KAM
KENYA ASSOCIATION OF MANUFACTURERS
Driving Global Competitiveness

60+ Years OF ADDING VALUE

MANUFACTURING

PRIORITY AGENDA 2022

Manufacturing sector recovery and sustained growth for Kenya's shared prosperity

Manufacturing Priority Agenda 2022, Pillars

1 Competitiveness and level playing field

Agenda

a. Improving Regulatory Efficiency
b. Promote access to quality, affordable and reliable energy for manufacturing
c. Reduce transport and logistics costs
d. Sustain the fight against illicit trade
e. Address multiple county charges, fees, and levies
f. Lower the cost of industrial inputs
g. Incentivize prompt payment culture
h. Avail long term Financing to Manufacturers

2 Enhance market access

Agenda

a. Enhance Local Market Access
b. Promote Regional market Access
c. Diversify International market access

3 Pro-industry policy and institutional framework

Agenda

a. Ensure predictable and stable industrial policies development through industry consultation
b. Ensure certainty and predictability of tax policies to encourage industrial investments
c. Ensure policy coherence between the two levels of government

4 SMEs development

Agenda

Create a favorable policy environment for SMEs to flourish

5 Industrial sustainability and resilience

Agenda

a. Adoption of KAMs industrial manifesto proposals by political parties and both levels of government.
b. Ensure peaceful 2022 general elections and transition
c. Ensure stable macroeconomic environment
d. Pro-industry skill development
e. Green Growth and sustainable development
f. Accelerate SDG Implementation
g. Fight against corruption
h. Fit-For-Purpose public service
i. Enhance Digitalization in manufacturing industry

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ABBREVIATIONS

SDGs	Sustainable Development Goals
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
MSME	Micro, Small and Medium Enterprises
MSE	Micro and Small Enterprises
AfCFTA	African Continental Free Trade Area
GDP	Gross Domestic Product
EMDE	Emerging Markets and Developing Economies
CBR	Central Bank Rate
EAC	East African Community
COMESA	Common Market for Eastern and Southern Africa
NSE	Nairobi Securities Exchange
EPZ	Export Processing Zones
AGOA	African Growth and Opportunity Act
AfDB	African Development Bank
PPA	Power Purchase Agreements
IPP	Independent Power Producers
LCPDP	Least Cost Power Development Plan
HFO	Heavy Fuel Oils
SGR	Standard Gauge Railway (SGR)
MGR	Meter Gauge Railway
ICDN	Inland Container Depot
ACA	Anti-Counterfeit Authority
CRA	Commission on Revenue Allocation
BMO	Business Membership Organizations
CCI	County Competitiveness Index
WTO	World Trade Organization
BKBK	Buy Kenya Build Kenya
MDAs	Ministries Departments & Agencies
CET	Common External Tariff
TFTA	Tripartite Free Trade Area
AU	African Union
LDC	Least Developing Countries
SOE	State Owned and Controlled Enterprise
EPA	Economic Partnership Agreement
EU	European Union
OECD	Organisation of Economic Co-operation and Development
SDGs	Sustainable Development Goals
TVET	Technical and Vocational Education and Training
HELB	Higher Education and Loans Board

FOREWORD

A lack of good jobs and deeply unequal opportunities carry potentially large social, political, and economic costs.

As we focus on rebuilding the nation, it is essential that we place competitiveness at the centre of conversations on driving socio-economic development. Competitiveness extends beyond a country's ability to play a significant role in the global market to sustained productivity. Additionally, it enhances a nation's capacity to create productive jobs, decent wages and consequently, a dependable social support system for its population.

Unfortunately, Kenya's manufacturing sector is yet to become competitive. The country has indeed made efforts to create a conducive business environment to attract local and Foreign Direct Investment. But the question remains, how do we ensure that we increase and sustain investments in the manufacturing sector, and ultimately create productive jobs and wealth for Mwananchi?

A report by the International Commission of Economists set up by French President Emmanuel Macron, notes that *"A lack of good jobs and deeply unequal opportunities carry potentially large social, political, and economic costs."* The Committee was established to assess the long-term challenges of the pandemic and develop policy proposals. There is no better candidate to tackle inequality in Kenya than the manufacturing sector. This is because industry has the potential to absorb a large portion of the country's skilled and non-skilled labour force, if nurtured.

For the manufacturing sector to reach its full potential and reach a double-digit contribution to the country's Gross Domestic Product (GDP), it is critical that we address competitiveness and productivity challenges. Some of the impediments to industrial growth include the high cost of production; policy instability and unpredictability; the arduous tax regime; transport and logistics; illicit trade, regulatory overreach, and market access, among others.

These challenges have also hindered us from accessing export markets, with Kenya losing her place in regional trade. We are trailing our peers in the East African Community (EAC) in terms of exports. The most recent data from Kenya National Bureau of Statistics (KNBS) shows that imports from Tanzania increased to Sh39.68 billion in January – September 2021, from Sh19.67 billion in 2020.

The Manufacturing Priority Agenda (MPA) 2022, themed, *"Manufacturing Sector Recovery and Sustained Growth for Kenya's Shared Prosperity"* gives proposals to address these challenges. The proposals are anchored on 5 pillars – competitiveness and playing field; enhancing market access, pro-industry policy and institutional framework; SME development and industrial sustainability and resilience.

As we approach the General Elections, there is no better time to engage current and future leaders to chart the country's growth through industrialization. We call on political aspirants, both at the national and county levels, to centre manufacturing in their development manifestos, geared towards driving manufacturing competitiveness and empowering citizens economically.

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 endeavours.

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.

Mucai Kunyiha
KAM CHAIRMAN

EXECUTIVE SUMMARY

For manufacturers to realize economies of scale, we call for increased focus on domestic, regional and international markets.

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

The MPA is clustered into five pillars: competitiveness and level playing field; enhancing market access; pro-industry policy and institutional framework; SME development; and industrial sustainability and resilience. If implemented, the MPA proposals will go a long way in revitalizing the manufacturing sector, which is still trying to overcome the effects of the pandemic.

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.

To enhance market access, some of the measures the government needs to consider include improving regulatory efficiency; promoting access to quality, affordable and reliable energy; reducing transport and logistics costs; sustaining the fight against illicit trade; addressing multiple county charges, fees, and levies; lowering the cost of industrial inputs; incentivizing a prompt payment culture and availing long term financing to manufacturers.

For manufacturers to realize economies of scale, we call for increased focus on domestic, regional and international markets. 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. This is to enable manufacturers to take advantage of these markets. To reap the full benefits of these agreements, the country needs to negotiate for flexible and competitive rules of origin while ensuring protection of tariff lines where Kenya has abundant production capacity. Equally important is the full implementation of trade agreements between Kenya and the European Union (Kenya-EU EPA) and the United Kingdom (Kenya-UK EPA).

Pro-industry policy and institutional framework is an essential element of the domestic business environment. Local manufacturers are currently grappling with unpredictable tax laws, which hinder them from making long-term investment plans. We urge the government to develop the National Tax Policy as well as effective coordination frameworks between the national and county governments to enhance their efficiency and reduce the burden on businesses.

Majority of manufacturing enterprises in Kenya are small and medium enterprises (SMEs) and are essential for economic growth. In this regard, they need to be accorded policy support to drive their sustainable growth. This is through creating an enabling environment for SMEs to flourish, provision of affordable finances and enhancing market access.

Finally, transitioning into an industrialized nation calls for a sustainable and resilient manufacturing sector. This can be ensured through a peaceful 2022 general elections and transition, a stable macroeconomic environment, pro-industry skill development, green growth and sustainable development, accelerating Sustainable Development Goals (SDG) implementation, fighting against corruption, fit-for-purpose public service and enhancing digitalization in the manufacturing industry.

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. KAM shall also work with political aspirants to ensure that manufacturing is prioritized in their manifestos.

We look forward to working together, for manufacturing competitiveness.

Phyllis Wakiaga
KAM CHIEF EXECUTIVE

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CHAPTER ONE

1

1. INTRODUCTION

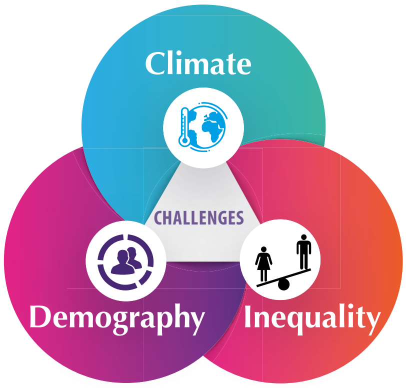
1.1 Background information

The Manufacturing Priority Agenda 2022 is themed *"Manufacturing sector recovery and sustained growth for Kenya's shared prosperity"*. Kenya's manufacturing sector was negatively impacted by the COVID-19 pandemic, which led to a negative growth rate of 0.1% in 2020 (Economic Survey, 2021).

It is critical that Government views the COVID-19 crisis as an opportunity to reshape the economy and revitalize manufacturing for high economic growth and greater equity. The importance of industry in creating shared prosperity is a priority of the Sustainable Development Goals (SDGs). Specifically, SDG 9 on Industry, Innovation and Infrastructure. This entails building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation.

The manufacturing sector has traditionally acted as a growth escalator, leading to poverty reduction in countries that have been able to ignite industrialization. One of the key features of the manufacturing industry in creating conditions to achieve shared prosperity lies in the prospects of labour-intensive industrialization. Even with increased automation, the manufacturing sector creates jobs indirectly through backward and forward linkages. As such, fostering manufacturing growth in Kenya will ensure than no one is left behind in the country's socio-economic development.

There was a generalized increase in inequalities due to the pandemic in most countries and has become a major concern for governments. This is why for example, the French President Emmanuel Macron, set up an international commission of economists to assess longer-term challenges and make policy proposals in 2020. The Commission was headed by the former International Monetary Fund (IMF) chief economist Olivier Blanchard and the Nobel laureate economist Jean Tirole. The Commission's mandate was to deal with three challenges and make recommendations:



The report noted:[1]

> *A lack of good jobs and deeply unequal opportunities carry potentially large social, political, and economic costs. Social costs manifest themselves in the form of exclusion, broken families, drug and substance abuse, addiction, and crime. Political consequences emerge through declining trust in government, experts, and institutions, partisan polarization, the rise of populist nationalism, and backlashes against globalization and immigration"*, pg 201.

Kenya's report on *"Inequality Trends and Diagnostics in Kenya 2020"* by the Kenya National Bureau of Statistics (KNBS) showed declining inequality trends at the national level, in rural and urban areas, and across social strata.[2] This decline can be further accelerated by a vibrant manufacturing industry that will create jobs for both skilled and unskilled labour.

1 https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/rodrik_and_stantcheva_report_for_macron_commission.pdf._

2 https://www.knbs.or.ke/wp-content/uploads/2021/07/Inequality-Trends-and-Diagnostics-in-Kenya-Report.pdf.

1.2. Major MPA 2021 wins

30% electricity cost reduction: His Excellency the President's reduction of the cost of electricity by 30%. The 1st phase of 15% reduction was implemented in January 2022 and the second is to be implemented by April 2022.

Minimum Tax: On 20th September 2021, the High Court declared minimum tax provisions unconstitutional and the minimum tax guidelines void.

Launch of the MSE Policy: The Ministry of Industrialization, Trade and Enterprise Development launched the MSE Policy in June 2021. The policy shall support the implementation of the gazetted list for exclusive local sourcing and compliance reporting by MDAs.

Credit Guarantee Scheme: An additional KSh. 2 billion was allocated to the Credit Guarantee Scheme to enhance access to affordable credit by Micro, Small and Medium Enterprises.

Adoption of the National Sustainable Waste Management Policy: The Cabinet adopted the National Sustainable Waste Management Policy in March 2021. This policy aims to advance Kenya towards a more sustainable and circular, green economy and move the country towards realization of the zero-waste principle, whereby waste generation is minimized or prevented.

AfCFTA draft operational manual on rules of origin: The AfCFTA draft operational manual on rules of origin was developed and circulated for comments and discussion. Additionally, the Kenya-UK EPA is in force and companies continue to enjoy quota-free duty-free market access in the UK.

Gazettement of the Retail Trade Code of Practice: Competition Authority of Kenya (CAK) gazetted the Retail Trade Code of Practice, on 11th June 2021. It provides an avenue for all manufacturers and suppliers to intervene at an early stage to address retail sector issues, including prompt payment.

Buyer power abuse: 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.

Gazettement of the Bribery Regulations: The Bribery Regulations were gazetted on 10th December 2021. KAM and Global Compact Network Kenya held a series of awareness raising campaigns and anti-corruption compliance trainings to sensitize business on their obligations under the Act.

CHAPTER TWO

2

2.1. Global and Regional Economic Outlook

In 2019, before the onset of the COVID-19 pandemic, most countries registered positive economic growth apart from Japan which recorded a negative growth of 0.2% (Table 2.1). World real GDP contracted by 3.4% in 2020 mainly due the effects of COVID -19 pandemic. Only China recorded a positive economic growth rate of 2.2% while India's economy contracted by 7.3%.

Table 2.1: Global and regional economic growth output

	2019	2020	2021e	2022f	2023f
World	**2.6**	**-3.4**	**5.5**	**4.1**	**3.2**
United States	2.3	-3.4	5.6	3.7	2.6
Euro Area	1.6	-6.4	5.2	4.2	2.1
Japan	-0.2	-4.5	1.7	2.9	1.2
China	6.0	2.2	8.0	5.1	5.3
India	4.0	-7.3	8.3	8.7	6.8
Sub-Saharan Africa	2.5	-2.2	3.5	3.6	3.8
Nigeria	2.2	-1.8	2.4	2.5	2.8
South Africa	0.1	-6.4	4.6	2.1	1.5

Data source: World Bank (2022), Global Economic Prospects.

Note: *e = estimate; f = forecast*

From 2020, economies have regained growth momentum as all major countries and regions of the world realized positive growth rates. World, Euro Area and Sub-Saharan Africa regions are projected to have grown by 5.9%, 5.0% and 3.7%, respectively. Global economic recovery is expected to continue in 2022 and beyond, amidst the emergence of new variants such as Delta and Omicron which will create policy difficulties in countries.

Unequal vaccine deployment, particularly in many emerging markets and developing economies (EMDEs), is an issue of concern and can be effectively addressed at the multilateral level. Emmot (2021) identifies four interlinked crises faced by the world - public health, climate change, declining public trust and democratic legitimacy and geopolitical instability.[3] Over 5 million people have died across the world. An area of great concern is the unequal access to vaccinations in different countries and regions. The global average is about 49.91%.

3 https://www.project-syndicate.org/commentary/interlinked-crises-pandemic-climate-democracy-us-china-by-bill-emmott-2021-12?barrier=accesspay.

Table 2.2: COVID-19 pandemic situation for some selected countries

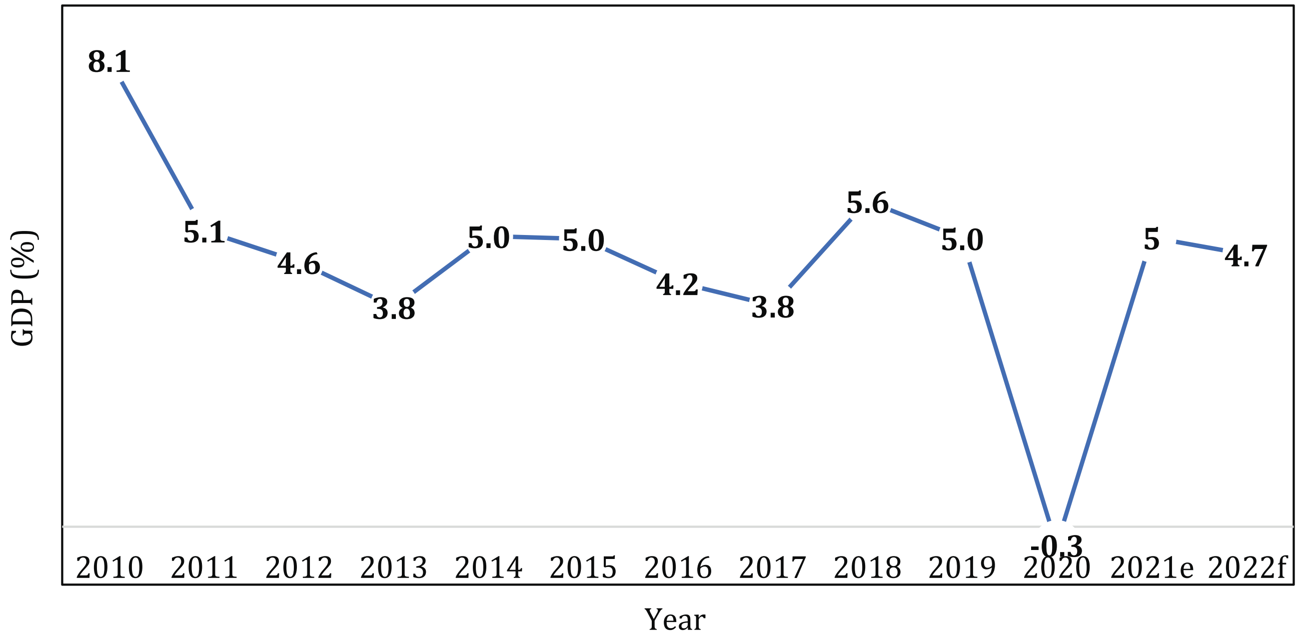
	Region/country	Cases - cumulative total	Deaths - cumulative total	Persons fully vaccinated per 100 population
1	Global	312,173,462	5,501,000	49.91
2	United States	61,332,277	833,519	61.08
3	Europe	113,958,673	1,705,519	56.37
4	United Kingdom	14,732,598	150,609	69.72
5	Germany	7,661,811	114,735	71.21
6	Italy	7,774,863	139,559	74.30
7	Africa	7,704,445	159,347	7.19
8	South Africa	3,534,131	92,649	69.72
9	Kenya	313,677	5,462	8.432
10	Uganda	156,113	3,370	3.96

Data source: https://covid19.who.int/table. *(Dated 13th January 2022)*

2.2. Kenya's economic outlook

Kenya's economy was estimated to have contracted by 0.3% in 2020 compared to 5% 2019 (Figure 2.1). This has been attributed to the effects of COVID-19 . World Bank estimates the economy to have grown by 5% in 2021 and projects a growth rate of 4.7% in 2022.

