper imports are perceived to be of higher quality.
- **Payment delays:** There have been delays in payment by the GoK for goods supplied resulting from improper record keeping as well as delays in VAT refunds. Historically, this has resulted in liquidity challenges for MSMEs but more so, aggravated by the COVID-19 pandemic.
- **Unfavourable tax and regulatory environment:** This has led to an influx of imported electrical goods.
- **Inadequate trained local workforce:** Manufacturers have to incur significant training costs to up skill their employees.
- **High cost of electricity:** The use of thermal power and gas turbines as well as an increase in tariffs has resulted in high-energy costs, affecting most manufacturers.

Emerging challenges

- **Travel permits:** Travel restrictions within borders caused by delays in receiving permits have led to inventory pile-ups and consequently a drop in export sales.
- **Petroleum storage:** Due to the current regulations, Kenya's petroleum storage facilities are not optimised. Therefore, short-term petroleum price shocks cannot be controlled in an efficient manner.
- **Access to finance:** Companies are deferring capital expenditure due to difficulties in accessing long-term finance.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Enforcement of BKBK strategy	This will increase the footprint of locally manufactured products in the local market. This will create a strong footing for the development of Energy, Electric and Electronics manufacturers along the value chain. Lubricants, electric cables, electronics, electrical accessories, control panels and electrical, electronics, Renewable energy, and energy technical contracts are some of areas of strength.	■ Ministry of Industry, Trade and Cooperatives ■ National Treasury	Short term
Innovations support	Develop innovative Standard Operating Procedures for scale up and regulatory compliance support. Provide a resource base (financing, physical location) to develop innovations into economic business models.	■ Ministry of Industry, Trade and Cooperatives	Medium term
Assembly policy	Create an assembly policy for the assembler's electronics, electrical and other machinery to encourage local assembly and local content. The assembly policy would define who an assembler is and create a framework to provide an incentivising business environment for assemblers.	■ Ministry of Industry, Trade and Cooperatives ■ National Treasury	Medium term
Well-defined tax guideline and amendments to EACMA	EACMA amendments to EACCMA Sec 139EACCMA Sec 139 and Legal notice 47. The tax guideline will create a favourable tax and regulatory environment by setting out the process of application for tax exemptions for supply to tax exempted clientele, sourcing of equipment for use in renewable energy and the timelines for completion of the issuance process.	■ KRA ■ Treasury ■ Ministry of EAC	Short term
Travel permits	This sector has a huge footprint across the globe and requires engagement with experts, especially on short term basis, there is need to implement a more efficient process of issuing travel permits in and out of the country for manufacturers will lead to a reduction in delays that businesses are experiencing in receiving travel permits leading to a reduction in stock pile-ups and increase in export sales.	■ KRA ■ State Department for Trade	Short term
Government platform for online payment	The development of an online platform will reduce the delays experienced in processing supplier payments as well as payment of refunds by the government. For instance, the online platform will reduce cases of misplaced documents that have partly led to delays in processing supplier payments. Release of this trapped cash will improve liquidity in the market.	■ KRA	Medium term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Petroleum storage	Strategically increase the country's petroleum holding / storage capacities. This is to enable the country take advantage of international price dips like during the COVID-19 crises.	■ Ministry of Energy and Petroleum	Medium term
Renewable and green energy	Providing incentives for the generation of renewable and green energy will lead to increased investment in the renewable energy sector, contributing to overall electricity generation as well as to the sector being more carbon neutral. Given that manufacturers of goods are experiencing high electricity costs, it is possible to increase supply of cheaper forms of green energy generation, from which the cost savings may be passed on to other manufacturers.	■ KRA	Long term
Long term capital and credit guarantee facilities	Access to long-term finance will cater for the capital expenditure requirements in the sector. In addition, credit guarantee facilities will create employment opportunities for the youth, women and disabled.	■ Financial institutions ■ Strategic investors	Long term
Enhancement of Industry centric training and development at Technical institutions	This will enable the manufacturers to have access to a skilled labour force which will lead to efficiencies in production of electrical goods.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term

Food and beverages

Overview

- The food, beverages sector contributed to 3% of the total GDP in 2019[9]. The sector's contribution to GDP increased at a CAGR of 4.8% from USD 2.3 billion in 2015 to USD 2.8 billion in 2019 due to growing disposable income levels and growth in the demographics.
- The sector consists of the following major segments/sub-sectors:
  - Alcoholic beverages and spirits
  - Bakers and millers
  - Cocoa, chocolate and sugar confectioneries
  - Dairy products
  - Edible oil
  - Juices, waters, carbonated soft drinks, energy drinks (non-alcoholic beverages)
  - Tobacco
  - Meat and meat products
  - Salt
  - Sugar millers
- Food and non-alcoholic sales are expected to increase at a 9.5% CAGR from USD 44.8 million in 2019 to USD 64.4 million in 2023[10]. This is largely because of the rising disposable income levels and increased urbanisation.
- Alcoholic consumption is expected to decline in the short term in line with the GoK's directive to limit the opening hours of bars, restaurants, and hotels. However, in the medium term, spending on alcoholic drinks is expected to increase due to rising incomes and expansion of the formal retail sector.

[9]KNBS 2020 Economic Survey

- The COVID-19 pandemic has forced households to reprioritise their spending from luxury goods to essential goods. It is therefore expected that the food and non-alcoholic drinks segment, which comprises drinks such as juice, tea, water among others will not be adversely impacted in the short term.

Opportunities

— KAM's 2019 deep dive report mentioned opportunities which are still relevant to the sector as at the date of this report. These opportunities include:

  - Farming – There is an opportunity to produce and process fruits and vegetables through smallholder farmers and contract farming.
  - Vegetable oil processing – There is an opportunity to produce/process oil in Kenya. Such include coconut grown in the coastal region, cotton grown in the western region, and sunflower and groundnuts in the central region.
  - Fish food processing – There is a need to develop the fish farming business on a large scale to cater for both the local and export markets.
  - Manufacture of animal feeds – There is still a huge potential for manufacturers to produce animal feeds using inputs like "Omena" (Engraulicypris Rastreneobola), low-grade oil crops, maize and wheat, which are readily available in Kenya.

— Beef processing – There is a need to rethink beef processing given that Kenya is able to produce surplus beef required to run a large-scale canning factory.

Pre-existing challenges

- **Non-Tariff Barriers to trade:** Local manufacturers are unable to penetrate the EAC market due to prohibitions, conditions, or specific market requirements that make exporting of products into those markets difficult and/or costly.
- **Lack of access to credit/high cost of credit:** For MSMEs looking to supply to large retailers or distributors, the increase in sales may be difficult to finance given financial institutions' reluctance to lend on working capital. Additionally, the financial institutions charge a high interest rate where money is loaned to finance working capital.
- **Lack of prompt payments regulation:** Manufacturers and traders supplying to the government as well as the large distributors and retailers are not paid on time. In addition, retailers also tend to hold on to payments to suppliers beyond the agreed payment term. This creates liquidity challenges for manufacturers and traders, and therefore hampers growth of their businesses.
- **Poor infrastructure:** Manufacturers are forced to incur additional costs due to poor roads, security and utilities in designated industrial areas. Examples include, but are not limited to, provision of security services, repairs and maintenance for motor vehicles, and high factory maintenance expenses caused by power outages and/or high cost of power.
- **Cost and ease of doing business:** With the emergence of counties, businesses are required to make payment to different government authorities for the same type of levy, in addition to levies accruing to logistics/movement of goods from one county to another. For example, the county government will collect a similar levy to the national levy collected. Therefore, the cost of compliance becomes a burden on businesses.
- **Anomalies in the CET structure:** for example, under the current duty structure taxes/duties on raw salt are not differentiated from finished salt making it difficult to do business.
- **Implementation of the Excisable Goods Management System (EGMS):** The system implementation has resulted in increased costs and disruptions to the manufacturers of the fruit juices, carbonated soft drinks, bottled water, alcoholic beverages and tobacco categories.

