

TEN POLICY PRIORITIES FOR MANUFACTURING IN KENYA LAUNCH 5 JULY 2017, NAIROBI, KENYA

Event Report

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INTRODUCTION

On 5th July 2017, the [Kenya Association for Manufacturers](#) (KAM) in partnership with the [Overseas Development Institute \(ODI\)](#) launched a [10-point policy priority agenda for manufacturing](#) in Nairobi, Kenya. The aim of the launch was to engage with the major political parties in the upcoming Kenyan general elections (August 2017) and push for buy-in and cross-party support for the priorities identified in the agenda to transform manufacturing in Kenya.



Event summary

- There is currently a **window of opportunity** for Kenya in manufacturing. Rising wages in Asia, rebalancing in China, strong regional growth in Africa and improving policies and institutions in Kenya and across Africa are creating positive conditions for manufacturing.
- Kenya's leaders should embrace and **take action to transform the manufacturing sector**; but need to move fast, as other African countries will be looking to do the same.
- KAM wants political parties to **centralise the industrialisation agenda**. Industrialisation is essential to the growth of the Kenyan economy, and should be 'everyone's business', not just manufacturers.
- Party representatives stated the importance of manufacturing in their manifestoes, particularly for creating jobs in all counties. They recognise however, that **implementation is the most important part**. Getting policies right on paper is one thing, but they need constant review and monitoring for learning, in order to see what does and does not work.
- **The 10-point policy priority agenda offers a clear path and prioritisation of measures to support manufacturing in Kenya**. It provides seven priorities for public policy and regulation to improve manufacturing competitiveness:
 1. Guaranteeing a conducive **business environment** for manufacturing investment.
 2. Enforcing a **fiscal regime** that supports manufacturing.
 3. Improving access to **affordable land** for industrial development.
 4. Lowering the cost of **energy**, making energy more accessible and sustainable.
 5. Promoting access to **long-term financing** for industrial activities (all types of manufacturing).
 6. Supporting an **export push** for Kenya's manufactured products and improving access to markets for these products, while also promoting the 'Build Kenya, Buy Kenya' mantra.
 7. Developing the **skills** of Kenyan workers and supporting **innovation** to raise labour productivity in manufacturing.

The plan also outlines three proposals for 'how to make it happen':

 8. Creating a **fit-for-purpose public service**.
 9. Developing a **coordinated value chain approach**, including coordination within the private sector.
 10. Building **trust and reciprocity** for effective coordination and partnerships, including within the private sector and between the public and private sectors.

The two political parties in attendance both signed a ceremonial commitment to the 10 points in the policy priority agenda, pledging to incorporate them into future policies.



The policy priorities were developed through a collaborative exercise involving several different stakeholders, including:

- Office of the President of Kenya
- State Department for the Environment
- State Department for Trade
- Kenya Industrial Estates
- IDB Capital Kenya
- The Kenya Private Sector Alliance
- The Micro and Small Enterprise Authority
- TradeMark East Africa
- The Industrial and Commercial Development Corporation
- ODI
- KAM
- UK Department for International Development

INTRODUCTION AND CONTEXT SETTING BY DR NEIL BALCHIN, RESEARCH FELLOW AT OVERSEAS DEVELOPMENT INSTITUTE

The preparation of the KAM-SET *Ten policy priorities for transforming manufacturing and creating jobs in Kenya* involved a truly collaborative effort and is significant for the range of views and inputs from both the public and private sectors and donors that have shaped the plan to transform Kenya's manufacturing sector. At ODI, and especially within the [Supporting Economic Transformation \(SET\) programme](#), we recognise the importance of the manufacturing sector for industrialisation and economic transformation as well as the opportunities to develop manufacturing in Kenya and other African countries.



There is already a dynamism in African manufacturing which is not always sufficiently appreciated. Hence, opportunities such as these to talk about manufacturing are important.

