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

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

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

A publication of the Kenya Association of Manufacturers (KAM)

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

PILLAR 1: Competitiveness and level playing field

a. Improve 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.

b. 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.

c. 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.
- 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.

d. 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.

e. 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

f. 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.

g. 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.

h. 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 2: Enhance market access

a. 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 Governors, County Procurement Committees and County Boards.
- iv 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
- v Increase Kenya Trade Remedies Agency's capacity to conduct investigations and enforcement of anti-dumping laws.

b. 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.

c. 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 4: SME's development

a. 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 3: Pro-industry policy and institutional framework

a. 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.

b. 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.

c. 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 5: Industrial sustainability and resilience

a. Adoption of KAMs industrial manifesto proposals by political parties and both levels of government.

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- ii Adoption of the industrial manifesto by both levels of government.

b. Ensure peaceful 2022 general elections and transition

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

c. 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

d. 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

e. 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.

f. 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

g. 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

h. 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.

i. Enhance Digitalization in manufacturing industry

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