Figure 2.1: Kenya's GDP growth rate (2010-2020)



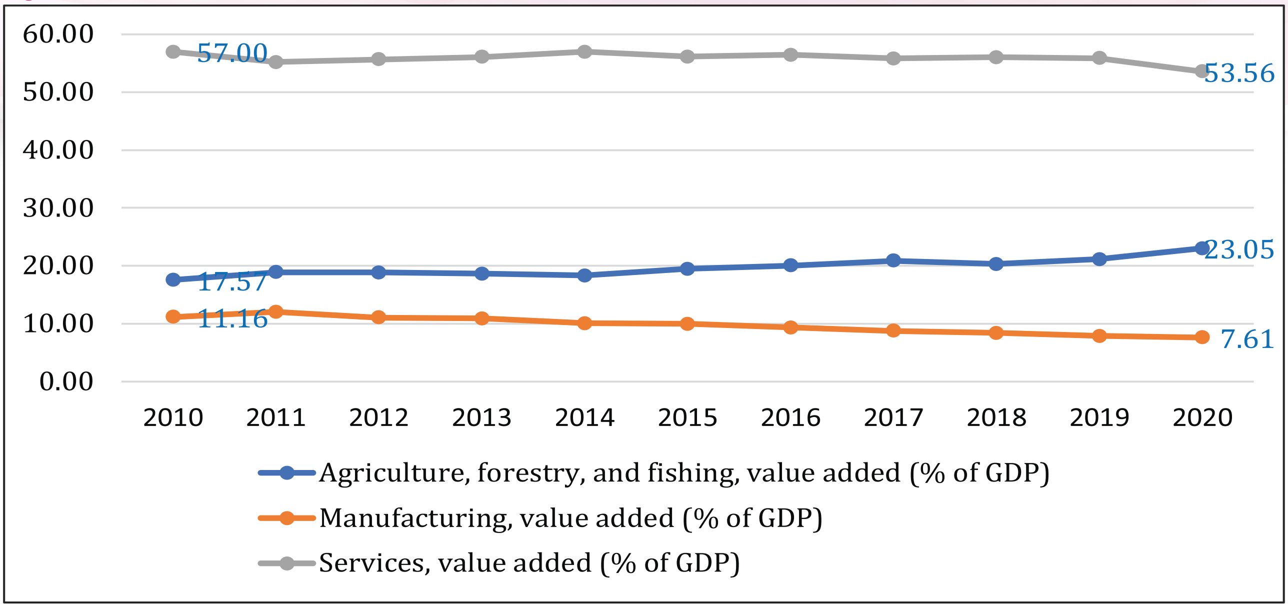
Data source: Economic Surveys (various) World Bank's Global Economic Prospects 2022

A key feature of Kenya's economic growth is that it is episodic. This does not bond well with long-term objectives to reduce poverty and sustainable development in general. The East Asian growth miracle has shown that countries with a robust manufacturing sector are able to sustain economic growth over the long-term. According to World Bank's December 2021 Economic Update report for Kenya, the economy remains vulnerable to new and more transmissible COVID-19 variants such as Omicron. Other important risks to this economic outlook are weather related shocks such as drought and famine and political related uncertainties due to the upcoming general election to be held later this year.

2.3. Structure of Kenya's Economy

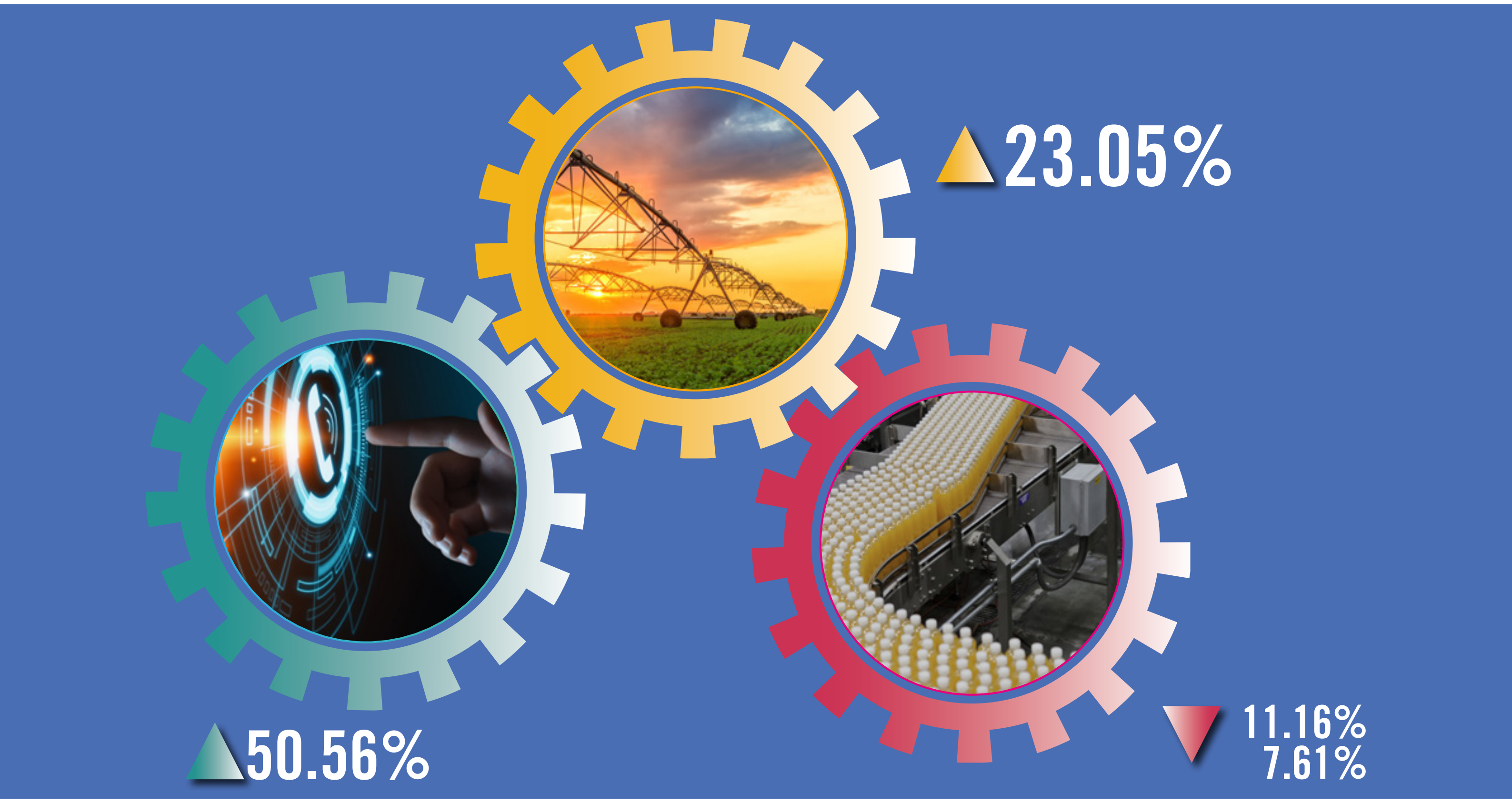
Kenya's economy continues to be dominated by the service sector with a 53.56% contribution to GDP as shown in Figure 2.2. It is worth noting that the share of agricultural output in the economy has been increasing from 17.57% in 2010 to 23.05% in 2020. The manufacturing sector GDP contribution was 11.16% in 2020 but declined to 7.61 % in 2020.

Figure 2.2: Sectoral contribution to GDP 2016-2020



Data source: World Bank's World Development Indicators (WDI)

The continued dominance of the services and agricultural sectors shows that Kenya has not followed the "normal" path of structural transformation followed by the industrialized and the newly industrialized economies. The "normal" pattern of structural transformation involves the movement of an economy from being agricultural dominated to manufacturing (industrialization) to services (deindustrialization).

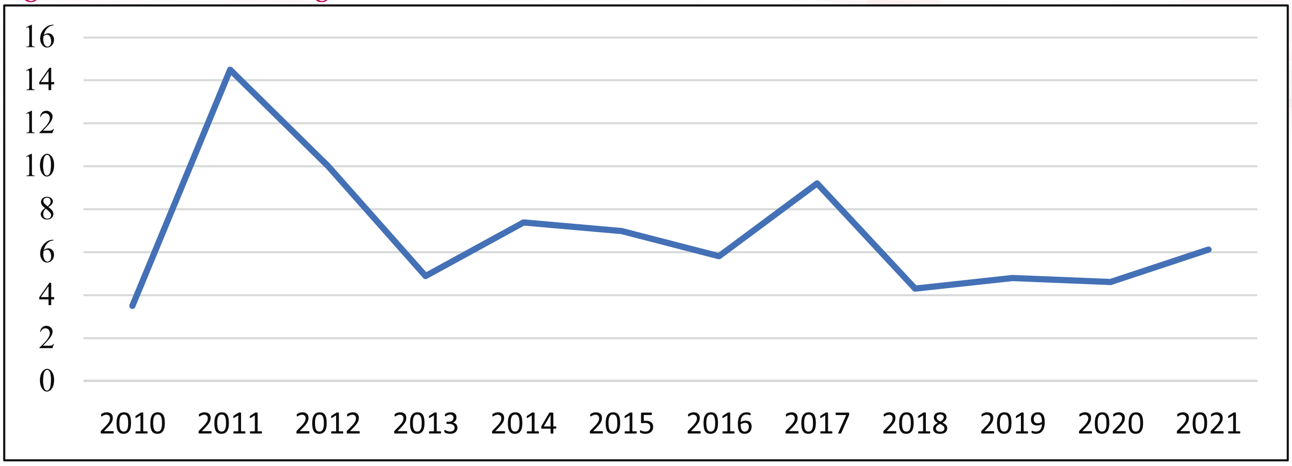


2.4. A highlight of key macroeconomic indicators

a) Inflation rate

The maintenance of a stable inflation rate regime was credited for the emergence of the East Asian growth miracle. As Figure 2.3 reveals, for the period under review, inflation rate has exhibited some cyclicality but has been relatively stable from 2018 to 2020 but started to increase in 2021.

Figure 2.3: Annual average inflation rate



Data source: Economic Surveys (various)

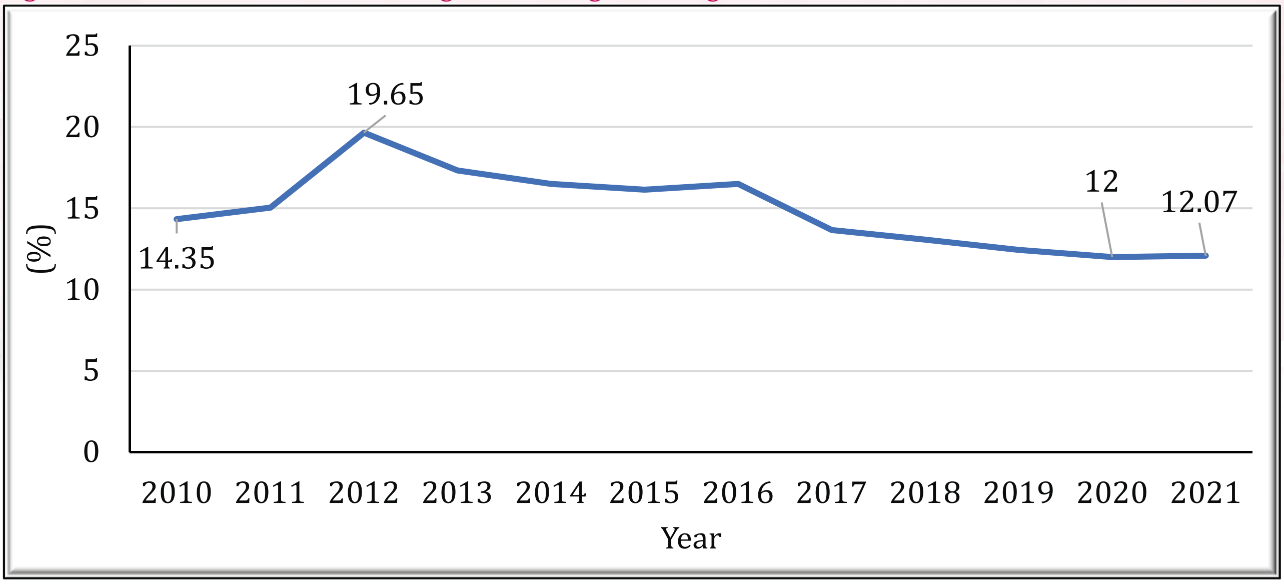
Note: 2021 data was averaged from KNBS's monthly CPI and inflation rates reports

There has been a generalized increase in inflation rates in many countries due to global supply-chain disruptions, release of pent-up demand and a resurgence in commodity prices (World Bank, 2021). This is due to the continued effects of the pandemic. Manufacturers in Kenya have reported a generalized increase in the cost of imported raw materials and intermediate inputs for processing due to global supply chain disruption and associated increase in sea freight costs. This has not been helped by the deprecation of the Kenyan Shilling against major international currencies. Kenya's inflation rate is usually driven by weather and external related shocks including drought and famine as well as domestic price increases driven by imported goods such as petroleum products.

b) Lending interest rates

For the period under review, lending interest rates by Commercial Banks has been on an annual decline apart from 2010 - 2012 when the weighted average lending interest rate increased from 14.35% in 2010 to 19.65% in 2012. Since April 2020, immediately after Kenya instituted lockdown measures to contain the spread of COVID-19, the Central Bank has maintained an accommodative monetary policy to support economic activity. Thus, the Monetary Policy Committee has maintained the Central Bank Rate (CBR) at 7% from April 2020 through to the end of 2021. This can possibly explain why the lending rate increased only marginally from 12% in 2020 to 12.07% in 2021.

Figure 2.4: Commercial Banks weighted average lending rate

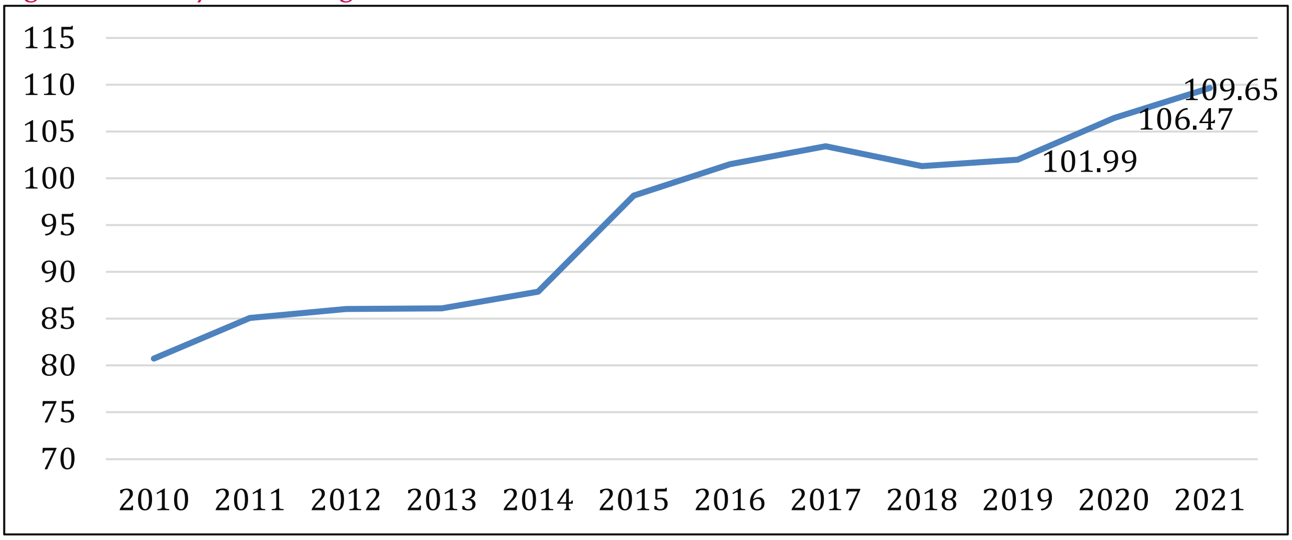


Data source: Central Bank of Kenya

c) Exchange rates

The Kenyan Shilling has been depreciating year-on-year as shown in Figure 2.5. The Shilling depreciated by about 7.51% against the US$ between 2019 and 2021. The stability of exchange rate regimes in the East Asian growth miracle countries was also credited for their rapid and sustained economic growth (World Bank, 1993).

Figure 2.5: Kenya's exchange rate versus the US$



Data source: Economic Surveys (various)

Note: *2021 was averaged using CBK data*

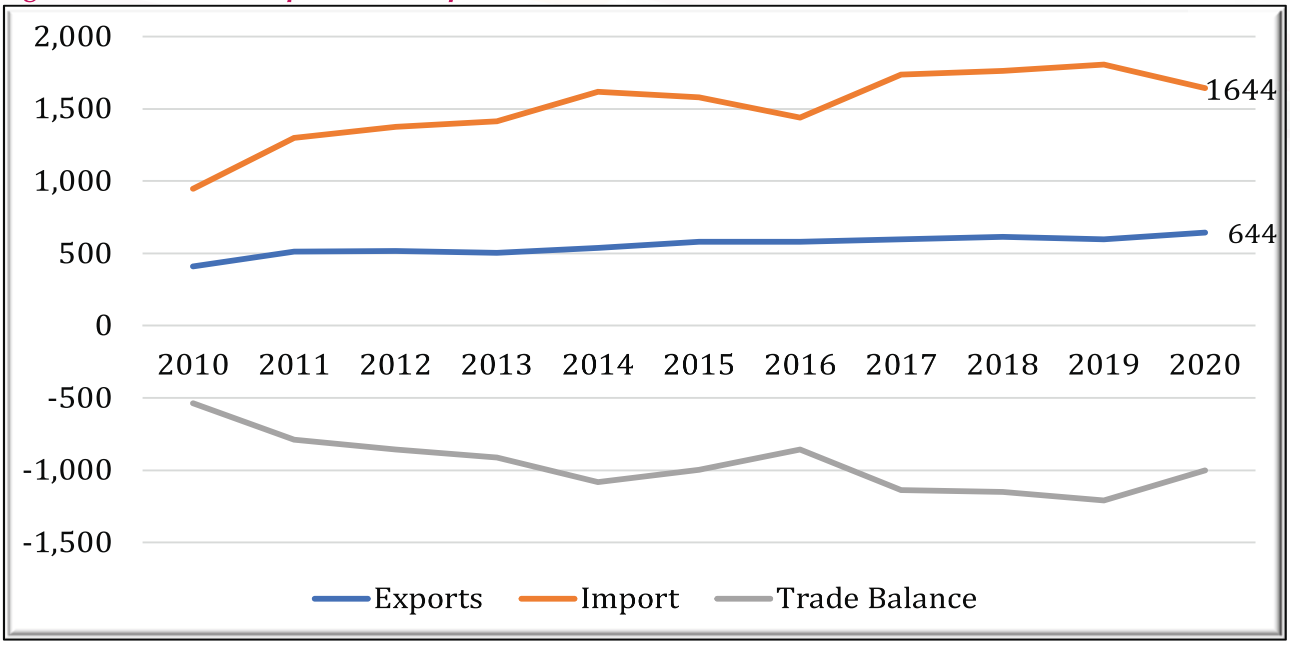
The continued depreciation of the Kenyan Shilling has an effect of increasing the cost of manufacturing in the country. This is because, the industry heavily relies on imported raw materials and intermediate inputs for processing and capital goods for investment. The country can benefit from a depreciating Shilling if there is a large tradable sector particularly manufactured goods.

