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*

## Who we are

KAM is the leading voice of manufacturing and value-add industries in Kenya, since its establishment in 1959.

The Association is committed to securing the socio-economic well-being of Kenyans, and consequently, alleviate inequality in the community. This is through uKAMilifu, which integrates Environmental, Social and Governance (ESG) factors into the Association's role as the leading voice of manufacturing and value-add industries in Kenya.

uKAMilifu seeks to demonstrate industry's wider role in complementing Government's initiatives towards driving development.

Over the years, KAM's work as a dynamic, vibrant and credible voice that unites industrialists, has seen the Association's Membership base grow to over 1,400 industries cutting across 14 sectors. We remain at the forefront in the development of solutions and reimagining both the current and future manufacturing landscape in Kenya.

Our work, geared towards driving the competitiveness and productivity of local industry, endeavours to ensure a dynamic and flourishing manufacturing sector and realize its double-digit contribution to the GDP.

## Our Vision

To be a World Class BMO that effectively delivers services to its members

## Our Mission

To promote competitive and sustainable local manufacturing

## Purpose

To create prosperity for the nation through sustainable industrialization.


A publication of the Kenya Association of Manufacturers (KAM)

# MANUFACTURING PRIORITY AGENDA (MPA) 2025

ACHIEVING KENYA'S PROSPERITY THROUGH ACCELERATED AND SUSTAINABLE MANUFACTURING GROWTH

## MPA 2025: Achieving Kenya's prosperity through accelerated and sustainable manufacturing growth

| | PILLAR | AGENDA |
|---|---|---|
| PILLAR 1 | Global Competitiveness<br> | • Ensure stable and predictable policies<br>• Reduce regulatory burden.<br>• Lower the cost of industrial raw materials and inputs<br>• Promote access to quality, affordable and reliable energy for manufacturing<br>• Reduce transport and logistics costs<br>• Sustain the fight against illicit trade.<br>• Manufacturing centric counties<br>• Increase cashflow to manufacturers<br>• Create a conducive macroeconomic environment<br>• Enhance environmental and sustainable regulatory compliance<br>• Pro-industry skill development |
| PILLAR 2 | Export-led Industrialization<br> | • Enhance competitiveness of manufactured export<br>• Enhance access to domestic market<br>• Promote regional and international market access |
| PILLAR 3 | SMEs Development<br> | • Market access<br>• Access to finance<br>• Governance |
| PILLAR 4 | Agriculture for Industry<br> | • Promote agro-industry value chains |

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# ABBREVIATIONS

| | |
|---|---|
| A.i.A | Appropriation-in-Aid |
| AfCFTA | African Continental Free Trade Area |
| AGOA | African Growth and Opportunity Act |
| A4I | Agriculture for Industry |
| ACA | Anti Counterfeit Authority |
| BKBK | Buy Kenya Build Kenya Strategy |
| CPI | Consumer Price Index |
| CBR | Central Bank Rate |
| CBK | Central Bank of Kenya |
| CIP | Competitive Industrial Performance |
| CET | Common External Tariff |
| CS | Cabinet Secretary |
| CUE | Commission for University Education |
| CGS | Credit Guarantee Scheme |
| COMESA | Common Market for Eastern and Southern Africa |
| CDACCT | Curriculum Development, Assessment and Certification Council |
| ESG | Environment, Social & Governance |
| EMDEs | Emerging Markets and Developing Economies |
| EAC | East African Community |
| EPPO | Export Promotion Programmers Office |
| EOE | Export Oriented Enterprises |
| EMCA | Environmental Management and Coordination Act |
| EPZ | Export Processing Zone |
| EIP | Export and Investment Promotion |
| EPRs | Extended Producer Regulations |
| EPZs | Export Processing Zones |
| EU-EPA | European Union Economic Partnership Agreement |
| EIPL | Export and Investment Promotion Levy |
| FDI | Foreign Direct investment |
| FY | Financial Year |
| FTA | Free Trade Agreement |
| FCC | Fuel Cost Charge |
| GDP | Gross Domestic Product |
| GHG | Green House Gas |
| GBP | Sterling Pound |
| IIFTA | International Institute of Tropical Agriculture |
| IMF | International Monetary Fund |
| IPR | Intellectual Property Rights |
| IDR | Issuer Default Rating |
| KeRRA | Kenya Rural Roads Authority |
| KURA | Kenya Urban Roads Authority |
| KeNHA | Kenya National Highways Authority |
| KNQA | Kenya National Qualifications Authority |
| KAM | Kenya Association of Manufacturers |
| KPIs | Key Performance Indicators |
| KIRDI | Kenya Industrial Research and Development Institute |
| KDC | Kenya Development Corporation |
| KRA | Kenya Revenue Authority |
| KIE | Kenya Industrial Estates |
| MITI | Ministry of Investment, Trade, and Industry |
| MGR | Meter Gauge Railway |
| MPA | Manufacturing Priority Agenda |
| MSMEs | Micro-Small and Medium Entreprises |
| NPLs | Non-Performing Loans |
| NSE | Nairobi Securities Exchange |
| NITA | National Industrial Training Authority |
| NTBs | Non-Tariff Barriers |
| OSR | Own Source Revenue |
| PWDs | Persons with Disabilities |
| PPAD | Public Procurement and Assets Disposal |
| PROs | Producer Responsibility Organization(s) |
| RPL | Recognition of Prior Learning |
| RIA | Regulatory Impact Assessment |
| RDL | Railway Development Levy |
| SADC | Southern African Development Corporation |
| SOPs | Standard Operating Procedures |
| SMEs | Small Medium Entreprises |
| SDT | State Department for Trade |
| SSACs | Skills Advisory Committee |
| SSA | Sub-Saharan Africa |
| SGR | Standard Gauge Railway |
| TVETA | Technical and Vocational Education and Training Authority |
| TVET | Technical and Vocational Education and Training |
| ToT` | Time of Use Tariff |
| TBT | Technical Trade Barriers |
| TBT | Non-Tariff Barriers |
| TFTA | Tripartite Free Trade Area |
| TFA | Trade Facilitation Agreement |
| US | United States |
| USD | United States Dollars |
| UK | United Kingdom |
| UNIDO | United Nations Industrial Development Organization |
| VAT | Value Added Tax |
| WDI | World Development Indicators |
| WEO | Word Economic Outlook |
| WTO | World Trade Organization |
| SEZs | Special Economic Zones |

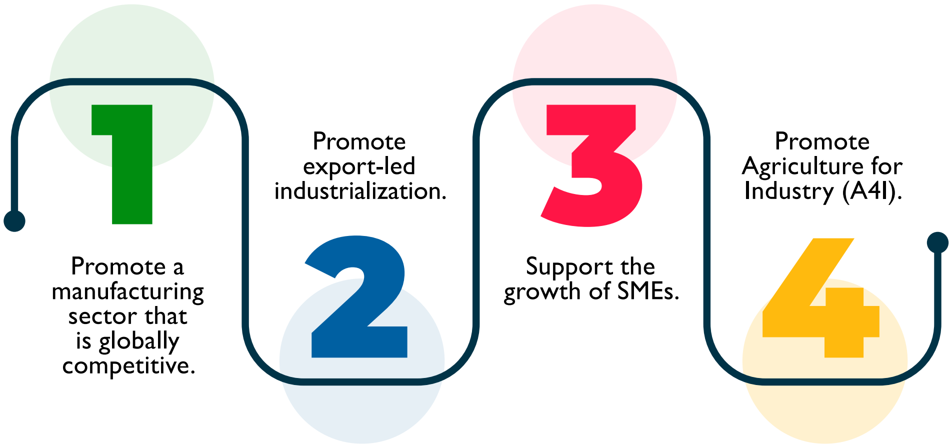
# FOREWORD

Industrialization (manufacturing) has traditionally played a key role in economic growth, both the developed and developing countries. It has long been accepted that modern economic growth requires moving resources out of agriculture into industry, and then out of industry into services. This is referred to as the "normal" pattern of structural transformation. Structural transformation characterized by manufacturing sector growth proved useful in realizing high and sustainable economic growth in the developing world and newly developed countries such as South Korea. However, there has been a generalized decline of manufacturing GDP contribution at global level and in individual countries. This trend has been described as premature de-industrialization. Premature deindustrialization is not good news for developing nations such as Kenya. The consequences are already visible in the developing world, Kenya included. In Latin America, manufacturing has shrunk, informality has grown, and economy-wide productivity has suffered. In Africa, urban migrants are crowding into petty services instead of manufacturing, and despite growing Chinese investments, there are yet few signs of a real resurgence in industry.

The manufacturing sector in Kenya has the potential to create good jobs for the estimated 5.7% of the unemployed population (out of the total labour force) in 2023, especially for the youth in the country. KAM believes that manufacturing sector, with the right support from the government, can create the much-needed good jobs in the country. Even though there is no generally accepted definition of good jobs; as noted by Rodrik & Sabel (2020), "a good job enables at least a middle-class existence, by a region's standards, with enough income for housing, food, transportation, education, and other family expenses, as well as some saving". According to Good Jobs Institutes "*A good job needs to meet people's basic needs and offer conditions for engagement and motivation*".

Good jobs will in turn grow the middle-income class, which forms the largest spending in the world, driving increased consumption of manufactured goods and services. According to Banerjee & Duflo (2008), middle-income class are those who live on between US$2 and US$10 a day, implying those who have escaped poverty (earning more than US$ 2 a day). These middle-income earners will become the engine that drives the economy for prosperity of the nation, leaving no one behind.

To spur the manufacturing sector in Kenya, the government needs to focus on the following broad four areas:




Additionally, there are signs that the economy requires an economic stimulus plan. We are currently grappling with rising non-performing loans, almost zero credit growth to the private sector and reduction of activity in the construction sector. A well-designed stimulus program will benefit everyone, including the manufacturing sector through increased demand of locally produced goods.

**Jane Karuku, MGH**
Board Chairperson

# 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

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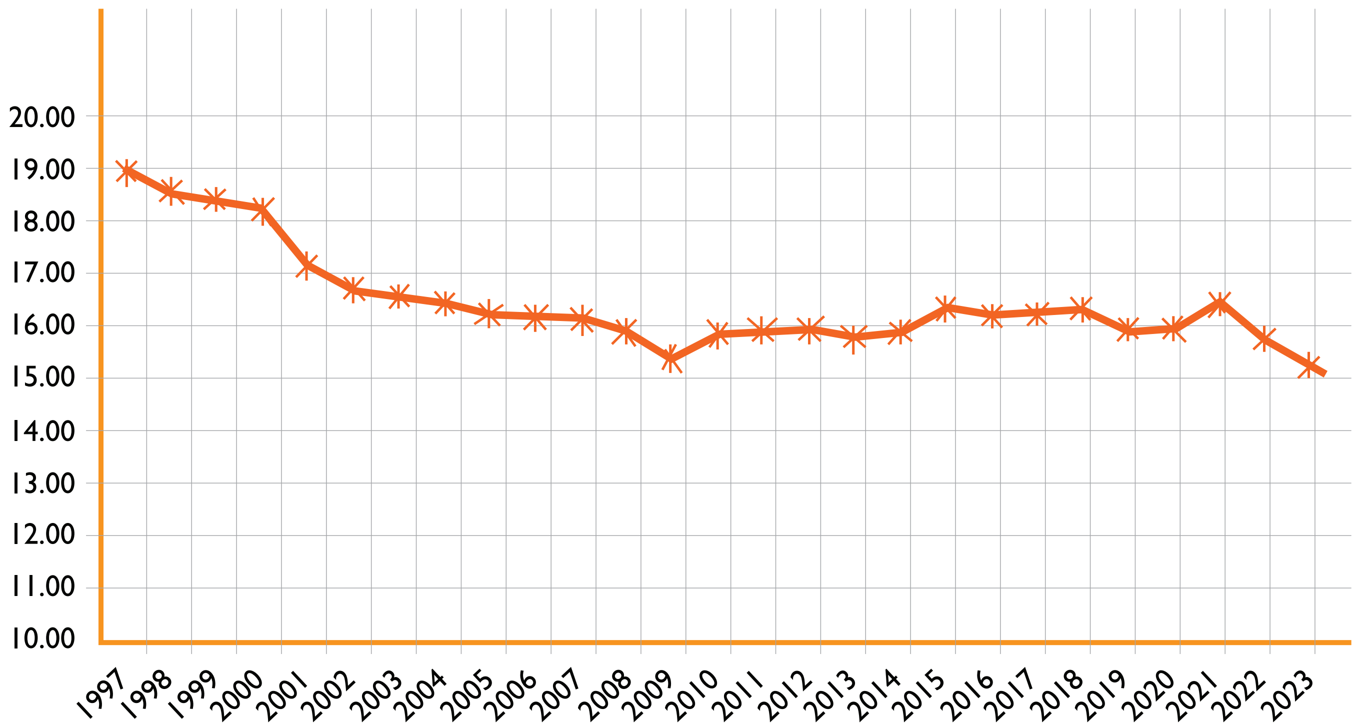
# 1. INTRODUCTION

## 1.1. Background information

Industrialization (manufacturing) has traditionally played a key role in economic growth in both the developed and developing countries. It has long been accepted that modern economic growth requires moving resources out of agriculture into industry, and then out of industry into services.[1] This is referred to as the "normal" pattern of structural transformation. Structural transformation characterized by growth of the manufacturing sector proved useful in realizing high and sustainable economic growth in the developing world and newly developed countries such as the South Korea. However, there has been a generalized decline of manufacturing GDP contribution at the global level (Figure 1.1) and in individual countries. This trend has been described as premature deindustrialization.

### Figure 1.1: Manufacturing, value added (% of GDP)




*Data source: World Development Indicators (WDI)*

Premature deindustrialization is not good news for developing nations such as Kenya. The consequences are already visible in the developing world. In Latin America, as manufacturing has shrunk, informality has grown, and economy-wide productivity has suffered. In Africa, urban migrants are crowding into petty services instead of manufacturing, and despite growing Chinese investment there are yet few signs of a real resurgence in industry. (Rodrik, 2016).

The manufacturing sector in Kenya has the potential to create good jobs for the estimated 5.7% of the unemployed (out of the total labour force) in 2023 especially for the youth in the country. There is no generally accepted definition of good jobs. It depends on a country's context such as the level of productivity and economic development, cost of living and incomes among others. Rodrik & Sabel (2020), note that ***"a good job enables at least a middle-class existence, by a region's standards, with enough income for housing, food, transportation, education, and other family expenses, as well as some saving"***. According to Good Jobs Institutes, "A good job needs to meet people's basic needs and offer conditions for engagement and motivation".[2]

Growth of the manufacturing sector will create jobs, reduce income inequality and consequently reduce poverty levels. This will in turn grow the middle-income class which forms the largest spending in the world driving increased consumption of goods such as manufacturers and services. There are many definitions of middle-income class. Banerjee & Duflo (2008) define middle-income class as those who live on between US$2 and US$10 a day implying that those who have escaped poverty (earning more than US$ 2 a day) earn middle-income status while Birdsall (2010) defines middle-income class as those who earn more than US$ 10 a day.

Do countries with a larger "middle class" grow faster? Several economists believe that the answer to this question is in the affirmative. Banerjee and Duflo (2008) identify three arguments that are commonly made. The first argument is that the middle class is where entrepreneurs that foster innovation and growth emerge from. A second argument stresses middle class "values" that encourage accumulation of human capital and savings. A third argument suggests the consumption power of the middle class leads to diversification and expansion of markets, which allow for the exploitation of economies of scale in production.

## 1.2. Achievements from MPA 2024

- **Tax Laws Amendment Act 2024:** The Act has several wins that are beneficial to manufacturers and the private sector in general, including:
  - o Reduction of threshold for investment deduction from Ksh. 2 billion to Ksh. 1 billion and a reduction of capital gains tax from 15% to 5% which will spur investments.
  - o Another positive note is that Affordable Housing & SHIF are now allowable deductions, this will improve liquidity in the market and increase the capacity to secure loans.

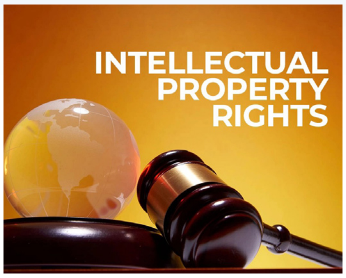
- **Easing the regulatory burden and taxation:** KAM welcomes the Government's proposal to merge 42 parastatals into 20 entities, aiming to enhance operational efficiency and reduce redundancies. This will not only ease fiscal pressure, but also hopefully reduce the burden of fees, levies and charges by government agencies.

- **Cabinet Approval of Dual Training Policy:** The Cabinet has approved the implementation of the Dual Training Policy to address the skills mismatch in the labour market by integrating classroom instruction with hands-on industry training. Under the dual model, the trainees will spend 50% to 70% of their training in industry and the rest in institutions to acquire relevant and practical skills. This policy will ensure strong collaboration between the training institutions and industry, leveraging the latest technologies and expertise to enhance the employability of graduates.


- **The County Licensing (Uniform Procedures) Act 2024 was passed into law:** The Act standardizes fees, levies, and charges at the county level, reducing duplication and simplifying the regulatory framework. The Ministry of Investment, Trade and Industry (MITI) has commenced drafting enabling regulations to make the Act effective.

- **Public participation processes on new and existing policies and laws:** The Kenya Policy on Public Participation, Sessional Paper No. 3 of 2023 was approved by Parliament. The Policy lays out the measures to be taken to ensure effective public participation.

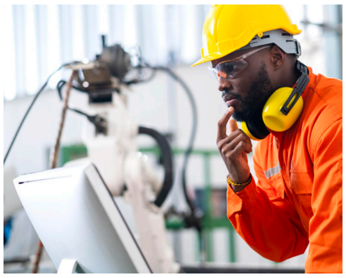
- **Reduction of electricity cost per kWh for manufacturers:** Fuel Cost Charge (FCC) dropped from KES 8.3 (Mar 2023) to KES 3.25 (July 2024), a 60.8% reduction. Time-of-Use (ToU) beneficiaries increased from 1,800 to 2,200 per month, saving businesses KES 890 million (Jan–June 2024).




- **Implementation of the Intellectual Property Rights (IPR):** The Anti-Counterfeit Authority (ACA) has rolled out IPR recordation across sectors in phases to build a database to assist monitoring/enforcement against importation of counterfeit products in the market. This is bearing in mind that imports contribute more than 70% of counterfeit goods found in the Kenyan market.


- **Carbon Trading Framework for industries to create opportunities:** Gazettement of carbon trading regulations has been gazetted to provide a framework for carbon trading.

- **Alignment and strengthening of skills and assessment bodies to reduce duplication:** There is progress in alignment and strengthening of skills assessment bodies to reduce duplication in skills development in the country.



- **Operationalization of Recognition of Prior Learning (RPL):** Progress has been made in supporting the RPL framework. KAM participated in the validation of Recognition of Prior Learning (RPL) assessment and guidelines by the Technical and Vocational Education and Training Curriculum Development, Assessment and Certification Council (TVET CDACC).

- **MSME Policy Review:** KAM is participating in the ongoing comprehensive review of the current MSE policy to align with the existing government structure under the Ministry of Cooperatives and MSME Development. This revision will streamline regulatory processes and ensure the inclusion of medium-sized businesses in accordance with the current framework.


# 2. GLOBAL, REGIONAL AND KENYA'S ECONOMIC OUTLOOK

## 2.1. Global economic outlook

The global economy remained resilient throughout 2024, achieving an estimated growth rate of 3.2%, with a growth forecast of 3.2% for 2025 (Table 2.1). The slow growth in 2024 was attributed to tighter global financial market conditions heightened by geopolitical tensions in the Middle East. Growth in advanced economies is estimated to have grown by 1.8% in 2024, with a growth forecast of 1.8% in 2025. Beneath an appearance of stability, diverse national economies are experiencing varying cyclical adjustments as they recover and realign with their potential output. In the United States, growth is projected to be at 2.7. % in 2025, driven by strong demand and supportive financial conditions. The Euro area's growth is projected to rise to 1.0% in 2025 from 0.8% recorded in 2024 supported by stronger domestic demand despite geopolitical tensions. In the United Kingdom, growth is forecasted at 1.6% in 2025 from 0.9% in 2024 (IMF, 2025).

**United States**

Projected Growth: **2.7% in 2025**
- Strong demand
- Supportive financial conditions

**Euro Area**

Projected Growth: **1.0% in 2025 (up from 0.8% in 2024)**
- Stronger domestic demand
- Geopolitical tensions remain a concern

**United Kingdom**

Projected Growth: **1.6% in 2025 (up from 0.9% in 2024)**
- Gradual economic recovery
- Stabilizing financial conditions

### Table 2.1: GDP growth rates (%) for selected regions of the world 2019-2025

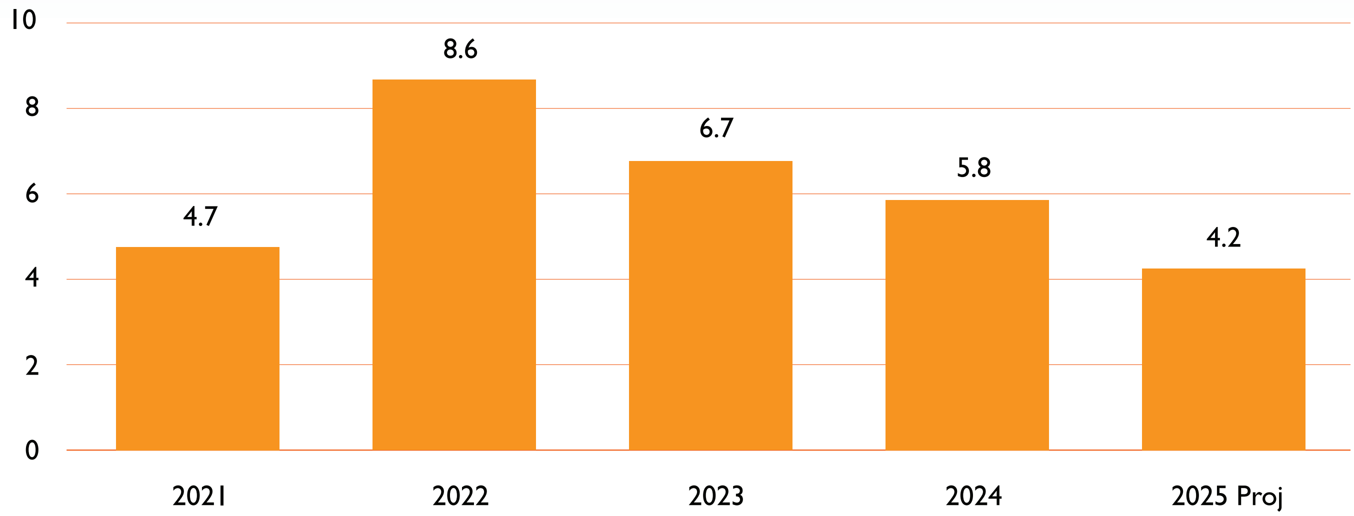
| Global Economic Outlook | 2023 | 2024 Estimate | 2025 Projection |
|---|---|---|---|
| World | 3.3 | 3.2 | 3.3 |
| **Advanced Economies** | 1.7 | 1.7 | 1.9 |
| United States | 2.9 | 2.8 | 2.7 |
| United Kingdom | 0.4 | 0.9 | 1.6 |
| Euro area | 0.4 | 0.8 | 1.0 |
| Japan | 1.5 | -0.2 | 1.1 |
| Germany | 0.3 | -0.2 | 0.3 |
| Italy | 0.7 | 0.6 | 0.7 |
| France | 1.1 | 1.1 | 0.8 |
| **Emerging Markets and Developing Economies China** | 4.4 | 4.2 | 4.2 |
| China | 5.2 | 4.8 | 4.6 |
| Russian Federation | 3.6 | 3.8 | 1.4 |
| India | 8.2 | 6.5 | 6.5 |
| **Sub-Saharan Africa** | 3.6 | 3.8 | 4.2 |

*Source: IMF World Economic Outlook (January 2025)*

Growth in Emerging Markets and Developing Economies (EMDEs) is estimated to have slowed to 4.2% in 2024 from 4.4% in 2023. In 2025, growth performance in EMDEs is projected to match that in 2024 at 4.2%. China's growth is projected to grow gradually to 4.6% in 2025. A priority for China in 2025 is to boost domestic demand. India, which is prioritizing expanding the manufacturing sector, its GDP growth is anticipated to be 6.5% in 2025.

