Sector Deep Dive Report 2019

Agro-Processing Sector

Agro processing is the subset of manufacturing that process raw materials and intermediate products derived from the agriculture sector. Under the Governments Big 4 Agenda Agro-processing has been targeted to increase its percentage contribution to GDP from 16% to 50%, creation of 1000 SME's that will in turn generate part of the 200,000 jobs. Additionally mapping tea, coffee, sugar, meat, dairy and crops value chains and developing warehousing and cold chain sited.

Opportunities

- Contracting of small scale farmers to produce canned products like French beans, baby corn, pineapple slices, pickled cucumbers etc.
- Apart from fish from Lake Victoria and Lake Turkana, fish farming can successfully be done to supply the quantity and quality of fish needed to sustain fish products processing in a large scale for both local consumption and export.
- Enhance manufacture of animal feeds using the various available potential inputs like "omena", low grade oil crops, maize and wheat.
- Kenya can potentially produce enough beef to supply a large-scale canning factory which can process both for local consumption and export market.
- Kenya should move towards a value-addition strategy for tea which could result to a significant increase in Foreign exchange income.

Challenges

- High labor, productivity and transport costs
- Land – uncertainty by the new Land Law (2010) has undermined investor confidence and increased the spectra of land tension in the agricultural sector.
- Multiple County fees and charges.
- Unstable legislative & policy framework – various county and bi-cameral parliament's bills that are reviewed without wider stakeholder under review/amendment pose serious financial drain to the sector
- Lower earnings from 97% tea exported in bulk.
- Insufficient fiscal, EAC CET distortion, non-observance of COMESA Rules of Origin which are not effective neither favourable for the sector.
- Many SME's and indigenous firms lack knowledge, experience and expertise for the specific products being processed.

Recommendations

- De-pegging minimum wage from piece rate to increase labor productivity
- Provision of regional & continental market intelligence to support local products' research and innovation
- Government to promote adoption and implementation of radical policies on local value addition instead of exporting raw.
- Enactment of the Geographical Indications Bill to facilitate the profiling of Kenyan products.
- Holistic affirmative fiscal actions by County and National Government to reduce the cost of doing business.
- Deployment of extension officers or audio-visuals training on agro-processing.

Automotive Sector

The Sector is rapidly developing owing to a growing middle class. The industry has FOUR sub-sectors namely: Assemblers, Bus body builders, Motorcycle and Parts and Accessory Manufacturers.

There are three (3) main motor vehicle assembly plants in Kenya with a total capacity of 34,000 units; and 21 motorcycle assemblers, 6 of which are assembling completely knocked down (CKD) model.