Emerging challenges

- **Reduced operating hours:** The nationwide curfew imposed by the GoK has affected manufacturers. Arguably, the most affected businesses are the quick serving restaurants and bars, who need to be in operation for longer hours and need to have a higher table turnover rate for long-term survival.
- **Reduced demand:** Because of sector dependencies, manufacturers are unable to cross sell their products to consumers from other sectors. An example includes the sugar sector whose biggest market, for example confectionery businesses and hotels, are now operating at a lower capacity.
- **Change in consumption patterns:** With job losses, pay-cuts and reduced hours being the norm, there has been a shift in consumption. Demand for essential food is increasing while demand for luxury goods is decreasing. An example includes an increase in the demand for flour against a decline in demand for sugar, which is considered a luxury good in the food sector.
- **Reduced productivity:** Reducing staff in order to observe social distance at work places has reduced productivity for productions that require a large workforce such as in salt processing.
- **New regulations affecting importation of industrial sugar:** the Ministry of Agriculture, Livestock and Fisheries has gazetted new regulations that will increase the cost of industrial sugar which is a key raw material for manufacturers of juices, bakery products, carbonated soda drinks, confectionery products and other sugar related products. On the other hand, this offers great opportunity for local sugar companies to consider manufacturing industrial sugar which is currently not locally manufactured.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Favourable lending rates	Lending rates should be lowered, particularly for companies seeking to invest in technology. This will stimulate economic growth noting that lower financing costs would encourage borrowing and investing.	■ CBK ■ Financial institutions	Short term
Prompt payments regulation	Late payment from the retail sector continues to be a key challenge affecting domestic market access for local manufacturers and their liquidity where the retail supermarkets have continued to contribute to such challenges. There is a need to adhere to the Code of Practice on Fair Trade practices as well as gazetting the Draft Retail Trade Sector Regulations, 2018.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Competition Authority of Kenya ■ Central Bank of Kenya	Short term
Implementation of the Excisable Goods Management System (EGMS)	The system implementation has resulted in increased costs and disruptions to the manufacturers of the fruit juices, carbonated soft drinks, bottled water, alcoholic beverages and tobacco categories. As the contract of the current service provider is expiring by end of 2020, the National Treasury and KRA should engage all stakeholders before contracting the next service provider for EGMS services.	■ National Treasury ■ KRA ■ (Parliament) National Assembly & Senate ■ Ministry of Industrialisation, Trade and Enterprise Development	Short term
Enforcement of BKBK strategy	Implementation of the BKBK strategy will encourage consumers to buy locally manufactured products.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
VAT refunds	Worsening of liquidity in the local economy is partly due to accumulation of VAT credits arising from Withholding VAT and VAT refund formula, and pending bills. As such, there is a need for VAT refunds to be paid on time to reduce the liquidity challenges for businesses.	■ KRA	Medium term
Regulatory harmonisation	Levies charged by GoK should be harmonised both nationally and at county level to ensure that such levies do not become a hindrance to doing business. For instance, companies require eight or more NEMA related licenses to operate.	■ National Treasury ■ KRA ■ (Parliament) National Assembly & Senate ■ Council of Governors ■ Ministry of Industrialisation, Trade and Enterprise Development ■ NEMA	Medium term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Investment in infrastructure	In order to ensure long-term sustainability of the sector, the GoK should increase investment in road infrastructure and green energy, and improve security to encourage manufacturing.	■ Ministry of Transport, Infrastructure, Housing and Urban Development ■ Ministry of Interior and Coordination ■ Ministry of Energy	Long term
Sugar Bill 2019	An Act of Parliament to provide for the development, regulation and promotion of the sugar industry, to provide for the establishment, powers and functions of the Kenya Sugar Board, and for connected purposes.	■ National Assembly	Medium term
Effects of the Mining Act 2016 to the salt industry in Kenya	Salt is captured in the Mining Act 2016 as a mineral and enjoys no special treatment for being handled as other minerals of high value. This makes it difficult for the salt companies to comply with the requirement of the Act. Amend the Mining Act 2016 to provide for a regulation for the salt which shall be confined in the application, only to the mining of salt, and which shall take into account the circumstances and challenges faced by the solar salt producers.	■ Ministry of Petroleum and Mining ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Facilitate ease of doing business	Business are faced with increased cost of doing business through various regulatory requirements. The national and county governments should streamline regulatory requirements and processes to reduce the cost of compliance. For example, Kilifi County Government through the County Finance Act 2018 increased salt cess charges from Ksh. 60 per ton to Ksh. 200 per ton. This has increased the cost of business making it difficult to trade. The County should reduce the increased cess to Ksh.. 100 per ton for ease of doing business.	■ County Governments ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term

Leather and footwear

Overview

- The local leather and footwear sector is dominated by MSMEs. Production of leather and related products increased by 4.1% from 2017 to 2018[11].This was linked to the increased local and international demand of finished leather as well as leather shoes, handbags, and other accessories.
- About 90% of Kenya's USD 93 million leather exports are unfinished, wet blue leather[12]. Since only 6.3% of Kenya's leather exports are finished leather or leather products, Kenya risks missing opportunities presented by the surging global demand of leather goods[13].
- Much of the leather goods and articles manufacturing is done by MSMEs located across the country. There is a great opportunity in the manufacture of finished leather, footwear and leather goods so as to further reap more value from the leather and footwear sector
- Generally, the growth of the sector is expected to be constrained by impacts of COVID-19 on account of suppressed external demand across the world and increased costs of production arising from operational challenges.

[11]BMI Research
[12]World Bank
[13]Kenya National Bureau of Statistics, 2020

Opportunities

- The leather and footwear sector is labour intensive. With adequate training programmes, companies can provide employment to the many unemployed workforce.
- International brands such as Gucci, Coach and Burberry are increasingly considering private label leather goods manufacturing by way of subcontracting to companies with an already established production plant. As such, there should be an incentives framework to encourage subcontracted manufacturing from these brands.
- The leather sector in the rest of the EAC is still under developed and there is a chance for Kenyan industry to support the development of a regional supply chain for both value addition and markets.

Pre-existing challenges

- **Unfavourable tax and regulatory environment**: This has led to an influx of cheap imports from China and India as well as second-hand footwear (referred to as 'mitumba').
- **Low quality of skins and hides:** Poor animal husbandry as well as the high cost of veterinary services has led to the low quality of hides and skins, which are key raw materials to manufacturer leather products.
- **Technical skills:** The sector has been facing a shortage of skilled resources for various job roles. This has resulted in a reduction in workplace productivity.
- **Illicit trade:** Low quality rawhides and skins smuggled into the country further affects the sector that is already suffering from low quality of raw materials manufactured locally. There is an increase of mis-declared imports, abuse of second hand importation window, and substandard products.

Emerging challenges

- **Limited export demand:** Due to the current pandemic, local manufacturers are operating at reduced capacity. This is mainly driven by a slowdown of the export market. In addition, businesses have had to reduce their workforce to cater for the limited demand.
- **Limited local demand:** Similarly, the current pandemic has led to a reduction in purchasing power of local consumers and changes in priority spend from luxury goods to essential goods. This has slowed down the local demand for leather and footwear products.
- **Investment:** This sector is unable to attract foreign direct investment as well as local investment due to the lack of incentives available for local manufacturing.
- **Import tax:** There have been instances of misclassification of new shoes with second hand shoe imports. This has resulted in imported new shoes being priced lower than locally manufactured shoes as well as lesser import taxes collected by the KRA.
- **BKBK strategy:** The disciplined forces procurements has provided an opportunity to local manufacturers and needs to be sustained. The BKBK framework should be extended to other areas like school uniforms, safety boots and the medical market. Given that there is no clear implementation plan for the BKBK strategy, county governments in Kenya are purchasing imported goods instead of locally manufactured goods.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Innovation support	Through innovation, there are promising opportunities for footwear manufacturers to extend their offering beyond the three traditional factors i.e. comfort, style, and functionality. These include smart footwear, shoe knitting technology and virtual reality technology. This requires partnerships with various local and/or foreign companies for technology to promote locally manufactured footwear.	■ Businesses ■ Ministry of Industrialisation, Trade and Enterprise Development	Short term
Import tax to address second hand importation	Enforcement of standards and customs requirements at points of entry to ensure that no new footwear is mis declared as "mitumba".Ensure full compliance to customs and standards requirements. Enhanced customs checks and training for customs officers to help differentiate between new and second hand shoes in an effort to reduce substandard imports. There is also a need to increase tariffs on imported footwear as these are cheaper than locally manufactured goods.	■ KRA ■ KEBS ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Illicit trade	Illicit imports offer unfair competition to locally manufactured products. Addressing it will provide a fair playing field for locally manufactured products. There is a need for GoK to formulate a collaboration framework with Non-Governmental Organisations (NGOs), Inter Governmental Organisation (IGOs), and business and sectorial trade associations such as Transnational Alliance to Combat Illicit Trade (TACIT). There is an opportunity for the GoK to formulate an action plan in combating and preventing illicit trade.	■ Businesses ■ NGO ■ IGO ■ Business and Sectorial Trade Association ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Enforcement of BKBK strategy	Implementation of the BKBK strategy will encourage consumers to buy locally manufactured leather and footwear products. Priority focus market should be disciplined forces, all national and county governments' procurements and the school uniform markets. Strategic development of domestic markets should also be carried out to enhance consumer psychology shift towards preference to locally manufactured products.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Providing tax incentives	Provision of tax concessions, rebates and other incentives to encourage businesses to invest in the local leather and footwear sector will enhance the value chain thus reducing imported and building base for exports development by reducing imports.	■ KRA	Long term
Improving skilled labour	Set up of technical training centres and potential partnerships with various government institutions to develop training centres for youth. This will lead to production efficiencies because of up skilling.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term
Improving the quality of raw hides and skins in the country	This will ensure that the hides and skins provided to the tanneries conform to the standard requirements of the tanning process in addition to ensuring healthier animals and more returns for the farmers, abattoirs and aggregators.	■ Ministry of Agriculture ■ Kenya Leather Development Council	Short term

Metal and allied

Overview

- According to the Vision 2030 Manufacturing Sector report, the iron and steel industry in Kenya forms about 13% of the manufacturing sector[14]. The sector is strongly linked to growth of complementary sectors such as building and construction, energy and electronics and chemical and allied.
- Between 2017 and 2018, the production of basic metals grew by 2.7% partly due to a 2.9% increase in demand of corrugated iron sheets. In addition, the value of principal imports for iron and steel reduced from USD 829 million in 2015 to USD 131 million in 2019[15]. The 84.2% decrease is attributed to protective tax measures implemented by the government in a bid to promote local manufacturing.

