KAM
KENYA ASSOCIATION OF MANUFACTURERS
Driving Global Competitiveness

60+ Years OF ADDING VALUE

MANUFACTURING
PRIORITY AGENDA (MPA) 2024

Steering economic growth through the manufacturing sector for common good

MPA 2024: Steering economic growth through the manufacturing sector for common good

PILLAR 1 Global Competitiveness

- Reduce regulatory burden
- Promote access to quality, affordable and reliable energy for manufacturing
- Reduce transport and logistics costs
- Sustain the fight against illicit trade
- Manufacturing centric counties
- Ensure stable and predictable tax policies
- Lower the cost of industrial inputs
- Incentivize prompt payment culture
- Avail affordable long-term credit to manufacturers
- Enhance environmental and sustainable regulatory compliance
- Pro-industry skill development

PILLAR 2 Export-led Industrialization

- Drive an efficient domestic market
- Optimization of market access opportunities under EAC Common Market
- Diversification and optimization of international market access in Bilateral and multilateral agreements
- Enhance competitiveness of manufactured exports

PILLAR 3 SME Development

- Market access
- Access to finance
- Governance

PILLAR 4 Agriculture for Industry

- Promote agro-industry value chains

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ABBREVIATIONS

A4I	Agriculture for Industry
ACA	Anti-Counterfeit Authority
ADPS	Annual Development Plan
AEO	Authorized Economic Operator
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
BKBK	Buy Kenya Build Kenya
BOT	Balance of Trade
CAIPs	County Aggregation and Industrial Parks
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CI	Commercial Industry
CIDPS	County Integrated Development Plans
CIP	Competitive Industrial Performance
CMF	Construction Management Framework
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
EBITDA	Earnings Before Interest, Taxes, Depreciation, and amortisation
EMDE	Emerging Medium and Developing Economies
EOE	Export Oriented Enterprises
EPA	Economic Partnership Agreement
EPRA	Energy and Petroleum Regulatory Authority
EPZ	Export Processing Zones
ESG	Environmental, Social and Governance
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FY	Financial Year
GDP	Gross Domestic Product
GTI	Guided Trade Initiative
ICD	Inland Container Depot
ICMS	Integrated Customs Management System
IMF	International Monetary Fund
IMS	Integrated Management System
IPR	Intellectual Property Rights
IRA	Inflation Reduction Act
KAA	Kenya Airport Authority
KAM	Kenya Association of Manufacturers
KCC	Kenya Cooperative Creameries
KEBS	Kenya Bureau of Standards
KENHA	Kenya National Highways Authority
KERRA	Kenya Rural Roads Authority
KIE	Kenya Industrial Estate
KIRDI	Kenya Industrial Research and Development Institute
KLIP	Kenya Leather Industrial Park
KNBS	Kenya National Bureau of Statistics
KPA	Kenya Ports Authority
KPLC	Kenya Power & Lightning Company
KRA	Kenya Revenue Authority
KRB	Kenya Roads Board
KRC	Kenya Railways Corporation
KURA	Kenya Urban Roads Authority
MAT	Multi Agency Team
MGR	Meter Gauge Railway
MHP	Merchant Haulage Product
MITI	Ministry of Investment Trade and Industry
MPA	Manufacturing Priority Agenda
MTRS	Medium-Term Revenue Strategy
NITA	National Industrial Training Authority
NPL	Non-Performing Loans
NSE	Nairobi Securities Exchange
OSR	Own Source Revenue
PWPER	Presidential Working Party Report on Education
SC	Small Commercial
SDGs	Sustainable Development Goals
SGR	Standard Gauge Rail
SOPs	Operating Procedures
SSA	Sub-Saharan Africa
SSACs	Sector Skills Advisory Committees
TBL	Through Bill of Lading
ToU	Time of Use
TVET	Technical and Vocational Education and Training Authority
UNIDO	United Nations Industrial Development Organization
US	United States
VAT	Value Added Tax
WDI	World Development Indicators
WEO	Word Economic Outlook

FOREWORD

Industrialization remains the main hope of developing countries, such as Kenya, in increasing income and alleviating poverty. Virtually all cases of high, rapid, and sustained growth in modern economic development have been associated with industrialization, particularly the growth in manufacturing production. This applies to the old-industrializers such as the US, the UK, Germany, and the Newly Industrializing Countries (NICs) in Southeast Asia such as the South Korea.

Industrialization allows a country to achieve high and sustained economic growth. In the absence of structural change (industrialization), it is impossible to sustain economic growth even if there is a conducive macroeconomic and business environment prevailing in the country. Hence, Kenya must industrialize to generate productive jobs and livelihoods for the more than 800,000 young people entering the labour force each year.

When manufacturing takes off, it can generate millions of jobs for both skilled and unskilled workers, often youth and women, who would otherwise find themselves employed in traditional agriculture or informal and non-tradable services. It is also the manufacturing sector where the world's middle class takes shape and grows. Without a vibrant manufacturing base, societies tend to divide between the rich and poor - those with access to steady, well-paying jobs, and those whose jobs are less secure and lives more precarious.

For Kenya to promote a vibrant manufacturing sector, several constrains must be overcome, including, but not limited to, the following:

- Easing regulatory burden that continue to weigh on manufacturing enterprises by increasing compliance costs and administrative burden. There is also overlapping mandates especially for the national government. A KAM study carried out in 2020 showed that reviewing and aligning overlapping mandates and roles of national government agencies and counties will reduce the cost of doing business for the manufacturing sector by 28.9%.
- Unpredictable tax policies still remain a major area of concern for manufacturers. For instance, Finance Act 2023 has caused immeasurable pain to the manufacturing sector through imposition of taxes on imported raw materials. Manufacturers commit no crime in importing industrial inputs. Trade in intermediate goods is a crucial aspect of global commerce, accounting for more than 60% of world trade. These intermediate goods serve as building blocks, contributing to the production of final products. This is important because no country is self-sufficient in industrial inputs for processing.
- High cost of electricity is impairing the competitiveness of manufacturers in Kenya. Quality of power is also a major area of concern that should be addressed expeditiously.

I believe that the manufacturing sector is a solution to developmental challenges the country is facing at the moment, including the need to create decent jobs for the youth, grow tax revenue, grow exports to earn foreign exchange and reverse the rapid weakening of the Kenya shilling against major global currencies.

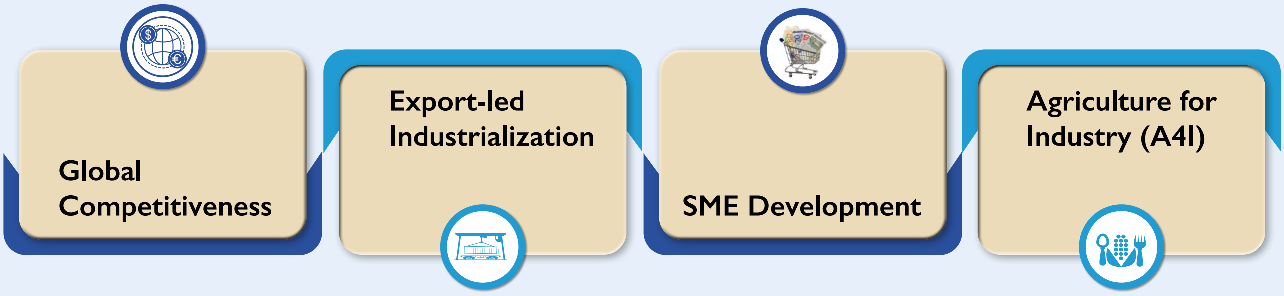
It is imperative for the government to take into account the voice of the private sector through public engagements when designing policies. This is to guard against abuse and capture. Industrial policy needs to be carried out in a transparent and accountable manner, and its processes must be open to new entrants as well as incumbents. KAM is ready to engage for the benefit of the country.

Rajan Shah
KAM Chairman

EXECUTIVE SUMMARY

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

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



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

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

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

Anthony Mwangi
KAM Chief Executive

ACKNOWLEDGEMENT

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INTRODUCTION

1.1 Background

Industrialization, that is, the rise of the manufacturing sector, remains the main hope of developing countries, Kenya included, that are trying to increase their levels of income and alleviate poverty. Virtually all cases of high, rapid, and sustained economic growth in modern economic development have been associated with industrialization, particularly growth in manufacturing production. Industrialisation was the driving force of rapid growth in southern Europe during the 1950s and 1960s, and in East and Southeast Asia since the 1960s.[1]

The necessity of industrialization in Kenya arises from the fact that the country needs high and sustained economic growth to make significant progress in reducing poverty. One of the major challenges which Kenya currently faces is how to generate productive jobs and livelihoods for the more than 800,000[2] young people entering the labour force each year. When manufacturing takes off, it can generate millions of jobs for both the skilled and unskilled workers, often youth and women, who would otherwise find themselves employed in traditional agriculture or informal and non-tradable services such as street vending, shoe shining, food vending, hairdressing, or barber services. It is also the manufacturing sector where the world's middle class takes shape and grows through job creation, income growth and access to goods and services. Without a vibrant manufacturing base, societies tend to divide between rich and poor – those that have access to steady, well-paying jobs, and those whose jobs are less secure and lives more precarious.

The government appreciates the role that the manufacturing sector plays in driving economic growth by promoting and supporting productivity, boosting employment and enhancing competitiveness of the country in export markets (Republic of Kenya, 2024). The government seeks to revamp the manufacturing sector, drive competitiveness and growth of local industries through a value chain approach. The government has identified the following value chains:

a) **Agro-processing:** Tea, coffee, meat, sugar, dairy, fruits and vegetables have been identified for development. To reduce post-harvest losses estimated at 20%-50%, the government will construct County Aggregation and Industrial Parks (CAIPS) in the 47 counties by the end 2025/26 financial year.

b) **Leather and leather products:** Some of the proposed interventions include setting up of leather cottage industries and expansion of existing tanneries; completing the development of leather parks such as the Kenya Leather Industrial Park (KLIP) at Kenanie; and supporting the establishment of processing clusters in Isiolo, Wajir, Narok, and Ewaso Ng'iro.

c) **Building and construction materials:** Some of the construction materials identified include clinker, cement, cabros, prefabs and electrical and electronics fittings, cables, and products; and ringfencing certain components of the low-cost housing project for MSMEs.

1 https://www.project-syndicate.org/commentary/the-manufacturing-imperative?barrier=accesspaylog

2 https://csf.kiep.go.kr/issueFileDownload.es?brdctsNo=342694&brdctsFileNo=84227

d) Garments and textiles: To boost the sector, the government seeks to attract investment in the manufacture of garments and apparels, promote modernization of textiles mills and cotton ginneries; and promote linkage of MSMEs (tailors) with schools and education institutions to provide a market for uniforms.

e) Dairy products: The government aims at increasing milk production from 5.2 billion litres to 10 billion litres a year. Some of the proposed interventions include modernisation of Kenya Cooperative Creameries (KCC) plants and installation of milk coolers countrywide so that more milk can be processed, boosting milk quality and income of dairy farmers; duty free importation of raw materials for the manufacture of animal feeds to lower the cost production and make animal feeds affordable, among others.

f) Edible and crop oils: Annual consumption of edible oils is estimated at over 900,000 metric tonnes (MTs) with only 80,000 MT produced locally and the balance is imported. The government plans to bridge the gap between domestic production of edible oils and imports through investment attraction to support edible oils cottage industries; provision of CMFs and processing machinery for small industries; and expand processing capacity of existing industries.

g) Tea and coffee sub-sectors: To boost these sub-sectors, the government will continue reforming the legal and policy frameworks; promote value addition through provision of processing equipment; export market development and export promotion; and establishment of warehouses for value added tea and coffee in key development markets.

h) Sugar sub-sector: The government has waived Ksh 117 billion non-performing debt for government-owned sugar factories and is restructuring public sugar mills, expediting the leasing of five companies for rehabilitation and expansion to boost industry competitiveness before the COMESA sugar safeguards expires.

The theme for the 2024 Manufacturing Priority Agenda is "steering economic growth through the manufacturing sector for common good". The growth of the manufacturing sector leaves no one behind. This is because manufacturing sector can absorb large numbers of workers with no skills or moderate skills, providing them with stable jobs and good benefits. Consequently, it remains a potent source of high-wage employment in Kenya. This is unlike the services sector, some of which are high-tech such as finance, insurance, and business, which demand specialised skills and create few jobs, implying that their contribution to aggregate employment is bound to remain limited.

Amidst high inflation rates, currency depreciation, supply chain disruptions, fiscal deficit and escalating public and other macro-economic issues, it is indisputable that the manufacturing sector remains a crucial driver of growth in many developing countries including Kenya (Cantore *et al.,* 2017; Wan *et al.,* 2022).

ACHIEVEMENTS

1.2 Achievements from MPA 2023

a) The County Governments (Revenue Raising Process) Bill 2023 and the County Licensing (Uniform Procedures) Bill 2023 have both been introduced into Parliament. The Bills seek to regulate and guide the way counties raise and collect fees and levies. This will reduce duplicity and multiplicity of the taxes charged. The Bill also proposes licensing process to be simple, equitable and be guided by the principles of access to information.

b) To reduce the cost of energy, regulations such as Net Metering and open access are at an advanced stage of approval. This will accelerate development of renewable energy and lower cost of electricity to manufacturers.

c) Progress has been made in the implementation of the Intellectual Property Rights (IPRs) Recordation Program whereby phase one kicked off on 1st January 2023, 2nd phase on 1st May 2023 and 3rd phase on 1st August 2023. Recordation involves the creation of a database of IPR information, relating to trademarks, copyrights, trade names, or any other protected intellectual property rights, for all goods to be imported into Kenya. This information is made available on the ACA Public System and shall be used by ACA inspectors and other law enforcement officers at the various points of entry to prevent entry of counterfeit imports into Kenya. Counterfeit imports shall be subjected to proactive seizures and forfeiture or prosecution in accordance with the provisions of the Anti-Counterfeit Act. Goods bearing IPRs that are not recorded with ACA shall be prevented from being imported into Kenya.

d) Manufacturers are now able to claim back input VAT on KPA charges (ICMS configured appropriately by KRA to enable this while the KPA invoices were reviewed to capture importers details, including name and pin, which were missing previously).

e) Finalization of the National Tax Policy, which KAM hopes will lead to a predictable and stable tax environment.

f) Finance Act 2023 removed earnings before interest, taxes, depreciation and amortization (EBITDA) from 30% restriction applied to interest on local loans. This implies 30% EBITDA restriction will now only apply to interest on foreign debt. This is a welcome initiative as applying the 30% limitation to local interest amounted to double taxation.

g) Removal of VAT on exported services to promote exports.

h) Conclusion of Kenya-EU EPA, which was signed on 23rd December 2023. This guarantees Kenyan manufacturers sustainable preferential market access to the European Union.

i) National, regional, and continental engagements towards the extension of AGOA, post 2025. Alongside this are the ongoing Strategic Trade and Investment Partnership (STIP) negotiations that seek to guarantee Kenya's markets access to the United States.

j) Adoption of KAM's proposals on African Continental Free Trade Area (AfCFTA) Rules of Origin and tariff offers. Kenya has successfully participated in the in AfCFTA Guided Trade Initiative (GTI). 91% of rules of origin and tariff offers on category A have been agreed upon by 44 African countries.

k) Resolution of Non-Tariff Barriers (NTBs) on juices, clean cooking stoves, cement and trucks in the EAC region.

l) Agro-processing, which is synonymous to KAM's Agriculture for Industry (A4I), is a priority value chain by the government, to support the growth of manufacturing industry in Kenya. This is evidenced in the Budget Policy Statement 2024, where the government pledges continued support for value addition to agricultural produce across the value chain, aimed at creating additional jobs and wealth for Kenyans.

2
GLOBAL, REGIONAL AND KENYA'S ECONOMIC OUTLOOK

2.1 Global economic outlook

The consensus forecast for the global economy remains cautiously optimistic, with most central banks and analysts projecting either a soft landing or potentially no landing at all.[3] The world real GDP growth has slowed from 6.2% recorded in 2021 to 3.0% in 2022 (Table 2.1). The global growth is further projected to slow down to 2.4% in 2024 but recover slightly in 2025 to grow to 2.7%. This can be partly attributed to the ongoing effects of tight monetary policies in developed countries, restrictive financial conditions, and weak global trade and investment. The world economy is continuing to cope with the lingering effects of the overlapping shocks associated with COVID-19 pandemic, the Russian-Ukraine crisis, and the rise in inflation and subsequent tightening of global monetary (World Bank, 2024). This aftermath has led to a surge in public debt levels and reversal of global development progress.[4]

Table 2.1: GDP growth rates (%) for selected regions of the world

Region	2019	2020	2021	2022	2023e	2024f	2025f
World	2.59	-3.07	6.2	3.0	2.6	2.4	2.7
United States	2.29	-2.77	5.95	1.94	1.5	1.2	1.6
Japan	-0.4	-4.3	2.1	1.0	1.8	0.7	1.6
China	6.0	2.2	8.4	3.0	5.1	4.5	4.4
Russian Federation	2.2	-2.7	5.6	-2.1	2.6	1.3	0.9
Sub-Saharan Africa	2.56	-1.96	4.15	3.58	2.9	3.8	4.1
Nigeria	2.21	-1.79	3.64	3.3	2.9	3.3	3.7
South Africa	0.26	-5.96	4.70	1.91	0.7	1.3	1.5

Data Source: World Bank (2023), Global Economic Prospects
Note: e = estimate; f =forecast

There is pessimism about Chinese economic growth prospects due to the effects of a prolonged economic slowdown and a collapsing real-estate sector, creating a likelihood of Japan-style "lost decade." European economic growth is widely expected to remain lacklustre in 2024. Europe is also grappling with the adverse economic effects of US President, Joe Biden's Inflation Reduction Act (IRA), which uses tax incentives to lure European companies.

Although some slight improvements in growth are expected in most Emerging Medium and Developing Economies (EMDE) regions, the overall outlook remains subdued. Growth in 2024 is projected to soften in East Asia and the Pacific, attributed to slower growth in China, Europe and Central Asia, and South Asia[5].

On the other hand, global headline consumer price inflation declined in 2023 but remained above target in most inflation-targeting advanced economies and about half of inflation-targeting EMDE (Table 2.2). Global inflation is projected to continue receding gradually to 5.8% in 2024 and 4.6% in 2025, as demand softens.

