EXECUTIVE SUMMARY

For the government to increase the manufacturing sector's GDP contribution to 20% by 2030, create jobs, grow taxes and promote manufactured exports, we need to focus on the following:

In order to create a globally competitive manufacturing sector in Kenya, we need to have a stable and predictable policy environment. This can be achieved through strict adherence to the National Tax Policy that amongst others seeks to ensure a stable and predictable tax environment, including allowing major tax changes after every four years. This is bearing in mind that private sector activity cannot thrive under uncertainty. Also important is the need to adhere to the principles behind the EAC CET structure that ensures that raw materials have a CET rate of 0%; a CET rate of 10% for intermediate inputs not abundantly found in EAC; a CET rate of 25% for intermediate inputs found abundantly in EAC and 35% for finished goods. These CET principles should also act as a guide while imposing domestic taxes, especially the Excise Duty Act. The National Tax Policy should be complemented by a National Industrialization Policy – the current one should be reviewed. Other considerations for promoting industrial competitiveness include ensuring affordable energy especially the cost of electricity and energy which should be comparable to those in the regional competitors such as Uganda, Tanzania, Ethiopia and Egypt. The government should also bolster the fight against illicit trade that not only denies the government tax revenue but harms businesses through unfair competition and poses health risks to consumers. Competitive industrial sectors promote market access in the domestic, regional and international markets.

Liquidity is the "blood" that keeps businesses running. The government should ensure timely refund of VATs to businesses. This includes immediate settlement of the estimated Ksh. 15 billion of outstanding VAT refunds and increasing monthly allocation of VAT refunds to at least Ksh. 4 billion. It is critical to adequately capitalize public financial institutions such as KIE and KDC to enable them to offer long-term loans and at a single-digit interest rate. This is because manufacturing enterprises have a long maturation period, requiring patient capital.

Kenya must leverage domestic, regional and international markets to promote export-led industrialization. This can be assured through the promotion of the Buy Kenya Build Kenya (BKBK) policy; creation of a scheme that ensures no domestic taxes or levies are applicable to export goods to make them competitive; leveraging market access opportunities under AfCFTA, EU-EPA, UK-FTA, AGOA among other trade arrangements. Massive efforts by the government are required to ensure renewal of the AGOA trade regime.

Manufacturing SMEs growth and development can be promoted by ensuring access to affordable credit and markets and improving their governance frameworks as they grow. Some of the measures that can be deployed to increase access to finance include giving a 5-year tax moratorium to SMEs to enhance cashflow and foster sustainability beyond the initial 5-year period; enacting and implementing other pending SME-enabling legislations/bills such as the Start-up Policy; ring-fencing 20% of Credit Guarantee Scheme funds specifically for the manufacturing sector and recapitalizing the Credit Guarantee scheme to increase loan amounts to at least Ksh. 20 million and term loans repayment up to 8 years.

KAM believes that Agriculture for Industry (A4I) is the tide that can lift the fortunes of not only the manufacturing sector, but also other economic sectors. This is through robust backward and forward linkages between the agriculture and manufacturing sectors. Some of the interventions that can promote this agenda include the establishing public databases of farmers and products in the country to enhance offtake sourcing by industries; providing appropriate fiscal and other relevant incentives to Agro-processors; reinvigorating extension services in the counties; ensuring availability of affordable and certified farm inputs such as seeds and fertilizer and devising appropriate climate change mitigation and adaptation strategies to ensure a resilient agricultural sector.

