SUPPORTING ECONOMIC TRANSFORMATION

MANUFACTURING IN KENYA: FEATURES, CHALLENGES AND OPPORTUNITIES

A scoping exercise

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Acknowledgements

This paper has been prepared by Anzetse Were (a Kenyan economist and consultant) and commissioned by the Supporting Economic Transformation Programme. It aims to inform a roundtable discussion on Kenyan manufacturing in Nairobi on 29 August 2016. All views expressed are those of the author alone and do not reflect DFID or ODI views.

from the British people

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ACTIF	African Cotton and Textile Industries Federation
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
B2B	Business-to-Business
COMESA	Common Market for East and Southern Africa
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
DSE	Dar es Salaam Stock Exchange
EABL	East African Breweries Ltd
EABLi	EABL International Ltd
EAC	East African Community
EADB	East African Development Bank
EAML	East African Maltings Ltd
EPA	European Partnership Agreement
EPC	Export Promotion Council
EPZ	Export Processing Zone
EPZA	Export Processing Zone Authority
ERC	Energy Regulatory Commission
EU	European Union
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Goods
GDC	Geothermal Development Company
GDP	Gross Domestic Product
IDBC	Industrial Development Bank Capital
ICDC	Industrial and Commercial Development Corporation
ICJ	International Commission of Jurists
IFC	International Financial Corporation
IT	Information Technology
JICA	Japan International Cooperation Agency
KAAA	Kenya Agri-Business and Agro-Industry Alliance
KAM	Kenya Association of Manufacturers
KEBS	Kenya Bureau of Standards
KENAS	Kenya Accreditation Services
KenGen	Kenya Electricity Generating Company
KEPSA	Kenya Private Sector Alliance
KEPHIS	Kenya Plant Health Inspectorate Service
KETRACO	Kenya Electricity Transmission Company
KICD	Kenya Institute of Curriculum Development
KIE	Kenya Industrial Estates Limited
KIPI	Kenya Industrial Property Institute
KIPPRA	Kenya Institute of Public Policy and Analysis
KIRDI	Kenya Industrial Research and Development Institute
KITP	Kenya Industrial Transformation Programme
KNBS	Kenya National Bureau of Statistics
KNCCI	Kenya National Chamber of Commerce and Industry
KNEB	Kenya Nuclear Electricity Board
KNTC	Kenya National Trading Corporation
KPC	Kenya Pipeline Company
KRA	Kenya Revenue Authority
MITC	Ministry of Industry, Trade and Cooperatives
MoEP	Ministry of Energy and Petroleum
MSE	Micro and Small Enterprise

MSEA	Micro and Small Enterprise Authority
MSME	Micro, Small and Medium-Sized Enterprise
NESC	National Economic and Social Council
NITA	National Industrial Training Authority
NOCK	National Oil Corporation of Kenya
NSE	Nairobi Securities Exchange
NTB	Non-Tariff Barrier
ODI	Overseas Development Institute
PCPB	Pest Control Products Board
PIN	Personal Identification Number
PPP	Public–Private Partnership
R&D	Research and Development
REA	Rural Electrification Authority
SADC	Southern African Development Community
SET	Supporting Economic Transformation
SEZ	Special Economic Zone
SME	Small and Medium-Sized Enterprise
UDV	United Distillers Vintners
UN	United Nations
US	United States
USE	Uganda Securities Exchange
VAT	Value-Added Tax

EXECUTIVE SUMMARY

This document looks at the features, challenges and opportunities in manufacturing in Kenya. The paper assesses the state of manufacturing, key actors in the manufacturing space and factors that affect manufacturing positively and negatively; analyses the informal manufacturing sector; and closes by looking at key opportunities for manufacturing and industry going forward.

Key questions for the roundtable could include the following:

- How can the manufacturing and industry sector, both formal and informal segments, be more effectively mapped? At the moment, disparate information and data exist on the sector, which makes it difficult to formulate effective strategy on the same.
- In terms of management, the manufacturing sector has a significant representation of family-owned businesses. What are the strengths and constraint of this business model? How do family firm models affect the sector? What can be done to make family firms more efficient, productive and profitable?
- The sector seems to be wary of financing options outside of debt options; this constrains its growth. What can be done to encourage the sector to seriously consider alternative financial vehicles for growth? How can such alternative financial partners be brought into the conversation on investment in manufacturing and industry?
- Informal manufacturing and industry have a strong presence in Kenya's informal sector. How can informal firms be made more productive and profitable? Should the sector be formalised? If so, how can formalisation be incentivised? Who are the key parties that need to be engaged to drive the informal manufacturing and industry sector forward?
- Kenya has a vibrant technology sector, widely considered to be the leading one in Africa. How can this sector better interface with the manufacturing sector? What problems in manufacturing can the local tech scene solve? How can the manufacture of tech products be strengthened in Kenya?