2.5. Kenya's external trade

a) Trade balance

Kenya has registered negative trade balance for the 2010-2020 period and in 2020, the value of imports was about 2.6 times the value of exports (Figure 2.6).

Figure 2.6: Value of exports and imports and trade balance (Ksh. billion)



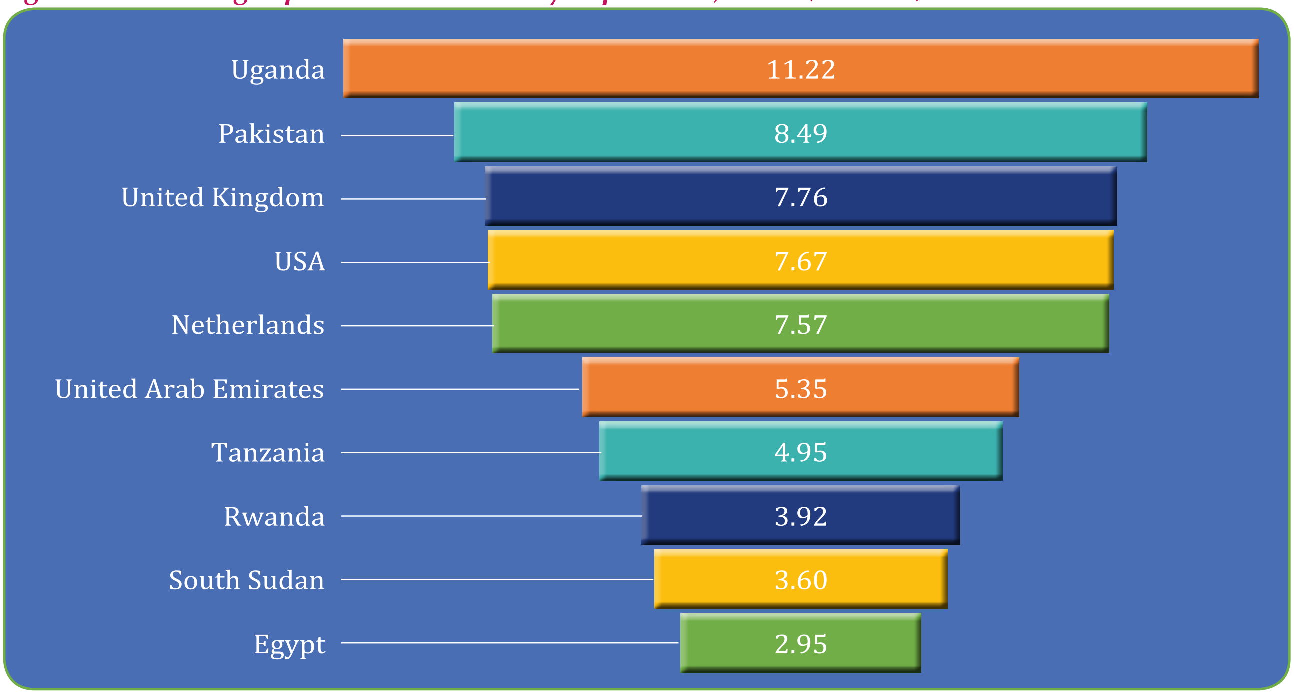
Data source: Economic Survey 2021

Kenya's manufacturing sector has the potential to support the country's efforts to increase the volume and value of exports. The East Asian miracle countries' remarkable growth was driven by export-led industrialization.

b) Leading export destinations

Four out of 10 leading export destinations are on the African continent, where exports to Uganda, Tanzania, Rwanda, and Egypt accounted for about 23.04% of total exports in 2020 (Figure 2.7).

Figure 2.7: Leading export markets for Kenyan products, 2020 (% share)



Data source: Economic Survey 2021

Africa is a major export destination for Kenyan exports. This is shown in Table 2.3 where exports to Africa, EAC and COMESA averaged 38.27%, 22.61% and 28.34% for period 2016.2020.

Table 2.3: Kenya's exports to Africa and regional economic blocs (% of total exports)

	2016	2017	2018	2019	2020	Average: 2016-2020
Exports to Africa	41.00	38.07	36.47	37.58	38.24	38.27
Exports to EAC	21.31	22.42	21.16	23.54	24.60	22.61
Exports to COMESA	29.70	28.33	26.23	27.52	29.90	28.34

Data source: Economic Survey 2021

Figure 2.7 and Table 2.3 serve as a proof of the importance of the African continent and associated regional economic blocs to Kenya in terms of exports.

The value of imports to Kenya declined marginally by 10% from Ksh 1,806.3 billion in 2019 to KSh. 1,643.6 billion in 2020 as shown in Table 2.2. Imports from EAC and COMESA regions represented 30.4 percent and 57.1 percent of total imports from Africa, respectively.

Table 2.4: Kenya's Imports to Africa (Ksh. Millions)- 2016-2020

	2016	2017	2018	2019	2020
Total Imports	1,438,805.9	1,736,472.1	1,764,471.5	1,806,334.6	1,643,560.1
Of- which Africa	147,293.6	211,394.2	210,197.8	234,197.6	185,278.2
% of all exports	10%	12%	12%	13%	11%
Of which (a) EAC	39,587.0	70,727.1	71,869.0	67,674.3	56,233.6
EAC as a % of total imports to Africa	26.2%	33.4%	34.2%	28.9%	30.4%
Of which COMESA	76,123.9	125,117.8	119,482.9	126,740.9	105,843.5
COMESA as a % of total exports to Africa.	51.2%	59.2%	56.9%	54.1%	57.1%

Source: KNBS Economic Survey 2021

c) Composition of Kenyan exports and imports

Food and Beverages constitutes the largest share of Kenyan exports, accounting for 46.4% value of exports in 2020, followed by industrial supplies at 23.78% (Table 2.4). The continued dominance of food and beverage exports was attributed to increased value of primary and processed Food and Beverage exports for industry and household consumption (KNBS, 2020). Industrial supplies (non-food) and machinery and other capital equipment constitute the largest share of imported goods in 2020 accounting for 38.88% and 16.96% of total imports, respectively. This serves to illustrate Kenya's dependence on imported inputs for processing and capital for investment. This demonstrates that exchange rate stability is crucial for the wellbeing of the manufacturing industry in Kenya.

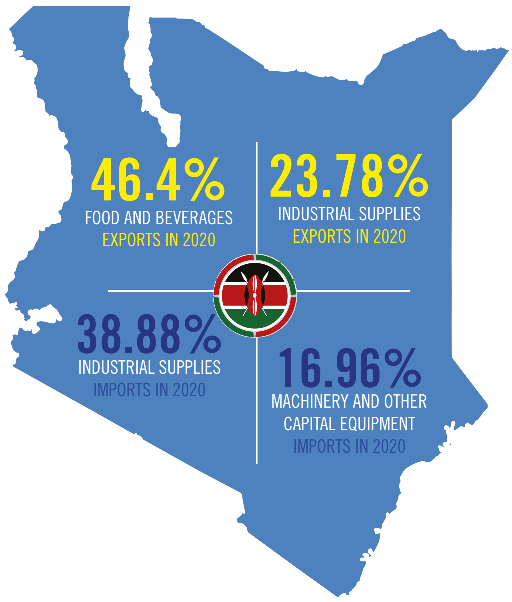


Table 2.5: Exports and imports by broad economic category (% share)

	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020*
	Exports					**Imports**				
Food and Beverage	45.6	47.95	47.66	44.22	46.40	8.28	14.40	9.98	10.34	10.73
Industrial Supplies (Non-food)	24.52	23.68	23.52	23.94	23.78	36.07	31.76	34.58	33.44	38.88
Fuel and lubricants	1.03	1.03	0.99	1.19	1.05	14.56	16.28	19.19	18.50	13.66
Machinery and other capital Equipment	2.61	1.34	1.25	1.93	1.68	21.69	17.90	16.47	17.97	16.96
Transport Equipment	1.15	0.84	1.12	1.22	0.88	10.25	11.37	10.72	10.55	9.95
Consumer Goods not elsewhere specified	25.58	25.15	25.45	27.49	26.21	8.86	8.00	8.43	8.66	9.56
Goods not elsewhere specified	0.02	0.00	0.00	0.00	0.0	0.30	0.30	0.64	0.54	0.26
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Economic Survey 2021

2.6. Kenya's public finance

a) Government revenue and external grants

Total government revenue rose from Ksh.1.73 trillion in 2019/20 to Ksh.1.78 trillion in 2020/21 as Table 2.4 shows. However, ordinary revenue to as a % of GDP declined from 15.4% in 2019/20 to 12.4% in 2020/21, against a target projection of 15.8% (GoK, 2020). The decline in ordinary revenue has been attributed to the effect of the COVID-19 pandemic.

Table 2.6: Government revenue, 2016/17-2020/21 (Ksh. Billion)

	2016/17	2017/18	2018/19	2019/20	2020/21
1. Ordinary Revenue	1,306,568	1,365,063	1,499,757	1,573,418	1,562,015
2. Appropriation in Aid	115,963	157,356	201,915	160,213	**221,732**
Total Revenue	1,422,531	1,522,419	1,701,672	1,733,631	1,783,747
External Grants	26,962	26,484	19,702	19,820	31,320
Total Revenue and External Grants	1,449,493	1,548,903	1,721,373	1,753,451	1,815,067
Ordinary Revenue (% of GDP)	**17.1**	**16**	**16.1**	**15.4**	**12.4**
Total Revenue and External grants	**18.9**	**18.2**	**18.5**	**17.2**	**16.1**

Source: Budget Review and Outlook Paper, various

b) Government expenditure

Total government expenditure rose from Ksh.2.56 trillion in 2019/20 to Ksh.2.79 trillion in 2020/21 as shown in Table 2.5. Recurrent expenditure accounted for 65.3% of total expenditure with operation and maintenance constituting the biggest share of recurrent expenditure at 39%. In the Financial Year 2020/21, wages and salaries, and interest payment made up 27% and 22% of recurrent expenditure, respectively. Development expenditure declined from Ksh.594.9 billion in 2019/20 to Ksh.553.9 billion in 2020/21, constituting 31% of total government expenditure. Transfers to County Governments increased to Ksh.399.0 billion in 2020/21 from Ksh.325.2 billion in 2019/20, constituting 22% of total government expenditure.

Table 2.7: Government expenditure, 2016/17- 2020/21(Ksh. Billion)

Expenditure item	2016/17	2017/18	2018/19	2019/20	2020/21
	2,120.0	2,146.7	2,433.7	2,565.4	2,749.5
Recurrent Expenditure	1,165. 0	1,349. 7	1,489.9	1,603.1	1,796.6
Recurrent expenditure as a % of total expenditure	55%	63%	62%	62%	65.3%
Wages and salaries as a % of total expenditure	29%	29%	28%	28%	27%
Interest payment as a % of total recurrent expenditure	23%	24%	25%	27%	22%
Pensions as a % of total recurrent expenditure	5%	5%	5%	6%	6%
Operations and maintenance as a % of total recurrent expenditure	42%	40%	39%	39%	31%
Development expenditure and net lending	639.9	469.7	534.9	594.9	553.9
Development expenditures as a % of total expenditure	30%	22%	23%	23%	31%
Transfer to County Governments	305.0	327.2	360.7	325.2	399.0
Transfer to Counties as a % of total expenditure	14%	15%	15%	13%	22%

Source: Various Budget Review and Outlook Paper

c) Fiscal deficit

Fiscal deficit as a % of GDP is often used as an indicator of a country's fiscal discipline. For the period under review, the lowest fiscal deficit as a % of GDP was recorded in the financial year 2018/19 at 6.8% and targets a fiscal deficit of 7.7% in 2021/22 (Table 2.6). After COVID-19 hit the world, majority of governments around the world instituted fiscal measures, including stimulus programs, to limit economic fallout. Consequently, fiscal deficits were likely to increase from the year 2020.

Table 2.8: Fiscal deficit inclusive of grants as a % of GDP

2016/17	2017/18	2018/19	2019/20	2020/21	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual	**Target**	**Actual**	**Target**	**Actual**	**Target**	**Actual**	**Target**	**Actual**	**Target**	**Target**
(8.9)	(10.9)	(6.8)	(7.2)	(7.7)	(7.6)	(8)	(9)	(8.6)	(9.4)	(7.7)

Data source: Budget Review and Outlook Paper (https://www.treasury.go.ke/budget-review-and-outlook-paper/)

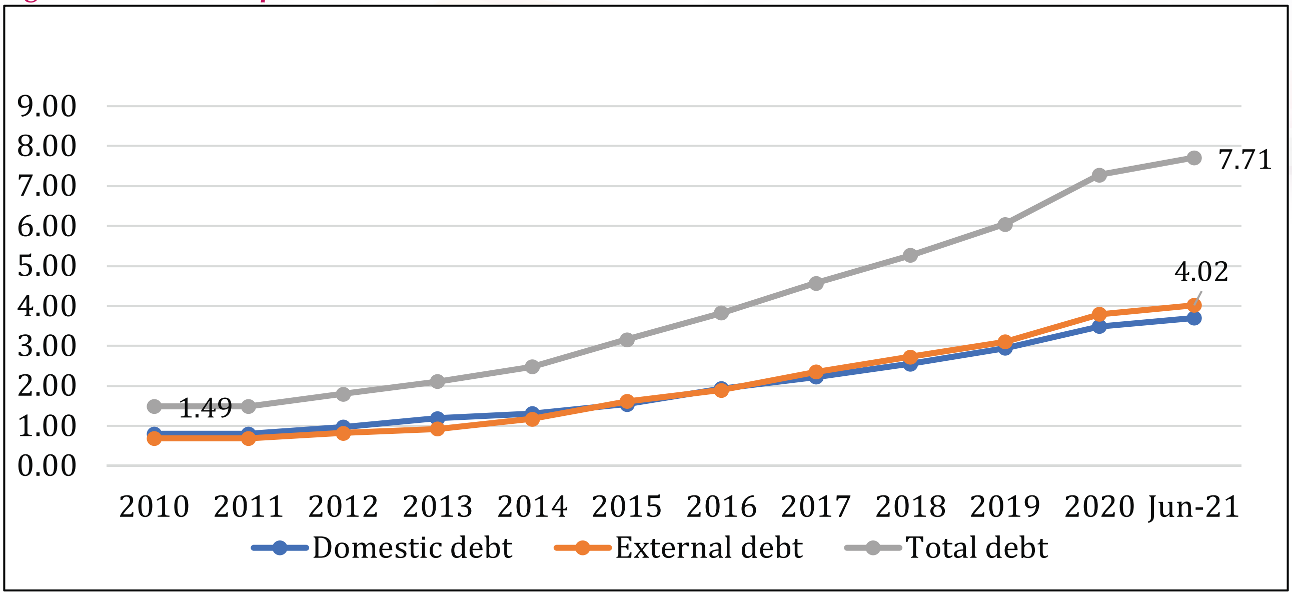
Large fiscal deficits have the potential to disrupt the general macroeconomic environment. For instance, if the deficit is financed through printing of money, it can be inflationary. It also has direct effect on the private sector. For example, where domestic borrowing by the government crowds out the private sector out of the domestic market or through increased tax burden as is currently the case. There is a growing trend of reduction of fiscal incentives (tax expenditures) to the private sector e.g., tax emptions or zero-rating of some products used by manufacturers to increase government tax revenue. The National Treasury estimates that tax expenditures in 2020 were about 2.96% of GDP and compares well with Africa's average of 2.9% of GDP. Tax expenditures related to VAT accounts for about 2.18% of GDP in 2020.[4] Reduction of fiscal incentives only serve to reduce the country's attractiveness to investments. The tax revenue base will necessarily be enhanced through increased investments.

4 https://www.treasury.go.ke/wp-content/uploads/2021/09/2021-Tax-Expenditure-Report.pdf.

d) Stock of public debt

There is a direct link between fiscal deficit and Kenya's stock of public debt has been on an upward trajectory from Ksh. 1.49 trillion in 2010 to Ksh. 7.71 trillion by June 2021 (Figure 2.8), representing a 417.45% growth.

Figure 2.8: Stock of public debt (Ksh. trillion)



Data source: Central Bank of Kenya (https://www.centralbank.go.ke/public-debt/)

From around 2017, external debt as a share of total debt has surpassed domestic borrowing. An implication of this is that it increases the country's risks associated with sudden foreign exchange deprecation as is currently the case (see Figure 2.5). Domestic currency deprecation increases both the stock of public debt and associated interest payment, worsening debt repayment burden. There are signs that Kenya is struggling with the debt. In 2021, Kenya applied to benefit from the Debt Service Suspension Initiative (DSSI) programme by G-20 countries to create fiscal space to deal with the effects of the pandemic. Estimated savings for Kenya between January-December 2021 was about Ksh. US$ 1,189.5 million.[5] According to World Bank (2021), "*For SSA countries that borrow internationally and are increasingly dependent on non-concessional loans (Comoros, Rwanda), the loss of access to external funding on favorable terms or a sharp increase in interest rates could lead to disruptive fiscal retrenchment, surging debt service costs, and debt distress*". Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF) has warned that if the US Federal Reserve Bank decides to increase interest rates to rein in inflation rate, this will have negative implications countries whose foreign debt is dollar-denominated.[6]

5 https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative#:~:text=The%20DSSI%20is%20helping%20countries,of%20the%20most%20vulnerable%20people.&text=In%20all%2C%2073%20countries%20are,to%20their%20official%20bilateral%20creditors..

6 https://www.cnbc.com/2022/01/21/imf-chief-fed-rate-hike-could-throw-cold-water-on-economic-recovery.html.

2.7. Access and distribution of domestic credit

The amount of credit advanced by the banking system rose from Ksh. 3.6 trillion in 2019 to Ksh. 4.3 trillion in 2020 (Table 2.7. In 2020, credit advanced to the private sector accounted for 67% of the total domestic credit while credit to the central government accounted for 31.29%. Central government borrowing from the domestic credit market has increased from 19.56% of total credit in 2016 to 31.29% in 2020. This has the effect of crowding out effect on the private sector in Kenya.

Table 2.9: Distribution of domestic credit (Ksh. million)

	2016	2017	2018	2019	2020
Domestic credit (total)	**2,973,172.0**	**3,279,317.4**	**3,450,151.0**	**3,660,541.0**	**4,340,942.0**
Central Government	581,649	748,726	859,113	900,383	1,358,397
Central government as % total	*19.56*	*22.83*	*24.90*	*24.60*	*31.29*
Other public sector	104,719	112,399	100,950	92,284	91,204
Private sector	2,347,098	2,418,192	2,490,088	2,667,874	2,891,342

Data Source: Economic Survey 2021

2.8. Non-performing loans

Gross non-performing loans (NPLs) were Ksh.335.9 billion, representing approximately 15% of the gross loan advanced by end of December 2020 as shown in Table 2.8. Trade, personal and household and real estate sectors accounted for the highest proportion of gross NPLs at 23.3, 16.10 and 15.70, respectively. This was mainly because of COVID-19 pandemic.

