EXECUTIVE SUMMARY

The Manufacturing Priority Agenda (MPA) 2024 details advocacy priorities that KAM deems valuable in driving industrialization agenda to achieve the envisaged manufacturing sector contribution to GDP to 20% by 2030 (Vision 20BY30). It is imperative to underscore the need for an environment that creates and enhances collaboration between the government and the private sector to shape public policy for the common good. Through deliberation, information about investment opportunities and bottlenecks is elicited.

The theme of this year's MPA is "Steering economic growth through the manufacturing sector for common good". The Priority Agenda is hinged on four pillars, namely:

- Global Competitiveness
- Export-led Industrialization
- SME development
- Agriculture for Industry (A4I)

KAM is grateful to the government for some of the achievements realized in 2023. For instance, manufacturers are now able to claim back input VAT on KPA charges; finalization of the National Tax policy which the Association hopes will lead to a predictable and stable tax environment; Finance Act, 2023 removed earnings before interest, taxes, depreciation and amortization (EBITDA) from 30% restriction applied to interest local loans; removal of VAT on exported services to promote exports; conclusion of Kenya-EU EPA that was signed on 23rd December 2023, just to mention a few.

To create a globally competitive manufacturing sector in Kenya, the government can consider pursuing the following: Reduce regulatory burden on manufacturers; promote access to quality, affordable and reliable energy for manufacturing; reduce transport and logistics costs; sustain the fight against illicit trade; create manufacturing centric counties; ensure stable and predictable tax policies; lower the cost of industrial inputs; incentivize prompt payment culture; avail affordable long-term credit to manufacturers; enhance environmental and sustainable regulatory compliance; and pro-industry skills development. To promote export-led industrialization, the government can consider enhancing access to domestic market; optimizing market access opportunities under EAC Common Market; diversification and optimization of international market access in bilateral and multilateral agreements; and enhancing competitiveness of manufactured exports. Manufacturing SMEs remain central to Kenya's industrialization agenda. SMEs in manufacturing can be promoted through access to markets and finance, and improved governance. KAM believes that Agriculture for Industry has the potential of creating a tide that will lift all boats and is willing to work with both levels of government to facilitate availability of industrial inputs for agro-processors.

KAM acknowledges the role the government can play in nudging new industries. Globally, supportive industrial policies have taken the form of subsidies, loans, infrastructure, and other kinds of support. We appeal the government to work closely with manufacturers, among other private sector players, when developing industrial policies to ensure that they promote rather than stifle industrial growth. The real question about industrial policy is not whether it should be practiced, but how.

Anthony Mwangi
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)

KENYA ASSOCIATION OF MANUFACTURERS
Driving Global Competitiveness
60+ Years OF ADDING VALUE

MANUFACTURING PRIORITY AGENDA (MPA) 2024

Steering economic growth through the manufacturing sector for common good

Steering economic growth through the manufacturing sector for common good

1 PILLAR 1: GLOBAL COMPETITIVENESS

a. Reduce regulatory burden

- **Regulatory review and reform:**
  - Review existing regulations to identify redundancies, inefficiencies, and outdated rules.
  - Realign existing national government institutions and counties to remove overlapping and duplicating mandate.
  - Simplify and streamline regulatory system to reduce compliance costs for businesses.
  - Adequate and responsive public participation processes on new and existing policies and laws.
- **Harmonization and standardization:**
  - Harmonize regulations across different counties and realign existing fees, charges and levies imposed by various government agencies and regulatory bodies.
  - National government agencies and counties to create sharing platforms to facilitate compliance and reduce costs for businesses.
- **Compliance support:**
  - Establish institutional procedures to handle compliance matters relating to industries such as closures and recalls and overall assisted support.
  - Develop compliance support mechanisms and corrective action plans collaboratively with manufacturers to avoid local brands being destroyed.

b. Promote access to quality, affordable and reliable energy for manufacturing

- With average consumption growth of 14%, and keeping the case a revenue neutral with lower tariffs, industry to enjoy reduction by Ksh 2.4 kWh from 19.93 for CI & SC to 17.49.
- KPLC to save Ksh 18.7B from cost of purchase through reduction of system losses, from the current 23% to 13%. The CI & SC will save Ksh 10.6B.
- Utilization of geothermal plants should be optimized from the current 62% to a higher value to reduce average energy costs.
- Time of Use (ToU) should be restructured to incentivize industry to operate during off-peak hours.
- Thermal power plants should only be used as alternatives and not as base load plants to lower the cost of fuel.
- Complete works at Mariakani 400/220kV substation and commissioning of the same to optimize use of 400kV line from Isinya to Mariakani.
- Upgrade Lessos substation to improve power stability in the North Rift.
- Complete Suswa-Narok-Kisii line to improve power stability in Western Kenya.
- Decommission the 60MW thermal power plant at Muhoroni.
- KPLC to improve power reliability indices, to provide confidence to manufacturers and investors.
- Operationalize Net Metering Regulations.
- Open captive power generation space by establishing a green channel for licensing of green energy generation.
- Fast track regulations on power sales from generators directly to manufacturers
- Lift the existing moratorium on new power plants to open negotiations for new capacity power plants and restore investor confidence.
- Regularize establishment of the fuel price stabilization fund by establishing a management structure.