Tobias Alando
Chief Executive

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

MANUFACTURING PRIORITY AGENDA (MPA) 2025

Achieving Kenya's prosperity through accelerated and sustainable manufacturing growth

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PILLAR 1. GLOBAL COMPETITIVENESS

a. Ensure stable and predictable policies
- Implement the National Tax Policy guidelines in the entire budget making process.
- Align national tax approaches to the principles of the Common External Tariff (CET).
- Revise and implement a National Industrial Policy.
- Subject to impact analysis for all tax and regulatory proposals.

b. Reduce regulatory burden
- Undertake parastatal reforms in line with fiscal consolidation efforts.
- Eliminate multiple fees, levies, and charges by government agencies.
- Align any regulatory levy, fee, or charges with the national budget making process through the National Treasury and subsequently passed through National Finance Bill and County Finance Bills and supported by an impact assessment study.

c. Lower the cost of industrial raw materials and inputs
- Lower import duties for manufacturing raw materials, intermediate and inputs including IDF and RDL rates to 1.5% to create a differential with finished goods.
- Remove domestic taxes on locally produced or imported industrial inputs.
- Eliminate double taxation through explicitly allowing for the offset of inputs by allowing offsets where the finished good is not excisable.
- Exempt plant and machinery under Chapter 84 and 85 from VAT to incentivize investments.

d. Promote access to quality, affordable and reliable energy for manufacturing
- Implement the Presidential special nighttime electricity tariff for manufacturers, to reduce costs by 50 percent and eliminate the cap for full daytime electricity consumption.
- Fast-track Regulations on Open Access Energy Market
- Remove VAT on levies imposed of fuel prices
- Complete works on key substations including Mariakani 400/220kV and Lessos 400/132kV
- Review of 1megawatt (MW) capping requirement for captive power generation.
- Removal of 6% growth requirement on Time of Use Tariff Policy.
- Lift moratorium on new power plants and fast-track energy auction market.

e. Reduce transport and logistics costs
- Enhance and sustain an efficient and seamless movement of containers at the ports by enhancing existing collaborative and coordination frameworks with port stakeholders.
- Prioritize construction of meter gauge railway (MGR) and standard gauge railway (SGR) sidings areas as well as rehabilitation of railway line in industrial areas to enhance last mile connectivity and reduce cost of transport.
- Fast-track the construction and maintenance work on key roads under the mandate of County Government, Kenya Rural Roads Authority (KeRRA), Kenya Urban Roads Authority (KURA) and the Kenya National Highways Authority (KeNHA) to support ease of transportation of raw materials to the industries and finished goods to the market.
- Ensure that any new charges, fees and levies recently introduced by various government agencies are commensurate to the service being rendered in line with World Trade Organization (WTO) obligation on trade facilitation.
- Remove the dollarization of levies and fees charged by government agencies on trade facilitation.

f. Sustain the fight against illicit trade.
- Intensify awareness on matters of illicit trade to targeted groups including users, producers, governments.
- Intensify the fight against illicit trade through the establishment of a well-coordinated high level enforcement multi-Agency Team in the country.
- Enhance inter-agency collaboration, co-ordination, accountability, and transparency in the enforcement of illicit trade.
- Address the underlying issues that's incentivize illicit trade such as excise duty regime.

g. Create manufacturing centric counties
- Harmonize regulations across different counties and realign existing fees and levies imposed by various counties.
- Fast track the enactment of the Government Owned Entities Bill, 2024.
- Implement the County Licensing (Uniform Procedures) Act, 2024.
- Finalize County Governments (Revenue Raising Process) Bill 2023.

h. Increase cashflow to manufacturers
- Recapitalize Kenya Development Corporation (KDC) to provide long-term funding to manufacturers with a single digit interest rate cost.
- Establish a tax refund fund to cater for all refunds to businesses.
- Amend law to provide refund of verified refunds reflected on KRA iTax system (Credit adjustment vouchers).
- Reduce withholding VAT rate from 2% to 1% and have it removed after one year.
- Implement a 60-day payment period provided for under the Public Procurement and Assets Disposal (PPAD) Regulations, 2020.
- Incentivize prompt payment culture by fast-tracking the enactment of the Prompt Payment Bill, 2021 to enhance compliance.