Opportunities

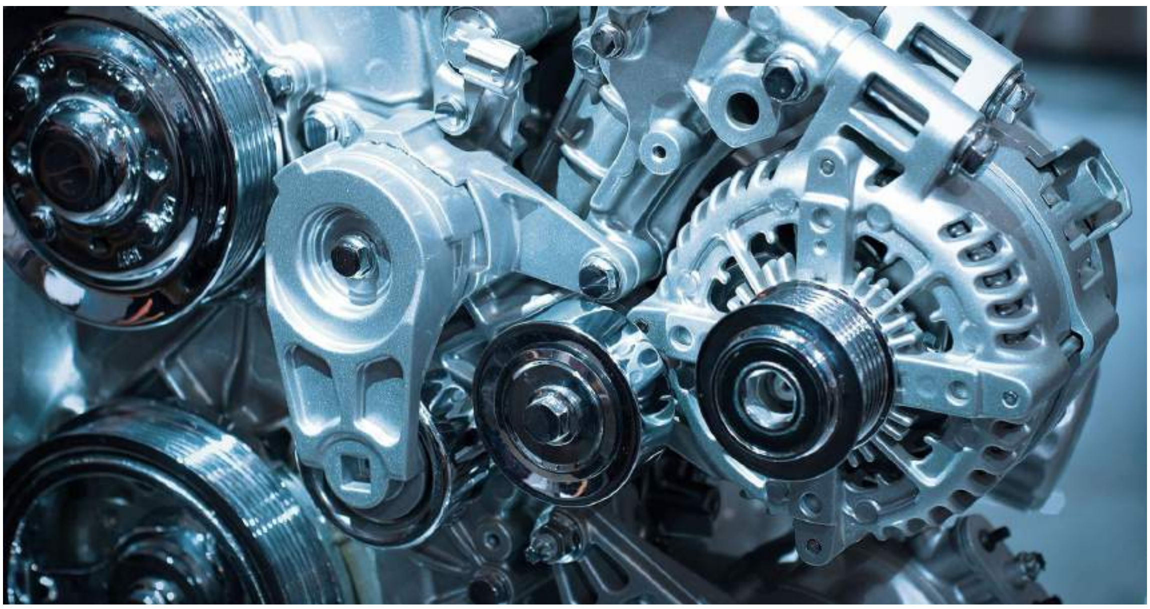
- Investments in the manufacture of Automotive components like leaf spring assembly, exhaust pipes and silencer spark plugs, filters, radiators would replace current importation
- Assembly of vehicles for the domestic and export markets (COMESA). Only 30% of installed capacity being utilized
- Local reconditioning of old vehicles, aimed at minimizing the market of imported complete built second hand vehicles.

Challenges

- Lack of strong national coordination body for the automotive sector
- Lack of homologation (rationalization of models)
- Lack of supportive standards and regulations
- No existing investment promotion incentive scheme for the automotive sector.
- Lack of specific policy for passenger vehicles.

Recommendations

- Adopt and Implement a national motor vehicle policy which recommends the setting-up of a National Automotive Council (NAC) and harmonization of import used vehicles and spare part age limit.
- Adoption and implementation of motorcycle regulation. The regulation will promote local sourcing of motorcycle parts from a vendor within the EAC



Food & Beverage Sector

The food and beverage sector is the largest sector in the manufacturing industry and constitutes about 22% of KAM membership. The sector has seven sub-sectors namely:- alcoholic & spirits; bakers and millers; cocoa, chocolate and sugar confectionery, dairy products, juices/water/carbonated soft drinks; fish & beef processing and edible oils.

Opportunities

- Vegetable & Fruits Processing- French Beans, Snow Peas, baby corn, jams, marmalade, cucumber through contract farming
- Vegetable Oil Processing-Coconut (Coast), Cotton (Western & Nyanza), Sunflower & groundnut (Rift Valley) oils through contract farming.
- Manufacture of Animal Feeds & Beef Processing

Challenges

- Market Access- Non-enforcement of BKBK, regional NTBs,
- Inaccessible credit
- Lack of promptness in payment by government and private sector
- Poor infrastructure such as roads, utilities and security.
- Multiple agencies with duplicating roles.

Recommendations

- Promote Access to Credit and instill Corporate governance among retailers and Commercial Banks so that manufacturers do not lose their money.
- Expedite VAT Refunds and remove VAT on exports
- Cost of doing business: Infrastructure and utilities providers should be more competitive and have healthy competition, monopoly should be discouraged.
- Harmonizing Fees and Charges across 47 Counties
- and Implement a national motor vehicle policy which recommends the setting-up of a National Automotive Council (NAC) and harmonization of import used vehicles and spare part age limit.
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Edible Oil Sub - Sector

Opportunities

- Utilization of the idle capacity to refine and process edible oils if there is constant flow of raw materials.
- Horizontal value addition into the development of by-products for alternative uses e.g. seed cake, animal poultry and fish feed. This will add extra value and increase competitiveness.