Table 2.2: Global headline price inflation trend (annual % change) 2020-2027

Year	2020	2021	2022	2023	2024f	2025f
Inflation (Annual % change)	3.2	4.7	8.7	6.9	5.8	4.6

Source: World Economic Outlook, 2023

3 https://www.project-syndicate.org/commentary/biggest-risks-facing-world-economy-in-2024-by-kenneth-rogoff-2024-02

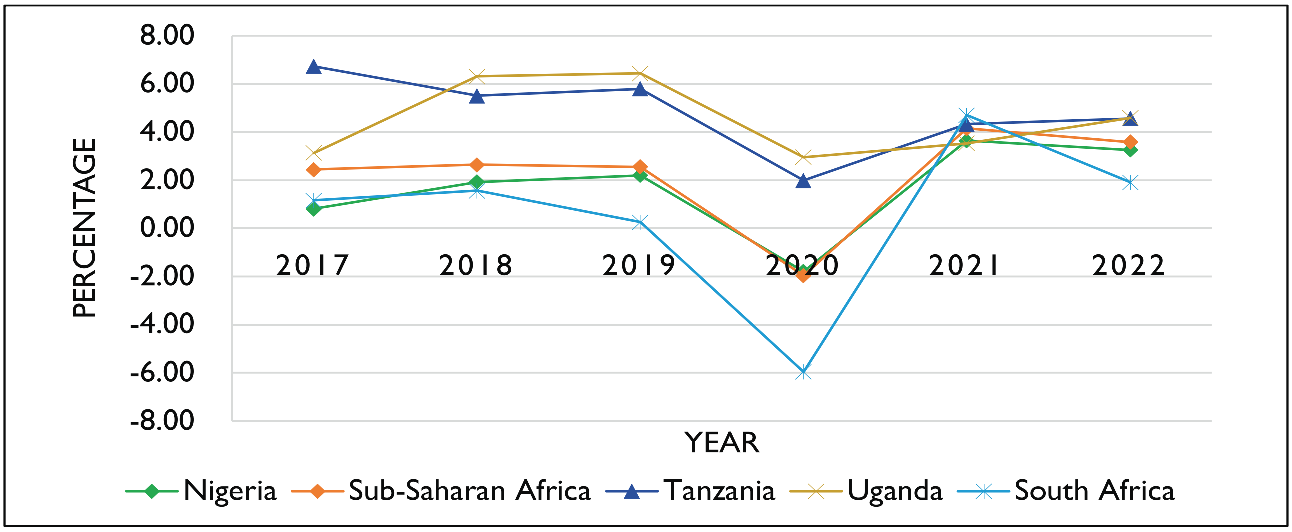
4 https://www3.weforum.org/docs/WEF_Future_of_Growth_Report_2024.pdf

5 https://thedocs.worldbank.org/en/doc/661f109500bf58fa36a4a46eeace6786-0050012024/related/GEP-Jan-2024-Analysis-EAP.pdf

2.2 Regional economic outlook

The GDP growth in Sub-Saharan Africa (SSA) region declined from 4.15% in 2021 to 3.59% in 2022 (Figure 2.1). This decline was largely influenced by tightened global financial conditions and high global inflation witnessed in 2022. Dismal economic growth performance recorded by Nigeria was due to low oil production and uncertainty surrounding the 2023 general election, significantly impacting the region's economy. In Uganda, increased foreign investment is anticipated to drive growth, partly owing to improved business confidence and infrastructure investment ahead of new oil production in 2025. Similarly, in Tanzania, reforms aimed at improving the business climate are expected to stimulate growth.

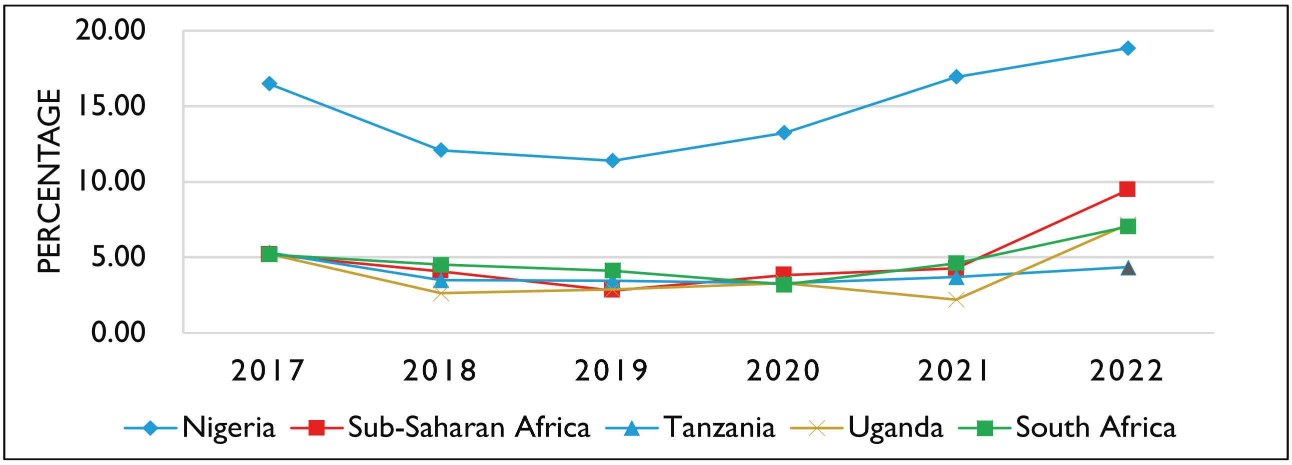
Figure 2.1: GDP growth (annual %)



Data Source: World Development Indicators

Inflation in SSA surged to 9.46% in 2022, marking a significant rise from 4.26% recorded in 2021[6](Figure 2.2). This increase was attributed to a raise in food and energy prices.

Figure 2.2: Inflation, consumer prices (annual %)



Data Source: World Development Indicators

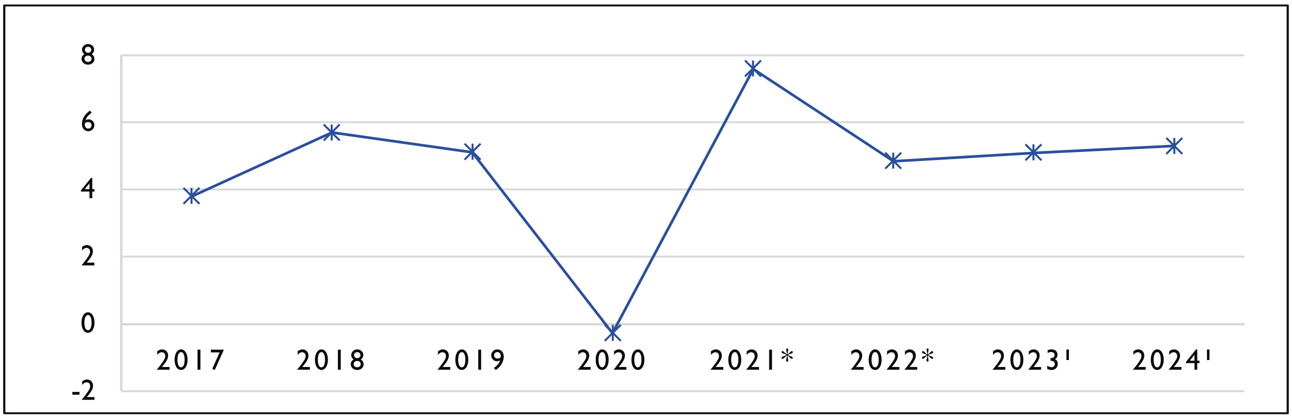
6 https://www.imf.org/en/Publications/REO/SSA/Issues/2023/10/16/regional-economic-outlook-for-sub-saharan-africa-october-2023

2.3 Kenya's economic outlook

2.3.1 GDP growth rate

Kenya's economy has in general terms exhibited volatility in the period under review (Figure 2.3). The real GDP growth accelerated from 4.8% in 2022 to an estimated 5.1% in 2023, and is projected to grow by 5.3% in 2024. This growth is attributed to a strong rebound in the agriculture sector in 2023, which had faced a persistent and severe drought, resilience of the service sector and supportive macroeconomic policies. Growing investments boosted by increased credit to the private sector as the government reduces domestic borrowing is expected to drive growth in Kenya.

Figure 2.3: Kenya's GDP growth rate 2017-2023



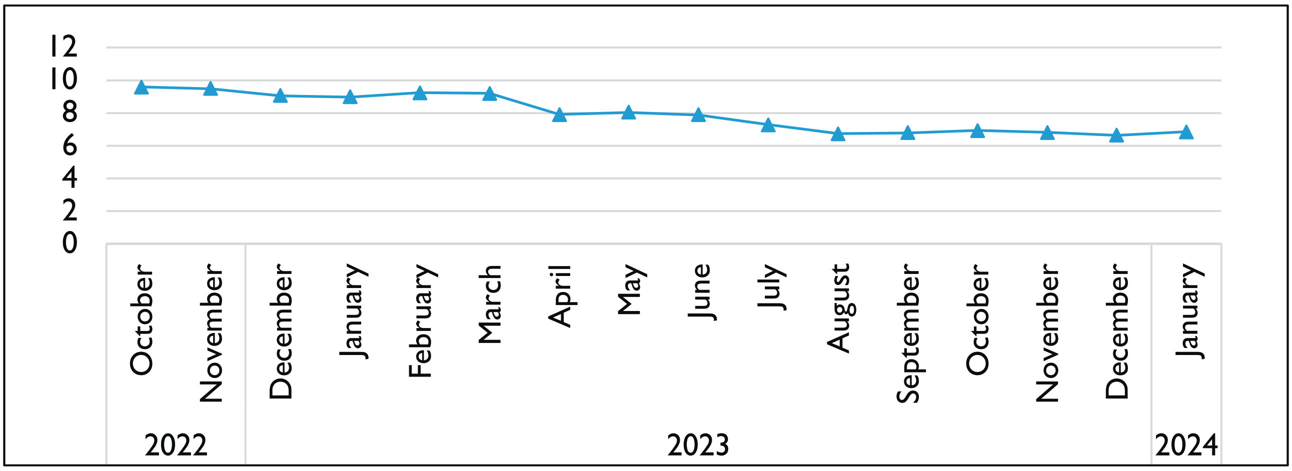
Data source: Kenya Economic Survey and IMF, 2023
*Note: * = estimate; 1= forecast.*

It is difficult for an economy to realize sustained economic growth in the absence of structural transformation (industrialization). Even if there is an improvement in macroeconomic stability and governance, it can only foster resilience and lay groundwork for growth, but not ignite and sustain rapid productivity growth.[7] It is a stylized fact industrialization fosters rapid and sustained economic growth.

2.3.2 Inflation rate

Overall inflation declined from a peak of 9.6% in October 2022 to 6.6% in December 2023, before increasing marginally to 6.9% in January 2024 (Figure 2.4). Inflation is expected to remain within the target range in the near term. According to the draft 2024 Budget Policy Statement, the main drivers of inflation in this period were food and fuel prices.

Figure 2.4: Inflation rate January 2022 - January 2024



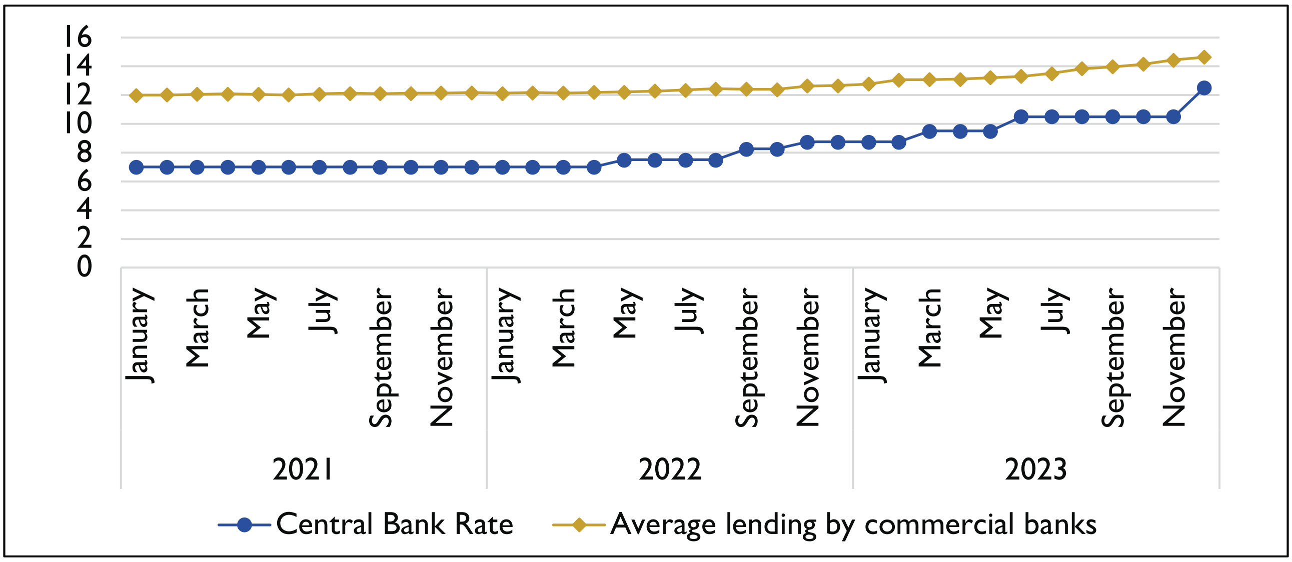
Data source: Kenya National Bureau of Statistics and Central Bank of Kenya

7 https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/an_african_growth_miracle_01.pdf

2.3.3 Interest rates

Figure 2.5 shows that the Central Bank Rate (CBR) and lending rate by commercial banks move in the same direction. The Central Bank of Kenya (CBK) maintained a CBR rate of 7% from January 2021 to April 2022 and has been on a steady increase to 12.5% in November 2023. This is a monetary policy response to inflationary pressures in the economy and in line with global policy stance by major central banks in the world. The weighted average interest rate charged by commercial banks increased from 12% in January 2021 to 15% in November 2023. Increasing CBR rate is expected to raise the cost of borrowing, subsequently lead to a decrease in borrowing for investment and consumption by businesses and households, therefore slowing down economic activity.

Figure 2.5: CBK rate and average lending rate by commercial banks (2021-2023)

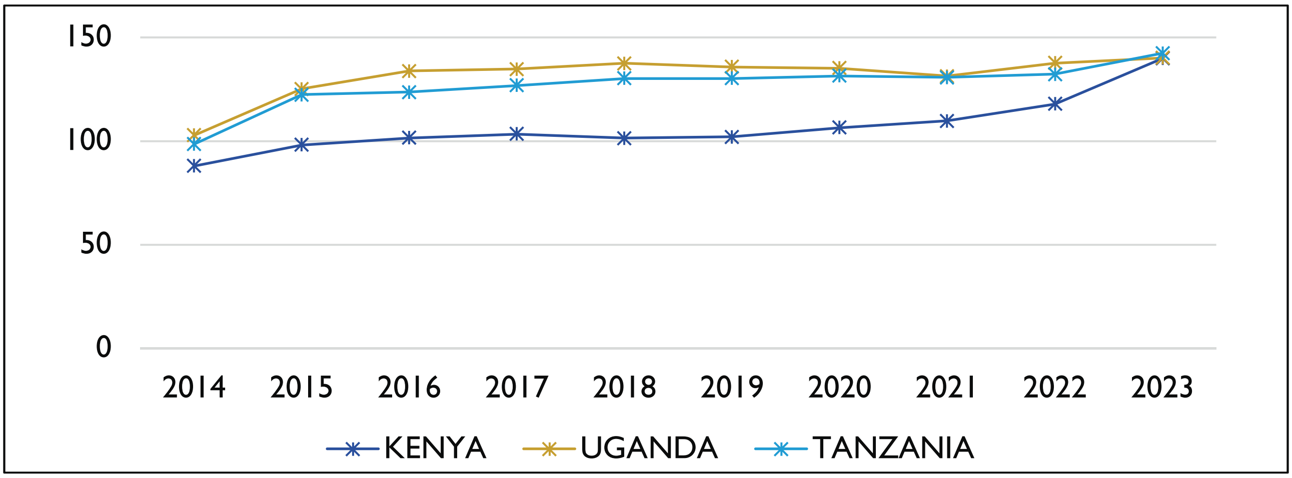


Data source: Central Bank of Kenya

2.3.4 Exchange rate

The Kenyan shilling has experienced significant depreciation against the US$ and other major global currencies, including those of EAC Partner States (Figure 2.6). Between 2022 and 2023, Kenya's currency depreciated by 18.59% compared to 13.35% and 1.78% for Tanzania and Uganda, respectively. Pricing and availability of the US$ matters to manufacturers in Kenya because the sector depends heavily on imported raw materials, intermediate inputs, and capital goods. With the depreciating exchange rates, importation of the industrial inputs and capital goods become more expensive.

Figure 2.6: Average yearly exchange rate (2014-2023)



Source: Central Bank of Kenya

Note: Exchange rate - Tsh/Ksh (17.63) and Ugx/Ksh (27)

2.4 Kenya's public finance

2.4.1 Government revenue and expenditure

The total national government revenue, excluding grants, increased from Ksh 2,199.8 billion recorded in 2021/22 to Ksh 2,360.5 billion in 2022/23 (Table 2.3). The total expenditure and net lending increased from Ksh 3,027.8 billion recorded in 2021/22 to Ksh 3,221.0 billion in 2022/23. The government aims to put in place measures to broaden the revenue base and rationalize expenditure to reduce the fiscal deficits.

Table 2.3: Fiscal framework (Ksh billion)

	2021/22		2022/23	2023/2024*	2024/2025*
	Actual	Revised Estimates	Prel. Act	Projections	
Total revenue	2,199.8	2,478.6	2,360.5	3,070.6	3,070.6
Ordinary revenue	1,917.9	2,145.4	2,041.1	2,624.6	2,948.1
Ministerial Appropriation in Aid	28.9	333.2	319.4	445.9	486.9
Total expenditure and net lending	3,027	3,366.6	3,221.0	3,902.9	4,188.2
Recurrent	2,135.3	2,367.7	2,311.6	2,760.1	2,859.3
Development	540.1	560.5	493.7	717.8	877.8
County transfer	352.4	436.3	415.8	423.9	446.1
Contingency fund	-	2.0	-	1.2	5.0

Source: Budget Policy Statement, 2024

2.4.2 Fiscal deficit as a % of GDP

Fiscal deficit is a good measure of the soundness of a country's public finances. In the FY 2022/23, fiscal deficit stood at 5.6% of GDP, and is projected to reduce to 5.5% and 4.4% in the FY 2023/24 and 2024/25, respectively. 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]. Increase in taxation will affect consumer purchasing power as well as the cost of production in the manufacturing sector.

The government's strategy to tap into concessional borrowing will help reduce the accumulation of expensive debt, which has constrained the government's ability to address development challenges. The increase in deficit leads to higher government borrowing to cover the gap, therefore increasing demand for credit thus putting upward pressure on interest rates. This makes it more expensive for manufacturers and businesses to borrow money for investment for new equipment, expansion or research and development.

2.4.3 Stock of public debt

Kenya's public and publicly guaranteed debt stock saw a significant increase, rising by Ksh 1,643,674 million (19.1%) from Ksh 8,634,909 million in FY 2021/22 to Ksh 10,278,673 million[9] by the end of FY 2022/23 (Table 2.4). This total comprises of Ksh 5,446,561 million external debt accounting for 52.9% of the total public debt, and Ksh 4,832,113 million domestic debts, representing 47.1% of the total public debt.

