KENYA ASSOCIATION OF MANUFACTURERS

Driving Global Competitiveness

60+ Years OF ADDING VALUE

MANUFACTURING

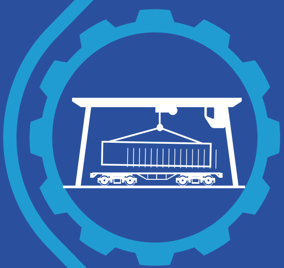
PRIORITY AGENDA (MPA) 2023

Resetting Manufacturing to achieve Agenda 20BY30

2023 MPA THEMATIC FOCUS

1. Global Competitiveness

- Reducing regulatory burden
- Promote access to quality, affordable and reliable energy for manufacturing
- Reduce transport and logistics costs
- Sustain the fight against illicit trade
- Manufacturing centric counties
- Ensure certainty and predictability of tax policies to encourage industrial investments
- Lower the cost of industrial inputs
- Incentivize prompt payment culture
- Avail long term financing to manufacturers



2. Export-led Industrialization

- Enhance domestic market access
- Enhance EAC market access
- Diversify international market access

3. SME Development

- Access to Finance
- Market Access
- Governance

4. Industrializing Agriculture

- Value chain integration
- Competitive industrial inputs
- Mechanization of Agriculture

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Abbreviations

ACA	- Anti-Counterfeit Authority
AfCFTA	- African Continental Free Trade Area
AfDB	- African Development Bank
AGOA	- African Growth and Opportunity Act
AU	- African Union
BKBK	- Buy Kenya Build Kenya
CBR	- Central Bank Rate
CET	- Common External Tariff
CIP	- Competitive Industrial Performance
COMESA	- Common Market for Eastern and Southern Africa
EAC	- East African Community
EDF	- Export Development Fund
EPA	- Economic Partnership Agreement
EPZ	- Export Processing Zones
EU	- European Union
GDP	- Gross Domestic Product
HELB	- Higher Education and Loans Board
ICDN	- Inland Container Depot Nairobi
IMF	- International Monetary Fund
KETRA	- Kenya Trade Remedies Agency
KNBS	- Kenya National Bureau of Statistics
KPA	- Kenya Ports Authority
KRC	- Kenya Railway Cooperation
MDAs	- Ministries, Departments and Agencies
MGR	- Meter Gauge Railway
MSE	- Micro and Small Enterprises
MSME	- Micro, Small and Medium Enterprises
NEPDS	- National Export Promotion and Development Strategy
NICD	- Naivasha Internal Container Depot
NSE	- Nairobi Securities Exchange
OECD	- Organization of Economic Co-operation and Development
SDGs	- Sustainable Development Goals
SGR	- Standard Gauge Railway
TFTA	- Tripartite Free Trade Area
TVET	- Technical and Vocational Education and Training

Foreword

> *... for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."*

It is widely recognized that industrialization, which involves a shift from agriculture to manufacturing, is key to development: hardly any countries have developed without industrializing. This is the reason the manufacturing sector is regarded as the engine of economic growth. Kenya cannot be an exception to this truth. Accordingly, persistent annual decline of the manufacturing sector contribution to the economy should elicit interest and policy responses from the policy makers. Data shows that Gross Domestic Product (GDP) contribution of the manufacturing sector declined from 11.16% in 2011 to 7.24% in 2021. Kenya Association of Manufacturers (KAM) is hopeful that the Kenya Manufacturing 20BY30 Agenda will reverse this trend. A robust manufacturing sector will support the achievement of a high and sustainable economic growth required to create jobs, alleviate poverty, and reduce inequalities.

Manufacturing sector requires a conducive business environment to thrive. This includes a stable macroeconomic environment. KAM notes with concern that the stock of public debt grew by 574.24%, from Ksh. 1.32 trillion in 2010, to Ksh. 8.90 trillion by end of November 2022. This has been occasioned by high fiscal deficit which stood at 5.8% of GDP in the financial year 2022/23. Under the draft Budget Policy Statement released in January 2023, the government lays a lot of emphasis on tax revenue collection by strengthening administrative mechanisms. While this is important, more impact would be realized through fiscal consolidation. Any tax increase on taxpayers will be a procyclical policy intervention and will further frustrate robust economic recovery. This is best illustrated by Winston Churchill's famous quote on taxation that goes "… *for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."*

The high and persistent inflation rate and weakening of the Kenya shilling against major global currencies such as the US$ is a red flag that there is an underlying economic problem that should be addressed. One of the manifestations is heavy reliance on imports further illustrating the need to grow domestic industries. In 2021, about 46.5% of the total import value was by manufacturers and this is why availability and pricing of the US$ matter to manufacturers.

MANUFACTURING CONTRIBUTION TO GDP

11.16% - 7.24%
(2011) (2021)

STOCK OF PUBLIC DEBT

Ksh. 1.32T - Ksh. 8.90T
(2010) (2022)

46.5%
(IMPORTS 2021)

The 2023 Manufacturing Priority Agenda (MPA) is anchored on four pillars: Global Competitiveness, Export-led Industrialization, SME Development, and Industrializing Agriculture. These pillars will support the government agenda under the "bottom-up economic model" aimed at uplifting economic conditions of the "hustlers". In gauging the strides that the country is making in increasing its global industrial competitiveness, the Competitive Industrial Performance (CIP) index by the United Nations Industrial Development Organization (UNIDO) would be a useful guide. Kenya must continuously improve its global rankings from the current 115 out of 152 countries. Amongst other things, Kenya must reduce the cost of electricity and logistics, and ensure a stable tax policy regime by finalizing and implementing an appropriate National Tax Policy. It is a major concern to industry that some industrial inputs such as packaging material are now excisable, and the government is seeking to increase the cost of stamps for excisable goods. Such policy actions are not helpful to the manufacturing industry that is facing stiff competition from Egypt, which is currently implementing an elaborate export rebate program to promote its industrial exports.

Pursuit of an export-led growth model, through export of manufactured goods, will increase Kenya's share in global trade from the current 0.03% as at 2018. Diversification of the export market and export basket by producing using high-tech will serve to reduce the country's exposure to external shocks. Growth of SMEs will be useful in creating jobs for the hustlers and KAM, through the Manufacturing SME Hub, will work collaboratively with the government to ensure a vibrant SME sector in the country. As the government designs the Hustler Fund, it is imperative that uniqueness of SMEs in manufacturing is considered. To be specific, high capital intensity and long-maturation of investments. Development of agro-manufacturing linkages through relevant agricultural value chains will reduce the share of agricultural products exported in primary form and derive more value from exports. This will be the tide that will lift all boats and benefit all economic sectors. Only 7% of agricultural land is irrigated. Climate change shocks mitigation through irrigation and climate smart agriculture among others would be useful.

We remain committed to our country's growth and prosperity, and we will continue to work with the government and other key partners to ensure that this is the focal point for all our policy advocacy endeavors. I thank all manufacturers for their resilience, commitment, and continued support to the Association to continue in our mandate to advocate for a nurturing environment for businesses.

Rajan Shah
KAM Chairman

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, prompt 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.

20% GDP

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.

52% MEMBERS
SMES AT KAM

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.

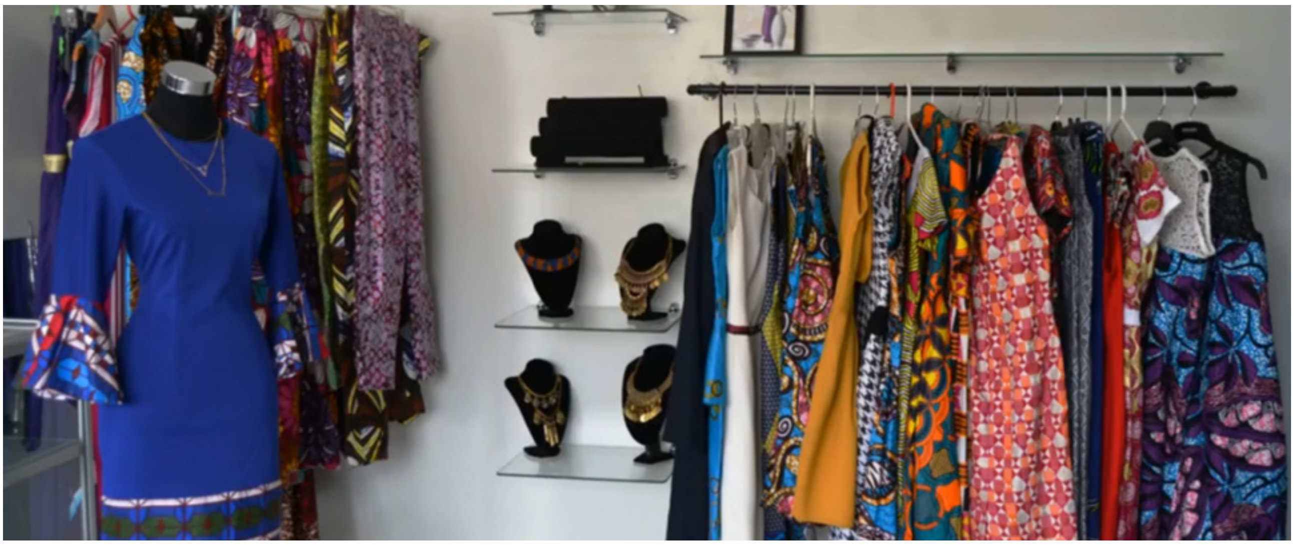
Export-led industrialization is based on the production of manufactured products for sale in the international market. This calls on Kenya to leverage on products that have a comparative advantage to grow our exports whilst increasing export basket of high-technology goods. However, we cannot speak of 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



Acknowledgement

The development of the 2023 Manufacturing Priority Agenda (MPA) has been made possible through the participation of various units within KAM. We would like to acknowledge the KAM Board of Directors, led by the Chairman, Rajan Shah for offering strategic direction on the 2023 agenda and KAM Chief Executive, Anthony Mwangi, for providing continued guidance in the preparation of this report.

Oversight of the development of the content for MPA 2023 was provided by the Policy, Research and Advocacy Unit Team led by Job Wanjohi and Miriam Bomett. Special thanks to KAM research team, Dr Simon Githuku and Maureen Wanyonyi, for taking lead in the content development.

The document benefited from contributions by KAM staff namely; Ruth Lemlem, Malcom mwangi, Abel Kamau, Sylvester Makaka, Samuel Mutisya, Joseph Wairiuko, Nduta Ndirangu, Samuel Ndoria, Georgina Wachuka, Innocent Onserio, Elizabeth Chege, Purity Gachugu and Miranda Pendo.

Sincere appreciation goes to the KAM Communications and Marketing team, led by the Head of Corporate Communications and Marketing, Lawrence Njenga with support from Grace Mbogo and Faith Chebet in reviewing and editing this report.

Chapter 1

Introduction

1.1 Background Information

The theme for the 2023 Manufacturing Priority Agenda (MPA) is "Resetting Manufacturing to achieve Agenda 20BY30". Industrialization is the main hope of most poor countries trying to increase their levels of incomes (Chenery, 1955). This remains true to date. According to Rodrik (2017), manufacturing became a powerful escalator of economic development for low-income countries for three reasons. First, it is relatively easy to absorb technology from abroad and generate high-productivity jobs. Second, manufacturing jobs did not require much skill: farmers could be turned into production workers in factories with little investment in additional training. And third, manufacturing demand was not constrained by low domestic incomes: production could expand virtually without limit, through exports.

1.2 Key wins from MPA 2022

- ✓ The EAC CET 2022 - Through KAM's effort in stakeholder engagement and advocacy, the four-band Common External Tariff (CET) structure came into force on the 1st of July 2022. It proposes a minimum rate of 0%, rates of 10%, 25% and a maximum rate of 35% in respect to all products imported into the Community.

- ✓ Draft National Tax Policy, 2022 - KAM has over time pushed for a framework within which tax related laws, regulations and rules are formulated and implemented allowing for certainty in tax regulation. The National Treasury drafted the National Tax Policy that is undergoing public participation before adoption.

- ✓ Development of the draft Extended Producer Responsibility (EPR) Regulations 2021 finalized by the Ministry of Environment and Forestry. KAM officially registered and launched Kenya Extended Producer Responsibility Organization (KEPRO) as an extended producer responsibility initiative to enable realization of the commitments made under the Kenya Plastic Action Plan.

- ✓ The Cabinet adopted the National Sustainable Waste Management Policy in March 2021 and the Act in 2022. This policy aims to advance Kenya towards a more sustainable and circular, green economy and move the country towards the realization of the zero-waste principle.

- ✓ The AfCFTA draft operational manual on Rules of Origin has been developed with KAM inputs, which capture manufacturers perspectives. KAM is a part of the committee tasked with implementing the local content policy to enhance market access.

- ✓ The National Treasury proposed amendments to the Competition Act to empower the Competition Authority of Kenya (CAK) to deal with abuse of buyer power and ensure prompt payment to suppliers.

- ✓ Decision on Minimum Tax - In December 2022, the Court of Appeal upheld the decision of the High Court that declared minimum tax unconstitutional. This is a major win for manufacturers.

- ✓ KRA acknowledged the difference between LPG and Non-LPG cylinders and accorded an exemption allowing registration of entries for Non-LPG cylinders at the EAC CET rate of 0%.

Chapter

2 Economic Outlook

2.1 Global Economic Outlook

Global growth is projected to slow from 6% in 2021 to 3.2% in 2022 and is forecast to average 2.7% in 2023 and improve to 3.2% in 2024 (Table 2.1). All major economic groupings of the world such as the Euro area, emerging market and developing economies and Latin America and the Caribbean have poor growth prospects in 2023 compared to 2024. The world's 3.2% GDP growth rate projected to have been realized in 2022 is the weakest GDP growth rate since 2001. This is excluding the global financial crisis (2008-2009) and economic downturn in 2020 due to the impact of COVID-19 pandemic. The global economy is going through a turbulence due to high inflation rates not seen in decades, tightening financial conditions, Russia-Ukraine crisis and risks associated with COVID-19 pandemic (IMF, 2022).

Table 2.1: GDP growth rates (%) for selected regions of the world

Region	2020	2021	2022f	2023f	2024f
World	-2.95	6.02	3.19	2.66	3.18
Euro area	-6.09	5.24	3.06	0.50	1.79
Emerging market and developing economies	-1.89	6.62	3.74	3.73	4.26
Latin America and the Caribbean	-6.99	6.90	3.47	1.74	2.36

Data source: World Economic Outlook, IMF. F=forecast

Global inflation is forecast to rise from 4.7% in 2021 to 8.8% in 2022 but to decline to 6.5% in 2023 and 4.1% by 2024 (IMF, 2022). According to the IMF, monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy.