Opportunities

- With the growing competitive market, companies could invest in innovative technology to improve the quality of products at a lower cost.
- With the implementation of the BKBK strategy, there is an opportunity to enhance the country's infrastructure through the purchase of locally manufactured steel products.
- There is an opportunity to develop a Local Content Policy (LCP) and understand the linkages between the various sectors. This will encourage local manufacturing as well as ensure sustainable economic and social outcomes.

Pre-existing challenges

- **Import competition:** There is an upsurge of illicit trade and substandard imports from local traders which is generating unfair competition and decreasing the market share of local manufacturers.
- **Lack of access to affordable finance:** The sector is heavily dependent on affordable long-term capital to finance modern technology and innovation.
- **High-energy costs:** The smelting industry is currently operating at 20% capacity due to high electricity cost and as such, there is need to consider reviewing the electricity tariff to ensure competitiveness of locally manufactured products. Electricity cost, on average, accounts for approximately 50% of the total product conversion costs in the metal and allied sector. Furthermore, a growth in this sector will lead to creation of employment opportunities.
- **Port hindrance:** Expensive port charges and unnecessary delays in clearance at the port need to be resolved to ensure businesses operate profitably and efficiently. Unnecessary delays have worsened during COVID-19 because of reduced work force at the port.

[14] the Vision 2030 Manufacturing Sector report
[15] Kenya National Bureau of Statistics Economic survey 2019

Emerging challenges

- **VAT refunds:** There have been delays in the recovery of VAT refunds and processing of payments by the GoK. This has created a strain on working capital for many businesses over the years but more so during the current economic crisis.
- **VAT Automated Assessments (VAA) system:** The online platform launched by KRA to reconcile VAT is causing issues for tax payers as the platform is not fully aligned to the VAT law.
- **Turnover tax:** A mandatory 1% turnover tax is payable by a company whose turnover is less than Ksh. 5 million over a period of 12 months. This has discouraged small-scale manufacturers who are not willing to expand due to the financial implications of this tax.
- **Implementation of the BKBK strategy:** Inadequate guidance on the implementation of the BKBK strategy limits the growth of locally produced goods as cheaper imports are perceived to be of higher quality.
- **Supply chain disruptions:** To curb the current pandemic, the GoK has restricted movement across the counties as well as across borders. This has affected the supply chain for various companies.
- **Reduction in work force:** With the introduction of the curfew, businesses have had to reduce the labour work force at the production plants since steel products are not considered as essential goods.
- **Increased finance cost:** Closure of bonded warehouses has led to higher storage cost as goods held in such warehouses are inaccessible. Storage costs have largely been financed by borrowings.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Automation	The process of obtaining VAT refunds should be automated. The automation should track the progress of the application, ensuring accountability and transparency between various stakeholders. The VAT Automated Assessments (VAA) system should be updated to ensure it is aligned to the VAT law.	■ KRA	Long term
Strict compliance	The GoK should set strict checks for compliance at the port for all imports. This will reduce illicit trade and foster a competitive, yet enabling environment to conduct business.	■ KEBS ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Enforcement of BKBK strategy	Implementation of the BKBK strategy will encourage consumers to buy locally manufactured products.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Clearance process	Given the delays in clearing at the port, the Kenya Ports Authority (KPA) needs to put in place timelines for the cargo clearance process and ensure that these timelines are adhered to. This will allow businesses to make better business decisions.	■ KPA ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term

Paper and paper board

Overview

— Over the last several years, the local paper and board sector has significantly increased its capacity and production owing to a shift from manual to highly automated systems. Presently, the sector has the capability to supply over 80% of Kenya's required paper products[16]. This sector is divided into 3 subsectors: manufacturers of pulp, paper and paperboard; paper convertors; and printing and publishing and allied industries.

— The sector has been experiencing an average annual growth rate of 4.4%[17]. This can be attributed to the demand for newsprint, printing and writing papers, boards, and tissues. However, since the start of the COVID-19 pandemic, the sector has seen significant fluctuations in demand given the altered demand from the education, corporate and print media sector.

Opportunities

— In recent years, there has been a growing trend towards on-the-go lifestyles and flexible packaging. This has increased the demand from the food beverage sector for innovative multi-packaging solutions due to the industry's shift to flexible packaging. The industry should consider expanding production to include flexible packaging such as pouches for food and beverages.

— Some packaging materials in the market are imported. However, the subsector has the potential to replace these imports through collaborations with different sub-sectors including the food and beverage, pharmaceutical and agro-processing sector as well as local e-commerce platforms.

— With the growing competitive market, companies could invest in innovative technology to improve the quality of paper at a competitive price.

Pre-existing challenges

— **Import competition:** Local paper manufacturers have been facing pressure from rising packaging imports, especially from Egypt. The cheap imports flowing into the market have created an unfair competitive environment for the subsector.

— **Discriminating tariffs:** Raw materials imported in the country are being taxed higher than imported finished products causing the cost of production to remain high for local manufacturers. This makes local manufacturing less attractive.

— **Lack of EAC tariff harmonisation:** Members of the EAC import raw materials at lower prices and are able to export finished products to Kenya at a cost lower than what is being produced locally. Lower import prices for raw materials are because of the EAC allowing member countries to use different import tariff and quotas.

— **High-energy costs:** The electricity tariff could be reviewed to ensure competitiveness of the locally manufactured products as they are currently high.

Emerging challenges

— **Depressed demand:** The local paper industry has seen a significant dip in demand from the education, corporate, and print media sector because of the temporary closure of allied businesses and schools.

— **Employee attrition:** Given that the operating capacity for the subsector has significantly decreased and, in some cases, (for example, the textbook industry) declined to 0%, companies have had to introduce pay cuts, reduce working hours and in more adverse cases, lay off employees.

[16] Kenya Association of Manufacturers
[17] The Ministry of Industry, Trade and Cooperative

Proposed intervention	Comments	Key stakeholder group	Time horizon
Employee health and safety	It is essential for businesses to cater for their employees' health and safety by providing proper cleaning products, clean workspaces, and PPE equipment on site. In addition, there is a need to train employees on workplace perils and controls so they may work more safely and be more productive.	■ Businesses	Short term
Enforcement of BKBK strategy	In order to support local paper and paper board industries, the government should ensure the Buy Kenya Build Kenya is adhered to. This is through local procurement of textbooks, prompt payments for the supplies to public schools i.e. textbooks, exercise books and other stationery materials.	■ Ministry of Education ■ Ministry of Industrialisation, Trade and Enterprise Development	Short term
Industry collaboration	In order to increase demand for local products, companies need to identify sub sectors such as the food and beverage, pharmaceutical and agro-processing sectors who require finished packaging products. Through a collaboration, the subsectors can adopt a value chain that benefits local manufacturers and invests back into the local economy. In addition, it will eliminate the demand for imported finished products.	■ Businesses ■ KAM	Medium term
Business model innovation	Challenging times demand adaptive business models. Businesses could consider identifying new ways to revamp the overall business model including innovative strategies, value chain management and production of alternative products to meet local demands.	■ Businesses	Long term
Harmonisation of tariffs	In order to create fair competition between importers and local manufacturers KRA, in collaboration with other regulatory bodies and stakeholders, should consider pushing for the reduction as well as the harmonisation of tariffs within the EAC on imported raw materials to the extent such raw material are not made locally or where manufacturers are unable to keep up with the demand. This will not only provide consistency within the EAC but will also foster a fair competitive environment.	■ The National Treasury ■ Ministry of Industrialisation, Trade and Enterprise Development ■ KRA	Long term

Pharmaceutical and medical equipment

Overview

— Kenya's pharmaceutical industry plays a key role in the formulation and manufacturing of pharmaceutical and health care products in the region. Kenya is currently the largest producer of pharmaceutical products in the Common Market for Eastern and Southern Africa (COMESA) region with about 44 businesses operating in the formal sector[19]. Wide ranges of products are manufactured for both the local and international markets (primarily generic essential medicines).

— The sector grew at a CAGR of 8.9% from 0.7 billion in 2014 to USD 1.06 billion as of 2019[20]. With the country's rising population and increasing urbanisation, as well as a growing burden from communicable and non-communicable disease, the country is likely to see a continued increase in production and demand in the sector.

Opportunities

— With the emergence of clinical trials for COVID-19 in development globally, the local pharmaceutical industry can prepare to locally produce new vaccines and drugs in order to meet future local demand.

— With the growing demand during COVID-19 for PPE in the health sector, local manufacturers should ramp-up production of disposable surgical gloves as well as other latex gloves, masks, and protective gowns and aprons.

— The implementation of the BKBK strategy creates potential for increased procurement from public and private hospitals, and health care facilities in the near future.

— There is an opportunity for local pharmaceutical manufacturers to consider collaborating with biotechnology firms in order to increase innovation and development of novel therapies and drugs.