8 https://www.treasury.go.ke/wp-content/uploads/2023/11/2023-Budget-Review-and-Outlook-Paper_f.pdf

9 https://www.treasury.go.ke/wp-content/uploads/2024/01/Annual-Public-Debt-Report-2022-2023-Sept-2023.pdf

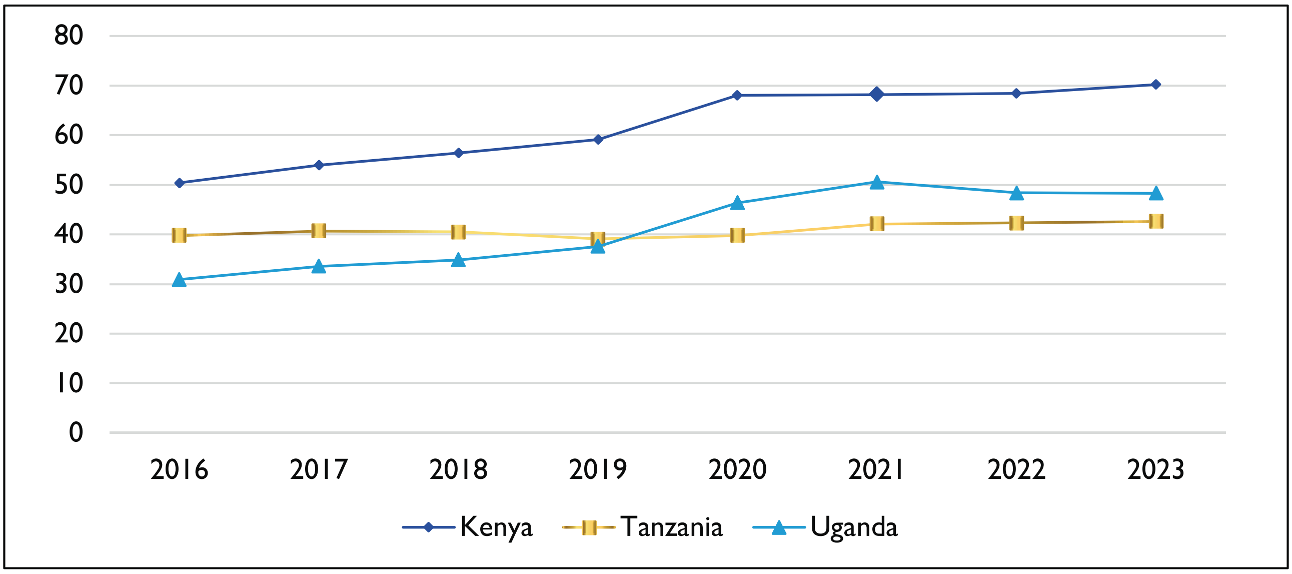
Table 2.4: Trends in Kenya's public debt (Ksh billion)

	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
Domestic	2,785.5	3,177.5	3,697	4,329.1	4,832.1
External	3,023.1	3,515.8	3,999.5	4305.8	5,446.6
Total public and publicly guaranteed debt stock	5,808.6	6,693.3	7,696.6	8,634.9	10,278.7
% share of external debt	52.0	52.5	52.0	49.8	52.9
% share of domestic debt	48.0	47.5	48.0	50.2	47.1

Data source: National Treasury and Central Bank of Kenya

Kenya's publicly guaranteed debt is denominated in five major currencies, namely the US$, Euro, Yen, Yuan and Sterling Pound. Out of the total external debt, 66.9% is US dollar denominated, 21.5% Euro, 3.9% Japanese Yen, 5.1% Chinese Yuan, 2.3% in Great Britain Pound while other currencies account for 0.2%[10]. The dominancy of Kenya's debt in US$ indicates a high level of exposure of total debt to foreign currency fluctuation, which, in turn, increases the burden of servicing the loans. Increased cost of servicing debts can strain government finances, limiting resources available for the manufacturing sector, and could result in a loss of investor confidence and higher tax expectations by the private sector. Kenya's general gross debt as a percentage of GDP was 70.2% in 2023 compared to 68.4% in 2022 (Figure 2.7). This is higher than the IMF threshold of 50% for developing countries and much higher when compared to Uganda and Tanzania.

Figure 2.7: General government gross debt (% of GDP)



Data source: World Economic Outlook (WEO), IMF, October 2023

2.5 Kenya's external trade

2.5.1 Direction of trade

Africa is the dominant destination of Kenya's exports accounting for 41.0% of total value of export earnings in 2022 (Table 2.5). Total exports to Africa increased by 15.7 per cent to Ksh 357.7 billion in the review period. This growth was mainly occasioned by a 17.7% increase in exports to the EAC economic bloc, which accounted for 63.3% of the total exports to Africa. This illustrates the importance of the African continent and the value of the AfCFTA as an export market.

10 https://www.treasury.go.ke/wp-content/uploads/2024/01/Annual-Public-Debt-Report-2022-2023-Sept-2023.pdf

Table 2.5: Kenya's total exports by selected destinations (Ksh billion)

Country/region	2018	2019	2020	2021	2022*
EAC	130.0	140.4	158.3	192.4	226.5
Total Africa	217.6	224.2	246.1	309.3	357.7
European Union	131.2	133.4	99.3	115.8	133.2
US	47.3	51.9	49.3	59.6	79.9
Grand total exports	614.3	596.7	643.7	743.7	873.1
% total Africa	**35%**	**37%**	**38%**	**41%**	**41%**

Data Source: Economic Survey, 2023

2.5.2 Export structure

In 2022, exports of food and beverages accounted for 43.1% of total exports, followed by non-food industrial supplies at 28.5% (Table 2.6). During this period, the share of domestic exports of fuel and lubricants increased from 0.91% in 2021 to 1.34% in 2022, largely driven by domestic exports of primary fuel and lubricants. However, there was a contrasting trend in the share of domestic exports of machinery and other capital equipment, which declined from 1.78% in 2021 to 1.41% in 2022.

Table 2.6: Kenya's export structure, 2014-2022 (% of value)Top of Form

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Food & Beverages	40.84	44.68	45.17	47.95	47.66	44.22	46.4	43.06	43.07
Industrial supplies (non-food)	27.02	25.87	24.51	23.63	23.52	23.94	23.78	25.5	28.51
Fuel & lubricants	0.71	1.26	0.9	0.99	0.99	1.19	1.05	0.91	1.34
Machinery & other capital equipment	1.63	1.91	2.62	1.34	1.25	1.93	1.68	1.78	1.41
Transport equipment	1.57	1.42	1.15	0.84	1.12	1.22	0.88	1.06	0.97
Consumer goods not elsewhere specified	27.89	24.85	25.64	25.21	25.45	27.49	26.21	27.61	24.7
Goods not elsewhere specified	0.31	0.01	0.02	0	0	0	0	0.09	0

Source: Economic Survey, 2023

Countries specializing in sophisticated products generally experience faster economic growth. When other factors are equal, nations focusing on goods similar to 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, 2007). 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). Table 2.6 shows that most of our exports comprise of food and beverages, which can be said to be poor country goods. Production of sophisticated goods is only possible through manufacturing.

2.5.3 Import structure

Kenyan exports primarily consist of raw materials and primary goods (Table 2.7) 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. Non-food industrial supplies constituted 47.27% of total value of imports in 2022. This underscores Kenya's reliance on imported inputs for processing purposes. This excludes industrial supplies related to food and beverages.

Table 2.7: Import structure (%)

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

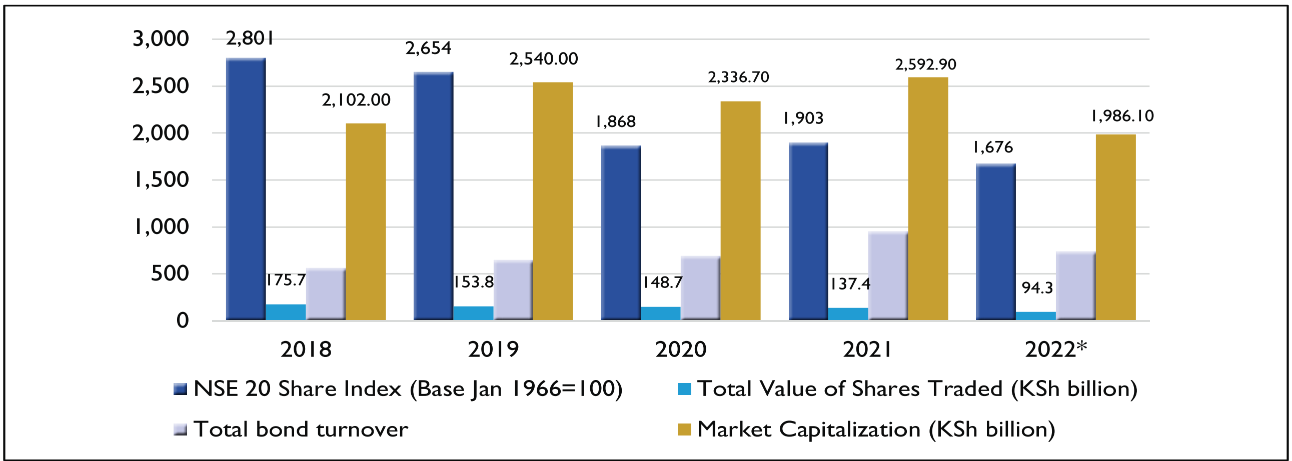
Source: Economic Survey, 2023

2.6 Performance of the stock market

2.6.1 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[11]. Figure 2.8 shows that the volume of Nairobi Securities Exchange (NSE) 20 Share Index decreased to 1,676 points at the end of 2022, from 1,903 points in December 2021. The total value of shares traded decreased by 31.4% from Ksh 137.4 billion traded in 2021 to Ksh 94.3 billion traded in 2022. Total bond turnover declined to Ksh 741.9 billion in 2022 from Ksh 957.0 billion recorded in 2021. Market capitalization declined from Ksh 2,552.93 billion in 2021 to Ksh 1,986.1 billion in 2022.

Figure 2.8: Performance of the NSE, 2018 - 2022



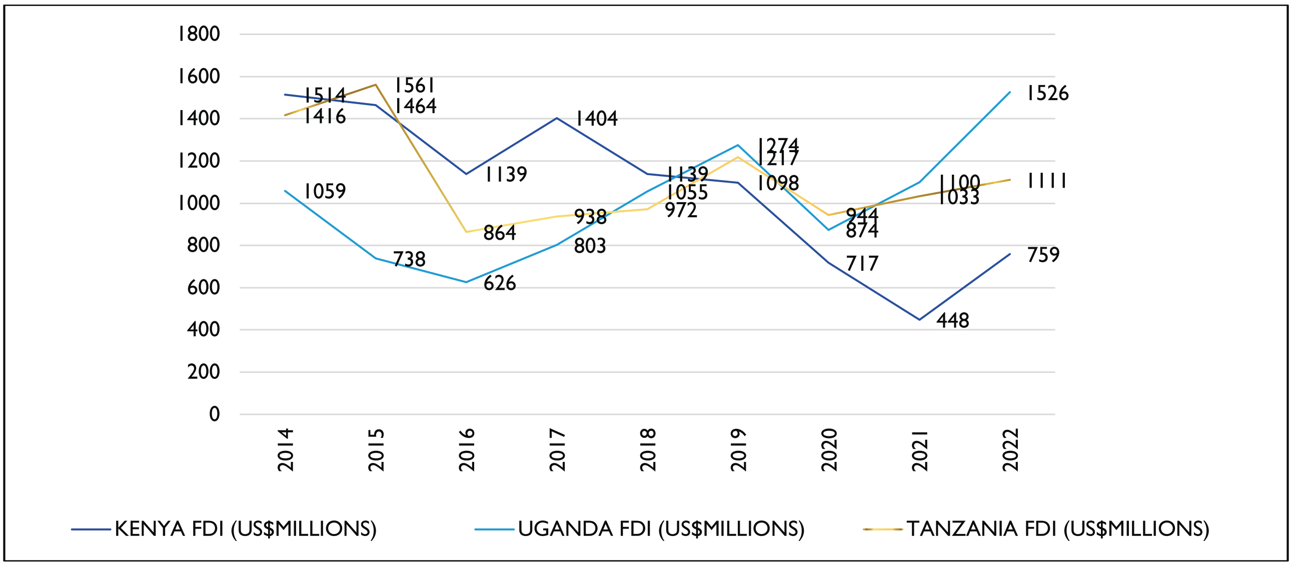
Data source: Capital Markets Authority

2.6.2 Inflow of foreign direct investments

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 2.9 shows that in 2022, net FDI flows to Uganda stood at US$ 1.5 billion compared to US$ 1.1 billion for Tanzania and US$ 759 million for Kenya. This implies that Uganda and Tanzania are more attractive to foreign investors relative to Kenya.

11 https://www.investopedia.com/ask/answers/042215/how-does-performance-stock-market-affect-individual-business-es.asp

Figure: 2.9: FDI net inflows in USD millions (2014 – 2022)



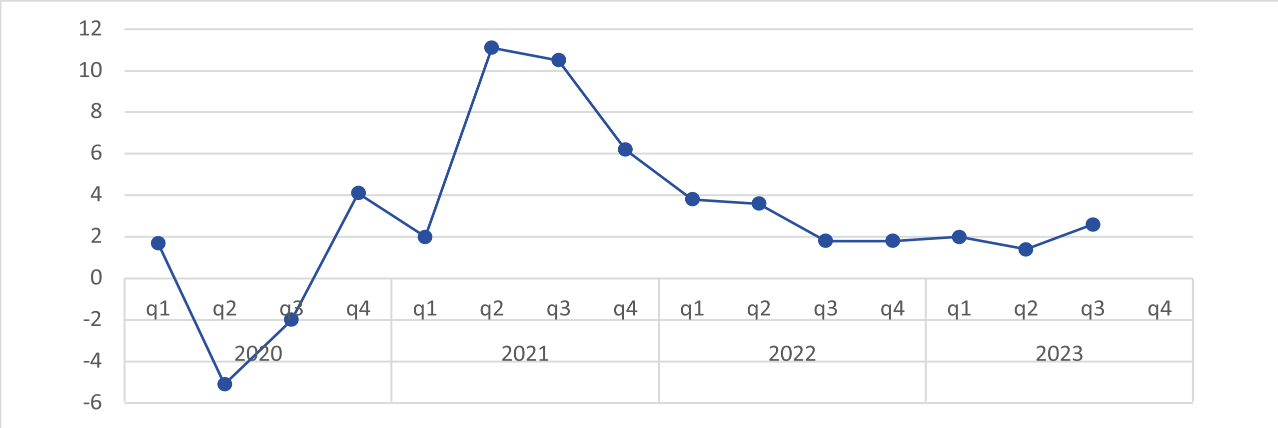
Source: World Investment Report, 2023

3
OVERVIEW OF THE MANUFACTURING SECTOR IN KENYA

3.1 Growth of the manufacturing sector

Highest growth rate by the sector over the period under review was realized in Q2 of 2021 at 11.1% (Figure 3.1). In Q3 of 2023, the sector grew by 2.6% compared to 1.8% in the corresponding quarter of 2022. This growth was driven by increased processing of dairy and tea products as well as cement production, which grew by 6.8%, probably driven by the government's affordable housing program. However, domestic production of sugar declined by 56.1% in Q3 of 2023.[12]

Figure 3.1: Manufacturing sector growth (%)

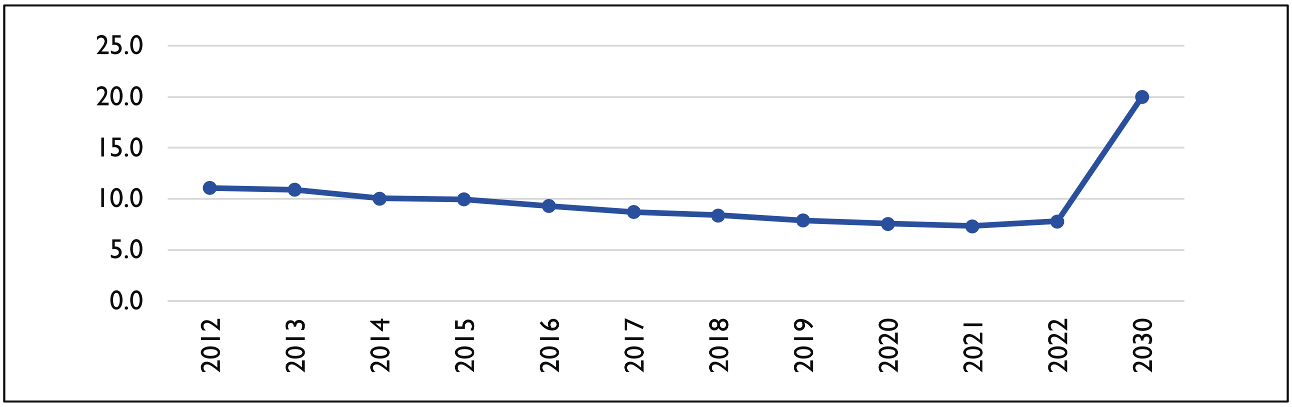


Data source: World Development Indicators (WDI)

3.2 GDP contribution of the manufacturing sector

Manufacturing GDP contribution can give indications whether a country is making strides in industrialization. Notwithstanding, the sector's performance over the last 10 years has faced significant challenges, which has seen its contribution to GDP drop significantly from 11.08% recorded in 2011 to 7.8% in 2022 (Figure 3.2). Kenya hopes to reverse this trend through the Manufacturing 20BY30 Vision that seeks to increase the sector's contribution to GDP to 20% by 2030.

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



Data source: WDI

3.3 Manufacturing output

The value of manufacturing output increased by 17.6% from Ksh 2,700.2 billion in 2021 to 3,175.3 billion in 2022 (Table 3.1). Intermediate consumption increased by 17.3% in 2022 leading to an increase in value added by 18.1% in the same period. Compensation of employees in the sector grew by 8.1% to Ksh 250.1 billion in 2022 from Ksh 231.4 billion in 2021. Table 3.1 also reveals the heavy reliance of the manufacturing sector on intermediate inputs which averaged 65% of final output for the 2018-2022 period. Most of the intermediate inputs are imported (Table 2.7).

12 https://www.knbs.or.ke/wp-content/uploads/2023/12/Q3-2023-GDP-Report.pdf

Table 3.1: Manufacturing output, 2018-2022 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*	3,175.3	2,129.1	67	1,046.3	250.1
Average			66		

Source: Economic Survey, 2023
**Provisional*
+Revised

3.4 Contribution to employment

The manufacturing sector created 352.6 thousand jobs in both the public and private sector, which is an increase from 336.8 thousand jobs created in 2021 (Table 3.2). In 2022, the private sector created 329.6 thousand jobs, up from 313.5 thousand recorded 2021, while the public sector exhibited a slight decline from 23.3 thousand jobs created in 2021 to 23 thousand jobs created in 2022. Over the 2017-2022 period, manufacturing sector jobs accounted for an average of 12% of total wage employees in the country. Given that a manufacturing GDP of 7.8% in 2022 was equivalent to 352.6 thousand jobs, holding other factors constant, a manufacturing GDP contribution of 20% by 2030 will yield about 1 million jobs.

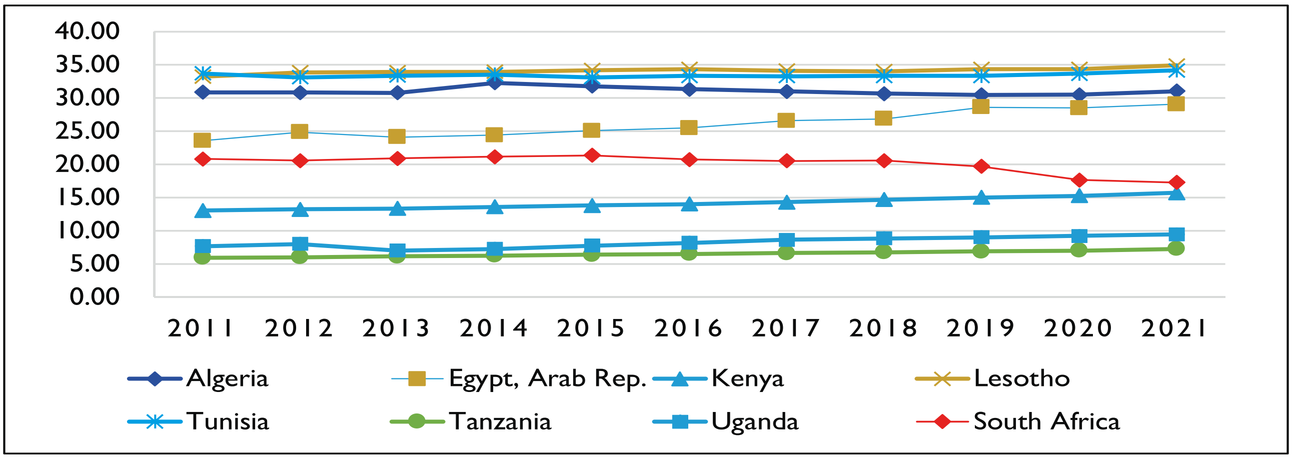
Table 3.2: Wage employment by industry and sector, 2017-20212 (000)

	2017	2018	2019	2020	2021	2022*
Manufacturing (private sector)	317.5	321.3	329.0	293.8	313.5	329.6
Manufacturing (public sector)	26.2	26.3	24.1	23.0	23.3	23.0
Total manufacturing employment	343.7	347.6	353.1	316.8	336.8	352.6
Total wage employees	2,792.7	2,859.7	2,928.4	2,742.6	2,906.1	3,015.4
Manufacturing employees as a % of total wage employees	12.3	12.2	12.1	11.6	11.6	11.7

Source: Economic Survey, 2022 & 2023 & KAM calculations
** Provisional*

Figure 3.3 shows that employment in industry in Kenya has been growing slowly from 2011 to 2021 period, albeit better than Tanzania. Comparable to other African countries, Lesotho, Tunisia, Algeria, Egypt and South Africa and Uganda had higher percentage of people employed in industry.