Structural reforms can further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation is necessary for fast-tracking the green energy transition and preventing fragmentation.[1] There is an appreciation that global inflation problem including the US is not a monetary phenomenon but is primarily being driven by supply-side disruptions due to pandemic-related supply shocks and shifts in the pattern of demand.[2] This, therefore, implies monetary policy interventions such as interest-rate hikes will have little to no effect. Hike in interest rates by major global economies such as the US and the Euro area will have devastating consequences especially on the most vulnerable economies. A fragile global economy could be pushed into recession, precipitating more debt crises as many heavily indebted emerging and developing economies face the triple whammy of a strong dollar, lower export revenues, and higher interest rates.[3]

Other than rising inflation rates and tightening financial conditions in the global economy, a major issue of concern is possible debt crisis affecting majority of developing countries. It is estimated that as of June 2022, the total global debt amounted to $300 trillion, or 349% of world GDP.[4] A report titled *Avoiding 'Too Little Too Late' on International Debt Relief,* published by the United Nations Development Programme (UNDP) in October 2022, shows the gravity of public debt facing the world. According to this report, about fifty-four developing economies accounting for more than half of the world's poorest people need urgent debt relief as a result of cascading global crises.[5] According to this report "the risks of inaction are dire - if these countries do not get access to effective debt restructuring, poverty will rise and desperately needed investments in climate adaptation and mitigation will not happen - particularly since countries affected are among the most climate-vulnerable in the world". Some countries already facing debt crises include Sri Lanka, Pakistan, Chad, Ethiopia, and Zambia.[6]

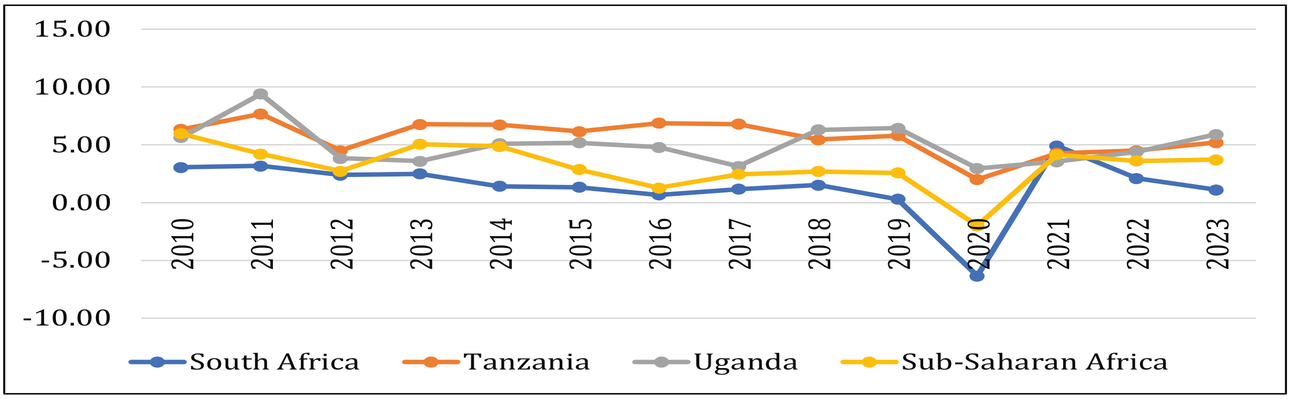
1 https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022
2 https://www.project-syndicate.org/commentary/us-inflation-fed-interest-rates-high-costs-dubious-benefits-by-joseph-e-stiglitz-2023-01.
3 https://www.project-syndicate.org/commentary/us-inflation-fed-interest-rates-high-costs-dubious-benefits-by-joseph-e-stiglitz-2023-01.
4 https://www.project-syndicate.org/onpoint/a-global-debt-explosion.
5 https://www.undp.org/press-releases/50-percent-worlds-poorest-need-debt-relief-now-avert-major-systemic-development-crisis-warns-un-development-programme.
6 https://www.reuters.com/markets/rates-bonds/serious-debt-crisis-unfolding-across-developing-countries-undp-2022-10-11/.

Nouriel Roubini an Economist notes that, *"The explosion of unsustainable debt ratios implied that many borrowers – households, corporations, banks, shadow banks, governments, and even entire countries – were insolvent 'zombies' that were being propped up by low interest rates (which kept their debt-servicing costs manageable). Inflation's return ended this "financial Dawn of the Dead," and together with low growth, is propelling us toward "the mother of all stagflation debt crises"*. [7]

2.2 Regional Outlook

In 2020, Sub-Saharan Africa (SSA) registered a negative GDP growth rate of 2% in 2020 but revered in 2021 to record a growth rate of 4.14% (Figure 2.1). Growth is anticipated to slow due to tighter global financial conditions and a dramatic rise in global inflation spill into the region already wearied by an ongoing series of shocks.

Figure 2.1: GDP growth (annual %)

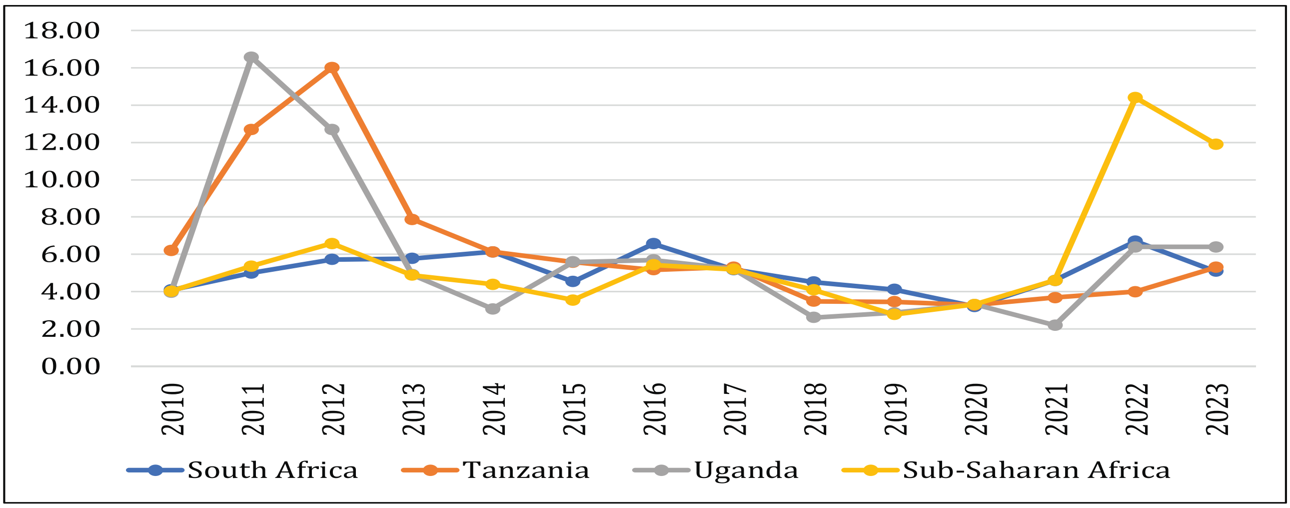


Data source: Data for 2010-2021 was retrieved from the World Development Indicators (WDI), World Bank while projections for 2022 and 2023, from IMF's Regional Economic Outlook (REO)

According to Figure 2.1, South Africa economic condition is dire compared to SSA region in general and when compared with other countries in the East African region such as Tanzania and Uganda.

The SSA and other countries in the region have enjoyed relative price stability for over a decade (Figure 2.2). However, inflation rate increased sharply in the SSA region from an average of 4.61% in 2021 to a projected average of 14.40% in 2022 and is expected to ease to 11.90% in 2023. South Africa is enjoying low levels of interest rate.

Figure 2.2: Inflation, consumer prices (annual %)



Data source: Data for 2010-2021 was retrieved from the World Development Indicators, World Bank while projections for 2022 and 2023, from IMF's Regional Economic Outlook

7 https://www.project-syndicate.org/onpoint/a-global-debt-explosion.

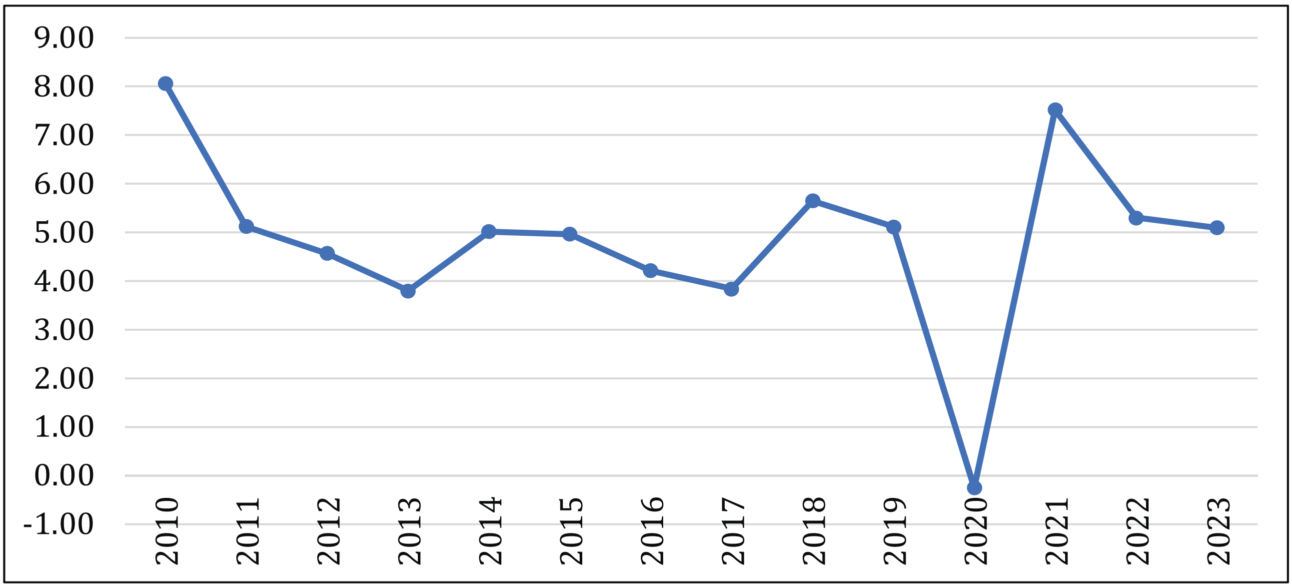
Rising food and energy prices are striking at the SSA region's most vulnerable, and public debt and inflation are at levels not seen in decades. Against this backdrop, and with limited options, many countries find themselves pushed closer to the edge.

2.3 Kenya's Economic Outlook

2.3.1 GDP Growth Rate

The Kenyan economy is recovering from the effects of COVID-19 pandemic which caused a contraction of the real GDP by 0.3% in 2020. In 2021, the economy recorded a growth rate of about 7.52% and is projected to have grown by 5.30% in 2022 (Figure 2.3). Economic growth is projected to decline to 5.10% in 2023.

Figure 2.3: Kenya's GDP growth rate (2010-2021)



Data source: WDI & REO (2022 & 2023)

Figure 2.3 illustrates the difficulties that Kenya has faced in sustaining the economic growth rate as aspired under Vision 2030, which aims at an annual average of 10%. The government seeks to lift economic fortunes of those at the bottom of economic pyramid through the "bottom-up economic model". It will be a herculean task to achieve this goal in the absence of high and sustained GDP growth rates. Economic growth volatility must be addressed.

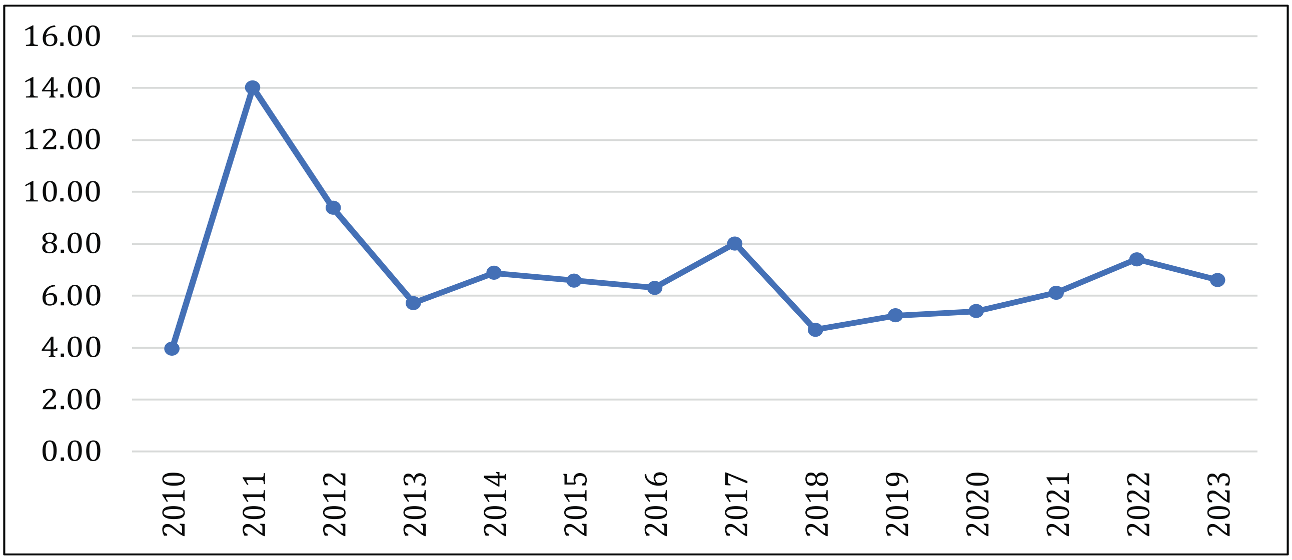
The Kenyan economy is highly vulnerable to weather and oil-related shocks, and it is imperative that buffers be built over time to reduce their negative impact on the economy. According to the draft 2023 Budget Policy Statement, the main risks to Kenya's economic outlook include climate change resulting in unfavorable weather conditions; the possible worsening of the Russia-Ukraine conflict, which could heighten the risk of oil and commodity price volatility and elevated inflationary pressures; lingering effects of COVID-19 pandemic; and global monetary policy tightening, especially in the United States, that could increase volatility in the financial markets.[8]

2.3.2 Inflation Rate

Kenya's inflation rate has been stable for the period as seen below between 2010-2023 except for 2011 and 2012 (Figure 2.4). The Central Bank of Kenya (CBK) targets inflation to be maintained between 2.5% and 7.5%. In 2022, Kenya almost breached the upper bound inflation rate of 7.5% to record a rate of 7.40%. According to the draft 2023 Budget Policy Statement, the two main drivers of inflation in Kenya is food and fuel prices.

8 https://www.treasury.go.ke/wp-content/uploads/2023/01/DRAFT-2023-BUDGET-POLICY-STATEMENT.pdf.

Figure 2.4: Inflation, consumer prices (annual %)

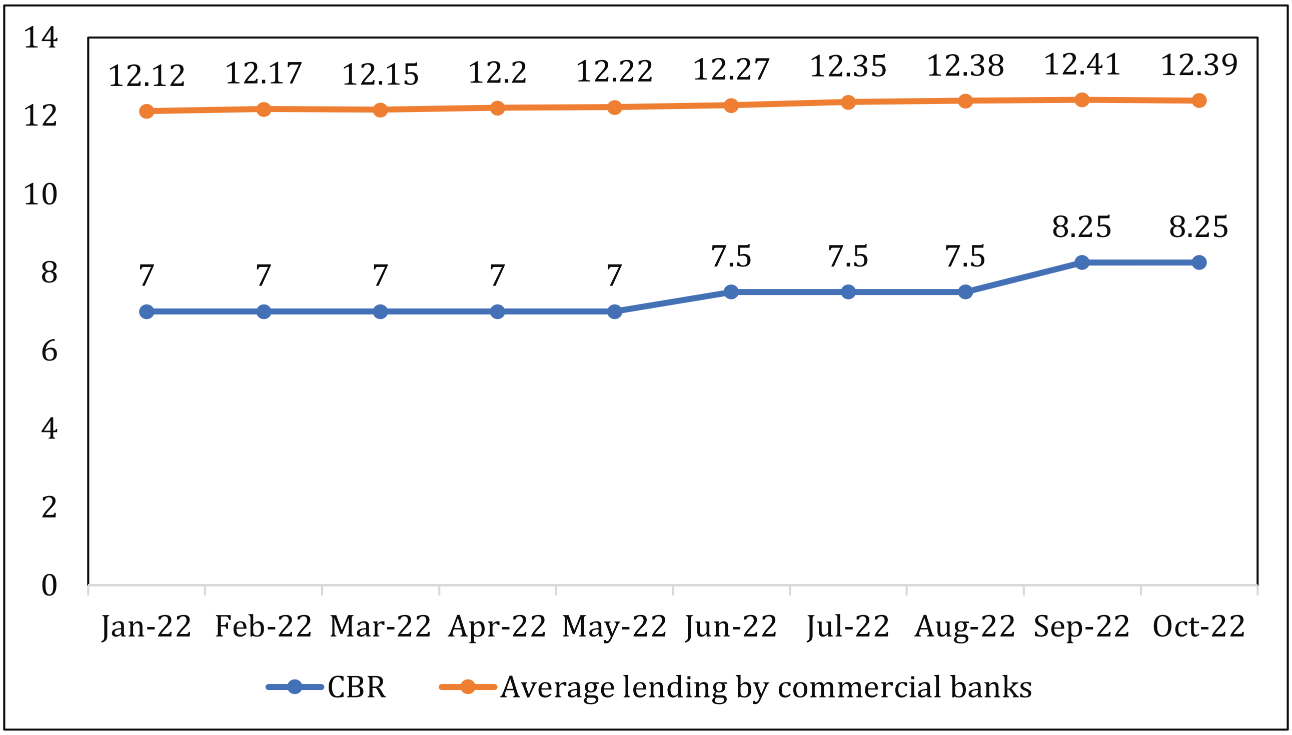


Data source:WDI & REO (2022 & 2023)

2.3.3 Interest Rates

The CBK Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.75% (Figure 2.5) for the 12-month period running from January 2021 to December 2022. The weighted average interest rates for commercial bank loans and advances were 12.08% in 2021 compared to 12.27% in 2022.