c. Reduce transport and logistics costs

- Remove port charges for importing raw materials and intermediate products.
- Sustain an efficient and seamless movement of containers at the ports by enhancing existing collaborative and coordination frameworks with port stakeholders.
- Review KRC rail charges to match the road market rates to sustain uptake of SGR.
- Prioritize construction of MGR and SGR sidings in industrial areas as well as rehabilitation of railway lines in industrial areas to enhance last mile connectivity and reduce cost of transport.
- Simplify and promote Authorized Economic Operator accreditation processes to increase its uptake for enhanced import and export clearance processes.
- Create a framework between roads agencies and county governments to enhance industrial road upgrading and maintenance.

d. Sustain the fight against illicit trade

- Enhance IPR compliance through coordinated enforcement with line agencies that support the government in expanding its tax revenue base, promote health and safety of consumers, food security and innovation and value addition.
- Intensify awareness on matters of illicit trade to targeted groups including users, producers, governments.
- High level reporting (The Cabinet) of the interagency reports relating to illicit trade and adoption of the SOPs for the multi-agency team.
- Address the underlying issues that incentivize illicit trade such as excise duty regime.
- Focus on the implementation of the IPR Recordation Regulations that came into effect on 1st January 2023.
- Enhance inter-agency collaboration, co-ordination, accountability, and transparency in the enforcement against illicit trade.

e. Manufacturing centric counties

- Transformational manufacturing responsive County Annual Development Plans, policies, and budgets.
- Support initiatives to harmonize county levies, fees, and charges by the county governments including the reintroduction of the County Governments (Revenue Raising Process) Bill and the County licensing (Uniform procedures bill) that provide mitigation mechanisms.
- Support other emerging county advocacy engagements.

f. Ensure stable and predictable tax policies

- Finalize and implement a pro-industry National Tax Policy.
- Introduce a lower VAT rate for raw and intermediate products to reduce the cost of finished goods.
- Any levy, fee or charges should be proposed through the National Treasury and subsequently passed through national and county finance bills and supported by an impact assessment study.
- Revert Investment Deduction Allowance to the previous provision: 100% for Nairobi, Mombasa, and Kisumu and 150% outside of Nairobi, Mombasa and Kisumu.
- Plant and Machinery under Chapter 84 & 85 should be VAT exempt to reduce cost of investment.

g. Lower the cost of industrial inputs

- Reduce IDF rate from 2.5% to 1.5% for raw materials, intermediate inputs, industrial machinery and spare parts of Chapters 84 & 85.
- Remove excise duty and Export and Investment Promotion Levy on raw materials, intermediate inputs, and packaging materials.
- Adhere to the philosophy behind the EAC CET structure.

h. Incentivize prompt payment culture

- Establish a Tax Refund Fund to cater for all refunds.
- Both the national and county governments to create a three-year plan to clear pending bills.
- Implement the 60-day payment period provided under the Public Procurement and Assets Disposal Regulations, 2020.
- Fast track the enactment of the Prompt Payment Bill, 2021 to enhance compliance.
- All government purchases to be done through IFMIS, thus enable faster reporting of local procurement, address prompt payment as well as enhance transparency and accountability.

i. Avail affordable long-term credit to manufacturers

- Capitalize Kenya Development Bank to avail long-term finance to manufacturers.
- Repurpose KIRDI to provide cost-effective research solutions to manufacturers.

j. Enhance environmental and sustainable regulatory compliance

- Both the national and county governments to fully implement the National Sustainable Waste Management Act, 2022.
- Finalize and fully operationalize the draft EPR Regulations, 2022 on solid waste management.
- Provide incentives to industries that embrace principals of circular economy.
- Promote ESG principles in both the public and private sectors.
- Unpack the "carbon trading" for industries to create opportunities through favourable policies and regulatory frameworks.