Challenges

- The rigidity of EAC Rules of Origin for chapter 15 violates the spirit and letter of the Treaty since change in Tariff is not technically feasible.
- Unfair competition with imported finished products from third Countries (Indonesia/Malaysia)
- Mis-declaration of imported bulk and flexi tanks
- Imports from COMESA (Egypt) which are declared as originating and access market duty free.
- Access- Non-enforcement of BKBK, regional NTBs,
- Inaccessible credit
- Lack of promptness in payment by government and private sector
- Poor infrastructure such as roads, utilities and security.
- Multiple agencies with duplicating roles.

Recommendations

- To amend Chapter 15 of EAC Rules of Origin to read "conversion of goods from one tariff sub-heading to a different tariff subheading" will suffice.
- KRA to clear imports accompanied by outturn report of analysis to show the quality of the product.
- KRA to undertake a verification mission to clarify if the edible oils are originating.

Textile & Apparels Sector

Direct Employment

- Direct employment in EPZ based manufacturers – 52,000 people –21,000 Directly people in local sector –Direct employment – Cotton Farming – about 40,000 people – Informal Sector – over 30,000 people

Number of companies operating in the apparels sector

- 22 Big companies in the EPZ –Over 200 medium to big scale companies –Over 30,000 micro / small firms operating in the informally.
- Largest manufactured export from Kenya – KES 45 Billion

Value Chain Approach

Cotton Farming and Ginning activities	Spinning	Weaving	Knitting Companies	Apparel / Garment Manufacturers and Fashion design industry
Provide lint cotton to textile mills	Manufacture yarn to be used by weaving and knitting companies. Also manufacture sewing threads for use by garment manufacturers	Manufacture woven fabrics	Manufacture Knitted fabrics and knitted apparels (sweaters, socks)	Manufacture Garments / Apparels and other upholstery / products
LABOUR INTENSIVE	1. ENERGY INTENSIVE 2. (Where maximum Value addition is created in the chain)			1. LABOUR INTENSIVE SECTION OF VALUE CHAIN

Opportunities

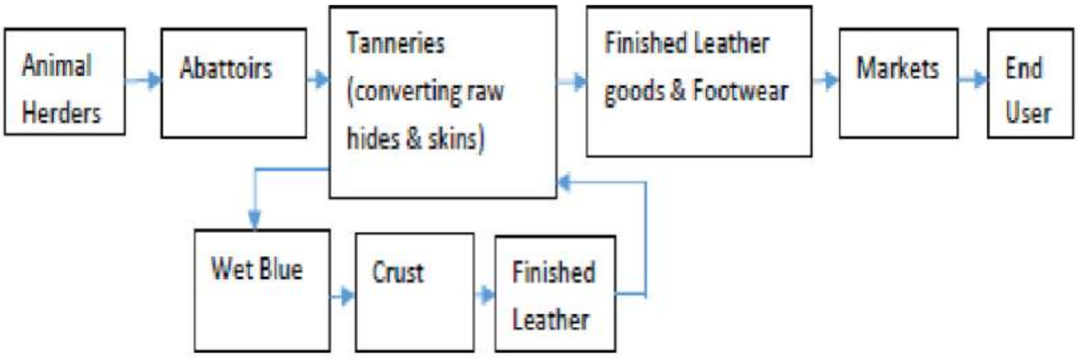
- We already have big buyers in place (PVH, VF, NIKE, KOHLS, Target, Wallmart, H&M
- A ready fabric market (26 billion market in the EPZs alone now)- Incentivizing the local textile industry will help reach take on this market
- Young educated and hardworking workforce
- Changing global manufacturing space that has placed Kenya as a priority destination for investments coming from China and Asia at large.
- Access to raw materials – Cotton is available within the region. There are opportunities to enhance its production with the large vast land availability