Figure 2.5: CBK rate and average lending rate by commercial banks



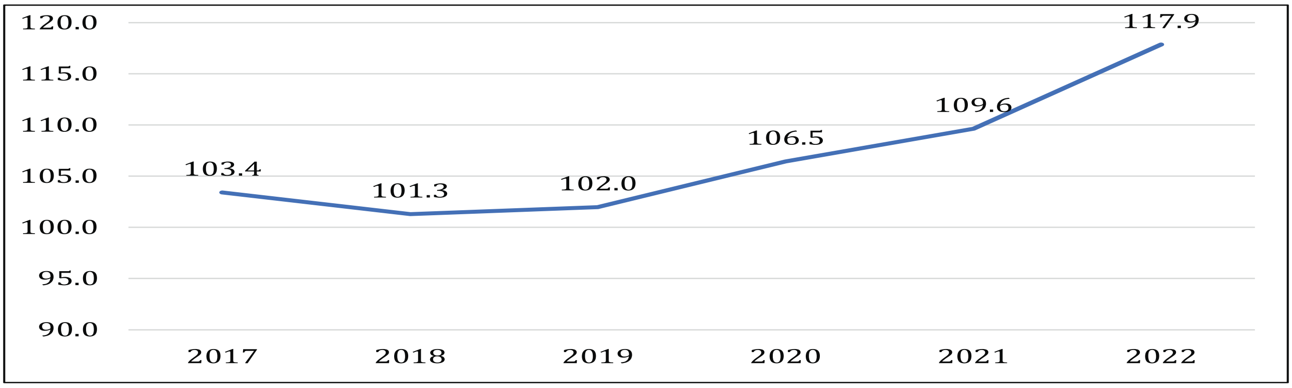
Data source: CBK Monthly Economic Indicators

As Figure 2.5 shows, the CBK started increasing the Central Bank Rate(CBR) from June 2022, from 7.5 to 8.25% in October 2022. This is a monetary policy response to inflationary pressures in the economy and in line with global policy stance by major Central Banks in the world. However, inflation rate in Kenya is primarily driven by food and fuel prices. Accordingly, efficacy of monetary policy contraction is unlikely to slow down inflation in the economy.

2.3.4 Exchange Rate

The Kenyan shilling has been depreciating year on year and depreciated significantly in 2022 against the major hard currencies such as the US$ (Figure 2.6).The shilling depreciated by about 7.57% against the US$ between 2021 and 2022.

Figure 2.6: Kenya exchange rate versus US$



Data source: Central Bank of Kenya

According to the draft 2023 Budget Statement, the Kenyan shilling has weakened in the face of tightening global financial conditions attributed to strengthening US$, uncertainties regarding the ongoing Russian-Ukraine conflict and increased import bill.

The manufacturing sector in Kenya is heavily dependent on imported raw materials, which are primarily intermediate and capital goods. As shown in Table 2.2, the sector in 2021 imported goods valued at US$9.18 billion (equivalent to Ksh. 1. trillion). While this excludes machinery parts and accessories and other capital equipment, the manufacturing sector import bill accounted for about 46.5% of total value of the country's imports in 2021. Thus, on average, the sector requires about US$ 765 million per month to meet its importation requirements.

Table 2.2: Main import categories by manufacturers in Kenya in 2021

	Category of import	Ksh. Billion*	US$ billion
1	Food and Beverages (Primary for industry)	89.39	0.82
2	Food and Beverages (Processed for industry)	16.48	0.15
3	Industrial Supplies (Non-Food)	830.19	7.57
4	Transport Equipment (Industrial)	70.30	0.64
	Total	**1,006.36**	**9.18**

Data source: Economic Survey 2022

* *Note: US$ calculation was based on 2021 average exchange rate of 109.65*

The US$ is a key reference to which trade in other currencies are benchmarked. To this end, availability of the US$ and its pricing dynamics have far-reaching implications on the manufacturing sector. Availability and pricing of US$ is a matter that requires urgent government intervention to ensure smooth operation of manufacturers.

2.4 Kenya's Public Finance

2.4.1 Government Revenue and Expenditure

In the Financial Year (FY) 2023/24, the government projects a revenue of Ksh. 2.89 trillion (17.8% of GDP) from Ksh. 2.51 trillion (17.3% of GDP) in the FY 2022/23 (Table 2.3). According to the draft 2023 Budget Statement, this revenue performance is premised on the on-going reforms in tax policy and revenue administration aimed at expanding the taxbase.

Table 2.3: Fiscal framework (Ksh. billion)

	2020/21	2021/22		2022/23		2023/24	2024/25	2025/26	2026/27
	Prel. Actual	Approved Revised II	Prel. Actual	Budget	Supp I Budget	Projection			
	Ksh. Billions								
Total revenue	**1803.5**	**2192**	**2199.8**	**2462.4**	**2512.7**	**2897.7**	**3231.1**	**3670**	**4195.2**
Ordinary revenue	1562	1851.5	1917.9	2141.6	2191.9	2566	2878.6	3294.2	3775.7
Ministerial Appropriation in Aid	241.5	340.4	281.9	320.8	320.8	331.7	352.5	375.8	419.5
Total expenditure and net lending	**2769.3**	**3286.1**	**3027.8**	**3358.6**	**3390**	**3641**	**3970.2**	**4434.2**	**5096.4**
Recurrent	1813.3	2227.3	2135.3	2271	2352.7	2422.3	2646.3	2916.4	3390.3
Development	557	657.5	540.1	676.6	596.6	796.4	901.5	1070.3	1149.6
County transfer	399	401.2	352.4	407	436.6	417.3	417.5	442.5	551.6
Contingency fund	-	-	-	4	4	5	5	5	5

Source: Draft 2023 Budget Policy Statement

Table 2.3 also shows a disproportionate share of recurrent expenditure in total government expenditure. This serves as prove of the need for fiscal consolidation to reduce government expenditure.

Table 2.4 gives a comparative analysis of tax revenue (% of GDP) of different countries on or at the verge of a debt crisis with that of Kenya. According to this table, tax revenue as a % of GDP has been almost stagnant for Kenya and recorded a rate of 14.30% in 2020, lower than that of Zambia at 16.44% for the same period.

Table 2.4: Tax revenue (% of GDP)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ethiopia	8.16	9.21	9.38	8.76	8.81	8.35	8.09	7.60	7.52	6.66	6.20
Ghana	13.39	14.87	15.37	10.67	11.25	11.69	11.06	11.58	12.24	12.00	11.34
Kenya	..	..	..	..	15.19	14.84	14.97	15.05	14.36	15.10	14.30
Sri Lanka	10.93	10.85	10.11	10.12	9.75	11.72	11.42	11.61	11.15	10.90	7.68
Zambia	12.83	14.72	14.89	14.35	15.76	14.39	13.35	15.18	16.59	16.68	16.44

Data source: WDI

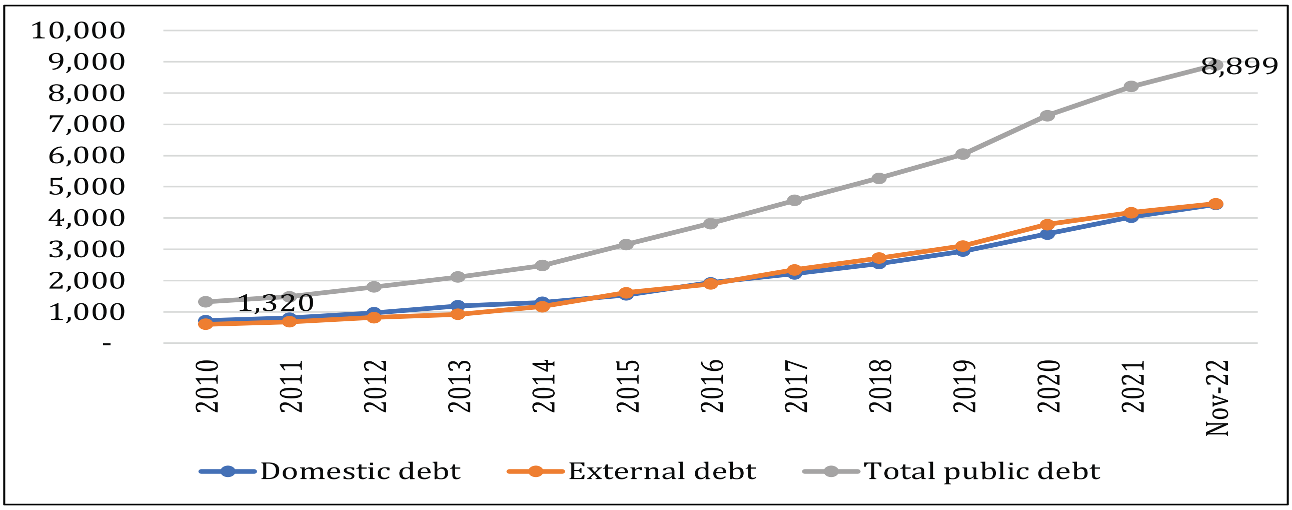
The government is keen to increase tax revenue. However, it will be an onerous task to raise revenue based on tax administration measures alone. During an economic downturn, it is inevitable, according to Prof. Stiglitz, that tax receipts will fall.[9] The government must, therefore, lay emphasis on stimulating economic activity and collect consumption-based tax such as the Value Added Tax (VAT). Adding taxes to existing taxpayers will be procyclical and will frustrate economic recovery efforts.

2.4.2 Stock of Public Debt

There is no doubt that debt is vital to the functioning of an economy. Stock of public debt has been on an upward trajectory, increasing from Ksh. 1.32 trillion in 2010 to Ksh. 8.90 trillion by end of November 2022 (Figure 2.7), representing a growth rate of 574.24%. Domestic and external debt is almost evenly distributed.

9 https://www.iiea.com/blog/prof-joseph-e-stiglitz-the-future-of-fiscal-policy-post-covid#:~:text=Stiglitz%20described%20the%20current%20fiscal,which%20further%20weakens%20the%20economy

Figure 2.7: Public debt (Ksh. billion)

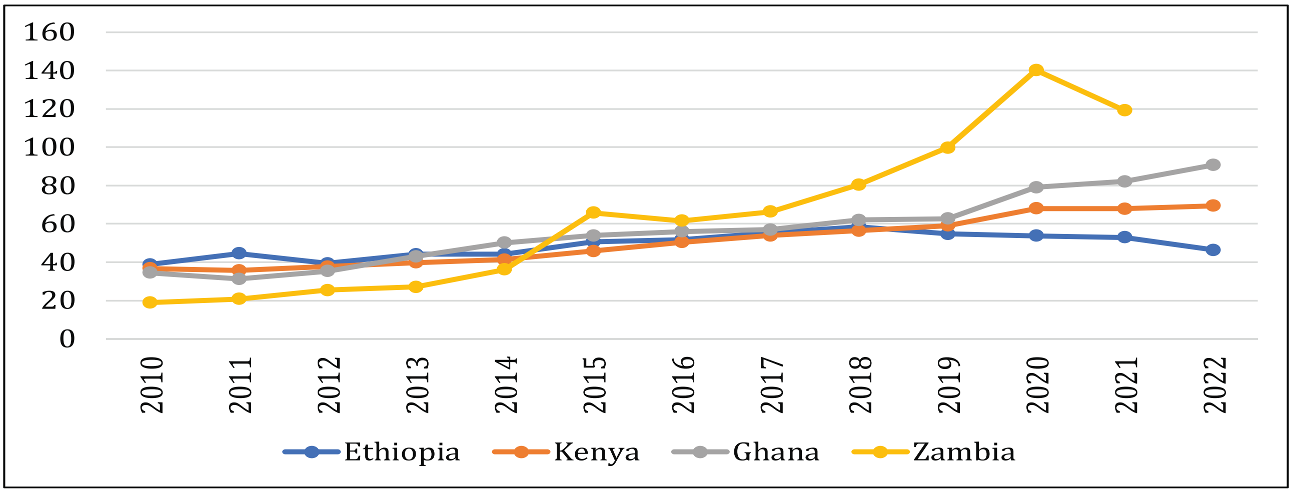


Data source: CBK

Some of the challenges Kenya is likely to face in servicing or refinancing its debt, especially those externally procured, is the global rise in interest rates and depreciation of the Kenya Shillings against major global currencies.

Kenya has a better fiscal position in terms of debt to GDP ratio when compared to Zambia and Ghana but not with Ethiopia (Figure 2.8). Ethiopia has a lower debt GDP ratio but has been identified as a country facing debt distress by a UNDP report issued in 2022.

Figure 2.8: General government gross debt (% of GDP)



Data source: World Economic Outlook (WEO), IMF

2.4.3 Fiscal Deficit as a % of GDP

Fiscal deficit is a good measure of the soundness of a country's public finances. Countries usually seek to achieve lower budget deficit thresholds. For instance, the East African Community (EAC) under the Monetary Union Protocol had set a regional-wide fiscal deficit target of 3% by 2023. In India, the government has set a fiscal deficit limit of 3% as prescribed by the Fiscal Responsibility and Budget Management (FRBM) Act of 2003.[10] The Government of Kenya is keen on achieving a lower fiscal deficit as aspired under the EAC Monetary Union protocol to enhance debt sustainability. In the FY 2022/23, fiscal deficit was estimated at 5.8% of GDP, and is projected to reduce to 4.3% and 3.6% in the FY 2023/24 and 2026/27, respectively.

10 https://link.springer.com/article/10.1007/s40847-020-00100-6#:~:text=In%20this%20section%2C%20a%20threshold,high%20deficit%20is%20growth%2Dretarding.

2.5 Kenya's External Trade

2.5.1 Direction of Trade

The East African Community (EAC), rest of Africa, European Union, and the USA are the leading Kenya's export destinations accounting for 66% of total value of exports in 2021 (Table 2.5). Africa accounted for 42% of total value of exports in 2021. This illustrates the importance of the African continent, through the African Continental Free Trade Area (AfCFTA) as an export market.

Table 2.5: Leading export destinations (% of total value of exports)

Country/region	2017	2018	2019	2020	2021	Cumulative share (2021)
EAC	22%	21%	24%	25%	26%	26%
Rest of Africa	16%	14%	14%	14%	16%	42%
European Union	21%	21%	22%	15%	16%	58%
U.S.A.	8%	8%	9%	8%	8%	66%

Data source: Economic Survey, 2022

2.5.2 Export Structure

What a country produces matters. Countries that produce sophisticated products tend to grow faster. Holding other factors constant, nations that specialize in the types of goods that rich countries export are likely to grow faster than countries that specialize in other goods (Hausmann, Hwang and Rodrik, 2006). Rich countries produce "rich-country products," while countries that continue to produce "poor-country" goods remain poor. Countries become what they produce (Hausmann, Hwang and Rodrik, 2006). According to Table 2.6, Kenya can be said to be producing poor country goods as food and beverage exports accounted for 43.06% of exports in 2021. It is, therefore, not surprising that Kenya cannot sustain economic growth as illustrated in Figure 2.3.