Table 2.10: Sectoral contribution of gross non-performing loans in December 2020 (Ksh. Millions)

Economic Sector	Gross Loans	Gross NPLs	% of total gross NPLs
Agriculture	108,053	23,286	5.34
Manufacturing	416,845	66,626	15.28
Building and construction	117,426	28,492	6.53
Mining and quarrying	21,902	2,993	0.69
Energy and water	112,172	12,876	2.95
Trade	517,729	101,884	23.36
Tourism restaurant and Hotels	103,181	16,079	3.68
Transport and communication	223,884	38,178	8.76
Real Estate	444,705	68,448	15.70
Financial Services	96,608	7,007	1.61
Personal and Household	843,599	70,198	16.10
TOTAL	**3,006,104**	**436,067**	**100**

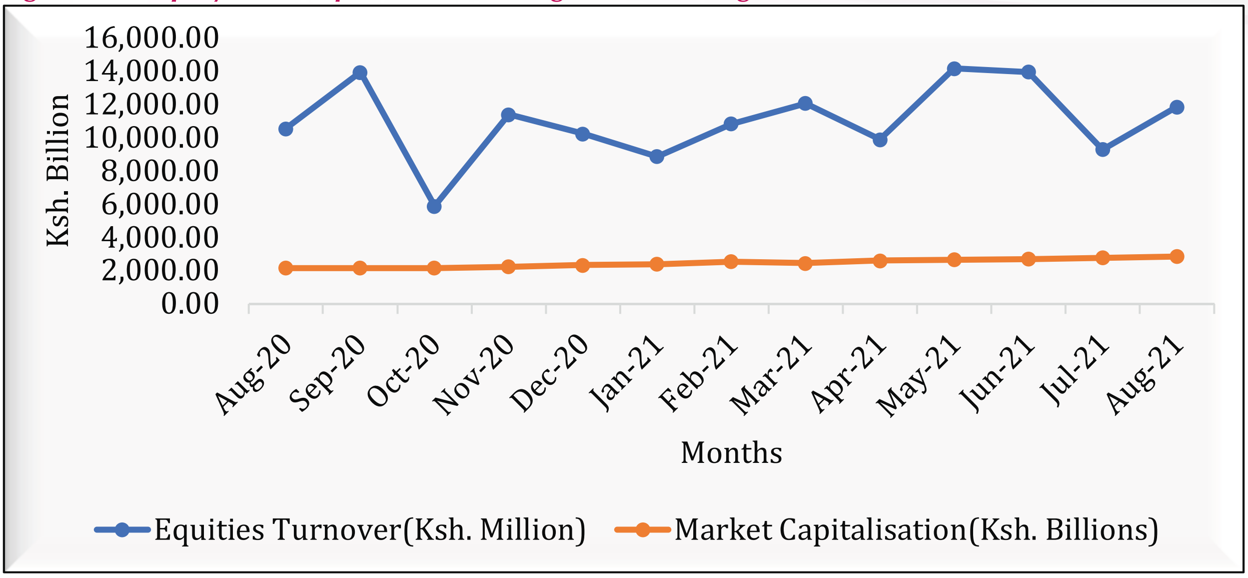
Source; Central Bank Report[7]

7 https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/468154612_2020%20Annual%20Report.pdf.

2.9 Performance in the Nairobi Securities Exchange

From August 2020 to August 2021, the Nairobi Securities Exchange (NSE) market recorded an increase in performance with both the market capitalization and equities turnover exhibiting a general upward trend as shown in Figure 2.9. Equities turnover increased from Ksh. 8851.56 million in January 2021 to Ksh. 11,854.12 million in August 2021. The NSE Market Capitalization increased from Ksh. 2,390.29 billion on January 2021 to Ksh. 2,841.40 billion in August 2021. NSE's performance is used as a barometer to gauge the general economic performance. GDP growth and performance of the stock market should move in the same direction.

Figure 2.9: Equity Market performance, August 2020 - August 2021



Data source: CBK[8]

8 https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/468154612_2020%20Annual%20Report.pdf

CHAPTER THREE

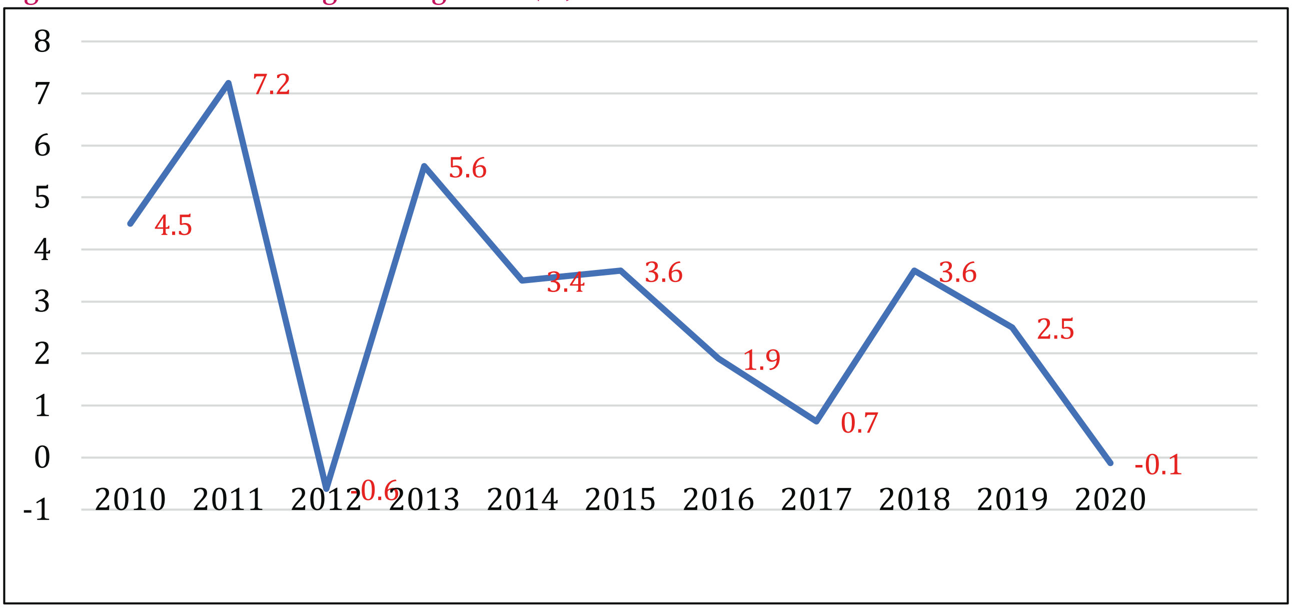
3

AN OVERVIEW OF THE MANUFACTURING SECTOR IN KENYA

3.1 Growth of the manufacturing sector

Manufacturing growth for the period under review can be said to be erratic as shown in Figure 3.1. Over the period, lowest manufacturing growth rates were registered in 2012 and 2020 at 0.6% and -0.1%, respectively. Negative growth rate in 2020 was due to the impact of COVID-19 pandemic (Economic Survey, 2021).

Figure 3.1: Manufacturing sector growth (%)

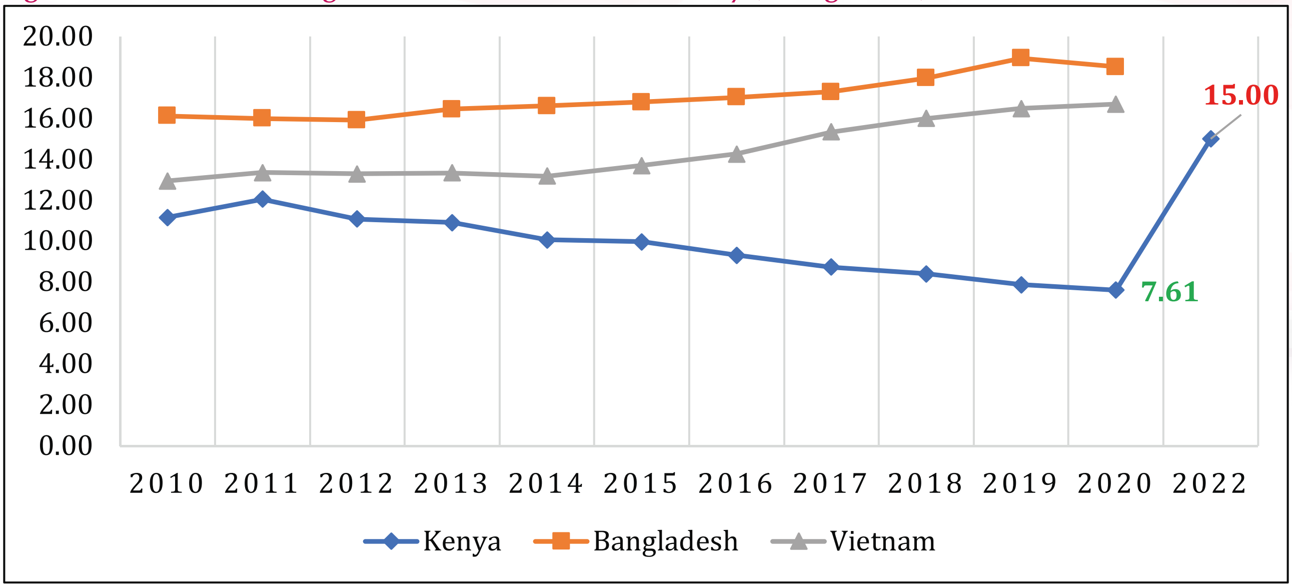


Data source: Economic Survey, various

3.2. Manufacturing sector GDP contribution

Kenya's manufacturing GDP contribution has been on a steady decline from 12.05 recorded in 2011 to 7.61% in 2020 (Figure 3.2). It will require massive growth for the manufacturing sector's GDP contribution to reach 15% as desired under the Big Four Agenda. As Figure 3.2 illustrates, Bangladesh and Vietnam which are also developing countries like Kenya have been able to realize steady rise in GDP contribution of their manufacturing sectors in a period characterized by hyper-globalization.

Figure 3.2: Manufacturing GDP contribution (%) for Kenya, Bangladesh, and Vietnam



Data source: World Development Indicators (WDI)

Bangladesh has been hugely successful in producing ready-made garments (RMG) and is currently the second largest exporter of RMG after China (Rodrik, 2021). RMG in Bangladesh accounts for about 84% of total exports.[9] In Vietnam, the manufacturing sector is dependent on the production of smartphones. It is estimated that one in 10 smartphones is produced in Vietnam (Eckardt, Mishra, and Dinh, 2018). Smartphones are the leading export commodity in Vietnam and generated export earnings of more than US$45 billion in 2017 (Eckardt, Mishra, and Dinh, 2018). Even through both Bangladesh and Vietnam have governance challenges and their manufacturing sector can be said to be driven by one engine, they serve to illustrate that countries can defy deindustrialization in a globalized world with intense competition.

3.3 Contribution to exports

Manufacturing sector growth in developing countries is constrained by a small domestic market, which they can overcome through exports. Table 3.1 shows Kenya lags in the export of manufactured goods as a share of total merchandise exports. In 2020, Kenya's share of manufactured exports in total was only 27.92%. This figure stood at 86.43% for Vietnam. This serves to illustrate that Kenya's exports are dominated by primary and resource-based manufacturers. Increased export of manufactured goods is one of the reasons for the rise of the East Asian growth miracle (World Bank, 1993).

Table 3.1: Manufactures exports (% of merchandise exports)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Kenya	33.94	-	-	36.27	-	31.49	31.48	28.29	28.43	30.77	27.92
Bangladesh	91.69	92.79	92.80	93.54	-	95.81	-	-	-	-	-
Vietnam	63.99	64.22	68.62	73.85	75.54	80.65	82.17	82.54	83.19	84.52	86.43

Data source: WDI

3.4. Manufacturing output

Value of output and intermediate consumption by the manufacturing sector grew by 3% in both cases in 2020, while value added increased by 1% as shown in Table 3.2. Output increased from Ksh. 2.3 trillion in 2019 to Ksh. 2.4 trillion in 2020 while the value of intermediate consumption increased from Ksh. 1.5 trillion to Ksh. 1.6 trillion.

9 https://www.mckinsey.com/industries/retail/our-insights/whats-next-for-bangladeshs-garment-industry-after-a-decade-of-growth.

Table 3.2: Value of output, intermediate consumption, and value added (Ksh. Million)

	2016	2017	2018	2019	2020	% Change 2019-2020
Value of Output	2,003,566	2,109,602	2,216,547	2,309,175	2,374,234	3%
Intermediate consumption	1,295,686	1,368,227	1,431,178	1,501,360	1,555,880	4%
Value added	770,880	741,376	785,369	807,814	818,353	1%

Source: Economic Survey, 2021

3.5 Contribution to employment

The manufacturing sector created 293.8 thousand formal jobs in the private sector in 2020 compared to 329 thousand jobs in 2019. The public sector had a decline from 24.3 thousand jobs to 23.1 thousand comparing 2020 and 2019. The total formal wage earnings in 2019 were Ksh. 174 billion and Ksh. 24 billion in private and public manufacturing sectors, respectively. This figure declined in the private sector in 2020.

Table 3.3: Wage employment and earnings in manufacturing sector, 2016-2020

	Sector	2016	2017	2018	2019	2020	% Change 2019-2020
Formal Wage Employment '000	Private	315.1	317.5	321.3	329.0	293.8	-10.7%
	Public	26.5	26.4	26.6	24.3	23.1	-4.9%
Formal Wage Earnings employment (Ksh. Millions)	Private	125,454.7	139,106.8	154,247.0	174,362.8	164,380	0.05%
	Public	23,339.5	23,325.0	24,344.6	24,423.1	24,779.3	1%
Form/average annual wage per person (Ksh)	Private	395,007.8	438,168.1	480,058.2	529,912.1	558,307.6	5%
	Public	881,901.1	882,017.9	915,622.5	1,004,156.6	1,073,626.7	7%
Informal Employment' 000		2,596.2	2,728.9	2,878.8	3,044.9	2,933.9	-4%

Source: Economic Survey, 2021

3.6 Credit to manufacturing sector

A total of Ksh. 366.9 billion credit was advanced to manufacturing ventures in 2019 compared to an increase to Ksh. 409.1 billion in 2020 as shown in Table 3.4. Commercial banks accounted for 99.73% of total loans advanced to the manufacturing sector in 2020 with industrial financial institutions contributing only 0.27%.

Table 3.4: Credit advanced by commercial banks and industrial financial institutions (Ksh. million)

	2016	2017	2018	2019	2020
Industrial Development Bank Capital LTD	129.8	200.1	551.8	330.0	85.5
Development Bank of Kenya	292.3	130.5	230	94	100.9
Kenya Industrial Estates (KIE)	165.3	181.0	243.7	602.7	809.0
Industrial and Commercial Development Corporation	495.6	791.0	315.0	640.0	100.9
Subtotal	1,083	1,302.6	1,340.5	1,666.7	1,096.3
All other Commercial Banks	274,726	314,046	334,388	365,257	409,192
Total	**275,809**	**315,348**	**335,729**	**366,924**	**410,288**
Credit advanced by industrial financial institutions (% total)	0.39%	0.41%	0.40%	0.27%	0.27%
Credit advanced by Commercial Banks (% total)	99.61%	99.59%	99.60%	99.73%	99.73%

Data source: Economic Survey, 2021

Manufacturing projects that were approved for funding by industrial finance institutions declined from 395 in 2019 to 320 in 2020 as shown in Table 3.5. The decrease is because loans advanced in 2020 went into the expansion of existing projects (Economic Survey, 2021).

Table 3.5: Number of manufacturing projects approved by industrial financial institutions

Institution	2016	2017	2018	2019	2020
Industrial Development Bank Capital Ltd	3	3	8	8	6
Development Bank of Ltd	6	3	3	1	3
Kenya Industrial Estates Ltd	325	280	225	380	308
Industrial and Commercial Development Corporation	4	7	4	6	3
Total	**338**	**293**	**240**	**395**	**320**

Data source: Economic Survey, 2021

3.7 Performance of the Export Processing Zones

The number of operating enterprises in Export Processing Zones (EPZ) increased by one to 138 in 2020 as shown in Table 3.6. The number of employees in EPZs declined from 61,055 in 2019 to 56,387 in 2020. This is even though capital investment increased from Ksh. 107,877 million in 2019 to Ksh. 114,727 in 2020. According to the Economic Survey (2020), this was due to the measures imposed to contain the spread of COVID-19 as the majority are employed in apparel and garment enterprises. This could be due to the additional investment that was made in 2020. The value of exports rose to Ksh. 73.7 billion in 2020 from Ksh. 68.6 billion in 2019. On the other hand, imports by EPZ enterprises declined to Ksh. 36.85 billion in 2020 compared to Ksh. 39.6 billion in 2019.

Table 3.6: Selected EPZ performance indicators, 2016-2019

	2016	2017	2018	2019	2020
Number of Enterprises	111	131	136	137	138
Number of Employees	53,565	55,486	57,743	61,055	56,387
Capital Investment (Ksh. Million)	88,977	95,278	105,066	107,877	114,727
Exports (Ksh. Million)	64,151	60,729	72,390	68,572	73,795
Imports (Ksh. Million)	30,160	30,305	34,229	39,840	36,847

Source: Economic Survey, 2021

3.8. Exports under the African Growth and Opportunity Act

Kenya mainly exports articles of apparel through the African Growth and Opportunity Act (AGOA) non-reciprocal trade regime. Exports to the US reduced by 8.3% in 2020 due to shortage of imported raw materials and lockdown in the US (Economic Survey, 2021). However, capital investments grew by 5.8% in 2020 from Ksh. 18.07 billion in 2019 to Ksh. 19.11 billion in 2020.

Table 3.7: Selected EPZ Garment / Apparel Performance Indicators under AGOA

	2016	2017	2018	2019	2020	% change
Number of Enterprises	21	21	22	24	28	16.7
Number of Employees	42,496	43,987	46,248	49,489	45,205	-8.7
Capital Investment (Ksh. million	15,300	15,880	16,146	18,065	19,108	5.8
Exports (Ksh. Million)	34,410	33,051	41,578	46,066	42,254	-8.3

Source: Economic Survey, 2021

CHAPTER FOUR

4

PILLARS TO SUPPORT MANUFACTURING SECTOR'S GROWTH DURING UNCERTAINTIES FOR SHARED PROSPERITY

4.1. Pillar One: Competitiveness and level playing field

There are many definitions of the term competitiveness. According to the World Economic Forum, competitiveness refers to "the set of institutions, policies and factors that determine the level of productivity of a country".[10] According to the African Development Bank (AfDB), Africa must take urgent action to address stagnating levels of competitiveness if 450 million jobs in the next 20 years are to be created for the youths. Policy reforms should be directed at improving the quality of institutions, infrastructure, skills, and adoption of new technology.[11]

a) Agenda one: Improving regulatory efficiency

Legal, regulatory, and institutional frameworks are important determinants of a country's level of competitiveness. Whilst effective regulation is important for the proper functioning of businesses, especially where there are many micro, small or medium-size enterprises (MSMEs), regulations can become burdensome and hinder enterprise growth. Regulations become disruptive when they are numerous, which in turn increases the cost of compliance. Additionally, they are difficult to administer and to comply with, particularly when similar regulations are administered by more than one agency. Some of these include water and sewerage services; effluent discharge; taxes charged on movement of goods, and levies at the national and county levels, dust measurements, noise survey and air receiver; and occupational and health certifications, among others.

