

Executive summary

The Manufacturing sector plays a critical role in any economy through the creation of productive employment and opportunities for wealth generation with direct linkages to all sectors of the economy. The sector, however, continues to face myriad of challenges that have seen it not realize its full potential.

Through Vision 2030, the Kenya Industrial Transformation Program and most recently, the Big 4 Agenda, the Government has demonstrated a high-level of commitment towards revitalizing the sector. As a key stakeholder in driving Kenya's industrialization Agenda, KAM sets out to enhance the role of local industries to economic growth and development in the country.

Part of this initiative, has been our partnership with the Kenya Business Guide to launch the Sector Deep Dive Report last year. The report identified the main cross-cutting constraints to growth, possible solutions and sector-specific interventions to unlock the sector's growth potential.

It is within this context that we developed the 2019 Manufacturing Priority Agenda (MPA), themed "Closing the manufacturing gap through the Big 4 Agenda for shared prosperity". It outlines immediate action plans that will yield tangible results in the short term, which will see Kenya's manufacturing sector close the current gap of 6.6% by 2022 to attain the 15% GDP target under the Big 4 Agenda.

The MPA highlights the need for a competitive local manufacturing industry that can be achieved through policy frameworks that promote an efficient and effective business environment for industries to thrive in. It also highlights the need for creating a healthy manufacturing ecosystem through sound policy, regulatory and institutional frameworks that foster forward and backward linkages, dynamic economies of scale and innovation.

The Agenda also outlines the need to enhance market access, governance and finance for SMEs, as they play a critical role in promoting inclusive and sustainable economic growth through the creation of decent jobs, fostering innovation and reducing inequality.

Market expansion through diversification of exports and enhanced access to the local market is also key as it not only spurs economic growth and development but also plays a crucial role in overcoming limitations of small domestic markets and achieving economies of scale.

KAM is at the forefront spearheading the advancement of sustainable and inclusive industries through green growth and skills development. In this regard, this MPA is aligned to Sustainable Development Goals (SDGs) on Sustainable Cities and Communities, Responsible Consumption and Production, Affordable and clean energy and Quality Education.

The Association will continue to work closely with the National and County Governments and other stakeholders towards the development of our manufacturing sector. This Agenda is part of our contribution towards a thriving local industry and sustainable economy.

Phyllis Wakiaga
KAM Chief Executive

"Our aim is to sharply raise the contribution of manufacturing to our national income as a means to achieve shared prosperity"

H.E President Uhuru Kenyatta, CGH
President and Commander in Chief of the Defense Forces of the Republic of Kenya
-12th December, 2018

KAM is a Business Member Organization representing value-add companies and associate services in Kenya. Its members' significant contribution to the economy is estimated at a quarter of the country's Gross Domestic Product. The Association provides an essential link for co-operation, dialogue and understanding with the Government and other key stakeholders by representing its members' views and concerns through fact-based policy advocacy.

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MANUFACTURING PRIORITY AGENDA 2019

- Abridged version -

**Closing the manufacturing gap through the Big 4
Agenda for shared prosperity**

CLOSING THE MANUFACTURING GAP THROUGH THE BIG 4 AGENDA FOR SHARED PROSPERITY

Contribution to Gross Domestic Product (GDP) from 8.4% in 2017 to 15% by 2022

Increase value and volume of exports

Contribution to job creation

Consumer benefits of manufacturing

PILLAR ONE Competitiveness and level playing field

Agenda A: Promote access to quality, affordable and reliable energy for manufacturing

ACTIONS

- Remove all taxes, levies and charges on power bills for manufacturers to reduce the cost of power;
- Make KenGen and Kenya Power profit neutral institutions;
- Fast track enactment of the Energy Bill 2018 which seeks to resolve energy related issues in the country such monopoly of distribution and allow for net metering feeding into national grid among others;
- Allow generators of electricity to sell directly to bulk electricity consumers to enhance quality and reliability of electricity; and
- Review pre-condition for time of use tariff to cover all high consumption.

Agenda B: Reduce transport and logistics costs

ACTION:

- Establish a coordination framework for all government agencies involved in clearance of cargo to reduce the duplication of intervention by various agencies-estimated to be about 26 of them in the supply chain;
- Extend the implementation of promotional freight tariff to June 2019 and thereafter gradually increase at a rate of 5% after every 6 months;
- Simplify and promote Authorized Economic Operator (AEO) accreditation processes to increase its uptake for enhanced import and export clearance processes;
- Fast track development of Kenya Standard (Parameters) under the Pre-Verification for Conformity (PVOC) to be adopted and mutually recognized by all government agencies;and
- Create framework between Kenya Urban Roads Authority (KURA) and County Government to enhance industrial road upgrading and Maintenance.