The global headline inflation declined from 6.7% in 2023 to 5.8% in 2024 mainly due to lower commodity prices. It is further projected to decline to 4.2% in 2025, moderating back towards central bank targets (Figure 2.1). Headline inflation rates in the major economies have continued to ease, but at a slower pace due to persistent services-based inflation. Core inflation has remained sticky, mainly driven by services and wage price inflation.

**Figure 2.1: Global headline price inflation trend (annual % change), 2020-2025**



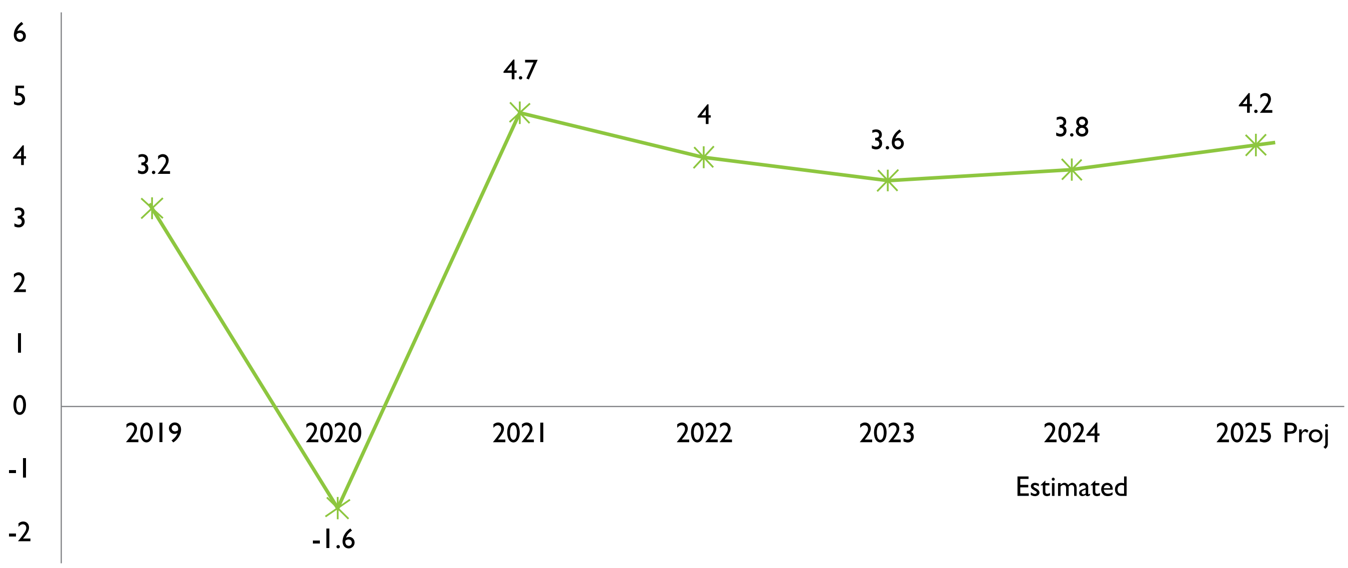

*Source: World Economic Outlook, 2025*

A major source of uncertainty for the global economy in 2025 are policies of the new US President Trump, especially in relation to trade policies. Proposed tariff hikes on imports from China, Canada, Mexico and European Union (EU) will put into question the stability of global trading arrangements under the World Trade Organization (WTO). China, Canada, and Mexico account for about 40% of total value of US imports. Trump seeks to use tariffs to grow the US economy, grow the manufacturing sector to protect jobs and increase government revenue.

## 2.2. Regional economic outlook

Sub-Saharan Africa (SSA) growth is projected to rebound from 3.6% in 2024 to 4.2% in 2025 (Figure 2.2), driven by improved private consumption due to lower inflation and rising real incomes boosting purchasing power.

**Figure 2.2: Regional economic outlook for SSA, (2019-2025)**

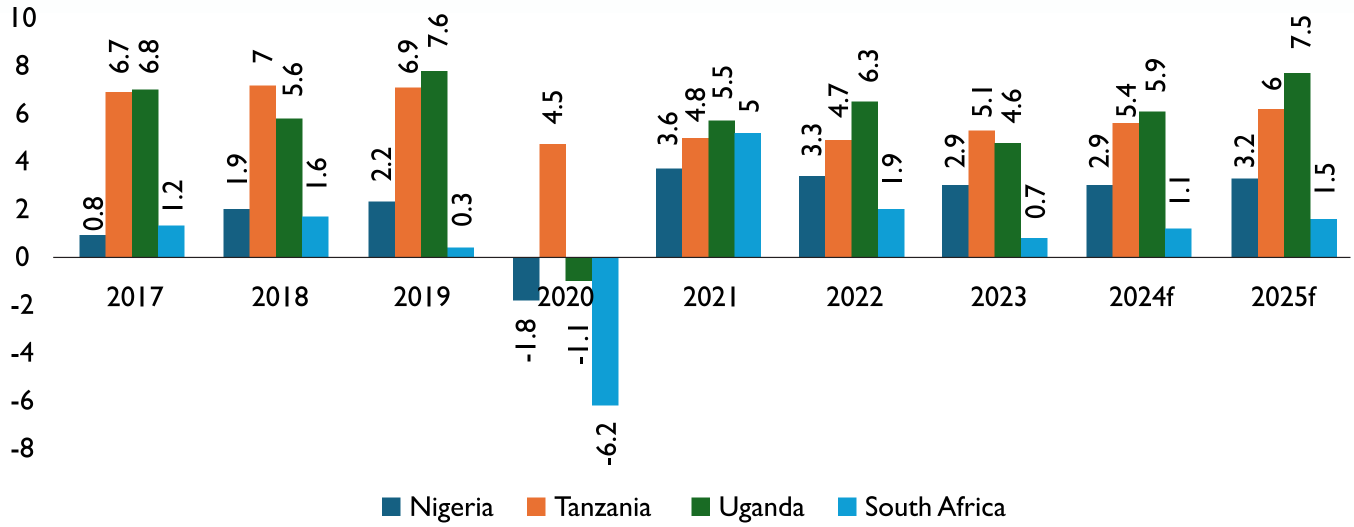



*Data Source: IMF World Economic Outlook January 2025)*

Nigeria's economy is projected to have grown by 2.9% in 2024, supported by strong investment and improving business confidence (Figure 2.3). The slower growth was driven by high inflation, currency instability, and challenges in implementing fiscal reforms such as removal of fuel subsidy and exchange rate adjustments (Africa Development Bank).[1]

[1] https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook

## Figure 2.3: GDP growth (annual %) for selected SSA countries, (2017-2025)

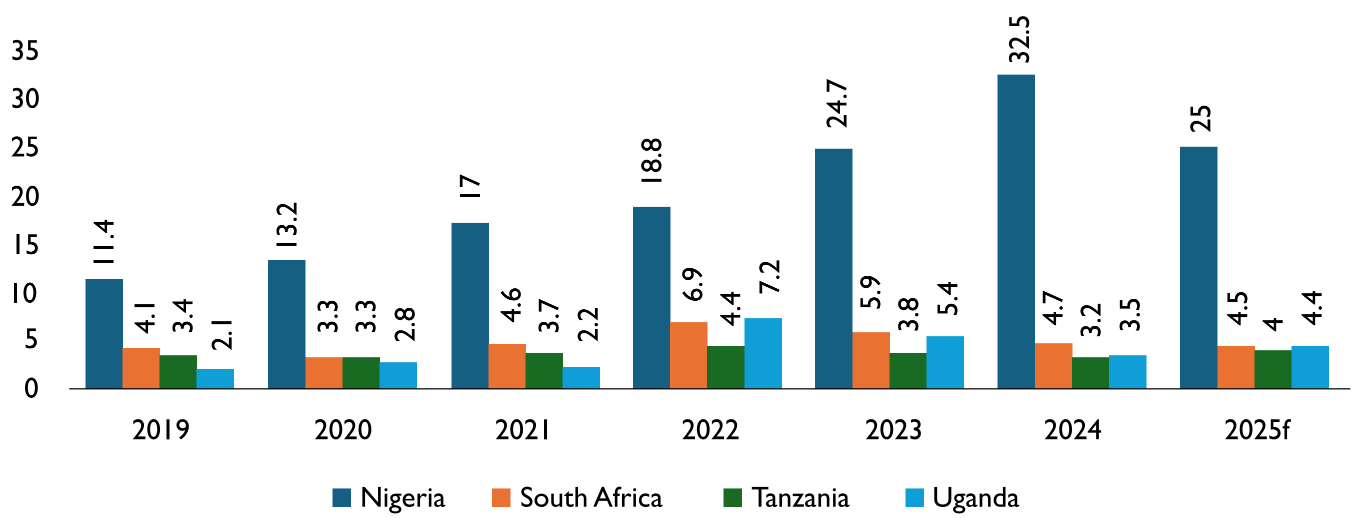



*Data Source: IMF 2024* [2]

South Africa's growth is expected to be broad based, supported by improvement of port and rail infrastructure as well as reduction of power outages. Increased foreign investment in Uganda is anticipated to drive growth, partly owing to improved business confidence and infrastructure investment ahead of new oil production in 2025. Tanzania's reforms aimed at improving the business climate is expected to stimulate growth. These trends underscore the importance of economic diversification and policy reforms to sustain growth in the region.

Inflation trends in SSA reveal diverse experiences shaped by domestic and global factors. Nigeria faced persistently high inflation, which peaked at 24.7% in 2023 due to structural challenges, currency devaluation, and surging food and energy prices (Figure 2.4).

## Figure 2.4: Inflation rate, average consumer prices in selected countries (annual %)




*Data Source: IMF, 2024 (f= projections)*

Tanzania maintained a stable inflation regime through prudent monetary policies and steady food supplies. Meanwhile, Uganda and South Africa experienced moderate inflation fluctuations influenced by food availability, energy price volatility, and power shortages, reflecting the region's broader need for structural reforms and sound monetary policies to address inflationary pressures.

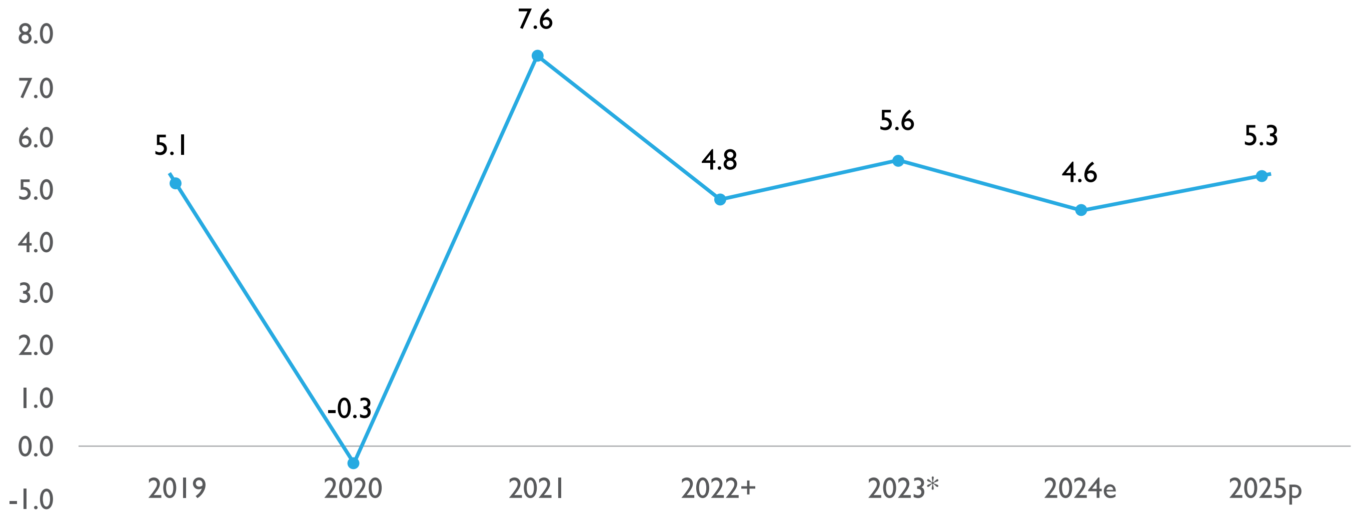
[2] *https://www.imf.org/external/datamapper/ngdp_rpch@weo/oemdc/advec/weoworld?year=2024*

## 2.3. Kenya's economic outlook

### 2.3.1. State of the economy

Kenya's economy is estimated to have grown by 4.6 % in 2024, a reduction from a growth of 5.6 % in 2023 (Figure 2.5).This reflects deceleration of economic activities in the first three quarters of 2024 and the slowdown in private sector credit growth to key sectors of the economy. In the first three quarters of 2024, the economy remained strong and resilient despite its growth being relatively slower than the corresponding period in 2023. In the third quarter of 2024, Kenya's economy grew by 4.0% compared to 4.6% recorded in the second quarter and 5.0% in quarter one[3]. The growth during the first three quarters of 2024 was largely driven by robust performance in the agriculture sector, a modest rebound in the manufacturing sector, and the sustained resilience of the services sector. Growth is expected to pick up to 5.3 % in 2025 and retain the same momentum over the medium term.

**Figure 2.5: Kenya's GDP growth rate 2019-2025**

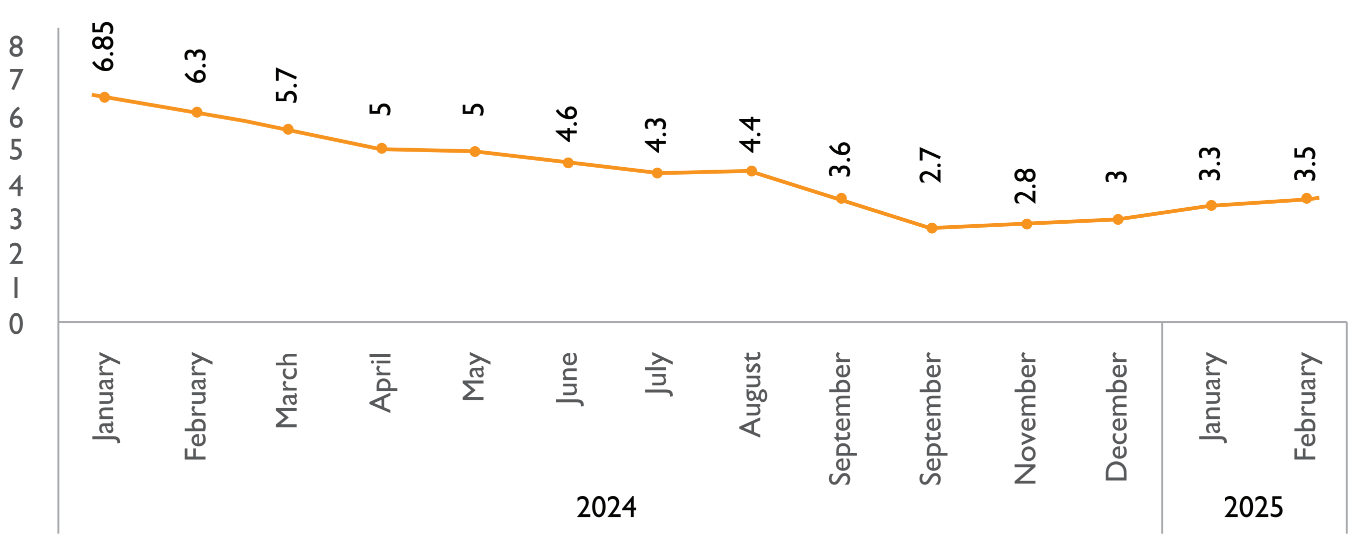



*Source: Kenya National Bureau of Statistics; Note *= Provisional; +=Revised estimate, p=projections*

### 2.3.2. Inflation rate

Overall inflation, as measured by the Consumer Price Index (CPI), has largely remained within the medium-term target band of 5± 2.5 since June 2024. In February 2025, annual inflation rose to 3.5% from 3.3% in January. The increase was driven by higher food and transport prices (Figure 2.6).

**Figure 2.6: Monthly inflation rates January 2024 to February 2025**



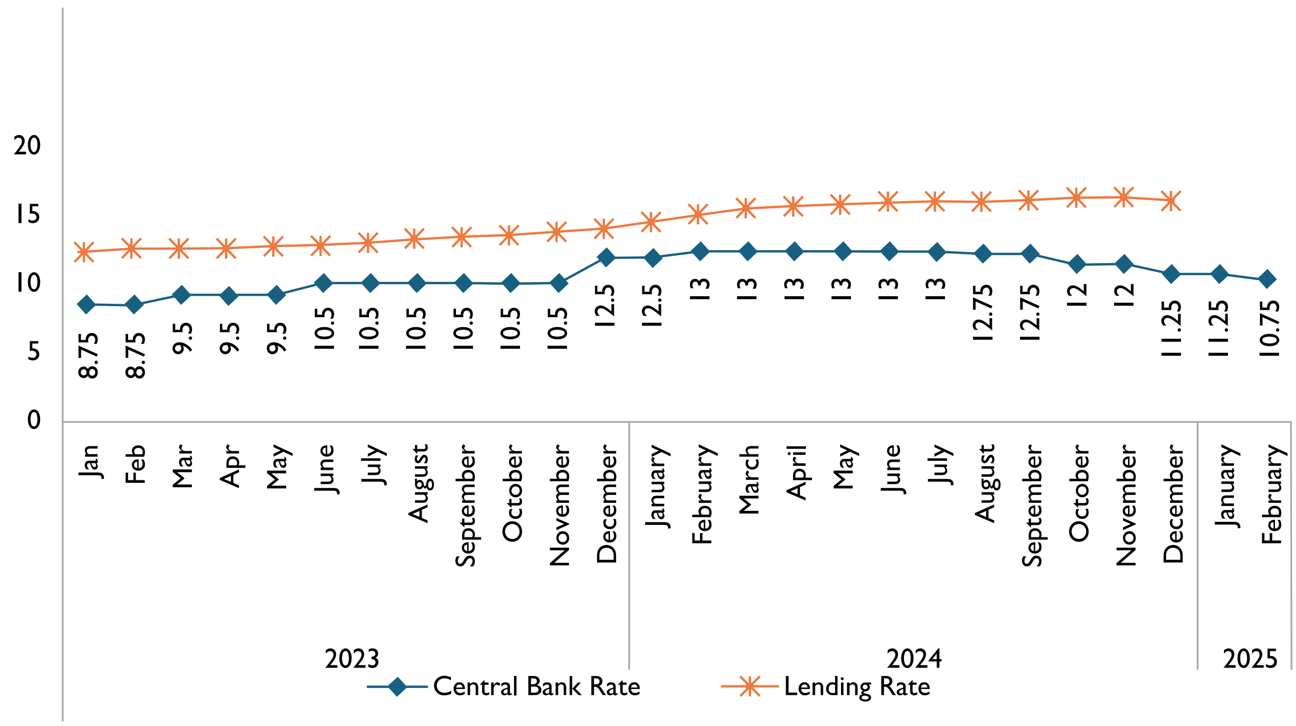

*Data Source: KNBS, Consumer Price Index (CPI) and monthly inflation rates*

[3] *https://www.knbs.or.ke/reports/quarterly-gross-domestic-product-third-quarter-2024/*

### 2.3.3. Interest Rates

Interest rates have declined in line with the easing of monetary policy.The Central Bank of Kenya (CBK) is determined to reduce the cost of credit to stimulate economic growth. This is evidenced by the Monetary Policy Committee (MPC) 6th February 2025 decision to lower the Central Bank Rate (CBR) by 50 basis points to 10.75% from 11.25%. Cash Reserve Ratio (CRR) was also reduced by 100 basis points to 3.25% from 4.25% to complement lowering of CBR to support reduction of interest rates on credit[4]. Figure 2.7 illustrates that the Central Bank Rate (CBR) and the lending rate by commercial banks generally move in tandem.

**Figure 2.7: CBK rate and average lending rate by Commercial Banks (Jan 2023-Feb2025)**



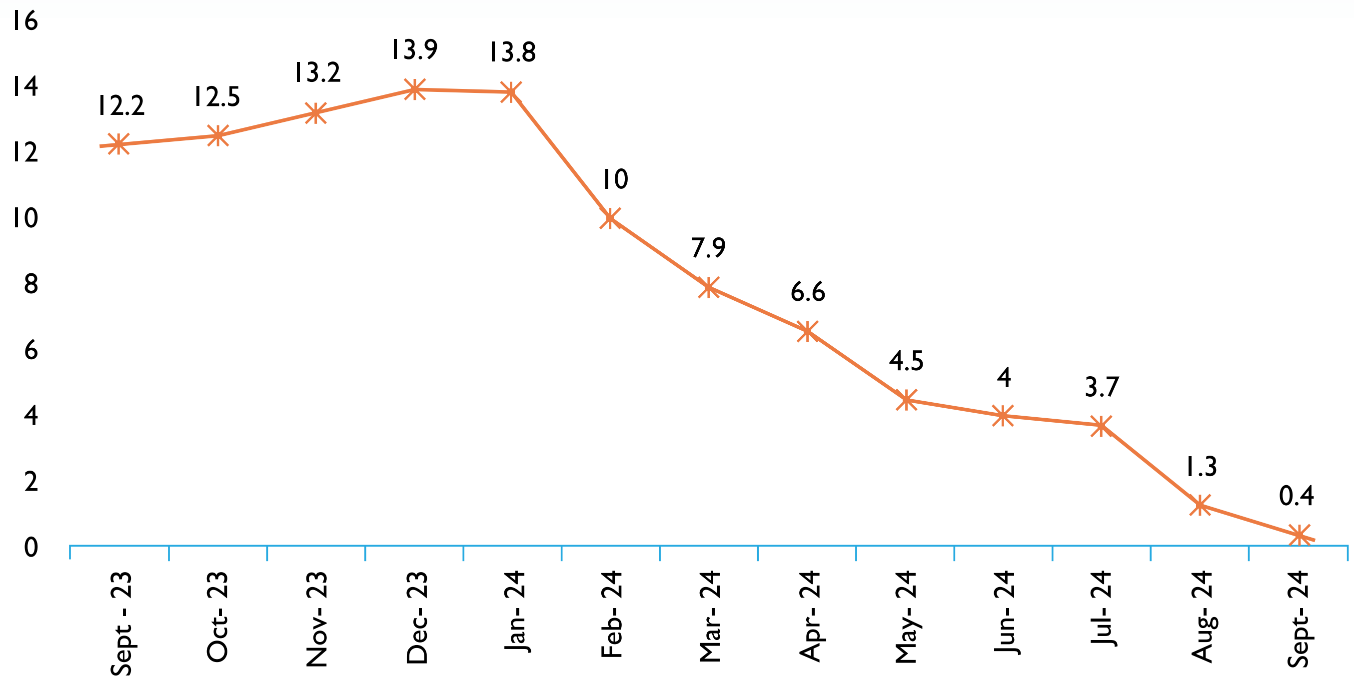

*Data source: Central Bank of Kenya*

In 2024, the weighted average lending interest rate rose consistently from 15.2% in January to a peak of 17.22% in November in tandem with prevailing tight monetary policy stance thereby reflecting high cost of investable funds. Conversely, CBR remains unchanged at 12.5% from January-September 2024, but started to decline from October 2024 and stood at 10.75% in February 2025.

The CBK decision to further reduce the CBR and CRR must have been informed by a steep decline in credit access to the private sector (Figure 2.8). In 2024, access to credit had reduced from 13.8% in January 2024 to 0.4% growth as of September 2024.

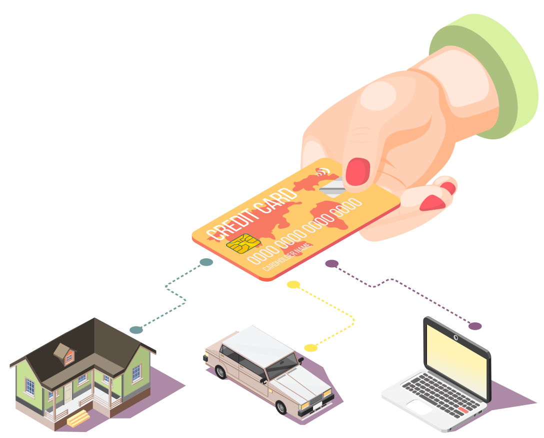
[4] *https://www.centralbank.go.ke/uploads/presentations/1405742204_Monetary%20Policy%20Committee%20Meeting%20Background%20Data%20February%202025.pdf*

**Figure 2.8: Credit to private sector (annual growth rate %)**




*Source: Central Bank of Kenya*

According to the Kenya Bankers Association (KBA), some of the conditions that have weighed on lending to the private sector include rising cost of living reducing capacity of customers to service loans; pending bills and shrinking disposable incomes of households.[5] Capacity of households to access unsecured loans from banks has also been dented by the Housing Levy and Social Health Insurance Fund (SHIF) deductions. However, the government through Tax Laws Amendment Act 2024 eased the burden of these two deductions by making them allowable expenses when computing taxable income.