In addition to several regulatory agencies, there is duplication of roles and mandates of the implementing institutions, leading to numerous visits to enterprises by public officials from these institutions. At times, this discourages firms from complying with the same, providing an avenue for extortion of bribes by public officials. A review and alignment of overlapping mandates and roles will reduce the cost of doing business for the manufacturing sector by 28.9%. Some of the actions that can be instituted to improve regulatory efficiency include the following:

i) Realignment of existing fees, charges and levies imposed by various government agencies and regulatory bodies.
ii) National Government agencies and County Governments create sharing platforms to facilitate compliance and reduce costs for businesses.

b) Agenda two: Promote access to quality, affordable and reliable energy for manufacturing

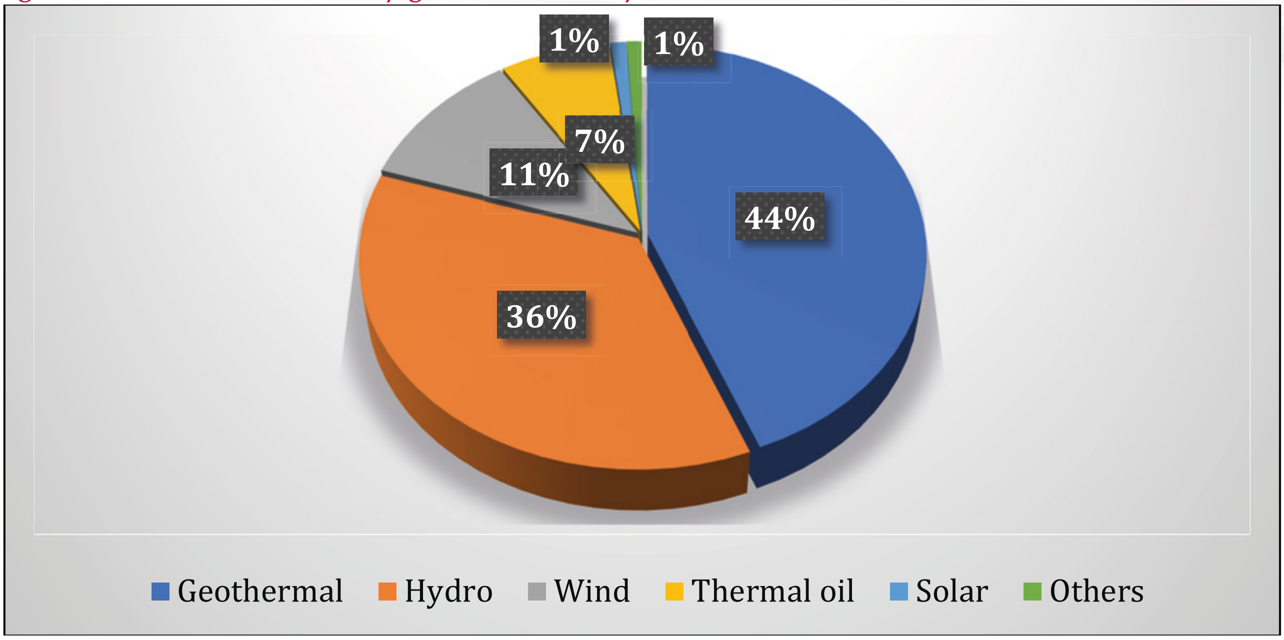
Energy is a key enabler of the achievement of the country's development goals as envisioned under Vision 2030. Electricity is one of the main inputs in the manufacturing process with sectors such as metal and cement manufacturers being the highest consumers of electricity. It is estimated that in the Metal Sector, electricity accounts for 40-50% of total conversion cost (KAM, 2018). Almost all manufacturers have back-up generators indicating that outage of electricity and therefore reliability is of great concern.

10 https://www.weforum.org/agenda/2016/09/what-is-competitiveness/.

11 https://www.afdb.org/en/knowledge/publications/africa-competitiveness-report.

On the supply side, the Government has made tremendous improvement in the generation of electricity for the last few years. According to the Economic Survey 2021, effective installed capacity by end of 2020 was about 2,705.3MW. Kenya is now among the few countries in the world that have successfully diversified electricity mix in favour of renewable sources. Currently, 44%, 36% and 11% of electricity generated is from geothermal, hydro-electric, and wind sources, respectively (Figure 4.1). Over time, Kenya has managed to produce more electricity than it consumes, even at peak demand. The law of demand would dictate that when the supply is higher than demand, the price should decrease to restore equilibrium, but this is not the case in the electricity market.

Figure 4.1: Source of electricity generated in Kenya, 2020



Data Source: Economic Survey, 2021

There following are three main reasons for the high prices of electricity tariffs in Kenya:

- There have been historical issues made by the government through over-commitments made in Power Purchase Agreements (PPAs). In a bid to secure adequate power supply, the government signed several PPAs and locked in prices to be paid out to these providers between 20-30 years. The government locked in agreements with multiple Independent Power Producers (IPPs) who now have more infrastructure with increased capacity and can produce more power than is required. Due to the over commitments, these firms operate at reduced capacity with some less than 10% utilization.
- Contracts signed between Kenya Power and thermal independent power producers (IPPs) provide for compensation of fuel used in operations. In 2017, Kenya Power paid Ksh. 22.1 billion for fuel costs, or 28% of its power purchase costs of Ksh. 78.9 billion, while foreign exchange costs, the cover for exchange rate fluctuations added 7.8 %. This cost is passed on to consumers hence ever-increasing cost of power, increase in global oil prices notwithstanding.
- Electricity lost has increased by 28% from 1507 GWh in 2013 to 1933 GWh in 2017 (Economic Survey, 2018). Electricity is lost through distribution and theft of power as well as through transmission. In essence, due to inefficiencies, lost electricity cost is passed on to consumers, thus contributing to the increased cost of power.

The role of PPAs in the cost of electricity had caught the President's attention, and in March 2021, a Presidential Task Force on the Review of Power Purchase Agreements was constituted. This was in response to calls from Kenyans to address concerns on the high cost of electricity for both individual consumers and enterprises. The Taskforce issued its findings to the President in September 2021. Some of the recommendations made by the taskforce includes:

- Review and renegotiation with Independent Power Producers (IPPs) to secure immediate reduction in Power Purchase Agreements (PPA) tariffs within existing contractual arrangements.
- Cancellation with immediate effect of all unconcluded negotiations of Power Purchase Agreements and ensure future PPAs are aligned to the Least Cost Power Development Plan (LCPDP).
- Fast-track and deepen the ongoing reforms at Kenya Power to restructure it into a commercial entity that is both profitable and capable of delivering efficient and cost-effective electricity supply to all consumers.
- Kenya Power to take the lead in formulation and related PPA procurement of the Least Cost Power Development Plan (LCPDP).
- Kenya Power to institute Due Diligence and Contract Management frameworks for PPA procurement and monitoring along the lines of the drafts provided by the Taskforce.
- Kenya Power to institute one and five-year rolling demand and generation forecasts and associated models.
- Kenya Power to adopt standard PPAs and proposed Government Letters of Support (LOS) along the lines of the drafts provided by the Taskforce.
- Kenya Power to undertake a forensic audit on the procurement and system losses arising from the use of Heavy Fuel Oils (HFOs).
- In line with the constitutional imperative for transparency in the public sector, Kenya Power's annual reports should include the names and beneficial ownerships of all IPPs with which it has contractual arrangements.
- Overall, the Taskforce proposed a 33% electricity cost reduction within a period of four months.[12] The President committed to a 30% electricity cost reduction to be implemented in two phases of 15% reduction each. First phase 15% reduction was implemented in January 2022.

To promote access to quality, affordable and reliable energy for manufacturing, the following actions also need to be considered:

i) Implementation of recommendations contained in the Presidential Taskforce Report on electricity costs.
ii) Consumers should pay the globally competitive cost of power by ensuring that any issues and inefficiencies made by government are resolved in a manner that does not impact on the price of electricity. This also entails managing Kenya Power (KP) in a way that system losses are reduced marginally from current average of 25%.
iii) Fast track finalization of regulations for Energy Act 2019, which seeks to resolve energy related issues in the country such as monopoly of distribution and allowed 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) Review pre-conditions for Time of Use Tariff to cover all night consumption and lock in the rate for each facility.
vi) Retirement of kerosene fired power generation plants operated by KenGen in Muhoroni from the system so that the impact of the 400kV line from Naivasha to Lessos and 220kV line to Kisumu that has been completed and commissioned can be felt.
vii) Extension of government subsidy of petrol and diesel from motorists to electricity producers to cushion them from the escalating global prices of crude oil which currently reflects on the electricity cost in Kenya.

12 https://www.president.go.ke/2021/09/29/report-of-the-presidential-taskforce-on-review-of-power-purchase-agreements/.

c) Agenda three: Reduce transport and logistics costs

Logistics is a critical element of the competitiveness and economic performance of countries within the context of increasing globalization. This is even more pronounced among countries of the world following the impact of COVID-19. The global supply chain disruptions have led to number of countries, including those in Africa to re calibrate their logistics nodes to create efficiency. As developed nations shift from traditional manufacturing and agriculture and become increasingly involved in international vertical specialization, the need for efficient logistics services has become increasingly important.

Most African countries are currently focusing on strategies to increase trade and enhance economic integration especially under the African Continental Free Trade Area (AfCFTA) market liberations that seeks to cumulatively open market for over 1.2billion people in Africa. Efficient transport and logistics supply chain will be the catalyst towards realization of the African's countries aspirations under AfCFTA framework.

A logistics framework includes hardware, which is the physical infrastructure needed to move goods effectively, and software, which is the associated services and processes needed to move and trade goods effectively. Specific quantitative and qualitative indicators of logistics performance in terms of the cost, time, and complexity of executing trade transactions. The government of Kenya made great efforts to improve hard infrastructure which if complemented with continuous soft infrastructure improvement such as efficient support systems and effective coordination among supply chain actors, this is has the potential to turnaround the Kenya's logistical landscape into a world class.

Manufacturers and other importers at large face several logistical challenges in terms of cost, time, and complexity. The cost of transport in Kenya is relatively high compared to other countries on the African continent. According to Kenya Transport Association (KTA), road transport freight rates from Mombasa to Nairobi and other parts of the country increased from 1.67 Tariff Per Container/Km in USD in 2018 to 1.77 in 2020. This increase has been attributed to supply chain disruptions caused by the pandemic. Whilst the Standard Gauge Railway (SGR) rates are competitive compared to road transport rates, inefficiency within the SGR supply chain makes it less attractive and even more expensive compared to road transport. Some of the SGR related challenges include delayed transfer of containers from Mombasa to Nairobi Inland Container Depot (ICDN), high dwell time on account of poor coordination among Government Agencies that intervene during the clearance of cargo. This is compounded by high storage charges by Kenya Ports Authority (KPA), custom warehouse rents by the Kenya Revenue Authority (KRA) and demurrage to shipping lines. There are also cases of erroneous railage of containers meant for Mombasa based industries and lengthy repatriation process. All these lead to unpredictable business environment for industries and ultimately high cost of doing business. The Naivasha Inland Container Depot was also finalized and launched in 2019. However, operations have been slow to date due similar challenges that importers continue in ICDN.

The Authorized Economic Operator (AEO) program introduced by KRA in 2006 has since attracted approximately 125 players from the entire logistics supply chain. The slow uptake among importers has been attributed to lack of mutual recognition of the AEO program by Government agencies that handle containers. Other challenges include lengthy processes and requirements for approval- benefits are not commensurate to the application cost and stringent requirements by KRA.

To achieve an efficient and cost-effective logistic supply in Kenya for the benefit of domestic and cross-border trade, it is critical that the following actions are undertaken:

i) Sustain an efficient and seamless movement of containers at the ports by enhancing existing collaborative and coordination frameworks with port stakeholders.
ii) Establishment of a framework between manufacturers and Kenya Railways for competitive rates for enhanced transport of inputs and finished goods.
iii) Review KPA's 4-day free clearance period to 6 days in line with the average dwell time to reduce thes cost of clearance.
iv) Prioritize construction of meter gauge railway (MGR) and SGR sidings in industrial areas as well as rehabilitation of railway lines in industrial areas to enhance last mile connectivity and 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 framework between roads agencies and County Governments to enhance industrial road upgrading and maintenance.
vii) Establishment of a framework with EAC Partner States for mutual recognition of the COVID-19 certificate.

d) Agenda Four: Sustain the fight against illicit trade

KAM has been consistent in advocating for the fight against counterfeit products that compete unfavourably with local manufacturers' high quality goods. Our advocacy dates back to 2000 when manufacturers voiced concerns due to the loss of market share caused by imitation of their products. The counterfeit goods were not only infringing on their intellectual property rights (granted through trademarks and patents registration) but also eroding the reputation of their products and companies at large, which have been cultivated over time through continuous research and development.

To date, KAM has achieved several milestones in sustaining the fight against illicit trade, not only within the Kenyan borders but also across the East African Region. While the advocacy strategies have worked well within Kenya, there is still a long way to go in influencing and advocating for the harmonization of the intellectual property rights within the EAC region for purposes of protection and enforcement against intellectual property rights (IPR) infringement within the region. This is based on key recommendations from a KAM baseline study conducted in 2017 to establish facts about the "Intellectual Property Rights Regime within the EAC." Through the EAC Manufacturers Network, KAM has been championing this agenda and seeking support from equivalent Business Membership Organizations within the EAC region.

We continue to call for enhanced inter-agency collaboration, co-ordination, accountability, and transparency among Ministries, Departments, and Agencies involved in the fight against illicit trade, to achieve our goal. However, the various enforcement agencies need to be coordinated from a centralized point for effective delivery. We urge Anti-Counterfeit Authority (ACA) to take the lead in the enforcement and coordination of the fight against all forms of illicit trade in Kenya.

ACA's effectiveness depends on its internal stability which has been affected by the proposed merger between the Anti-Counterfeit Authority, Kenya Copyright Board (KECOBO) and the Kenya Industrial Property Institute (KIPI) to form the proposed Kenya Intellectual Property Institute (KIPO). This was proposed in 2013 by the Presidential Taskforce Report on Parastatal reforms. It is critical that this is expeditiously concluded to allow continued and effective service delivery.

The following actions can support sustained fight against illicit trade:
i) Advocate for/and harmonize intellectual property rights within the EAC Region for purposes of protection and enforcement against IPR infringement within the region.
ii) Enhance inter agency collaboration, co-ordination, accountability, and transparency in the enforcement against illicit trade.
iii) Advocate for the enhancement of ACA's role in the coordination of the fight against illicit trade with other agencies (multi-agency approach).
iv) Fast track the merger between ACA, KIPI and KECOBO to form the proposed Kenya Intellectual Property Office (KIPO).

e) Agenda five: Address multiple county charges, fees, and levies

Kenya's main objective of adopting a devolved system of Government was to bring services closer to the people and enhance development through friendly legislation and policies. 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 the services would be closer to the people. However, manufacturers and traders are confronted with multiple taxes, fees, levies, and charges while traversing counties in Kenya. Devolution increased the cost of doing business, as county levies and charges are responsible for 45.8% of all charges. They are made to pay identical charges and levies in each County or in other situations make payments to the National and County Governments for concurrent services or no services at all in some instances. This multiplicity is affecting intra-County and inter-County trade in Kenya as identified in the KAM Regulatory Audit Survey, 2020.

Formulation of the Tariffs and Pricing Policy and supporting legislation to guide predictable imposition of levies, fees and charges is a legal requirement under section 120 of the County Governments Act, 2012. It is one of the key revenue laws counties are expected to develop, however, no county has developed one to date. The purpose of the Tariffs and Pricing Policy and Bill is to ensure predictability in review of charges and uniformity along the various cadres of taxpayers. However, as the policy does not exist, it has resulted in medium and large-scale industries incurring additional charges as if they were in the same tax bracket.

In 2016, the National Treasury working with the Commission on Revenue Allocation (CRA) and the World Bank developed the National Policy on County Governments Own Source Revenue, 2016 and the County Government (Tax Regulation) (Draft) Bill, 2016. The intention of this policy framework was primarily to regulate the process followed by County governments in the exercise of their constitutional powers and mandate as outlined below:

- Articles 209 (5) states "The taxation and other revenue-raising powers of a county shall not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour"; and
- Article 210 (1) states, "No tax or licensing fee may be imposed, waived or varied except as provided by legislation."

A key provision of the County Own Source Revenue Raising (COSRR) Bill is the creation of an interagency committee which should review County levies, fees, and charges before introducing the same in the financial planning and budgeting cycle. It also outlined a provision on reduction of duplication of charges providing for discussions between the destination and source Counties. The COSRR Bill lapsed in December 2019 and therefore the need to be reintroduced in Parliament.

In 2013, KAM together with other Business Membership Organizations (BMOs) across the country convened to discuss frameworks for dealing with business issues in the counties. This resulted in the development of the National BMO guidelines for engaging county governments. At the time, the challenges that faced the devolved governments included:

- Inadequate technical capacity of counties to make laws.
- Possibility of adverse and conflicting regulations in the counties and thus the need for an information management system on all county laws and by-laws.
- Complexity for the business community in tracking all county laws and by-laws.
- Restrictive entry fees in various counties to distribute goods or get raw materials or multiple toll stations on roads connecting counties.
- Unclear consultation channels/forums between the county leadership and key stakeholders.

The forum led to the formation of County Business Coalitions to coordinate and support efforts to influence and promote business-friendly regulatory interventions, as well as the creation of Governors Round Tables (GRTs). Despite the strides made at the country level with respect to the ease of doing business over time, the County Governments seem to have limited instruments to incentivize investors and provide a business-friendly environment. Furthermore, the private sector members at county level continue to face a myriad of challenges resulting from the quest for counties to raise local revenues through levies and other forms of taxes. These challenges arise from incongruent fiscal policy initiatives at county level among various departments, which impose multiple and varied taxes, levies and charges that differ intra-county as well as across different counties. These, coupled with other factors, has made it difficult for the private sector to invest in counties. The County Competitiveness Index (CCI) seeks to provide a platform to both the county governments and private sector to access information to build a transparent, stable, and predictable business environment and attract investments.

