Executive Summary

Kenya Association of Manufacturers (KAM) develops the Manufacturing Priority Agenda at the beginning of each year to guide its advocacy geared towards manufacturing sector competitiveness.

The sector is a potent tool that the government can deploy to alleviate poverty and income inequalities by providing employment especially to the low and unskilled workers. The sector is also key to the realization of the Sustainable Development Goals (SDGs), and specifically SDG 9 that seeks to "build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation".

This year's Priority Agenda, themed *Resetting Manufacturing to achieve Agenda 20BY30,* presents proposals that will transform the manufacturing sector, if implemented. Subsequently, contribute 20% to GDP from the current 7.2% as outlined in the Kenya Manufacturing 20BY30 agenda, with a potential of increasing direct jobs from the current circa 348,000 to circa 980,000 jobs. The MPA is clustered into four pillars, namely Global Competitiveness; Export-led Industrialization; SME Development; and Industrializing Agriculture.

An analysis of key economic variables shows that GDP growth rate of the Kenyan economy has been volatile as the economy is highly vulnerable to weather and external related shocks. It is an economic fact that countries with a robust manufacturing sector are in a better position to weather these shocks and in effect achieve sustainable economic growth. The inflation rate is also a major cause of concern to the manufacturing sector. The government should consider long-term plans to build buffers against weather shocks on agricultural production and petroleum products.

In a globalized economy, manufacturers face competition not only in the domestic market but also regionally and internationally. This means that it is paramount to support local industry and drive Kenya into an export-led economy. Some of the actions that can enhance Kenya's industrial competitiveness include reducing regulatory burden, promoting access to quality, affordable and reliable energy, reducing transport and logistics costs, sustaining the fight against illicit trade, creating manufacturing centric counties, ensuring certainty and predictability of tax policies, lowering the cost of industrial inputs, incentivizing prompt payment culture and availing long-term financing for manufacturers. These measures will increase the capacity of local industries to compete globally.

Export-led industrialization is based on the production of manufactured products for sale in the international market. This calls on Kenya to leverage on products that have a comparative advantage to grow our exports whilst increasing export basket of high-technology goods. However, we cannot speak of growing our export potential without addressing access to local markets. Not only does it lead to increased market shared by local industries, but it is also a useful platform for manufacturers to develop their export capacities. As such, the challenges inhibiting local consumption need to be addressed. Fast-tracking and conclusion of all pending issues under trade agreements such as the African Continental Free Trade Area (AfCFTA), and Free Trade Area (FTA) between Kenya and USA is important on this front.

The government is keen on SME development to uplift incomes of "Hustlers" through the "bottom-up economic model". SMEs at KAM constitute about 52% of Members and through the Manufacturing SME Hub, can benefit especially in targeting main challenges they face in the pulled effort created to complement government efforts. Some of the intervention areas to promote SMEs include access to finance, implementation of Preferential Procurement Master Roll, enactment and implementation of the Local Content Bill, 2018 and passage of pending SME enabling legislations/bills.

A focus on agro-industry value chain will lift incomes of more than 8.6 million farmers, majority of whom are small-scale. Value addition of agricultural products will not only increase the income of farmers, but also earn more foreign exchange through exports. Some of the actions that the government can pursue include prioritizing food security, reducing the cost of farmers' inputs, improving technical services and enhancing agricultural productivity.

The Association is committed to achieving these goals, and we will work closely with both national and county governments and development partners towards the industrialization vision for Kenya. We look forward to working together, for manufacturing competitiveness.

Anthony Mwangi
KAM Chief Executive

Established in 1959, Kenya Association of Manufacturers (KAM) is a representative of manufacturing and value-add industries in Kenya. The Association has grown into a dynamic, vibrant, credible Association that unites industrialists and offers a common voice for businesses.

We have been front and centre in driving fact-based policy advocacy towards the formation of industrial policies to strengthen and support the country's economic development. Through fact-based advocacy, KAM partners with Government and its associated agencies to ensure a dynamic and flourishing manufacturing sector in Kenya, to realize a double-digit contribution to GDP.