[19] World Health Organisation
[20] BMI Research

Pre-existing challenges

- **Import competition:** There is an influx of imported drugs from international pharmaceutical companies, which is generating unfair competition and decreasing the market share of local pharmaceutical manufacturers.
- **Counterfeit products:** A growing prevalence of counterfeit and sub-standard drugs smuggled into the country through borders is affecting local manufacturers and is undermining the treatment and management of diseases such as malaria, HIV/Aids and cancer.
- **Skill mismatch:** The current education system largely supports and focuses on retail market graduates. There is no curriculum in Kenya's education that is aligned to support graduates to acquire pre-requisite skills in order to manufacture drugs in Kenya.
- **Turnover tax:** A mandatory 1% turnover tax is payable by a company whose turnover is less than Ksh. 5 million over a period of 12 months. This has discouraged small-scale manufacturers who are not willing to expand due to the financial implications of this tax.
- **VAT status:** The inconsistent shift between zero rated tax and exempt tax status over the last few years in the pharmaceutical industry has led to increased competition with international imports and affected companies' ability to plan financially.
- **VAT on plant and machinery:** The VAT on plant and machinery has had significant cost implications on local pharmaceutical companies. Therefore, companies are opting to lease equipment to avoid extra costs and manage short-term cash flows. However, leasing equipment is expensive in the long term and it does not give businesses the flexibility to customise the equipment, or sell or trade it if the business needs change.

Emerging challenges

- **Dependence on imported raw materials:** The local pharmaceutical industry is dependent on imported raw materials from Asia. With the COVID-19 outbreak and international transportation restrictions especially from China, the raw material supply for pharmaceutical drug production has slowed.
- **Decreased production:** Despite being a part of essential commodities, pharmaceutical manufacturers are operating at approximately 40% to 50% of the manufacturing capacity due to labour and raw material shortages. Therefore, most local pharmaceutical companies have seen a significant decrease in production.
- **Lack of financing:** Since the start of the COVID-19 pandemic, there has been a reduction in lending from financial institutions who may be at the limits of their risk tolerance for a single credit and/or are reluctant to provide affordable lending rates.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Import taxes	Currently, local manufacturers have the capacity to manufacture 90% of the products listed under Kenya's essential drug list. Therefore, the GoK should consider an increase in import tariffs on finished drugs that can be locally produced by at least two or three manufacturers at an accepted quality in order to grow the market share of local manufacturers.	■ KRA ■ Ministry of Health	Medium term
Increased control checks	In order to curb the amount of counterfeit medicine entering into the local market, it is vital that the Government institutes stricter customs and border control checks as well as investigations of pharmaceutical outlets across Kenya deemed to be producing medicine that does not meet required standards.	■ Customs and Border Control ■ KEMSA	Medium term
Reuse and recovery	In order to lower dependence on imported raw materials, local manufacturers should reuse and recover raw materials such as water and solvents. This will require investment in innovative technologies such as wastewater treatment plants as well as developing recycling and regeneration processes. In addition, companies should identify sub sectors that can locally produce the raw materials required by the pharmaceutical sector.	■ Businesses ■ NEMA	Long term
Investment in digital health	One strategic area of focus for the industry should be digital health. There are promising opportunities for pharmaceutical companies to extend their offering beyond the traditional methods which will require companies to place significant bets on new, unfamiliar areas such as tele-health, artificial intelligence and mobile technology. It also requires partnerships with players from completely different industries such as technology.	■ Businesses	Long term
VAT status and exemption	To allow local manufacturers the ability to prepare financially while providing the local industry with consistent fiscal policies, the GoK should consider the development of a consistent five-year VAT status plan for the pharmaceutical industry. There is need for the GoK to consider exempting VAT and/or provide subsidies on pharmaceutical plant and machinery in order to help local manufacturers acquire machinery at affordable prices.	■ KRA	Long term
Skill gaps	Establish a diploma course focus on drugs manufacturing to be undertaken by graduate / pharmacists interested to venture into manufacturing.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Ministry of Education	Long term


160/0,17
chro 100/ 1,25
60/0,17
o 40/ 0,65
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Plastics and rubber

Overview

— The sector grew by 5.7% from USD 1.8 billion in 2018 to USD 1.9 billion in 2019 driven by increased production of plastic tanks, packaging materials, and plastic pipes[21]. The sector has significant linkages to various other sectors including agriculture, food and beverage, and the pharmaceutical sector. These industries account for a significant portion of the sector's commercial business[22].

— As of 2019, Kenya had over 170 businesses operating in the formal sector with annual revenues of USD 5.6 million[23]. However, since 2017, the government directive to ban the manufacturing, sale, and use of plastic bags has affected the plastic sector. While it has had a positive impact on the environment, the ban has forced the sector to shift its production efforts to meet the changing environmental, economic and consumer demands.

Opportunities

— Given the GoK's objective to improve hospital infrastructure, healthcare tenders should take into account adoption of rubber flooring in hospitals, as they are more versatile compared to commercial flooring. This will support the growth of the rubber industry.

— With the potential rollout of a COVID-19 vaccine in the next six to twelve months, the plastic sector may consider liaising with the pharmaceutical sector in order to provide them with the necessary medical equipment that will be required such as syringes and vials.

— The medical community is increasingly embracing the use of plastic medical products as a glass alternative since plastic is not as fragile and is lighter than glass.

- Maximisation of reused/recycling raw materials could lead to potential upside market demand through satisfaction of customers' environmental concerns. Further, the subsector has an opportunity to assist the government and other stakeholders in the recycling and responsible disposal of PPEs during COVID-19.

- There is an opportunity to focus on innovative technology to improve the quality of plastics at a lower cost (for example, sockets, plugs, automotive plastics spares, and plastics kitchenware), increase operational efficiency, and improve customer service. Further, there are countless vehicle parts made from plastic such as door handles, air vents, dashboards and airbags, which might have the potential for locally manufacturing.

- Creation and adoption of a circular value-chain, in which waste is repurposed in order to facilitate more effective e-waste management and creation of a sustainable supply chain.

Pre-existing challenges

- **Customer trends and changing demand:** The environmental impact of manufacturing and sourcing particularly of plastic is becoming more exposed and under growing scrutiny by customers, who are demanding the use of recyclable and biodegradable materials.

- **Unpredictable waste management policy environment inhibiting investments:** the Government's policy especially on plastic waste management has been erratic over the last four years. The move by the Government to spearhead in looking at a holistic approach on waste management will go a long way is providing a sustainable solution.

- **Lack of adequate fiscal incentives to promote a circular economy to support waste management in the country:** There is need to put in place fiscal incentives to support the waste value chain investments for example in recycling, setting up infrastructure for waste to energy initiatives among others. The underlying problem in Kenya's waste management has been identified as behaviour change by consumers and there is need for structured awareness on effective waste management and putting in place strict measures for non-compliance.

- **Import competition:** The ban on the use of plastic carrier bags in Kenya has led to manufacturers opting to use other eco-friendly substitutes, which are an expensive packaging medium. Uganda and Tanzania continue the use of plastic carrier bags which contributes to cheaper finished products than those from Kenya, due to the lower cost of packaging. This has resulted in an influx of plastics carrier bags from Uganda and Tanzania despite a ban in Kenya.

- **Lack of government coordination and regulation:** There is a need to consider the thoroughness, specificity, and exhaustiveness of the country's legislative framework and policies surrounding environmental regulation and the industry. Moreover, there is a significant gap in addressing the regulatory challenges originating from the current plastic ban.

Emerging challenges

- **Higher cost of production:** The Kenyan plastic industry is burdened by high fixed and variable costs which have arisen since the COVID-19 breakout. Examples include electricity costs, country-branding licences, delays in containers clearing and delivery from port to Inland Container Depot (ICD).

Proposed intervention	Comments	Key stakeholder group	Time horizon
Industry collaboration	Increasing awareness and understanding of various environmental issues have led to an upsurge in the demand/ pressure from customers and other stakeholders to adopt environment-friendly practices and follow internationally recognised ethical standards for production and distribution of goods. Therefore, organisations may consider creating partnerships with accredited suppliers and regulatory bodies to achieve sustainable and environmentally friendly sourcing.	■ Businesses ■ NEMA ■ KEBS	Medium term
Development of a framework and policy	There is a need to facilitate the development of a comprehensive framework for the sector aimed at implementing sustainability standards, enhancing knowledge and awareness, incentivising, providing infrastructure and enabling environment, and enforcing compliance through laws and regulations.	■ Ministry of Environment and Forestry	Medium term
Adoption of a circular value chain	Manufacturers should consider designing processes and systems that are more efficient through circular economy value-chains to minimise the input of resources. Additionally, adopting a circular economy and sustainable supply chain also lowers the company's environmental footprint within the supply chain. Examples include energy, water, oil, and use of natural and synthetic materials.	■ Ministry of Environment and Forestry ■ Businesses	Long term
Investment in waste management plant technologies	Since fewer resources are required to remanufacture a product than produce it new, manufacturers may consider investing in existing or new recycling plants and/or establishing waste programmes for its production facilities to aid in the circular value chain.	■ Businesses	Long term
Tax incentives	To increase the industry's use of secondary materials, the government may consider providing businesses with a tax credit for their use of recycled materials in production processes.	■ KRA	Long term

Services and consultancy

Overview

— The services and consultancy sector comprise of professionals drawn from different fields such as legal, strategy, ICT, human resources among others.