The CCI borrows heavily from Ease of Doing Business, Global Competitiveness Index and Competitiveness Industrial Performance report. The CCI aims at establishing the critical success factors and challenges those local industries are faced with in a comparative perspective within the 47 Counties in Kenya. It will guide the counties to:

- Initiate and support economic reforms – The CCI will support county governments to develop policies supporting economic growth leading to an improvement of their competitiveness ranking.
- Strategic visioning/planning – The CCI will provide useful insights into focus issues that should be prioritized to benefit communities. Ideally county governments will have an easier time identifying issues that require most attention.
- Resource planning – The CCI can be a useful source of information for analysis and evaluating the resource gaps that affect service delivery and performance at the county level.
- Performance measurement – The CCI will provide a uniform base for assessment of performance in comparison to other counties.
- Increase participation of private sector and investors at the county level – The CCI will provide a more comprehensive view of practical burden on businesses; and,
- Provide areas where counties can strengthen or develop policies that are attractive to investors.
- There are proposed indicators for the County Competitiveness Index (CCI) which will undergo an elaborate stakeholder review and ratification process.

Pain to manufacturers due multiple county charges, fees, and levies can be eased if the following actions are undertaken:

i) Development of County Tariffs and Pricing Policy
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) Development of county competitiveness index
iv) Manufacturing-centric County Integrated Development Plans

f) Agenda six: Lower the cost of industrial inputs

Industrial machinery and spare parts of Chapters 84 & 85 attract an Import Declaration Fee (IDF) and Railway Development Levy (RDL) rate of 3.5% and 2%, respectively. IDF and RDL increase the cost of imported spare parts and industrial machinery and other capital inputs, thus increasing the cost of investments and manufacturing in the country. When spare parts and industrial machinery are imported into the EAC, IDF is waived for all manufacturers in the region expect Kenya. This puts manufacturers in Kenya at a cost disadvantage. In addition, there is no such levy in Kenya's main competitors in the EAC - Uganda and Tanzania implying that manufacturers in these two countries have a cost advantage relative to those in Kenya. There is no RDL in Tanzania while Uganda has an equivalent infrastructure development levy (IDL) of 1.5% customs value on all imports.

The Excise Duty Act, 2015, Section 14 provides for relief for raw materials where excise duty has been paid in respect of excisable goods imported into or manufactured in Kenya by a licensed manufacturer and which have been used as raw materials in the manufacture of other excisable goods, the excise duty paid on the raw materials shall be offset against the excise duty payable on the finished goods. By introduction of inputs, manufacturers will be able to recover their costs including packaging material and remain competitive. This is following government introducing excise duty on packaging materials e.g., articles of plastics through Finance Act 2021 without which trade in manufactured goods cannot take place.

To reduce cost of manufacturing in the country, the following actions can be undertaken:

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

g) Agenda seven: Incentivize prompt payment culture

Late payment of suppliers by government and its agencies continues to be one of the biggest challenges facing manufacturers. To alleviate this challenge, the Public Procurement and Assets Disposal Regulations 2020 (regulation 150) provides that subject to the availability of funds, a procuring entity shall make prompt payments within 60 days from the date of receipt of the invoice. A prompt payment culture will put Kenya at par with other countries that have a similar culture. Other jurisdictions in comparison, apply incentivization to stimulate prompt payment to suppliers and contractors. It achieves this by encouraging vendors to give discounts for prompt payment and mandating an agency to pay interest for late payment. Prompt payment of suppliers and contractors will ensure businesses have cash flows and thus enable them to grow their operations, increase their revenue and acquire skills and knowledge in their line of work. The prompt payment of suppliers and contractors will also lead to more competition for tendered works, which will bring the cost down as well as increase efficiency and reduce corruption. Most local suppliers eschew from submitting bids for government tenders due to the prevalence of none or late payment of previous suppliers. A prompt payment culture would remedy this.

Strong financial management in the public sector is not a necessity. The use of the Integrated Financial Management Information System (IFMIS) system at both the National and County levels of government should enhance accountability and transparency. As an information system, IFMIS, tracks financial events and summarizes financial information into various reports. There is already a Presidential directive that all procurement should be through IFMIS.

To promote prompt payment culture in Kenya, the following actions would be useful:

i) The National Treasury to ensure that all government purchases are made on IFMIS to enable faster reporting of local procurement, address prompt payment as well as transparency and accountability.
ii) There is need for the enactment and implementation of the Prompt Payment Bill to protect local entities from cash flow challenges emanating from delays in payment.

h) Agenda eight: Avail long term financing to manufacturers

While bank loans are a great source of funding for businesses and manufacturers with a proven track record of profitability and collateral, new and growing businesses are often unable to qualify for conventional small business funding because of the dynamics in the market. Kenya's retirement benefits industry is divided into four categories, namely: National Social Security Fund; Occupational Retirement Benefits Schemes; Individual Retirement Benefits Schemes; and Civil Service Pension Schemes.[13] As of September 2018, the industry's assets were valued at approximately Ksh. 1.19 trillion (Retirement Benefits Authority (RBA, 2019)). The SACCO Societies Regulatory Authority (SASRA) estimates that deposit taking SACCOs had assets valued at Ksh. 627.68 billion by the end of 2020 (SASRA, 2021). Mechanisms can be created to channels some of the savings to the manufacturing industry.

13 file:///C:/Users/User/Downloads/RBA%20STRATEGIC%20PLAN%202019%20-%202024-compressed.pdf.

Kenya Development Bank was an idea in the Jubilee Party Manifesto 2013 and was meant to provide currently unavailable finance to the private sector for all types of capital projects, including infrastructure development.[14] The proposed bank, according to the draft Kenya Development Bank Bill, 2020, is envisioned to breathe life into the falling manufacturing pillar of the President's development legacy plan.

In order to avail long-term financing to the manufacturing industry in Kenya, we urge government to do the following:

i) Create mechanisms that will allow cooperatives and pension funds to invest in the manufacturing sector.
ii) Finalize the passage of the Kenya Development Bank Bill 2020.

14 https://s3-eu-west-1.amazonaws.com/s3.sourceafrica.net/documents/119133/Jubilee-Manifesto-2013.pdf.

4.2. Pillar Two: Enhance market access

Manufacturing industry requires large domestic and export markets if the investments are to be viable.

a) Agenda one: Enhance local market access

Preferential public procurement is increasingly becoming a popular tool to promote consumption of locally manufactured goods.

The term "Trade remedies" is applied to measures that governments can implement in three specific cases of perceived abuses in international trade in goods. These measures are provided for in three separate agreements of the World Trade Organization (WTO), namely the Agreements on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (commonly known as the Anti-dumping Agreement); the Agreement on Subsidies and Countervailing Measures; and the Agreement on Safeguards.

Dumping arises when an exporter sells goods in a foreign market below the price for "like products" (that is, essentially the same type and quality of goods) charged in the normal course of trade in the exporter's domestic market.

Subsidies and countervailing measures: WTO seeks to discipline the use of trade distorting subsidies by proscribing the use of the most distortionary ones and by allowing governments the right to counteract the effects of other subsidies by imposing remedial measures, known as countervailing duties. Subsidies are given in several countries which export products to Kenya including countries such as India, Bangladesh, U.S.A., and China. According to WTO rules, there are caps in the total subsidies which may be given not exceeding 3.25% of global production of a product. However, there are countries which exceed this limit.

Safeguards: The WTO Agreement on Safeguards relates to a situation where a product is being imported into a country in such increased quantities that it causes, or threatens to cause, serious injury to the domestic industry that produces "like or directly competitive" products.

Kenya Trade Remedies Agency (KETRA) was established through Kenya Trade Remedies Act (2017). KETRA's Board and administration is currently operational but remains inadequately capacitated, hence hurting its operationalization. KETRA lacks the capacity to institute a case on either dumping or subsidies. Therefore, the private sector needs to be prepared to collect the data required and make cases where there have been unfair trade practices affecting products manufactured in Kenya. The threshold for the evidence required to prove that there is either dumping or subsidies in the country is quite high. KETRA relies on data and information from the private sector on whether unfair trade has taken place and the injury a company is experiencing. Some information that may be required for a case to be investigated by KETRA includes:

- How many companies are in the industry, what is their share of outputs and how many shares in the market?
- Is there evidence that it is not because of a company's inefficiencies that they are not performing well. They would need to provide records for three years to demonstrate changes that can be attributed to dumping.
- Provide evidence of injury in the local industry such as through a drop in productivity, utilization capacity, sales, or changes to market share.
- Provide a causal link between subsidies/dumping and the injury a company is facing and that this cannot be attributed to macro-economic issues.
- Proof that the products coming from a country perhaps have been exported from a SEZ which enjoys additional subsidies over what is approved according to the WTO.

To enhance market access for locally manufactured goods, the following actions need to be taken:

i) Fast track finalization of the local content policy for which an implementation committee was formed.
ii) 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's website on a regular basis for effective monitoring and evaluation of the
iii) There is need to sensitize the Boards of County Governments to report on their respective implementation of Local Content Initiatives. It would be important to engage with the Council of Governors, County Procurement Committees and County Boards.
iv) Monitor and evaluate the implementation of the local content framework and the BKBK strategy by the various Ministries Departments & Agencies (MDAs) vs the gazetted list of locally manufactured goods by the Ministry of Industrialization.
v) Increase Kenya Trade Remedies Agency's capacity to conduct investigations and enforcement of anti-dumping laws.

b) Agenda two: Promote regional market access

The comprehensive review of the EAC common external tariff (CET) has been ongoing since 2016 and the EAC Partner States have agreed to adopt a 4-band tariff structure, that is: 0%, 10%, 25% and a rate above 25%. The EAC Partner States have reached a consensus on the first three bands. However, there is a divergence among the Partner States on whether to adopt 30% or 35% as the 4th tariff band. The Republics of Uganda and Tanzania are aligned with their respective Private Sectors and have pronounced 35% as the 4th tariff band. Kenya has pronounced a tariff rate of 30% while manufacturers support 35%. KAM is supportive of 35% as the rate for the 4th tariff band in the ongoing EAC CET review. Some of the reasons includes the following:

- **A 35% tariff rate will promote industrialization as aspired under the Big 4 Agenda:** Through the current stays of applications, Kenya has achieved substantial new investments in cement, textiles, leather, sanitary, iron and steel, ceramic tiles sectors which has resulted to creation of jobs. This clearly indicates that more investments and jobs will be achieved in the Country if 35% is adopted.
- **A tariff differential of at least 10% must be maintained between the 3rd and 4th bands to incentivize industrial investments:** This is especially in the conversion of secondary intermediate products to finished goods. A differential of at least 10% is needed to safeguard and retain existing investments that operate in this part of the value chain. This differential does not fully address Kenya's uncompetitive gap which stands at 12.8% but it at least mitigates this to some degree.
- **Products identified and agreed at the technical level to attract a rate above 25% are those that are manufactured in adequate quantities in EAC:** All other finished goods not produced in EAC will remain at 25%. This should allay any fears of increased prices to the consumers. Out of 5,688 CET tariff lines, only 457 of total tariff lines (about 8%) have been agreed and recommended to attract a rate above 25%.

The conclusion of the comprehensive EAC CET review should be immediately followed by the review of the EAC rules of origin (RoO) so that they are in tandem with the prevailing circumstances facing the industry. Also important is the finalization and implementation of the EAC NTB Act amendments and development of the regulations.

Tripartite Free Trade Area (TFTA) and African Continental Free Trade Area

The Tripartite Free Trade Area (TFTA) brings together 28 countries that are members of COMESA, the East African Community (EAC) and the Southern African Development Community (SADC). Twenty (23) of them are already in free trade areas joining a critical mass to establish Tripartite Free Trade Area. TFTA consists of about 57% of total population of the African Union with a GDP of over US$ 1.3trillion and GDP per capita of US$ 1,184.

Ratification status

Eleven (11) countries have so far ratified with three countries remaining to attain the required threshold of 14 countries for the Agreement to enter into force. These are Botswana, Burundi, Egypt, Eswatini, Kenya, Namibia, Rwanda, Uganda, South Africa and Zambia and Zimbabwe.

Six countries are in advanced stages of the ratification process: these are Comoros, Malawi, Sudan, and Tanzania. These are expected to complete the ratification process before the end of 2022 paving the way for its implementation. A threshold of 14 ratifications for TFTA Agreement is required for it to come into force.

Characteristic differences of TFTA and AfCFTA

While AfCFTA offers a huge market of 55 members of African Union with a market size of over 1.2 billion people and a Gross Domestic product(GDP) of US$ 3.4 trillion, TFTA is a relatively smaller than AfCFTA with the potential to increase intra COMESA, EAC and SADC trade to by over 30 percent when fully liberalized. TFTA has a population of 632 million people (57 per cent of the total population of AU) and a GDP of US$1.3 trillion (2015) which is over 58% of GDP of AU. Thus, these two markets will eventually be the game changer for the Kenya and the region and likely to complement each other.

The characteristic of the TFTA regime is different from that of African Continental Free Trade Area (AfCFTA) in terms ambition levels, speed of tariff liberalization and principles and on their approach to regional integration and market access. TFTA champions its regional integration using a developmental approach model based on the three pillars namely; market integration; industrial development; and infrastructure development while AfCFTA leans on market access and tariff liberalization modalities based on the best practices under WTO and in other regional economic communities (RECs). The TFTA approach is borne out of the realization of the complementarity existing between trade liberalization, competitive industrial production and infrastructure development. The ultimate objective of TFTA is to have a single market with free movement of goods and services within the three RECS.

The TFTA tariff liberalization ambition level is to liberalize between 60% to 85% of tariff lines in the National and Customs territory upon coming into force of the agreement while targeting to reach 90% within five (5) to eight (8) years. EAC and SACU agreed to reach tariff liberalization levels of 90% within five (5) years. The modalities on how to treat sensitive products and how the products will be liberalized are yet to be discussed. Tripartite FTA like COMESA does not have an exclusion list.

AfCFTA, has different modalities for its tariff liberalization, which takes a longer period.

AfCFTA phase down for category A products (90% of the national/customs territory tariff lines) which came into effect from 1st January 2021 will be completed within a period of ten (10) years for Least Developing Countries (LDCs) and five years (5) for Developing countries. The AfCFTA category B products are considered sensitive and constitute 7% of national/customs tariff lines which will be phased down within 10 years for developing countries and 13 years for least developing countries, starting from 6th year for both Developing and Least Developing Countries.

AfCFTA has Category C products (Exclusion list) that constitute 3% of national/customs tariff lines which do not exceed 10% of the value of the intra trade by EAC from AfCFTA members. The Category C products are subject to review and negotiations after every 5 years and are eligible for trading under Most Favored Nation clause (MFN) or national tariff rates or Common External Tariff rates in case of the Customs Unions.

Status and comparison of negotiation achievements by TFTA and AfCTFA

Under TFTA, EAC and SACU concluded their tariff liberalization offers in July 2017. SACU's tariff liberalization offer to EAC is 87.19% while that of the EAC to SACU stands at 90.8 %. SACU promised to align her tariff liberalization offer to match that of the EAC but this has not been achieved to-date. EAC tariff offers to non-FTA countries such as Angola, Ethiopia, Eritrea and Mozambique will be similar to what EAC offered FTA members in COMESA and SADC but will be implemented on a reciprocal basis. United Republic of Tanzania negotiated with Egypt a tariff of over 96.89% to achieve full FTA after five (5) years.

In regard to conclusion of negotiations on preferential rules of origin, TFTA has achieved 92% of tariff headings compared to AfCFTA which has achieved 87.8%. The negotiated preferential rules of origin for TFTA and AfCFTA are not exactly the same for a tariff headings/Chapters and perhaps when both regimes conclude their negotiations, the outcome could be used in future for the purpose of harmonizing the rules in the African continent, especially during the periodical review of each trade regimes rules of origin. Under TFTA the outstanding rules of origin are in some tariff headings on Dairy, processed fisheries, textiles and motor vehicles and cement. Other outstanding issues include agree on the tariff rates for beef quotas between EAC and SACU and receiving tariff liberalization offers from non- FTA members in the Tripartite. It is therefore not practical to say at this juncture that TFTA and AfCFTA can be overlapped and merged with whatever has been agreed since modalities, approach, integration agenda and membership of the regimes are not super matched. Possibly in the long-run when each trade regime is fully liberalized and their impacts assessed, it will be critical to harmonize some of the trade policy instruments regime during the periodic review.

The TFTA will facilitate Kenya's market access to SACU and non-FTA members of SACU including Angola, Mozambique and other non-COMESA FTA members such as Eritrea and Ethiopia. AfCFTA will give Kenyan traders market access to members countries of Economic Community of West African States (ECOWAS), Economic Community of Central African States (ECCAS), Economic and Monetary Community of Central Africa (CEMAC), Community of Sahel Saharan States (CEN-SAD) and Arab Maghreb Union (AMU).

Therefore, this explains why we cannot overlap AfCFTA with TFTA at this point in time and achieve same deliverables. Some of these deliverables include tariff liberalization offers , similar rules of origin, infrastructure and industrial development due to different characteristics of trade regimes, their geo political positions, geographical proximities and different modalities and approach to regional integration and approach. Thus, chances are that TFTA and AfCFTA regimes will complement each other in the short and medium term with TFTA acting as a building block to solidify AfCFTA trade regime in the long run.

The following actions if implemented can promote regional market access for manufactured goods:

i) Adopt 35% as the 4th tariff band and ensure conclusion of the comprehensive review of EAC Common External Tariff (CET) by end of June 2022.
ii) Review the EAC Rules of Origin.
iii) Fast track the finalization and implementation of the EAC NTB Act amendments and development of the regulations.
iv) Fasttrack finalization of the outstanding issues on the TFTA and AfCFTA.
v) Fast track Implementation of the integrated National export promotion and development strategy delivery structures.
vi) Amend Section 112 (2) EAC Customs Management Act 2004 to accord preferential tariff treatment of goods originating from COMESA.

c) Agenda three: Diversify international market access

The US, UK and European Union (EU) are crucial markets for manufactured goods. Kenya's export performance in the U.S.A is mainly attributed to the duty-free market access preferential treatment under Africa Growth Opportunity Act (AGOA). The current AGOA facility will expire in 2025. Therefore, if Kenya does not finalize the USA Free Trade Agreement (FTA), it will be accorded a Generalized System of Preferences (GSP) in accordance with WTO rules, which attracts varying duty rates on products that Kenya is currently exporting to the US market. This will require a trade arrangement that will guarantee duty free quota free market access for Kenyan products to the US market. Some of the key areas of interest identified by the Association which are in line with our past free trade negotiations in EAC- EPA, COMESA, Tripartite Free Trade Area and Africa continental Free Trade Area are listed below:

SELECTED SCOPE /COVERAGE

1.Market Access- Trade in Goods
2. Sanitary and Phytosanitary (SPS) Measures.
3. Technical Barriers to Trade (TBT).
4 Customs Procedures, Rules of Origin and Trade Remedies
    a) Customs and Trade Facilitation
    b) Rules of Origin (ROO)
    c) Trade Remedies

5. Transparency, publication, and Administration measures.
6. Intellectual Property
7. State Owned and Controlled Enterprises (SOEs)
8. Government Procurement.