Figure 3.3: Employment in industry (% of total employment)

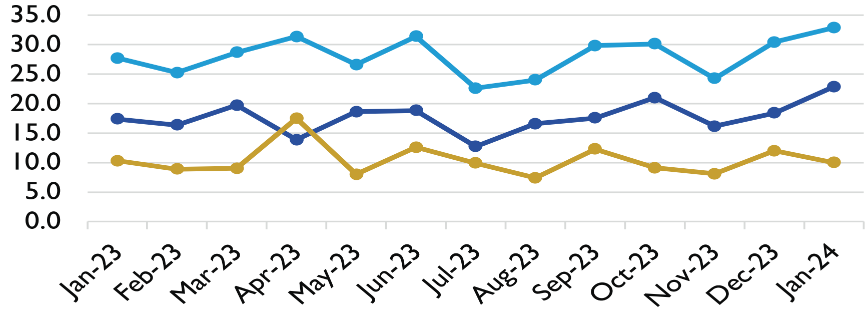


Data source: WDI (modelled ILO estimate) 2023

3.5 Contribution to taxes

It is estimated that the manufacturing sector in Kenya contributes about 18% of total tax collected by KRA. According to Figure 3.4, most of the tax collected from the manufacturing sector is derived from imported industrial inputs. This is not unusual because over 60% of global commerce is intermediate goods. Table 2.7 showed industrial inputs accounted for 47.27% of the value of imports in 2022. Trade in intermediate goods is a crucial aspect of global commerce. These goods serve as building blocks, contributing to the production of final products. This is important because no country is self-sufficient in industrial inputs for processing.

Figure 3.4: Cumulative tax from the manufacturing sector: January 2023-January 2024



	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Cutoms tax	17.4	16.3	19.7	13.8	18.6	18.8	12.7	16.6	17.5	21.0	16.2	18.4	22.9
Domestic tax	10.3	8.9	9.0	17.5	8.0	12.6	9.9	7.4	12.3	9.1	8.1	12.0	10.0
Cumulative (domestic and custom)	27.7	25.2	28.7	31.3	26.6	31.4	22.6	24.0	29.8	30.1	24.3	30.4	32.9

Data source: KAM Sources

The cumulative tax collected (customs and domestic) from the manufacturing sector over the 13-month period was Ksh 365 billion. If manufacturing GDP contribution of 20% is achieved by 2030, tax contribution by the manufacturing sector will, at least, triple to reach Ksh 1 trillion. Thus, growth of the manufacturing sector is in and of itself a tax revenue strategy for the government.

3.6 Contribution to exports

Manufacturing sector growth in developing countries is constrained by a small domestic market. Table 3.3 illustrates that Kenya lags in the export of manufactured goods as a share of total merchandise exports compared to comparator countries such as Egypt and Vietnam. In 2022, Kenya's share of manufactured exports was only 30.76%, marking a slight increase from 30.16% recorded in 2021. This is in comparison to Egypt and Vietnam whose manufactured exports stood at 41.80 % and 85.83%, respectively for 2022.

Table 3.3: Manufactures exports (% of merchandise exports)

	2018	2019	2020	2021	2022
Egypt	49.10	45.16	47.85	45.56	41.80
Kenya	28.43	30.77	27.92	30.16	30.76
Vietnam	83.19	84.52	86.43	86.36	85.83

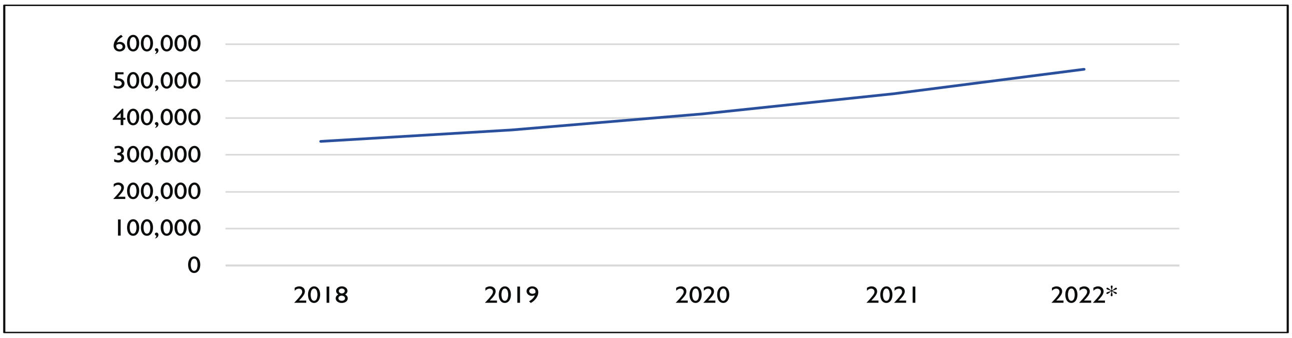
Data source: WDI

3.7 Credit to manufacturing sector

The total credit advanced to the manufacturing sector has been on the upward trajectory (Figure 3.5). In 2022, total credit approved by both commercial banks and industrial financial institutions rose to Ksh 532.0 billion from Ksh 465.4 billion in 2021. This illustrates that development finance institutions continue to play a great role in fostering industrial expansion and development through extension of loans[13].

13 https://investmentpromotion.go.ke/sites/default/files/2023-07/Economic-Survey-2023_2.pdf

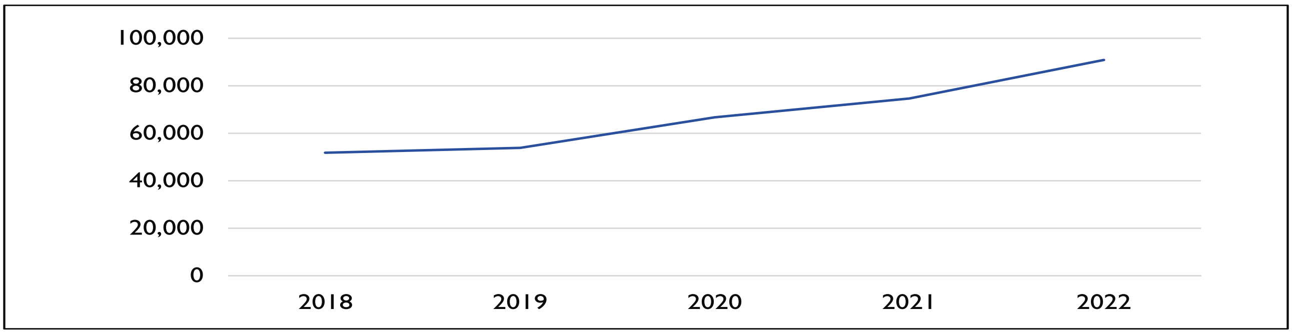
Figure 3.5: Credit advanced to manufacturing sector by commercial banks and other financial institutions (Ksh million)



Data source: Kenya Economic Survey 2023

According to CBK reports, gross non-performing loans (NPLs) advanced to manufacturing sector have exhibited an increased trend (Figure 3.6). The total credit advanced by end of December 2022[14] was Ksh 90,883.60 million compared to Ksh 74,646.80 million in 2021. Defaulting on non-performing loans in the manufacturing sector leads to loss of jobs, disruption of supply chains, and economic slowdown.

Figure 3.6: Gross non-performing loans advanced to manufacturing sector (2018 – 2022 (Ksh million)



Source: Central Bank Annual Reports (2018-2022)

3.8 Performance of the Export Processing Zones

The selected performance indicators of the Export Processing Zones (EPZ) Program, as shown in Table 3.4, experienced an upward trend in performance in 2022 as compared to 2021. Direct employment in the EPZs expanded by 25.3% to 82,764 persons in 2022 compared to 66,053 persons in 2021. The number of operating enterprises increased to 156 in 2022 from 111 in 2016. In addition, the value of exports rose from Ksh 64.151 billion in 2016 to Ksh 106.143 billion in 2022. The value of capital investment in these zones increased by 7.9% to Ksh 134.3 billion in 2022 from Ksh124.5 billion in 2021. The growth was a result of the new enterprises that entered the program as well as expansion of the existing ones.

Table 3.4 also shows heavy reliance of EPZ enterprises on imported inputs, increasing from 54% recorded in 2021 to 60% in 2022, whereas the average was about 53% for the 2017-2022 period.

14_https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1376276635_2022%20Annual%20Report.pdf

Table 3.4: Selected EPZ performance indicators, 2017-2022

	2017	2018	2019	2020	2021	2022*
Number of enterprises	131	136	137	138	145	156
Number of employees	55,486	57,743	61,055	56,387	66,654	82,764
Capital investment	95,278	105,066	107,877	116,974	124,490	134,311
Exports (Ksh million)	60,729	72,390	68,572	74,360	90,249	106,143
Imports (Ksh million)	30,305	34,229	39,840	37,504	48,317	63,635
Imports as % of exports	50%	47%	58%	50%	54%	60%

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

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. The number of enterprises in 2021 were 233[15] (Table 3.5) compared to Kenya's 145. However, both countries continue to face challenges in addressing structural constrains in enhancing the competitiveness of their EPZs to maximize their contribution to economic growth.

Table 3.5: Mauritius Export Oriented Enterprises, 2018 - 2021

	2018	2019	2020	2021 [1]
No of enterprises as at December	263	239	235	233
Employment as at December	49,866	44,160	36,736	35,024
Exports (f.o.b, R million) (excluding sales to Freeport)	43,311	42,319	37,289	42,657
Imports (c.i.f, R million)	25,929	24,645	19,629	25,673
Investment (R million)	1,104	739	724	703
Imports as % of exports	60%	58%	53%	60%

Source: Mauritius EOE Statistics[16]

3.9 Export under the African Growth and Opportunity Act

Most of the EPZ output is exported to the USA under the African Growth and Opportunity Act (AGOA), averaging 56% for the 2017-2022 period (Table 3.6). This reveals over dependence of the Kenya's EPZ program on the US market and thus the need to diversify into other global market. Notwithstanding, direct employment in the sub-sector increased significantly by 31.5% to 66.3 thousand persons in 2022 from 50.0 thousand persons. The value of exports expanded from Ksh 48.8 billion in 2021 to Ksh 54.1 billion in 2022. The value of capital investment increased by 7.2% to Ksh 24.9 billion in 2022.

Table 3.6: Selected EPZ Garment / Apparel Performance Indicators under AGOA, 2017-2022

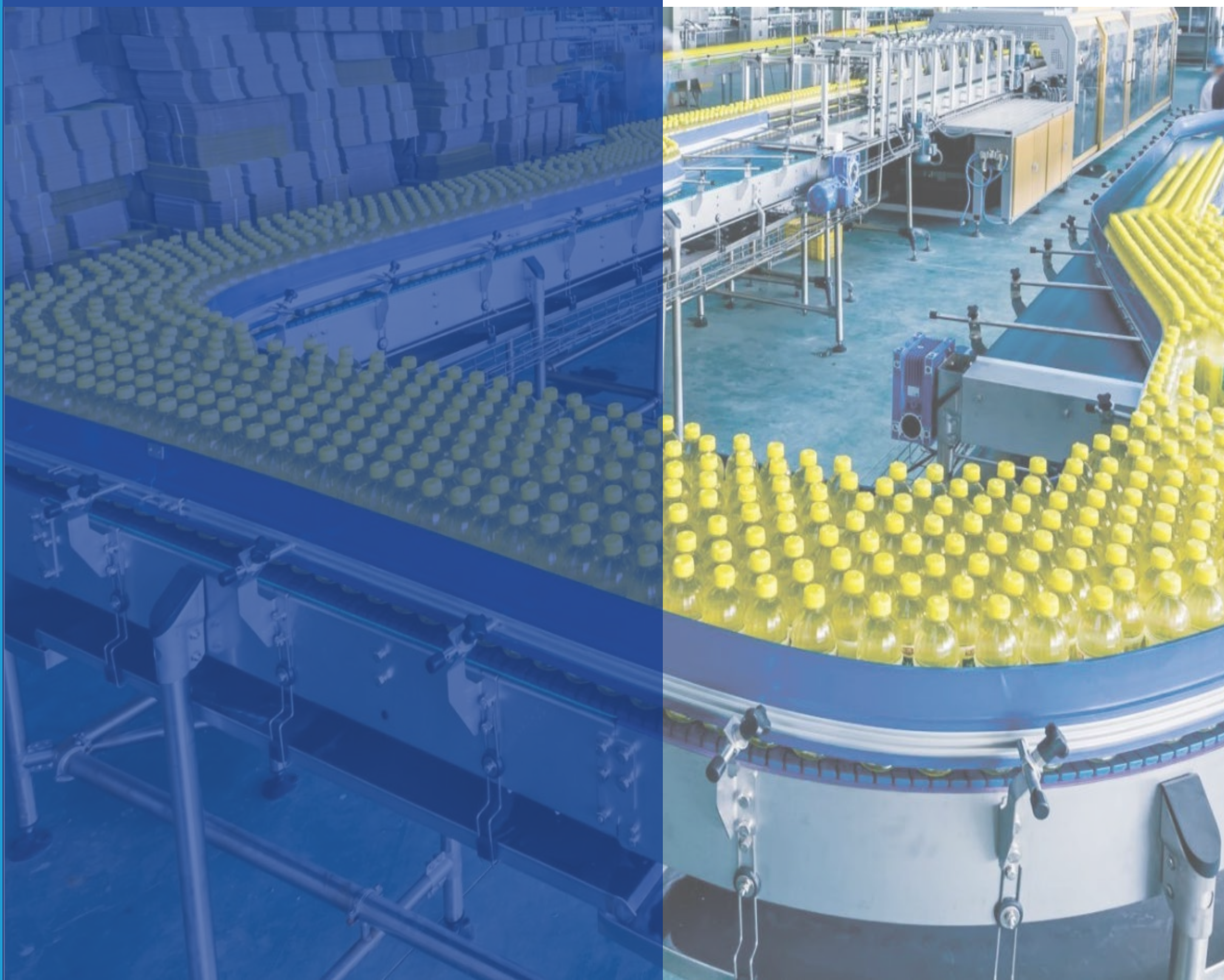
	2017	2018	2019	2020	2021	2022*
Number of enterprises	21	22	24	28	29	36
Number of employees	43,987	46,248	49,489	45,588	50,422	66,260
Capital investment (Ksh Million)	15,880	16,146	18,065	19,133	23,216	24,878
Exports (Ksh million)	33,051	41,578	46,066	42,278	48,830	54,123
AGOA exports as a % of EPZ exports	54%	57%	67%	57%	55%	51%

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

15 https://statsmauritius.govmu.org/Pages/Statistics/ESI/Manufacturing/EOE/EOE_1Qtr22.aspx
16 https://statsmauritius.govmu.org/Pages/Statistics/ESI/Manufacturing/EOE/EOE_1Qtr22.aspx

4

PILLARS TO STEER ECONOMIC GROWTH THROUGH THE MANUFACTURING SECTOR FOR COMMON GOOD



4.1 Pillar one: Global Competitiveness

Competitiveness is considered as a key criterion for assessing the success of countries, industries, and companies[17]. Global competitiveness, in essence, signifies a country's ability to produce products that can compete with foreign products by increasing its real national income in free-market conditions[18]. Global competitiveness encompasses various factors, including economic stability, infrastructure, human capacity, technological prowess, innovation, and institutional frameworks, all of which collectively influence a nation's productivity level. Global competitiveness tends to be concentrated within specific sectors, underscoring the reality that no single country possesses a universal advantage across all industries in terms of competitiveness.

According to the United Nations Industrial Development Organization (UNIDO), industrial competitiveness refers to a nation's capability to increase its presence in both international and domestic markets while developing industrial sectors and activities with higher value added and technological content (UNIDO, 2013). The Competitive Industrial Performance (CIP) index by UNIDO is a good measure of gauging a country's industrial competitiveness and is based on three dimensions, namely;

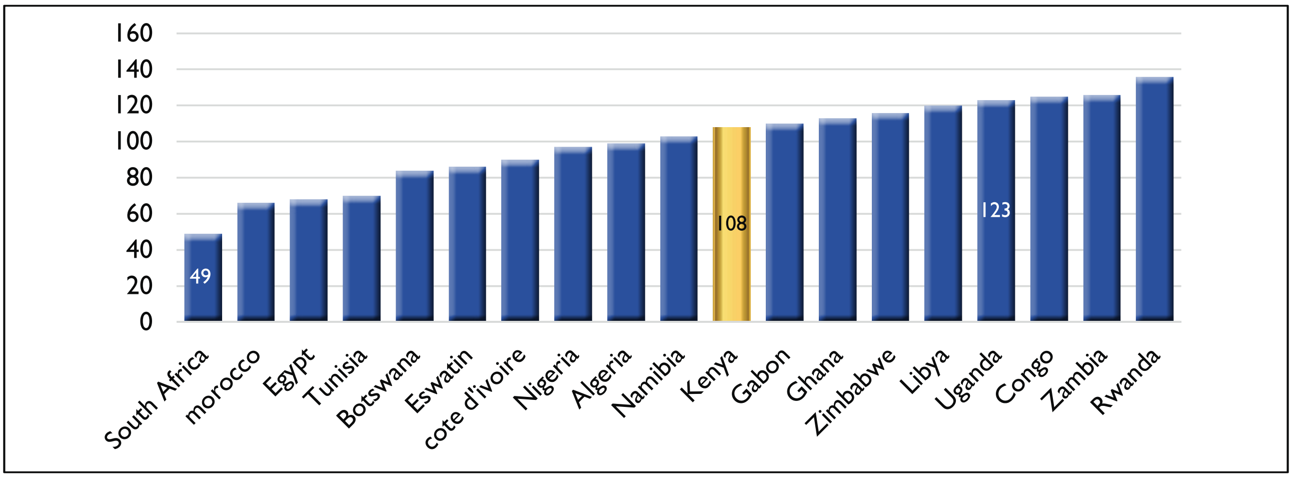
a. Capacity to produce and export manufactured goods

b. Technological deepening and upgrading

c. World impact

In 2021, Kenya was ranked position 108 globally (Figure 4.1), a significant improvement from its previous ranking of 115 in 2020. Meanwhile, South Africa, which is recognized as the most competitive country in Africa, was ranked at position 49 in 2021, from position 52 in 2020 (UNIDO 2022).[19] Uganda was ranked at position 123.

Figure 4.1: 2021 CIP ranking for selected African countries



Data source: UNIDO 202

KAM proposes several agendas that the government should pursue to promote a competitive manufacturing sector in Kenya.