Agenda C: Sustain the fight against illicit trade

ACTION:

- Fast track the implementation of the Trade Remedies Act (2017), which seek to deal with unfair trade practices such as dumping, prohibited subsidies and import surges;
- Fast track the development of Standard Operating Procedures (SOPs) for Multi-Agency-Team dedicated to fight against illicit trade;
- Fast track development of National Strategy for combating illicit trade in Kenya;
- Harmonize EAC intellectual Property Rights (IPR) related legal framework in order to allow mutual recognition across the EAC Partner States;and
- Fast track the process of enactment of the EAC Anti Counterfeit Bill.

Agenda D: Address multiple charges, fees and levies

ACTION:

- Review the fiscal effort parameter in the revenue sharing formula to discourage counties from developing no-service linked fees, charges and levies.
- Fast track finalization of county Government Revenue Raising Regulation Process Bill (2018) that provides for a regulation of the process of introducing new taxes, fees and charges by county governments.

Agenda E: Enhanced cash flow for manufacturers

ACTION:

- Review the VAT refund formula; and
- Review Paragraph 8 of the VAT regulation (2013) to allow taxpayers claim VAT refund in full in case where there is excess in-put arising from both Zero rated and standard rated supplies

Agenda F: Lower the cost of imported industrial in-puts

ACTION:

- Zero rate Imported Declarations Fee (IDF) for industrial inputs for bona fide manufacturers. Or consider Refund or waiver of IDF based on the % of exports(Formula: Refund of IDF = Total IDF Fees paid * % of export sale
- Zero rate Railway Development Levy (RDL) for bona fide manufacturers or Refund or waiver of RDL based on the % of exports: Refund of RDL = Total RDL paid * % of export sales
- Fast track the EAC CET review that seeks to make industrial inputs affordable.

Agenda G: Incentivize prompt payment culture

ACTION:

- Expedite finalization of regulations under the Public Procurement and Asset Disposal Act to addresses payment issues and penalties on late payment by Government.
- Expedite finalization and adoption of draft retail sector regulation that seeks to address late payments.

Agenda H: Avail long term Financing to Manufacturers

ACTION:

- Fast track finalization of the Movable Property Security Right Act, 2017 that provides for creation of electronic collateral registry for use by Kenyan Banks;
- Incentivize saving institutions and pension funds to invest in the manufacturing sector.

PILLAR TWO Enhance market access

Agenda A: Enhance Local Market Access

ACTION:

- Fast track finalization of the Public Procurement and Asset Disposal (PPAD) Regulations on provision of preference and reservation for locally manufactured goods and services;
- Follow up on adherence to Executive Order on "Procurement of Public Goods, Work and Services by Public Entities" and recommend remedial measures in case of non-compliance; and
- Introduce local certificate of origin for authenticity under BKBK strategy implementation.

Agenda B: Promote Regional mar-ket Access

ACTION:

- Develop framework for prompt resolution of reported NTBs through bilateral initiatives between Kenya the EAC Partner states and other regional States outside the EAC;
- Fast track finalization of the EAC CET review to promote value addition and industrialization;
- Fast track the finalization of the NTB Act amendments and development of the regulations; and
- Fast track the conclusion of TFTA and AfCFTA negotiations

Agenda C: Diversify International market access

ACTION:

- Strategically implement/operationalize various trade agreements to benefit local manufacturers;
- Implement the 5 strategic objectives of the manufacturing chapter of the National Export Development and Promotion Strategy (NEPDS)
- Negotiate market access agreements with other countries with huge trade imbalance against Kenya such as India and Canada; and
- Development of a framework for disseminating manufacturing market intelligence through the Kenya trade portal.

PILLAR THREE Pro-industry policy and institutional framework

Agenda A: Ensure predictable and stable industrial policies development through industry consultation

ACTION:

- Gazette the proposed Investment Council to be chaired by The President that seeks to harmonize policy decision affecting manufacturing sector
- Ensure formulation of overarching policies before an enactment of laws
- Fast track finalization of Public Participation Bill (2018) that seeks to provide national framework for public participation; to promote transparency and accountability in governance processes.