With the change of guard in the US, the government of Kenya has stated that it is still pursuing [15]the US-FTA negotiations. There have been concerns that President Biden will reverse many of the Trump led engagements. However, the Kenyan government seems keen to finish what they started with the Trump administration.

AGOA is a unilateral agreement with the US, giving preferential treatment to some countries. However, the US FTA is a reciprocal agreement and therefore as negotiations take place, Kenya should be able to negotiate for more protection of our market as a developing country. AGOA had about 6,000 lines available for Kenyan exporters. Kenya is however only able to exploit about 11 tariff lines due inability to meet product standards, export volume requirements or consumer preferences in the American market.

There needs to be an in-depth analysis of why Kenya is unable to exploit the available tariff lines, as the country seeks for more tariff lines to be opened up for exporters. Kenya seeks to have between 80%-90% of its products being duty free/quota free. In the same breadth, Kenya needs to review and justify its sensitive list as statistics indicate that we are net importers of the same from 3rd countries.

Kenya-US negotiators need to negotiate for both parties to full cumulation or at least diagonal cumulation to make the Rules of Origin as flexible as possible. There is further need to protect tariff lines where Kenya has abundant production capacity and enjoys comparative advantage. For better penetration of US Market, there is need to address competitive issues emanating from inbound, in-factory and outbound manufacturing processes.

With regards to the EU-Kenya Economic Partnership Agreement (EPA), the 21st Ordinary Summit of the East African Community Heads of State held on 27th February 2021, via video conferencing issued a communique on the implementation of the EAC-EU EPA. The Summit recognized that not all Partner States are in a position to sign, ratify and implement the EPA and the importance of some Partner States to move forward. The Summit concluded that Partner States that wish to do so should be able to commence engagements with the EU with a view to start the implementation of the EAC - EU EPA under the principle of variable geometry.

KAM members who export to EU market are quite keen to have Kenya formalize the EPA directly with EU. This will enable exporters to maximize market access opportunities under the provisions of quota free, duty-free market access for all products covered in the agreement so long as they meet the EAC-EU rules of origin. The government should take a long-term approach in the two engagements and look at how to make a case to the other EAC countries. Particularly, see to what extent Tanzania can now sign with the new President. The other EAC countries are not willing to sign as they continue to enjoy the benefits of being classified as Least Developed Countries (LDC) countries. It is important to fashion the proposal to other countries that they will not remain in the LDC category for a long time, and as they grow, this agreement will be beneficial for them in the long run.

The focus of these engagements should have more effort on the viable geometry thus follow ongoing discussions on the Kenya – EU EPA and seek to conclude these. Some key concerns to be addressed are the importation of products from the EU and their subsequent export to other EAC countries as Kenya is part of a customs union. In addition, goods can come into Kenya from the EAC and be exported to the EU. Since the Kenya-UK FTA negotiations were concluded, implementation should commence.

From the foregoing, to diversify international market access, Kenya can implement the following actions:

i) In the US Kenya FTA negotiations Kenya to propose for flexible and competitive rules of origin while ensuring protection of tariff lines where Kenya has abundant production capacity.
ii) Fastrack implementation of the Kenya EU EPA.
iii) Fastrack the implementation of Kenya-UK FTA.

15 https://agoa.info/news/article/15823-kenya-us-trade-talks-on-hold-awaits-biden-s-administration.html Accessed on the 6th July 2021

4.3. Pillar Three: Pro-industry policy and institutional framework

According to the United Nations Conference on Trade and Development (UNCTAD, 2009), industrial policies can be seen as a "concerted, focused, conscious effort on the part of government to encourage and promote a specific industry or sector with an array of policy tools". The most used definition of industrial policy has been provided by Pack and Saggi (2006) who define industrial policy as "any type of selective government intervention or policy that attempts to alter the structure of production in favour of sectors that are expected to offer better prospects for economic growth in a way that would not occur in the absence of such intervention in the market equilibrium." It is clear that industrial policy involves government intervention to create the desired equilibrium.

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

Manufacturing compliance comprises the technical, legal, and corporate requirements, regulations and practices manufacturers must satisfy as they produce and market products. Non-compliance has become an increasingly major concern in recent years, particularly for manufacturers in Kenya. The growing array of manufacturing regulations becomes more challenging to meet due to the increasing role of governmental regulatory bodies in certain industry sectors, along with the emergence of the devolved governments all addressing compliance and standards of manufacturing.

Manufacturing compliance must be accounted for as manufacturers pursue the strategic goals of producing competitive products, operating profitably, and growing their business in an environment of elevated product development costs. Meeting the challenge of manufacturing regulatory compliance requires establishing a consistent top-down strategy for ensuring compliance across manufacturing for example, manufacturers must comply with quality standards by Kenya Bureau of Standards (KEBS), Environmental Protection by National Environment Management Authority (NEMA), Occupational Health and Safety by Directorate of Occupational Safety & Health Services (DOSHS), among others. Failure by government to create an environment that ensures manufacturing compliance will lead to production of goods that do not comply and could be susceptible to being destroyed.

To ensure predictable and stable industrial policies development through industry consultation, the following actions, we need to undertake the following actions:

i) Develop compliance support mechanisms and corrective action plans collaboratively with manufacturers to avert destruction of local brands.
ii) Promote transparency and coherence in policy through monitoring the performance in the service charter and service level agreements.

b) Agenda two: Ensure certainty and predictability of tax policies to encourage industrial investments

Kenya has several tax laws such as the Income Tax Act, Customs Duty Act, VAT Act, Excise Tax Act and Miscellaneous Fees and Levies Act. A key feature of these taxes is that they change every year, especially through changes made in the Finance Act published to give legal effect to revenue mobilization measures enumerated in the budget statement. Some of these changes made through the Finance Act are minor while others may involve major substantive changes. Often, it is unclear whether the proposed tax changes comply with any taxation rules and raises the question of how the proposed changes compare to either existing rules or other possible alternatives.

The National Taxation Policy is being developed jointly between National Treasury and Kenya Revenue Authority (KRA) prior to seeking input from the private sector. The Policy aims to ensure the sustainability of taxation policies to allow logical investment and financial decision making.

Multiple tax changes and the number of taxes added is a major issue of concern to manufacturers as they undermine an enabling business environment. They are also out of sync with how businesses operate. Businesses, particularly in the manufacturing sector, make investments with long maturation requiring long-term planning. Lack of a congruent National Taxation Policy has resulted in an unstable and unpredictable business environment. One of the key components for businesses to thrive is the ability to accurately identify future incomes and expenses so as to plan and determine whether to increase investments.

There have been instances where new taxes have been introduced on short notice, and without due regard for the impact of the proposed tax on businesses, or the affected stakeholders. For instance, in the case of the introduction of minimum tax, businesses had a 6-month notice period. KRA is also affected by the sudden change in tax policy and at times, does not have requisite administrative mechanisms. This means that businesses would need to adjust their plans for the year to accommodate the new tax. In many instances the government assumes that there are higher value transactions happening in the country than there actually are.

The proposed National Tax Policy should strive to realize the following key objectives:

- **Enhance certainty and predictability:** Tax changes should be made after every 5 years to create a predictable environment for businesses.
- **Reduce the number of taxes:** Taxes should be few, broad-based and high revenue-yielding. The administration of the taxes should also be simplified for ease of enforcement and compliance.
- **Reduce the level of taxation:** The VAT rate should be reduced to 8%, whereas IDF and RDL for imported for imported industrial inputs, including plants, machinery, and spare parts need to be 0%. Nigeria has a VAT rate of 5%.
- We should **reduce reliance on direct taxes** and increase indirect taxes**.**
- **Broaden the tax base** so that there are more people eligible to pay taxes and that they comply. It is important to have accurate data on all economic activities in the country so as to identify potential areas to expand the tax base.
- **Automate tax collection and increase the use of iTax** to simplify tax collection and increase compliance.
- **Transition clauses for new taxes** over a reasonable period to reduce the element of surprise for taxpayers to comply with the changes. Effective dates should be when KRA is ready with requisite administrative mechanisms.

The Tax Law Amendment Act 2020 overhauled the Second Schedule to the Income Tax Act The changes introduced reduces the investment allowance deductions for industrial buildings and machinery from 100% to 50% in first year and 25% on a reducing balance for the balance. KAM proposes reversion to the previous provisions of 100% for Nairobi, Mombasa, and Kisumu and 150% outside of Nairobi, Mombasa, and Kisumu. This will help to promote industrial development in the Counties which are overwhelmingly rural with agriculture as the main economic and reduce regional inequalities. The proposal also aims to promote ongoing investments and capital projects that have been made on the basis of the previous provisions which will likely be stalled due to the sudden change in policy.

The Tax Law Amendment Act 2020 deleted from the VAT exempt Schedule plants and machinery thereby subjecting them to 16% VAT. Plant and machinery are a critical asset to the business operations around which the whole business revolves to ensure productivity. Globally, business plant and machinery costs are incentivized (no taxation) to encourage investments and subsidize costs for manufacturers. An example, if a manufacturer imports a machine worth Ksh. 200 million, tax costs, IDF (3.5%), RDL (2%) and VAT (16%) and if you add an average exchange rate depreciation of about 3% in 2021, that adds up to 24.5%, thus, this effectively totals to Ksh. 49 million excluding logistics costs to the final destination. In addition to the cost, it creates cash-flow challenges. Considering that Kenya is scarce in capital and manufacturing is capital intensive, clearly, this does not encourage investment into the sector.

The Finance Act 2021 limited interest to be deducted to a maximum of 30% of Earnings Before Interest Tax, Depreciation and Amortization (EBITDA). This measure introduces a restriction on the amount of interest and other financing amounts that a company may deduct in computing its profits for corporation tax purposes. The provision is punitive towards capital-intensive industries such as manufacturing. It will increase the cost of financing manufacturing investment in Kenya, most of which is in the form of debt. It will increase the income tax payable by manufacturers who are struggling with profitability. KAM analysis shows it would increase effective income tax rates of some manufacturers to over 60%. The proposed amendment would also harm young and genuinely loss-making businesses. While the proposed amendment is motivated by the Organisation for Economic Co-operation and Development (OECD) domestic tax base erosion and profit shifting (BEPS) Action 4 framework, it fails to incorporate many safeguards allowed by the OECD framework and adopted as best practice in other jurisdictions. It will discourage the expansion of present facilities and new projects. Generally, in large projects, entities do borrow anything up to 70% of project cost. The first few years do not generate enough EBITDA to absorb the interest cost. Further, this results in double taxation as the interest payable to local financial institutions is treated as income and is taxed at 30% and by disallowing the borrower to claim the interest as part of its taxable expenses is a form of penalty or tax by artificially increasing its taxable profits. A number of businesses work on very low margins and EBITDA especially those involved in bulk distribution of FMCG products. They will suffer huge taxes.

To ensure certainty and predictability of tax policies to encourage industrial investments, the following actions need to be taken:

i) Finalize and implement the proposed National Tax Policy
ii) Revert Investment Deduction Allowance to 100%/150%.
iii) VAT exemption on plant and machinery of Chapter 84 and 85 used for manufacture of goods.
iv) Limitation of interest deduction to 30% of Earnings Before Interest Tax, Depreciation and Amortization (EBITDA) should be amended to:
    - Limit interest deductibility to be the greater of:
        - 30% of EBITDA
        - 12% of assets
        - Ksh. 400 million
    - Allow excess interest to be carried forward for up to 5 years.
    - Apply the deducibility limits to net interest, not gross interest.
    - Apply the deductibility limits only to entities with foreign borrowings.

c) Agenda three: Ensure policy coherence between the two levels of government

Article 6(2) of the Constitution appreciates that both levels of government (National and Counties) are distinct but interdependent. Intergovernmental Relations Act 2012 was supposed to create mechanisms to realize what the Constitution envisages but policy coherence between the two levels of government remains a challenge, but the following action can be implemented as one of the remedies:

i) Implementation of the County Government (General) Regulations, 2020 to ensure better coordination between the National and County Governments.

4.4. Pillar Four: SMEs development

a) Agenda one: Create a favorable policy environment for SMEs to flourish

Micro and Small Enterprises (MSE) account for a larger share of private sector enterprises across various sectors of the economy. Indicatively, the sector accounts for 24% of GDP, over 90% of private sector enterprises and 93% of total labour force in the economy. The Government of Kenya has developed the MSE Policy 2020 which follows the Micro and Small Enterprises Act, 2012. The objectives of the Policy are anchored on ten (10) challenges which emerged from a critical review of literature and past policies, as well as extensive stakeholder consultations across the country targeting MSEs, policy implementing institutions, development partners and private sector representatives. The ten (10) objectives include:

i) Entrenchment of entrepreneurial culture
ii) Skills and capacity development
iii) Access to domestic and export markets
iv) Access to a diversified and affordable range of financial products and services
v) Access to decent and affordable infrastructure
vi) Facilitation of start-ups
vii) Promotion of formalization
viii) Enhanced coordination and implementation of support programmes targeting development of the Sector
ix) Conducive regulatory environment at the national and county levels; and
x) Mitigation of business external risks including those that are emerging and cross-cutting in nature.

The policy interventions are aligned to these objectives and seek to enhance competitiveness, productivity, and sustainability of MSEs in supporting the economy through provision of quality goods and services, decent jobs, income, and wealth creation. This policy is intended to serve as the MSE sector framework for decision making, planning, resource mobilization and utilization, monitoring and evaluation for the next five years - together turn the MSE sector and make Kenya an industrialized, globally competitive within the period and beyond.

Some key MSE policy definitions includes the following:

- **Micro enterprise** means a business activity whose annual turnover is below KShs. 1 million and meets any of the following criteria.
  - Employs less than 10 people; or
  - Has total assets as shall be determined from time to time by the Cabinet Secretary (responsible for matters relating to MSEs).
- **Small enterprise** means a business activity whose annual turnover ranges between KShs. 1 million and KShs. 5 million and meets any of the following criteria:
  - Employs between 10-50 people
  - Has total assets as shall be determined from time to time by the Cabinet Secretary (Responsible for matters relating to MSEs).

The MSE sector is particularly important for:

- Providing job and income opportunities for economically excluded segments of the population including youth, women, persons with disabilities and low-skilled persons, who experience disproportionately high unemployment.
- The development of the sector also offers opportunities for progress towards realization of the regional and global policy commitments including the East African Community (EAC) Vision 2050, African Union (AU) Agenda 2063 and the Sustainable Development Goals (SDGs) of the United Nations.
- At the core of this regional and global policy commitments is the need for inclusive and sustainable development anchored on industrialization agenda.

We urge Government to create a favourable environment for SMEs to flourish by fast tracking the implementation of the MSE policy launched in 2022.

The following action can be implemented as one of the remedies:

i) Implementation of the County Government (General) Regulations, 2020 to ensure better coordination between the National and County Governments.

4.5. Pillar Five: Industrial sustainability and resilience

Industrial sustainability and resilience is critical for the survival of the manufacturing sector. Some of the important considerations include climate change, macroeconomic stability, political stability and peaceful elections, relevant skills development and the role of technology amongst others.

a) Agenda one: Adoption of KAM's Industrial Manifesto proposals by political parties and both levels of government.

The creation of the 'deliberation council' which was a consultative arrangement linking government, business and civil society is credited as one of the institutional factors underlying the remarkable growth in the East Asian miracle economies (Campos and Gonzalez III, 1999). Through such an arrangement, the government is able to appreciate pain points impeding the growth of the private sector and gain practical solutions. This is what KAM Industrial Manifesto seeks to achieve. The following actions would be useful:

i) Adoption of KAM's Industrial Manifesto proposals by political parties.
ii) Adoption of the industrial manifesto by both levels of government.

b) Agenda two: Ensure peaceful 2022 general elections and transition

The political pillar under Vision 2030 envisaged issue-based politics which the Constitution 2010 attempted to create institutional framework to support the realization this goal. As political parties and candidates canvas for votes in 2022 General Elections, their mobilization strategies should be based on issues and no other considerations such as ethnicity. The following action would be useful:

i) Political candidates to embrace issue-based politics as aspired under Vision 2030.

c) Agenda three: Ensure stable macroeconomic environment

A stable macroeconomic stability over a prolonged period of time, especially inflation and fiscal deficits is credited to have led to the emergence of the East Asian growth miracle (World Bank, 1993). The following actions can be implemented by the government to ensure a supportive macroeconomic environment for the private sector to flourish:

i) Implement the proposed single treasury account
ii) Undertake fiscal measures to attain a fiscal deficit of 3% to GDP by 2023 in line with the EAC Monetary Union Protocol.
iii) Maintain a stable inflation regime.

d) Agenda four: Pro-industry skill development

Sector Skills Advisory Committees (SSACs) form an integral part of industry engagement with training institutions. These SSACs are important in industry engagement for curriculum development, review and validation, ensuring industry-led standards are incorporated in the curriculum process. Expert workers to develop in the curriculum process, through this reducing the skills mismatch that comes from lack of industry-specific skills or competencies.

Competency Based Education and Training (CBET) has been identified as one way to ensure the manufacturing sector is able to get relevant skills that in turn increase industry competitiveness. CBET has been piloted in the country from 2019, with key lessons. Scaling up CBET nationally will ensure technical training institutions are able to provide industry-relevant training matched with hands-on experience. As a result, training costs for industry will reduce in the long run, while increasing the number of technical graduates entering into formal and self-employment.

To increase formal certification of industry experts and self-employed manufacturers who have learnt through apprenticeship, Prior Learning Assessment and Recognition under both CBET and the National Industrial Training Authority (NITA) by industry assessors and verifiers is encouraged. This formal certification provides opportunities for SMEs to scale up and career progression for various TVET graduates in industry.

Access to education is a Sustainable Development Goal (SDG 4). Access through the Higher Education and Loans Board (HELB) increases access to quality education for all regardless of age, gender, economic status or any other limitation. Diploma, Certificate and Higher National Diploma course Technical and Vocational Education and Training (TVET) graduates currently access HELB through select TVET institutions, with the loans attracting a 4% interest rate annually. Increasing HELB access beyond these to include CBET students and dual vocational training students will ensure attainment of SDG 4 that ensures inclusive and equitable quality education and promotion of lifelong learning opportunities for all.

A central database will facilitate inter-ministerial communication on available paid internship and job opportunities both locally and abroad, while ensuring data is available on key skills in demand that will advise on future training.

Operationalization of the rebate will ensure TVET students access opportunities in industry for paid internships, increasing their work experience and transitioning them into employment.