Policy Interventions

- Combat Illicit Trade (Mis-declared, undervalued , counterfeits and products that are totally evading taxes) – Estimated to be an over KES 100 billion industry in the industry in the EAC
- Logistics challenges (importation of raw materials and local supply chain routes)
- CET Review – Introduction of 4 Band structure- Current structure (0% -fibers, 10% - yarns, 25% -fabrics) & Proposed structure (0%- fibres, 10% -yarns, 25% -fabrics, 35% or $5/Kg for finished garments/apparels
- Provide power at a cost of $0.04 per kWh for textile mills
- Harmonisation of SEZ/ EPZ and other schemes within the region

Leather & Footwear Sector

Value Chain Approach



Value Addition in Kenya

	Abattoirs & Traders	Tanning		Manufacturing
	Raw Hides & Skins	Wet Blue & Crust	Finished Leather	Leather Products
Export Value'	US$6.7 Million	US$131 Million Bovine US$59m Sheep & Lamb US$23.4m Other 49m	US$3.5 Million	US$5.6 Million Footwear US$2.8m Handbags etc. US$2.25m Other US$0.6m
% of Exports	5%	89%	2%	4%
Capital/ Labour Intensity	Labor Intensive	Capital Intensive		Labour Intensive

Challenges & Solutions

- Illicit Trade – Sustain current fight against the vice
- Tax incentives – This will spur significant investments in the industry
- Local procurement of locally manufactured products on the national and country projects – Enforce the local content provisions
- Financial access – Provide a competitive financing program for the sector. This will address investment and trade financing
- Research and development – Enhancement of the national innovation fund to be able to spur R&D for the sector
- Incubation - Provide incubation facilities for startup entities in the sector
- Skills Gaps - Skills development to address labour and skills gaps challenges

Energy, Electrical & Electronics Sector

Opportunities

- Renewable Energy Production
- Manufacture of Medicament Equipments including electro-medical equipment.
- Assembling of data processing and transmission equipment and appliances
- Utilization of the idle capacity to refine and process edible oils if there is constant flow of raw materials.
- Horizontal value addition into the development of by-products for alternative uses e.g. seed cake, animal poultry and fish feed. This will add extra value and increase competitiveness.

Challenges

- Lack of Competence Based and technically Trained personnel
- Competition from cheap imports
- Port and Logistics Challenges from Port of Mombasa to ICD (N)
- Non-enforcement of BKBK by Ministries, Department and Agencies

Proposed Policy Interventions

- Set out clear procedures for smooth implementation of BKBK Policy
- Full enforcement of Pre-Verification of Conformity under the enriched Certificate of Conformity.
- Completion of KONZA City and develop clear policy guidelines for companies expected to operate in there.

Building, Mining & Construction Sector

Affordable Housing Agenda	Develop clear procedures and guidelines for smooth implementation of BKBK under the Big Four Agenda (AHP) and further elaborate procedures on local content in the implementation and construction of large scale infrastructure projects.
Lack of technical skills	Strengthen NCA to provide training and capacity building to construction workers.
Substantial Capital outlay	Incentivise banks to provide long term financing to house developers and mortgage facilities to prospective homeowners to boost the growth in the industry. Incentivise the pension funds to invest in real estate especially for the first home owners.
The payment of royalties for all minerals	Engage Ministry of Mining to address the issue
Mining Act	Exclude the salt and quarry sub-sectors from the Act
Administrative challenges on building quality assurance	Strengthen NCA to provide training and capacity building to construction workers.
Unskilled labour	Strengthen NCA to provide training and capacity building to construction workers.

Paper & Paperboard Sector

The sector relies highly on skilled and experienced personnel who are over 20,000. Constitutes 8% of KAM membership disaggregated into 3 sub-sectors who specialize in:- Printing and converting; Corrugated cartons; Paper Bags; Folding carton packaging; Glue applied labels; BOPP Wrap around/Shrink Sleeve Labels; Pressure sensitive (PS) Labels.

Opportunities

- Printing of documents with security marks.
- Out-door advertising and production of advertising materials for the print and electronic media.
- Competitive packaging and labelling of various products to enable successful penetration of export markets.
- Printing and publishing of learning materials.