— Professional, scientific and technical activities accounted for an average of 0.8% of Kenya's GDP over the period 2015 –2019[23].

— Industry professionals expect a strong rebound as the economy reopens and organisations are expected to increase spending to support development of an enterprise resilience system.

Opportunities

— Professional service and other specialised service firms have substantial upside potential in the provision of advisory services to their clients as they seek to understand the dynamics of the COVID-19 pandemic and how the clients may re-emerge as the economy reopens. For example, a client seeking to undertake a staff rationalisation programme due to the impact of COVID-19 will seek human capital and legal advisors' help to structure and mitigate costly labour issues that might arise.

Pre-existing challenges

— **Client needs:** Lack of an understanding of client needs acts as an impediment and results in conflict between the consultant and the client.

— **Increased competition:** Kenya has experienced a surge in the number of registered professional services firms due to the entry of global brands seeking growth outside their traditional markets as well as start-up consulting. This has further been affected by lowballing by professional services firms.

Emerging challenges

— **Technology gap:** With social distancing and working from home being the new norm, micro, small and medium size consulting companies have faced business disruption due to the absence of adequate technology infrastructure to promote the new mode of working.

— **IT risks:** Due to inadequate remote working infrastructure, there has been an upsurge in technology risk exposure because of COVID-19. Examples include phishing, ransomware and social engineering attacks.

— **Payment delays:** The COVID-19 pandemic has realigned business priorities and manufacturers have opted to delay payments to professional service providers as they seek to prioritise spending on essentials such as salaries and wages.

— **Limited experience:** Given the extraordinary and unprecedented implications of the pandemic, as well as the economic uncertainty, solutions proposed by the professional service firms to steer companies to recovery might not be as effective in the short term.

— **Reduced demand for consultancy services:** Due to the COVID-19 pandemic, there has been a decline in demand for consultancy services resulting from businesses having to readjust their spending priorities to cushion against potential cash shortfalls.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Working from home policy	Since remote working is the 'new normal', businesses should develop and implement a work from home policy which includes performance management to facilitate accountability and productivity of its employees. In addition, businesses should consider providing mental, emotional, as well as physical health resources to support employees during this transition. The social distancing directive by the GoK is likely to be in place for the foreseeable future even as the economy reopens. Considering this, professional service providers should be keen on adopting virtual platforms such as virtual data rooms and virtual conferences/meetings to execute their tasks. The Government should further promote these social distancing measures by adopting measures that ensure working from home remains conducive for most Kenyans, for example, minimal power supply over weekdays.	■ Businesses	Short term
Prompt payment	Service and consulting companies are among the businesses that are highly impacted by the pandemic. This is particularly true as businesses prioritise settlement of more crucial invoices such as payment to trade suppliers, and salaries and wages. Professional service firms should consider agreeing a payment plan upfront prior to contracting to ensure that such fees are paid by the agreed time. An example of this is billing a mobilisation fee prior to commencement of work. This will minimise working capital constraints.	■ Businesses	Short term
IT and security services	Businesses may consider conducting a risk assessment on their systems and controls in order to understand their current control environment, redefine the control framework based on the gaps identified, and identify opportunities for improvement. This will aid in businesses providing employees secured access and connectivity to critical organisational infrastructure.	■ Businesses	Short term
Capacity building	Service providers should be equipped with knowledge and skills that are relevant to the COVID-19 pandemic. Such skills and knowledge will ensure development of practical solutions that will enable businesses to navigate through the current and post COVID-19 situation as the economy opens. The GoK may enhance this by collaborating with the private sector to provide accurate and timely data that will make advisory services more relevant to clients.	■ Businesses ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term

Textile and apparel (EPZ)

Overview

— The textile and apparel sector has been identified as a strategic sector for the Kenyan economy and is well emphasised in Government's strategy documents specifically the Kenya Industrial Transformation Program (KITP), Big 4 Agenda and Vision 2030.

— The GoK aims at increasing foreign exchange, creating formal jobs, increasing local value addition and industrialising. This makes export oriented apparels manufacturing a key driver to the above objectives.

— Apparels is now the largest manufactured export from Kenya and its fourth largest export behind horticulture, coffee and tea.

— Global apparel & textile sector is USD 1.8 trillion annual revenue sector, and Kenya has a chance to gradually increase its market share through a competitive sector.

— The sector exported apparels worth KES 48 billion in 2019.

— Over 90% of the sector's exports is under the African Growth and Opportunity Act (AGOA) where Kenya is provided with quota free, duty free access to the American market. This trade agreement has played a vital role in the growth of the country's textile and apparel sector since its inception in 2000.

— As at 2019, Kenya only accounts for 0.4% of the US market share despite having various benefits as presented by the AGOA.

— The subsector has been hit hard by the outbreak of COVID-19 with many apparel manufacturers opting to temporally shut down operations due to lack of demand from the USA and supply chain disruptions. The sector lost about 21,000 job positions during the COVID-19 crisis out of the 47,000 employment positions as at end of 2019[24].

[24] KAM Sectors Compilation, 2020 and Economic Survey, 2019

Opportunities

- Kenya has a duty free and quota free access to a 1.7 billion people and USD 40 trillion GDP market, of which half is the USA.
- African market is opening up through the African Continental Free Trade Area (AfCFTA) and it presents a larger market opportunity alongside EAC, Tripartite Free Trade Area (TFTA) and COMESA.
- Changing global supply chains where the US and Europe are looking for alternative sourcing destinations. Major global apparel buyers such as Levis, H&M, Vanity Fair, PVH, The Children's Place, and Otto have a sourcing strategy in place for Africa. The buyers are ready to source from Kenya as long as cost competitiveness is addressed.
- Kenyan apparels exports sector has been tried and tested by globally reputable buyers and has the ability to place the country on the world map with the "Made in Kenya" brand. Apparels is as now the 3rd highest exported product from Kenya, and is the largest manufactured export from Kenya[25].
- Given the abundant resources available in Kenya, integrated value chains from production to logistics and sourcing, and design, sales and branding will increase competitiveness of locally manufactured apparels compared to imports. In addition, this can provide an avenue for exports through contract manufacturing with the global brands.
- Kenya has a hardworking unemployed youthful population that can be easily trained to provide a large work pool for the sector. The sector on average employs 70% women. This provides two earner opportunity for families with a chance to make viable constant income.
- Manufacture of PPE such as masks, face masks, coveralls, scrubs and shoe covers to meet the increase in local demand because of COVID-19.
- GoK's Growing Cotton Initiative can be fully supported by the sector as it has the ability to do full value chain integration locally from cotton to fashion and can support linked businesses like manufacturing different accessories, packing material, logistics, design institutes, branding which will increase competitiveness of locally manufactured apparels compared to imports. In addition, this can provide an avenue for exports through contract manufacturing with the global brands.
- Growth in diverse products in the Apparel and textile sector will automatically help transform the second hand clothing to new clothing with good quality at great prices for Kenyans and make Kenya self-reliant not only in apparel and textiles but even related supply chain industries including the needs of PPE to fulfil local and export demands.
- The country has an opportunity to grow exports to USD 7 billion and create 2.2 million jobs in Kenya in 10 years and grow its market share in the United States to 5% by creating a competitive environment for the manufacturers. Increase in consolidated Government's total revenue of approximately USD 672 million in 3 years against the incentive of USD 349 million with a net gain of USD 323 million. In 10 years, the total revenue will increase to approximately USD 8.5 billion against the incentive of USD 4.4 billon with a net gain of USD 4.09 billion.[26]
- As AGOA nears its end in 2025, Kenya and the US are currently engaging in talks to get a Free Trade Agreement. The country has an opportunity to negotiate for appropriate rules of origin to ensure that the future of the Kenyan apparels exports industry is guaranteed.
- Overall the sector has the ability to mitigate imports, save forex, create diverse and impactful jobs, boost Made in Kenya pride, earn forex, empower women as well as SMEs, grow cotton farming and eventually help do capacity building for KRA as the consumer market booms hence giving full return on investment in the sector to government of Kenya.

[25] Economic Survey, 2019
[26] KAM EPZ Apparels Sector Transformation paper, 2020

Pre-existing challenges

- **Cost competitiveness:** Kenya has a relatively higher cost of doing business that disadvantages Kenyan apparel exports companies by about 15% as compared to its existing competitors such as Bangladesh and Vietnam as well as emerging competitors such as Ethiopia.
- **Lack of an integrated value chain:** The apparels exports sector is heavily dependent on imported inputs. Over the years, the sector has been able to increase its local content with accessories such as buttons, elastics, zippers and packaging materials. However, fabrics are mainly imported into the country and affects the sector's speed to market.
- **High cost of power:** The EPZ manufacturers are unable to pass the rising power costs to consumers especially if foreign competitors' products are of the same quality but cheaper than the local manufactured products.
- **Skills gaps:** There is a significant skills gap that needs to be bridged with increased industry led training and development.
- **Affordable financing:** Limited access to affordable financing for the sector has led to reduced investment in modern, innovative technology as well as the slow growth of the sector especially for the SMEs operating within the sector.
- **Higher cost of amenities** such as water and sewerage as compared to competitor countries.
- **High cost of logistics:** Kenya has a relatively high cost of logistics as compared to the competing countries that further erodes the sector's competitiveness.
- **Labour issues:** The lack of productivity based wage increment criteria coupled with the ever rising cost of living, present challenges to the cost of labour to the sector that continuously erodes its competitiveness.