17 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4157010/

18 https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2020.pdf

19 https://stat.unido.org/cip/

a) Agenda one: Reduce regulatory burden

Complex requirements or ineffective regulations in many countries continue to stifle innovation, discourage investment, weaken competitiveness, compromise economic diversification, and as a result, hinder economic growth.[20] Businesses in Kenya face numerous challenges due to regulatory burden, which refers to the administrative burden and compliance costs imposed on businesses by government regulations. The effects of regulatory burden on businesses in Kenya are manifold. Firstly, regulatory burden increases the cost of doing business. The excessive red tape and compliance requirements imposed by labour laws, tax regulations, and other legal obligations result in increased expenses for businesses. These additional costs can be a burden to both large and small businesses, making it difficult for them to compete in the market. Furthermore, regulatory burden also hinders business growth and innovation. Businesses in Kenya are often bogged down by time-consuming bureaucratic processes, which divert their resources and hinder their ability to focus on their core operations. Moreover, regulatory burden leads to delays in obtaining necessary permits and licenses, causing further setbacks for businesses. Additionally, regulatory burden creates barriers to entry for new businesses. These barriers can discourage entrepreneurs from starting new ventures, limiting competition and impeding economic growth.

Simplicity in regulatory processes is key to reducing compliance costs, particularly for Small and Medium Enterprises (SMEs). Introducing user-friendly digital platforms for submissions and approvals will streamline processes and cut administrative burdens. Establishing feedback mechanisms from businesses will enable continuous improvement in regulatory procedures.

Adequate and responsive public participation processes are essential for the development of new policies and laws. Leveraging technology for wider public engagement ensures diverse perspectives are considered. Transparent mechanisms for timely feedback from the public enable regulatory adjustments based on stakeholder input whilst building trust and transparency.

Counties in an attempt to raise own source revenue have imposed heavy burden on businesses. The structure of national and county-level government institutions should be critically evaluated to eliminate overlapping and duplicative mandates. Strategic realignment and harmonization will not only reduce bureaucratic hurdles but also foster a more efficient government structure. Facilitating inter-agency collaboration will enhance communication, coordination, and implementation of regulatory mandates. Further, the current landscape often witnesses businesses grappling with varying fees, charges, and levies, imposed by different government agencies, regulatory bodies, and counties. A strategic realignment of these financial aspects is necessary to ensure fairness and clarity. Standardizing fee structures not only simplifies financial planning for businesses but also fosters a more equitable economic environment.

A 2020 KAM study to assess regulatory burden on the manufacturing sector established higher compliance costs (Table 4.1).

20 https://www.worldbank.org/en/topic/investment-climate/brief/business-regulatory-environment

Table 4.1: Compliance cost facing manufacturers in different sectors

Sector	Major institutions	Major fees/levies	Average annual levies/charges (Ksh)
Chemical & Allied	CG -53.2%; PPB - 24.8% and NEMA - 21.9%	Business permits, licences, environmental audits	1,085,450
Pharmaceuticals			850,000
Metal & Allied	DOSH - 47.4%, CG - 43.2% NEMA - 9.4%	Safety, Business permits, licences, environmental audits	442,000
Paper & Paper Board	CG – 31%	Business permits, distribution licences	1,100,000
Plastics & Rubber	CG - 61%, NEMA - 31.3%	Business permits and environmental audits	900,000
Building, Construction & Mining	CG - 49.8%, NEMA - 26.1% DOSH - 24.1%	Business permits, safety and environmental audits	935,000
Timber, Wood & Furniture	CG - 43.6%, KEBS - 27%, NEMA - 18.1%	Business permits, standards and Environmental audits	275,000
Agro-processing/ Milling	CG- 48.8%, KEBS- 22.5%, DOSH- 29.7%	Distribution licences, business permits, standards	800,000
Leather & Footwear	CG - 33.8%	Business permits	762,000
Automotive & Accessories	DOSH - 39.7%, NEMA - 28.1% KEBS - 10.3%, CG - 21.7%	Business permits, environmental audits, fire safety audits, distribution licences	870,000
Food & Beverage	Nyeri County - 63.7%, UG - 83.9% Nakuru - 17.1%, Kisumu - 57.3%. Average - 55.5%	Business permits, standards, distribution licences, environmental audits	1,200,000-2,200,000

Data source: KAM, 2020

The 2020 KAM study also revealed overlapping mandate involving the agencies of the national government and counties (Table 4.2).

Table 4.2: Overlapping mandates between agencies of the national government and counties

Regulatory requirements	Regulatory institutions involved
Business registration and licensing	Registrar of Companies, County Governments (CGs), specific agencies
Standard, labeling and Inspection Regulations	KEBS, NEMA, CGs, Department of Weights and Measures, specific agencies
Calibration	KEBS, Department of Weights and Measures
Premise's safety	CGs, DOSH, NCA, NEMA
Water and sewerage regulations	Water and sewerage companies, NEMA, KEBS, WASREB, WARMA, DOSH
Standards regulations	Department of Weights and Measures, KEBS
Occupational safety and health regulations	DOSH and CGs
Environmental standards	NEMA, DOSH, CGs
Cess requirements	CGs, Kenya Forest Service
Food and beverages processing regulations	NEMA, CGs, DOSH, Kenya Bureau of Halal Certification, KEPHIS
Waste regulations	NEMA, CGs and WAREBs.
License to transport waste	CGs and NEMA

Regulatory requirements	Regulatory institutions involved
Specialized materials certificate Controlled substance regulation permit	KEBS, NEMA
Noise and vibration licenses	NEMA, DOSH, CGs
Construction regulations	DOSH, CGs, NEMA, NCA
Health regulations	DOSH, NEMA, CGs
Construction regulations, conservancy fees	CGs, NEMA, DOSH, NCA

Data source: KAM, 2020

Kenya has made an attempt to reduce the regulatory burden not only on businesses but also on taxpayers. For instance, a Presidential Taskforce on Parastatal Reforms appointed in 2013 recommended a reduction in the number of state agencies from 262 to 187. Reducing regulatory burden is crucial to foster a more business-friendly environment in Kenya by alleviating the excessive red tape and burdensome compliance requirements. The government can, therefore, create a more supportive environment for businesses to thrive.

David Cameron, former Prime Minister of the United Kingdom, in one of his speeches noted "*We need to tackle regulation with vigor to free businesses to compete and create jobs, and give people greater freedom and personal responsibility . . .. I want us to be the first government in modern history to leave office having reduced the overall burden of regulation, rather than increasing it.*"[21] A comprehensive review of existing regulations would be a major step towards fostering a business-friendly environment. This would assist in systematically identifying redundancies, inefficiencies, and outdated rules. Prioritizing amendments or removals of hindering regulations is crucial to unleash the full potential of businesses.

ACTIONS

Implementing the following measures can help reduce the regulatory burden on manufacturing enterprises in Kenya:

i. Review existing regulations to identify redundancies, inefficiencies, and outdated rules.

ii. Realign existing national government institutions and counties to remove overlapping and duplication of mandate.

iii. Simplify and streamline regulatory system to reduce compliance costs for businesses.

iv. Adequate and responsive public participation processes on new and existing policies and laws.

v. Harmonize regulations across different counties and realigning existing fees, charges and levies imposed by various government agencies and regulatory bodies.

vi. National government agencies and counties to create sharing platforms to facilitate compliance and reduce costs for businesses.

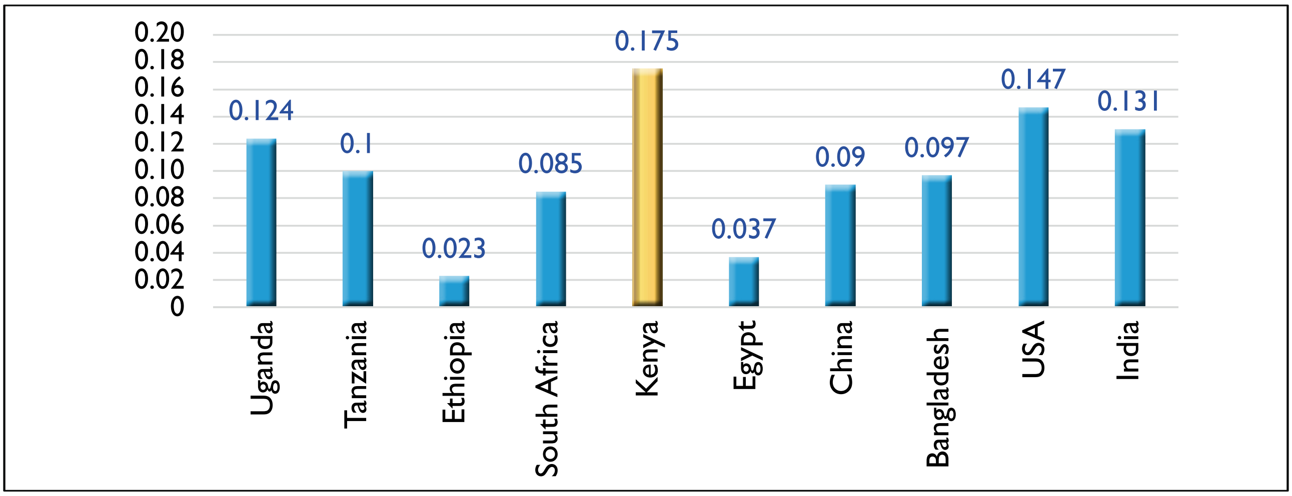
vii. Establish institutional procedures to handle compliance matters relating to industries such as closures and recalls and overall assisted support. Develop compliance support mechanisms and corrective action plans collaboratively with manufacturers to avoid local brands being destroyed.

21 https://documents1.worldbank.org/curated/en/905611520284525814/Global-Indicators-of-Regulatory-Governance-Worldwide-Practices-of-Regulatory-Impact-Assessments.pdf

b) Agenda two: Promote access to quality, affordable and reliable energy for manufacturing

Cost of energy such as electricity and fuel affects the competitiveness of the manufacturing sector. Electricity as a source of power for production is a key aspect in the growth and development of the manufacturing sector. The availability of electric power and its cost directly affects the quality, quantity and cost of production.[22] Kenya has the highest electricity cost per kilowatt-hour (kWh) relative to comparator countries (Figure 4.2).

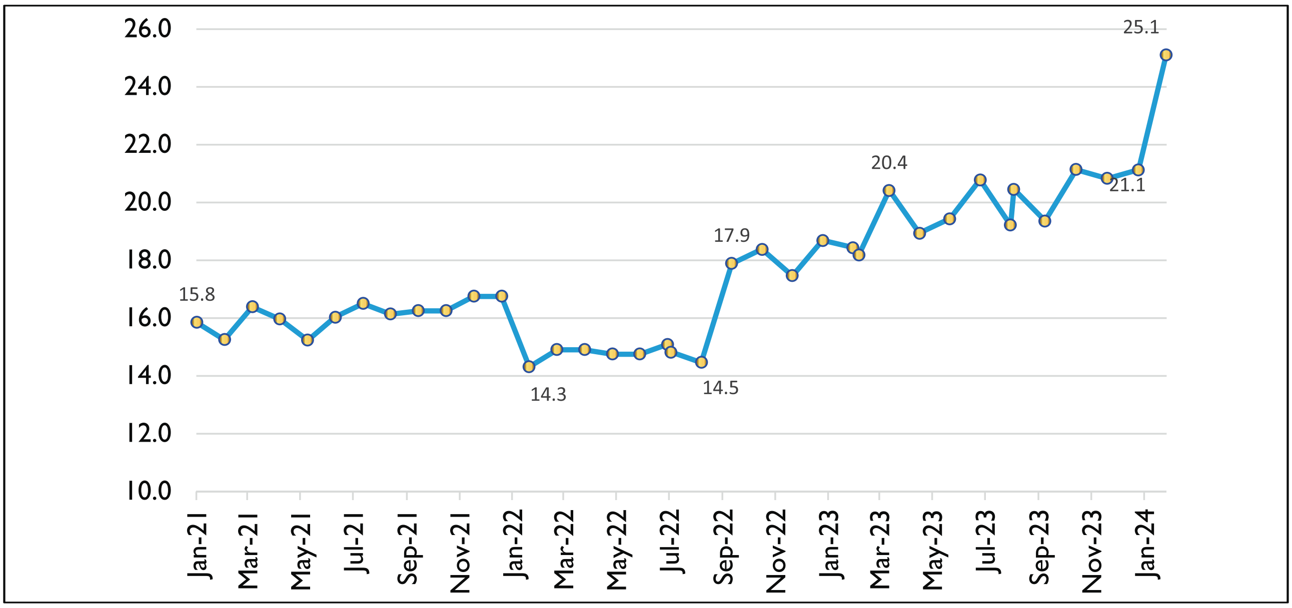
Figure 4.2: Electricity price (US cent per kWh) for Kenya and comparator countries: June 2023



Data source: Globalpetroleum.com

There has been a rapid increase in the unit electricity cost per kWh charged to manufacturing enterprises. Unit electricity cost per kWh charged to a cement manufacturer (one of the heavy electricity consuming processes) in Kenya increased from Ksh 15.8 in January 2021 to Ksh 25.1 in January 2024, representing a 58.9% increase (Figure 4.3). This greatly undermines the competitiveness of manufacturers in Kenya.

Figure 4.3: Electricity cost charged to a cement manufacturer in Kenya

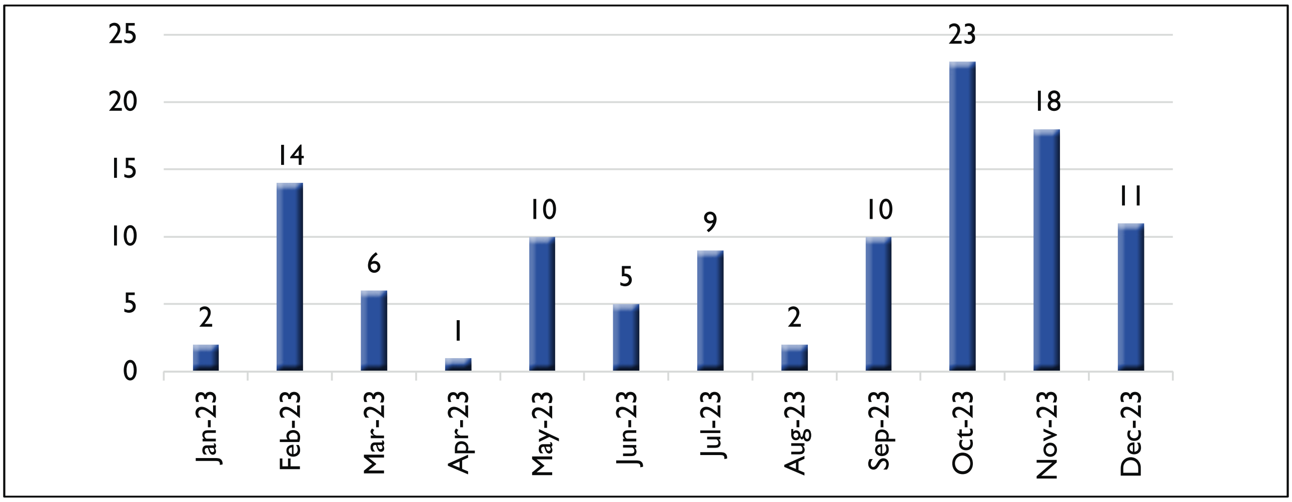


Data source: KAM

High cost of electricity is not the only cause of concern for manufacturers but also the quality of supply. Figure 4.4 shows that a cement manufacturer experienced 111 stoppages in 2023 leading to significant financial losses.

22 https://su-plus.strathmore.edu/items/79726376-dfe5-41c1-9587-e4880ca57f16

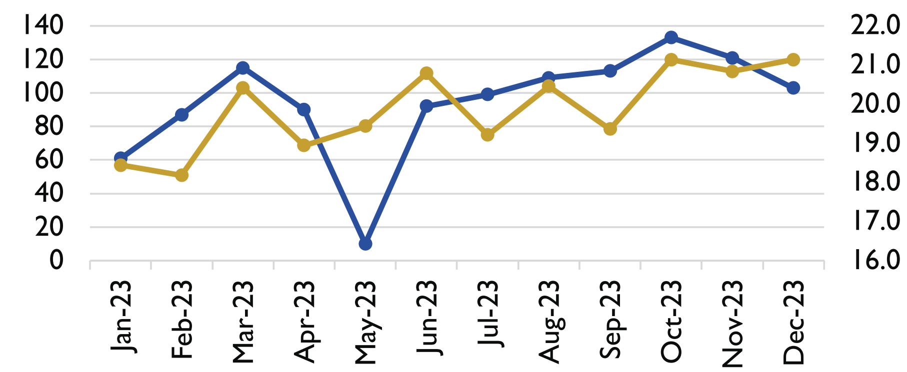
Figure 4.4: Number of plant stoppages per month experienced by a cement manufacturer in 2023



Data source: KAM

KAM has been at the forefront advocating for lower electricity tariffs for manufacturers and recommends a tariff rate of Ksh 10 per kWh. Figure 4.5 shows unit cost of electricity that faced a given steel factory, which averaged Ksh 19.86 per kWh in 2023 with the total cost of the electricity paid by the manufacturer amounting to Ksh 1.1 billion.

Figure 4.5: Electricity cost per month (Ksh million) and Ksh,/kWh facing a steel factory in Kenya



	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Electricity cost	61	87	115	90	10	92	99	109	113	133	121	103
Ksh/Kwh	18.4	18.2	20.4	18.9	19.4	20.8	19.2	20.5	19.4	21.1	20.8	21.1

Data source: KAM

If the proposed Ksh 10/kWh is adopted by the government, electricity cost facing the manufacturer can reduce to Ksh 0.56 billion (a 51% reduction in the cost of electricity). The company can then use the savings to expand the plant hence hiring more workers and increasing tax contribution or improve cashflow for the business.

ACTIONS

The following measures if adopted can help ease the cost of energy, especially electricity, and enhance its reliability:

i. Reduce electricity cost per kWh to Ksh 10 for manufacturers.

ii. With average consumption growth of 14% and maintaining revenue neutrality with lower tariffs, the industry will enjoy a cost reduction by Ksh 2.4 kWh from Ksh 19.93 for commercial industries (CI) & small commercial (SC) to Ksh 17.49.

iii. KPLC to save Ksh 18.7B from cost of purchase through reduction of system losses, from the current 23% to 13%. The CI & SC will save Ksh 10.6B.

iv. The utilization of geothermal plants should be optimized from the current 62% to a higher value to reduce average energy costs.

v. Time of Use (ToU) should be restructured to incentivize industry to operate during off-peak hours.

vi. Thermal power plants should only be used as alternatives and not as base load plants, to lower the cost of fuel.

vii. Complete works at Mariakani 400/220kV substation and commissioning of the same to optimize use of 400kV line from Isinya to Mariakani.

viii. Upgrade Lessos substation to improve power stability in the North Rift.

ix. Complete Suswa-Narok-Kisii line to improve power stability in Western Kenya.

x. Decommission the 60MW thermal power plant at Muhoroni.

xi. KPLC to improve on power reliability indices, to provide confidence to manufacturers and investors.

xii. Operationalize Net Metering Regulations.

xiii. Open captive power generation space by establishing a green channel for licensing of green energy generation.

xiv. Fast track regulations on power sales from generators directly to manufacturers.

xv. Lift the existing moratorium on new power plants to open negotiations for new capacity power plants and restore investor confidence.

xvi. Regularize the establishment of the fuel price stabilization fund by establishing a management structure.

c) Agenda three: Reduce transport and logistics costs

Transport and logistics costs have been increasing exponentially over the recent past, a trend that continues to negatively impact the cost of various consumable products as this cost is always passed on to the innocent consumers. The local manufacturers import into the country most of their raw and intermediary materials with the main source being Far East Countries such as China and India. These raw materials usually come into the country either through air freight or sea freight.