Challenges

- Anomalies in tariff compared to COMESA and other REC's.
- No differentiation of input and output tariffs.
- High cost of energy.
- Importation of core course materials (books) from India duty free. Publishers are taking advantage of duty-free offshore sourcing.

Recommendation

- Introduce a levy for all imported finished books as the country has enough capacity to produce the required products and meet demand.
- Develop a clear procedure and guidelines for procuring all educational materials under BKBK strategy.
- Increase consolidation in the market place amongst printers and converters.

Chemical & Allied Sector

3rd Largest Membership at KAM
- Paints and Resins
- Cosmetics and Hygiene
- General Chemicals

Opportunities
- Paints & Resins: Support the Government Project on Housing
- Cosmetics and Resins: Promote growth in local manufacturing, sector potential on innovation and employment is high

Challenges
- Unfair competition with imported finished products from third Countries (Egypt)
- Imports from COMESA (Egypt) which are declared as originating and access market duty free.
- Limited inspection companies due to zoning system, parallel importation and inhibitive regulatory framework.

Recommendation
- Abolition of zoning system for inspection companies engaged under the PvoC system.
- Regulation of cosmetics should be based on safety profile of products and not quality assessment and development of standards.
- Inclusion into law the position of authorized importer of cosmetic products to inhibit parallel importation.

Services & Consultancy Sector

Opportunities

- Sector exists to provide vital services to the manufacturing sector.
- Members are drawn from the various Professional Services
- These include, legal, ICT, capacity building, financial and communication
- These sectors interact with the pool of manufacturers competitively to draw opportunity to provide their specialized services
- For further value addition Government to consider shortlisting this sector in the suppliers list for similar services within government under local sourcing (local content).

Pharmaceutical & Medical Equipment Sector

The reliance on imported raw materials (95% input from Asia and Europe) has been the biggest hindrance to the development of this industry. Kenya's pharmaceutical industry is the largest in the COMESA region with about 40 enterprises operating in the sector. These industries produce over 90% of the products listed under Kenya's essential drug list, although the current overall capacity utilization is estimated by the enterprises at 40%.

There are 32 pharmaceutical companies under KAM members.

Opportunities

- The Local Pharma industries produce over 90% of the products listed under Kenya's essential drug list within an overall capacity utilization of only 40%.
- Locally sourced raw materials include maize starch, refined sugar, glucose syrup, rectified spirit, ethanol, and sodium chloride and packaging materials.
- Imported medicine costs an average price almost 4 times higher than that of locally manufactured medicine of the same quality.
- Nationally, about 4 companies are close to reach the highest quality standards defined by the World Health Organization (WHO).
- Sector directly employs 4500 people and 20,000 people indirectly.
- The Government is the major institutional buyer of locally manufactured pharmaceutical products (through the KEMSA under the Ministry of medical Services).
- Almost 50% of pharmaceutical exports go to the neighbouring EAC and Sudan accounts for about 14%.
- Other African importers of Kenyan pharmaceuticals are Congo, Ethiopia, Malawi, Mozambique, Nigeria, Rwanda and Somalia.

Challenges

- Kenya import medicines worth USD700 million annually.
- The sector relies heavily on imported raw materials (over 95%) estimated to be over Ksh25 billion per annum.
- Imported medicines still covers 70% (in value terms) of the market demands (around U$S 1 billion per year).
- Drug costs in Kenya can make up an average of 45% of patients hospital bills, causing loses in both, private and public health insurance sector.
- India is the dominant supplier of imported pharmaceutical products (raw materials and finished products taken together) accounting for almost 40 % of Kenya's imports.