Global perspectives on the importance of manufacturing

Manufacturing is an important driver of economic transformation and can be a significant source of jobs for many reasons. A few of these are:

- Moving labour out of low-productivity agriculture and into higher productivity manufacturing (and services) is crucial for structural change.
- Asian experiences show export-intensive manufacturing can generate significant numbers of jobs.
- Technological innovation in manufacturing can transform the economy – innovation and productivity growth in manufacturing is faster than in other sectors.

- Manufacturing is an important source of convergence in labour productivity between poorer and richer countries – productivity levels in modern manufacturing tend to converge to global best practices automatically.
- Light manufacturing can kick-start industrialisation (e.g. China and Bangladesh through the development of textiles industries).
- Stronger integration of African countries into manufacturing global value chains (GVCs) can foster technology absorption and skills transfer.
- Manufacturing growth builds resilience against external shocks through diversification out of commodities.

There is currently a window of opportunity for Kenya (and other African countries) in manufacturing. Rising wages in Asia, rebalancing in China, strong regional growth in Africa and improving policies and institutions in Kenya and across the African continent are creating positive conditions for manufacturing. Moreover, Sub-Saharan Africa (SSA) including Kenya is not yet close to Rodrik's 'manufacturing peak' – leaving significant room to develop manufacturing output. But the window of opportunity for African countries in labour-intensive manufacturing may be closing fast (possibly in the next 20-30 years) due to increasing mechanisation/automation. There is also strong competition from Asian countries (e.g. Vietnam, Cambodia, Bangladesh) who have similar or lower wages, higher productivity, better infrastructure, more skilled labour forces, and higher levels of integration into GVCs. Kenya's leaders should aim to embrace this opportunity and take action to transform the manufacturing sector. Kenya needs to act fast, as other African countries will be looking to do the same.

Why the 10-point policy priority agenda is important for Kenya

The launch of the 10 policy priorities is significant given the importance of manufacturing for economic transformation and job creation, and the need for Kenya to move quickly to capitalise on the narrow window of opportunity globally in labour-intensive manufacturing. The agenda is even more important if Kenya is to achieve the aspirations of its Vision 2030 and become a newly industrialised nation.

Kenya's recent performance in manufacturing

Several decades ago, Kenya had a relatively complex and substantial industrial sector by regional standards, but its neighbours have been catching up in recent years. The share of manufacturing in Kenyan gross domestic product (GDP) was only 9.2% in 2016 and this share has been declining in recent years. In fact, the share of manufacturing in GDP in 2015 was the same as in 1965.

Decisive and comprehensive action is required in order to reverse the decline and boost manufacturing production and employment in Kenya. Within the next 5 years, Kenya should look to double manufacturing production and employment and increase the share of manufacturing in GDP to 15%. This is feasible and there is good potential to further develop manufacturing in Kenya.

Based on an earlier SET study (Balchin et al., 2016) that compared selected African countries on a range of factors important for manufacturing investment (*Manufacturing FDI Potential Index*), Kenya is among the African countries with good underlying potential to attract manufacturing FDI (others are Ethiopia, Mozambique, Nigeria and Zambia).

Kenya's strengths and potential in manufacturing

Kenya has several important positive attributes which give it a strong foundation to further develop manufacturing:

- There are already some relatively well-established manufacturing industries, and others with potential.
- There is a significant food and beverage manufacturing industry, and global automotive giants such as Toyota have a presence in Kenya.