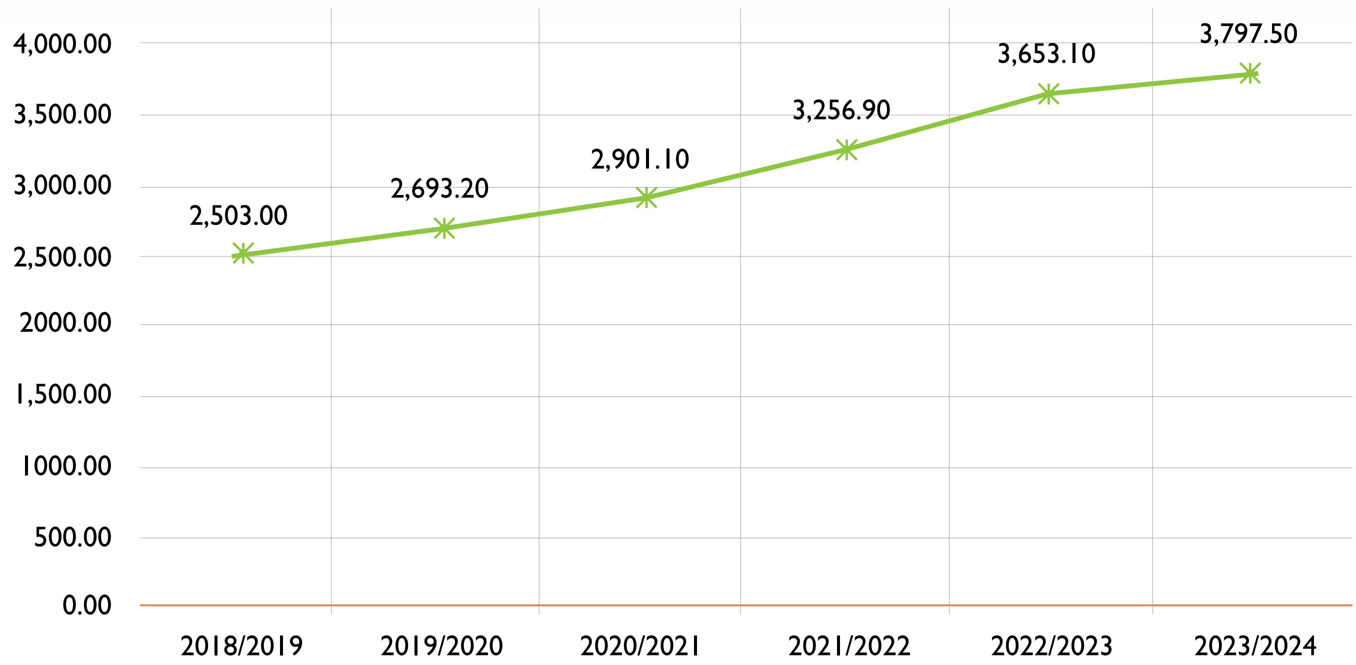


## 2.4. Access to credit by the private sector

The total approved credit for the private sector by both commercial banks and industrial financial institutions in 2024 amounted to Ksh. 3,797.50 billion, an increase of 3.9% from Ksh 3,653.10 billion in 2023 (Figure 2.9). This modest growth could be probably explained by high-interest rate costs as shown in Figure 2.7.

[5] https://www.kba.co.ke/banks-move-to-lower-lending-rates-amid-central-bank-rate-cuts/

## Figure 2.9: Credit to the private sector in Kenya




*Data source: Source: CBK Annual Report & Financial Statements 2023/24*

## 2.5. Non-performing loans

According to CBK annual reports, gross non-performing loans (NPLs) increased from Ksh. 576.1 billion in June 2023 to Ksh. 657.6 billion in June 2024 (Table 2.2). Sectors with the highest stock of NPLs are Trade (Ksh 21.8 billion), Real Estate (Ksh 18.3) billion, Personal and Household (Sh 13.3 billion), Manufacturing (Ksh 12.1 billion) Tourism, Restaurant and Hotels (Ksh 9.5 billion). The increase in NPLs in the period was mainly due to a challenging business and operating environment.

## Table 2.2: Non-performing loans, (2019-2024) (Ksh. Billion)

| | Jun-19 | Jun-20 | Jun-21 | Jun-22 | Jun-23 | Jun-24 |
|---|---|---|---|---|---|---|
| Non-performing loans for manufacturers | 6.81 | 7.95 | 63.8 | 89.4 | 117.5 | 129.5 |
| General Gross non-performing loans | 382 | 435.3 | 435.3 | 514.4 | 576.1 | 657.6 |

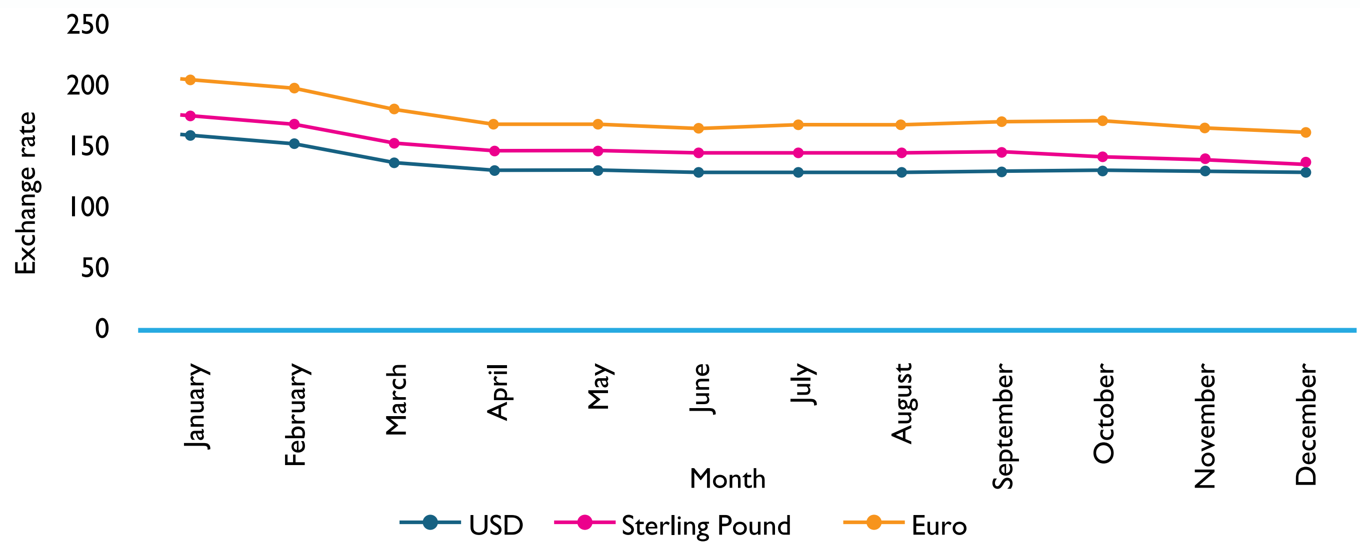
*Source: Source: CBK[6]*


## 2.6. Exchange rate

The Kenyan Shilling has remained stable against hard currencies, which is indicative of confidence in the economy. In the months of November and December 2024, the Kenya Shilling remained stable against the US Dollar, Sterling Pound and the Euro. In 2024, the Shilling strengthened against the US Dollar, from Ksh. 159.69 in January to Ksh. 129.36 in December. A similar trend was noticed against the Pound Sterling and the Euro, exchanging at Ksh. 163.94 and Ksh135.55 in December from 202.88 in January 2024 (Figure 2.10).

[5] *https://www.kba.co.ke/banks-move-to-lower-lending-rates-amid-central-bank-rate-cuts/*

**Figure 2.10: Average monthly exchange rate against hard currencies, (2024)**




*Data source: Central Bank of Kenya*

The strengthening of the shilling, supported by recent foreign exchange reforms, is expected to ease the cost of imported raw materials and capital goods, potentially reducing production costs for manufacturers. This is significant for Kenya's manufacturing sector, which relies heavily on imported industrial inputs, intermediate goods, and capital equipment. Depreciating exchange rates have previously contributed to high production costs for manufacturers.

The Kenya Shilling appreciated against the South African Rand from a high of 8.5 in January closing at 7.11 in December 2024 (Figure 2.11). The Shilling closed the year at 28.24 in December against the Ugandan Shilling from a high of 23.84 in January 2024. The Shilling also appreciated against the Tanzania Shilling, closing the year in December at 19.21 from 15.79 in January 2024.

**Figure 2.11: Average monthly exchange rate against selected currencies in SSA, (2024)**


*Data source: Central Bank of Kenya*

## 2.7. Kenya's public finance

### 2.7.1 Government revenue, expenditure and fiscal deficit

The actual total government revenue in FY 2023/2024 stood at Ksh. 2,724.7 billion (17.1 % of GDP) from Ksh. 2,355.1 billion recorded in the previous fiscal year. The total government revenue including Appropriation-in- Aid (AiA) is projected to rise from 16.9% of GDP in FY 2024/25 to 18.1% of GDP in FY 2025/26 and a further 18.6% of GDP in FY 2026/27. Of the total revenue, ordinary revenue is projected to rise from 14.6 % of GDP in FY 2024/25 to 15.7 % of GDP in FY 2025/26 and further to 16.1% of GDP in FY 2026/27 (Table 2.3).

**Table 2.3: Statement of Central Government Operations (Ksh. billion)**

| | 2022/23 | 2023/24 | 2024/25 | | | 2025/26 |
|---|---|---|---|---|---|---|
| | Actual | Actual | Budget Estimates | Suppl.1 Budget | Suppl.2 Budget | 2025 BPS Projections |
| **Total Revenue** | 2,355.1 | 2,702.7 | 3,343.2 | 3,060.0 | 3,060.0 | 3,516.6 |
| **Ordinary revenue** | 2,041.1 | 2,288.9 | 2,917.2 | 2,631.4 | 2,631.4 | 3,018.8 |
| Ministerial Appropriation in Aid | 313.9 | 413.7 | 426.0 | 428.6 | 428.6 | 497.8 |
| **Total expenditure and net lending** | 3,221.0 | 3604.2 | 3,992.0 | 3,880.8 | 3,880.8 | 4,329.3 |
| Recurrent expenditure | 2,311.6 | 2,678.4 | 2,841.9 | 2,826.2 | 2,826.2 | 3,076.9 |
| Development expenditure | 493.7 | 546.4 | 701.5 | 599.5 | 599.5 | 804.7 |
| County transfer | 415.8 | 380.4 | 444.5 | 451.1 | 451.1 | 442.7 |
| Contingency Fund | - | - | 4.0 | 4.0 | 4.0 | 5.0 |
| Balance Excluding of Grants | (865.9) | (902.5) | (648.8) | (820.9) | (820.9) | (812.7) |
| **Grants** | 23.1 | 22.0 | 51.8 | 52.3 | 52.3 | 53.2 |
| Balance Inclusive of Grants (Cash basis) | (842.9) | (880.5) | (597.0) | (768.6) | (768.6) | (759.4) |
| Adjustment to cash basis | 37.0 | 45.4 | - | - | - | - |
| Balance Inclusive of Grants (Cash basis) | (805.8) | (835.1) | (597.0) | (768.6) | (768.6) | (759.4) |
| Discrepancy | (35.5) | (16.8) | - | - | - | 0.0 |
| **Total Financing** | 770.3 | 818.3 | 597.0 | 768.6 | 768.6 | 759.4 |
| Net Foreign Financing | 310.8 | 222.7 | 333.8 | 355.5 | 355.5 | 213.7 |
| Net Domestic Financing | 459.5 | 595.6 | 263.2 | 413.1 | 413.1 | 545.8 |
| **As a share of GDP (%)** | | | | | | |
| **Total Revenue** | 16.5 | 17.1 | 18.5 | 16.9 | 17.6 | 18.2 |
| **Ordinary** | 14.3 | 14.5 | 16.2 | 14.6 | 15.1 | 15.7 |
| **Recurrent expenditure** | 16.2 | 16.9 | 15.7 | 15.7 | 16.2 | 16.0 |
| **Fiscal deficit** | (5.6%) | (5.3%) | (3.3%) | (4.3%) | (4.4%) | (3.9%) |
| **Total Expenditure and Net Lending** | 22.5 | 22.8 | 22.1 | 21.5 | 22.3 | 22.5 |
| **Total Financing** | 5.4 | 5.2 | 3.3 | 4.3 | 4.4 | 3.9 |

*Source: 2025 Budget Policy Statement*

Government expenditure and net lending in FY 2023/24 was Ksh. 3,605.2 billion from Ksh 3,221.0 billion recorded in the FY 2022/2023. The total expenditure is projected at 22.5% of GDP in FY 2025/26 from 21.5% of GDP in the FY 2024/25. Of the total expenditures, recurrent expenditure is projected at 16.0% of GDP in FY 2025/26 from 15.7% of GDP in FY 2024/25.

Net domestic borrowing during FY 2023/24 stood at Ksh. 595.6 billion. It comprised of Ksh 190.3 billion from Commercial Banks, Ksh 404.3 billion from Non-Banking Financial Institutions, Ksh 2.1 billion to non-residents, and repayment of Ksh. 22.1 billion to the Central Bank (Table 2.4). Other domestic financing amounted to Ksh 21.1 billion.

### Table 2.4: Domestic Financing (KSh Billion)

| | FY2020/21 | FY2021/22 | | FY2022/23 | FY2023/24 |
|---|---|---|---|---|---|
| From CBK | (67.9) | 166.2 | | 81.8 | (22.1) |
| From commercial banks | 230.8 | 179.0 | | 77.0 | 190.3 |
| From non-banks | 327.0 | 425.8 | | 338.2 | 404.3 |
| Change in Net Dom Credit (from end of June) | 491.2 | 770.3 | | | |
| Other domestic financing | 135.7 | (165.0) | | (37.6) | 21.1 |
| Net Domestic Financing | 626.9 | 605.3 | | 459.5 | 595.6 |

*Source: Central Bank of Kenya*[7]

Fiscal deficit is a good measure of the soundness of a country's public finances. In the FY 2023/24, fiscal deficit inclusive of grants stood at 5.3% of GDP, a decline from 5.6% of GDP recorded in FY 2022/2023 (Table 2.3). The overall budget deficit including grants is projected to reduce to 3.9% in the FY 2025/26. The Government of Kenya is keen on achieving a lower fiscal deficit of 3% and addressing debt vulnerabilities as aspired under the EAC Monetary Union Protocol to enhance debt sustainability. The government aims to achieve this by widening the revenue base through taxation and rationalizing expenditure[8].

## 2.7.2. Stock of public debt

Kenya's public and publicly guaranteed debt stock rose by 2.7% from Ksh 10,278.7 billion to Ksh. 10,561.1 billion during the fiscal year to June 2024 (Table 2.5). Domestic debt increased by 12% from Ksh 4,832.1 billion recorded in June 2023 to Ksh. 5,410.3 billion as of June 2024. This increase was driven by a surge in the uptake of Treasury bonds. On the other hand, the external debt decreased by 5.4% from Ksh. 5,446.6 billion recorded in June 2023 to Ksh. 5,150.8 billion in June 2024. The Government continued its efforts to improve the external debt structure by increasing the share of multilateral debt by 5.1% points while reducing the shares of bilateral and commercial debt by 2.25 and 2.9% points, respectively, to enhance debt sustainability.

### Table 2.5: Trends in Kenya's public debt 2020 June-2024 June (Ksh. billion)

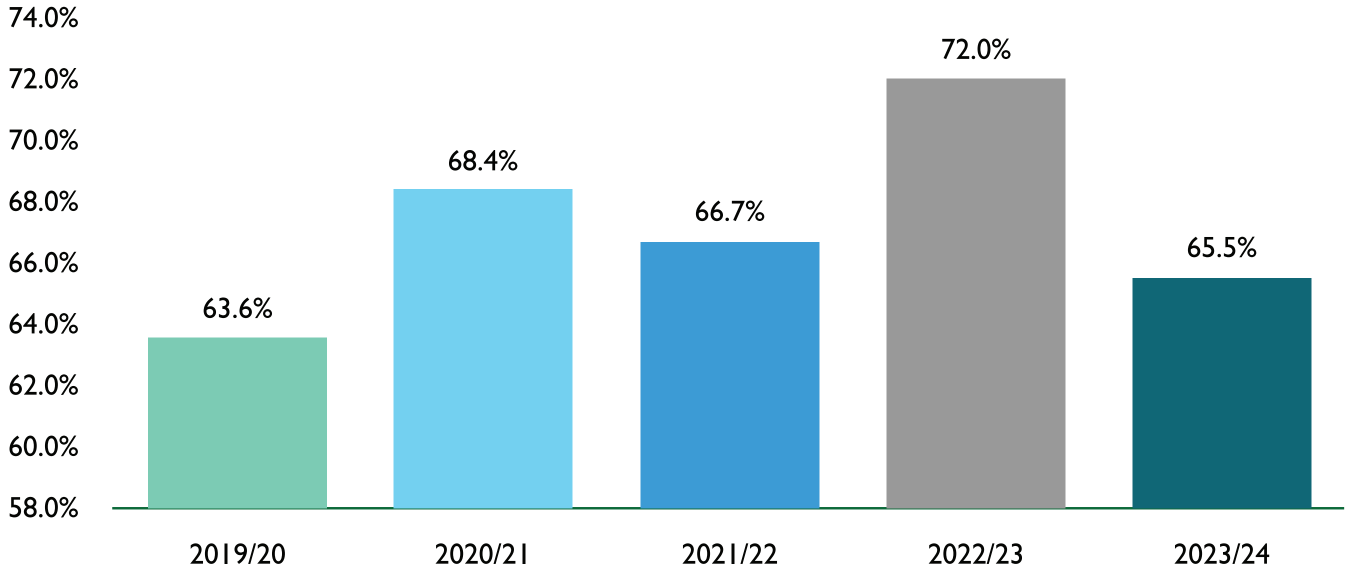
| | Jun-20 | Jun-21 | Jun-22 | Jun-23 | June-24 |
|---|---|---|---|---|---|
| Total Domestic Debt | 3,177.0 | 3,697.7 | 4,288.3 | 4,832.1 | 5,410.3 |
| Total External | 3,515.8 | 3,999.5 | 4290.8 | 5,446.6 | 5,150.8 |
| Total public and publicly guaranteed debt stock | 6,692.8 | 7,697.3 | 8,579.1 | 10,278.7 | 10,561.1 |
| As a % of GDP | 63.6% | 68.4% | 66.7% | 72.0% | 65.5% |

*Data source: Central Bank of Kenya*[9]

[7] https://www.centralbank.go.ke/uploads/cbk_annual_reports/1617898542_2024%20Annual%20Report.pdf
[8] https://www.treasury.go.ke/wp-content/uploads/2023/11/2023-Budget-Review-and-Outlook-Paper_f.pdf
[9] https://www.centralbank.go.ke/uploads/cbk_annual_reports/1617898542_2024%20Annual%20Report.pdf

Kenya's general gross debt as a % of GDP as of June 2024 was 65.5% compared to 72% recorded in 2023 (Table 2.5 and Figure 2.12).

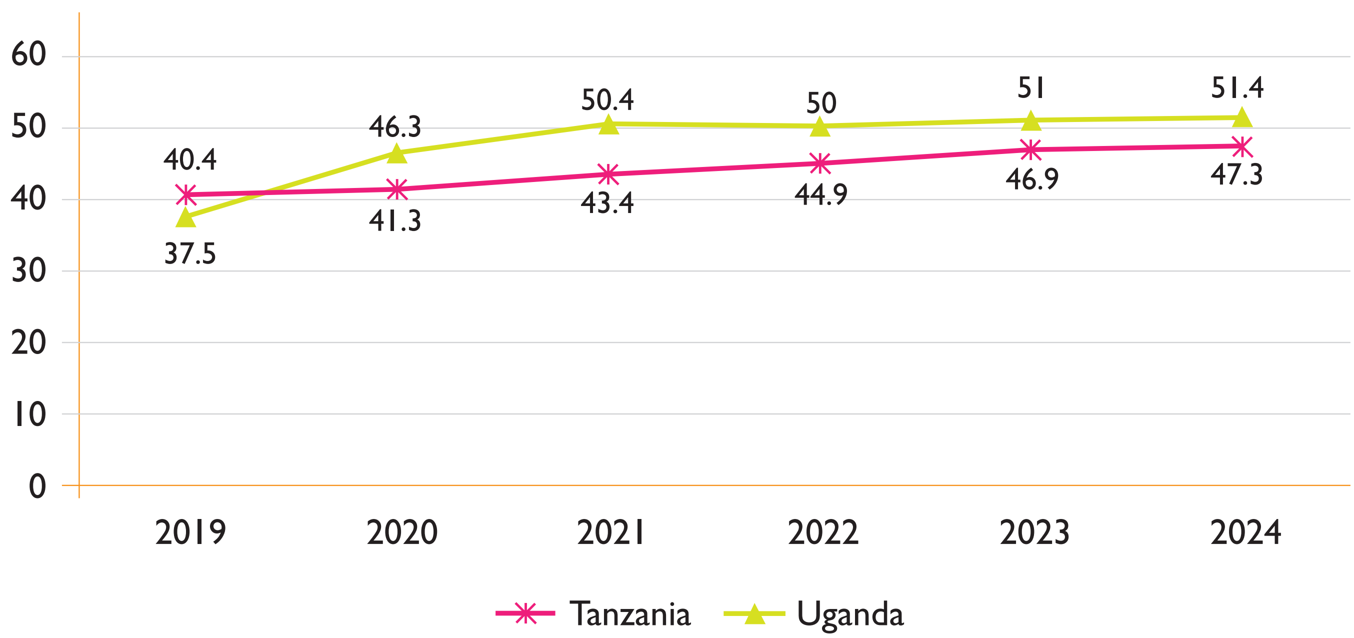
**Figure 2.12: General government gross debt (% of GDP)**




*Source: Data source: Central Bank of Kenya[10]*

Despite the decline, this is higher than the IMF threshold of 50% for developing countries, and much higher when compared to Uganda and Tanzania (Figure 2.13).

**Figure 2.13: General government gross debt (% of GDP)**




*Data source: IMF 2024[11]*

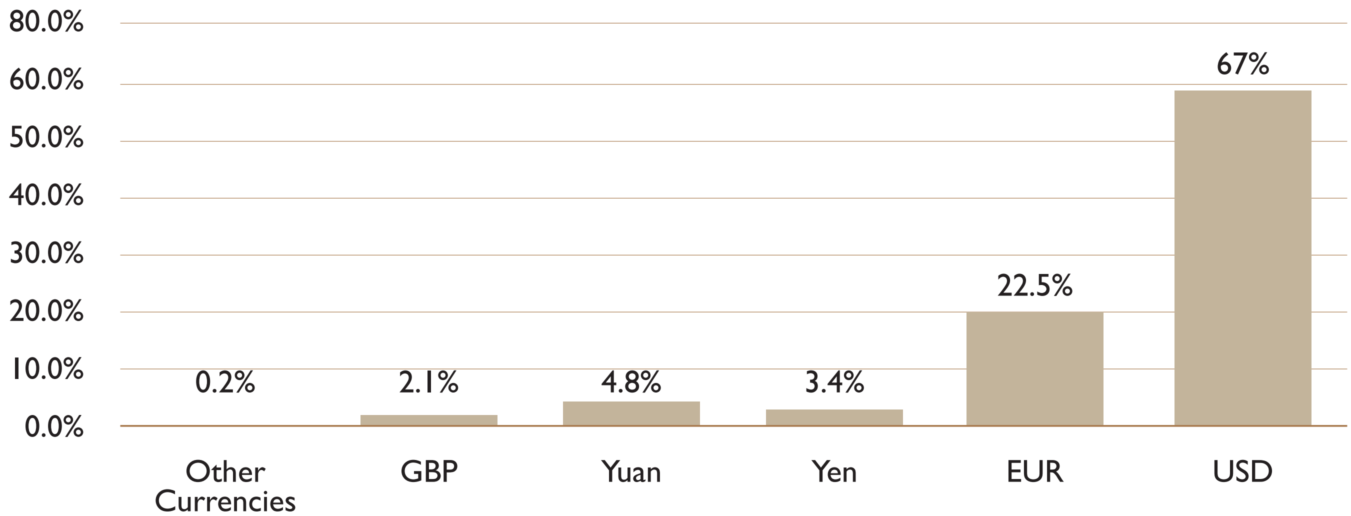
[10] https://www.centralbank.go.ke/uploads/cbk_annual_reports/1617898542_2024%20Annual%20Report.pdf

[11] https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/OEMDC/ADVEC/WEOWORLD?year=2024

## 2.4.4. Currency composition of external debt

The US$ remained the most dominant foreign currency in Kenya's external public debt portfolio (Figure 2.14). The share of external debt held in US$ increased from 66.9% in FY 2022/23 to 67% in FY 2023/24. Share of Euro increased to 22.5% from 21.5% while the portfolio held in Japanese Yen was 3.4%, Yuan at 4.8% and Sterling Pound (GBP) at 2.1%. Other currencies accounted for 0.2% during the period under review.