Recommendation

- Increase Verification Fee from 0.75% to 12% on imported medicaments which Kenya produces sufficiently.
- Sector must take full advantage of the available/emerging markets for expansion.
- Locally: Take advantage of BKBK Strategy and Local Content Policy and the Big 4 Agenda (affordable healthcare for all).
- Regionally: EAC Market, COMESA and AfCFTA (expand market now from the current African importers of Kenyan pharmaceuticals i.e. Congo, Ethiopia, Malawi, Mozambique, Nigeria, Rwanda and Somalia).

Timber, Wood & Furniture Sector

There are 33 companies in the timber, wood and furniture sector under KAM members. The Sector employs approximately 160,000 people – starting from forestry sector and extending through to manufacturing.

Opportunities

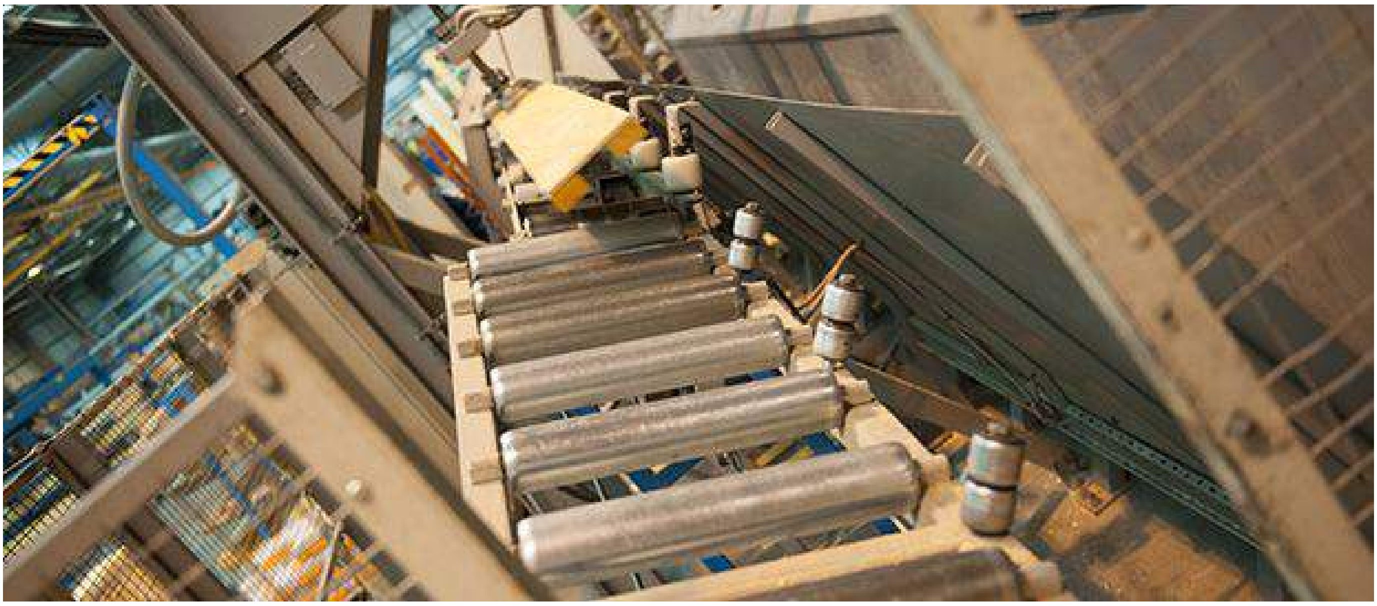
- Sector prospects to expand the use of modern technology and formalize (SME Growth) for increased furniture production.
- The industry produces approximately Kshs 4.5billion of furniture per year and exports Kshs 0.2 billion. The sector contributes about 5% to the country's GDP.
- Manufacture of high quality furniture and wood based products for export markets, targeting to leverage the preferential market access within COMESA, USA and EU countries.
- Manufacture of knock down furniture for supply to expanding educational institutions under the free primary and secondary education system as well as production of office furniture.
- Manufacture of alternative raw materials to timber, for example utilization of sawdust to produce chip boards.