Within the main ports of entry, whether air or sea, both Kenya Airports Authority (KAA) and Kenya Ports Authority (KPA) charge handling service fees on any imported goods. It is essential to consider the removal of these port charges on raw and intermediate materials meant for manufacturing to make finished products affordable and competitive in the market.

Table 2.7 has revealed that most of the raw materials and intermediate inputs meant for manufacturing are imported into the country. Once they arrive at the ports of entry, the speed at which they are offloaded from the vessel and cleared so that they reach their destination affects the competitiveness of the manufacturing industry. Any delay because of inefficiencies between the time the goods are offloaded from the vessel to the time when the cargo is received at manufacturers' premises results in an extra cost that is not warranted to the manufacturer or the importer.

Delays due to unavailability or inadequate wagons for loading containerized cargo in readiness for railage from the Port of Mombasa to the Inland Container Depots (ICD) in Nairobi and Naivasha is costly to businesses. This can result from poor coordination between the KPA and the Kenya Railways Corporation (KRC), in terms of the number of wagons needed for railage of maximum number of containers at any given time. Delays can also emanate from unavailability of wagons due to slowed repair works of damaged wagons by KRC engineers or delayed procurement of new and additional wagons needed to increase the number of containers that each train can pull from the Port of Mombasa to ICD.

Other delays may be as a result of clearing system downtime such as the KenTrade System, KRA's ICMS, and KEBS system among others. Importers are then forced to incur additional costs in terms of storage charges and demurrages once the free period lapses. As such, there is a high requirement that all trade facilitation agencies are working in such a high coordinated manner such that they are always able to respond to any challenges such as system downtime, system holds among other challenges that can result to inefficiencies and delays in the clearance process.

Most transporters of cargo that is destined for upcountry prefer to use the Through Bill of Lading (TBL) to avert cargo demurrage costs while using the Standard Gauge Rail (SGR), as the TBL is a better option where rail transport is available and connecting the seaport to the mainland. This is because in the TBL import mode, the shipping line takes responsibility to transport cargo to the destination, while in the Merchant Haulage Product (MHP) or the Non-TBL mode, responsibility of the shipping line ends upon discharge of the container at the port. However, this is a voluntary arrangement by the cargo owner since the government reverted to the clearance of cargo at the Port of Mombasa on 13th September 2022. As such, road transport is equally competing with rail transport as the importers have the final say in determining the port of clearance, whether in Mombasa or ICD in Nairobi and Naivasha.

Bearing the above in mind, the government through KRC should consider reviewing the SGR rates downwards to match the competitive road transport rates to encourage more importers to use the SGR when transporting containers into the mainland. Trucks can offer last mile connectivity to importers by transporting the imported goods from the ICDs to importers' premises.

Priority should also be put in the construction of Meter Gauge Railway (MGR) and SGR sidings as well as the rehabilitation of railway lines in industrial areas to enhance last mile connectivity and reduce cost of transport. Most importers or manufacturers who prefer to use SGR services to rail their containers from the Port of Mombasa to ICD in Nairobi and Naivasha usually face the challenge of last mile connectivity. This is because the truck turnaround time at the ICDs is high compared to the expectation of the importers that it will take the minimum time to have their shipment loaded onto the trucks and gate out of the depot. However, this is not always the case as there are other factors that affect the efficient clearance of trucks at the depots which are beyond the control of the importer. This move will greatly reduce the cost of transport and logistics in favour of industry, who will be compelled to pass on the benefit to the consumers once their overall production cost is reduced.

Simplification and promotion of Authorized Economic Operator (AEO) accreditation processes would be useful in increasing uptake for enhanced import and export clearance processes. The AEO is a preferential custom clearing program that allows trusted customs clients to enjoy certain cargo clearing benefits. Stakeholder awareness should be created to encourage them to sign up to the program. The benefits include among others:

- Preferential customs facilitation when clearing.
- Reduced time and cost at points of service.
- Customs certified secured and reliable trading partner when trading.

There is a need to create a framework between roads agencies and county governments to enhance industrial roads upgrading and maintenance. Road transport is essential to manufacturers, and it is critical that all road agencies, that is, the Kenya Roads Board (KRB), Kenya National Highways Authority (KENHA), Kenya Urban Roads Authority (KURA) and Kenya Rural Roads Authority (KERRA) and the county governments work as a team. This way, it will be easier to satisfy the public and the private sector with timely responses or feedback on reported road infrastructure needs across the country with timelines within which any intervention will be done on critical roads.

ACTIONS

To reduce transport and logistics costs for manufacturers in Kenya, the following actions can be considered:

i. Remove port charges for importing raw materials and intermediate products.

ii. Sustain an efficient and seamless movement of containers at the ports by enhancing existing collaborative and coordination frameworks with port stakeholders.

iii. Review KRC rail charges to match the road market rates to sustain uptake of SGR.

iv. Prioritize construction of MGR and SGR sidings in industrial areas as well as rehabilitation of railway line in industrial areas to enhance last mile connectivity and reduce cost of transport.

v. Simplify and promote Authorized Economic Operator (AEO) accreditation processes to increase its uptake for enhanced import and export clearance processes.

vi. Create a framework between road agencies and county governments to enhance industrial roads upgrading and maintenance.

d) Agenda four: Sustain the fight against illicit trade

Illicit trade in counterfeit and substandard goods causes not only economic damage, but also poses additional risks to citizens, including health and safety risks.[23] Enhancing Intellectual Property Rights (IPR) compliance through coordinated enforcement with line agencies will support the government expand its tax revenue base, promote health and safety of consumers, enhance food security, and drive innovation and value addition. Effective enforcement against the various forms of illicit trade found in the market is one of the ways of deterring and reducing the proliferation of illicit goods in the market. Illicit trade poses unfair competition in the market and ends up shrinking the market share of genuine investors, thus damaging their brand reputation among other negative impacts to the local industries. To the government, illicit trade denies it the much-needed revenue that is utilized to run various government affairs.

Past experience has revealed benefits of multi-agency coordination in the fight against illicit trade. For instance, the 2018 initiative to have a well-coordinated enforcement Multi-Agency Team (MAT) against illicit trade in Kenya is a model that can be used to cure the silo approach of fighting the vice by permitting relevant agencies to work in sync. Each form of illicit trade is interlinked with the other. For example, a counterfeit product that is enforced by the Anti-Counterfeit Authority (ACA) may also attract the interest of both KEBS and KRA in the eventuality that the counterfeit product is substandard and has evaded payment of any taxes, respectively. The same product may also attract the Ministry of Health if the product seems to be a threat to the health and safety of the end user. This is why a MAT setup is recommended. Additionally, the government can consider establishing a high office, especially from the Executive arm of the government to coordinate all the enforcement agencies under the multi-agency setup for the much-needed effectiveness in sustaining the fight against the various forms of illicit trade in Kenya.

Once coordination is achieved, a standard cooperating procedure to guide the operations of the enforcement MAT would be required. In 2020, KAM proposed Standard Operating Procedures (SOPs) for the inspection, verification, and clearance of imports at the ports/ points of entry in Kenya, which can be considered for review and adoption by the government. These SOPs were meant to cure the confusion that was witnessed in the 2018-2019 MAT which caused delays in the clearance of imported goods. The SOPs will enhance efficiency at all levels of government instead of creating bottlenecks that bring about delays that result in unwarranted huge costs in terms of storage charges and demurrage to the manufacturing sector. The SOPs will further bring accountability on the part of enforcement officers.

It is also essential to address the underlying issues that incentivize illicit trade such as excise duty regime. The government has been reviewing the tax regime on excisable goods upwards to increase its revenue. One of the impacts has been incentivizing illicit trade which inevitably reduces government revenue through tax evasion. It is therefore important for the government to relook excisable goods tax regime to deter from incentivizing illicit traders. A case in point is the continued shrinking of the alcoholic beverages and cigarette industry in Kenya due to illicit trade.

23 https://www.oecd.org/gov/illicit-trade/

In 2021, the ACA rolled out the IPR Recordation Program with the objective of creating a robust database of various intellectual property rights in the country. The IPR recordation was therefore meant to check on importation of similar products into the country. The program has been rolled out in phases to ensure that there is smooth compliance of the new regulations within the premise of an efficient and effective trade facilitation. KAM believes that if well implemented, the ACA IPR recordation will enable the country to check against proliferation of counterfeit goods by deterring any attempt to import such into the country. KAM trusts that the ACA Integrated Management System (AIMS) will remain stable to facilitate trade while checking against such proliferation of counterfeit goods in the country.

ACTIONS

To bolster war on illicit trade, the following action points would be useful:

i. Enhance IPR compliance through coordinated enforcement with line agencies that support the government in expanding its tax revenue base, promote health and safety of consumers, food security and innovation and value addition.

ii. Intensify awareness on matters of illicit trade to targeted groups including users, producers, governments.

iii. High level reporting (The Cabinet) of the interagency reports relating to illicit trade and adoption of the SOPs for the multi-agency team.

iv. Address the underlying issues that incentivize illicit trade such as excise duty regime.

v. Focus on the implementation of the IPR Recordation Regulations that came into effect on 1st January 2023.

vi. Enhance inter-agency collaboration, co-ordination, accountability, and transparency in the enforcement against illicit trade.

e) Agenda five: Manufacturing centric counties

The expanded role of county governments in Kenya presents an opportunity to transform each county by exploiting their resources for domestic and external markets. The improvement of the private sector enabling environment for growth and productivity can have the impact of transforming Kenya into a prosperous middle-income country. The cost of doing business in the counties is a recurring conversation among businesses. With the Own Source Revenue (OSR) targets and the delays from the exchequer, a sound revenue system for county governments is important. Licensing and taxation form the major sources of county governments' own-source revenue.

In a bid to increase their OSR, county governments have created several regulations to collect more revenue through multiple licenses and permits. For example, transporters of agricultural products are required to pay multiple cess charges as they cross county boundaries to reach various markets, which significantly impacts the cost of production for agro-processors. In regard to multiple user fees, levies and charges, there is a need for clear guidelines on the linkage between service facilitation and charges as well as renewal process of various permits and licenses by the county governments, that is, single business permits, building permits, and approvals among others.

To transform manufacturing, KAM participates in the review of County Annual Development Plans (CADPs) and the five-year County Integrated Development Plans (CIDPs) as part of feedback to the county finance and economic planning departments and sector working groups.

Counties are the next frontiers of investment hence the need to grow manufacturing across all the 47 counties though value addition and supporting shared investments. The County Aggregation and Industrial Parks (CAIPs) aim to target manufacturing and investments through agro-industries and enhance the productivity of the agriculture sector sustainably. In a bid to steer economic growth through the manufacturing sector, the national and county governments need to prioritize manufacturing, to transform Kenya into a country with a competitive industrial base that guarantees a strong economic foundation, productive jobs and purchasing power for citizens.

ACTIONS

To create manufacturing centric counties, the following actions would be useful:

i. Transformational manufacturing responsive County Annual Development Plans, policies, and budgets.

ii. Harmonize county levies, fees, and charges through the adoption and implementation of the County Governments (Revenue Raising Process) Bill and the County Licensing (Uniform Procedures) Bill that provide mitigation mechanisms.

iii. Support other emerging county advocacy engagements.

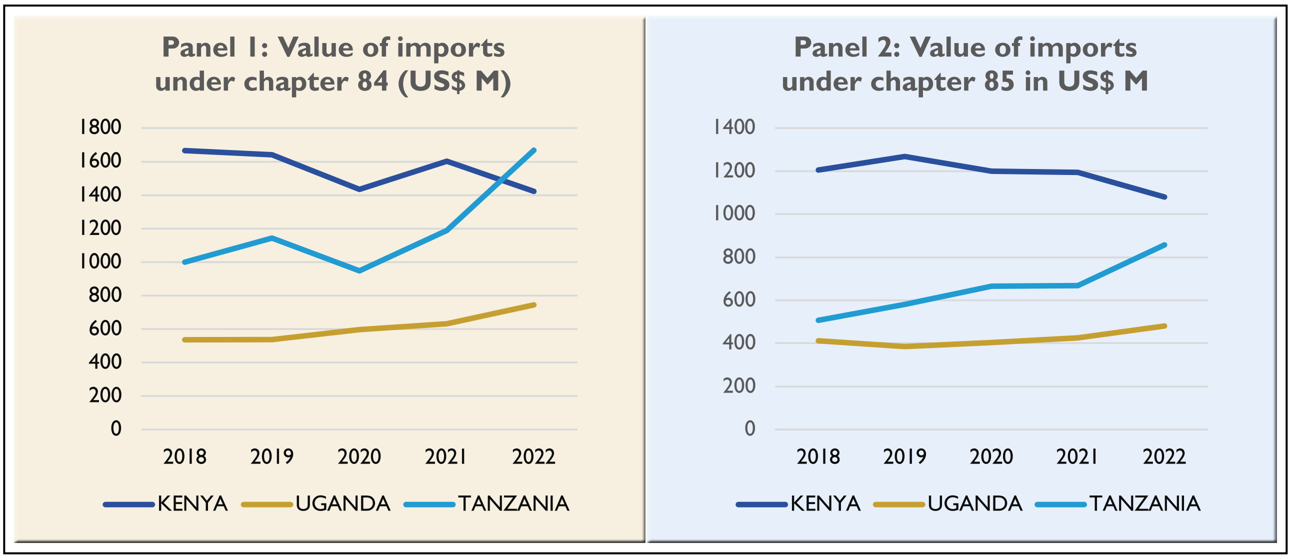
f) Agenda six: Ensure stable and predictable tax policies

Tax policy is one of the most important aspects of a country's business environment. It creates an incentive framework for private sector development and generates the revenue needed to fund essential public goods. Tax policy should raise revenue without major distortions to business operations. Tax regulations should have minimum influence on what to produce or consume, where to locate a production facility and how to produce goods.[24] KAM has been at the forefront in advocating for a National Tax Policy to ensure stable and predictable tax policies that do not hurt businesses. Manufacturing investments have a long-term maturation period of at least three years, implying that tax and other government policies must take this reality into consideration.

There has been a proliferation of tax policies introduced by the government, such as the Export and Investment Promotion Levy (EIPL), excise duties on intermediate goods and packaging material, without an impact assessment study. A Regulatory Impact Assessment (RIA) is a best practice recognized by most developed countries as a key instrument to improve the quality of regulatory decision making. RIA plays a crucial role in improving rule-making quality and promoting good governance and has been heavily promoted by international organizations such as the World Bank. The RIA approach allows governments to ensure that the laws and regulations they develop, and implement are of high quality, efficient, transparent, and accountable.[25]

In 2020, the government introduced 16% VAT on plant and machinery of Chapter 84 and 85. Figure 4.6 shows a decline in the value of imports by Kenya over the period under review and a rise in the value of imports by Uganda and Tanzania. This can be taken to mean increased investments in Uganda and Tanzania as revealed in Figure 4.6.

Figure 4.6: Value of imports by Kenya, Uganda & Tanzania



Data source: International Trade Centre

24 https://documents1.worldbank.org/curated/en/345891467987893736/pdf/WPS7513.pdf

25 https://documents1.worldbank.org/curated/en/905611520284525814/Global-Indicators-of-Regulatory-Governance-Worldwide-Practices-of-Regulatory-Impact-Assessments.pdf

ACTIONS

To ensure stable and predictable tax policies, the government can implement the following actions:

i. Finalize and implement a pro-industry National Tax Policy.

ii. Introduce a lower VAT rate for raw and intermediate products to reduce the cost of finished goods.

iii. Any levy, fee or charges should be proposed through the National Treasury and subsequently passed through the national and county finance bills and supported by an impact assessment study.

iv. Revert Investment Deduction Allowance (IDA) to the previous provision: 100% for Nairobi, Mombasa and Kisumu, and 150% outside of Nairobi, Mombasa and Kisumu.

v. Plant and machinery under Chapter 84 & 85 should be VAT exempt to reduce cost of investment.

g) Agenda Seven: Lower the cost of industrial inputs

The Finance Act, 2023 introduced fiscal measures that created unwarranted and immeasurable negative unintended consequences to the paper, steel, and cement manufacturing sectors. Tax measures introduced include the EIPL, excise duty on cement clinkers and paper products as well as adjustments to the tariffs under the EAC Common External Tariff (CET) for paper and steel products. In summary, the impact of the fiscal measures is as follows:

- Increased cost of raw materials and intermediate inputs.
- Unprecedented difficulties in accessing raw materials.
- Increased prices of finished products such as packaging materials made from paper, cement, and construction materials made from steel thus negatively impacting Mwananchi.
- Reduction of exports due to cost disadvantage.
- Influx of imports from the region especially Uganda and Tanzania.

For example, the Finance Act, 2023 introduced a 17.5% EIPL on imported billets (7207.11.00), which is the main raw material used by manufacturers in the Hot-Rolling Sub-sector, and wire rods (7213.91.10). This makes imported billets to Kenya more expensive compared to EAC Partner States. Effectively, total import taxes for billets in Kenya increased to 31.5% compared to 1.5% for Uganda and Tanzania, 1.9% for Rwanda and 0% for Burundi (Table 4.3).

Table 4.3: Comparative tax analysis on imported billets

Name of tax	Kenya	Uganda	Tanzania	Rwanda	Burundi
Import duty	10%	0%	0%	0%	0%
EIPL	17.5%	-	-	-	-
Import Declaration Fee (IDF)	2.5%	-	-	-	-
Railway Development Levy (RDL)	1.5%	-	-	-	-
Infrastructure Development Levy (IDL)	-	1.5%	1.5%	1.5%	-
African Union Levy (AUL)	-	-	-	0.2%	-
Quality Inspection Fee (QIF)	-	-	-	0.2%	-
Total	**31.5%**	**1.5%**	**1.5%**	**1.9%**	**0%**

Data source: Finance Act, 2023 & KAM, 2023

The EAC acknowledges the importance of exports and in 2022, the Community developed a 4-tariff band structure (CET) that provides:

- **0%** duty on raw materials
- **10%** on intermediate products not found in abundance in the EAC
- **25%** on secondary intermediate products found in abundance in the EAC
- **35%** for finished goods

Kenya was part of the EAC CET review process but principles underlying the 4-band policy design are not being observed in Kenya - import duties have been increased on industrial inputs not available in the region. For instance, the EAC gazette dated 30th June 2023 increased import duty from 10% to 35% on other bleached sack kraft paper (4804.29.00) used to produce *unga* bags. This has led to a cost-disadvantage to paper bag manufacturers in Kenya, relative to those in the region (Table 4.4).

Table 4.4: Comparative tax analysis on 4804.29.00 (other bleached sack kraft paper)

Name of tax	Kenya	Uganda	Tanzania	Rwanda	Burundi
Import duty	35%	0%	25%	0%	0%
Import declaration fee	2.5%	-	-	-	-
Railway development levy	1.5%	-	-	-	-
Infrastructure development levy	-	1.5%	1.5%	1.5%	-
African union levy	-	-	-	0.2%	-
Quality inspection fee	-	-	-	0.2%	-
Total	**39%**	**1.5%**	**26.5%**	**1.9%**	**0%**

Data source: Finance Act, 2023 & 30th June 2023 EAC Gazette Notice

ACTIONS

To lower the cost of industrial inputs, the government should take the following actions:

i. Reduce IDF rate from 2.5% to 1.5% for raw materials, intermediate inputs, industrial machinery and spare parts of Chapters 84 & 85.

ii. Remove excise duty and export and investment promotion levy on raw materials, intermediate inputs, and packaging materials.

iii. Adhere to philosophy behind the EAC CET tariff structure.

h) Agenda eight: Incentivize prompt payment culture

According to the 2024 Budget Policy Statement, the total outstanding national government pending bills as of 30th June 2023 amounted to Ksh 567.7 billion, comprising Ksh 443.8 billion for State Corporations and Semi-Autonomous Government Agencies, and Ksh 123.9 billion in respect to Ministries, Departments and Agencies. Tax refunds to manufacturers are one of the pending bills yet to be addressed. KRA had reported tax refund claims amounting to Ksh 16.34 billion as of 31st October 2023, comprising of Ksh 2.75 billion income tax and Ksh 13.58 billion in respect of VAT.