### Figure 2.14: Currency composition of external debt




*Source: Annual Public Debt Management Report*[12]


## 2.4.7. Kenyan's credit rating

Credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of a client including countries which has implications on the cost of borrowing. In January 2025, Moody's credit rating gave Kenya a positive outlook with a rate of Caa1 (Table 2.6). The change in outlook to positive was driven by the increasing likelihood of Kenya's liquidity risks easing and debt affordability improving over time. Similarly, on 23rd of August 2024, the Standard & Poor's credit rating for Kenya was B-, a stable outlook. Fitch downgraded the country's credit ratings from B with a negative outlook on 16th February 2024 to B- with a stable outlook on 2nd August 2024.

### Table 2.6 Kenya's Credit Rating in 2025

| Agency | Rating | Outlook | Date |
|---|---|---|---|
| Moody's | Caa1 | Positive | 25th January 2025 |
| S&P | B- | Stable | 23rd August 2024 |
| Fitch | B- | Stable | 2nd August 2024 |

*Source: Moody's, Fitch and S& P, 2025*

## 2.8. Kenya's external trade

## 2.8.1. Direction of trade

Africa is the dominant destination of Kenya's exports accounting for 43% of total value of export earnings in 2023 (Table 2.7). Total exports to Africa increased by 21.6% to Ksh. 435 billion in the review period. This growth was

[12] *http://www.parliament.go.ke/sites/default/files/2024-10/Annual%20Public%20Debt%20Management%20Report%202023%202024%20from%20the%20National%20Treasury%20and%20Economic%20Planning.pdf*

mainly supported by an increase in exports to the EAC economic bloc, which accounted for 30.3% of the total export earnings. This illustrates the importance of the African continent and the value of the AfCFTA as an export market which provides a huge market for the 1.3 billion people in the African continent.

### Table 2.7: Total Exports by selected destinations (Ksh. billion)

| Country/region | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
|---|---|---|---|---|---|---|
| EAC | 130.0 | 140.4 | 158.3 | 192.4 | 226.5 | 305,9 |
| Total Africa | 217.6 | 224.2 | 246.1 | 309.3 | 357.7 | 435.0 |
| European Union | 131.2 | 133.4 | 99.3 | 115.8 | 133.2 | 150,1 |
| USA | 47.3 | 51.9 | 49.3 | 59.6 | 79.9 | 64.3 |
| Grand Total exports | 614.3 | 596.7 | 643.7 | 743.7 | 873.1 | 1,007.9 |
| **% Total Africa** | **35%** | **37%** | **38%** | **41%** | **41%** | **43%** |

*Data Source: Economic Survey, 2024*

### 2.8.2. Export structure

In 2023, exports of food and beverages accounted for 44.25% of total exports, followed by non-food industrial supplies at 26.61% (Table 2.8). During this period, the share of domestic exports of fuel and lubricants increased from 1.34% in 2022 to 1.83% in 2023, largely driven by domestic exports of primary fuel and lubricants. The share of domestic exports of machinery and other capital equipment increased from 1.41% in 2022 to 1.63% in 2023.

### Table 2.8: Kenya's export structure, 2014-2022 (% of value) Top of Form

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
|---|---|---|---|---|---|---|
| Food & Beverages | 47.66 | 44.22 | 46.4 | 43.06 | 43.07 | 44.25 |
| Industrial supplies (non-food) | 23.52 | 23.94 | 23.78 | 25.5 | 28.51 | 26.61 |
| Fuel & lubricants | 0.99 | 1.19 | 1.05 | 0.91 | 1.34 | 1.83 |
| Machinery & other capital equipment | 1.25 | 1.93 | 1.68 | 1.78 | 1.41 | 1.63 |
| Transport equipment | 1.12 | 1.22 | 0.88 | 1.06 | 0.97 | 0.72 |
| Consumer goods not elsewhere specified | 25.45 | 27.49 | 26.21 | 27.61 | 24.7 | 24.93 |
| Goods not elsewhere specified | 0 | 0 | 0 | 0.09 | 0 | 0.03 |

*Source: Economic Survey, 2024 * Provisional*

Countries specializing in sophisticated products generally experience faster economic growth. When other factors are equal, nations focusing on goods like those exported by wealthy countries are more likely to see accelerated growth compared to those specializing in other types of goods (Hausmann, Hwang, and Rodrik, 2006). Wealthy nations typically produce goods characteristic of their economic status, while countries manufacturing goods associated with less prosperous economies often remain in a similar economic state. Essentially, countries shape their economic destinies based on the products they manufacture (Hausmann, Hwang, and Rodrik, 2007).

### 2.8.3. Import structure

Kenyan exports primarily consist of raw materials and primary goods (Table 2.8) whereas the import profile comprises mainly intermediate products (industrial supplies) along with other types of value-added products such as machinery, capital, and transport equipment (Table 2.9). Non-food industrial supplies constituted 34.29% of total value of imports in 2023, a reduction from 47.27% in 2022. This underscores Kenya's reliance on imported inputs for processing purposes. This excludes industrial supplies related to food and beverages.

## Table 2.9: Import structure (%) 2018-2023

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
|---|---|---|---|---|---|---|
| Food & Beverages | 9.98 | 10.34 | 10.73 | 10.04 | 10.19 | 13.24 |
| Industrial supplies (non-food) | 34.57 | 43.78 | 49.61 | 49.2 | 47.27 | 34.29 |
| Fuel & lubricants | 19.19 | 18.50 | 13.66 | 17.75 | 26.01 | 25.57 |
| Machinery & other capital equipment | 16.47 | 17.97 | 16.96 | 14.35 | 11.49 | 11.60 |
| Transport equipment | 10.72 1 | 10.55 | 9.95 | 9.45 | 6.91 | 6.62 |
| Consumer goods not elsewhere specified | 8.43 | 8.66 | 9.56 | 9.05 | 7.95 | 7.91 |
| Goods not elsewhere specified | 0.64 | 0.54 | 0.26 | 0.20 | 0.37 | 0.76 |

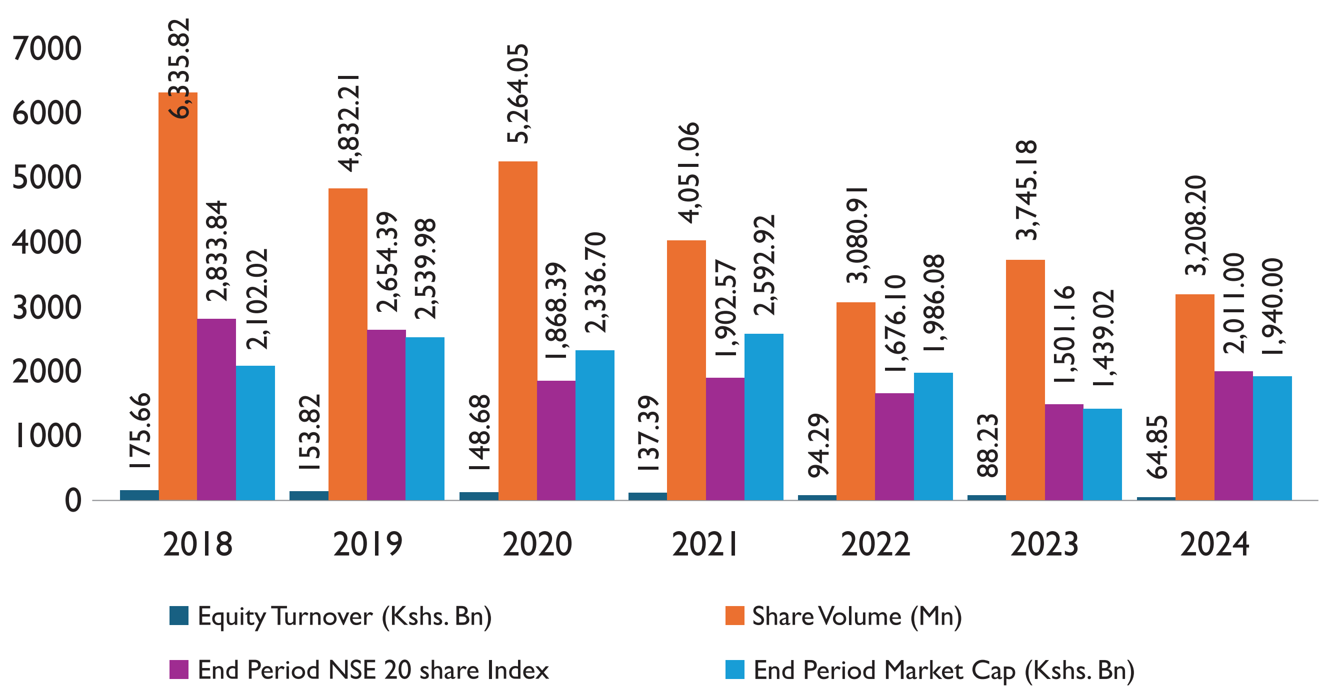
*Source: Economic Survey, 2024 * Provisional*

## 2.9. Performance of the stock market

### 2.9.1. Nairobi Securities Exchange

The performance of the stock market is often used as a barometer to measure the general health of an economy and investor confidence. A rising stock market is usually aligned with a growing economy and leads to greater investor confidence. Investor confidence in stocks leads to more buying activity, which can also help to push prices higher. Figure 2.15 shows that the volume of Nairobi Securities Exchange (NSE) 20 Share Index improved to 1,752.43 points in December 2024, from 1,501 points in December 2023. Market capitalization improved from Ksh. 1,439.02 billion in 2023 to Ksh. 1,940 billion in 2024. The total value of shares traded decreased to 6,208.20 million in Q2 of 2024 from Ksh. 3745.18 million in 2023. The total equity turnover declined to Ksh. 64.85 billion in Q2 of 2024 from Ksh. 88.23 billion recorded in 2023.

### Figure 2.15: Performance of the NSE, 2018 - 2024



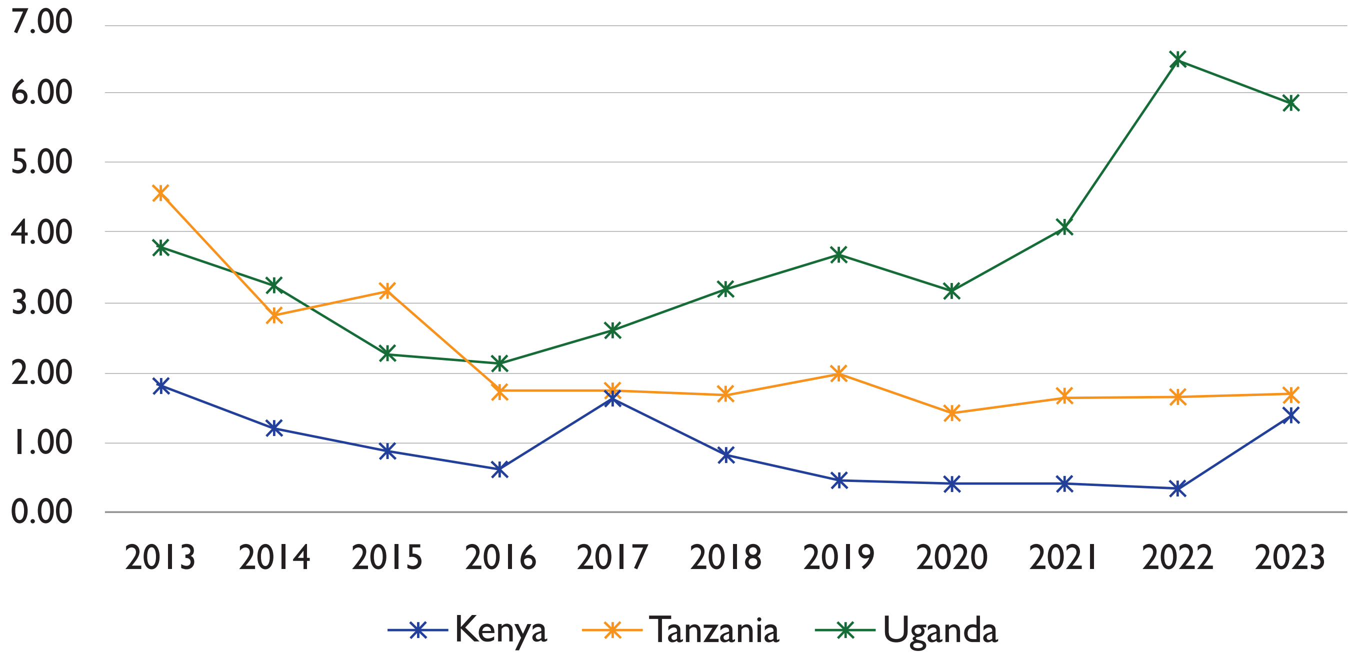

*Data source: Capital Markets Authority[13] and Nairobi Securities Exchange * Equity turnover and Share volume data Includes data only for Q2 2024*

[13] https://www.cma.or.ke/download/69/2024/5429/cma-quarterly-statistical-bulletin-q3-2024.pdf

## 2.9.2. Inflow of foreign direct investments

Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Foreign direct investment (FDI) inflow to Kenya remains relatively weak compared to its neighboring countries, considering the size of its economy and level of development. Figure 2.16 shows Kenya's FDI inflows remain weaker than those of Uganda and Tanzania when measured as a percentage of GDP. From 2013 to 2023, Kenya's FDI has fluctuated significantly, peaking at 1.81% of GDP in 2013 but dropping to 0.35% in 2022, recovering slightly to 1.40% in 2023. Tanzania's FDI inflows have been more stable, averaging between 1.43% and 4.57%, with 1.67% recorded in 2022. Uganda has outperformed both, reaching 6.48% in 2022 and maintaining high levels at 5.86% in 2023, driven by favorable policies and investment opportunities in infrastructure and oil. The data underscores Kenya's need for reforms to address regulatory hurdles and enhance its competitiveness in attracting foreign investments compared to neighbors.

### Figure 2.16: FDI net inflows (% of GDP), 2013 – 2023




*Data source: WDI*

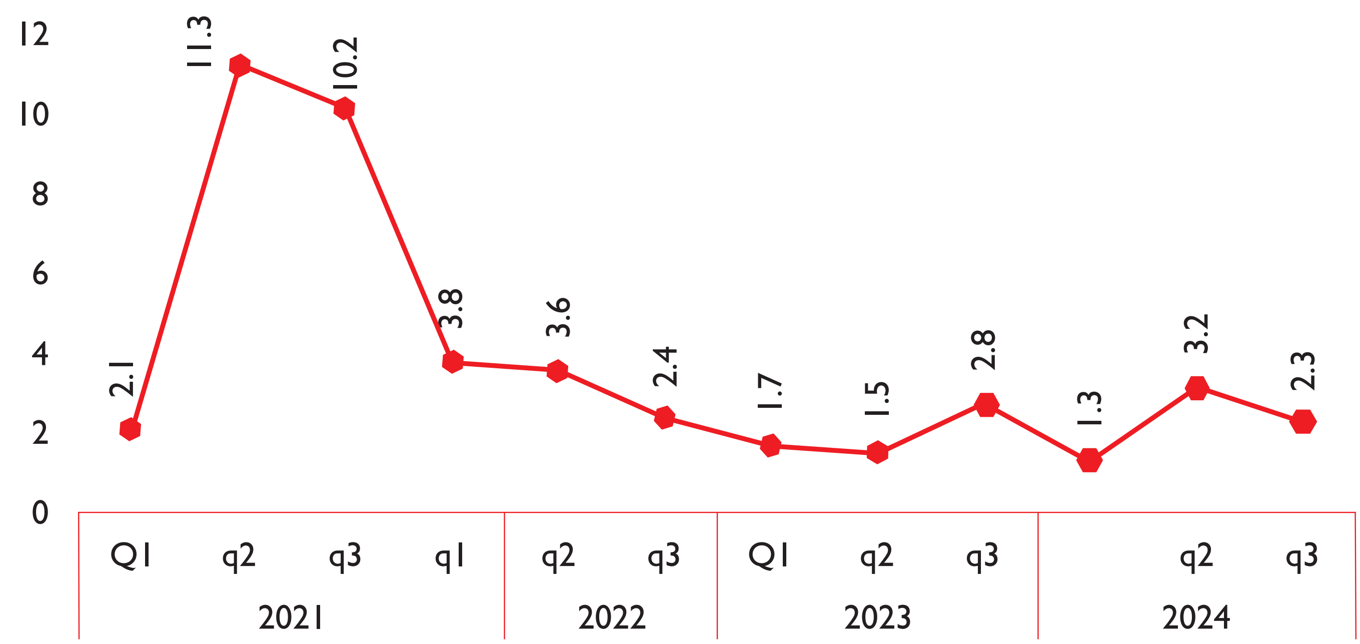
# 3. OVERVIEW OF THE MANUFACTURING SECTOR IN KENYA

## 3.1. Growth of the manufacturing sector

The growth of Kenya's manufacturing sector's real GDP is volatile (Figure 3.1). The highest growth rate by the sector over the period under review was realized in Q2 of 2021 at 11.3%. This surge was driven by a 12.2% increase in the production of non-food products, which was supported by 10.0% growth in motor vehicle assembly and significant growth in the manufacture of galvanized iron sheets (34.5%) and paper and paper products (13.5%). Additionally, the food sub-sector expanded by 6.7%, with notable increases in the production of dairy, bakery, and tobacco products.

In Q2 of 2024, the manufacturing sector's real GDP accelerated to 3.2% compared to 1.5% in the same period in 2023. This growth was driven by increased processing of dairy and tea products as well as cement production. Domestic production of sugar declined by 56.1% in Q3 of 2023.

**Figure 3.1: Manufacturing sector growth (%)**

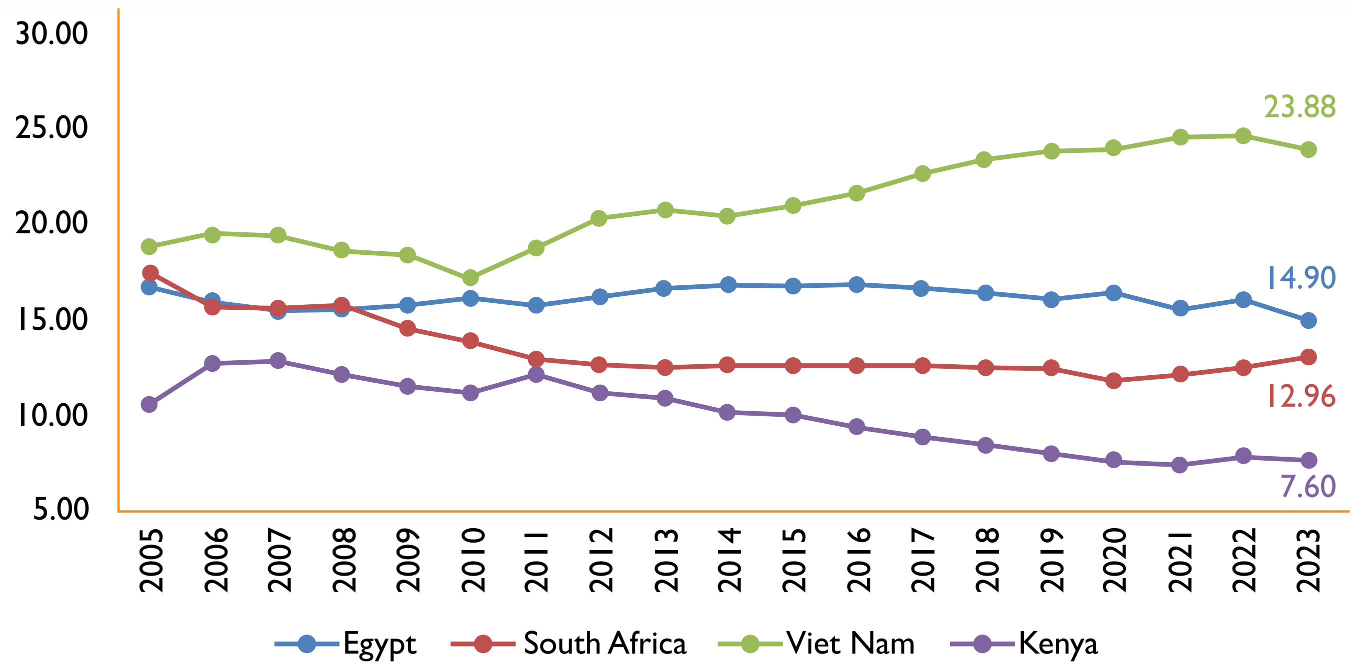



*Data source: KNBS various quarterly Gross product Reports*

## 3.2. GDP contribution of the manufacturing sector

Manufacturing GDP contribution is a good indicator of a country's state of industrialization. In 2011, the sector's GDP contribution was 11.08% but declined to 7.6% in 2023 (Figure 3.2). Kenya hopes to reverse this trend through the Manufacturing 20BY30 Vision that seeks to increase the sector's contribution to the GDP to 20% by 2030. Kenya's manufacturing GDP contribution is the lowest compared to comparator countries such as Vietnam and competitors in regional trade, such as Egypt and South Africa.

## Figure 3.2: Kenya's manufacturing GDP contribution (%)




*Data source: WDI*

According to Figure 3.2, whereas manufacturing GDP contribution for Kenya, South Africa and Egypt stagnated or declined, it increased steadily for Vietnam, especially during the 2010-2022 period. Thus, Vietnam can offer useful lessons to Kenya in terms of promoting industrialization. Vietnam's total manufacturing value added in 2024 was estimated to be about US$ 109.90 billion with an expected compound annual growth rate (CAGR) of 8.78% for the 2024-2028 period.[15] Vietnam is the 3rd leading exporter of textiles and apparels in the world with China and Bangladesh, holding position one and two, respectively.[16] In 2024, Vietnam exported textiles and apparels worth US$ 44 billion.[17] Vietnam is also the second largest exporter of cellphones in the world after China. It exported mobile phones and phones accessories valued at US$ 52.38 billion in 2023.[18] Vietnam is also a major global player in food processing and automotive industries. According to a 2024 BritCham report, five factors make Vietnam an attractive investment location for businesses:

i. **Cost competitiveness:** This is mainly due to low-labour costs and manageable production costs and favourable policies that attract FDI.

ii. **Skilled and young workforce:** The country has a vibrant and well-educated workforce with an age range of 25 and 54 years.

iii. **Well-developed infrastructure:** The country has made substantial investments to modernize its transportation and logistics networks.

iv. **Enhanced market access:** Vietnam has capitalized on its strategic trade agreements with the US, EU and Association of Southeast Asian Nations (ASEAN) countries to expand export market opportunities for manufactured goods.

v. **Supportive government policies:** The government has implemented business-friendly policies that have ensured a stable and supportive environment for the private sector to flourish.

## 3.3. Manufacturing output

The value of manufacturing output increased by 13.1% to Ksh. 3,583.3 billion in 2023 from Ksh. 3,168.6 billion in 2022 (Table 3.1). Intermediate consumption increased from Ksh. 2,124.4 billion in 2022 to Ksh. 2,434.4 billion in 2023, leading to a 10% growth in the sector's value added for the year under review. Compensation of employees in the sector grew by 9.6% to Ksh. 283.1 billion in 2023 from Ksh. 258.4 billion in 2022.