Table 2.6: Kenya's export structure, 2017-2021 (% of value)

Export category	2017	2018	2019	2020	2021
Food and beverages	47.95	47.66	44.22	46.4	43.06
Industrial supplies (non-food)	23.68	23.52	23.94	23.78	25.50
Fuel and lubricants	1.03	0.99	1.19	1.05	0.91
Machinery and other capital equipment	1.34	1.25	1.93	1.68	1.78
Transport equipment	0.84	1.12	1.22	0.88	1.06
Consumer goods not elsewhere specified	25.15	25.45	27.49	26.21	27.61
Goods not elsewhere specified	0.00	0.00	0.00	0.00	0.09

Data source: Economic Survey, 2022

Table 2.6 also shows high concentration of exports (lack of diversification) in a few products. Hausmann and Rodrik (2003) emphasize the need for "cost discovery" in developing countries with undiversified production structures. An entrepreneur who attempts to produce a good for the first time in a developing economy unavoidably faces considerable cost uncertainty.[11] This is regardless of whether the goods come with a standard technology (blueprint), domestic factor endowments and institutional realities will require tinkering and local adaptation (Evenson and Westphal, 1995, Lall, 2000, Conley and Udry, 2010). *If the project is successful, other entrepreneurs learn that the product in question can be profitably produced and emulate the incumbent. In this way, the returns to the pioneer investor's cost discovery become socialized. If the incumbent ends up with failure, on the other hand, the losses remain private. This knowledge externality implies that investment levels in cost discovery*

11 https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/what-you-export-matters.pdf

are sub-optimal unless the industry or the government finds some way in which the externality can be internalized.[12] Clearly, a framework that will permit experimentation at a cost-effective manner is required if true production diversification is to materialize.

2.5.3 Import Structure

Kenyan exports are primary in nature (Table 2.6) whereas we import intermediate products (industrial supplies) and other types of value-added products such as machinery, capital, and transport equipment (Table 2.7). Non-food industrial supplies are the main import category for Kenya and comprised 38.59% of total imports by value in 2021. This serves to illustrate Kenya's reliance on imported inputs for processing. This is why the value and availability of foreign exchange matter to manufacturers.

Table 2.7: Kenya's import structure, 2017-2021 (% of value)

Import category	2017	2018	2019	2020	2021
Food and beverages	14.4	9.98	10.34	10.73	9.89
Industrial supplies (non-food)	31.76	34.58	33.44	38.88	38.59
Fuel and lubricants	16.28	19.19	18.5	13.66	17.48
Machinery and other capital equipment	17.9	16.47	17.97	16.96	15.61
Transport equipment	11.37	10.72	10.55	9.95	9.31
Consumer goods not elsewhere specified	8.00	8.43	8.66	9.56	8.92
Goods not elsewhere specified	0.30	0.64	0.54	0.26	0.20

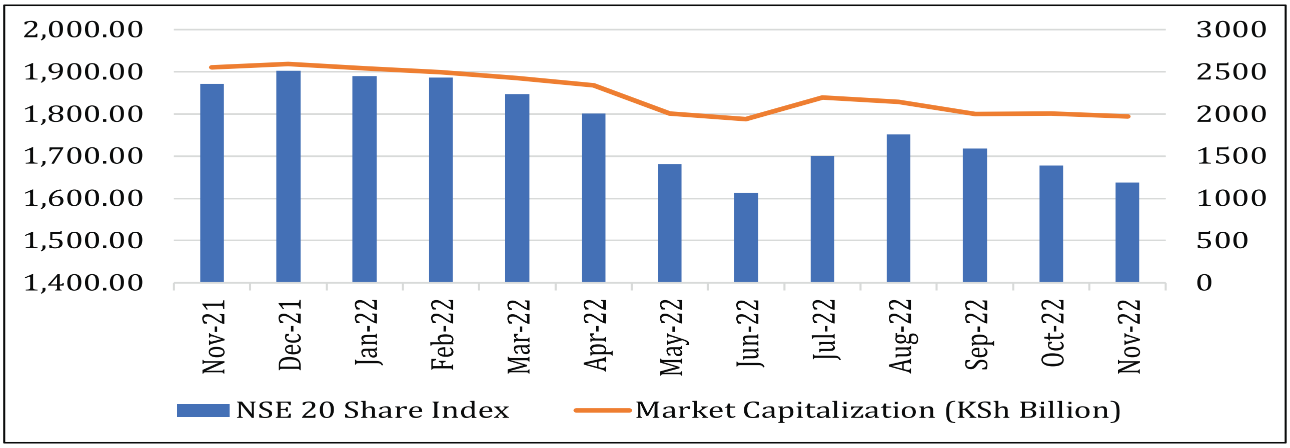
Data source: Economic Survey, 2022

2.6 Performance of the Stock Market

2.6.1 Nairobi Securities Exchange

The performance of the stock market is often used as a barometer to measure the general health of an economy and investor confidence. A rising stock market is usually aligned with a growing economy and leads to greater investor confidence. Investor confidence in stocks leads to more buying activity which can also help to push prices higher.[13] Figure 2.9 illustrates the performance of the Nairobi Securities Exchange (NSE) from November 2021 to November 2022 and shows a generalized decrease in the performance of the market with both the NSE 20 share index and market capitalization registering a decline. Market capitalization declined from Ksh. 2,552.93 billion in November 2021 to Ksh. 1,970.63 billion in November 2022.

Figure 2.9: Performance of the Nairobi Securities Exchange, Nov 21 - Nov 2022



Data source: CBK's Monthly Economic Indicator, November 2022

12 https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/what-you-export-matters.pdf
13 https://www.investopedia.com/ask/answers/042215/how-does-performance-stock-market-affect-individual-businesses.asp.

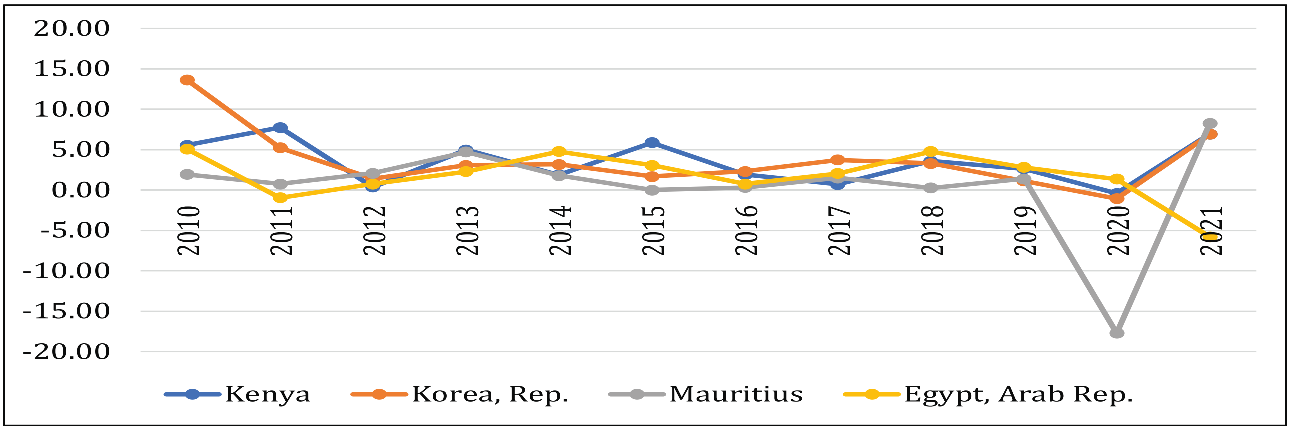
Chapter

3 An Overview of Manufacturing Sector in Kenya

3.1 Growth of the Manufacturing Sector

The manufacturing sector growth for Kenya and comparator countries has been generally low and volatile for the period under review (Figure 3.1) and averaged 3.48% between 2010-2021. In 2020, Kenya, South Korea and Mauritius recorded a negative growth of 0.42%, 1.07% and 17.73%, respectively due to the impact of COVID-19 pandemic. Surprisingly, Egypt registered a positive growth rate of manufacturing in 2020 at 1.37% but was negative in 2021 at 5.81%.

Figure 3.1: Manufacturing, value added (annual % growth)

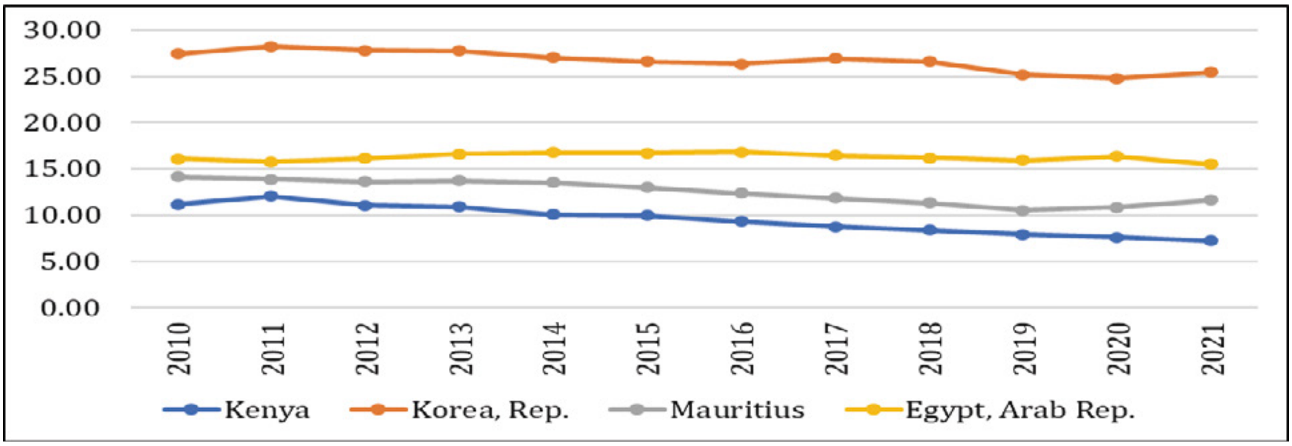


Data source: WDI

3.2 GDP Contribution of the Manufacturing Sector (%)

Manufacturing GDP contribution can give indications whether a country is making strides in industrialization. Kenya is performing poorly in terms of manufacturing GDP contribution compared to competitors on the African continent such as Mauritius and Egypt. Manufacturing GDP for Kenya has been on a persistent decline from 2011 to 2021, declining from 11.16% in 2011 to 7.24% in 2021. Kenya hopes to reverse this trend through Kenya Manufacturing Vision 20BY30.

Figure 3.2: Manufacturing, value added (% of GDP)



Data source: WDI

3.3 Manufacturing Output

Value of manufactured output increased from Ksh. 2.11 trillion in 2017 to Ksh. 2.69 trillion in 2021 (Table 3.1). This is despite the persistent decline of manufacturing GDP contribution (Figure 3.2). Compensation of employees also increased from Ksh. 190.34 billion in 2017 to Ksh. 231.98 billion in 2021. Table 3.1 also reveals the heavy reliance of the manufacturing sector on intermediate inputs which averaged 65% of final output for the 2017-2021 period. Most of the intermediate inputs are imported (Table 2.2).

Table 3.1: Manufacturing output (Ksh. million), 2017-2021

	Value of output	Intermediate consumption	Intermediate consumption as % of final output	Value added	Compensation of employees
2017	2,109,602	1,368,227	65%	741,376	190,339
2018	2,216,547	1,431,178	65%	785,369	206,420
2019	2,311,586	1,502,333	65%	809,253	218,255
2020	2,373,278	1,557,612	66%	815,666	215,492
2021	2,685,545	1,809,125	67%	876,420	231,984
Average			**65%**		

Source: Economic Survey, 2022

3.4 Contribution to Employment

The manufacturing sector created 336.8 thousand jobs in both the public and private sector which is a decline from 343.7 thousand jobs created in 2017 (Table 3.2). Given that a manufacturing GDP of 7.24% in 2021 was equivalent to 336.8 thousand jobs, holding other factors constant, a manufacturing GDP contribution of 20% by 2030 will yield about one million jobs.

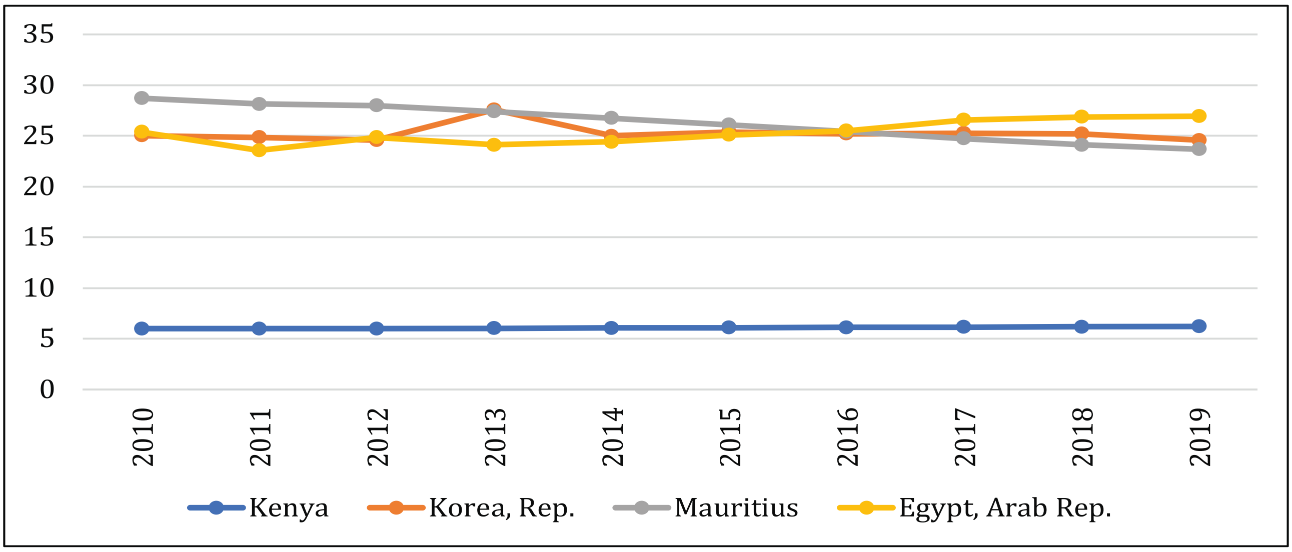
Table 3.2: Wage employment by industry and sector, 2017-2021 (000)

	2017	2018	2019	2020	2021
Manufacturing (private sector)	317.5	321.3	329	293.8	313.5
Manufacturing (public sector)	26.2	26.3	24.1	23.0	23.3
Total manufacturing employment	343.7	347.6	353.1	316.8	336.8

Source: Economic Survey, 2022

Figure 3.3 shows that employment in industry for Kenya has been almost static for 2010-2019 period. Industry employment in comparator countries was almost four times compared to Kenya. For instance, in 2019, 26.94% of people in Egypt were employed in industry compared to only 6.22% for Kenya.

Figure 3.3: Employment in industry (% of total employment)

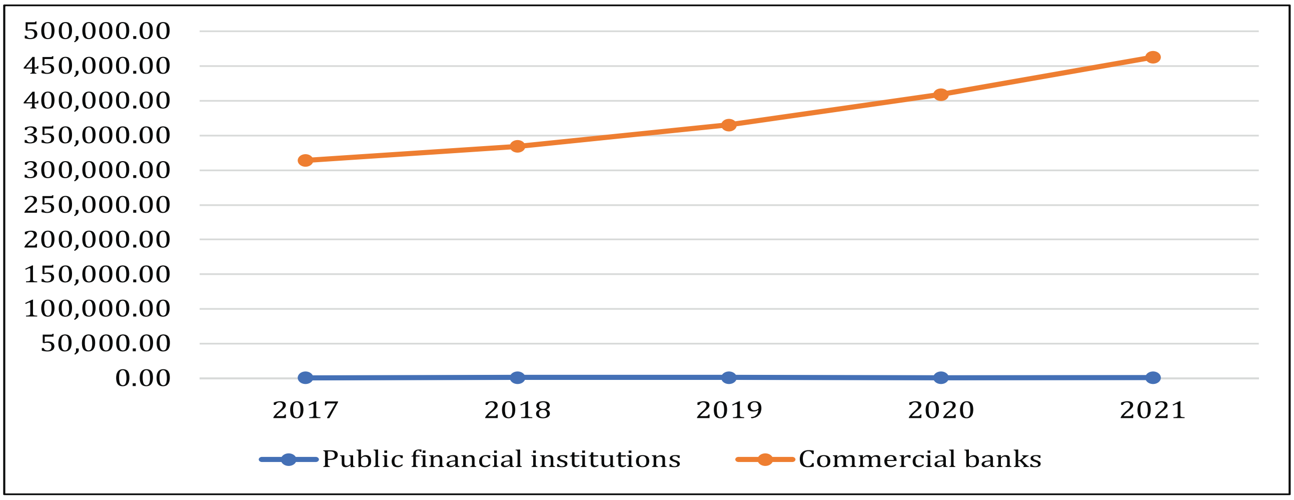


Data source: WDI (modelled ILO estimate)

3.5 Credit to the Manufacturing Sector

Total credit advanced to the manufacturing sector has been on an upward trajectory, increasing from 314.05 billion in 2017 to 462.6 billion in 2021 (Figure 3.4). Almost 100% of the credit was from the commercial banks.