i. Create a conducive macroeconomic environment
- Government to commit to a fiscal consolidation path to continuously reduce fiscal deficit.
- Ensure a stable exchange rate regime
- Ensure a single-digit inflation rate
- Ensure a favourable domestic interest rate regime to reduce cost of credit

j. Enhance environmental and sustainable regulatory compliance
- Harmonization of overlapping of environmental policies and legislations.
- Development of guidelines to operationalize the EPR Regulations 2024
- Enhance manufacturers compliance with EPR through establishment and proper functioning of producer responsibility organizations.
- Provide incentive to industries to embrace principles of Circular Economy.
- Promote Environment, Social and Governance (ESG) principles in both the public and private sectors.
- Unpack the "carbon trading" for industries to create opportunities through favorable policies and regulatory frameworks.

k. Pro-industry skill development
- Support the operationalization of the National Sector Skills Committees.
- Support and strengthen skills assessment bodies (Kenya National Qualifications Authority, National Industrial Training Authority (NITA), TVET Authority, Commission for University Education) to offer industry relevant training and operationalize recognition of prior learning and certification.
- Support & incentivize industry to support skills development (internships, attachments, work-based learning) through operationalization of the NITA and TVETA Act.
- Support sustainable industrialization through green skills development.
- Support sustainable industrialization through social inclusion in skills development for persons with disabilities (PWDs).

PILLAR 2. EXPORT-LED INDUSTRIALIZATION

a. Export-led industrialization
- Create a scheme that ensures no domestic taxes or levies are applicable to export goods tied to pre-agreed key performance indicators (KPIs) established through a consultative effort between the government and private sector stakeholders.
- Advocate for efficient operations of Export Promotion programmes, including the Export Processing Zones (EPZs) and Special Economic Zones (SEZs).

b. Enhance access to domestic market
- Implement the Public Procurement Preferential Master Roll to compel public institutions to buy locally manufactured goods to implement the Buy Kenya Build Kenya Strategy (BKBK).
- Fast track enactment of legislation to implement the local content policy provisions
- Ensure implementation of fair-trade practices

c. Promote regional and international market access
- Ensure proper implementation of the EAC customs protocol including the imposition of import duties under the common external tariff and non-tariff and technical barriers.
- Pursue the timely extension of the African Growth and Opportunity Act (AGOA) to extend to guarantee preferential market access the United States.
- Conclude tariff offers and rules of origin under the African Continental Free Trade Area (AfCFTA).
- Pursue ooperationalization of the Tripartite Free Trade Area (TFTA).
- Resolve market access challenges in the East African Community (EAC) such as non-tariff barriers (NTBs) and technical barriers to trade (TBT).
- Optimize market access opportunities under European Union Economic Partnership Agreement (EU-EPA) and UK Free Trade Area (FTA).

PILLAR 3. SMES DEVELOPMENT

a. Market Access
- Compel payment of SMEs within 60 days as required under the public procurement and Assets Disposal Act and Regulations to enhance velocity of money for business operations Incentivize SMEs through subsidized regulatory requirements including, standardization fees and subsidized cost of registration for Intellectual Property Rights.
- Enact and implement the Local Content Bill, 2018.

b. Access to finance
- Compel payment of SMEs within 60 days as required under the public procurement and Assets Disposal Act and Regulations to enhance velocity of money for business operations Incentivize SMEs through subsidized regulatory requirements including, standardization fees and subsidized cost of registration for Intellectual Property Rights.
- Enact and implement the Local Content Bill, 2018.

c. Governance
- Implementation of the reviewed MMSEs policy to align with the current governance structure under the Ministry of Cooperatives and MSME Development.

PILLAR 3. AGRICULTURE FOR INDUSTRY

a. Promote agro-industry value chains
- Establish public databases system of farmers and products in regions to enhance offtake sourcing by industries.
- Provide appropriate fiscal and other relevant incentives to agro-processors.
- Reinvigorate extension services in the counties.
- Ensure availability of affordable and certified farm inputs such as seeds and fertilizer.
- Devise climate change mitigation and adaptation strategies through to ensure a resilient agricultural sector.