Emerging challenges

- **Liquidity challenges:** The slowdown of the consumer market in the export destinations have led to a reduced cash flow to the EPZ based firms as most have lost long term contracts with their buyers.
- **Long term business feasibility:** the buyers are no longer providing business visibility for the oncoming seasons, thus reducing the ability of the sector to make long term business decisions.
- **Supporting workers in light of COVID-19 has been a challenge:** The government has been unable to provide any workers/ wage support scheme.
- **Expected stiff competition from Chinese and larger Asian countries:** It is expected that the competing countries will offer large scale incentives / support schemes to their manufacturers to be able to regain global business. This will put Kenya at a disadvantage.
- **Closure of retail operations:** The closure of retail operations of the buyers, with some of them having to close shop indefinitely has cancelled potential business with the sector.
- **Order feasibility:** The long term order feasibility is also low currently due to unpredictability of the business environment.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Provide an Exports Incentives Programme for the sector	This will enable the sector bridge the competitiveness gap as compared to competing countries. The exports incentive is to be provided in the form a transferable credit managed through a passbook model. It is to be managed strictly under agreed monitoring and implementation protocols to deliver the expected results.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ The National Treasury ■ EPZ Authority ■ KAM	Short-medium term
Provide work permits at lower costs	The industry requires specialised skills that needs support from specialist around the world. Expatriates also enable the sector to be able to transfer skills and technology to the ever-changing global fashion industry. The current work permit costs are high and reduction of the same to a nominal rate would enable it to reduce the sector's cost of doing business thus providing a relief for enhancing global competitiveness. Progress has been made with the Ministry of Industrialisation, Trade and Enterprise Development, the Immigration Department and the National Treasury towards reducing the cost of work permits and the sector is looking towards the finalisation of this proposal.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ The National Treasury ■ Ministry of Interior and Government Coordination ■ EPZ Authority ■ KAM	Short term
Ensuring Kenya gets favourable rules of origin in the Kenya-USA FTA negotiations	Over 90% of the sector's exports are to USA under AGOA. The Kenya-USA FTA will provide a predictable environment for sustained business between Kenya and the USA. The negotiations should build up on the current AGOA provisions and offer additional benefits to Kenyan manufacturers and not create any limitations to market access. Specifically, the third country fabric provision rule of origin should continue.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Office of the President	Short term
Addressing labour related challenges	The apparels industry is labour intensive thus making changes to the labour environment have significant effects on the sector. There should be a creation of a workers welfare council to ensure that there is a joint environment between all stakeholders in addressing all concerns related to labour issues within the sector. Halting of the ceremonial wage increments during Labour Day and instituting productivity based wage increments. Solving the challenge of dual unions within the sector.	■ Ministry of Labour ■ Ministry of Industrialisation, Trade and Enterprise Development	Short term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Addressing the high cost of energy	Provision of electricity at least USD 0.09 per KWH to apparel companies and at least USD 0.04 to textile mills. This will enable the sector to compete with other Textile and Apparel manufacturers around the world that offer electricity at similar rates.	■ Ministry of Energy and Petroleum ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Addressing the high costs of logistics	Providing special rates for manufacturers using the standard gauge railway that are significantly lower than road transport taking into account the last mile connectivity in order to be more competitive in the international market.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works ■ Kenya Railways	Medium term
Providing cheap land for industrial development	Both National and County Governments to create land banks for industrial development so that investors get access to cheaper land. For example, land bank for the BT cotton development initiative is not yet available.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Ministry of Lands ■ EPZA	
Financing/ payment plans	It is important for companies in the textile and apparel sector to access long-term finance given that their business is capital intensive. Financial institutions should consider lending based on the quality of assets, future cash flows and current and future receivables rather than the name and brand of the company.	■ Financial institutions ■ Financial investors	Medium term

Textile and apparel (local)

Overview

- The textile and apparel sector has been identified as a strategic sector for the Kenyan economy, expected to generate growth in employment, create wealth and enhance the country's industrialisation.
- Kenya imports a significant share of textiles and apparels and is looking towards bridging the trade deficit under the Big 4 Agenda, KITP and Vision 2030 strategy documents.
- The sector has repurposed during the COVID-19 crises and has been able to supply the PPE requirements by the country and region. The subsector has been hit hard by the outbreak of COVID-19 with many textile and apparel manufacturers opting to temporally shut down operations due to the collapse of the domestic and regional consumer market.

Opportunities

- Manufacture of PPE such as masks, surgical gowns, overall and medical scrubs to meet the increase in local demand because of COVID-19.
- Grow the clothing industry through training and capacity building for the Micro Small and Medium enterprises (MSMEs).
- Marketing and promotion campaigns for 'made in Kenya to enhance consumption of locally manufactured clothes
- Given the abundant resources available in Kenya, integrated value chains from production to logistics and sourcing, and design, sales and branding will increase competitiveness of locally manufactured apparels compared to imports. In addition, this can provide an avenue for exports through contract manufacturing with global brands

Pre-existing challenges

- **Illicit trade:** Illicit trade on imports has led to unfair competition in the market as well as loss of tax revenue by the GoK. Lack of implementation of the customs duties provides an unfair playing field for local manufacturers who have to comply with all the taxes.
- **BKBK strategy:** The GoK is importing textiles and apparels alongside other articles such as PPEs and uniforms as there is no commitment and coordination to implement BKBK strategy
- **Affordable financing:** Limited access to affordable financing for the sector has led to reduced investment in modern, innovative technology as well as the slow growth of the sector.
- **High cost of power:** Local manufacturers are unable to pass the rising power costs to consumers especially if foreign competitors' products are of the same quality but cheaper than the local manufactured products.

Emerging challenges

- **Quality standards:** KEBS should align the quality standards of locally produced goods and cheap imports. Currently, cheaper imports are of inferior quality compared to locally produced goods.
- **Lack of access to finance:** Limited financing options for capital investments have affected growth and expansion plans for textile and apparel manufacturers.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Implementation of BKBK strategy- to increase local market access	The access to local market will create a strong base line for imports substitution and exports development. This will ensure that local manufacturers are protected by creating an enabling environment and increasing competitiveness of locally produced goods. Full implementation of the Public Procurement and Disposal Act that stipulates that preference should be given to locally manufactured products will create an environment that supports local value addition. ■ 100% procurement of textiles and apparels products from Kenyan manufacturers by all uniformed groups including the disciplined forces, hospitals and parastatals. ■ School uniforms should strictly be procured from local manufacturers. ■ Procurement of PPEs from local manufacturers. Consumer awareness programs to enhance preference of locally manufactured products. Support to implement the BKBK strategy will also enhance market access to the consumer retail market by ensuring that there is a gradual change of consumer psychology towards preference to locally manufactured products. Import substitution strategy where we have product wise imports substitution to increase the footprint of locally manufactured products. Products that can be manufactured easily within the country should be profiled for enactment of affirmative trade balance measures such as import duties and preferential sourcing. Provide support to develop local brands in the form of waivers and publicity support, for example KEBS standardisation fees and intellectual property registration, to infant brands. Local brands will enhance consumption of locally manufactured products.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Credit payment period	The National Treasury should review and amend the Public Procurement and Disposal Act, Act no. 33 of 2015 to ensure prompt payment to manufacturers by the GoK as well as parastatals upon satisfactory supply of goods and invoicing within 30 days. This will result in improved working capital for businesses within the sector. The prompt payments spirit should be entrenched in law so as to also provide a payment period obligation for the players in the private sector.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ National Treasury	Medium term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Import guidelines	Proper guidelines on importation should be developed to align the quality standards of imports and locally produced goods. This will ensure that substandard products are restricted into the Kenyan market.	■ KEBS	Medium term
Introducing specific duties to curb under invoicing import taxes	The increase in duties on imported finished textile goods will protect local manufacturers as well as increase tax revenues for the GoK. The introduction of specific duties at 35% or USD 5 per kg for garments and 25% or USD 1.5 per kg for fabrics will curb under invoicing and increase the revenue collections by GoK.	■ KRA ■ Ministry of Industrialisation, Trade and Enterprise Development ■ National Treasury	Medium term
Provision of tax incentives	Tax incentives on imported raw materials for businesses involved in value addition will make locally manufactured products more competitive in the export market. Examples of such tax incentives include duty remissions, tax holidays, rebates, VAT exemptions, and temporary excise duty. The recent reintroduction of VAT on machinery has increased the cost of investments in the manufacturing sector. VAT on machinery should be waived or taken back to its former state so as to encourage investments. This is specifically important for this sector where the government has embarked on attracting investments in line with its status as a priority sector for development.	■ KRA	Medium term
Financing/ payment plans	It is important for companies in the textile and apparel sector to access long-term finance at competitive rates given that their business is capital intensive. Financial institutions should consider flexible lending terms aside from the traditional collateral based lending.	■ Financial institutions ■ National Treasury ■ Ministry of Industrialisation, Trade and Enterprise Development ■ Financial investors	Medium term
Capacity building platforms	The establishment of capacity building platforms will enable MSMEs to be trained on ways to grow their business sustainably in addition to bridging the skill gaps that currently exists within the sector. ■ Mass Training / skills development for future human resources to the sectors. ■ Skill up gradation for employees in the sector to enhance productivity enhancement programs ■ Linking Academia with industry to provide demand driven training ■ Development of Incubation hubs to nurture start-ups / entrepreneurs in designers and textiles & apparels companies	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Tendering process	Establishment of proper channels for public tendering process will promote an equal opportunity for local manufacturers, promoting a healthy competitive environment. E-procurement should be considered to enhance transparency and accessibility.	■ Public Procurement Regulatory Authority	Medium term
Provision of incentives for renewable and green energy	Cheaper forms of green energy to solve the issue of high electricity costs should be considered.	■ Ministry of Energy and Petroleum	Long term
Marketing awareness campaigns	Increasingly, consumers are looking at brands that provide value and GoK should promote the high quality local fashion industry through targeted marketing and advertising at local and global apparel exhibitions.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term
Providing affordable energy	Energy is the single largest cost driver to textile mills. The high cost of electricity has made it uneconomical to spin and weave price competitive fabrics thus the high reliance on imports. Competing countries have low cost electricity for the sector to bridge the competitiveness gap. It is proposed that the Government provides: ■ Electricity at a cost of USD 0.04 per kWh to textile mills ■ Electricity at a cost of USD 0.09 per kWh to apparel companies	■ Ministry of Industrialisation, Trade and Enterprise Development ■ National Treasury ■ Ministry of Energy	Medium term
Erratic cotton supplies and unpredictable prices to farmers	Development of a cotton stabilization fund to support contractual farming and create price predictability.	■ Ministry of Agriculture ■ Agriculture and Food Authority ■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term