A publication of the Kenya Association of Manufacturers (KAM)

KENYA ASSOCIATION OF MANUFACTURERS
Driving Global Competitiveness
60+ Years OF ADDING VALUE

MANUFACTURING PRIORITY AGENDA (MPA) 2023

Resetting Manufacturing to achieve Agenda 20BY30

Resetting Manufacturing to achieve Agenda 20BY30

1 PILLAR 1: GLOBAL COMPETITIVENESS

a. Reduce regulatory burden

i. Realigning existing national government institutions and counties to remove overlapping and duplication of mandate.
ii. Realignment of existing fees, charges and levies imposed by various government agencies and regulatory bodies.
iii. National government agencies and county governments to create sharing platforms to facilitate compliance and reduce costs for businesses.
iv. Establish institutional procedures to handle compliance matters relating to industries such as closures and recalls among others.
v. Develop compliance support mechanisms and corrective action plans collaboratively with manufacturers to avoid local brands being destroyed.

b. Promote access to quality, affordable and reliable energy for manufacturing

i. Advance bilateral negotiations for alternative sources of natural gas to support the energy sector in Kenya including Tanzania and Qatar.
ii. Address inefficiencies caused by the government in a manner that system losses are reduced marginally from current average of 25% and which do not impact on the price of electricity and management of Kenya Power.
iii. Fast track finalization of regulations of the Energy Act 2019, which seek to resolve energy related issues in the country such as monopoly of distribution and allow for net metering feeding into the national grid among others.
iv. Allow generators of electricity to sell directly to bulk electricity consumers to enhance quality and reliability of electricity.
v. Introduce uniform preferential tariffs for all SEZs to attract new investment.
vi. Review pre-conditions for Time of Use Tariff for existing industries to cover all night consumption and lock in the rate for each facility.
vii. Remove the Ksh. 5.5 Fuel Development Levy in view of the no subsidy regime.
viii. Incentivize manufacturers to upgrade from fuel-based boilers to electric boilers with a view of saving our forex, increase power utilization and reduce carbon footprint.

c. Reduce transport and logistics costs

i. Remove port charges for importing raw materials and intermediate products.
ii. Sustain an efficient and seamless movement of containers at the ports by enhancing existing collaborative and coordination frameworks with port stakeholders.
iii. Review KRC rail charges to match the road market rates to sustain uptake of SGR.
iv. Prioritize construction of MGR and SGR sidings in industrial areas as well as rehabilitation of railway lines in industrial areas to enhance last mile connectivity and reduce cost of transport.
v. Simplify and promote Authorized Economic Operator (AEO) accreditation processes to increase its uptake for enhanced import and export clearance processes.
vi. Create a framework between roads agencies and county governments to enhance industrial roads upgrading and maintenance.
vii. Enable input VAT on KPA charges to be claimable by importers.

d. Sustain the fight against illicit trade

i. Enhance IPR compliance through coordinated enforcement with line agencies that support the government in expanding its tax revenue base, promote health and safety of consumers, food security and innovation and value addition.
ii. Intensify awareness on matters illicit trade to targeted groups including users, producers, governments.
iii. High level reporting (The Cabinet) of the interagency reports relating to illicit trade and adoption of the SOPs for the multi-agency team.
iv. Address the underlying issues that incentivize illicit trade such as excise duty regime.
v. Focus on the implementation of the IPR Recordation Regulations that came into effect on 1st January 2023.
vi. Enhance inter-agency collaboration, co-ordination, accountability, and transparency in the enforcement against illicit trade.

e. Manufacturing centric counties

i. Development of manufacturing responsive County Annual Development plans and budgets.
ii. Reintroduction of County Government Revenue Raising Regulation Process Bill that provides mechanisms for harmonization of county levies, fees, and charges by the county governments.
iii. Launch and implementation of County Industrial Competitiveness Index.

f. Ensure certainty and predictability of tax policies to encourage industrial investments

i. Finalize and implement a pro-industry National Tax Policy.
ii. Revert Investment Deduction Allowance to 150% or 75%, in the first year, and 37.5% in the second and third year or 50% in the first, second and third year.
iii. VAT exemption on plant and machinery of Chapter 84 and 85 used for the manufacture of goods.
iv. Revert to pre-Finance Act 2021 basis for interest restriction under thin capitalization rules to the ratio of debt to equity of 3:1.

g. Lower the cost of industrial inputs

i. Amend the Miscellaneous Fees and Levies Act 2016 so that industrial machinery and spare parts of Chapters 84 & 85 attract Import Declaration Fee (IDF) and Railway Development (RDL) rate of 1.5%.
ii. Allow manufacturers to offset "inputs" as part of the relief that is provided to manufacturers under Section 14 of the Excise Duty Act 2015.

h. Incentivize prompt payment culture

i. Implement the 60-day payment period provided for under the Public Procurement and Assets Disposal Regulations, 2020.
ii. Fast track the enactment of the Prompt Payment Bill, 2021 to enhance compliance.
iii. All government purchases to be done through IFMIS and thus enable faster reporting of local procurement, address prompt payment as well as enhance transparency and accountability.

i. Avail long term financing to Manufacturers

i. Create mechanisms that will allow cooperatives and pension funds to invest in the manufacturing sector.
ii. Re-introduce the Kenya Development Bank Bill, 2020.