Figure 3.4: Credit advanced to the manufacturing sector by commercial banks and public finance institutions (Ksh. million)



Data source: Economic Survey, 2022

3.6 Performance of the Export Processing Zones

All the selected performance indicators of the Export Processing Zone (EPZ) program show growth (Table 3.3). The number of operating enterprises increased to 145 in 2021 from 111 in 2016. The number of employees engaged increased to 66,654 in 2021 from 53,565 in 2016. In addition, the value of exports rose from Ksh. 64,151 billion in 2016 to Ksh. 91.34 billion in 2021.

Table 3.3: Selected EPZ performance indicators, 2016-2021

	2016	2017	2018	2019	2020	2021
Number of enterprises	111	131	136	137	138	145
Number of employees	53,565	55,486	57,743	61,055	56,387	66,654
Capital investment (Ksh. Million)	88,977	95,278	105,066	107,877	116,974	122,155
Exports (Ksh. million)	64,151	60,729	72,390	68,572	74,360	91,336
Imports (Ksh million)	30,160	30,305	34,229	39,840	37,504	47,436
Imports as % of exports	**47%**	**50%**	**47%**	**58%**	**50%**	**52%**

Source: Economic Survey, 2022 and KAM's calculations

Table 3.3 also shows heavy reliance of EPZ enterprises on imported inputs, averaging at about 51%. Most of the EPZ output is exported to the USA under the African Growth & Opportunity Act (AGOA) averaging 58% for the 2017-2021 period (Table 3.4). This reveals overdependence of the Kenya's EPZ program on the US market and thus the need to diversify into other global markets.

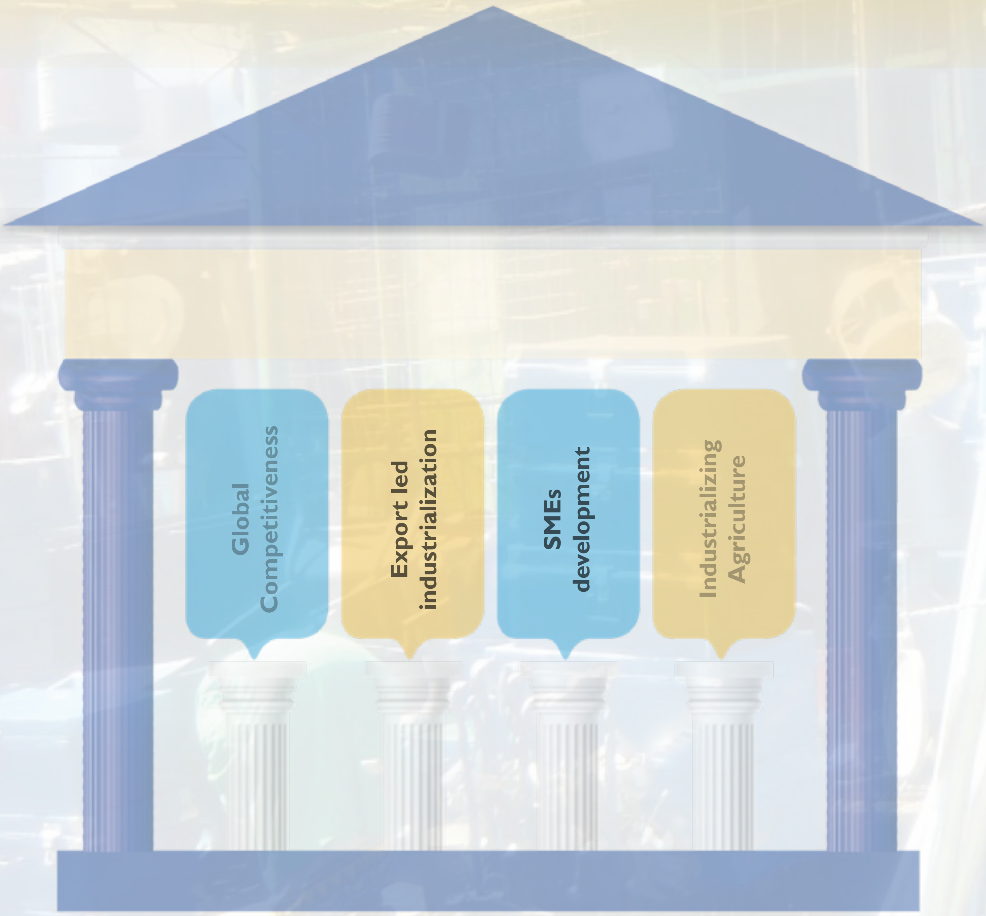
Table 3.4: Selected EPZ performance indicators, 2016-2021

	2017	2018	2019	2020	2021
Number of Enterprises	21	22	24	28	29
Number of Employees	43,987	46,248	49,489	45,588	50,359
Capital Investment (Ksh. million)	15,880	16,146	18,065	19,133	23,096
Exports (Ksh. million).	33,051	41,578	46,066	42,278	50,679
AGOA exports as a % of EPZ exports	**54%**	**57%**	**67%**	**57%**	**55%**

Source: Economic Survey, 2022 and KAM's calculations

Chapter

4 Pillars to Support **Resetting Manufacturing to achieve Agenda 20BY30**



4.1. Pillar One: Global Competitiveness

Industrial competitiveness is a critical issue especially for countries pursuing export-oriented industrialization policies.[14] Global competitiveness looks at the ability to sustainably produce goods and services for which there is a market - at a price and quality that the market is willing to pay for. The shift in economic activity away from a local or national sphere towards a much more international or global outlook is amongst most radical changes in the economic landscape of the end of the 20th century.

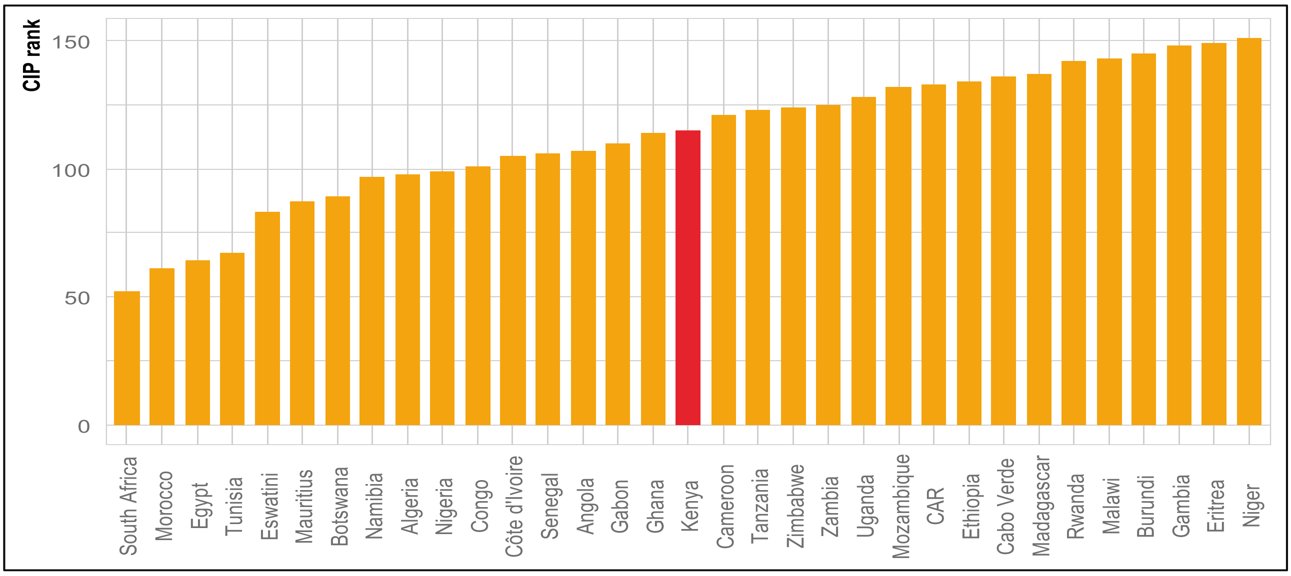
According to the United Nations Industrial Development Organization (UNIDO), industrial competitiveness refers to the capacity of countries to increase their presence in international and domestic markets while developing industrial sectors and activities with higher value added and technological content (UNIDO, 2013). The Competitive Industrial Performance (CIP) index by UNIDO is a good measure of gauging a country's industrial competitiveness. The CIP is a composite index based on three dimensions:

i. Capacity to produce and export manufactured goods.
ii. Technological deepening and upgrading.
iii. World impact.

Collectively, they capture the ability of a country to produce and export manufactured goods competitively (UNIDO, 2021).

In 2020, Kenya was ranked position 115 out of 152 countries in the world with South Africa, the most competitive country in Africa ranked at position 52 (Figure 4.1).

Figure 4.1: 2020 CIP ranking for selected African countries



Data source: UNIDO 2021

Table 4.1 shows that Kenyan exports are concentrated in primary and low technology exports. Accordingly, if Kenya's industrial competitiveness is to improve, the country must make efforts to increasingly produce high technology manufactured exports.

14 https://www.sciencedirect.com/science/article/abs/pii/S1047831006000071#:~:text=Industrial%20competitiveness%20is%20an%20important,be%20analyzed%20from%20several%20perspectives.

Table 4.1: Technological deepening and upgrading: Structure of exports (%)

Technology group 2005	**Côte d'Ivoire**		**Ethiopia**		**Kenya**		**Sri Lanka**	
	2018	**2005**	**2018**	**2005**	**2018**	**2005**	**2018**	**2005**
Primary products	44,8	66,5	85,5	71,7	40,8	56,5	22,8	23,1
Total manufacturing	54,5	25,3	9,2	23,3	58,1	42,0	75,1	76,3
Resource based	31,9	16,1	5,1	3,4	32,7	18,0	16,0	17,7
Low technology	2,7	3,3	4,0	10,1	16,7	15,0	53,2	50,5
Medium technology	11,4	5,5	0,1	6,6	7,2	6,7	2,9	6,7
High technology	8,4	0,5	0,1	3,1	1,6	2,3	3,0	1,3
Other transactions	0,8	8,2	5,3	5,0	1,1	1,5	2,1	0,7
Total exports	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: http://stat.unido.org

Krugman (1991) emphasizes that it is firms that compete with each other, and not countries. Accordingly, enhancing competitiveness should, therefore, start by making the production processes of firms and industries more efficient and productive. It is based on this that countries strive to support their firms to compete globally. For instance, Egypt, the main competitor for Kenya in the export market has an export rebate program. The country's Ministry of Trade and Industry announced a refurbished export rebates program in July 2019 to enhance Egyptian exports with the support of the Export Development Fund (EDF). Eligible industries include Engineering industries, Chemicals & fertilizers, Books & artefacts, Leather & leather products, Handicrafts products, Food industries, Furniture, Medical & pharma, Agricultural crops, Building & construction materials, Real Estate investment and spinning & textiles.[15] Key features of EDF include the following:

- ✓ Exporters must fulfil a 40% local production input.
- ✓ The program will subsidize between 8-12% of the total exported value.
- ✓ The program's funding will be allocated as follows:
    - Forty per cent (40%) as cash back payments to exporters, or
    - Thirty per cent (30%) as tax breaks/cuts of exporting company's arrears to the Ministry of Finance, or
    - Thirty per cent (30%) as technical and financial support to develop facilities and promote Egypt's exports.
- ✓ Overdue export rebates from shipments prior to 30/6/2019 will be settled by the government.

For manufacturers to operate effectively and efficiently, they require a business environment that enhances competitiveness. Particularly, the manufacturing sector needs a predictable and reliable regulatory and tax regime. Predictability allows investors to make projections on long term investment decisions. On the other hand, reliability gives the investment community confidence in the stability of the economic policy regime and that commitments made by the government are both binding and lasting. This can be done through the development of policies and sustainable frameworks to boost industry's production leading to the creation of sustainable jobs and increased investments. The government can pursue various agendas to enhance competitiveness of the manufacturing sector in Kenya.

Agenda One: Reducing the Regulatory Burden

Regulations are a prerequisite for any country and if effectively implemented, they create an enabling environment for competitiveness by enforcing fair business practices, driving equal opportunity and inclusive participation of all in the economy. A 2020 KAM Regulatory Audit Report revealed that some of the regulatory challenges facing industry are at both national and county levels. Key levels of government have overtime had overlapping mandates and roles in matters revolving around reducing fees, levies, and charges and the turnaround time for granting permits to businesses among others. These laws,

15 www.lynxegypt.com

regulations and policies need to be industry-centric and in turn, support competitive industrial development. At the core of reducing regulatory challenges faced by manufacturers is the ability for this initiative to be able to make exports more competitive in the region in the long run. Greater levels of industrial integration and promotion of value addition shall enhance the overall diversity of our products and services.

Some of the actions that can be taken to ease regulatory burden on manufacturers include the following:

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, and counties.

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 recalling of manufactured goods from shelves among others.

v. Develop compliance support mechanisms and corrective action plans collaboratively with manufacturers to avoid reputational damage to local brands.

AGENDA

Agenda Two: Promote Access to Quality, Affordable and Reliable Energy for Manufacturing

Energy is an enabler of production for economic growth. The commercial and industrial sector in Kenya accounts for over 50% of the total electricity consumption in the country. The 20BY30 Agenda for the manufacturing sector envisions that industry contribution to GDP shall grow from the current 7.2% in 2022 to 20% by 2030. To realize this ambition, energy costs, reliability, and quality will be major factors to be considered by both existing and future investors in manufacturing. To this end, it is paramount that Kenya strategically positions itself as a competitive destination in the region and Africa at large.

Kenya's competitive positioning as an investment destination is being eroded by developments in the other economies. Tanzania, Ethiopia, and Uganda are investing in hydro power generation. Kenya, however, is investing in geo-thermal, wind and solar power. The cost of energy thereof from these investments are working out to be higher for Kenya compared to other countries in the region (Table 4.2) resulting in Kenya's manufacturing sector paying the highest price for electricity in the region.

Table 4.2: Average industrial electricity tariffs (Ksh/kWh)

Country	Average Industrial electricity tariff (2022/23)
Kenya	16.95
Ethiopia	2.86
Egypt	4.8
Morocco	9.0
South Africa	9.59
Tanzania	12.5

Source: Globalpetrolprices.com[16]

Without robust transmission systems, capital investment in power capacity is not translating to lower costs of electricity to consumers in Kenya. Focus should be directed to transmission and distribution infrastructure with the aim of increasing sales of electrical energy, thereby reducing costs. Case in point is Mariakani sub station, Lesos sub station and Ol-Karia Narok Kisii line.

16 https://www.globalpetrolprices.com/

Electricity is to manufacturing what fertilizer is to agriculture. It is important that the price of electricity is such that it shall attract new investments into manufacturing, to increase consumption and thereby bring down the overall average cost. The government should aspire to reduce the cost of electricity from a high of Ksh.16 - 18 per unit to below Ksh.10 per unit.

The following actions can be taken to reduce the cost of electricity in Kenya:

i. Advance bilateral negotiations with energy rich countries, such as Tanzania and Qatar, for alternative sources of natural gas to support the energy sector in Kenya.

ii. Address inefficiencies caused by political decisions in advancing social equity in such a manner that losses occasioned by these social equity projects are not borne by manufacturers.

iii. Allow generators of electricity to sell directly to bulk electricity consumers to enhance quality and reliability of electricity.

iv. Introduce uniform preferential tariffs for Special Economic Zones (SEZs) to attract new investment. The current cheaper tariff only applies to Naivasha SEZ. With the plan to set up SEZs in Dongo Kundu, Mombasa and Kenya Leather Parks at Kenanie, Sagana and Lamu, a preferential tariff should be considered for these SEZs to spur investment in the different regions and sectors of the economy.

v. Review pre-conditions for Time of Use Tariff for existing industries to cover all night consumption and lock in the rate for each facility. The current threshold that keeps changing has seen few industries benefit from it. There is a need to review this to ensure more industries benefit while also boosting the off-peak demand.

vi. Remove the Ksh. 5.5 Fuel Development Levy in view of the no-subsidy regime. While this levy was introduced to cushion the consumers from the fluctuations in fuel prices, with the removal of the subsidy program, this is no longer useful.

vii. 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.