- Kenya has developed a significant garment industry that participates in GVCs, with a substantial presence in garment assembly supplying the United States market and significant garment exports to SSA. Indeed, Kenya is an important exporter of manufactures in the region – more than 70% of Kenya’s manufacturing exports go to other African countries.
- Around one quarter of total FDI into Kenya goes to the manufacturing sector, but this is still much lower than in Ethiopia (75%).
- Kenya is ranked higher than most regional counterparts in terms of the complexity of the country’s production structure (88th on the ECI for 2015), and 10th in Africa behind Tunisia, Angola, Botswana, South Africa, Egypt, Mauritius, Uganda, Namibia and Senegal.
- Kenya enjoys geographical advantages in terms of access to markets (strategic coastal access through ports) as well as proximity to a large and growing regional market in the East African Community.
- Labour productivity in manufacturing (measured as constant value-added per person employed) is comparatively high in relation to some Asian competitors (e.g. Bangladesh, Cambodia, Myanmar, Vietnam) and much higher than certain regional competitors such as Ethiopia or Rwanda.
- Kenya also fares well in terms of relative labour productivity in manufacturing (around 3.5 times higher than in other sectors).
- Overall, Kenya has a relatively favourable business environment and good quality infrastructure and logistics (Kenya is better ranked than the upper middle income and lower middle income country averages on these measures).
- Kenya’s performance on education indicators is also relatively strong compared to selected African comparators (but not against most Asian competitors).

Despite these positive factors, Kenya also faces challenges – such as the relatively high cost of electricity and various restrictions to trade (taxes, non-tariff barriers, regulatory processes) – that need to be overcome to expand manufacturing and move into higher value-added manufacturing activities. The 10 policy priorities discuss a range of these challenges and outline *how* they can be overcome.

In doing so, the 10-point plan offers a clear path and prioritisation of measures to support manufacturing in Kenya. It provides seven priorities for public policy and regulation to improve manufacturing competitiveness by:

1. Guaranteeing a conducive business environment for manufacturing investment.
2. Enforcing a fiscal regime that supports manufacturing.
3. Improving access to affordable land for industrial development.
4. Lowering the cost of energy, making energy more accessible and sustainable.
5. Promoting access to long-term financing for industrial activities (all types of manufacturing).
6. Supporting an export push for Kenya’s manufactured products and improving access to markets for these products, while also promoting the ‘Build Kenya, Buy Kenya’ mantra.
7. Developing the skills of Kenyan workers and supporting innovation to raise labour productivity in manufacturing.

The plan also outlines three proposals for ‘how to make it happen’:

8. Creating a fit-for-purpose public service.
9. Developing a coordinated value chain approach, including coordination within the private sector.
10. Building trust and reciprocity for effective coordination and partnerships, including within the private sector and between the public and private sectors.

This agenda comes at an opportune moment ahead of the upcoming elections in August 2017. Political parties are already emphasising manufacturing in their election manifestos and there are a number of areas in which the policy priorities are reflected in the manifestos of different parties. This launch aims to get cross-party support for these reforms and priorities, which can help to generate a coordinated focus on joint implementation to kick-start Kenya’s industrialisation.

OVERVIEW OF THE 10 POLICY PRIORITY AGENDA BY MS. PHYLLIS WAKIAGA, CHIEF EXECUTIVE OFFICER, KENYA ASSOCIATION OF MANUFACTURERS



I would like to thank the participants and political party representatives for their attendance, and those involved in the research and drafting of the 10 policy priorities.

We want political parties to centralise the industrialisation agenda. Industrialisation is essential to the growth of our economy. We want to take advantage of the window of opportunity that Dr Balchin has talked about, to build a strong and sustainable economy.

The 10 priorities are a 'how-to' guide and, importantly, they recognise informal and cottage industries. We want the economy to grow, jobs to increase and overall prosperity

for Kenyans. **Industrialisation should be everyone's business, not just manufacturers.**

KAM ADVOCACY DIRECTION ON THE 10-POINT PRIORITY AGENDA BY MS. FLORA MUTAHI, CHAIRPERSON, KENYA ASSOCIATION OF MANUFACTURERS

Manufacturing is the backbone for developed countries, and key to how they build revenues for their people. Kenya is thriving and moving towards the goals of the Vision 2030 but more needs to be done. The logic behind the 10 policy priorities is to have interventions in the manufacturing sector to push it forward. They represent quick and easily attainable actions for different role players. We cannot just speak about innovation and development – we need to base it within industrialisation.