Timber, wood and furniture

Overview

- The industry remains largely fragmented and primarily consists of numerous small-scale entrepreneurs both in the rural and urban areas that mainly operate in the informal sector. Over the last 10 years there has been an increase in investments within the formal sector through the adoption of new machining technologies. The artisans in the informal sector, referred to as the Jua Kali, control an estimated 85% of the household furniture market[27]. The sector's main activities include timber saw milling, manufacturing of boards (chip boards and ply woods), veneer sheets, wooden boxes, crates and cases solid wood furniture, wood based panel furniture consisting of cabinets, kitchens, wardrobes, office furniture and, and furniture parts.
- Revenue from sales of finished furniture is approximately Ksh. 55 billion per annum[28]. Of this, industry exports approximately Ksh. 0.2 billion of furniture annually[29].
- Manufacturing of furniture grew by 4.0% between 2018 and 2019, which is driven by a 5.3% increase in mattress in the same period[30].
- The sector has been affected by the outbreak of COVID-19 resulting from a contraction of the construction sector, which is one of the main market sources for the furniture sector.

Opportunities

- There is a need to formalise the sector, as a significant number of MSMEs in this sector are within the informal setup. Up skilling, training and deploying the use of new technologies will creates further opportunities for sub-contracting linkages with MSMEs This would enhance collaboration within the value chain.

— There is an opportunity to invest in modern, innovative technology to increase efficiency in production and to expand the range of locally manufactured furniture.

— There is opportunity for the sector through implementation of the Affordable housing pillar under the Big 4 Agenda, through local sourcing.

— KAM's 2019 deep dive report mentioned opportunities, which are still relevant to the subsector as at the date of this report. These opportunities include:

  ■ A potential for local manufacturers of high-quality furniture to export regionally and globally.

  ■ Manufacture ready-to-assemble (knock-down) furniture for the local, price sensitive market.

  ■ Encourage the use of supplementary and alternative raw materials instead of solid timber for production of finished goods; a prime example is the use of reconstituted wood based panels such as particle board and MDF, Orient Strand Board and other agricultural bases boards that originate from sustainable sources of Timber or from post industrial waste

Pre-existing Challenges

— **Over-reliance on imported furniture:** The market relies heavily on imported furniture. Local producers are at a significant cost competitive disadvantage when compared to imports from the East. This is due the high cost of raw material inputs in Kenya as a result of the existing CET structure on furniture inputs. Further to this there is a misperception that imported furniture is of a better quality than locally produced goods. Additionally, undervaluation of imports and illicit trade exposes local manufacturers to unhealthy competition; this has further exacerbated the issue of competitiveness.

— **Import barriers:** For companies to be able to import timber into the country, several licenses are required. The process of acquiring these licenses is lengthy, bureaucratic and lacks transparency. Anomalies in the CET structure - Under the current duty structure, taxes/duties on raw materials and finished products are not differentiated. This therefore is a disincentive to value addition/creation which restricts the margins of manufacturers and ultimately stifles innovation.

— **Anomalies in the CET structure** - Under the current duty structure, taxes/duties on raw materials and finished products are not differentiated. This suggests that businesses involved in value addition/creation are unable to fetch higher margins to incentivise companies to be innovative.

— **Lack of skilled labour force:** There is a need to up skill the low skilled labour force in this sector through technical training, which will drive overall productivity. Additionally, the TVET centres offering technical courses make use of outdated technology, methods and approaches. This leads to a gap between actual skills available versus the required skills in the market.

— **Lack of incentives for manufacturers to invest in the labour force:** It was noted from the focus group discussions that local companies in this sector have proactively trained their workforce in anticipation of long-term efficiencies in production. There is need to incentivise such companies by establishing a framework to offer tax reliefs.

- **BKBK strategy:** There is a need to have an implementation plan on the BKBK strategy. At present, real estate project developers under the AHP programme are importing duty free construction materials, despite the fact that these can be manufactured locally. As a result, local manufacturers are finding it difficult to compete on price compared to imported construction materials.

Emerging challenges

- **Access to and shortage of raw materials for furniture manufacturing:** In 2018, the GoK banned logging and harvesting timber. This resulted in the industry relying on importation of timber from Uganda and Tanzania. However, temporary closure of these borders as a measure to contain spread of the COVID-19 virus has led to an acute shortage of timber in the country.

- **Increased cost of raw materials:** A shortage of wood and timber in the economy has resulted in an upward price pressure caused by a surplus demand over supply. This is especially the case for manufacturers who had pre-existing orders as well as demand from some of the construction projects that are still on going. In order to manage business sustainability, manufacturers are passing the price increases to customers. This has resulted in a decline in demand for final products as customers are not willing to pay higher prices.

- **Reduced productivity:** Manufacturers have had to put in place various measures to comply with GoK directives in response to the COVID-19 virus which has led to a decline in productivity. An example includes rules concerning social distancing; this has resulted in a reduced number of employees working on the production floor leading to manufacturers not operating at full capacity.

- **Loss of skilled labour force:** Many manufacturers have tried to ensure their employees are either enrolled in formal or informal training. However, due to the current pandemic, such trained employees are forced to take unpaid leave or, in situations that are more adverse, are made redundant due to the curtailment in operations.

- **Limited access to markets:** The construction sector, which is one of the main market sources for the furniture sector, has halted real estate projects, or are operating on reduced capacity. This has resulted in a decline in demand for furniture. Additionally, the GoK's directives related to passenger capacity in delivery vehicles, restrictive movement within the counties among others, have further contributed to the decline in overall demand for furniture.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Financing/ payment plans for retailers	Retailers need to manage their finances over the short and long term. At this point in the economic crisis, retailers are focused on conserving cash to manage liquidity. There is a need for banks to finance retailers purchasing furniture to ensure there are adequate working capital requirements to re-start their businesses.	■ Financial institutions	Short term
BKBK strategy	Implementation of the BKBK strategy will encourage consumers to buy locally manufactured products. This should be entrenched in the Affordable housing pillar under the Big 4 Agenda. The GoK's move to improve hospital infrastructure has been fast tracked due to the COVID-19 pandemic. Hospital tenders for purchase of furniture such as increase in bed capacity and building of isolation wards provides an opportunity to source from local manufacturers. This will help boost growth of the sector in the future as well as cushion the current economic crisis.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ State department of Housing development	Medium term
EAC CET	There is a need for uniformity in the application of the EAC CET to ensure that local manufacturers stand a chance to fairly compete with importers. At present, local manufacturers are unable to penetrate the EAC market due to prohibitions, conditions, or specific market requirements that make exporting of products into those markets difficult and/or costly.	■ KRA	Medium term
Logging ban for private land/ forest	In collaboration with National Environment Management Authority (NEMA), Kenya Forest Services (KFS) and other stakeholders, there is a need to come up with a policy on harvesting timber whilst ensuring that environmental factors are taken into account. This will make raw materials locally available instead of importing.	■ Ministry of Environment and Forestry ■ NEMA	Long term

Proposed intervention	Comments	Key stakeholder group	Time horizon
Import taxes	In the medium term, the government should consider reducing import taxes on fittings required to manufacture high quality finished products for the local and export market. For example, the duty remission scheme that is being formulated in Uganda will encourage local manufacturers to produce high quality furniture for export. However, in the long term, the government should consider an import ban on imported fittings subject to them being locally produced by at least 2 or 3 manufacturers in order to grow the market share of local manufacturers.	■ KRA	Medium term
National level coordinated training institute	Manufacturers may support the GoK in setting up a national level coordinated training institute by providing apprenticeships to trainees. These trainees will have access modern technologies and adopt updated methods and approaches for efficient production. This will encourage manufacturers to invest in the labour force.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term
Enhanced institutional collaboration	The establishment of an industry association, coupled with developing a national policy framework for the sector, will ensure that there is collaboration amongst various stakeholders along the value chain. This will help create a strong link between the formal and informal sectors and contribute to growth in this sector.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term

Micro, small and medium size enterprises

Overview

- MSMEs drive Kenya's economy and are a key enabler of economic growth and development. Despite most MSMEs operating informally, the sector accounts for approximately 40% of Kenya's GDP annually and employs over 14.9 million people[34].
- The sector has been affected by the COVID-19 pandemic due to the social distancing directives that have dissuaded many households from crowded public areas, where such businesses operate. Additionally, the decline in spending power among households, occasioned by salary cuts and lay-offs, has reduced the demand for MSME products and services. The Government has, however, launched the Ksh. 3 billion SME credit guarantee scheme to support the MSMEs.
- MSMEs are expected to play a key role in achieving the country's economic development blueprint as well as the Big 4 agenda.