15 https://britchamvn.com/wp-content/uploads/2024/04/Manufacturing-report-march-24-fixed.pdf

16 https://www.fibre2fashion.com/industry-article/8471/top-10-exporting-countries-of-textile-and-apparel-industry

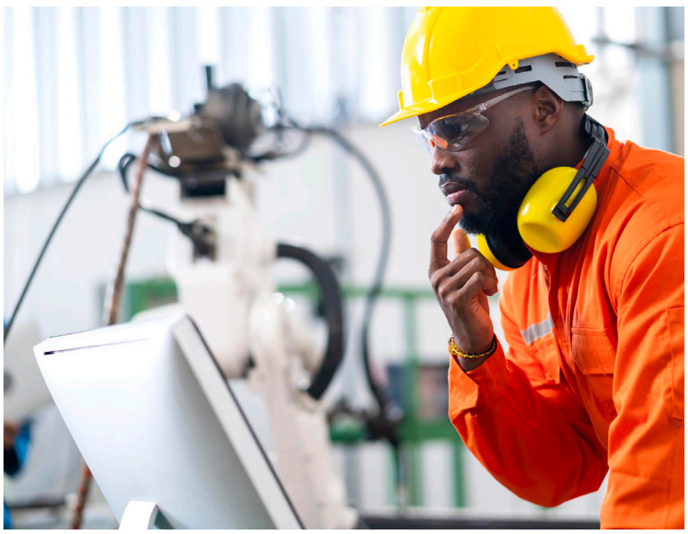
17 https://en.vietnamplus.vn/textile-export-turnover-hits-44-billion-usd-in-2024-post307537.vnp

18 https://www.statista.com/statistics/1247113/vietnam-export-value-of-mobile-phones-and-accessories/

## Table 3.1: Manufacturing Output, 2018-2023 (Ksh. billions)

| Year | Value of Output | Intermediate Consumption | Intermediate consumption as % of final output | Value Added | Compensation of Employees |
|---|---|---|---|---|---|
| 2018 | 2,216.5 | 1,431.2 | 65 | 785.4 | 206.4 |
| 2019 | 2,311.6 | 1,502.3 | 65 | 809.3 | 218.3 |
| 2020+ | 2,376.4 | 1,562.1 | 66 | 814.3 | 215.5 |
| 2021 | 2,700.2 | 1,814.5 | 67 | 885.6 | 231.4 |
| 2022 | 3,168.6 | 2,124.4 | 67 | 1,044.2 | 258.4 |
| 2023* | 3,583.2 | 2,434.4 | 68 | 1,148.9 | 283.1 |
| Average | | | 66 | | |

*Source: Economic Survey, 2024*
**Provisional,*



### 3.4. Contribution to employment

The total number of persons employed in the formal manufacturing sector grew by 2.8% from 352.6 thousand recorded in 2022 to 362.3 thousand in 2023 (Table 3.2). In 2023, the private sector had an increase from 329.6 thousand jobs to 340.6 thousand recorded 2022 while the public sector exhibited a slight decline from 23 thousand jobs created in 2022 to 21.7 thousand jobs created in 2023. Over the 2017-2023 period, manufacturing sector jobs accounted for an average of 11.9% of total wage employees in the country. Given that a manufacturing GDP of 7.6% in 2023 was equivalent to 362.3 thousand jobs, holding other factors constant, a manufacturing GDP contribution of 20% by 2030 should yield at least one million jobs.

## Table 3.2: Wage employment by industry and sector, 2017-20212 (000)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023* |
|---|---|---|---|---|---|---|---|
| Manufacturing (private sector) | 317.5 | 321.3 | 329.0 | 293.8 | 313.5 | 329.6 | 340.6 |
| Manufacturing (public sector) | 26.2 | 26.3 | 24.1 | 23.0 | 23.3 | 23.0 | 21.7 |
| Total manufacturing employment | 343.7 | 347.6 | 353.1 | 316.8 | 336.8 | 352.6 | 362.3 |
| Manufacturing employees as a % of total wage employees | 12.3 | 12.2 | 12.1 | 11.6 | 11.6 | 11.7 | 11.5 |

*Source: Economic Survey, 2022 & 2024 & KAM calculations*

### 3.5. Contribution to taxes

The government earns tax revenues when manufacturers import industrial inputs. Between January 2023 to January 2024, manufacturers contributed Ksh. 230 billion in customs taxes, a monthly average of Ksh. 17.7 billion (Table 3.3).

### Table 3.3: Customs related taxes (Ksh. million) paid by manufacturers (Jan 2023-Jan 2024)

| | 2023 | | | | | | | | | | | | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan |
| Import Duty | 1,194 | 1,058 | 1,332 | 1,088 | 1,320 | 1,393 | 1,252 | 1,687 | 1,530 | 1,814 | 1,654 | 1,564 | 1,808 |
| Excise Duty | 977 | 867 | 1,117 | 889 | 1,105 | 1,173 | 752 | 1,012 | 918 | 1,088 | 992 | 939 | 1,085 |
| VAT Import | 48 | 50 | 69 | 55 | 65 | 86 | 51 | 64 | 63 | 79 | 61 | 64 | 98 |
| Other Taxes | 8,424 | 7,698 | 9,666 | 8,216 | 9,862 | 9,870 | 7,862 | 8,678 | 8,615 | 9,896 | 8,172 | 9,236 | 12,193 |
| DL | 649 | 698 | 719 | 596 | 1,004 | 481 | 505 | 482 | 700 | 790 | 510 | 674 | 933 |
| IDF | 6,098 | 5,978 | 6,797 | 2,998 | 5,260 | 5,807 | 2,300 | 4,676 | 5,685 | 7,294 | 4,741 | 5,887 | 6,687 |
| EIPL | - | - | - | - | - | - | - | - | 34 | 46 | 38 | 50 | 73 |
| Total | 17,390 | 16,350 | 19,700 | 13,842 | 18,616 | 18,810 | 12,722 | 16,599 | 17,545 | 21,007 | 16,167 | 18,414 | 22,877 |

*Data source: KRA. Note RDL=railway development levy; IDF=import declaration fee; EIPL=export and investment promotion levy.*

Manufacturers are also major sources of domestic taxes. For instance, between January 2023 to January 2024, domestic tax contribution by manufacturers was Ksh. 135.2 billion, a monthly average of Ksh. 10.4 billion (Table 1.6).

### Table 3.4: Domestic tax (Ksh. million) contribution by manufacturers in Kenya (Jan 2023-Jan 2024)

| | 2023 | | | | | | | | | | | | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Jan |
| PAYE | 3,700 | 3,045 | 2,920 | 4,562 | 3,088 | 3,245 | 4,101 | 3,056 | 2,749 | 2,928 | 3,118 | 2,925 | 3,972 |
| Domestic VAT | 3,600 | 3,217 | 2,764 | 2,629 | 2,133 | 2,492 | 2,668 | 2,191 | 2,852 | 2,875 | 2,337 | 2,500 | 3,053 |
| Corporation Tax | 522 | 178 | 1,060 | 7,909 | 252 | 4,550 | 814 | 132 | 4,374 | 986 | 403 | 4,297 | 365 |
| Domestic Excise | 2,518 | 2,467 | 2,301 | 2,444 | 2,529 | 2,295 | 2,292 | 1,972 | 2,319 | 2,306 | 2,266 | 2,281 | 2,602 |
| Total | 10,340 | 8,907 | 9,046 | 17,544 | 8,003 | 12,582 | 9,875 | 7,351 | 12,294 | 9,095 | 8,125 | 12,002 | 9,992 |

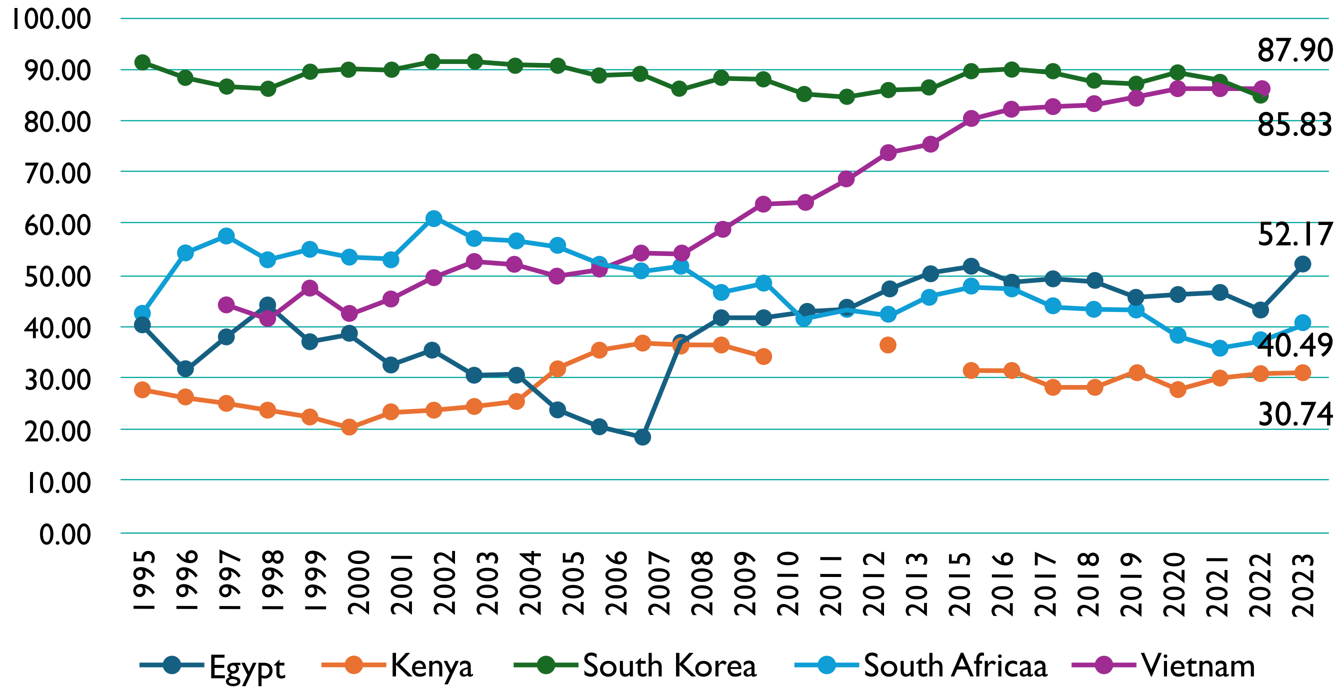
*Data source: KRA*

Combined customs and domestic taxes contribution by manufacturers between January 2023 to January 2024 was Ksh. 365 billion. Evidently, growth of manufacturing sector will lead to increased taxes to the government.

## 3.6. Contribution to exports

Manufacturers' exports as a percentage of merchandise exports serve as a good indicator of industrialization in developing countries. Kenya is lagging behind comparator countries such as South Africa, Egypt, Vietnam and South Korea (Figure 3.3). According to Figure 3.3, the share of manufactured exports for Kenya, South Africa, Egypt, Vietnam and South Korea is 30.74%, 40.49%, 52.17%, 85.83% and 87.90%, respectively. On the African continent, Kenya can expect stiff competition from South Africa and Egypt.

**Figure 3.3: Manufactured exports (% of merchandise exports) 2019 - 2023**

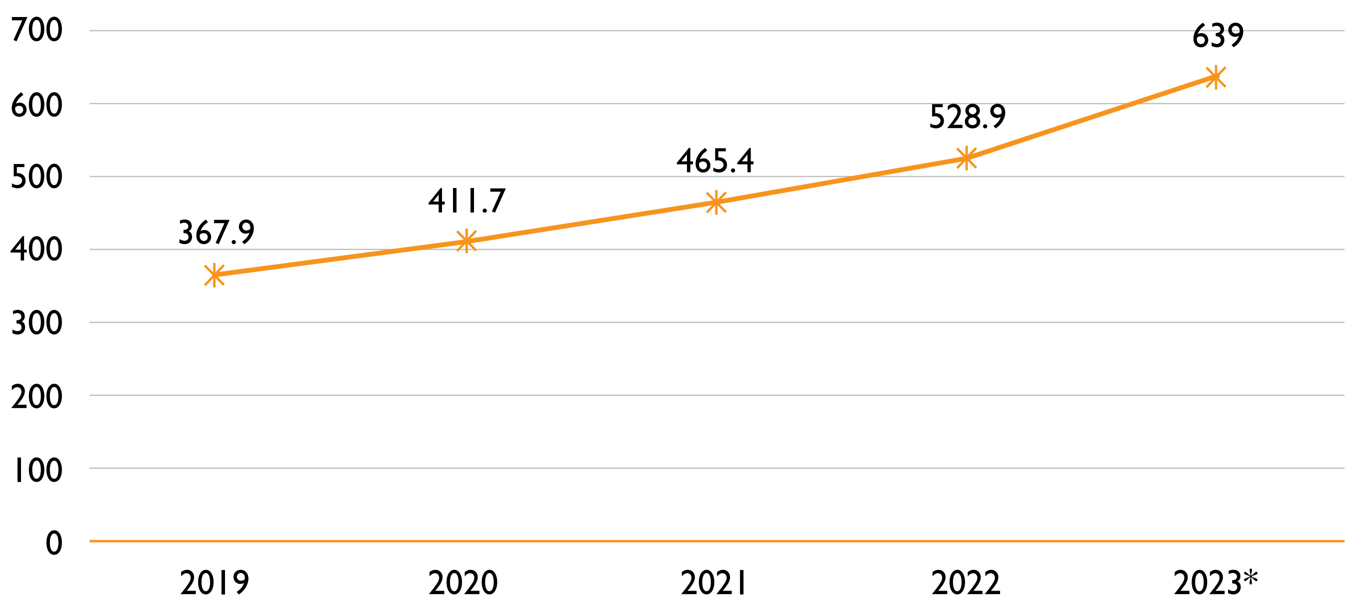



*Data source:WDI*

## 3.7. Credit to manufacturing sector

The total credit approved for use in the manufacturing sector by both commercial banks and industrial financial institutions in 2023 amounted to Ksh. 639.0 billion, an increase of 20.8% cent from Ksh. 528.9 billion in 2022 (Figure 3.4).

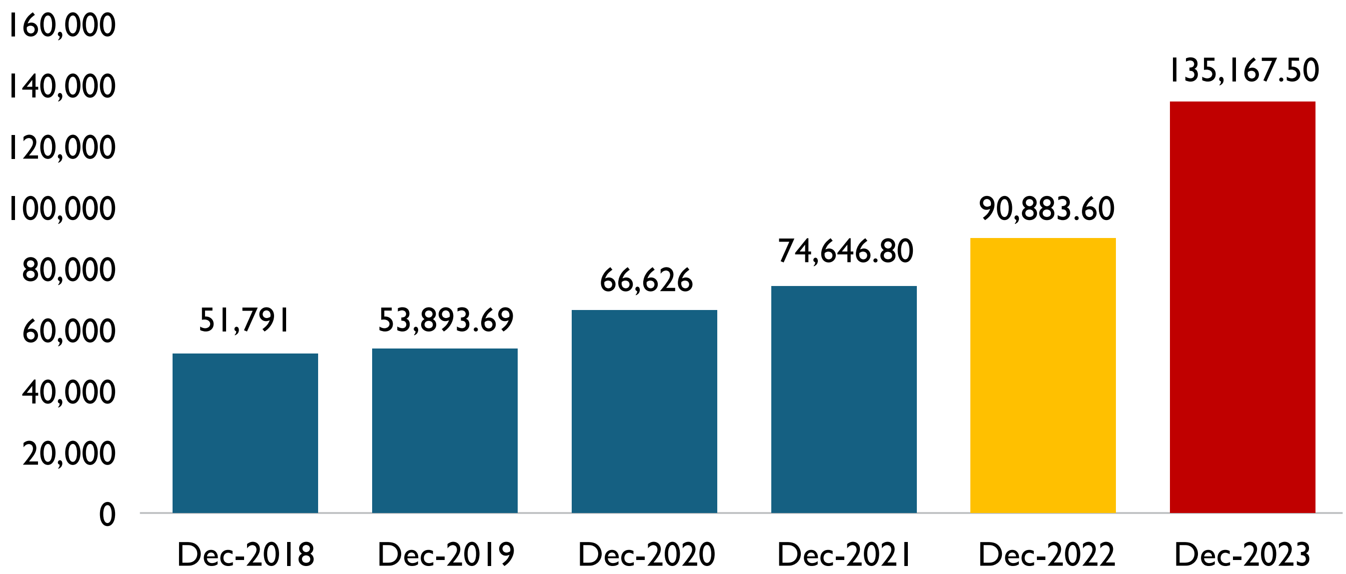
**Figure 3.4: Credit advanced to the manufacturing sector by commercial banks and other financial institutions (Ksh. billion)**




*Data source: KNBS Economic Survey 2024 & KAM calculations*
** Provisional*

Gross non-performing loans (NPLs) advanced to the manufacturing sector have been on an upward trajectory (Figure 3.5) and increased to Ksh. 135,167.5 million compared to Ksh. 90,883.60 in 2022. This implies that there are conditions prevailing in the country hindering the capacity of the manufacturing sector to service its loans. One of the reasons is diminished purchasing power by consumers due to the prevailing cash crunch.

### Figure 3.5: Gross non-performing loans advanced to manufacturing sector (2018 – 2023 (Ksh. million)




*Data source: CBK Bank supervision Annual Reports, (2018 - 2023)*

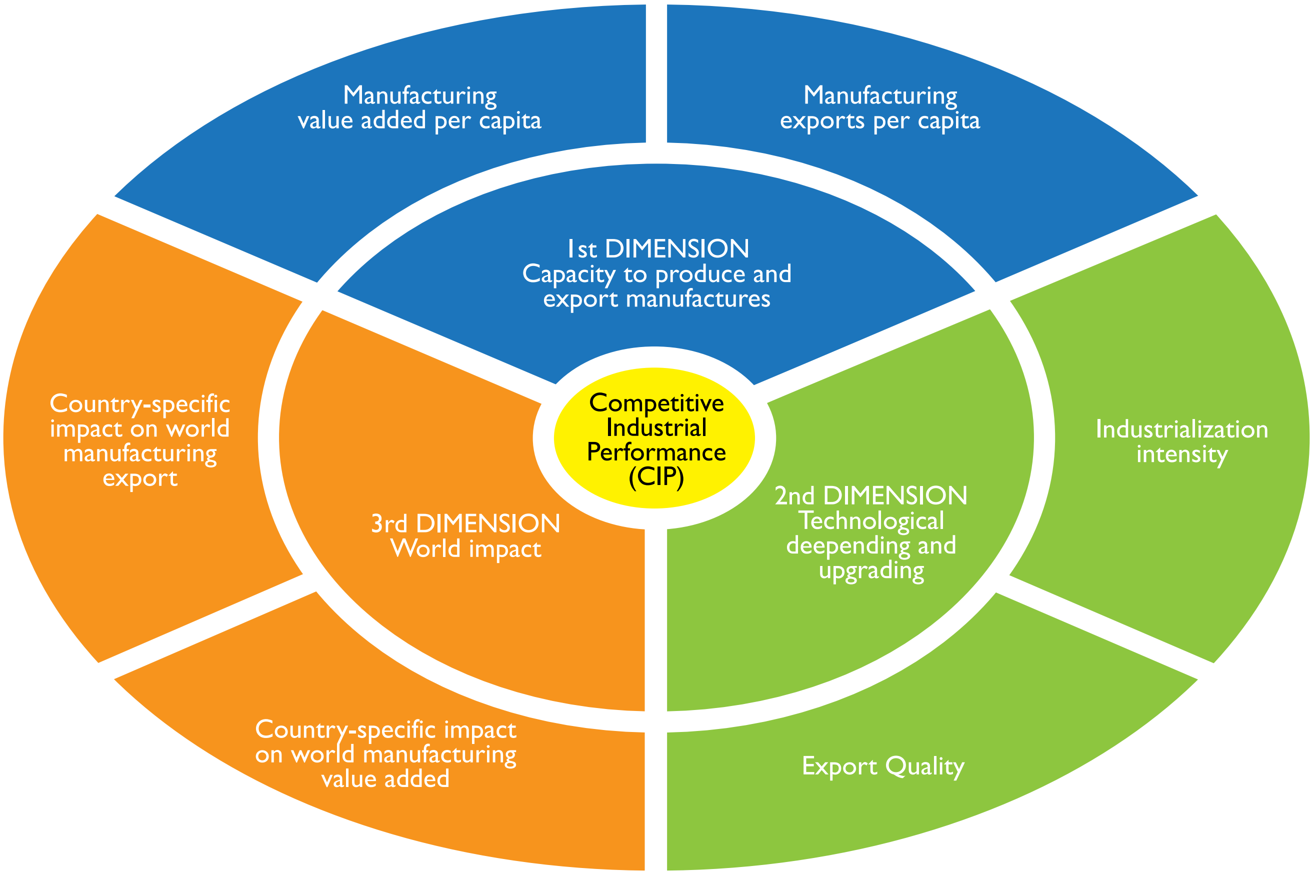
# 4. PILLARS TO STEER MPA 2025

## 4.1. Pillar one: Global competitiveness

Competitiveness is a relative concept describing how countries, industries, or firms develop capabilities to gain market share (Ketels, 2016). In essence, it signifies a country's ability to produce products that can compete with foreign countries by increasing its real national income in free-market conditions . The Competitive Industrial Performance (CIP) index, developed by the United Nations Industrial Development Organization (UNIDO) is a good indicator that can be used to gauge competitiveness of the manufacturing sector in Kenya. According to UNIDO, industrial competitiveness is defined as the capacity of countries to increase their presence in international and domestic markets while developing industrial sectors and activities with higher value added and technological content.

The CIP is a composite indicator that captures the level of industrial competitiveness through eight variables along three dimensions as shows in Figure 4.1.

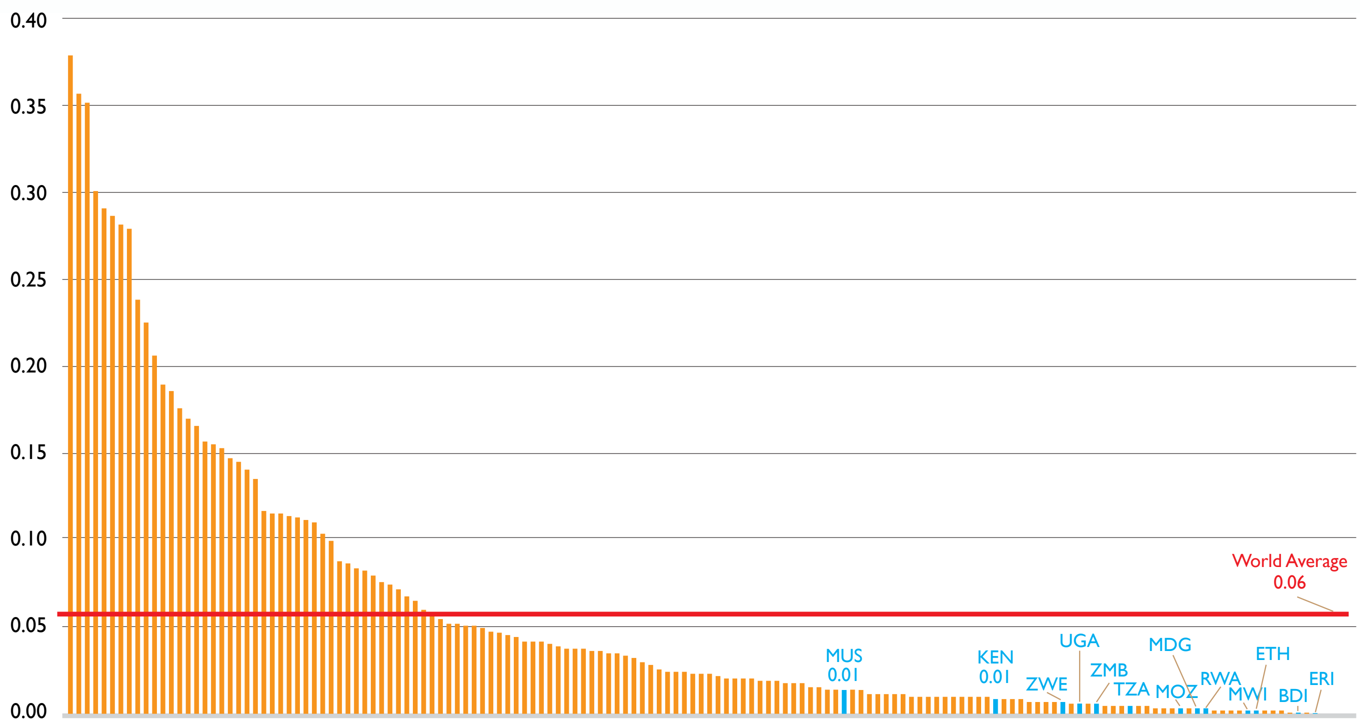
**Figure 4.1: Dimensions and variables of Competitive Industrial Performance (CIP) index**




*Data source: WDI*

In 2022, Kenya's had a CIP score of 0.01 and ranked position 111 (out of 153) in the global ranking (Figure 4.2). This is lower than the world average CIP score of 0.06 but higher than most countries in the East African region.