Challenges

- Undervaluation of processed and semi-processed imported wood products
- Outdated EAC CET Structure stifling the value chain
- Lack of prompt payment
- Limited Access to Market and non-enforcement of BKBK

Recommendation

- Implementation of Buy Kenya Build Kenya Strategy
- Review CET and eliminate Stays of Application
- Establish a Kenyan Center for Excellence as a platform to provide relevant industry training and coordination of R&D



Plastic Sector

- 140 plastic industry establishments
- Sector was worth appx. 170 billion in 2017
- Investments made worth 50 billion in Kenya
- 360,000 tonnes/pa installed capacity/ operations at 240,000 tonnes/pa
- Employment – 30,000 directly & 100,000 indirectly
- Plastic feeds 90% of other locally manufactured products

Opportunities

- Manufacture of quality plastics electrical appliances e.g. sockets, plugs and automotive plastics spares – currently imported
- Manufacture of household wares like plastics kitchenware
- Manufacture of petroleum based chemicals used in production of synthetic fibers for textile industry
- Manufacture of plastics spares and housings for electronics industry
- Recycling of plastic with increased focus on circular economy.

Challenges

- Competition leading to production decline – bulk of raw material are imported. With ban on flexible plastic, increased importation of the same products from Uganda and Tanzania
- Environmental Impact/ Plastic Waste Disposal and Bans –as a result of non bio degradability of plastic. Government's preferred approach being banning products
- Cost of production – High electricity cost, country branding licences, delays in containers clearing and delivery from port to ICD

Recommendation

- Restructure ban on plastic bags to provide provisions for special use sectors – garbage bags, planting bags, hygiene bags, food handing and bio degradable plastics
- Fast track implementation of bio degradable plastic standard
- Develop a clear, predictable and long term regulation framework for the sector - Kenya Plastic Action Plan
- Promotion of recycling at SEZ
- Regulations to support Extended Producer responsibility schemes
- Power tariff reduction
- Single use permits and harmonization of county fees

Metal & Allied Sector

Considered the backbone of economic activities of any country. The iron ore deposits in Kenya have not been evaluated hence importation of billets, and hot rolled coils amounted to over KES 85B against export of KES 12B

Subsector	Installed capacity	Utilized capacity	Jobs	No. of companies
Smelting/Hot Rolling/Foundry and Forgers	2,268,000MT	630,000MT 27%	Directly = 10,000 Indirectly = 30,000	27
Cold Rolling/ Galvanizing/Color Coating	505,000MT	230,000MT 40%	Direct = 2000 Indirect = 2000	4
Wire Products and Allied Manufacturers	300,000MT	150,000MT 50%	Direct = 2300 Indirect = 2000	17
Pipes and Tubes Manufacturers	980,000MT	500,000MT	Direct= 2000 Indirect= 20000	19
General Fabricators	This includes heavy engineering companies, building components, and small fabricators		Direct= 5000 indirect= 20000	22

Opportunities

- Production of grinding mill balls has been identified as a key opportunity by the Kenya Investment Authority
- Manufacture of ductile iron rolls. Within COMESA, only Egypt currently manufactures such rolls
- Production of casting sand/molding items. The majority of foundry industries in the country still employ sand casting technique
- Production of high strength reinforcement bars

Challenges

- Evaluation of local deposits of base metals such as iron ore and limestone has not been undertaken as required to facilitate exploration and commercial mining
- Undervalued and substandard imported goods
- High cost of electricity
- High port charges and unnecessary delays occasioned by inefficiencies in clearing of cargo

Recommendation

- Reduce the electricity tariff to heavy steel industries by at least 50% to make local products competitive in the regional markets
- Develop clear procedures and guidelines for smooth implementation of BKBK and local content – especially for large scale infrastructure project with a high demand of steel
- Implement the Trade Remedies Act (2017) which seeks to deal with unfair trade practices such as dumping, subsidizing and import surges.

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