Agenda Three: Reduce Transport and Logistics Costs

Kenya is competing globally for the share of various markets for products made in the country. As such, the competitiveness of the manufacturing industry, which heavily relies on imported raw materials, is fully dependent on the efficient and seamless movement of goods within the country from the Port of Mombasa to the manufacturers premises for immediate utilization to meet the customers lead time (Popescu, 2014). There are numerous direct and indirect connections between the logistics sector, economic growth, and development. (Havenga, 2010) notes that the development of logistics correlates highly with the overall development level of a country as a key factor in their national development strategies and a source of economic growth.

There are numerous government policies that affect logistics such as tariffs, customs documentation and paperwork, clearing procedures, licenses, and accreditations and a requirement for membership in relevant associations. These affect the costs of operation causing delays and unpredictability of delivery time, affecting customers' planning, and may ultimately contribute to the cancellation of orders by clients. [17]

Most of the challenges emanating from government operations include, among others, trade facilitation platforms downtime, import laws, staff training, port congestion and exchange rates. Drastic changes in government regulations impose a significant impact on the organization's ability to get goods when and where they are needed.

Kenya is a key logistic hub in the region. To reduce the transport and logistics costs, there is need to sustain an efficient and seamless movement of containers at the ports by enhancing the existing collaborative and coordination frameworks with port stakeholders.

17 http://erepository.uonbi.ac.ke/bitstream/handle/11295/157312/Muindi%20G_Government%20Regulation%20and%20Operational%20Performance%20of%20Logistics%20Firms%20in%20Nairobi%20Kenya.pdf?sequence=1&isAllowed=y

The Kenya Ports Authority (KPA) has continued to work in collaboration with stakeholders to avert any challenges related to the smooth and seamless movement of containers. Any matters should be addressed in real time as any delay costs the importers huge amount of money in the form of demurrages and storage charges. Non-through bill of lading (Non-TBL) containers/shipments railed to either Inland Container Depot Nairobi (ICDN) or Naivasha Internal Container Depot (NICD) are required to nominate their preferred/ desired point of clearance by writing an email to the KPA within 48 hours of the vessel's expected time of arrival (E.T.A). However, the procedure is very clear and straight forward for all TBL containers/shipments as they are railed directly upon offloading from the vessel.

To reduce transport and logistics costs, the following actions would be relevant:

i. Review of rail charges by the Kenya Railway Cooperation (KRC) to match the road market rates to encourage more importers to use Standard Gauge Railway (SGR).The two modes of transport from the Port of Mombasa need to continue playing a complementary role to enhance competitiveness.

ii. Remove port charges for importing raw materials and intermediate products.

iii. Sustain an efficient and seamless movement of containers at the ports by enhancing the existing collaborative and coordination frameworks with port stakeholders.

iv. Prioritize construction of Meter Gauge Railway (MGR) and SGR sidings in industrial areas as well as rehabilitation of the railway lines in industrial areas to enhance last mile connectivity and to reduce the 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.

AGENDA

Agenda Four: Sustain the Fight Against Illicit Trade

Illicit trade is a global menace affecting many industries. According to the OECD data on counterfeiting and international trade, the total value of counterfeit and pirated goods was about $1 Trillion in 2013 and was expected to grow to close to $3 trillion in 2022.

In the 2020 National Baseline Survey on Counterfeit and Other Forms of Illicit Trade by the Anti-Counterfeit Authority (ACA) the total size of illicit trade was projected to be estimated at Ksh. 826 billion in 2018, having risen from Ksh. 726 billion in 2017.

The two most researched forms of illicit trade are counterfeit and piracy that rank first among other forms of illicit trade. These leading forms of illicit trade describe a range of illicit activities related to Intellectual Property Rights (IPR) infringement.

- ✓ **Counterfeiting** refers to illicit trade that infringes the following types of IPRs – trademarks, patents, designs, and utility models.
- ✓ **Piracy** is a form of illicit trade that infringes on copyrights.

It is an offense under the Anti-Counterfeit Act No. 13 of 2008 to import goods that have not been recorded with the ACA. It is a requirement for importers to declare the intellectual property rights for goods being imported into Kenya[18]. Over time, the government has enhanced interagency collaboration, coordination, and cooperation to achieve a common goal of curbing the various forms of illicit trade. The Multi-Agency model of operation can function effectively if coordination is by a high office that is mandated to coordinate all the government enforcement institutions addressing emerging issues, as envisioned in the National Action Plan and Implementation framework to Combat Illicit Trade in Kenya (2019-2022).

18 https://www.aca.go.ke/images/downloads/faqs-intellectual-property-rights-recordation.pdf

From a domestic production point of view, illicit trade could be viewed as having the effect of reducing market share of licit goods or stagnating sectoral growth if not addressed.[19] Table 4.3 show the worst hit sectors by illicit trade.

Table 4.3: Size of illicit trade in target sectors

Worst hit sectors	Percentage
Building, Mining & Construction	23%
Energy, Electrical & Electronics	15%
Textiles & Apparels	14%
Plastics & Rubber	9%
Metal & Allied	9%

Source: National Baseline survey counterfeit illicit trade in Kenya, 2020

Some of the actions that can bolster the war against illicit trade would include:

i. Enhance IPR compliance though coordinated enforcement with line agencies. This will support the government in expanding its tax revenue base, promote health and safety of consumers, encourag innovation and value addition.

ii. Intensify awareness on matters illicit trade to targeted groups such as users, producers and governments.

iii. Encourage high level reporting (The Cabinet) of the interagency emerging issues relating to illicit trade.

iv. Address the underlying issues that incentivize illicit trade, for instance, 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.

AGENDA 5 — Agenda Five: Manufacturing Centric Counties

There is a need to utilize the equitable share and own source revenue to support manufacturing-centric counties. Devolution has the potential of transforming each county through the exploitation of their respective resources for both domestic and external markets premised on manufacturing and value addition as the engine for wealth creation and employment to achieve a double-digit economic growth rate. The national government has a crucial mandate to provide material and technical support to each county government for vibrant industrialization. To foster the growth of the manufacturing sector, the government will need to undertake specific measures to improve the investment climate.

The national and county governments need to prioritize manufacturing, to transform Kenya into a country with a competitive industrial base that guarantees a strong economic foundation, productive jobs and purchasing power for citizens. Manufacturing-specific policy and infrastructure required to induce competitiveness exist especially through priority initiatives stated in most County Integrated Development Plans (CIDPs) and need to be scaled down to the County Annual Integrated Development Plans (ADPs).

It was anticipated that with devolution as a key development tool, the country's economy would grow and the cost of doing business would reduce because services would be closer to the people. The County Government Revenue Raising Regulation Process Bill and the County Own Source Policy, if adopted, will help counties raise their revenue base. There is a need for clear guidelines on the linkage between service facilitation and charges. The renewal process of various permits and licenses by county governments such as single business permits, building permits and approvals, among others, ought to be automated. There is also the need to grow

19 https://www.aca.go.ke/images/2020/National_Baseline_Survey_Counterfeit_and_Illicit_Trade_In_Kenya.pdf

manufacturing across all the 47 counties in Kenya outside of the seven manufacturing-centric counties through value addition and supporting shared investments.

Some of the actions that can promote manufacturing-centric counties include:

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.

AGENDA

Agenda Six: Ensure Certainty and Predictability of Tax Policies to Encourage Industrial Investments

Taxation should drive global competitiveness for locally produced goods and services, which, in turn, boost economic growth. The draft National Tax Policy is a key win for manufacturers if implemented with the sector proposals that manufacturers presented to the National Treasury for consideration. The tax system should be designed to promote social, political, and economic development. Tax policies and laws on investments should be long-term focused and tenured to enable investors to plan with reasonable certainty. In particular, the National Tax Policy should:

- ✓ Enhance the competitiveness of the manufacturing sector.
- ✓ Ensure stable and predictable tax policies that support the long-term planning of businesses.
- ✓ Promote exports.

Kenya has been enacting tax laws that disincentivize manufacturing despite the low capital investment in the country. These tax laws include introduction of 16% VAT on imported plant and machinery, reversal of investment deductions allowance (IDA), and limiting interest deductibility to 30% of earnings before interest, taxes, depreciation (EBITDA). This has major unintended consequences such as raising income tax on capital-intensive businesses to 60%+ and bankrupting businesses. Table 4.4 below shows tax burden under difference company size & minimum interest deduction scenarios companies struggling under high interest rates.

Table 4.4: Effect of current EBITDA provisions - effective income tax rate increases to 63%

Company Size	**Small**	**Medium**	**Large 1**	**Large 2**	**Large 3**
Revenue	100,000,000	1,000,000,000	5,000,000,000	10,000,000,000	30,000,000,000
Equity Capital	33,333,333	333,333,333	1,666,666,667	3,333,333,333	10,000,000,000
Debt Capital	66,666,667	666,666,667	3,333,333,333	6,666,666,667	20,000,000,000
EBITDA	13,000,000	130,000,000	650,000,000	1,300,000,000	3,900,000,000
Interest Expense	- 8,666,667	- 86,666,667	- 433,333,333	- 866,666,667	- 2,600,000,000
Profit After Interest	4,333,333	43,333,333	216,666,667	433,333,333	1,300,000,000
Tax Burden Under Different Minimum Interest Deduction Allowances					
Tax - Previous Tax Law	1,300,000	13,000,000	65,000,000	130,000,000	390,000,000
Tax - New Legislation Current	2,730,000	27,300,000	136,500,000	273,000,000	819,000,000
Tax - De Minimis	1,300,000	13,000,000	75,000,000	270,000,000	819,000,000
Tax - De Minimis + 12% Assets	1,300,000	13,000,000	65,000,000	130,000,000	390,000,000
Tax % - New Legislation Current	**63%**	**63%**	**63%**	**63%**	**63%**

Data source: KAM simulations

The following actions should 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.

Agenda Seven: Lower the Cost of Industrial Inputs

Manufacturing sector is heavily dependent on imported industrial inputs (Table 2.2). Adding the effects of the weakening of the Kenya shilling (Figure 2.6) significantly increases the cost of these inputs. Finance Act 2021 introduced excise duty on some articles of plastics used for packaging thereby increasing the cost of manufacturing.

The government can institute the following actions to reduce the cost of industrial inputs:

i. Amend 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.

Agenda Eight: Incentivize Prompt Payment Culture

The implementation of the 60-day payment period provided for under the Public Procurement and Assets Disposal Regulations for 2020 is key. Regulation 150 of the Public Procurement and Asset Disposal Regulations, 2020 states that a procuring entity shall make prompt payments for all performed contracts and within sixty days from the date of receipt of the invoice.

However, despite the above regulations, public entities do not adhere to the sixty-day period. This has led to a pending bills crisis in the country, both at the county and national level, running into billions of shillings. For example, the total outstanding pending bill as of 30th June 2022 for the national government amounted to Ksh.49.24 billion.[20] This has several adverse effects on businesses and the economy, some of which include:

- ✓ Loss of income and low levels of liquidity. This hinders business growth which leads to lower rates of employment creation and in some cases, insolvency of the business.
- ✓ Impact on SMEs who are the most affected by long payment durations forcing them to secure alternative financing with very high interests to cover temporary shortfalls.[21]
- ✓ Late payment can also have a knock-on effect on a supply chain. The knock-on effect of one customer paying a supplier late leading to that supplier paying its own suppliers late can quickly spread the impact of late payment to multiple firms, increasing the demand for credit at a time when access to credit may be at a premium.

KAM proposes strict implementation among public entities of regulation 150 of the Public Procurement and Asset Disposal Regulations 2020. This will support the growth of the private sector, especially SMEs, who are the key drivers of any economy.

Also important is the Prompt Payment Bill, 2021 as a proposed legislation that seeks to provide for quick payment for the supply of goods, works and services. It envisions the payment of suppliers by at most 90

20 https://cob.go.ke/wp-content/uploads/2022/09/September-book-2022.pdf
21 https://www.smallbusinesscommissioner.gov.uk/ppc/about-us/

days after the receipt of an invoice or completion of works. The Bill is a vital step in creating and fostering a prompt payment culture in Kenya. The Bill proposes the introduction of interest payments over and above what is owed to the supplier for every day the supplier's invoice goes unpaid. While suppliers may be reluctant to charge interest on their unpaid invoices due to the fear of impacting future commercial relationships, they will have the option guaranteed under an Act of Parliament.

Other jurisdictions such as the United Kingdom and the Republic of Ireland have in place a voluntary Prompt Payment Code. The Code is a private sector initiative where private companies sign up and commit to settle their invoices within thirty days or at most sixty days. This has yielded great success, albeit with room for improvement.[22] Kenya needs a prompt payment culture, without which few businesses will make the transition from SME to a large corporation, and worse still, very few SMEs will survive past three years after incorporation. The Prompt Payment Bill, therefore, must be revived and passed as an Act of Parliament to help support and sustain the growth of the country.

To incentivize prompt payment culture, the following actions would be useful:

i. Implement the 60-day payment period provided for under the Public Procurement and Assets Disposal Regulations for 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 ensure transparency and accountability.

AGENDA

Agenda Nine: Avail Long Term Financing to Manufacturers

A development bank is a specialized institution that mobilizes resources for medium and long-term financing. It is "a chosen instrument for facilitating and stimulating economic growth." Unlike commercial financial institutions geared towards short-term projects and returns, development banks are by design providers of long-term finance. Their funding is predominantly in the form of long-term liabilities, they have technical expertise to take a leading role in the design and execution of development projects and they have the financial means to attract other players to co-finance.[23] Economic growth is a desirable process especially in developing countries. In 2020, Kenya, through the Kenya Development Bank Bill, sought to establish the Kenya Development Bank to facilitate industrial and economic development of the country, promote industrial growth, generate more exports, and encourage import substitution as well as generally revive industrial growth.

With the proposed Kenya Development Bank Bill, 2020, the merger of the Industrial and Commercial Development Corporation (ICDC), IDB Capital and Tourism Finance Corporation is now close to fruition. This has been identified as one of the critical reforms required to support the manufacturing deliverable and may be critical post-Covid-19 to aid industries.

Further, the current government policy of encouraging and promoting small-scale industries requires the services of development banks. Emphasis on the establishment of small-scale enterprises is mainly based on the notion of employment creation for most Kenyans. However, due to the potential high risk associated with small firms, commercial lending institutions will generally be unwilling to assist most of them financially. In the current stage of Kenya's economic development, development banks are vital agents for resource mobilization. However, they can only perform this role well if they have a functioning regulatory structure, and an appropriate restructuring of policies that reflects each stage of the country's development.

The Kenya Development Bank Bill has since lapsed and therefore its re-introduction will safeguard the operationalization of the tools that will work towards:

22 https://enterprise.gov.ie/en/what-we-do/supports-for-smes/prompt-payment-code/
23 https://unctad.org/publication/role-development-banks-promoting-growth-and-sustainable-development-south

- ✓ Promoting sustainable economic development.
- ✓ Providing venture capital, seed capital and risk capital for the development of industries.
- ✓ Establishing joint or private equity ventures, finance or otherwise assist in the establishment of companies for execution of undertakings, works or projects.

To avail long term financing to manufacturers, the following actions would be useful:

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.

Agenda Ten: Enhance Environmental and Sustainable Regulatory Compliance

The 2030 Agenda for Sustainable Development provides a shared blueprint for prosperity, people and the planet, now and in the future. For economic growth to occur, social inclusion and environmental protection are required investments for any business to thrive.

There is increased demand for industries to demonstrate their Environmental, Social, and Governance (ESG) plans in their larger business strategies. Businesses are becoming globalized and accountable, and demonstrating sustainable actions is a necessity. This is a need for local brands to gain global markets with sustainability value propositions as consumers are becoming deliberate in their choice of products.