## Figure 4.2: 2024 CIP Ranking for selected countries in Africa




*Data source: UNIDO*

This section documents specific agenda and actions that the government can take to create a globally competitive manufacturing industry.

### 4.1.1. Agenda one: Ensure stable and predictable policies

Private sector activity cannot thrive in an uncertain business environment and will tend to withhold investment decisions until uncertainty is addressed. One major source of uncertainty is erratic tax policies which increases the cost of doing business and make it impossible for businesses to plan. Studies have shown that even a moderate amount of policy uncertainty has the same effect as a tax on investment (Rodrik, 1991).

Manufacturing investments have long gestation periods of at least three years to break-even, requiring policy stability if they are to emerge as viable businesses. **To ensure a stable and predictable tax policies in Kenya, KAM advocated for the formulation of a National Tax Policy. The National Tax Policy "Sessional Paper No. 02 of 2023" in its foreword notes "…is part of the Government's efforts to enhance predictability and transparency in tax policies".** The policy further notes "To address unpredictability of tax rates, the Policy proposes comprehensive review of tax laws every five years". However, the government has not been adhering to the National Tax Policy guidelines and has continued to impose erratic tax measures through Finance Acts and Tax Laws Amendment Acts. Such erratic policy changes make business planning difficult and consequently erodes investor confidence.

Prior to enactment of any tax, best-practice requires that a Regulatory Impact Assessment (RIA) be carried out to improve the quality of regulatory decision-making. RIA is essential for enhancing rule-making quality, promoting good governance, and ensuring transparency and accountability. International organizations such as the World Bank, have strongly endorsed RIA as a means to improve policy effectiveness. RIA will forestall drastic percentage increase of tax within a period as evidenced by Tax Laws Amendment Act 2024. For instance, Tax laws Amendment Act 2024 increased excise tax on spirits from Ksh. 356/litre to Ksh. 964/litre, a 170.8% increase. This has created an incentive for smuggling of ethanol (ENA) from Uganda Another example is that Tax Laws Amendment Act 2024 imposed an excise duty of Ksh. 7.5/kg on white refined sugar (except for pharmaceutical industry), an increase from Ksh. 5/kg imposed through the Finance Act 2023. This represents a tax increase of 50%. How are businesses expected to cope with such increases?

The EAC has working common external tariff (CET) principles that guide the imposition of customs duties on imported goods (Table 4.1).

### Table 4.1: The principles governing the EAC CET

| Category | Criteria | Tariff band |
|---|---|---|
| Raw materials | Goods not subjected to any form of transformation in production | 0% |
| Capital goods | Durable industrial production goods (plant and machinery) and livestock for reproduction (pure bred breeding animals) | |
| Intermediate goods | Goods that have undergone some degree of transformation | • 10%-products not available in abundance EAC<br>• 25%- products available in abundance in the region |
| Finished goods | Goods ready for consumption | 35% |

*Data source: KAM*

It is essential that Kenya observes these principles. However, there are instances when this is not adhered to. For example, through EAC Gazette notice dated 30th June 2024, Kenya imposed an import duty rate of 35% on bleached sack kraft of tariff 4804.29.00, an increase from 10%. This goes against the CET principles described in Table 4.1. A verification study carried out in 2024 under the leadership of the Ministry of Investment, Trade & Industry confirmed that this paper used in packaging unga and other products is not locally produced and it not also available on the African continent. This type of paper is produced in Nordic countries. The correct CET rate should therefore be 10%. Further, the Tax Laws Amendment Act 2024 introduced an export and investment promotion levy (EIPL) of 10% and thus increased effective tax on bleached sack kraft paper to 49.5% undermining Kenya's capacity to compete in the region (Table 4.2).

### Table 4.2: Tax on bleached sack kraft paper

| Name of tax | Kenya | Uganda | Tanzania | Rwanda | Burundi |
|---|---|---|---|---|---|
| EIPL | 10% | 0% | 0% | 0% | 0% |
| Import duty | 35% | 0% | 25% | 0% | 0% |
| Import declaration fee (IDF) | 2.5% | - | - | - | - |
| Railway development levy (RDL) | 2.0% | - | - | - | - |
| Infrastructure development levy (IDL) | - | 1.5% | 1.5% | 1.5% | - |
| African Union Levy (AUL) | - | - | - | 0.2% | - |
| Quality Inspection Fee (QIF) | - | - | - | 0.2% | - |
| **Total** | **49.5%** | **1.5%** | **26.5%** | **1.9%** | **0%** |

*Data source: KAM*

The price of 2kg unga bag increased by Ksh. 6 due to 35% import duty and is expected to increase by another Ksh. 2 to Ksh. 8 due to the 10% EIPL. This has direct effect on inflation and the cost of living.

Kenya has a National Industrialization Policy (2012-2030) which should be revised to reflect emerging issues such as green industrialization, sustainable development goals (SDGs) among others. This policy will complement the National Tax Policy and act as a guide, for example on taxation of industrial input and fiscal incentives to promote export of manufactured goods.

**To ensure stable and predictable tax policies, the government needs to implement the following actions:**

- Observe the National Tax Policy guidelines in the entire budget making process.
- Adhere to the Common External Tariff (CET) principles when proposing taxes.
- Revise and implement a National Industrial Policy.
- Ensure that all new tax proposals are subjected to impact analysis before implementation.

### 4.1.2. Agenda two: Reduce regulatory burden

Kenya's private sector has decried the ever-increasing fees, levies and charges by government agencies. These charges are the equivalent effect of a tax and therefore increase the cost of doing business. Subsequently, they undermine the competitiveness of the manufacturing sector in Kenya. For example, the Third Schedule of the Crops (Nuts and Oil Crops) Regulations, 2020 provides a 2% import levy on raw materials and a 0.25% export levy on finished goods. This increases the cost of manufacturing and penalizes exports which contradicts the government's goal of growing domestic industry and promoting exports. Another example is tea which was the leading export commodity by Kenya in 2023 valued at Ksh. 188.74 billion faces at least 15 fees, levies or charges (Table 4.3).

**Table 4.3: Fees, levies and charges facing the tea sector**

| | Tea Levy | Levy | TBK | Proposed at 1% of export value of tea | Monthly |
|---|---|---|---|---|---|
| 1. | Green leaf Cess-Advance Cess | Levy | TBK | 1% of gross turnovers | Monthly |
| 2. | Mombasa Municipal port Health charges | Levy | County Government | Ksh. 5000 | Annual |
| 3. | Annual License Fee (Large industrial plant) | Levy | County Government | Ksh. 60,000 to 120,000 | Annual |
| 4. | Plantation/Agricultural Processor Fee | Permit Fee | County Government | Ksh. 100,000 to 120,000 | |
| 5. | Tea Shop Single Business License | Permit Fee | County Government | Ksh. 2,500 to 3,000 | Annual |
| 6. | Green leaf transport permit | Permit Fee | County Government | Ksh. 30,000 | Annual (100% increase in 2024) |
| 7. | Branding and motor vehicle movement permit | Permit Fee | County Government | Ksh.10,000 (ranging) | Annual |
| 8. | Advertisement on billboards | Permit Fee | County Government | Ksh. 5000 | Per use |
| 9. | Weighbridge and scales | Permit | County Government | Ksh. 61,900 | Annual |
| 10. | Landing Fee in Mombasa County | Levy | County Government | Ksh. 7000 per & 7-Ton Truck | Per Truck /per entry into Mombasa County |
| 11. | Fuel pump permit | Levy | County Government | Ksh. 5000 to 10000 | |
| 12. | Fuel pump fire safety compliance | Levy | County Government | Ksh. 5000 | Annually (66% enhancement in 2023/2024) |
| 13. | Fire safety compliance | Levy | County Government | Ksh. 10,500 | Annually |
| 14. | Permit/License application fee | Levy | Count Government | Ksh. 500 (per permit of license) | Annually |
| 15. | Land rates | Levy | County Government | 1.75- 2 percent of | Annually |

*Data source: Kenya Tea Growers Association (KTGA)*

A comprehensive review of existing regulations and institutions would be a major step towards fostering a business-friendly environment. Notably, on 21st January 2025, the Cabinet approved the merger of 42 state corporations into 20 entities while nine of them will be dissolved. This is in line with fiscal consolidation objectives of the government.[20]

**To reduce the regulatory burden on businesses, the government should:**

- 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.

### 4.1.3. Agenda three: Lower the cost of industrial raw materials and inputs

Kenya is heavily dependent on imported raw materials and intermediate goods for processing. According to Table 4.4, the share of imported raw materials and intermediate inputs in total value of imports in 2022 was 6.70% and 31.34%, respectively. This necessarily implies increasing CET rates of imported industrial inputs increases the cost of manufacturing.

**Table 4.4: Kenya's imports in 2022 as per the stage of processing (US$ billion)**

| Product group | Import (US$ billion) | Import product share (%) |
|---|---|---|
| **All Products** | 21.10 | 100 |
| **Capital goods** | 3.07 | 14.53 |
| **Consumer goods** | 9.69 | 45.91 |
| **Intermediate goods** | 6.61 | 31.34 |
| **Raw materials** | 1.41 | 6.70 |

*Data source: WITS*

Importation of industrial inputs is not unique to Kenya. China and the United States which are the leading global manufacturing countries are also major exporters and importers of industrial inputs (Table 4.5).

**Table 4.5: Main global exporters and importers of industrial inputs Q2 2023 (US$ billion)**

| | Top exporters of intermediate goods | | Top importers of intermediate goods | | |
|---|---|---|---|---|---|
| **Rank** | **Exporter** | **US$ billion** | **Rank** | **Importer** | **US$ billion** |
| 1 | China | 344 | 1 | China | 357 |
| 2 | United States | 195 | 2 | United States | 262 |
| 3 | Germany | 175 | 3 | Germany | 157 |
| 4 | Hong Kong | 92 | 4 | Hong Kong | 96 |
| 5 | South Korea | 85 | 5 | India | 76 |
| 6 | Japan | 82 | 6 | Mexico | 75 |
| 7 | Chinese Taipei | 76 | 7 | France | 73 |
| 8 | Netherlands | 76 | 8 | United Kingdom | 72 |
| 9 | Italy | 65 | 9 | Netherlands | 72 |
| 10 | France | 65 | 10 | South Korea | 71 |

*Data source: WTO*

[20] Fiscal consolidation refers to the process of reducing government budget deficits and debt levels through a combination of spending cuts and revenue increases.

Why do countries import intermediate industrial inputs? It is because no country is self-sufficient in industrial inputs. Intermediate inputs encompass raw materials, components, and accessories used in various manufacturing processes and supply. Intermediate inputs serve as building blocks for the production of other goods and services for local use and export. Studies have shown that governments in developing countries often retard technological progress by reducing access to foreign trade and investment and imported capital equipment and intermediate goods. Tax policies should take this into consideration.

The government of Kenya through its policies seems oblivious that manufacturers must import industrial inputs not locally produced for value addition. For instance, Tax Laws (Amendment Act) 2024 increased railway development levy (RDL) rate from 1.5% to 2% (Table 4.6). This goes against an EAC Council of Ministers decision through a gazette notice dated 20th June 2014 that imposed an infrastructure levy (equivalent to RDL in Kenya) of 1.5% on the customs value of goods imported into the EAC.

### Table 4.6: Comparative analysis of RDL and import declaration fee (IDF) on imports

| Tax | Kenya | Uganda | Tanzania | Rwanda | Burundi |
|---|---|---|---|---|---|
| **IDF** | 2.5% | 0% | 0% | 0.4% | 0% |
| **RDL** | 2% | 1.5% | 1.5% | 1.5% | 0% |
| **Total** | **4.5%** | **1.5%** | **1.5%** | **1.9%** | **0%** |

*Data source: KAM*

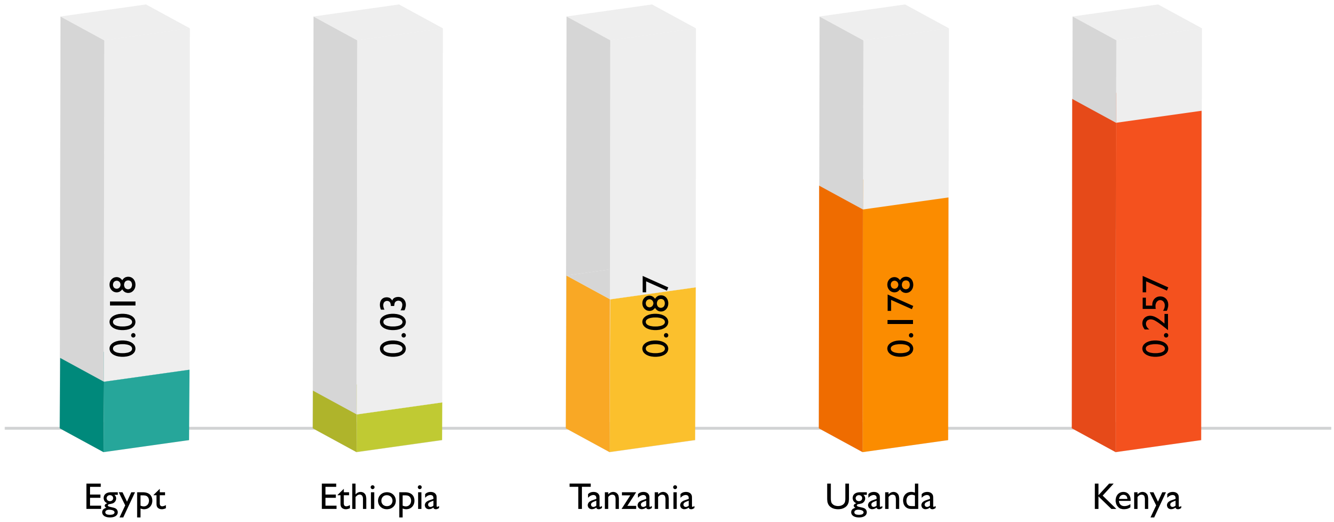
To ensure a lower cost of industrial input, the government needs to implement the following actions:

- 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.

### 4.1.4. Agenda Four: Promote access to quality, affordable and reliable energy for manufacturing

High and rising energy cost has been identified as one of the impediments to manufacturing and to new investments in Kenya. Long periods of waiting for new connections to manufacturing facilities leading to delays in the turn-around time of the investment is a major factor of concern to manufacturers and investors. High cost of electricity erodes competitiveness of finished goods in Kenya. Figure 4.3 shows that electricity cost kWh/US$ is higher in Kenya than comparator countries.

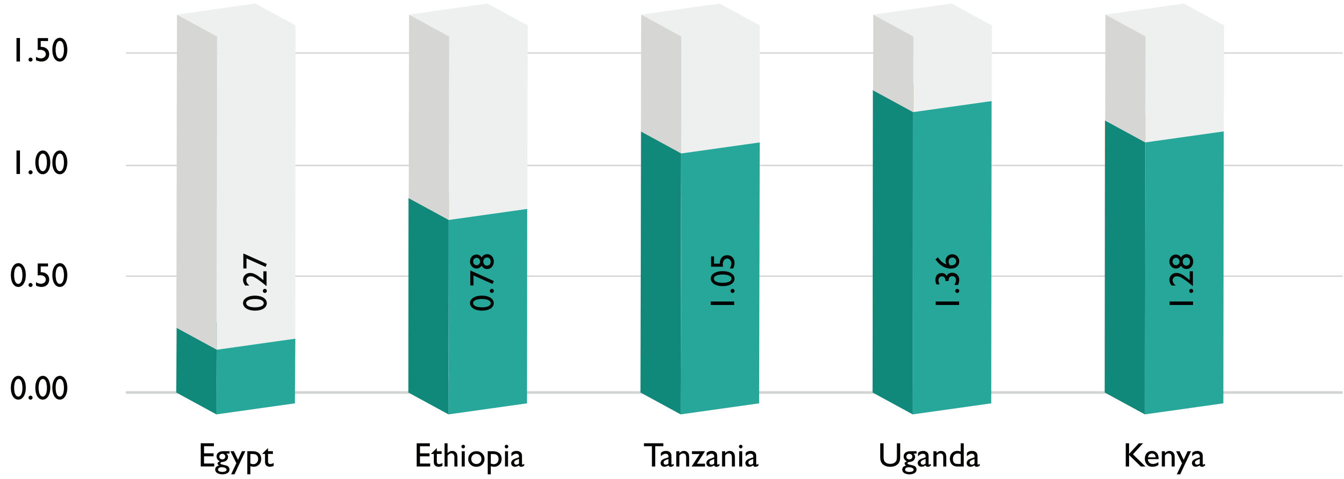
## Figure 4.3: Electricity prices for business for selected countries, December 2024 (kWh, US$)




*Data source: https://www.globalpetrolprices.com/electricity_prices/#hl75*

The manufacturing sector also relies on motorized transport for industrial inputs and distribution of finished goods. Thus, the cost of diesel impacts the cost of finished goods. Figure 4.4 shows that among the comparator countries in the region, only Uganda, which is a landlocked country, has higher diesel prices than Kenya.

## Figure 4.4: Diesel prices for selected countries, 24-Feb-2025 (liter/US$)



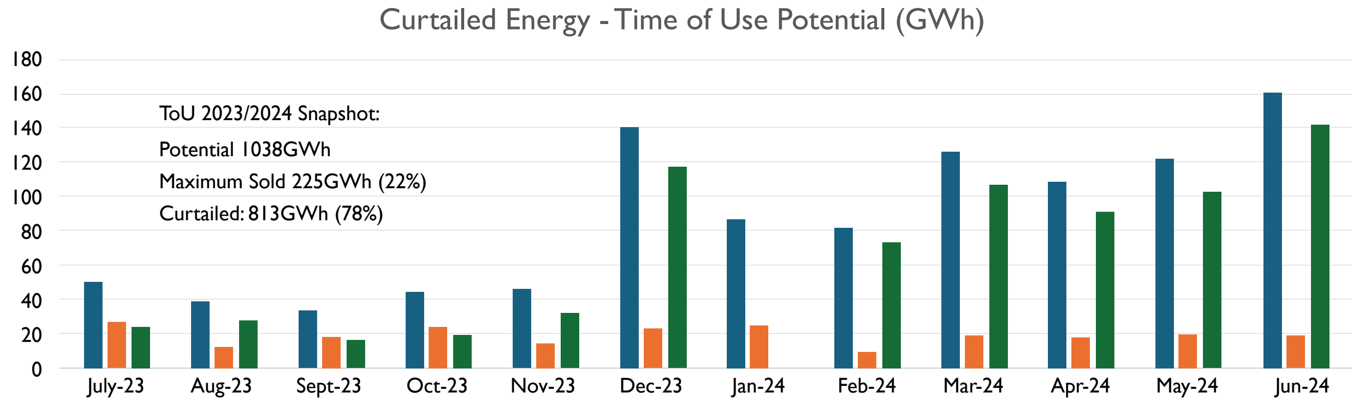

*Data source: https://www.globalpetrolprices.com/diesel_prices*

One of the reasons why diesel prices are high in Kenya is VAT on levies. The Energy Petroleum Regulatory Authority (EPRA) monthly price schedule for the period 15th February 2025 to 14th March 2025 shows that levies charged on landed petroleum products was Ksh. 56.64 for super petrol Ksh. 46.31 for automotive gas oil (AGO) and Ksh. 34.4 for kerosene. VAT levied on the levies was Ksh. 9.06 for super petrol, Ksh. 7.41 for AGO and Ksh. 5.5 for Kerosene. These levies are taxes and therefore should not be subjected to VAT.

To reduce cost of electricity to industries and other commercial enterprises, the Ministry of Energy introduced time of use (ToU) tariff during off-peak hours. Review of ToU is essential to reduced curtailed which has been on an upward trend (Figure 4.5).

## Figure 4.5: Time of Use (ToU) potential

Time of Use Potential (2023/2024)




*Data source: EPRA*

Curtailed energy (in simple terms it means, available energy at source but cannot be delivered to the customer) increased from 23.7GWh in July 2023 to 141.6GWh in June 2024. A total of 812GWh was curtailed during that financial year. This amount of energy serves as a convincing case to allow for uptake of ToU. Removal of 6% growth requirement criteria from the ToU tariff requirement, the uptake of ToU and predictability of the same will serve as an incentive for manufacturing to operate during off-peak periods to increase production and without necessarily shifting their operations.

**To promote access to quality, affordable and reliable energy for manufacturing, the government needs to implement the following actions:**

- Implement the Presidential special nighttime electricity tariff for manufacturers, to reduce costs by 50% 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.

### 4.1.5. Agenda Five: Reduce transport and logistics costs

The ever-rising transport and logistics costs are a pain area for the manufacturing value-add industry in Kenya because they increase the cost of doing business in Kenya. This is considering that majority of manufacturing industries in Kenya are heavily dependent on imported industrial inputs which must pass through seaports or international airports within the country. The speed at which goods are cleared at the ports determines their efficiency. Some of the impediments that hinder speedy clearance of goods at the ports include system downtime and unavailability, uncoordinated evacuation of containerized cargo to their respective destinations, lack of accountability by government institutions mandated to efficiently facilitate trade.

Kenya established the National Trade Facilitation Committee after the ratification of World Trade Organization (WTO) Trade Facilitation Agreement on 10th December 2015 to implement the Trade Facilitation Agreement (TFA). This mandate is spearheaded by the State Department for Trade (SDT), under the Ministry of Investment, Trade, and Industry (MITI). The goals of the Trade Facilitation Agreement are as follows:

- **Expedite** the movement, release, and clearance of goods, including goods in transit.
- **Improve cooperation** between customs and other authorities, including stakeholders.
- **Enhance technical assistance** and build capacity for the implementation of the TFA.

The Principles of Trade Facilitation aim at improved trade flow, and these are.

**Transparency**
promoting openness & accountability in governments.

**Simplification**
eliminating unnecessary processes/procedures & avoiding duplication.

**Harmonization**
aligning of a member's processes, operations and documentation with international conventions & standards.

**Standardization**
developing practices, procedures and documents as agreed with other parties.

Based on the above goals and principles, the implementation of the above agreement aims at:

- **Improving global trade** in goods.
- Ensure **progress is made, by setting the pace** at which implementation of **various measures** in the Agreement are carried out.
- **Support less developed countries** in implementation of the agreement through financial and technical support and;
- **Set up a mechanism** for co-ordination of trade facilitation activities within the country.

Conditions of road infrastructure is essential in determining the cost of transporting industrial inputs and distribution of finished goods. However, major road projects including repairs have stalled in the country due to delayed disbursement of funds to the various institutions mandated to construct, repair and maintain our roads whether the main trunk road or highways, urban road or rural roads.

According to business executives' perceptions as of 2024, Namibia had the highest road quality infrastructure in Africa reaching an index rating of 5.57 on a scale from 1 (lowest) to 7 (highest) in terms of road condition and extensiveness. Egypt[21] and Benin followed with a score of 5.53 and five, respectively whereas Kenya had a score of 4.42 (Table 4.7).

### Table 4.7: Quality of road infrastructure for select African countries, 2024

| Country name | Quality of road infrastructure index (score) |
|---|---|
| Namibia | 5.57 |
| Egypt | 5.53 |
| Benin | 5 |
| Rwanda | 4.86 |
| Mauritius | 4.8 |
| Cote d'Ivoire | 4.64 |
| Morocco | 4.62 |
| Kenya | 4.42 |
| Tanzania | 4.41 |
| South Africa | 3.97 |

*Data source: Statista[22]*

[21] https://www.statista.com/statistics/1285082/african-countries-with-the-highest-road-quality/#:~:text=Published%20by,of%205.53%20and%20five%2C%20respectively.

[22] https://www.statista.com/statistics/1285082/african-countries-with-the-highest-road-quality/#:~:text=Published%20by,of%205.53%20and%20five%2C%20respectively.