k. Pro-industry skill development

- Create a policy framework to allow coordinated formation of sector specific SSACs, harmonization of the same and operationalization of the National Skills Council.
- Align and strengthen skills assessment bodies (Kenya National Qualifications Authority, National Industrial Training Authority, TVET Authority, Commission for University Education) to reduce duplication and operationalize recognition of prior learning and certification of industry experts.
- Incentivize industry to support skills development (internships, attachments, work-based learning) through tax rebates and tax relief among other incentives. This includes operationalization of the NITA and TVETA Act, and operationalization of the TVET tax rebate for paid internships as per Finance Act, 2021.
- Support the scaling up of CBET uptake in TVET institutions and industries, nationally, through increased awareness.
- Strengthen collaboration between industry and training institutions through a framework that supports research, commercialization of innovations, and industry engagement.
- Facilitate learners through increased funding for TVET students, including financial support during industrial attachments and internships.
- Strengthen industry and training linkages through creation of a single labour database management system, upskilling and incentivizing of career/ industry liaison officers.
- Strengthen entrepreneurship and mentorship through incubation centres in TVET and higher learning institutions, commercialization of existing centers of excellence and linkages of the same to industry.

2 PILLAR 2: EXPORT-LED INDUSTRIALIZATION

a. Drive an efficient domestic market

- Fast track the adoption and full implementation of the Local Content Policy and guidelines.
- Enforce 40% or more threshold of public procurement from local manufacturers.
- Monitor and evaluate the implementation of the BKBK strategy by the various MDAs vs the Preferential Procurement Master Roll.
- Review, update and gazette the Preferential Procurement Master Roll by the Ministry of Investments, Trade, and Industry.
- Capitalize KETRA's capacity to conduct investigations and enforcement of trade remedies.
- Address domestic market access challenges, including prompt payment, illicit trade and duplicate fees and charges.
- Address policy distortions that disadvantage local manufacturers against imports.

b. Optimization of market access opportunities under EAC Common Market

- Comprehensively address policy misalignments that disadvantage Kenya's competitiveness in the EAC including tax policy and administration.
- Drive agenda on Buy East Africa Build East Africa.
- Drive implementation of the EAC Common Market.
- Establishment of bonded warehouses in strategic markets, including DRC and South Sudan.
- Address Kenya's competitiveness challenges within EAC.
- Address outstanding issues under the EAC CET 2022.
- Comprehensive review of the EAC Rules of Origin to address market access challenges.
- Fast track the implementation of the EAC NTB Act.
- Promptly resolve non-tariff barriers and tariff barriers to trade affecting Kenya.
- Develop country specific market penetration strategies to enhance Kenya's utilization of EAC opportunities and recent entrants into the EAC.

c. Diversification and optimization of international market access in Bilateral and multilateral agreements

- Advocate for AGOA extension by mid-2024 by to least 20 years.
- Integrate market access component in the US-Kenya Cooperation agreement.
- Export development program to increase Kenyan exports under EU-EPA and Kenya UK FTA.
- Fast track finalization of the outstanding issues on the AFCFTA and TFTA.
- Export readiness capacity building for manufacturers to take advantage of bilateral and multilateral trade agreements.
- Enhance utilization and optimization of foreign diplomatic and commercial presence in addition to diaspora community to drive exports.
- Value chain development and promotion to drive exports diversification, value added exports and entry into higher economically complex products.
- Improve ease and cost of doing business in line with business reforms agenda to improve Kenya's competitive industrial performance to attract investment and improve exports competitiveness.
- Fast track addressing non-tariff barriers and tariff barriers to increase market access.
- Develop route to market ecosystem support to support market penetration and route to market systems for new exporters / exports.
- Develop and implement country specific strategies on priority markets within Kenya's FTA scope.

d. Enhance competitiveness of manufactured exports

- Ensure that all taxes (custom duties, excise duty, levies, VAT) on raw materials are exempted/ remitted to exporters.
- Jointly with exporting manufacturers, develop pre-agreed KPIs.

3 PILLAR 3: SME DEVELOPMENT

a. Market Access

- Ministry of Investments, Trade and Industry to regularly update and implement the Preferential Procurement Master Roll in support to the BKBK Strategy.
- Incentivize export-led growth for SMEs through subsidized standardization fees and subsidized cost of registration for IPR.

b. Access to finance

- Give a 5-year tax moratorium to SMEs to enhance cashflow and foster sustainability beyond the initial 5-year period.
- Enact and implement other pending MSME enabling legislations/bills such as the start-up policy.
- Increase budgetary allocation to the KIE to increase the size and number of loans offered.

c. Governance

- Enact and implement the Local Content Bill, 2018.
- Review and update the current MSE policy to align with the current government structure under the Ministry of Cooperatives and MSME development.
- Fast track implementation of the reviewed MSE policy.

4 PILLAR 4: INDUSTRIALIZING AGRICULTURE

Promote agro-industry value chains

- Create an ecosystem to implement outcomes of the sector deep dives and integrate the industry-led value chains.
- Develop the selected agro-industry value chains.
- Support the development of a supportive ecosystem.