KAM has been deliberate to promote the inclusion of sustainability in manufacturing activities for its members. This includes energy efficiency, waste management and water and wastewater management through policy interventions, specialized training, and awareness creation.

Actions needed to enhance environmental and sustainable regulatory compliance include:

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. This will promote minimization of waste generation, drive clean and green technologies and Circular Economy transitions.

iii. Incentivizing 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. 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 "carbon trading" for industries to create opportunities through favorable policies and regulatory frameworks.

vi. Localize and implement SDG Goal No. 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 uptake self-regulation and sustainability programs.

Agenda Eleven: Pro-Industry Skill Development

Global competence starts by being keen to learn about the world and how it works. KAM's strategy to enhance industry competitiveness and secure the future of industry is through continued capacity building of industry experts under the KAM Manufacturing Academy, and promoting sector relevant skills development through the Technical, Vocational Education and Training (TVET) program.

Kenya, in its bid for globally competent skilled population, has set up Sectors Skill Advisory Committees (SSACs) to put in place necessary strategies for change given the rapidly evolving innovation in the manufacturing sector, bringing with it new opportunities. The Sector Skills Advisory Committees form an integral part of industry engagement for curriculum development, review, and validation, ensuring industry-led standards are incorporated in the curriculum process (KAM, 2022).

The concept of global competence articulates the knowledge and skills students need in the 21st century, including ensuring that curriculum development strives to meet the evolving skills needed across sectors and particularly manufacturing. There is a key need to facilitate the portability of knowledge, skills, innovation, and technical resources available in the diaspora for national development.

The role of education in many countries in Africa after attaining independence was to impart enough knowledge to their citizens to help them take leadership roles and positions in various sectors to help in the running of the countries. This objective is no longer relevant since there has been key skill mismatch for industry and less practical learning system. With the introduction of the competency-based curriculum, growth in both knowledge and information shall provide the best individuals with skills which can be used effectively (Owala, 2021). KAM has supported manufacturers in the country to pilot the Competency Based Education and Training (CBET) training model together with training institutions, addressing skill gaps at curriculum development and review stage to ensure alignment to industry needs and the world of work by incorporating industry-led occupational standards. To support experiential learning, industry can continue to provide opportunities for work-based learning (based on the dual vocational training approach which provides at least 50% in company training and 50% in classroom training to obtain key competencies); industrial attachments for trainees; industry learning exchange/exposure for trainers; and practical training through project-based learning between learners, training institutions and industry.

While industry remains up to date in operations in a bid to be competitive, training institutions often lag, struggling with machinery that is either outdated or of lower quality. Integration between training and industry provides an opportunity for shared knowledge and up to date skills transfer between the two. Incentivizing industry can provide an opportunity to actively engage in skills development with practical training matched to career growth paths for trainers to enable them to remain up to date with the industry standards. While sharing its strengths, there are opportunities to provide certification for industry experts through assessment of skills/competencies and awarding of qualifications based on the assessments.

There is need for TVET institutions to promote entrepreneurship skills among the youth through both training and hands-on experience. With entrepreneurship skills, youth can transition to jobs through self-employment and form part of SMEs. KAM aims to strengthen the entrepreneurship component by supporting training institutions identify and run successful enterprises and provide them with learning enterprises. Resultant, young people from the training institutions gain hands on experience on how to run businesses and can venture into self-employment. There is need to support youth on innovations at TVET level and this can be achieved by commercializing such innovations.

Key actions to promote pro-industry skill development will include:

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 for 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 scale up of CBET uptake in TVET institutions and industries nationally through increased awareness.

v. Strengthen industry and training institutions collaboration 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 linkage through the 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 centres of excellence and linkage of the same to industry.

4.2 Pillar Two: Export-led Industrialization

Successful industrialization requires outward orientation. Export-led industrialization is based on the production of manufactured products for purposes of selling them in the international market. It was advanced in part because of the failure of the import substitution industrialization strategy model of development due to the success of East Asian countries (Ramdoo, 2015). Kenya is a small economy, and for firms to realize economies of scale, external market would be useful. Following the CIP methodology, for Kenya to improve its global competitiveness, the country must increase its share in the world market especially for high technology manufactured goods. According to Table 4.5, Kenya's export market share in the world was 0.03% in 2018 and accounted for 0% of high-technology manufactured goods.

Table 4.5: Kenya's export market shares in world exports (%)

Technology group 2005	Côte d'Ivoire		Ethiopia		Kenya		Sri Lanka	
	2018	2005	2018	2005	2018	2005	2018	2005
Primary products	0,20	0,30	0,05	0,06	0,09	0,12	0,09	0,10
Total manufacturing	0,05	0,02	0,00	0,00	0,03	0,02	0,06	0,06
Resource based	0,15	0,06	0,00	0,00	0,07	0,03	0,06	0,07
Low technology	0,01	0,02	0,00	0,01	0,04	0,03	0,23	0,23
Medium technology	0,03	0,01	0,00	0,00	0,01	0,01	0,01	0,01
High technology	0,04	0,00	0,00	0,00	0,00	0,00	0,01	0,00
Other transactions	0,01	0,09	0,01	0,01	0,01	0,01	0,02	0,01
Total exports	0,07	0,07	0,01	0,01	0,03	0,03	0,06	0,06

Data source: http://stat.unido.org

The inability to venture into international trade is attributable to factors such as high cost of production; firms' lack of capacity and low production levels; the lack of linkages to foreign markets; low demand for products occasioned by new competing industries in export markets; and competition in key market segments from Chinese products (Oiro, 2019).

Global supply disruptions due to COVID-19 and Ukraine Crisis have demonstrated the need for nations to reduce overdependence on international markets and thus the need to enhance domestic production capacities. Kenya must leverage on products that have a comparative advantage to grow our exports. Some of the policy initiatives Kenya hopes will increase the value and volume of exports includes the Integrated National Export Development and Promotion Strategy (2017-2022), the Kenya National Trade Policy, and EPZ and SEZ programs. Kenya should, therefore, pursue an agenda that will promote export-led industrialization.

AGENDA

Agenda One: Enhance Domestic Market Access

Access to domestic market will be a useful platform for manufacturers to develop export capacities. This is why initiatives such as the Local Content Policy provide a legal framework for the utilization of local content in the local market including the use of local labour, skills, technology, raw materials, and inputs in economic and social activities in Kenya. Its full adoption and implementation would see huge economic transformation at the base of the economic pyramid that will ultimately translate to a thriving economy. In addition to jobs creation and forex exchange mitigation, the adoption and implementation of the Local Content Policy will enhance inclusivity with the participation of MSMEs, women and youth in economic activities.

The Preferential Procurement Master Roll presents a list of products that Kenya has significant manufacturing capacity to produce. The Master Roll provides a guideline to public and private sector procurement on which products to consider for local sourcing. For these preferential systems to function as required, the following would be important:

- ✓ Enhanced access to information about available opportunities for local manufactures to participate in. Public entities should use the procurement portal to list all public tenders floated by their respective institutions.
- ✓ The national and county governments should provide information about special projects to allow for the private sector to interrogate the bill of materials and assess which products can be supplied by local manufacturers.
- ✓ The status of implementation of the Local Content Policy and uptake of products from the Master Roll of publicly available products should be well updated on the public procurement portal. This is to facilitate monitoring and evaluation of milestones made in localizing public procurement.
- ✓ The Preferential Procurement Master Roll should be shared across all public and private entities to support uptake of products from this list.

Local manufacturers continue to be locked out of the domestic market by imported products benefiting from anti-competitive measures including dumping. Full operationalization of Kenya Trade Remedies Agency (KETRA) will support the country's efforts to administer trade remedies to address dumping and other trade malpractices.

The following actions if implemented would enhance manufacturers access to the domestic market:

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 Buy Kenya Build Kenya 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 KETRA's capacity to conduct investigations and enforcement of anti-dumping laws.

AGENDA

Agenda Two: Enhance EAC Market Access

In 2022, the EAC adopted 35% as the fourth band of the Common External Tariff (CET), which took effect on 1st July 2022. There are emerging pending EAC CET issues including misalignment of the CET to support value chain growth, tariff splits and duty structure anomalies that need to be addressed in a post EAC CET 2022 process. Resolution of the CET issues will lead to the realization of the EAC Common Market.

The EAC Rules of Origin are due for statutory review. EAC market access for some sectors, for instance edible oils has been hindered by unfavourable Rules of Origin. KAM is requesting a partial review of the Rules of Origin to address market access concerns for specific sectors to help ease local market access. Non-Tariff Barriers (NTBs) continue to stifle market access within the EAC hence the fast tracking of the EAC NTB Act will provide for a legal framework to resolve NTBs with the EAC. Alongside this, KAM is also proposing for the hasty resolutions of NTBs within the Community.

Manufacturers continuously face challenges in accessing the EAC market once they are gazetted under Exports Program Promotion Office (EPPO). This is despite having the program specifically set up to support Exports from the EAC. There is a need for EAC to provide administrative guidelines between this scheme and the Essential Goods Production Support Program (E.G.P.S.P).

Direct and indirect taxation challenges such as VAT refunds, excise tax and county charges continuously hamper export growth. There is a need to address tax anomalies that lead to an uncompetitive pricing in the export markets by the government to grow businesses.

Establishment of strategic warehouses in Kenya's markets of interest, for instance DRC and South Sudan, would enable Kenya exporters to handle logistics nightmares in the export markets. This would provide Kenya with physical centres to support sourcing from the country.

There is a need for Kenya to develop deliberate incentive schemes to drive export diversification and growth, for instance the Egypt scheme that incorporates fiscal and monetary incentives. The scheme would enable Kenya to penetrate new markets and dominate existing markets.

End of term monitoring and evaluation (M&E) of the Integrated National Export Promotion and Development Strategy (NEPDS) delivery structures. NEPDS was supposed to deliver export ambitions for the country. There is a need for an end term review of the strategy and to develop structures for implementation of pending areas.

The EAC market access can be further enhanced through the following actions:

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.

AGENDA 3

Agenda Three: Diversify and Increase International Market Access

The US is presently the 3rd most significant market for Kenya behind EAC and EU (Table 2.5). Kenya should seek for an AGOA extension of at least 15 years with enhancements that will enhance and diversify exports. The need for a renewal certainty by end of 2023 is critical to provide for market certainty as investment and trade in AGOA sectors slows down 2 years to the renewal date. This is in addition to a push for favorable market access conditions in the US Kenya Cooperation agreement.

Kenya is also a major exporter of floriculture and horticulture to the UK and the EU. However, the trade agreements with EU and UK provide Kenya with a more diverse range of products that can benefit from preferential market access to the two countries. Joint efforts by both the public and private sector can drive export diversification and growth to Europe.

The African Continental Free Trade Area (AfCFTA) and Tripartite Free Trade Area (TFTA) provide Kenya with a chance to expand its market to the 1.3 billion population in the continent. With the current intra-African trade being a mere 12%, there lies a big opportunity in the continental markets.

To diversify and increase international market access there is need for.

i. In the US Kenya Cooperation agreement /AGOA Kenya to propose extension by end of 2023 for at least 15years.
ii. Export development program to increase Kenyan exports under EU-EPA and Kenya UK FTA.
iii. Fasttrack finalization of the outstanding issues on the AFCFTA and TFTA.
iv. Fast tracking 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.

4.3 Pillar Three: SME Development

Small and Medium Enterprises (SMEs) are key players especially in economies of developing countries.[24] SMEs account for most businesses worldwide and are important contributors to job creation and global economic development. The contribution of small firms to innovation-led growth and job creation has been of renewed interest in recent years. SMEs provide enormous opportunities for socio-economic transformation of Kenya's economy.

They represent about 90% of businesses and more than 50% of employment worldwide. For emerging economies, the formal SMEs contribute up to 40% of national income (GDP). These numbers are significantly higher when informal SMEs are included according to the World Bank report on improving SMEs' access to finance and finding innovative solutions to unlock sources of capital.[25] In emerging markets, most formal jobs are generated by SMEs, who create 7 out of 10 jobs. According to Kenya's Micro and Small Enterprises (MSEs) Policy (2020), the MSEs sector accounts for 24% of GDP, over 90% of private sector enterprises and 93% of total labour force in the economy.[26] About 52% of KAM Members are SMEs (annual turnover of between Ksh. 0-250 million).

Access to finance is a key constraint to SME growth. It is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of SMEs in developing countries have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending.[27] More generally, challenges facing SMEs can be summarized as follows (Yoshino and Taghizadeh-Hesary, 2016):

- ✓ Lack of resources (finance, technology, skilled labour, market access, and market information).
- ✓ Lack of economies of scale and scope.
- ✓ Higher transaction costs relative to large enterprises.
- ✓ Lack of networks that can contribute to a lack of information, know-how, and experience of domestic and international markets.
- ✓ Increased market competition and concentration from large multinational enterprises caused by globalization and economic integration.
- ✓ Inability to compete against larger firms in terms of R&D expenditure and innovation (product, process, and organization).
- ✓ Subject to "churning" and instability.
- ✓ Lack of entrepreneurial zeal, capacity, and know-how.

Over the years, through the implementation of various initiatives aimed at supporting MSMEs, it has become evident that there is a need for the government to consult with key private sector players in identifying and prioritizing policy challenges. These challenges continue to hinder MSME growth and development into large corporates that offer various goods and services. There is a need to find the right balance between measures addressing generic problems related to size or newness and more targeted responses tailored to the varying needs of the different types of SMEs.

In a bid to improve the global competitiveness of SMEs, in recent years, important progress has been made to reduce the administrative burdens on start-ups, including lower legal barriers to entry and reduced costs for regulatory compliance in different areas.[28]

To ensure a key focus on MSMEs, the former Micro and Small Enterprises Authority (MSEA) was promoted to a full State Department for Micro, Small and Medium Enterprise (MSME) Development and transferred from the former Ministry of Industrialization, Trade and Enterprise Development to the new Ministry of Co-operatives and Micro, Small and Medium Enterprises (MSME) Development.

24 https://www.worldbank.org/en/topic/smefinance
25 https://www.worldbank.org/en/topic/smefinance
26 https://msea.go.ke/wp-content/uploads/2021/07/MSEs-Policy.pdf.
27 https://www.worldbank.org/en/topic/smefinance
28 https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-1.pdf

The alignment followed the minimal mileage in implementing the MSE Policy, which was launched on 28th June 2021. The National MSE Policy, however, needs to be reviewed, aligned, and harmonized with the proper definitions of MSMEs in line with current EAC MSMEs Charter before full implementation can commence under the current administration.

Access to finance as stated earlier is one of the main challenges facing MSME establishment and survival in Kenya. Many financial-aid avenues available as sources of capital need a guarantor or collateral for one to access the funds. The Hustler Fund initiative by the government is lauded for solving the challenges related to high interest rates chargeable by financial institutions such as banks. The Fund offers interest rates as low as 8% with no collateral required as proposed by the current regime. The implementation of the MSMEs Fund under the Hustler Fund umbrella is underway and having proper structures is crucial to ensure effective and efficient implementation.

The National Treasury rolled out the Credit Guarantee Scheme by entering into risk-sharing agreements with Participating Financial Institutions (PFIs) on 8th December 2020, to support MSMEs to access quality and affordable credit. This was anticipated to help MSMEs to stay afloat and safeguard employment during and after COVID-19 pandemic. The Scheme is anchored on the Public Finance Management Act 2012 and the Credit Guarantee Scheme Regulations, 2020. The Scheme is currently being delivered through a risk sharing agreement between the government and seven participating banks, namely Absa, Co-operative, Credit, DTB, KCB, NCBA and Stanbic. The banks act as intermediaries in the provision of credit to qualifying MSME borrowers based on a pre-agreed scheme qualifying criteria. Lending is done by the banks, with due diligence in line with the CBK Prudential Guidelines. The maximum loan amount under the scheme is Ksh. 5 million with a tenor of 3 years and up to 5 months grace period and discounted interest rate based on the MSMEs risk profile. The scheme guarantees to pay the banks 50% of the outstanding principal amount, subject to a maximum of 25% of the principal amount, in case of default on qualifying credit facilities advanced to MSMEs. This provides an incentive for the banks to offer better credit terms for the qualifying MSMEs.