To reduce transport and logistics costs in Kenya, the government should focus on the following:

- 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.

### 4.1.6. Agenda six: Sustain the fight against illicit trade

Illicit trade is the production or distribution of goods or services that are illegal and continues to threaten the survival of manufacturing sector in Kenya. The trading of counterfeit and substandard goods not only affects established legitimate businesses in terms of loss of their market share and competitiveness but also, poses health and safety risks to the society through consumption of inferior and often dangerous products. Counterfeit good trade hinders export potential, distorts markets, undermines fair competition and erodes the reputation of brands in the market.

According to Anti Counterfeit Authority (ACA), between 2017 and 2018, the value of illegal trade increased by 14% from Ksh. 726 billion to Ksh. 826 billion. The ACA 2018 data further showed that the worst hit sectors by illicit trade were Building and Construction (23%); Energy, Electrical and Electronics (15%), Textiles and Apparels (14%), and Metal and Allied sectors (9%); accounting for 70% of illicit trade (ACA, 2020). The report also revealed that 30% of counterfeit goods in Kenya are manufactured locally while 70% are imported.

Additionally, tax evasion from counterfeit goods has deprived the government of vital revenue, hindering the delivery of essential services such as healthcare, education, and infrastructure development among other. KAM has been advocating against illicit trade in both the domestic market and in the EAC region. **In 2020, the Association collaborated with the government and developed 3 critical documents aimed at enhancing enforcement and awareness on matters of illicit trade.** The documents are:

1. 2nd edition of the Enforcement Manual to Combat Illicit Trade in Kenya
2. 2020 Practitioners Guide for Enforcement Officers on Combating Illicit Trade
3. Harmonized Standard Operating Procedures (SOPs) for the inspection, verification and clearance of imports at the ports/ points of entry in Kenya

All these efforts are aimed at enhancing a multisectoral approach to create a sustainable framework to fight illicit trade and enhance the global competitiveness of our manufacturing sector.

It is for the above reasons, among others, that KAM believes that to bolster the war on illicit trade, the government must cultivate the much-needed goodwill and commit to undertake the following action points in collaboration with the private sector:

- Intensify awareness on matters 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 against illicit trade.
- Address underlying issues that incentivize illicit trade such as excise duty regime.

### 4.1.7. Agenda Seven: Create manufacturing centric counties

Article 209 (4)(5) of the Constitution provides that Counties may impose charges on the services they provide but this should not jeopardize national economic policies or activities across Counties. However, counties have imposed fees, levies and charges that have increased the cost of manufacturing in Kenya. Common examples of these fees and charges include:


There has been a legislative effort to address this challenge. For instance, the County Licensing (Uniform Procedures) Act, 2024 was assented by the President on 28th June 2024. The main purpose of the Act is to establish standard uniform procedures for licensing by county governments. The Act will go a long way in ensuring uniformity and consistency in the imposition of fees and levies at the county level.

**To make the Act fully operational, the Cabinet Secretary, Ministry of Investments, Trade and Industry is in the process of enacting Regulations to guide the implementation of the Act.** Further, the Council of Governors is also in the process of developing strategies and guidelines for the Counties for the harmonization of licensing regulations, procedures, requirements and fee structures to ensure freedom of transit of goods and provision of services across various counties.

Another proposed legislation is the Government Owned Enterprises Bill, 2024, that seeks to provide for the establishment, control, governance, performance and ownership of Government-Owned Enterprises. These include State Corporations and entities where the government is the majority shareholder.

The proposed bill:

- Mandates the Cabinet Secretary (CS) National Treasury to approve the establishment of every Government Owned Enterprise.
- Government Owned Enterprises shall operate for profit, be self-sustaining and be accountable to the public.
- Provides for the procedure for the appointment of Board members of Government Owned Enterprises.
- Provides that the Board of each Government Owned Enterprise shall have an annual business plan and enter into performance agreements with the CS National Treasury.

The Bill, if enacted and implemented, will greatly reduce the number of overlapping roles that increase the cost of compliance for businesses. These are necessary measures to ensure State Corporations are fit for purpose and do not burden taxpayers and businesses with unnecessary administrative and regulatory costs. Enactment and implementation of the Government Owned Enterprises Bill will provide the legal framework that will underpin the necessary reforms.

**To create manufacturing centric counties, the following policy actions should be prioritized:**

### 4.1.8. Agenda eight: Increase cashflow to manufacturers

The 2008/09 global financial crisis revealed that private finance on its own cannot perform well to support an

- Harmonize regulations across different counties and realigning 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.

economy in the event of a crisis. This is because private finance tends to lend more in good times and ration credit in times of crisis. It has also not sufficiently funded long-term investments such as the manufacturing sector Additionally, small and medium enterprises (SMEs) do not access enough credit which also tend to be costly and short-term. This justifies the need for public financial institutions (PFIs) such as the Kenya Industrial Estates (KIE) and the Kenya Development Corporation (KDC) to deliver adequate, affordable and long-term finance of a maturation period of more than eight years. It essential that such PFIs are properly capitalized to discharge their mandate effectively.

Another major challenge impacting manufacturers is the accumulation of VAT refunds. Businesses are owed more than Ksh. 15 billion in the form of VAT refunds. The National Treasury usually allocated Ksh. 2.5 billion per month to the Kenya Revenue Authority (KRA) for VAT refunds against a requirement of about Ksh. 4 billion per month. This has several ripple effects such as cash flow constraints, increased cost of doing business, reduced competitiveness as well as slowed investment and expansion.

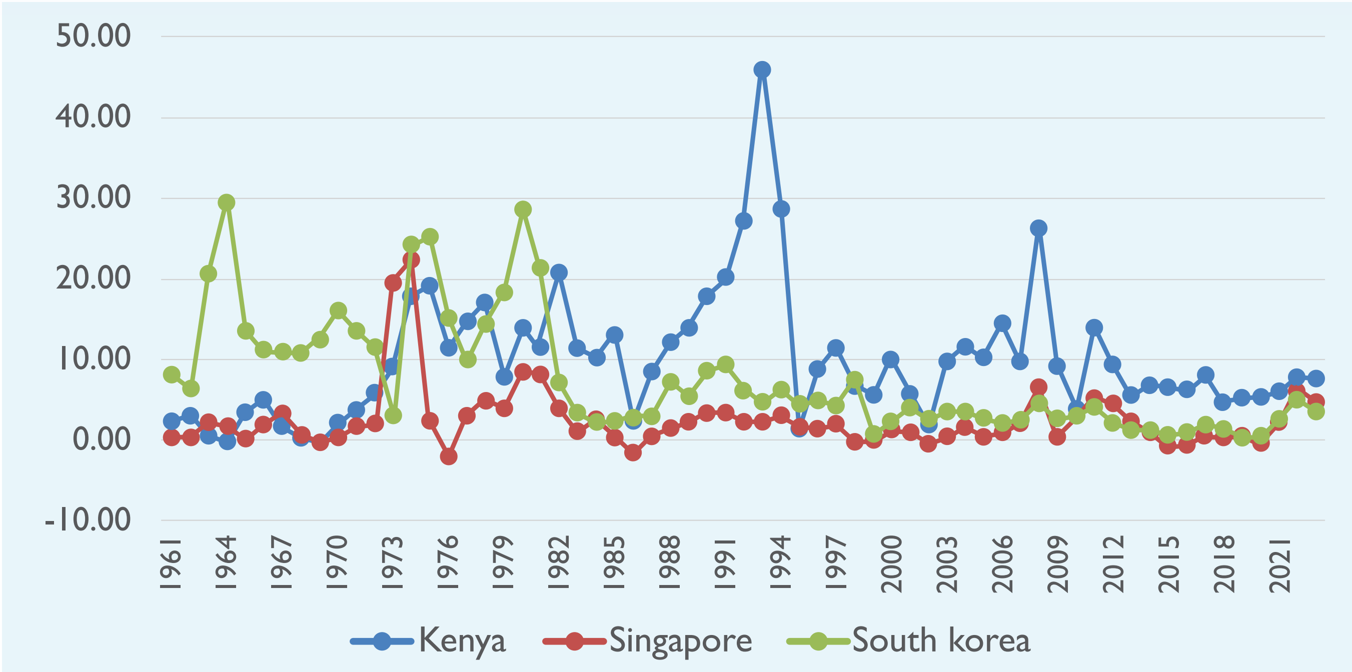
The following measures can be taken to increase cashflow to manufacturers:

- 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 the law to provide refunds of verified refunds reflected on KRA iTax system (Credit Adjustment Vouchers).
- Reduce the 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.

### 4.1.9. Agenda Nine: Create a conducive macroeconomic environment

A stable macroeconomic environment is critical for fostering economic growth, attracting investment, and ensuring long-term financial stability. Responsible macroeconomic management especially inflation and fiscal deficit has been considered essential for the emergence of the East Asian miracle (Page, 1994). Low-to-moderate inflation ensures stable real interest rates which are desirable for the private sector activity to flourish (Page, 1994). According to Figure 4.6, South Korea and Singapore experienced high rates of inflation between 1963-1980 but stabilized after that. On its part, Kenya experienced hyperinflation in 1974, 1993 and 2008 and has recorded a single-digit inflation rates (and has largely remained within the medium-term target band of 5± 2.5) in the 2012-2023 period. Inflation rates in Kenya are mainly driven by climate related variables such as drought and famine which causes increased food prices or imported inflation especially through petroleum oil-related shocks.

**Figure 4.6: Inflation rates for Kenya and comparator countries**




*Data source:WDI*

A stable exchange rate is an important precondition for a thriving manufacturing sector. This is because exchange rate volatility especially rapid depreciation will not only increase business uncertainty but also increase the cost of imported industrial inputs. Maintenance of low levels of fiscal deficit is a sign of fiscal prudence. Impact of fiscal deficit on the macroeconomic environment mainly depends on how it is financed. If it is through printing of money, then it will be inflationary. If it is financed through domestic borrowing, there is likelihood of crowding out the private sector out of the domestic credit market. From 2015, data shows that Kenya was borrowing more from the domestic market compared to external borrowing. This has the effect of crowding out the private sector in Kenya. The government might also consider increased taxation on the private sector, and this has negative implications on capital formation. Tax burden on the private sector has been increasing, which increases cost of doing business and disincentivizes investments.

**To create a conducive macroeconomic environment for the sector, the government should consider taking the following policy measures:**

- Governments 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.

## 4.1.10. Agenda Ten: Enhance environmental and sustainable regulatory compliance

Kenya has made significant progress in conservation and maintenance of the environment. The government has demonstrated goodwill towards this by developing new and reviewing existing environmental legislation such as the National Sustainable Waste Management Act of 2024, gazetting the Extended Producer regulations (EPRs) toward the end of 2024 and is currently reviewing various regulations under Environmental Management and Coordination Act (EMCA) for updating and alignment with sustainable practices.

The industry has embraced these policies and proactively initiated establishment of Producer Responsibility Organizations (PROs). The manufacturing sector has embraced sustainable best practices in areas such as energy efficiency, water & wastewater management, circular economy, sustainable goals aligned with environmental aspects, chemicals and waste management under the Responsible Care Kenya program and tree growing initiatives. **KAM planted over 55,000 trees in 2024.** This shows the manufacturing sector's support and contribution to environmental conservation for prosperity whilst ensuring economic development is achieved. The industry commits to continuously upscale this initiative and program supporting Kenya's commitment to reducing greenhouse gas emissions and contributing to Kenya's targets in its Nationally Determined Contribution (NDC) tracking to abate Green House Gas (GHG) emissions by 32% by 2030.

**To enhance environmental protection and sustainable regulatory compliance; the government can consider the following actions:**

| | | | | | |
|---|---|---|---|---|---|
| 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. |

### 4.1.11. Agenda Eleven: Pro-industry skill development

A pro-industry skill development labor force is the backbone of Kenya's manufacturing growth and global competitiveness. By aligning skills training with industry needs, the gap between workforce capabilities and market demands can can bridge, fostering innovation, productivity, and job creation. This alignment is critical to driving manufacturing in Kenya, as it equips workers with the expertise required for sustainable industrialization, green technologies, and social inclusion. Strengthening industry-TVET partnerships and operationalizing supportive frameworks will ensure that Kenya's manufacturing sector remains a key driver of economic transformation.

To ensure pro-industry skills development, the following actions by the government would be useful:

- 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)

## 4.2. Pillar two: Export led industrialization

A central question developing countries such as Kenya face is the choice of economic strategy to follow. One such strategy is the Export-Oriented Industrialization (EOI) which is credited for the economic success of East Asian miracle countries such as South Korea and Singapore. After the Import Substitution Industrialization (ISI) strategy failed to promote industrialization, Kenya was forced to abandon ISI in favour of EOI which was elaborated in Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth. This was part of the structural adjustment programs (SAPs) introduced by the World Bank and the International Monetary Fund (IMF) in the early 1980s. One of the salient features of the SAPs was emphasis on trade liberation. Kenya became a fully liberalized economy in 1994 and joined the World Trade Organization the same year (Chege, Ngui and Kimuyu, 2014). To this end, quota restriction on imports was abolished, import tariff rates were lowered and harmonized and export promotion measures such as manufacturing under bond, green channel of customs clearance, export processing zones (EPZs) and export compensation schemes were introduced. In addition, Kenya adopted a flexible exchange rate regime.

### 4.2.1. Agenda One: Enhance competitiveness of manufactured exports

Domestic trade policy reforms lay the groundwork for efficient use of productive local resources to improve export performance (Apiko, Woolfrey, and Byiers, 2020). To significantly enhance the competitiveness of Kenyan manufactured exports, a comprehensive and strategic approach is essential. To increase the competitiveness of exports, the government should create a scheme that ensures no domestic taxes or levies are applicable to export goods. This may include reinstating and expanding incentives under the Export Promotion Programmers Office (EPPO) to provide targeted support to manufacturers, particularly in sectors with high export potential. These incentives should be tied to pre-agreed key performance indicators (KPIs) established through a consultative effort between the government and private sector stakeholders, ensuring accountability and measurable progress toward export growth targets. Such a scheme would lower production costs, making Kenyan products more price-competitive in international markets.

The EPZs is one of the main export promotion programs in Kenya. Table 4.8 gives selected performance indicators of the EPZ program. The number of gazetted zones at end of December 2023 stood at 101 compared to 89 in 2022 of which 91 were privately owned while 10 were public. The number of operating enterprises increased to 170 in 2023 from 157 in 2022.

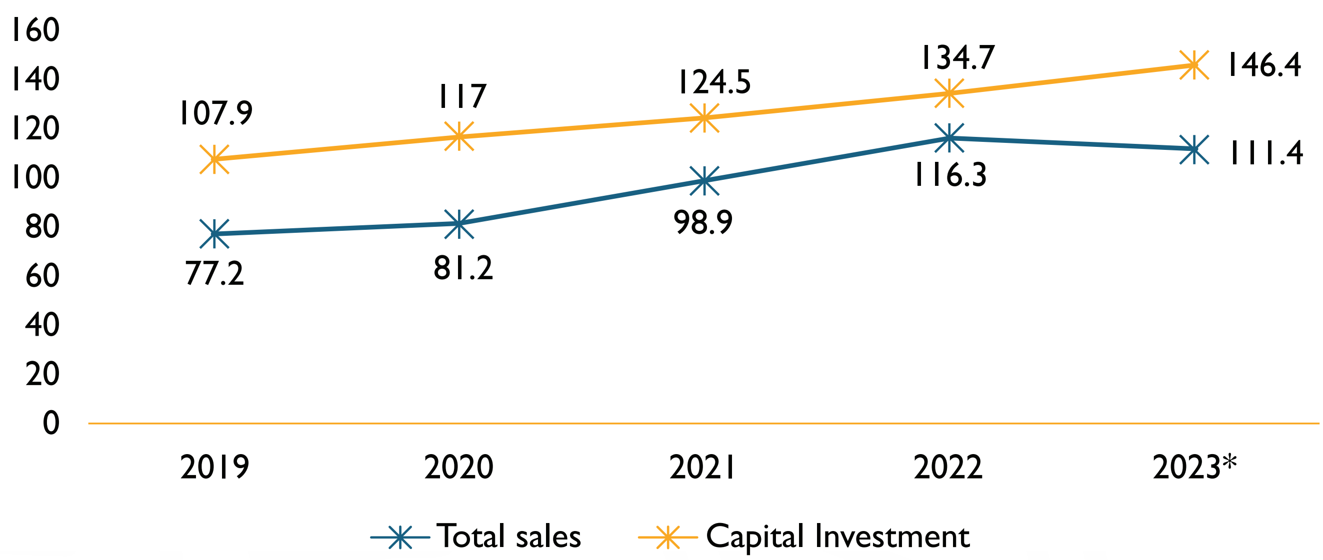
### Table 4.8: Selected EPZ performance indicators, 2019-2023

| | 2019 | 2020 | 2021 | 2022 | 2023* |
|---|---|---|---|---|---|
| Gazetted Zones | 74 | 76 | 82 | 89 | 101 |
| Enterprises operating | 137 | 138 | 145 | 157 | 170 |
| Total workers (Local and Expatriates | 61,055 | 56,940 | 66,854 | 83,752 | 76,383 |
| Capital investment | 107,877 | 116,974 | 124,490 | 134,708 | 146,416 |
| Exports (Ksh. million) | 68,572 | 74,360 | 90,249 | 106,637 | 104,999 |
| Imports (Ksh million) | 39,840 | 37,504 | 48,317 | 63,663 | 55,698 |
| Imports as % of exports | 58% | 50% | 54% | 60% | 53% |

*Data source: Economic Survey 2024 and KAM's calculations *Provisional*

Direct employment in the EPZs decreased by 8.8% to 76,383 persons in 2023 compared to 83,752 persons in 2022 mainly due to reduced demand from leading export destinations such as the USA. In addition, the value of exports dropped by 1.5% to Ksh. 104,999 million in 2023 from Ksh. 106,637 million in 2022. The value of capital investment in these zones increased by 8.7% to Ksh. 146,416 million in 2023 from Ksh.134,708 million in 2022. The growth was a result of the new enterprises that entered the program as well as expansion of the existing ones. However, total sales from EPZs decreased to Ksh. 111.4 billion in 2023 from Ksh. 116.3 billion in 2022 (Figure 4.7).

### Figure 4.7: Performance of total sales and capital investments between 2019 and 2023 (billions)




*Data source: Economic Survey, 2024*

Compared to Kenya, Mauritius' Export Oriented Enterprises (EOE) operating as EPZ have outperformed Kenya's in terms of industrial diversification, economic impact, and export growth (Table 4.9). The number of enterprises in 2023 was 231 compared to Kenya's 170. However, both countries continue to face challenges in trade, including complex trade agreements, infrastructure inefficiencies, limited bilateral engagement, global market competition, and bureaucratic delays. These issues hinder seamless operations and restrict the growth of export-oriented enterprises in both countries.

### Table 4.9: Mauritius Export Oriented Enterprises (EOE), 2018 - 2023

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| No of enterprises as at December | 263 | 239 | 235 | 233 | 232 | 231 |
| Employment as at December | 49,866 | 44,160 | 36,736 | 35,024 | 36,109 | 33,293 |
| Exports (f.o.b, R million) (excluding sales to Freeport) | 43,311 | 42,319 | 37,289 | 42,657 | 49,918 | 47,247 |
| Imports (c.i.f,R million) | 25,929 | 24,645 | 19,629 | 25,673 | 33,466 | 26,781 |
| Investment (R million) | 1,104 | 739 | 724 | 703 | 1,022 | 1,100 |
| Imports as % of exports | 60% | 58% | 53% | 60% | 67.0% | 56.7% |

*Source: Mauritius EOE Statistics*[23]

Moreover, advocating for the effective operation of export promotion programs, such as EPZs and Special Economic Zones (SEZs), which are critical hubs for industrial activity and export-oriented production, will provide manufacturers with the necessary infrastructure and fiscal incentives to boost export growth and economic development. These measures collectively aim to strengthen Kenya's position in the global market and drive sustainable economic growth. By improving infrastructure, streamlining regulatory processes, and offering attractive incentives within these zones, Kenya can attract both local and foreign investment, foster innovation, and increase the scale of export-oriented manufacturing. These measures, combined with robust marketing of Kenyan products abroad and capacity-building initiatives for local manufacturers, will not only boost export volumes but also create jobs, stimulate economic growth, and solidify Kenya's position as a regional and global trade leader.

**To enhance competitiveness of manufactured exports, the state is encouraged to consider the following actions:**

- 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).

### 4.2.2. Agenda Two: Enhance access to domestic market

To enhance access to the domestic market, a comprehensive approach is essential to prioritize and support locally manufactured goods, thereby stimulating economic growth and self-reliance. One key initiative is the implementation of the Public Procurement Preferential Master Roll, which mandates public institutions to prioritize purchasing locally produced goods and services. This aligns with the Buy Kenya Build Kenya Strategy (BKBK), a national initiative aimed at promoting local industries, creating jobs, and reducing reliance on imports. By compelling public institutions to source locally, the strategy not only boosts domestic production but also ensures that public spending circulates within the economy, fostering sustainable development.

Additionally, fast-tracking legislation to enforce local content policy provisions is critical. This involves creating a legal framework that mandates a minimum percentage of local materials, labour, and expertise in both public and private sector projects, particularly in key industries such as manufacturing, construction, and energy. Such policies will incentivize investment in local capacity building and innovation. Furthermore, ensuring the implementation of fair-trade practices is vital to creating a level playing field for local businesses. This includes combating unfair competition

[23] https://statsmauritius.govmu.org/Documents/Statistics/ESI/2024/EI1796/EOE_1Qtr24_280624.pdf

from subsidized imports, addressing non-tariff barriers, and promoting transparency in trade regulations. By fostering an environment where local enterprises can thrive, these measures collectively strengthen the domestic market, enhance economic resilience, and empower Kenyan businesses to compete both locally and globally.

**To optimize domestic market access opportunities to the domestic market, the government is encouraged to consider the following initiatives:**

- 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.

### 4.2.3. Agenda Three: Promote regional and international market access

Kenya has an enormous export market potential through various trade regimes such as the African Continental Free Trade Area (AfCFTA), the African Growth and Opportunity Act (AGOA), Kenya-European Union Economic Partnership Agreement (Kenya-EU EPA), Kenya-UK Free Trade Area (FTA) among others. AGOA is an initiative of the USA which aims to increase exports especially of apparels from accredited Sub-Saharan African (SSA) countries. Table 43.9 shows that the number of enterprises under AGOA increased from 36 enterprises in 2022 to 39 in 2023. Capital investment increased by 16.7% to Ksh. 29.2 billion in 2023 from Ksh. 25.1 billion in 2022. However, value of exports of articles of apparels to US market decreased from Ksh. 56.7 billion in 2022 to Ksh. 50.8 billion in 2023. Notwithstanding, direct employment under AGOA decreased to 58 thousand persons in 2023 from 66.3 thousand people recorded in 2022.

**Table 4.10: Select EPZ Garment/Apparel performance indicators under AGOA, 2019-2023**

| | 2019 | 2020 | 2021 | 2022 | 2023* |
|---|---|---|---|---|---|
| Number of enterprises | 24 | 28 | 29 | 36 | 39 |
| Number of employees | 49,489 | 45,588 | 50,422 | 66,260 | 58,002 |
| Capital investment (Ksh Million) | 18,065 | 19,133 | 23,216 | 25,054 | 29,242 |
| Exports (Ksh. million) | 47,196 | 44,640 | 51,618 | 56,711 | 50,802 |

*Data source: Economic Survey, 2023 and KAM's calculations *Provisional*

Promoting regional and international market access is a critical agenda for fostering economic growth, enhancing trade competitiveness, and integrating into the global economy. A key step is ensuring the proper implementation of the EAC Customs Protocol, which includes enforcing the CET to regulate import duties and addressing Non-Tariff Barriers (NTBs) and Technical Trade Barriers (TBT) that hinder seamless trade within the region. Additionally, pursuing the timely extension of the AGOA is essential to guarantee continued preferential market access for Kenyan exports to the USA, particularly in sectors like textiles and apparel, which have significantly benefited from this initiative.