Agenda B: Ensure certainty and predictability of tax policies

ACTION:

- Undertake stakeholder engagement in advance before new tax proposal are embedded in finance bill.

Agenda C: Ensure National policy coherence for the manufacturing sector

ACTION:

- Develop and implement a National Manufacturing Policy to guide the manufacturing agenda at the National and County levels; and
- Review of the current framework that coordinates, implements or fund manufacturing activities that brings on board the Counties.

PILLAR FOUR Government driven SME development

Agenda A: Enhance market access for SMEs

ACTION:

- Invest in product and innovation centers for SMEs to enhance competitiveness and product portfolio
- Integrate incubation centers with common user facilities for SMEs in all 47 counties in order to resolve issues such as product design, access to technology, production innovation and patenting among other challenges.
- Introduce import substitution strategies on area where SMEs have comparative advantage in Kenya
- Develop and implement SMEs subcontracting policy to boost linkages between SMEs and Large Firms.

Agenda B: Enhanced Governance

ACTION:

- Support institutions providing SME focused training on corporate governance to promote ethical business practices, cash flow management, marketing, intellectual Property Management among others.
- Promote simplification of business startup procedures by review various certifications and fees.

Agenda C: Diversify International market access

ACTION:

- Strategically implement/operationalize various trade agreements to benefit local manufacturers;
- Implement the 5 strategic objectives of the manufacturing chapter outlined the National Export Development and Promotion Strategy (NEPDS)
- Negotiate market access agreements with other countries with huge trade imbalance against Kenya such as India and Canada; and
- Development of a framework for disseminating manufacturing market intelligence through the Kenya trade portal.

Agenda D: Enhance Access to Finance

ACTION:

- Fast track creation of the Kenya Development Bank (KDB) by merging Kenya Industrial Estates (KIE), IDB Capital, Industrial and Commercial Development Corporation (ICDC), Agricultural Finance Corporation and Tourism Finance Corporation. This should be focused on manufacturing.
- Incentive commercial banks (through introduction of tax rebates) to provide low interest loans targeting manufacturers and SMEs.

PILLAR FIVE Securing the future of manufacturing industry

Agenda A: Ensure Stable macroeconomic environment

ACTION:

- Progressively move toward a ceiling on fiscal deficit, including grants of 3% of GDP as per the EAC Monetary Union Protocol
- Adhere to a gross public debt ceiling of 50% of GDP in Net Present Value terms as per the EAC Monetary Union Protocol

Agenda B: Pro-industry skill development

ACTION:

- Amend legal notice No. 97 of Income Tax Act which provides set off Tax rebate for graduate apprenticeships to include Certificate and diploma graduates who are omitted in the programme.
- Fast track development and Operationalization of the Sector Skill Advisory Committee (SSACs) that will guide in the development of occupation standards to influence curriculum development.
- Popularize and strengthen Competence Based Education and Training (CBET) with industry for buy in through awareness creation.

Agenda C: Green Growth and sustainable development

ACTION:

- Provide incentives for adoption of circular economy.
- Incentive industries excelling in energy management through a National award.
- Finalize the National Waste Management Policy and enact the Solid Waste Management Bill
- Finalize and implement the National Water Policy.

Agenda D: Enhance access to land

ACTION:

- Pro actively create land banks earmarked for industry, through institutions such as Kenya Industrial Estates.
- Secure and develop land for Special Economic Zones (SEZs) before prices are pushed further upwards, as per KITP and Vision 2030
- Fast track digitization of land registry across the country.

Agenda E: Fight against corruption

ACTION:

- Replace case-based accounting system with accrual based accounting system in public finance.
- Synchronize the Integrated Financial Management System (IFMS), Integrated Payroll and Personnel Database (IPPD) and iTax to reduce ghost worker and unplanned expenditure.

Agenda F: Fit-For-Purpose public service

ACTION:

- Implement some key recommendation in the 2013 Parastatal Task-force report to reduce duplication and overlaps
- Strengthen performance contracting to enhance public service delivery
- Initiate an annual presidential event to recognize top performing public institutions and public servants

Agenda G: Enhance Digitalization in manufacturing industry

ACTION:

- Develop a national policy framework and programme to implement industry 4.0 with sectoral bias
- Support a well-embedded manufacturing ecosystem of start-ups and technology hubs.