The VAT refund issue keeps on recurring after every two-three years, hence the need for a long-term solution. Some taxpayers are owed refunds dating back to 2016. Seventy (70) taxpayers drawing their membership from KAM, aak-GROW (formerly, Agrochemical Association of Kenya (AAK)) and Kenya Flower Council (KFC) were owed Ksh 12.44 billion (about 77.75% of the Ksh 16 billion) as at the end of August 2023 (Table 4.5).

Table 4.5: Outstanding VAT refunds owed to 70 taxpayers

Name of tax	Outstanding amount (Ksh)
VAT	10,887,213,172
Credit Adjustment Vouchers	1,130,119,932
Withholding VAT	422,105,915
Total	**12,439,439,019**

Data source: KAM survey

There are four causes of the VAT refund problem:

a) Failure of the National Treasury to allocate KRA adequate funds to facilitate payment of VAT refund claims. For instance, the National Treasury monthly allocation is usually about Ksh 3 billion a month and claims are above Ksh 6 billion or so.

b) Failure by KRA to implement offset of overpaid taxes against both outstanding tax debts and future tax liabilities as provided under Finance Act, 2023 after amendment of Section 47 of the Tax Procedures Act (TPA). The amendment also mandates that refunds for overpaid taxes be issued within six months once the overpayment is ascertained.

c) Lack of a legal mechanism to refund Credit Adjustments Vouchers (CAV), which occurs when a taxpayer has more input than output VAT.

d) The reduction of the withholding VAT (WHVAT) rate from 6% to 2% has not resolved the challenge of arising refunds.

Delays in VAT refunds have serious implications on the manufacturing sector as majority of them rely on timely tax refunds to maintain their cash flow. Delays in receiving refunds can strain finances, making it difficult to pay suppliers, employees, and other operating expenses. Also, the delay in tax refunds can postpone or cancel planned investments by manufacturers in new equipment, technology, or expansion projects. This can lead to a slowdown in economic activity within the sector.

As of 30th September 2023, counties reported accumulated pending bills amounting to Ksh 163.62 billion, as reported to the Office of the Controller of Budget. Majority of the money owed by county governments is to the various pension funds (LAPTRUST, LAPFUND and County Pension Fund) which have accumulated over the years. As of 31st August 2023, the status of pension pending bills submitted by the different pension schemes to the Retirement Benefits Authority (RBA) was Ksh 73.4 billion. The pension, when pumped into the economy, increases consumer spending. When delayed, consumers may postpone purchases, including big-ticket items like automobiles, appliances, or electronics among others. This reduction in consumer spending can directly impact manufacturers' sales and revenue.

The issue of the pending bills can be solved through the enactment of the Prompt Payment Bill. The Bill seeks to put in place a legal framework to facilitate prompt payment for the supply of goods, work and services procured by government entities both at national and county level. It sets standards for when payments should be made, typically within a certain number of days after receipt of a proper invoice. If payments are not made within the specified timeframe, the government may be required to pay interest penalties to the contractor or vendor. If the Bill is passed, it will hasten the timely processing and payment of invoices submitted by contractors and vendors to the government thus reducing backlog of pending bills by the government.

ACTIONS

The government can take the following actions to incentivize prompt payment culture:

i. Establish a Tax Refund Fund to cater for all refunds.

ii. Both the national and county governments to create a three-year plan to clear pending bills.

iii. Implement the 60-day payment period provided for under the Public Procurement and Assets Disposal Regulations, 2020.

iv. Fast track the enactment of the Prompt Payment Bill, 2021 to enhance compliance.

v. All government purchases to be done through IFMIS, thus enable faster reporting of local procurement, address prompt payment as well as enhance transparency and accountability.

i) Agenda nine: Avail affordable long -term credit to manufacturers

A key feature of late industrialization is the quantum jump in the financial capital required for an industrial takeoff (Gerschenkron, 1962). This is not only due to the rise of industrial powerhouses such as China and India, but because, unlike in the past, manufacturing is both skill and capital-intensive due to advances in technology. The large financial capital outlays required for an industrial takeoff are beyond the reach of the majority of potential private investors (Chandrasekhar, 2016). There are two main sources of credit to the manufacturing sector in Kenya: Public Finance Institutions (PFIs) and the commercial banks (Figure 3.5).

There are three major shortcomings of private sector credit. First, it tends to be pro-cyclical, increasing credit during booms and rationing credit during recession (Griffith-Jones and Ocampo, 2018). Second, there is an increasing body of evidence that private sector-led lending has retreated from long-term finance in favour of speculative investments in financial assets (Mazzucato and Penna, 2014). Third, private finance is characterized by "short-termism" with profit maximization as the main objective (Haldane, 2011).

Further, interest rates charged by commercial banks are a subject of intense debate particularly in developing countries. High interest rates on loans by commercial banks are a major source of frustration to policy makers as they are considered as an impediment to enhanced investments, financial inclusion and economic growth (Aper, Clements, Hobdari and Porcel, 2019). One of the responses by governments to this challenge has been the creation of National Development Banks (NDBs). Support for NDBs has increased since the global financial crisis of 2007-2008.

ACTIONS

To avail affordable long-term credit to manufacturers, the government can consider the following actions:

i. Capitalize Kenya Development Bank to avail long-term finance to manufacturers.

ii. Repurpose Kenya Industrial Research and Development Institute (KIRDI) to provide cost-effective research solutions to manufacturers.

j) Agenda ten: Enhance environmental and sustainable regulatory compliance

Businesses increasingly must be deliberate in taking up sustainability initiatives. There are international markets that are demanding industries to share reports on their sustainability. The reports go beyond environmental to include social and governance aspects, thus Environment, Social and Governance (ESG) is becoming a necessary reporting mechanism for investors.

ACTIONS

Some ways in which the government can enhance environmental and sustainable regulatory compliance includes the following:

i. Both the national and county governments to fully implement the National Sustainable Waste Management Act, 2022.

ii. Finalize and fully operationalize the draft Extended Producer Responsibility Regulations 2022 on solid waste management.

iii. Provide incentives to industries that embrace principles of circular economy.

iv. Promote ESG principles in both public and private sectors.

v. Unpack "carbon trading" for industries to create opportunities through favourable policies and regulatory frameworks.

k) Agenda eleven: Pro-industry skills development

A pro-industry skilled labour force is critical to driving manufacturing in Kenya to a double digit. KAM advocates for pro-industry skills development, taking into account the principles of national skills development. These are shared responsibilities of key stakeholders, including government, industry, technical training institutions, and potential workers among others. Secondly, the skills developed should be an integral part of economic growth and decent employment strategies.

ACTIONS

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

i. Create a policy framework to allow coordinated formation of Sector Skills Advisory Committees (SSACs), harmonization of the same and operationalization of the National Skills Council.

ii. Align and strengthen skills assessment bodies (Kenya National Qualifications Authority, National Industrial Training Authority, Technical and Vocational Education and Training (TVET) Authority, Commission for University Education) to reduce duplication and operationalize recognition of prior learning and certification of industry experts.

iii. Incentivize industry to support skills development (internships, attachments, work-based learning) through tax rebates and tax relief among other incentives. This includes operationalization of the NITA and TVETA Act, and operationalization of the TVET tax rebate for paid internships, as per Finance Act, 2021.

iv. Support the scaling up of Competency Based Education and Training (CBET) uptake in TVET institutions and industries, nationally, through increased awareness.

v. Strengthen collaboration between industry and training institutions through a framework that supports research, commercialization of innovations, and industry engagement.

vi. Facilitate learners through increased funding for TVET students, including financial support during industrial attachments and internships.

vii. Strengthen industry and training linkages through the creation of a single labour database management system, upskilling and incentivizing of career/industry liaison officers.

viii. Strengthen entrepreneurship and mentorship through incubation centres in TVET and higher learning institutions, commercialization of existing centres of excellence and linkages of the same to industry.

4.2 Pillar two: Export-led Industrialization

Export-oriented industrialization is based on the production of goods for the purpose of selling them in the international market. It was advanced in part because of the failure of import substitution industrialization and as a model of development due to the success of East Asian countries (Ramdoo, 2015). In developing countries, this industrialization strategy targeted the textile industries, particularly after the Agreement on Textiles and Clothing in 2005. Developing countries have sought to go around challenges related to unfavourable domestic markets and have set up SEZs, EPZs, industrial clusters and industrial parks. Investors in these industrial zones are usually provided with land, basic infrastructure, and tax incentives to be cost effective in production.

a) Agenda one: Enhance domestic market access

Companies seeking entry into the region and global export markets can take advantage of available domestic markets, which they can use as a stepping stone in venturing into international markets. Public procurement through preferential arrangements, in favour of locally produced goods, is increasingly becoming a popular policy instrument in developing countries. Discriminatory procurement in favour of domestic suppliers is usually motivated by the desire to stimulate infant industries, promote underdeveloped regions and the desire to create jobs (Ssennoga, 2006). The government has been championing the Buy Kenya Build Kenya (BKBK) strategy to promote locally produced goods and services. The BKBK strategy is expected to "enhance competitiveness of local firms, stimulate local production, and promote industrialization". Additionally, Section 155 (2) of the Public Procurement and Asset Disposal Act, 2015 provides for preferential procurement of locally produced goods and services. Local textile and leather sectors have already benefited from the BKBK strategy through procurement of products for the Police, National Youth Service, and the disciplined forces.

ACTIONS

To enhance domestic market access, the government can institute the following policy actions:

i. Fast track the adoption and full implementation of the Local Content Policy and Guidelines.

ii. Enforce 40% or more threshold of public procurement from local manufacturers.

iii. Monitor and evaluate the implementation of the BKBK strategy by the various MDAs vs the Preferential Procurement Master Roll.

iv. Review, update and gazette the Preferential Procurement Master Roll by the Ministry of Trade, Investment, and Industry.

v. Capitalize Kenya Trade Remedies Agency's (KETRA's) capacity to conduct investigations and enforcement of trade remedies.

vi. Address domestic market access challenges, including prompt payment, illicit trade and duplicate fees and charges.

vii. Address policy distortions that disadvantage local manufacturers against imports.

b) Agenda two: Optimization of market access opportunities under EAC Common Market

The EAC is an important economic bloc for Kenya. It accounted for 63.3% of the total exports to Africa (Table 2.5). Herein lies unexploited market access opportunities in the new frontiers with the entry of DRC and Somalia to the EAC.

ACTIONS

To optimize market access opportunities under EAC Common Market, the government can consider taking the following actions:

i. Comprehensively address policy misalignments that disadvantage Kenya's competitiveness in the EAC, including tax policy and administration.

ii. Drive agenda on Buy East Africa Build East Africa.

iii. Drive implementation of the EAC Common Market.

iv. Establishment of bonded warehouses in strategic markets, such as DRC and South Sudan.

v. Address Kenya's competitiveness challenges within the EAC.

vi. Address outstanding issues under the EAC CET 2022.

vii. Comprehensive review of the EAC Rules of Origin to address market access challenges.

viii. Fast track the implementation of the EAC NTB Act.

ix. Promptly resolve Non-Tariff Barriers (NTBs) and Tariff Barriers to Trade (TBTs) affecting Kenya.

x. Develop country specific market penetration strategies to enhance Kenya's utilization of EAC opportunities and recent entrants into the EAC.

c) Agenda three: Diversification and optimization of international market access in bilateral and multilateral agreements

The need for economic diversification is globally recognized, and many countries are making efforts to develop and implement diversification strategies to enhance economic performance and sustain economic growth (Jolo, Ari, Koç, 2022). Low levels of diversification of domestic economic structures, exports, and trading partners have been an intrinsic characteristic of many developing countries (Papageorgiou and Spatafora, 2012). A high concentration of economic sectors, such as primary commodities, with limited capacity for productivity growth and quality upgrading, result in less-broad-based and unsustainable growth. The United Nations, Economic and Social Commission for Asia and the Pacific (ESCAP) notes three advantages that accrue to countries that successfully diversify their economies, that is, the more diversified an economy is,

- The higher its GDP will be.
- The lower the competition for its products in the global markets.
- The higher the tendency for its diversification to proceed along specific paths, from existing to new sectors.

Other benefits of economic diversification include risk-reducing effects, improving macroeconomic stability, resilience to financial shocks, and realization of high and sustainable economic growth (Papageorgiou and Spatafora, 2012; Jolo et al., 2022). A key feature of a well-diversified economy is the degree of diversity of the export basket, that is, exporting a wide range of goods to many export markets. Table 2.5 shows concentration of Kenyan exports in a few markets while Table 2.6 shows concentration of exports in a few commodities. Thus, Kenya must strive to diversify both the export market and export commodities.

ACTIONS

To promote diversification and optimization of international market access in bilateral and multilateral agreements, the government can consider the following actions:

i. Advocate for AGOA extension by mid-2024 to at least 20 years.

ii. Integrate market access component in the US-Kenya Cooperation Agreement.

iii. Export development program to increase Kenyan exports under EU-EPA and Kenya UK FTA.

iv. Fast track the finalization of outstanding issues on the AfCFTA and TFTA.

v. Export readiness capacity building for manufacturers to take advantage of bilateral and multilateral trade agreements.

vi. Enhance utilization and optimization of foreign diplomatic and commercial presence in addition to diaspora community to drive exports.

vii. Value chain development and promotion to drive exports diversification, value added exports and entry into higher economically complex products.

viii. Improve ease and cost of doing business in line with business reforms agenda to improve Kenya's competitive industrial performance to attract investment and improve exports competitiveness.

ix. Fast track addressing of NTBs and TBTs to increase market access.

x. Develop route to market ecosystem support to enhance market penetration and route to market systems for new exporters/exports.

xi. Develop and implement country specific strategies on priority markets within Kenya's Free Trade Area (FTA) scope.

d) Agenda four: Enhance competitiveness of manufactured exports

There are manufacturing enterprises in Kenya who sell in both the domestic and export markets and are outside the SEZ and EPZ frameworks. Regional competitors such as Egypt have developed elaborate programs to promote exports, including:

- Providing export rebates (about 10-15%) to exporters.
- Granting all registered exporters a 5-year corporate income tax holiday to stimulate a boom in export sector.
- Reducing duties on imported inputs and excise duty from sales tax.
- Adopting and maintaining a competitive exchange rate.
- Creating an Export Development Fund (EDF) to increase exports by Egyptian companies internationally.
- Establishing an Export Credit Guarantee Company to improve the exporters' cash flow and support post shipment financing.

Kenya has operated a success export program such as the Exports Promotion Program Office (EPPO) which provided a sustainable system for developing and sustaining a conducive tax system for the manufacturing sector. The EPPO:

- Was a duty drawback scheme which fully remitted import taxes including VAT paid on inputs used in the production of exports.
- Unlike the manufacture under board (MUB) and EPZ programs, firms did not need to be solely exporters to take advantage of the EPPO system. Companies producing partially for the domestic market and partially for export could also reap the benefits.
- Largely attributable to this flexibility, the EPPO program was significantly more successful than Kenya's other two export promotion platforms.
- The EPPO increased exports by more than 60%.

Re-introduction of the EPPO will result in new exports; align policies to allow optimization of market access accorded under existing preferential trade regimes that Kenya has negotiated; enhance utilization of excess capacity in existing industries by over 30%; job creation, forex inflows, stability of the exchange rate; and improvement of the economy's value chains, packaging materials, transport, insurance and banking, among others.

ACTIONS

To enhance the competitiveness of manufactured exports, the government should consider the following actions:

i. Ensure that all taxes (custom duties, excise duty, levies, VAT) on raw materials are exempted/remitted to exporters.

ii. Jointly with exporting manufacturers, develop pre-agreed key performance indicators (KPIs).

4.3 Pillar Three: SME Development

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies.[26] According to the World Bank, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world, Kenya included. In emerging markets, most formal jobs are generated by SMEs, who create 7 out of 10 jobs. The government can pursue several agendas to promote SMEs in manufacturing, who constitute about 52% of KAM Members.

a) Agenda one: Market access

One of the many pains that SMEs face today is the lack of a ready market for their products. They struggle to manufacture or produce goods in readiness for the market and at the same time, they must go and search for markets where they can sell their products. KAM is working in close partnership with the State Department for Industry to update the list of locally manufactured goods that have adequate and installed production capacity in the country. The State Department has since gazetted two Preferential Procurement Master Rolls, in 2020 and 2022. While the list is not exhaustive in terms of covering all locally manufactured goods, there is a need for the State Department to deliberately and regularly (annually) update and gazette it so that procurement entities can consider what is enlisted and procure from within the country.

Additionally, the enactment of the Prompt Payment Bill will guide payment terms as most SMEs are affected by cash flow challenges when they face delays in payment by any procurement entities.

ACTIONS

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

i. Ministry of Investments, Trade, and Industry to regularly update and implement the Preferential Procurement Master Roll in support of the BKBK Strategy.

ii. Incentivize export-led growth for SMEs through subsidized standardization fees and cost of registering IPR.

b) 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.[27] SMEs are less likely to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises.

The Kenya Industrial Estates (KIE) was established in 1967 to finance micro, small and medium enterprises (MSMEs). It offers a range of services to MSMEs in manufacturing including:

- Provision of affordable credit;
- Establishment of industrial workspace or incubation centres for a maximum incubation period of 5 years;
- Provision of business advisory services; and
- Facilitating sub-contracting and exchange/linkages.

26 https://www.worldbank.org/en/topic/smefinance

27 https://www.worldbank.org/en/topic/smefinance

Affordable credit that is availed to manufacturers is sourced mainly from the national government and internally generated revolved funds. Loans attract an annual interest rate of 10%, on a reducing balance basis. Short, medium, and long-term credit amounts are offered to MSMEs as detailed in Table 4.6.

Table 4.6: Description of different categories of credits offered by KIE

	Type of loan	Description	Time period	Interest rate	Amount (Ksh)
	Short	Targets group guarantee loan	Up to 24 months	10%	100,000-500,000
	Medium	Mainly for working capital needs	Up to 3 years	10%	100,000-3 million
	Long	Credit required for capital expenditure comprised mainly of renovation of existing building manufacturing facilities, purchase of machinery and equipment and expansion projects.	Up to 8 years	10%	Maximum of 20 million

Source: KIE

Except in the case of group guarantee scheme loan facility, collateral is a key precondition before credit is advanced. Apart from collateral, various documents are required in the process of procuring a loan (Table 4.7).

Table 4.7: Collateral and documents required for loan processing by KIE

Collateral required	Documents required
• Land title deed for a commercial plot • Chattels as additions only; and • Motor vehicle log-book of less than 7 years.	• For client and guarantors' identity: o A copy of national identity card o Passport size photograph o A copy of KRA pin certificate • For business identity: o Single business permit as proof of existence o Registration of business name o Certificate of registration for business registered as companies or cooperatives o Photographs of the business operations o Tax Compliance Certificate for registered businesses • For income identity: o A bank statement showing mobile transactions for at least the last six months prior to the time of application is required . o Books of accounts o Audited books of accounts for companies o Other informal income documents, for instance, invoices/orders, sales records, among others. • For security property related documents: o Title deed(s) of plot or motor vehicle logbook o Proof of no encumbrances on the property o Purchase/proof document of purchase for chattels o Photographs of the property

Source: KIE

ACTIONS

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

i. Give a 5-year tax moratorium to SMEs to enhance cashflow and foster sustainability beyond the initial 5-year period.

ii. Enact and implement other pending MSME enabling legislations/bills such as the start-up policy.

iii. Increase budgetary allocation to KIE to increase the size and number of loans offered.

c) Agenda three: Governance

SMEs share distinctive challenges that require specific governance practices to support them navigate through the four growth stages: stage one - start-up; stage two - active growth; stage three - organizational development; and stage four - business expansion.