Some of the actions that can be implemented to support pro-industry skill development include:

i) Create a policy framework to allow coordinated formation of sector specific SSACs and harmonization.
ii) Scale up CBET uptake nationally in TVET institutions.
iii) Increase HELB access by TVET students.
iv) Create a single labour database management system.
v) Operationalize the TVET tax rebate for paid internships as per Finance Act 2021.

e) Agenda five: Green growth and sustainable development

According to OECD, green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies.[16] Green growth is not a replacement for sustainable development. Rather, it provides a practical and flexible approach for achieving concrete, measurable progress across its economic and environmental pillars, while taking full account of the social consequences of greening the growth dynamic of economies. Some of the actions to support growth and sustainable development include:

i) Localize and implement SDGs Goal No. 12 on Responsible Production and Consumption under circular economy.
ii) Implement KAM's Plastic Action Plan 2019.
iii) Fastrack the finalization of policy and legal framework to establish extended producer schemes for post-consumer waste.
iv) Create a program for greening of Kenyan industries in line with national policies and global commitments.

16 https://www.oecd.org/greengrowth/whatisgreengrowthandhowcanithelpdeliversustainabledevelopment.htm#:~:text=The%20focus%20of%20green%20growth,food%20production%20and%20human%20health.

f) Agenda six: Accelerate SDG implementation

The 2030 Agenda for Sustainable Development deadline is fast approaching, and businesses need to rush against time to accelerate and scale up their collective impact by upholding the Ten Principles of United Nations Global Compact and delivering the Sustainable Development Goals (SDGs) through accountable companies and ecosystems that enable change. In this last mile, both the private and public sectors need to make deliberate effort to identify and address real barriers to progress.

SDGs present a unique opportunity for cross-sectoral and multi-stakeholder partnerships which are vital in enhancing collective effectiveness and impact. To successfully seize this opportunity, Government in concert with the private sector needs to strengthen accountability, transparency, coherence, monitoring, reporting, as well as knowledge sharing through cross-sectoral multi-stakeholder partnerships. Similarly, the quality of monitoring and reporting should be standardized to meet international criteria and capture relevant information on progress achieved.

Policy reforms can be targeted at SDGs that have a multiplier effect on others such as those touching on diversity, equity and inclusion, infrastructure, security, energy, poverty reduction and sustainable cities which the manufacturing sector can easily contribute to. This will give a dual approach to sustainability by encouraging voluntary measures backed up with enabling policies to sustain and scale up the already achieved sustainability strides.

Some of the actions that can be undertaken to address the above issues and promote the realization of the SDGs include:

i) Strengthen cross-sector coordination for scaled up SDG Implementation
ii) Establish guidelines for quality SDG reporting by the Private Sector
iii) Address identified policy gaps in SDGs related to gender, youth, transport, security, energy poverty reduction & inclusive and sustainable cities.

g) Agenda seven: Fight against corruption

Corruption is recognized as one of the major challenges facing Kenya. Its impact has been widespread and contributes to the increase in the cost of doing business in the country. Public procurement has over the years presented opportunities for public funds embezzlement. While efforts have been made in petitioning for accountability and transparency in public finance reporting, there is still opportunity for procurement system reforms to combat corruption. The public-private sectors interface presents constant opportunities for corruption hence the need for the private sector to take a united front in fighting corruption. With the looming general elections typically characterized by massive funding and deep-rooted bribery, corruption, and money laundering practices despite having election campaign financing Regulations, enforcement remains critical.

As a result, the private sector must renew its commitment and step up its efforts to expedite the fight against corruption by conforming to the UN Global Compact Principles to adopt and advance ethical practices. Given the multi-faced nature and complexities in the fight against corruption, private sector must take a collective action approach to sustain the fight through cross-sectoral coordination, capacity building and legal enforcement, development and promotion of effective, transparent, and accountable leadership and institutions, and ensuring public access to information.

The Code of Ethics is an initiative by the business community of Kenya to promote and enhance the ethics of business conduct in Kenya in line with the ten principles of the UN Global Compact in the areas of Human Rights, Labour Standards, Environment and Anti-corruption.

The Bribery Act, 2016 is an Act of Parliament that seeks to provide for the prevention, investigation, and punishment of bribery. The Act makes it a punishable offence to receive and offer a bribe. The Act empowers the Ethics and Anti-Corruption Commission to further carry out its mandate to combat and prevent corruption, economic crime, and unethical conduct in Kenya.

To operationalize the Act, the Attorney General, in consultation with the Ethics and Anti-Corruption Commission, in October 2021, gazetted the Bribery Act Guidelines to assist public and private entities in the preparation of procedures for the prevention of bribery and corruption. This was followed up by the gazettement of the Bribery Regulations 2021 in December 2021.

With the gazettement of the Regulations and the Guidelines, the Ethics and Anti-Corruption Commission now has the proper legal framework to combat and prevent corruption. The private sector will now have to put in place procedures for the reporting of bribery within their organization as well as for the protection of whistleblowers.

This will go a long way in reducing and eradicating the vice that is corruption in the private and public sector. This will unlock resources that were hitherto misappropriated for personal use as well as increase confidence in the overall economy.

To scale-up the fight against corruption and support private sector to play their vital role in the fight, the following actions should be pursued:

i) Promote uptake and implementation of the Code of Ethics for Business in Kenya and compliance with anti-corruption requirements to foster transparency and accountability in industry.
ii) Operationalization of the Bribery Act, No. 47 of 2016.

h) Agenda eight: Fit-for-purpose public service

The public service is the world's largest service provider. Any enhancement of public service delivery impacts the lives of millions of people. Like any other service provider, understanding customer needs should be the core of service delivery. This means having a productive public administration and management system, which is designed to attract investments and boost local investors' capacity to compete in the global market.

A drive for competitiveness is central to investment attraction. Public service efficiency is at the heart of competitiveness as it influences the cost of doing business in a country. Government efficiency can be enhanced by modernizing public service delivery capabilities and incorporating feedback from the business community and public. An integrated and connected Government will unlock the effectiveness and efficiency of public service.

Public service must also provide value for money and ensure prudent utilization of citizen's resources. One way to achieve this is through collaborative partnerships and shared services. There is need to revisit the 2013 Parastatal Taskforce report and implement some key recommendations to reduce duplication and overlaps.

The Presidential Taskforce on Parastatal Reforms (PTPRs) was tasked with the responsibility of interrogating the policies on the management and governance of Kenya's parastatals with the aim of determining how best they would contribute to the pursuit of national development aspirations, facilitating the transformation of our country into a great land of prosperity and opportunity for all.

The key mandate was to define what a state corporation is in Kenya, ownership, policy coordination and oversight functions as organized and are their support of the national development, challenges arising from this framework and how can these be reoriented to catalyze the transformation of GOEs and make responsive decisions on the establishment and dissolution of government owned entities to ensure harmony in mandates.

Kenya introduced performance contracting not only to improve service delivery but also to refocus the mindset of public service away from a culture of inward looking towards a culture of business as focused on customer and results. Performance Contracts for key public officials has the capacity to give clear indicators and monitoring tools to improve and measure effective delivery of services as well as monitor the results. It is a tool to hold public officials accountable for the performance and delivery of services of their ministries.

For good measure, the performance Contracting tool may be combined with the establishment of an online Citizens' Feedback Mechanism so as to enhance accountability, provide information about services quality or lack thereof.. We propose that continuous training is established, initiate policies for fast tracking performance targets and provision of resources to facilitate performance contracting.

Performance-based contracting allows government to acquire services through contracts that define what is to be achieved, and not necessarily how it is done. In Kenya, the public sector continues to explore innovative ways of providing quality services to the citizens. The government has adopted performance contracting with an overall objective of improving service delivery. This strategy is combined with continuous tooling and retooling of public officers in order to change their mind-sets from being process and activity driven to being more result focused and citizen centric.

Key aspects to enhancing public service delivery include:

- Ensure a progressive approach and/or MDAs that fail to submit their annual performance report (based on the duly signed Performance Contract) for evaluation, or for the reason that they declined to sign a Performance Contract shall be graded "Poor", at the lowest score of 5 with consequence.
- Align performance indicators to the sector performance standards in order to benchmark with International best practices for global competitiveness.

The goal of realizing fit-for-purpose public service can be realized if some of the following actions can be implemented:

i) Finalize implementation of key recommendations in the 2013 Parastatal Taskforce report to reduce duplication and overlaps.
ii) Strengthen performance contracting to enhance public service delivery.

Agenda nine: Enhance Digitalization in Manufacturing Industry

Digital Manufacturing connects manufacturers digitally, much like the Internet of Things (IoT), with a central network that connects digital access across all locations. This allows automation and the ability to learn processes independently, rapidly respond to change, and highlight quality issues.

On a practical level, in this decade of action most manufacturers are using digital technology to enhance production allowing for green production. Green production is a business strategy that focuses on profitability through environmentally friendly operating processes. The digital technology allows autonomous refinement to take place. This functionality has made manufacturing operations leaner, smarter, and more efficient.

Different manufacturing companies might have different goals the most crucial one being geared towards transforming Kenya into an industrialized middle-income economy by raising the contribution of the manufacturing sector to the national output. The following action if implemented can support in the digitalization of the manufacturing industry in Kenya:

i) Develop a policy to guide digitalization of manufacturing sector in Kenya.

CONCLUSION

A growth miracle is still feasible for Kenya despite the negative growth rate of 0.1% realized in 2020 due to the impact of the pandemic. Empirical evidence has revealed that industrialization supports the achievement of sustained economic growth necessary for poverty alleviation. Thus, industrialization can remedy episodic economic growth in Kenya. The Covid -19 pandemic has proved that it is risky to over rely on imported goods. Global supply chain disruptions due to the pandemic has revealed that ability to buy goods in the international markets is not enough, logistic difficulties might be such that no trade happens. Hence the need to promote domestic industry.

Evidence from countries such as Vietnam and Bangladesh shows that Kenya can still industrialize in a globalized world. However, the country has to draw strength internally and address all challenges that impede the competitiveness and productivity of the manufacturing sector. Consumers in Kenya, regional and international markets have a wide array of goods to choose from. They will only choose Kenyan products if they are competitive.

An important precondition for the East Asian growth miracle to take place was the role of export markets. This suggests that the growth miracle was made possible because of exports. Therefore, Kenya needs to export manufactured goods.

TFTA, AfCFTA, EU-EPA, AGOA and the Kenya-UK FTA also provide us with immense market opportunities, but Kenya needs to do more. We must create capacities to export through appropriate export promotion and diversification strategies.

The East Asian growth miracle also revealed the importance of a stable macroeconomic environment, particularly stable exchange and inflation rates and low fiscal deficits. Looking into the future, relevant skills development and fight against corruption will support private sector activities. Kenya must not be left behind in green transition of industries and in digital technologies.

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MPA 2022
Manufacturing sector recovery and sustained growth for Kenya's shared prosperity
Proposed agenda and actions

PILLAR	AGENDA	ACTIONS
1 **Competitiveness and level playing field**	Improving Regulatory Efficiency	i Realignment of existing fees, charges and levies imposed by various government agencies and regulatory bodies.
		ii National Government agencies and County Governments create sharing platforms to facilitate compliance and reduce costs for businesses.
	Promote access to quality, affordable and reliable energy for manufacturing	i Implementation of recommendations contained in the presidential taskforce report on electricity costs
		ii Consumers should pay the globally competitive cost of power by ensuing that any issues and inefficiencies made by government are resolved in a manner that does not impact on the price of electricity and managing Kenya Power (KP) in a way that system losses are reduced marginally from current average of 25%.
		iii Fast track finalization of regulations for Energy Act 2019, which seeks to resolve energy related issues in the country such as monopoly of distribution and allowed 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 Review pre-conditions for Time of Use Tariff to cover all night consumption and lock in the rate for each facility.
		vi Retirement of the KenGen operated Kerosene fired power generation plants at Muhoroni from the system so that the impact of the 400kV line from Naivasha to Lessos and 220kV line to Kisumu that has been completed and commissioned can be felt.
		vii Extension of government subsidy of petrol and diesel from motorists to electricity producers to cushion them from the escalating global prices for crude oil which is currently reflecting on electricity cost in Kenya.
	Reduce transport and logistics costs	i Sustain an efficient and seamless movement of containers at the ports by enhancing the existing collaborative and coordination frameworks with port stakeholders.
		ii Establishment of framework between manufacturers and Kenya Railway for competitive rates for enhanced transport of inputs and finished goods.
		iii Review the KPA 4 days free clearance period to 6 days in line with average dwell time to reduce cost of clearance.
		iv Prioritize construction of meter gauge railway (MGR) and SGR sidings in industrial areas as well as rehabilitation of railway line in industrial areas to enhance last mile connectivity and reduce cost of transport.

PILLAR	AGENDA	ACTIONS
		v Simplify and promote Authorized Economic Operator (AEO) accreditation processes to increase its uptake for enhanced import and export clearance processes.
		vi Create framework between roads agencies and County Governments to enhance industrial road upgrading and maintenance.
		vii Establishment of a framework with EAC Partner States for mutual recognition of Covid 19 certificate.
	Sustain the fight against illicit trade	i Advocate for/and harmonize intellectual property rights within the EAC Region for purposes of protection and enforcement against IPR infringement within the region.
		ii Enhance inter agency collaboration, co-ordination, accountability, and transparency in the enforcement against illicit trade.
		iii Advocate for increased role of ACA in coordination of fight against illicit trade with other agencies (multi-agency approach).
		iv Fast track the merger between ACA, KIPI and KECOBO to form the proposed Kenya Intellectual Property Office (KIPI) for enhanced coordination on IPR related matter.
	Address multiple county charges, fees, and levies	i Development of County Tariffs and Pricing Policy
		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 Development of county competitiveness index
		iv Manufacturing-centric County Integrated Development Plans
	Lower the cost of industrial inputs	i Industrial machinery and spare parts of Chapters 84 & 85 to attract Import Declaration Fee (IDF) rate of 1.5%
		ii Industrial machinery and spare parts of Chapters 84 & 85 to attract a Railway Development (RDL) rate of 1.5%.
		iii 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 days payment period provided for under the Public Procurement and Assets Disposal Regulations for 2020.
		ii All government purchases to be done through IFMIS and thus enable faster reporting of local procurement, address prompt payment as well as 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 Finalize the passage of the Kenya Development Bank Bill 2020

PILLAR	AGENDA	ACTIONS
2 **Enhance market access**	Enhance Local Market Access	i Fast track finalization of the local content policy for which an implementation committee was formed.
		ii 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's website on a regular basis for effective monitoring and evaluation of the
		iii There is need to sensitize the Boards of County Governments to report on their respective implementation of Local Content Initiatives. It would be important to engage with the Council of
		iv Governors, County Procurement Committees and County Boards.
		v Monitor and evaluate the implementation of the of the local content framework and the BKBK strategy by the various MDAs vs the gazetted list of locally manufactured goods by the Ministry of Industrialization
		vi Increase Kenya Trade Remedies Agency's capacity to conduct investigations and enforcement of anti-dumping laws.
	Promote Regional market Access	i Adopt 35% as the 4th tariff band and ensure conclusion of the comprehensive review of EAC Common External Tariff (CET) by end of June 2022.
		ii Review the EAC Rules of Origin.
		iii Fast track the finalization and implementation of the EAC NTB Act amendments and development of the regulations.
		iv Fasttrack finalization of the outstanding issues on the TFTA and AFCFTA
		v Fast track Implementation of the integrated National export promotion and development strategy delivery structures.
		vi Amend Section 112 (2) EAC Customs Management Act 2004 to accord preferential tariff treatment of goods originating from COMESA.
	Diversify International market access	i In the US Kenya FTA negotiations Kenya to propose for flexible and competitive rules of origin while ensuring protection of tariff lines where Kenya has abundant production capacity.
		ii Fastrack implementation of the Kenya EU EPA
		iii Fastrack the implementation of Kenya-UK FTA

PILLAR	AGENDA	ACTIONS
3 **Pro-industry policy and institutional framework**	Ensure predictable and stable industrial policies development through industry consultation	i Develop compliance support mechanisms and corrective action plans collaboratively with manufacturers to avoid local brands being destroyed.
		ii Promote transparency and coherence in policy through monitoring the performance in the service charter and service level agreements.
	Ensure certainty and predictability of tax policies to encourage industrial investments	i Finalize and implement the proposed National Tax Policy
		ii Revert Investment Deduction Allowance to 100%/150%.
		iii VAT exemption on plant and machinery of Chapter 84 and 85 used for manufacture of goods.
		iv Limitation of interest deduction to 30% of Earnings Before Interest Tax, Depreciation and Amortization (EBITDA) should be amended to: ❖ Limit interest deductibility to be the greater of: • 30% of EBITDA • 12% of assets • Ksh. 400 million ❖ Allow excess interest to be carried forward for up to 5 years. ❖ Apply the deducibility limits to net interest, not gross interest. ❖ Apply the deductibility limits only to entities with foreign borrowings.
	Ensure policy coherence between the two levels of government	i Implementation of The County Government (General) Regulations, 2020 to ensure better coordination between the National and County Governments.

PILLAR	AGENDA	ACTIONS
4 **SMEs development**	Create a favorable policy environment for SMEs to flourish	i Fast track the implementation of the MSE policy launched by the government in 2021.

PILLAR	AGENDA	ACTIONS
5 **Industrial sustainability and resilience**	Adoption of KAMs industrial manifesto proposals by political parties and both levels of government.	i Adoption of KAMs Industrial manifesto proposals by political parties ii Adoption of the industrial manifesto by both levels of government.
	Ensure peaceful 2022 general elections and transition	i. Political candidates to embrace issue-based politics as aspired under Vision 2030
	Ensure stable macroeconomic environment	i Implement the proposed single treasury account ii Undertake fiscal measures to attain a fiscal deficit of 3% to GDP by 2023 in line with the EAC Monetary Union Protocol. iii Maintain a stable inflation regime
	Pro-industry skill development	i Create a policy framework to allow coordinated formation of sector specific SSACs and harmonization of the same ii Scale up CBET uptake nationally in TVET institutions. iii Increase HELB access by TVET students iv Create a single labour database management system v Operationalize the TVET tax rebate for paid internships as per Finance Act 2021
	Green Growth and sustainable development	i Localize and Implement SDGs Goal No. 12 on Responsible Production and Consumption under circular economy. ii Implement KAM's Plastic Action Plan 2019. iii Fastrack the finalization of policy and legal framework to establish extended producer schemes for post-consumer waste. iv Create a program for greening of Kenyan industries in line with national policies and global commitments.
	Accelerate SDG Implementation	i Strengthen cross-sector coordination for scaled up SDG Implementation ii Establish guidelines for quality SDG reporting by the Private Sector iii Address identified policy gaps in SDGs related to gender, youth, transport, security, energy poverty reduction & inclusive and sustainable cities

PILLAR	AGENDA	ACTIONS
	Fight against corruption	i Promote uptake and implementation of the Code of Ethics for Business in Kenya and compliance with anti-corruption requirements to foster transparency and accountability in industry.
		ii Operationalization of the Bribery Act, No. 47 of 2016
	Fit-For-Purpose public service	i Finalize implementation of key recommendations in the 2013 Parastatal Taskforce report to reduce duplication and overlaps.
		ii Strengthen performance contracting to enhance public service delivery.
	Enhance Digitalization in manufacturing industry	i Develop a policy to guide digitalization of manufacturing sector in Kenya.

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

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