Concurrently, concluding tariff offers and rules of origin (RoO) under the AfCFTA is vital to unlocking the potential of intra-African trade by creating a unified market with reduced trade barriers. Similarly, the operationalization of the Tripartite Free Trade Area (TFTA), which brings together the EAC, COMESA, and SADC, will further expand market access across 26 African countries, fostering regional integration and economic cooperation. Resolving persistent market access challenges within the EAC, such as NTBs and TBTs, is also crucial to ensuring the free movement of goods and services, which will enhance trade efficiency and reduce costs for businesses. Finally, optimizing market access opportunities under the EU-EPA and the UK-FTA will enable Kenyan products to enter these lucrative markets with reduced tariffs, boosting exports and strengthening economic ties with Europe and the UK. Collectively, these measures will position Kenya as a competitive player in regional and global trade, driving economic transformation and prosperity.

To promote regional and international market access, it is essential that the government considers the following recommendations:

| | | | | | |
|---|---|---|---|---|---|
| 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 operationalizatio n 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 the European Union Economic Partnership Agreement (EU-EPA) and UK Free Trade Area (FTA). |

## 4.3. Pillar Three: SMEs development

Small and Medium-Sized Enterprises (SMEs) are vital to the global economy, especially in developing nations. SMEs make up the bulk of companies globally and are important forces behind economic expansion and job creation. Approximately 90% of enterprises worldwide are SMEs, which also account for over 50% of all jobs. Formal SMEs can account for as much as 40% of GDP in emerging economies. When informal SMEs are considered, the impact is considerably greater. Thus, prioritizing SME growth is crucial. The World Bank estimates that 600 million jobs must be created by 2030 to accommodate the expanding global workforce. SMEs create the majority of formal jobs in emerging nations, accounting for almost 7 out 10 jobs. The government can pursue several agendas to promote SMEs in manufacturing.

### 4.3.1. Agenda One: Market access

SMEs have identified market access as a serious constraint to their growth and development. The main buyers of SMEs goods and services in Kenya are local consumers with a small proportion participating in export markets. Most of the SMEs lack reliable information about market demand, pricing, consumer preferences and competitor activity, making it difficult to make informed decisions about product pricing and expansion strategies. Additionally, SMEs must contend with competition from large domestic firms and cheaper imports, especially in the manufacturing sector. The market for locally produced products by SMEs is shrinking, largely due to the influx of cheaper and the perception that imported goods are of higher quality. This trend has made it difficult for local manufacturing SMEs to compete, especially as Kenyan consumers increasingly view imported products as superior compared to the domestic alternatives available.

Access to international markets for SMEs is critical to scale their operations, diversify income streams and remain competitive in the global economy. While Kenya has entered into various trade agreements such as the AfCFTA, a small number of SMEs participate in export markets due to the high cost of certification and the stringent export market requirements on product standards which require substantial investment and technical knowledge that many SMEs lack. Currently there are various trade promotion programs available which could help SMEs build connections abroad, however, they are often beyond the MSMEs' reach due to the associated costs to export and information asymmetry on some of these opportunities. KAM is working in close partnership with the State Department of Industry to update the list of locally manufactured goods that have adequate and installed capacity in the country. While the list is not exhaustive in terms of covering all the manufactured goods, there is a need to deliberately and regularly (annually) update and gazette it so that procurement entities can consider what is enlisted and procured from within the country.

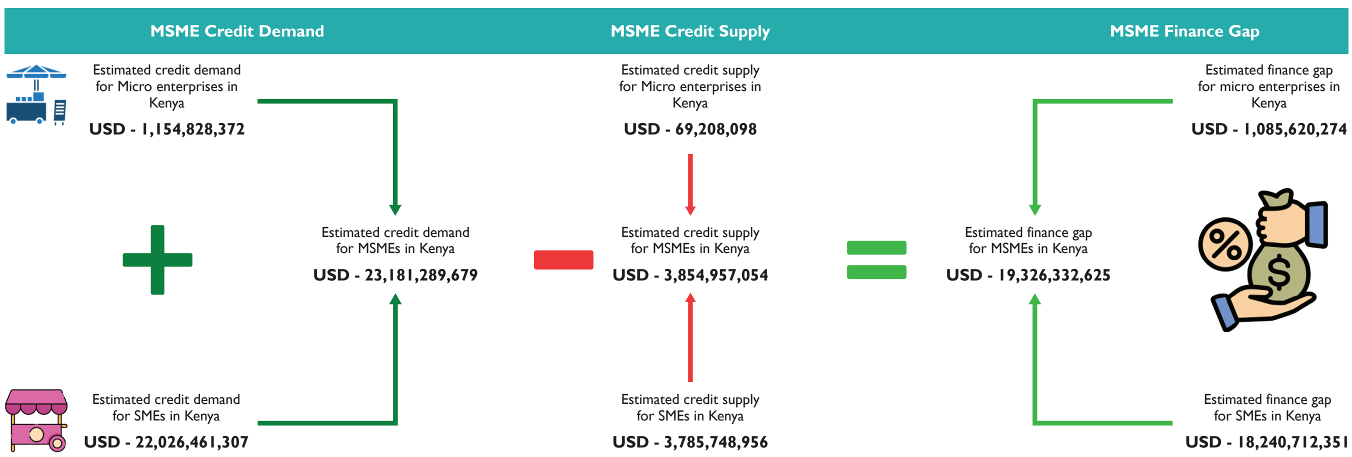
To enhance market access for SMEs, the following actions can be taken by the government:

- 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.

### 4.3.2: Agenda Two: Access to finance

Access to finance is a key constraint to SME growth. It is the second most cited obstacle to SME growth in emerging markets and developing countries. Despite the vibrant Kenyan financial sector, the need for financing among SMEs persists over the years. According to the international finance corporation estimates of 2019, there exists an annual unmet need for financing for Kenyan MSMEs of Ksh. 4 trillion. Further, the CBK MSME report indicates that banks lent only Ksh. 783.3 billion in the year 2022. A 2024 study by Financial Sector Deepening (FSD) Kenya indicates that the current financing gap is estimated at US$ 19.3 billion (Figure 4.8). [24]

### Figure 4.8: How big is the financing gap in MSME's




*Source: FSD Kenya 2024[25]*

The Government has also established various programs and catalytic funds through various agencies to address the needs of different categories of SMEs. Through the National Treasury, Government launched the Credit Guarantee Scheme (CGS) on 8th December 2020 to support access to quality and affordable credit. The CGS is anchored in the Public Finance Management (Amendment) (No. 2) Act, 2020 and operationalized through the Public Finance Management (Credit Guarantee Scheme) Regulations, 2020. As of October 2024, the CGS has supported 4,157 SMEs to access credit amounting to Ksh. 6.35 billion (Table 4.10). The CGS has achieved a leverage ratio of Ksh. 2.32. This implies that every one shilling committed by the Government has unlocked private sector credit worth Ksh. 2.32 to SMEs. This proves that the CGS initiative is a cost-efficient tool to target support SMEs in accessing finance. However, it's important to note that manufacturing SMEs able to access are just 117 (2.8%) out of the 4,157 MSMEs accessing the guarantee.

### Table 4.11: Number of SMEs who have benefited from the Credit Guarantee Scheme (CGS), October 2024

| No. of Beneficiaries | Jobs Supported | Disbursed loan amount | Repaid load amount | No. of Counties | Leverage Ratio |
|---|---|---|---|---|---|
| 4,157 | 26,348 | Ksh. 6.35b | Ksh. 4.19b | 46 | 2.34 |

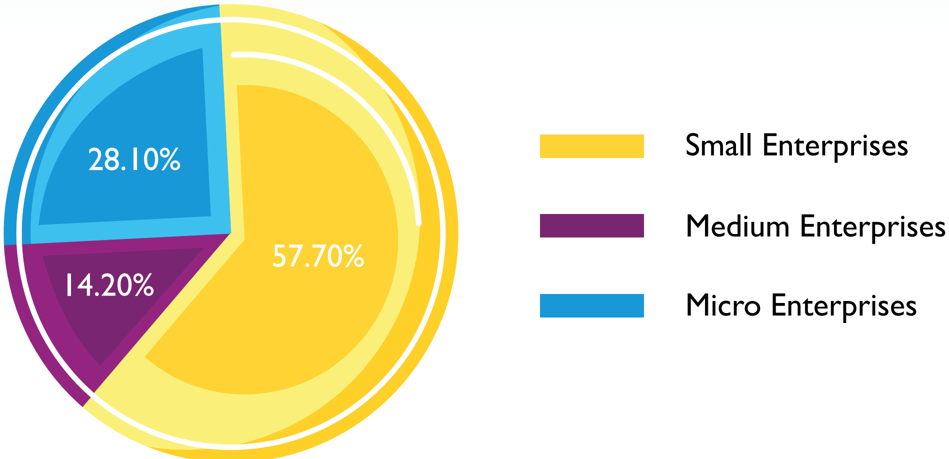
*Source: (https://cgs.treasury.go.ke/)*

Figure 4.9 shows that small enterprises had the largest share of credit guarantees, followed by micro enterprises.

24 (https://www.fsdkenya.org/wp-content/uploads/2024/06/Micro-Small-and-Medium-Enterprises-outlook-report.pdf)

25 https://www.fsdkenya.org/wp-content/uploads/2024/06/Micro-Small-and-Medium-Enterprises-outlook-report.pdf

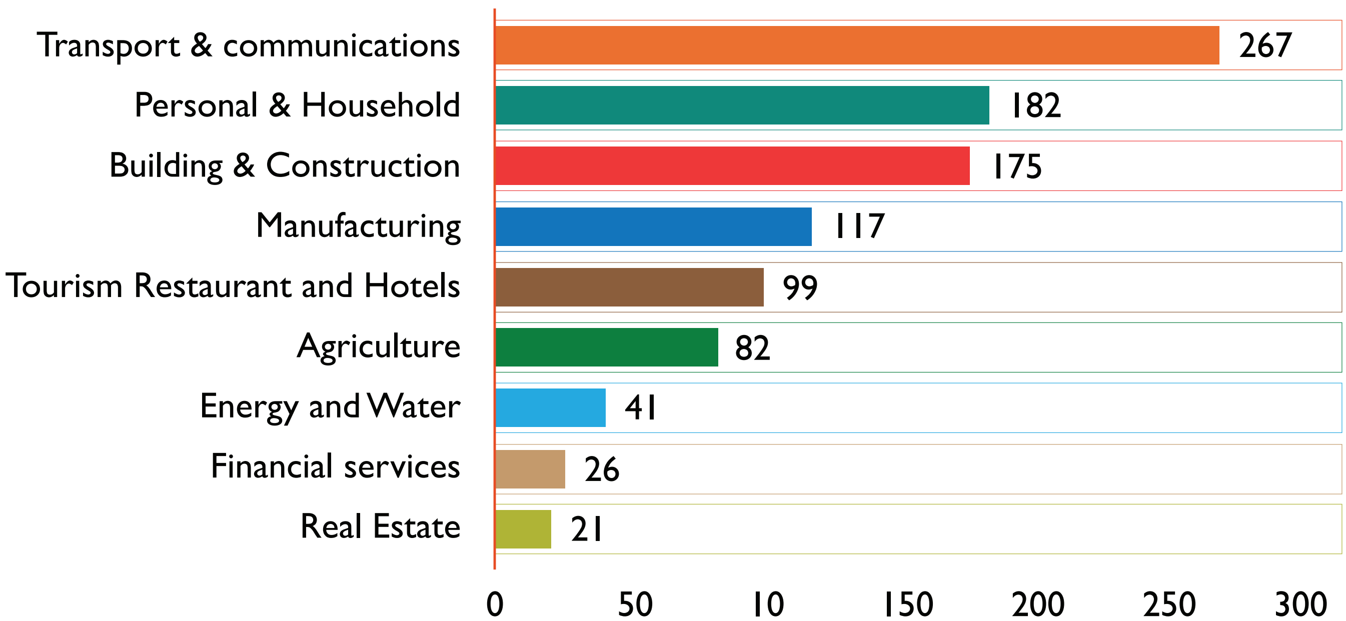
### Figure 4.9: Share of Credit guarantees enterprise size




*Source: National Treasury (https://cgs.treasury.go.ke/*

Transport and communications had the largest share of credit guarantees by economic sector, it was followed by personal and households while manufacturing sector had 117 (Figure 4.10).

### Figure 4.10: Share of credit guarantees by economic sector




*Source:The National Treasury (https://cgs.treasury.go.ke/)*

The government should consider increased funding to PFIs such as the KDC & KIE to give long-term and affordable credit. It is also important to refinance the Kenya Industrial Research and Development Institute (KIRDI). This will enable KIRDI to provide better support to SMEs in research and development, leading to improved product quality, increased competitiveness, and greater compliance with regional standards.

**To enhance access to finance for SMEs, the government can undertake the following:**

- 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 SME enabling legislations/bills such as the start-up policy.
- Ring-fence 20% of Credit Guarantee Scheme funds specifically for the manufacturing sector.
- Recapitalize the Credit Guarantee Scheme to increase loan amount to at least Ksh. 20 million and term loan repayment up to 8 years.
- Increase funding to institutions such as Kenya Industrial Enterprises (KIE) and Kenya Development Corporation (KDC).
- Expedite the development of tailored Hustler Fund products specifically for SMEs.
- Refinance the Kenya Industrial Research and Development Institute (KIRDI).

### 4.3.3. Agenda Three: Governance

The SMEs share distinctive challenges that require specific governance practices to support them navigate through the four growth stages:

| Stage One | Stage Two | Stage Three | Stage Four |
|---|---|---|---|
| Start-up | Active growth | Organizational Development | Business Expansion |

SMEs in Kenya experience various challenges characterized by low managerial, financial, technical, technological and industry relevant skills. Many of the SME's struggle to find accessible and affordable training opportunities. Access to high quality business development services forms an important part of the market support structure that helps build SME competitiveness.

Access to complete, reliable and quality data and information is key to the development of the SME ecosystem. SME data is not only valuable to the ecosystem players but also across many other sectors of the economy. The lack of up-to-date information on the MSME ecosystem poses a significant challenge that affects policy formulation, planning, credit allocation and support mechanisms.

**The following action can support and improve SMEs' governance if adopted by the government:**

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

## 4.4. Pillar: Agriculture for Industry

### 4.4.1. Agenda one: Promote agro-industry value chains

Agriculture continues to be the backbone of the Kenyan economy with over 18 million Kenyans earning income from agriculture. Due to their backward and forward linkages, agro-industries have high multiplier effects in terms of job creation and value addition. Therefore, creating a strong link between Kenya's manufacturing and agricultural sectors is critical as the impact on rural off-farm activities, employment, and poverty alleviation is enormous. Further, local sourcing of raw materials by agro-industries will result in import substitution thereby reducing Kenya's import bill and alleviating pressure on the Kenya's forex reserves.

KAM's Agriculture for Industry (A4I) seeks to create a conducive ecosystem where the producer(farmer) is linked to the off-taker(processor) with the objective of increasing local sourcing of agricultural produce for value-addition by local manufacturers. With support from the Government (National & County), development partners and other stakeholders in the agriculture value chain, the goals set out under KAM's A4I pillar can be realized. In 2024, KAM, in collaboration with Homabay County government and International Institute of Tropical Agriculture (IITA), began a partnership on the groundnut value chain in which KAM members processing groundnuts sourced groundnuts from farmers in Homabay County that were receiving agronomy support from the IITA. The success from this partnership demonstrates the impact which this pillar can have should deliberate efforts be made by stakeholder to promote local sourcing and enhance the linkages between Kenya's agriculture and manufacturing sectors.

**To drive the A4I agenda forward, the government should consider the following actions:**

- Establish a public database 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.

# 5. CONCLUSION AND POLICY RECOMMENDATIONS

## 5.1. Conclusion

The MPA 2025 is themed "Achieving Kenya's prosperity through accelerated and sustainable manufacturing growth". This is based on the appreciation that the manufacturing sector remains a key economic sector that the government can promote to create jobs, raise government revenue and grow exports. It is possible to achieve the envisaged 20% manufacturing GDP contribution from the current 7.6% by 2030. This will require a close collaboration between the government and the private sector. A robust manufacturing industry will create jobs especially for the youth and enlarge the size of the middle class in Kenya and act as a growth engine that drives prosperity for the nation. For this to happen, the government must focus on the four broad areas:

1. Promote a manufacturing sector that is globally competitive.
2. Promote export-led industrialization.
3. Support the growth of SMEs.
4. Promote Agriculture for Industry (A4I) agenda.

Additionally, there are signs that the economy requires an economic stimulus plan as we are currently grappling with rising non-performing loans, almost zero credit growth to the private sector and reduction of activity in the construction sector. A well-designed stimulus program will benefit everyone including the manufacturing sector through increased demand of locally produced goods.

## 5.2. Policy recommendations

For the government to increase manufacturing sector GDP contribution to 20% by 2030 to create jobs, grow taxes and promote manufactured exports, the following should be considered:

- Promote creation of a globally competitive manufacturing sector in Kenya by ensuring 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%; 10% for intermediate inputs not abundantly found in EAC; and 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 by reviewing the current one. 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 bolster the fight against illicit trade that not only denies the government tax revenue but harms businesses through unfair competition and posing health risks to consumers. A competitive industrial sector will promote market access in the domestic, regional and international markets.

- Liquidity is the "blood" that keeps the businesses running. The government should ensure timely refund of VATs to businesses. This should include immediate settlement of the estimated Ksh. 15 billion outstanding VAT refunds and increasing monthly allocation of VAT refunds to at least Ksh. 4 billion. Public financial institutions such as the KIE and KDC should be adequately capitalized to offer long-term loans and at a single-digit interest rate. This is considering that 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 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.

- The SMEs growth and development should be ensured 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 amount to at least Ksh. 20 million and term loan repayment up to 8 years.

- KAM believes that Agriculture for Industry (A4I) is the tide can lift fortunes of not only the manufacturing sector but also the other economic sectors. This is through robust backward and forward linkages. Some of the interventions that can promote this agenda include the following: establishing public databases system of farmers and products in regions 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 through to ensure a resilient agricultural sector.

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| | PILLAR | AGENDA | ACTIONS |
|---|---|---|---|
| 1. | Global Competitiveness | Ensure stable and predictable policies | • Implement the National Tax Policy guidelines in the entire budget making process.<br>• Align national tax approaches to the principles of the Common External Tariff (CET).<br>• Revise and implement a National Industrial Policy.<br>• Subject to impact analysis for all tax and regulatory proposals. |
| | | Reduce regulatory burden. | • Undertake parastatal reforms in line with fiscal consolidation efforts.<br>• Eliminate multiple fees, levies, and charges by government agencies.<br>• 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. |
| | | 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.<br>• Remove domestic taxes on locally produced or imported industrial inputs.<br>• Eliminate double taxation through explicitly allowing for the offset of inputs by allowing offsets where the finished good is not excisable.<br>• Exempt plant and machinery under Chapter 84 and 85 from VAT to incentivize investments. |
| | | 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.<br>• Fast-track Regulations on Open Access Energy Market<br>• Remove VAT on levies imposed of fuel prices<br>• Complete works on key substations including Mariakani 400/220kV and Lessos 400/132kV<br>• Review of 1megawatt (MW) capping requirement for captive power generation.<br>• Removal of 6% growth requirement on Time of Use Tariff Policy.<br>• Lift moratorium on new power plants and fast-track energy auction market. |
| | | 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.<br>• Prioritize construction of meter gauge railway (MGR) and standard gauge railway (SGR) sidings |

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| | | | (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.<br>• 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.<br>• 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.<br>• Remove the dollarization of levies and fees charged by government agencies on trade facilitation. |
| | | Sustain the fight against illicit trade. | • Intensify awareness on matters of illicit trade to targeted groups including users, producers, governments.<br>• Intensify the fight against illicit trade through the establishment of a well-coordinated high level enforcement multi-Agency Team in the country.<br>• Enhance inter-agency collaboration, co-ordination, accountability, and transparency in the enforcement of illicit trade.<br>• Address the underlying issues that's incentivize illicit trade such as excise duty regime. |
| | | Create manufacturing centric counties | • Harmonize regulations across different counties and realign existing fees and levies imposed by various counties.<br>• Fast track the enactment of the Government Owned Entities Bill, 2024.<br>• Implement the County Licensing (Uniform Procedures) Act, 2024.<br>• Finalize County Governments (Revenue Raising Process) Bill 2023. |
| | | Increase cashflow to manufacturers | • Recapitalize Kenya Development Corporation (KDC) to provide long-term funding to manufacturers with a single digit interest rate cost.<br>• Establish a tax refund fund to cater for all refunds to businesses.<br>• Amend law to provide refund of verified refunds reflected on KRA iTax system (Credit adjustment vouchers).<br>• Reduce withholding VAT rate from 2% to 1% and have it removed after one year.<br>• Implement a 60-day payment period provided for under the Public Procurement and Assets Disposal (PPAD) Regulations, 2020.<br>• Incentivize prompt payment culture by |

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| | | | fast-tracking the enactment of the Prompt Payment Bill, 2021 to enhance compliance. |
| | | Create a conducive macroeconomic environment | • Government to commit to a fiscal consolidation path to continuously reduce fiscal deficit.<br>• Ensure a stable exchange rate regime<br>• Ensure a single-digit inflation rate<br>• Ensure a favourable domestic interest rate regime to reduce cost of credit |
| | | Enhance environmental and sustainable regulatory compliance | • Harmonization of overlapping of environmental policies and legislations.<br>• Development of guidelines to operationalize the EPR Regulations 2024<br>• Enhance manufacturers compliance with EPR through establishment and proper functioning of producer responsibility organizations.<br>• Provide incentive to industries to embrace principles of Circular Economy.<br>• Promote Environment, Social and Governance (ESG) principles in both the public and private sectors.<br>• Unpack the "carbon trading" for industries to create opportunities through favorable policies and regulatory frameworks. |
| | | Pro-industry skill development | • Support the operationalization of the National Sector Skills Committees.<br>• 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.<br>• Support & incentivize industry to support skills development (internships, attachments, work-based learning) through operationalization of the NITA and TVETA Act.<br>• Support sustainable industrialization through green skills development.<br>• Support sustainable industrialization through social inclusion in skills development for persons with disabilities (PWDs). |
| 2. | Export-led industrialization | Enhance competitiveness of manufactured exports | • 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.<br>• Advocate for efficient operations of Export Promotion programmes, including the Export Processing Zones (EPZs) and Special Economic Zones (SEZs). |
| | | Enhance access to domestic market | • Implement the Public Procurement Preferential Master Roll to compel public institutions to buy |

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| | | | • locally manufactured goods to implement the Buy Kenya Build Kenya Strategy (BKBK).<br>• Fast track enactment of legislation to implement the local content policy provisions<br>• Ensure implementation of fair-trade practices |
| | | 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.<br>• Pursue the timely extension of the African Growth and Opportunity Act (AGOA) to extend to guarantee preferential market access the United States.<br>• Conclude tariff offers and rules of origin under the African Continental Free Trade Area (AfCFTA).<br>• Pursue ooperationalization of the Tripartite Free Trade Area (TFTA).<br>• Resolve market access challenges in the East African Community (EAC) such as non-tariff barriers (NTBs) and technical barriers to trade (TBT).<br>• Optimize market access opportunities under European Union Economic Partnership Agreement (EU-EPA) and UK Free Trade Area (FTA). |
| 3. | SMEs development | 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.<br>• Enact and implement the Local Content Bill, 2018. |
| | | Access to finance | • Give a 5-year tax moratorium to SMEs to enhance cashflow and foster sustainability beyond the initial 5-year period.<br>• Enact and implement other pending SME enabling legislations/bills such as the start-up policy.<br>• Ring-fence 20% of Credit Guarantee Scheme funds specifically for the manufacturing sector.<br>• Recapitalize the credit Guarantee scheme to increase loan amount to at least Ksh. 20 million and term loan repayment up to 8 years.<br>• Increase funding to institutions like Kenya Industrial Enterprises (KIE) and Kenya Development Corporation (KDC).<br>• Expedite the development of tailored Hustler Fund products specifically for SMEs.<br>• Refinance the Kenya Industrial Research and Development Institute (KIRDI). |
| | | Governance | • Implementation of the reviewed MMSEs policy to align with the current governance structure under |

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| | | | the Ministry of Cooperatives and MSME Development. |
| 4. | Agriculture for Industry | Promote agro-industry value chains | • Establish public databases system of farmers and products in regions to enhance offtake sourcing by industries.<br>• Provide appropriate fiscal and other relevant incentives to agro-processors.<br>• Reinvigorate extension services in the counties.<br>• Ensure availability of affordable and certified farm inputs such as seeds and fertilizer.<br>• Devise climate change mitigation and adaptation strategies through to ensure a resilient agricultural sector. |

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