ACTIONS

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

i. Enact and implement the Local Content Bill, 2018, thus enhancing governance and transparency in the utilization of resources.

ii. Review and update the current MSE policy to align with the current government structure under the Ministry of Cooperatives and MSME Development to streamline regulatory processes.

iii. Fast track implementation of the reviewed MSE policy to demonstrate government's commitment to supporting MSEs.

4.4 Pillar: Agriculture for Industry

Agriculture is crucial to economic growth, accounting for 4% of global GDP and in some least developing countries, it can account for more than 25% of GDP.[28] Agriculture is the backbone of the Kenyan economy. Over 18 million Kenyans earn income from agriculture.[29]

Studies show that due to their forward and backward linkages, agro-industries have higher multiplier effects in terms of job creation and value addition. Agro-industry stimulates businesses well beyond the closest links with its direct input suppliers and product buyers. It has the potential to bolster a range of ancillary services and supporting activities in the secondary and tertiary sectors. Furthermore, since most agricultural products are bulky and perishable, many agro-industries and small-scale agro-processing enterprises must be located close to sources of raw materials. Their impact on rural off-farm activities, employment, and poverty alleviation in general is, hence, enormous.

According to the World Bank, agricultural development is one of the most powerful tools to end extreme poverty, boost shared prosperity, and feed a projected 10 billion people by 2050. Growth in the agriculture sector is two to four times more effective in raising incomes among the poorest compared to other sectors. It is for this reason that KAM believes that the Agriculture for Industry (A4I) program has the potential to create a tide that will lift all boats.

What is the producer problem?

Producers either do not know what to grow or where to sell. Additionally, they do not have certainty of return.

What is agro-processor problem?

Agro-processor does not have a predictable and consistent supply chain of produce from the perspective of price, quantity, and quality.

How to solve the problem:

Create a conducive ecosystem where the producer is linked to the off taker, in this case the agro-processor.

What is KAMs' role?

To build the ecosystem and provide a platform to ensure the producers and the off takers can come together and seamlessly transact.

28 https://www.worldbank.org/en/topic/agriculture/overview

29 https://kilimo.go.ke/wp-content/uploads/2022/03/ASTGS-Abridged-version.pdf

KAM has identified about 32 prospective A4I value chains (Figure 4.7).

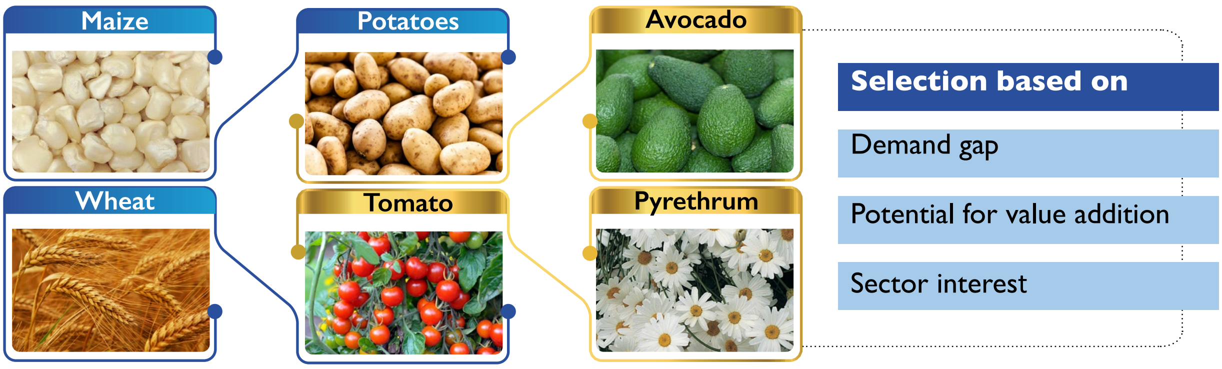
Figure 4.7: Prospective A4I value chains

Category	Products	Category	Products
Grains	• Maize • Wheat • Rice • Millet • Sorghum	Oil Seeds	• Palm oil • Sunflower • Soya Beans
Pulses	• Legumes • Lentils • Peas	Nuts	• Cashew Nuts • Macadamia Nuts • Ground Nuts
Vegetables	• Tomatoes • Potatoes	Spices	• Chillies • Black Pepper • Cardamom • Herbs
Fruits	• Sugar Cane • Mangoes • Pineapple • Avocado • Oranges • Strawberry	Beverages	• Tea • Coffee • Cocoa • Fruit based juice
Non-Food	• Pyrethrum • Cotton • Sisal	Livestock	• Hides and Skin
		Dairy	• Milk

Source: KAM

Out of the 32 value chains, six value chains have been selected to act as a pilot for the project (Figure 4.8).

Figure 4.8: Selected A4I value chains



Source: KAM

ACTIONS

To promote agro-industry value chains development, the government can consider implementing the following actions:

i. Create an ecosystem to implement outcomes of the sector deep dives and integrate the industry-led value chain.

ii. Develop the selected agro-industry value chains.

iii. Support the development of a supportive ecosystem.

5 CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Conclusion

"Steering economic growth through the manufacturing sector for common good" is the theme of MPA 2024. Industrialization is essential in alleviating developmental challenges that Kenya is facing. This includes achieving high and sustained economic growth to alleviate poverty and create jobs especially for the more than 800,000[30] young people that join the labour market every year, requiring decent and stable jobs. The country must also grow exports to earn foreign exchange and forestall sharp weakening of the Kenyan shilling against major global currencies such as the US$. However, growth of manufacturing sector in Kenya is constrained by the following:

- High regulatory burden
- High cost of energy, especially electricity
- Unstable policy environment especially taxation of industrial inputs
- Illicit trade
- Lack of long-term financing frameworks
- Transport and logistic supply chain costs

Kenya can turn the tide and increase manufacturing GDP contribution from 7.8% in 2022 to 20% by 2030 by taking advantage of export markets in the region and internationally; develop SMEs in manufacturing by providing solutions to their market and finance access challenges, and improving their governance frameworks as they grow to become sustainable businesses. KAM also considers A4I as a game-changer in the country's industrialization agenda by creating a tide that will lift all boats.

30 https://www.kiep.go.kr/aif/issueFileDownload.es?brdctsNo=342694&brdctsFileNo=84227

5.2 Policy recommendations

- The government can ease the regulatory burden on manufacturers by reviewing existing regulations to identify redundancies, inefficiencies, and outdated rules and realigning existing national government institutions and counties to remove overlapping and duplication of mandate.
- The government should consider reducing the cost of electricity per kWh to Ksh 10 for manufacturers.
- The government should ensure better coordination of all government agencies that are involved in the fight against illicit trade, preferably at the cabinet level.
- To ensure stable and predictable tax policies, the government should finalize and implement a pro-industry National Tax Policy; introduce a lower VAT rate for raw and intermediate products to reduce the cost of finished goods; ensure that levies, fees, or charges are proposed through the National Treasury and subsequently passed through national and county finance bills and supported by an impact assessment study.
- To reduce the cost of imported industrial inputs, the government should reduce the IDF rate from 2.5% to 1.5% for raw materials, intermediate inputs, industrial machinery and spare-parts of Chapters 84 & 85; remove excise duty and Export and Investment Promotion Levy on raw materials, intermediate inputs and packaging materials; and adhere to the philosophy behind the EAC CET structure.
- To enhance competitiveness of manufactured exports, the government should ensure that all taxes (custom duties, excise duty, levies, VAT) on raw materials are exempted/remitted to exporters and jointly with exporting manufacturers, develop pre-agreed key performance indicators.
- The government should give a 5-year tax moratorium to SMEs to enhance cashflow and foster sustainability beyond the initial 5-year period; enact and implement other pending MSME enabling legislations/bills such as the Start-up Policy and increase budgetary allocation to KIE to increase the size and number of loans offered.
- To promote agro-industry value chains, the government should create an ecosystem to implement outcomes of the sector deep dives and integrate the industry-led value chains; develop the selected agro-industry value chains; and support the development of a supportive ecosystem.

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MPA 2024: Steering economic growth through the manufacturing sector for common good

	PILLAR	AGENDA	ACTIONS
I	**Global Competitiveness**	Reduce regulatory burden	• **Regulatory review and reform:** o Review existing regulations to identify redundancies, inefficiencies, and outdated rules. o Realign existing national government institutions and counties to remove overlapping and duplicating mandate. o Simplify and streamline regulatory system to reduce compliance costs for businesses. o Adequate and responsive public participation processes on new and existing policies and laws. • **Harmonization and standardization:** o Harmonize regulations across different counties and realign existing fees, charges and levies imposed by various government agencies and regulatory bodies. o National government agencies and counties to create sharing platforms to facilitate compliance and reduce costs for businesses. • **Compliance support:** o Establish institutional procedures to handle compliance matters relating to industries such as closures and recalls and overall assisted support. o Develop compliance support mechanisms and corrective action plans collaboratively with manufacturers to avoid local brands being destroyed.
		Promote access to quality, affordable and reliable energy for manufacturing	• With average consumption growth of 14%, and keeping the case a revenue neutral with lower tariffs, industry to enjoy reduction by Ksh 2.4 kWh from 19.93 for CI & SC to 17.49. • KPLC to save Ksh 18.7B from cost of purchase through reduction of system losses, from the current 23% to 13%. The CI & SC will save Ksh 10.6B. • Utilization of geothermal plants should be optimized from the current 62% to a higher value to reduce average energy costs. • Time of Use (ToU) should be restructured to incentivize industry to operate during off-peak hours. • Thermal power plants should only be used as alternatives and not as base load plants to lower the cost of fuel. • Complete works at Mariakani 400/220kV substation and commissioning of the same to optimize use of 400kV line from Isinya to Mariakani. • Upgrade Lessos substation to improve power stability in the North Rift. • Complete Suswa-Narok-Kisii line to improve power stability in Western Kenya. • Decommission the 60MW thermal power plant at Muhoroni. • KPLC to improve power reliability indices, to provide confidence to manufacturers and investors. • Operationalize Net Metering Regulations. • Open captive power generation space by establishing a green channel for licensing of green energy generation. • Fast track regulations on power sales from generators directly to manufacturers • Lift the existing moratorium on new power plants to open negotiations for new capacity power plants and restore investor confidence. • Regularize establishment of the fuel price stabilization fund by establishing a management structure.

	PILLAR	AGENDA	ACTIONS
		Reduce transport and logistics costs	• Remove port charges for importing raw materials and intermediate products. • Sustain an efficient and seamless movement of containers at the ports by enhancing existing collaborative and coordination frameworks with port stakeholders. • Review KRC rail charges to match the road market rates to sustain uptake of SGR. • Prioritize construction of MGR and SGR sidings in industrial areas as well as rehabilitation of railway lines in industrial areas to enhance last mile connectivity and reduce cost of transport. • Simplify and promote Authorized Economic Operator accreditation processes to increase its uptake for enhanced import and export clearance processes. • Create a framework between roads agencies and county governments to enhance industrial road upgrading and maintenance.
		Sustain the fight against illicit trade	• Enhance IPR compliance through coordinated enforcement with line agencies that support the government in expanding its tax revenue base, promote health and safety of consumers, food security and innovation and value addition. • Intensify awareness on matters of illicit trade to targeted groups including users, producers, governments. • High level reporting (The Cabinet) of the interagency reports relating to illicit trade and adoption of the SOPs for the multi-agency team. • Address the underlying issues that incentivize illicit trade such as excise duty regime. • Focus on the implementation of the IPR Recordation Regulations that came into effect on 1st January 2023. • Enhance inter-agency collaboration, co-ordination, accountability, and transparency in the enforcement against illicit trade.
		Manufacturing centric counties	• Transformational manufacturing responsive County Annual Development Plans, policies, and budgets. • Support initiatives to harmonize county levies, fees, and charges by the county governments including the reintroduction of the County Governments (Revenue Raising Process) Bill and the County licensing (Uniform procedures bill) that provide mitigation mechanisms. • Support other emerging county advocacy engagements.
		Ensure stable and predictable tax policies	• Finalize and implement a pro-industry National Tax Policy. • Introduce a lower VAT rate for raw and intermediate products to reduce the cost of finished goods. • Any levy, fee or charges should be proposed through the National Treasury and subsequently passed through national and county finance bills and supported by an impact assessment study. • Revert Investment Deduction Allowance to the previous provision: 100% for Nairobi, Mombasa, and Kisumu and 150% outside of Nairobi, Mombasa and Kisumu. • Plant and Machinery under Chapter 84 & 85 should be VAT exempt to reduce cost of investment.
		Lower the cost of industrial inputs	• Reduce IDF rate from 2.5% to 1.5% for raw materials, intermediate inputs, industrial machinery and spare parts of Chapters 84 & 85. • Remove excise duty and Export and Investment Promotion Levy on raw materials, intermediate inputs, and packaging materials. • Adhere to the philosophy behind the EAC CET structure.

	PILLAR	AGENDA	ACTIONS
		Incentivize prompt payment culture	• Establish a Tax Refund Fund to cater for all refunds. • Both the national and county governments to create a three-year plan to clear pending bills. • Implement the 60-day payment period provided under the Public Procurement and Assets Disposal Regulations, 2020. • Fast track the enactment of the Prompt Payment Bill, 2021 to enhance compliance. • All government purchases to be done through IFMIS, thus enable faster reporting of local procurement, address prompt payment as well as enhance transparency and accountability.
		Avail affordable long-term credit to manufacturers	• Capitalize Kenya Development Bank to avail long-term finance to manufacturers. • Repurpose KIRDI to provide cost-effective research solutions to manufacturers.
		Enhance environmental and sustainable regulatory compliance	• Both the national and county governments to fully implement the National Sustainable Waste Management Act, 2022. • Finalize and fully operationalize the draft EPR Regulations, 2022 on solid waste management. • Provide incentives to industries that embrace principles of circular economy. • Promote ESG principles in both the public and private sectors. • Unpack the "carbon trading" for industries to create opportunities through favourable policies and regulatory frameworks.
		Pro-industry skill development	• Create a policy framework to allow coordinated formation of sector specific SSACs, harmonization of the same and operationalization of the National Skills Council. • Align and strengthen skills assessment bodies (Kenya National Qualifications Authority, National Industrial Training Authority, TVET Authority, Commission for University Education) to reduce duplication and operationalize recognition of prior learning and certification of industry experts. • Incentivize industry to support skills development (internships, attachments, work-based learning) through tax rebates and tax relief among other incentives. This includes operationalization of the NITA and TVETA Act, and operationalization of the TVET tax rebate for paid internships as per Finance Act, 2021. • Support the scaling up of CBET uptake in TVET institutions and industries, nationally, through increased awareness. • Strengthen collaboration between industry and training institutions through a framework that supports research, commercialization of innovations, and industry engagement. • Facilitate learners through increased funding for TVET students, including financial support during industrial attachments and internships. • Strengthen industry and training linkages through creation of a single labour database management system, upskilling and incentivizing of career/industry liaison officers. • Strengthen entrepreneurship and mentorship through incubation centres in TVET and higher learning institutions, commercialization of existing centers of excellence and linkages of the same to industry.

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2	**Export led Industrialization**	Drive an efficient domestic market	• Fast track the adoption and full implementation of the Local Content Policy and guidelines. • Enforce 40% or more threshold of public procurement from local manufacturers. • Monitor and evaluate the implementation of the BKBK strategy by the various MDAs vs the Preferential Procurement Master Roll. • Review, update and gazette the Preferential Procurement Master Roll by the Ministry of Investments, Trade, and Industry. • Capitalize KETRA's capacity to conduct investigations and enforcement of trade remedies. • Address domestic market access challenges, including prompt payment, illicit trade and duplicate fees and charges. • Address policy distortions that disadvantage local manufacturers against imports.
		Optimization of market access opportunities under EAC Common Market	• Comprehensively address policy misalignments that disadvantage Kenya's competitiveness in the EAC including tax policy and administration. • Drive agenda on Buy East Africa Build East Africa. • Drive implementation of the EAC Common Market. • Establishment of bonded warehouses in strategic markets, including, DRC and South Sudan. • Address Kenya's competitiveness challenges within EAC. • Address outstanding issues under the EAC CET 2022. • Comprehensive review of the EAC Rules of Origin to address market access challenges. • Fast track the implementation of the EAC NTB Act. • Promptly resolve non-tariff barriers and tariff barriers to trade affecting Kenya. • Develop country specific market penetration strategies to enhance Kenya's utilization of EAC opportunities and recent entrants into the EAC.
		Diversification and optimization of international market access in bilateral and multilateral agreements	• Advocate for AGOA extension by mid-2024 to at least at least 20 years. • Integrate market access component in the US-Kenya Cooperation agreement. • Export development program to increase Kenyan exports under EU-EPA and Kenya UK FTA. • Fast track finalization of the outstanding issues on the AFCFTA and TFTA. • Export readiness capacity building for manufacturers to take advantage of bilateral and multilateral trade agreements. • Enhance utilization and optimization of foreign diplomatic and commercial presence in addition to diaspora community to drive exports. • Value chain development and promotion to drive exports diversification, value added exports and entry into higher economically complex products. • Improve ease and cost of doing business in line with business reforms agenda to improve Kenya's competitive industrial performance to attract investment and improve exports competitiveness. • Fast track addressing non-tariff barriers and tariff barriers to increase market access. • Develop route to market ecosystem support to support market penetration and route to market systems for new exporters / exports. • Develop and implement country specific strategies on priority markets within Kenya's FTA scope.
		Enhance competitiveness of manufactured exports	• Ensure that all taxes (custom duties, excise duty, levies, VAT) on raw materials are exempted/remitted to exporters. • Jointly with exporting manufacturers, develop pre-agreed KPIs.

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3	**SME Development**	Market access	• Ministry of Investments, Trade and Industry to regularly update and implement the Preferential Procurement Master Roll in support to the BKBK Strategy. • Incentivize export-led growth for SMEs through subsidized standardization fees and subsidized cost of registration for IPR.
		Access to finance Governance	• Give a 5-year tax moratorium to SMEs to enhance cashflow and foster sustainability beyond the initial 5-year period. • Enact and implement other pending MSME enabling legislations/bills such as the start-up policy. • Increase budgetary allocation to the KIE to increase the size and number of loans offered. • Enact and implement the Local Content Bill, 2018. • Review and update the current MSE policy to align with the current government structure under the Ministry of Cooperatives and MSME Development. • Fast track implementation of the reviewed MSE policy.
4	**Agriculture for Industry**	Promote agro-industry value chains	• Create an ecosystem to implement outcomes of the sector deep dives and integrate the industry-led value chains. • Develop the selected agro-industry value chains. • Support the development of a supportive ecosystem.

Who we are

Kenya Association of Manufacturers (KAM) is the leading voice and representative of manufacturing and value-add industries in Kenya since its establishment in 1959.

KAM is a dynamic, vibrant, credible organization that unites industrialists and offers a common voice for businesses. The Association's key role is to advance a favourable policy environment for the manufacturing industry to achieve global competitiveness in addition to providing demand-driven services and support to manufacturing.

The Association represents over 1,300 companies classified in 14 different sectors. Additionally, KAM has 7 regional offices across the country.

Our Vision

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

Our Mission

To promote competitive and sustainable local manufacturing

Our Purpose

To create prosperity for the nation through industrialization

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