Opportunities

- According to the World Bank, the formal MSME sector contributes to 40% of total employment in emerging economies. Therefore, this segment has a huge potential to create formal jobs in the future.
- MSMEs are able to quickly adjust to the changing needs of the environment. For example, many MSMEs globally, that produced various products and were affected by the current pandemic, have been able to shift focus to manufacturing more critical products such as manufacture of PPEs and cleaning agents.
- There is an opportunity for the GoK to support innovative ideas developed by individuals and MSMEs by providing subsidies or helping their products reach market quickly.

[34]2016 MSMEs Survey Report KNBS (2016),

Pre-existing challenges

— **Market access:** MSMEs are unable to penetrate local and export markets dominated by large companies. In addition, MSMEs are affected by cheap imports.

— **Discounts:** Due to lack of access to finance, MSMEs are unable to obtain discounts on bulk buying, which makes them less competitive compared to larger manufacturers and importers.

— **Government tenders:** MSMEs lack the resources to fulfil government tenders due to stringent requirements and controls stipulated by the contracts.

— **Implementation of the BKBK strategy:** Inadequate guidance on the implementation of the BKBK strategy limits the growth of locally produced goods by MSMEs. This is mainly due to the GoK relying on imports.

— **Regulatory challenges:** Working with regulatory bodies is a challenge for MSMEs as some of these bodies, for example KEBS, offer standards that MSMEs are supposed to adhere to but offer no training to make sure MSMEs understand these requirements.

— **Barriers to entry:** MSMEs are unable to take advantage of newer, modern technology due to the high investment costs which create a barrier to entry. Currently, manufacturers are using outdated technology leading to lower production efficiency and lower return on capital.

— **Corruption:** Unfair market practices hinders growth of the sector.

— **Lack of access to credit/high cost of credit:** Financial institutions' are reluctant to lend to MSMEs to finance their working capital and/or where this is possible, the financial institutions charge a high interest rate.

Emerging challenges

— **Supply chain disruptions:** To curb the current pandemic, the GoK has restricted movement across the counties as well as across borders. This has affected the supply chain for various companies.

— **Bulk orders:** SMEs are able to manufacture several products but are unable to fulfil bulk orders given that they do not have sufficient working capital or access to finance for capital expenditure. This makes it more difficult to fulfil government tenders.

— **Mentorship:** MSMEs lack mentorship so growth is limited to its own experiences.

— **High-energy costs:** The electricity tariff should be reviewed to ensure competitiveness of locally manufactured products. In addition, due to the frequent power outages, MSMEs are forced to seek alternative but more expensive sources of power such as generators.

Proposed intervention	Comments	Key stakeholder group	Time horizon
Financing	Better access to capital (equity or debt) will cater for the working capital and capital expenditure requirements in the sector. This will enable MSMEs to grow their business through competitive pricing achieved from economies of scale.	■ Financial institutions ■ Strategic investors	Short term
Mentorship and capacity building program	Larger manufacturers that have knowledge and expertise could mentor MSMEs. This initiative may also assist in formalising the MSMEs operating in the informal sector, which will strengthen the value chain.	■ Businesses	Medium term
Regulating imports	The Government should consider an import ban or charge higher import taxes on imported finished products in order to grow the market share of local MSMEs.	■ KRA	Medium term
Government support	Implementation plan for Ksh. 712 million from the national budget (2020/2021) for MSMEs will encourage local manufacturing. In addition, the government could develop policies that promote MSMEs participation in public procurement.	■ Ministry of Industrialisation, Trade and Enterprise Development ■ Public Procurement Regulatory Authority	Medium term
BKBK strategy	Implementation of the BKBK strategy will encourage consumers to buy locally manufactured products.	■ Ministry of Industrialisation, Trade and Enterprise Development	Medium term
Credit guarantee scheme	The credit guarantee scheme introduced by CBK will ensure MSMEs get access to credit given the challenges of having non-bankable collateral. However, the ease with which MSMEs will be able to apply and meet compliance requirements should be considered so that MSMEs do not face challenges in applying for the guarantee.	■ CBK	Medium term
Marketing awareness campaigns	The GoK should promote the MSMEs' products through targeted marketing and advertising at local exhibitions.	■ Ministry of Industrialisation, Trade and Enterprise Development	Long term

Note: Specific sector opportunities, challenges and proposed intervention for MSMEs have been covered under the following subsectors: building, mining and construction, chemical and allied, energy, electrical and electronics, food and beverages, leather and footwear, textile and apparel, timber, wood and furniture and agriculture/fresh produce.

List of participants

Afri Piping Systems Limited	Central Food Limited	Five Elements Advisory	Java House Africa Limited
Alpha Fine Foods Limited	CFAO Kenya Limited	Fresh Produce Exporters Association of Kenya (FPEAK),	Jeilo Collections
Alphaknits Limited	Coca Cola Beverages Africa Limited	Gees Apparels	Jumbo Tanks Limited
Alpharama Limited	Colgate-Palmolive East Africa Limited	Gees Limited	Kansai Plascon Kenya Limited
Alpine Coolers Limited	Coopers Kenya Limited	Giersten	Kapa Oil Refineries Limited
Aquamist Limited	Cosmos Pharmaceautical Limited	Global Tea Limited	Kartasi Industries Limited
Ashton Apparels	Dairy Land Limited	Gonas Best Limited	Kaysalt Limited
Bamburi Cement Limited	Danone East Africa Limited	Green Pencils Limited	Kenafric Industries Limited
BASF Limited	Dawa Limited	Hela Intimates (EPZ) Limited	Kenda Ceramics Limited
Bata Shoe Kenya PLC	DMBL Group of Companies	House of Sahara Limited	Kensalt Limited
Bedi Investments Limited	East Africa Cables Limited	Industrial Development Bank Limited	Kenya Builders Limited
Bidco Africa Limited	Economic Industries Limited	Insight Management Consultants Limited	Kenya Shirts Manufacturing Company Limited
Biocorn Products Limited	Elekea Limited	International Furniture Limited	Kenya Wine Agencies Limited
Busia Sugar Industry Limited	Elgon Kenya Ltd	IPS Group	Kevian Kenya Limited
Capel Food Industries Limited	Elyse Chemical Limited	IS Group	Kibo Africa Limited
Capwell industries Limited	Federation of Kenya Pharmaceutical Manufacturers	Isuzu East Africa Limited	Kibos Paper Limited

Kibos Sugar Limited	Mutsimoto Limited	Regal Pharmaceutical Limited	Straightline Entreprises
Kinangop Dairy Limited	Norda Industries Limited	Rok Industries Limited	Synresin Limited
Krystaline Salt Limited	Nzoia Sugar Company Limited	Rova Digital Limited	Thika Cloth Mills Limited
Kwale International Sugar Company Limited	Oil Libya Kenya Limited	Safecool Limited	Trans Mara Sugar Limited
Leather Industries of Kenya Limited	Omega Apparels Limited	Savannah Cement Limited	Tropical Heat Limited
Medisel Kenya Limited	Orion East Africa Limited	Scania East Africa Limited	Trufoods Limited
Metsec Cables Limited	Osho Chemical Limited	Scrumptious Eats Limited	Twiga Foods Limited
Midco Textiles (EA) Limited	Pantech Limited	Sheth Naturals	Ultra Vetis
Mobius Motors Kenya Limited	Paper Bags Limited	Shiefeld Africa Limited	Unilever East Africa Limited
Mombasa Apparels (EPZ) Limited	PG Bison Limited	Simba Corporation Limited	United Aryans (EPZ) Limited
Mombasa Cement Limited	Plastic Industries Limited	Solar Energy Equipment Limited	Universal Corporation Limited
Motor Assessors Association of Kenya	Pwani Oil Limited	Space and Style Limited	Value Connect Management Consultancy
MTech Limited	Raj Consulting Limited	Spinknit Limited	Vivo Activewear
Mufindi Paper Limited	Red Lands Roses Limited	Spoton Entreprises	Vivo Energy

Note: KAM provided the above company names of the participants to the extent that they were identifiable from the focus group discussions and, therefore, the list may not be exhaustive.

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