The main challenge in the disbursement of funds under this Scheme has been the application of the legal definition of MSMEs, as highlighted earlier, whereby an enterprise can be micro by one criterion and small by another. This means that if the definition was administered in a strict sense, it would lock out many MSMEs. The National Treasury has been considering a policy direction which requires the annual turnover to prevail, as a measure of the size of the enterprise, for purposes of reporting on the Scheme. While we appreciate that the Scheme has, so far, benefited MSMEs across almost all counties, more can be done to enhance and increase its uptake, including undertaking targeted outreach and awareness campaigns across all the counties. The sustainability of the Scheme is challenging as it operates as a unit within the National Treasury, which is not in line with international best practices, especially the World Bank principles of operating a public credit guarantee scheme. The Scheme has, however, been underutilized since inception with only 35.9% uptake as of 30th June 2022, and had started stagnating towards the end of the financial year 2022.

The informality of MSMEs is yet another major challenge as most MSMEs are not tax compliant nor registered by relevant government agency as required by the 10th Credit Guarantee Scheme Regulation. In consideration of the above challenges, we urge the government to redesign the Credit Guarantee Scheme to ensure effective de-risking of MSMEs and enhance credit access.

The Local Content Policy was developed to enhance the utilization of local resources in the overall provision of goods and services by ensuring that market access is guaranteed through public procurement entities. Government procurement entities and large corporates are the largest consumer of goods and services and can support MSMEs through a subcontracting policy. Without the assurance of a ready and available market for our local MSMEs, Kenya would continue to be a net importer of various goods and services that procurement entities consume. This would negatively impact the job creation agenda for our citizens as importation creates jobs in the source countries of those goods and services.

Sub-contracting is a sure way of helping MSMEs to learn and to become compliant with various standards and other legal obligations, which are key to formalization and growth into better and more competitive enterprises. In implementing the Local Content Policy, the State Department of Industrialization enlisted and gazetted a comprehensive list of all locally manufactured goods through the Preferential Procurement Master Roll No.1 of 2020, which was gazetted on 8th July 2020. Awareness creation across MDAs continues to be a challenge in the implementation and compliance with the Local Content Policy. Many large manufacturers are willing to support MSMEs through subcontracting if the policy can be implemented. Reviewing and updating the Master Roll is also crucial to the overall growth of the MSMEs.

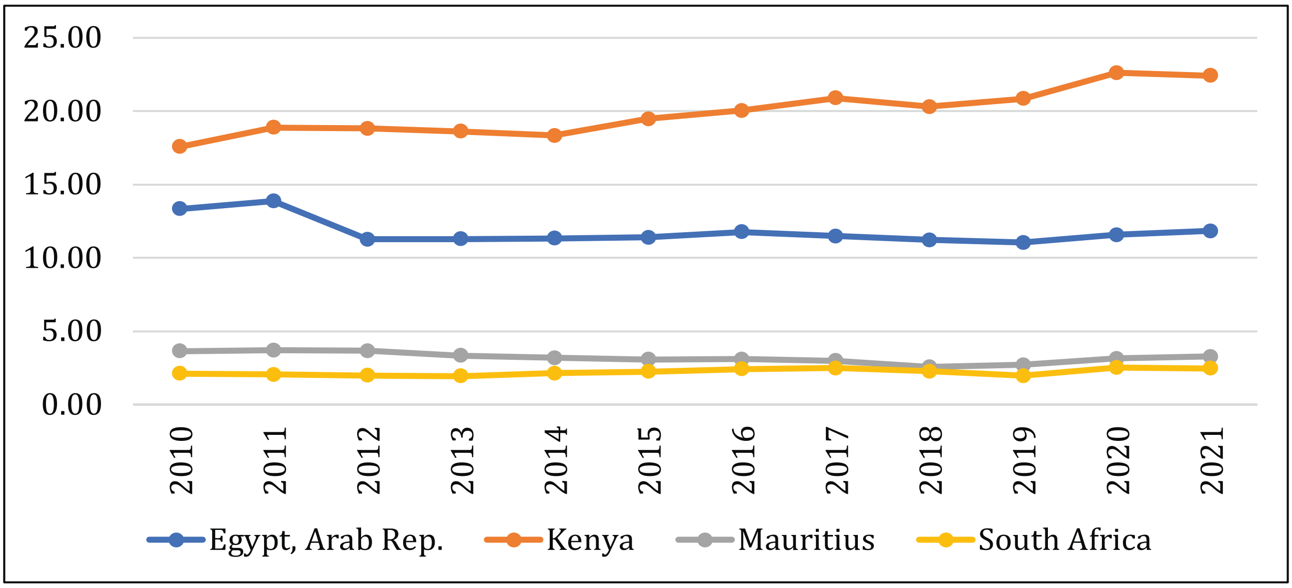
Pursuit of the following agenda by the government will promote SME development in Kenya:

i. Implementing Preferential Procurement Master Roll.
ii. Enacting and implementing the Local Content Bill, 2018.
iii. Enacting and implementing other pending MSME enabling legislations/bills.

4.4 Pillar Four: Industrializing Agriculture

Agriculture is a major economic sector in Kenya and its GDP contribution has been increasing. The sector rose from 17.57% in 2010 to 22.43% in 2021 (Figure 4.2). South Africa, the most industrialized country in Africa has the lowest agricultural GDP contribution which stood at 2.47% in 2021.

Figure 4.2: Agriculture, forestry, and fishing, value added (% of GDP)



Data source: WDI

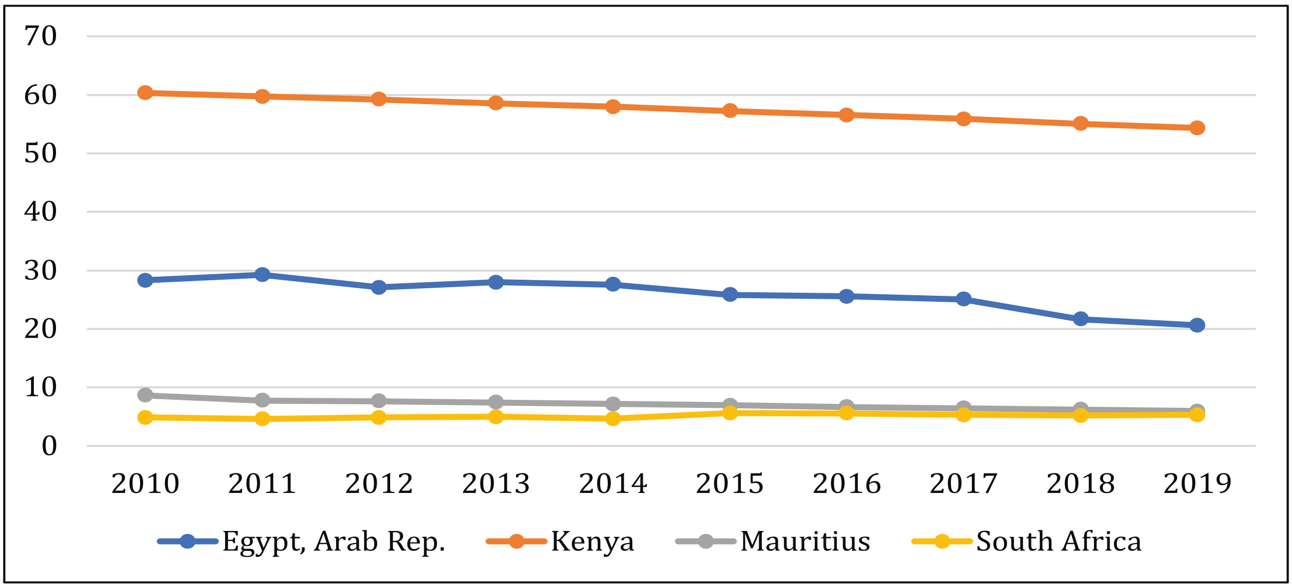
Key features of the agricultural sector in Kenya include the following[29]:

- ✓ The sector employs more than 40% of the total population and about 70% of the rural population.
- ✓ Second largest livestock herd in Africa and 13th largest number of dairy cows in the world.
- ✓ 1.5-2.5 times more time on farm than SSA peers with lower levels of mechanization.
- ✓ 8.6 million farmers in Kenya representing ~4.5 million farming households, even if only ~350,000 formal jobs exist in the sector.
- ✓ Kenya's processed share of agro export is at 16% and below East Africa peers in Tanzania (27%) and Uganda (34%).
- ✓ 7% of land is irrigated and most arable land is rain fed.

Developing competitive agro-industries is crucial for generating employment and income opportunities. Even though agricultural GDP contribution has been on an upward trend for Kenya, there has been a steady decline in agricultural employment (Figure 4.3). South Africa also has the lowest number of people employed in the agricultural sector.

29 https://www.agck.or.ke/Downloads/ASTGS-Full-Version-1.pdf

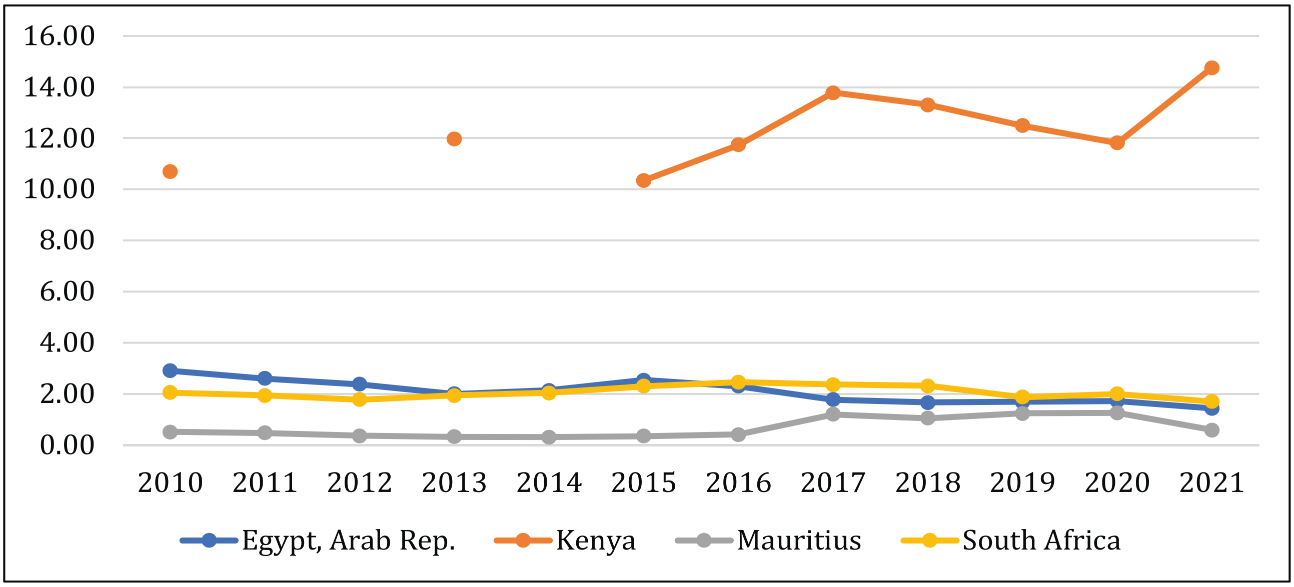
Figure 4.3: Employment in agriculture (% of total employment)



Data source: WDI (modeled ILO estimate)

Kenya, compared to comparator countries in Africa, exports agricultural products in primary form, which constituted 14.76% of merchandise exports in 2021 including tea, coffee and avocado among others (Figure 4.4).

Figure 4.4: Agricultural raw materials exports (% of merchandise exports)



Data source: WDI

Development of agro-manufacturing linkages through relevant agricultural value chains will reduce the share of agricultural products exported in primary form and derive more value from exports. Developing competitive agro-industries is crucial for generating employment and income opportunities. It also contributes to enhancing the quality of, and the demand for, farm products. Agro-industries have the potential to provide employment for the rural population not only in farming but also in off-farm activities such as handling, packaging, processing, transporting, and marketing of food and agricultural products.[30]

For small resource-rich developing economies, specialization in raw exports is usually considered to be detrimental to growth and Resource-Based Industrialization (RBI) is often advocated to promote export diversification (Massol and Banal-Estañol, 2014). According to Rodrik (2014), developing countries can

30 https://www.fsnnetwork.org/resource/agro-industries-development.

accelerate and sustain economic growth by developing industry-linkages to the natural resource sectors such as agriculture. Fessehaie *et al.* (2016) notes that RBI strategy was crucial in the United States (US) at least during the early stages.

Pursuit of the following agenda will support industrializing agriculture:

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

Chapter

5 Conclusion

Manufacturing Priority Agenda (MPA) 2023 carries the themes "Resetting Manufacturing to achieve Agenda 20BY30". Kenya requires rapid industrialization, which will involve a substantial shift of capital and labour into industrial activity, and a rapid increase in the share of industrial value added to GDP during the development process.

The Kenyan economy is highly vulnerable to external shocks transmitted domestically through interest and exchange rates. This creates the need to wean the country from fickle external capital inflows and commodity booms, which increases vulnerability to shocks and crises. Additionally, rising inflation rates and continuous weakening of the Shilling against major global currencies is a manifestation of an underlying structural problem that should be addressed. Adoption of an economic model anchored on industrialization will be a step in the right direction.

The stock of public debt is a major area of concern to manufacturers. Rising stock of public debt has been driven by fiscal deficit which stood at 5.8% in the financial year 2022/23 and should progressively reduce to 3% as per the EAC monetary union protocol. The government hopes to reduce the budget deficit by increasing tax revenue collections through administrative measures. Fiscal consolidation will yield better and more sustainable outcomes. Additional tax burden on taxpayers will only serve to slow down economic recovery efforts. Manufacturing GDP contribution has continued to decline and was 7.24% in 2021. This MPA suggested pillars, agenda and relevant actions that should be useful in growing domestic industry consistent with Vision 20BY30.

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Appendix

APENDIX I: 2023 MPA Thematic Focus

	PILLAR	AGENDA	ACTIONS
I	**Global Competitiveness**	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.
		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.
		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.

	PILLAR	AGENDA	ACTIONS
		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.
		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.
		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.
		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.
		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.
		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.

	PILLAR	AGENDA	ACTIONS
		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.
		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.

	PILLAR	AGENDA	ACTIONS
2	**Export-Led Industrialization**	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.
		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.
		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 tracking 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	**SME Development**	i. Access to Finance ii. Market Access iii. Governance	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

	PILLAR	AGENDA	ACTIONS
4	**Industrializing Agriculture**	i. Value chain integration ii. Competitive industrial inputs iii. Mechanization of Agriculture	i. Bring down the cost of farmers' inputs. ii. Improve technical services. iii. Enhance agricultural productivity.

Who we are

KAM is the leading voice of manufacturing and value-add industries in Kenya, since its establishment in 1959.

The Association is committed to securing the socio-economic well-being of Kenyans, and consequently, alleviate inequality in the community. This is through uKAMilifu, which integrates Environmental, Social and Governance (ESG) factors into the Association's role as the leading voice of manufacturing and value-add industries in Kenya.

uKAMilifu seeks to demonstrate industry's wider role in complementing Government's initiatives towards driving development.

Over the years, KAM's work as a dynamic, vibrant and credible voice that unites industrialists, has seen the Association's Membership base grow to over 1,400 industries cutting across 14 sectors. We remain at the forefront in the development of solutions and reimagining both the current and future manufacturing landscape in Kenya.

Our work, geared towards driving the competitiveness and productivity of local industry, endeavours to ensure a dynamic and flourishing manufacturing sector and realize its double-digit contribution to the GDP.

Our Vision

To be a World Class BMO that effectively delivers services to its members

Our Mission

To promote competitive and sustainable local manufacturing

A publication of the Kenya Association of Manufacturers (KAM)

CONTACT US

P. O. BOX 30225 – 00100 Nairobi Kenya

15 Mwanzi Road, Opposite Westgate Shopping Mall, Westlands, Nairobi, Kenya

info@kam.co.ke www.kam.co.ke

+254 (0) 722 201 368; +254 (0) 734 646 004/5; +254 (020) 232 481

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