Manufacturing is an expensive exercise and we need lots of support as manufacturers. We need to spur on manufacturing competitiveness so Kenyan goods can compete regionally and internationally. This needs a number of things, such as long term cheap funding, productive labour, keeping costs of raw materials low, expanding markets, economies of scale and an ability to move goods across the world. An export push is particularly important, not just regionally but globally too. We need to take pride in the products we produce. Certain party manifestos have already adopted some of the policies but remain vague on other crucial ones. We hope the 10 policy priorities will be taken on board in full; manufacturing is everybody's business but there is a lot to be done to ensure success in Kenya.



COMMENTS BY PARTY REPRESENTATIVES

Ekuru Aukot, Party Leader, Third Way Alliance Kenya

There are lots of similarities between the 10 policy priorities and the Third Way Alliance's agenda. We discuss manufacturing in our agenda and we have radical proposals to widen the tax base. We also focus on other areas mentioned in the agenda including education, agro-processing, textiles and industry. 'Build Kenya, Buy Kenya' is also a key priority.

There is a need for stewardship and a new strategic direction for Kenya to develop manufacturing and to drive the economy.

We see the following major issues right now: 1) there is no collaboration between the two levels of government, which increases the need for consultation and agreement; and 2) there is no deliberate effort to interconnect counties, even when building highways. There is a need to provide infrastructure for manufacturers and reliable water to all county industrial parks. In order to support manufacturing we want to liberalise power generation and distribution to increase competition in the power sector in Kenya; reduce the corporate tax rate to 10% for Kenyan manufacturers operating in industrial parks; introduce a 25% duty on exports of raw materials and intermediate goods; eliminate illicit imports and counterfeit goods; ban mitumba; provide rapid tax refunds; eliminate corruption; reduce the fuel levy to decrease the cost of transport; and provide capital deductions. We want to create manufacturing in all 47 counties of the country.

Oduor Ong'wen, Executive Director, ODM, National Super Alliance (NASA)

Almost all of the 10 policy priorities are reflected in some way in NASA's main manifesto and implementation strategy. Policies can be put on paper but implementation is the most important part. Policies need constant review and monitoring for learning in order to see what does and does not work. When considering priorities, we need to ask questions. How many jobs will be created? How much local material will be used? How much foreign exchange is going to be brought into the country?

Historically, there has been much emphasis on attracting FDI in Kenya, but little emphasis on supporting local manufacturers. NASA wants to level the playing field for local manufacturers and foreign investors. We will ask that foreign investors meet specific entry criteria in terms of job creation, the use of local materials, foreign exchange earnings and technology transfer.

Kenya is becoming a consumer nation. If you don't produce, someone else will. Therefore, we need a fiscal regime that supports manufacturing, and an environment that supports local manufacturing. Youths need to be



equipped with entrepreneurial skills, and then they can be provided with grants to develop businesses once they have established a skills base. Those who succeed can be given credit with a low default rate. We need to tackle the issue of borrowing and corruption. NASA will require that public servants must sign a code of conduct and commitment not to do business while in government. The NASA manifesto wants to ensure Kenya develops skills at all levels. NASA will also create industrial parks in every county.

Signing commitment forms to incorporate the agenda as political parties

Following the presentations, party officials from Third Way Alliance Kenya and NASA signed a ceremonial commitment to the 10 points in the policy priority agenda.



MEDIA COVERAGE

KAM wants the law capping interest on loans reviewed, [Business Daily, 5 July](#)

Kenyan manufacturers launch policy agenda for industrialization, [XinhuaNet, 5 July](#)

Manufacturers unveil polls wish list to party candidates, [The Standard, 6 July](#)

Manufacturers table post-election wish list, [Mediamax, 6 July](#)

Manufacturers target to contribute 15% to countrys GDP, [The Star, 6 July](#)

Kenyan manufacturers launch policy agenda for industrialization, [Coastweek.com, 7 July](#)

KAM urges political parties to encourage investments, [KBC Channel 1, 7 July](#)

Supporting Economic Transformation through Informal Economy, [Liex Consult, 10 July](#) (blog)

Kenya needs more of EABL's Sh15bn Kisumu beer plant investment, [Business Daily, 16 July](#)