j. Enhance environmental and sustainable regulatory compliance

i. Implementation of the National Sustainable Waste Management Act 2022 to ensure all key stakeholders implement their roles to achieve a cleaner and healthy environment.
ii. Gazettement of the draft Extended Producer Responsibility Regulations 2022 on solid waste management to promote minimization of waste generation, drive clean and green technologies and promote transition to a circular economy.
iii. Incentivize uptake of technology to minimize resource extraction and utilization through tax reduction or exemptions to encourage industries to shift from old systems to new efficient systems. The new technology will support in the reduction of emissions and lesser cost input into a process.
iv. Create an accountable platform for promoting Sustainable Goals through mainstreaming activities and reporting and rewarding.
v. Unpack the "carbon trading" for industries to create opportunities through favourable policies and regulatory frameworks.
vi. Localize and implement SDG 12 on Responsible Production and Consumption under circular economy.
vii. Fast track the finalization of policy and legal framework to establish extended producer schemes for post-consumer waste.
viii. Create a program for greening of Kenyan industries in line with national policies and global commitments. Incentivize industries that take up self-regulation and sustainability programs.

k. Pro-industry skill development

i. Create a policy framework to allow coordinated formation of sector specific SSACs, harmonization of the same and operationalization of the National Skills Council.
ii. Align and strengthen skills assessment bodies (Kenya National Qualifications Authority, National Industrial Training Authority, TVET Authority, Commission for University Education) to reduce duplication and operationalize recognition of prior learning and certification of industry experts.
iii. Incentivize industry to support skills development (internships, attachments, work-based learning) through tax rebates and tax relief among other incentives. This includes operationalization of the NITA and TVETA Act, and operationalization of the TVET tax rebate for paid internships as per Finance Act 2021.
iv. Support the scaling up of CBET uptake in TVET institutions and industries, nationally, through increased awareness.
v. Strengthen collaboration between industry and training institutions through a framework that supports research, commercialization of innovations, and industry engagement.
vi. Facilitate learners through increased funding for TVET students, including financial support during industrial attachments and internships.
vii. Strengthen industry and training linkages through creation of a single labour database management system, upskilling and incentivizing of career/industry liaison officers.
viii. Strengthen entrepreneurship and mentorship through incubation centres in TVET and higher learning institutions, commercialization of existing centers of excellence and linkages of the same to industry.

2 PILLAR 2: EXPORT-LED INDUSTRIALIZATION

a. Enhance domestic market access

i. Fast track adoption and full implementation of the local content policy.
ii. National and County Government agencies to enhance the timeliness of information sharing on procurement from local entities. In addition, the information needs to be posted on the Ministry and county websites on a bi-annual basis for effective monitoring and evaluation.
iii. Monitor and evaluate the implementation of the BKBK strategy by the various MDAs vs the Preferential Procurement Master Roll.
iv. Annual review and gazettement of the Preferential Procurement Master Roll by the Ministry of Trade, Investment, and Industry.
v. Increase Kenya Trade Remedies Agency's capacity to conduct investigations and enforcement of anti-dumping laws.

b. Enhance EAC market access

i. Buy East Africa Build East Africa
ii. Address outstanding issues under the EAC CET 2022 review e.g., mapping.
iii. Comprehensive Review the EAC Rules of Origin.
iv. Fast track the finalization and implementation of the EAC NTB Act amendments and development of the regulations.

c. Diversification and optimization of international market access

i. Kenya to propose extension by end of 2023 for at least 15 years in the US Kenya Cooperation agreement /AGOA.
ii. Export development program to increase Kenyan exports under EU-EPA and Kenya UK FTA.
iii. Fast track finalization of the outstanding issues on the AFCFTA and TFTA.
iv. Fast track pending negotiation issues and support manufacturers to utilize African continental Free Trade Area (ACFTA), Tripartite Free Trade Area (TFTA) and Common Market for East and Southern Africa (COMESA).
v. Removal of export taxes, duties, levies, and charges on finished goods.
vi. Establishment of bonded warehouses in strategic markets i.e., DRC, South Sudan and Ghana.
vii. Establishment of export promotion schemes for instance Exports Promotion Program office or rebate program i.e., Egypt program.
viii. End of term M&E of the Integrated National Export Promotion and Development Strategy delivery structures.

3 PILLAR 3: SME DEVELOPMENT

Agenda

a. Access to Finance
b. Market Access
c. Governance

Actions

i. Implement Preferential Procurement Master Roll
ii. Enact and implement the Local Content Bill, 2018
iii. Enact and implement other pending MSME enabling legislations/bills

4 PILLAR 4: INDUSTRIALIZING AGRICULTURE

Agenda

a. Value chain integration
b. Competitive industrial inputs
c. Mechanization of Agriculture

Actions

i. Bring down the cost of farmers' inputs.
ii. Improve technical services.
iii. Enhance agricultural productivity.