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1. INTRODUCTION

The Overseas Development Institute (ODI) commissioned this research and the preparation of this document in June 2016. The consultant conducted research into the manufacturing sector in Kenya and the document will inform a roundtable meeting held by ODI on Kenyan manufacturing in August 2016. The meeting will focus on examining what further activities the Supporting Economic Transformation (SET) programme could undertake in the coming year and this paper represents an input into this thinking. Its content comes primarily from one-on-one interviews with different stakeholders in the manufacturing sector based in Nairobi, Kenya.

Key objectives of this scoping study were to study the following:

- key features of the manufacturing sector in Kenya: formal and informal segments
- key actors, activities and power relations in the manufacturing sector
- the main recent policies pertinent to manufacturing
- key financing and financiers (domestic and foreign) of manufacturing in Kenya
- key challenges in the manufacturing sector (e.g. skills, management, infrastructure, macro policy, political economy, investment climate, which ones are perceived to be greatest)
- key opportunities moving forward with a focus on management, financing and addressing informality

We interviewed:

- the Ministry of Industry, Trade and Cooperatives (MITC)
- development finance institutions
- financiers
- manufacturing associations
- informal industry and manufacturing
- individual manufacturing firms
- governmental and non-governmental research institutions and think-tanks

Most of the content of this paper comes from the information given during these interviews. Desktop research filled in the gaps in some areas; this is clearly referenced.

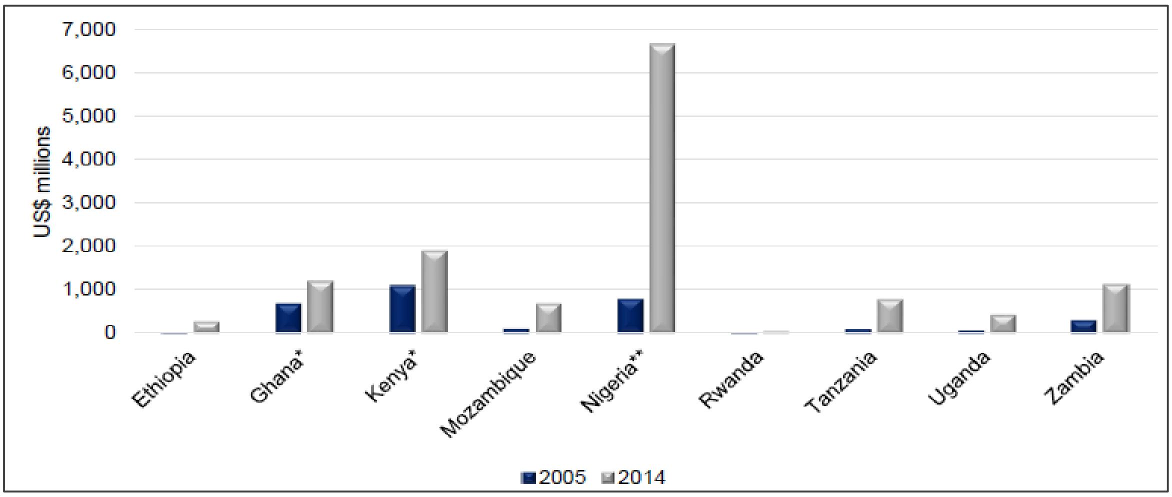
2. THE STATE OF MANUFACTURING IN KENYA

The manufacturing sector in Kenya grew at 3.5% in 2015 and 3.2% in 2014, contributing 10.3% to gross domestic product (GDP) (KNBS, 2016). On average, however, manufacturing has been growing at a slower rate than the economy, which expanded by 5.6% in 2015. This implies that the share of manufacturing in GDP has been reducing over time. As a result, it can be argued that Kenya is going through premature deindustrialisation in a context where manufacturing and industry are still relatively under-developed. Kenya seems to have ‘peaked’ at a point much lower than in much of Asia.

2.1 MANUFACTURING IN KENYA IN COMPARISON WITH OTHER AFRICAN COUNTRIES

In terms of growth of the value of manufacturing exports, Nigeria is a leader in Africa (Figure 1).

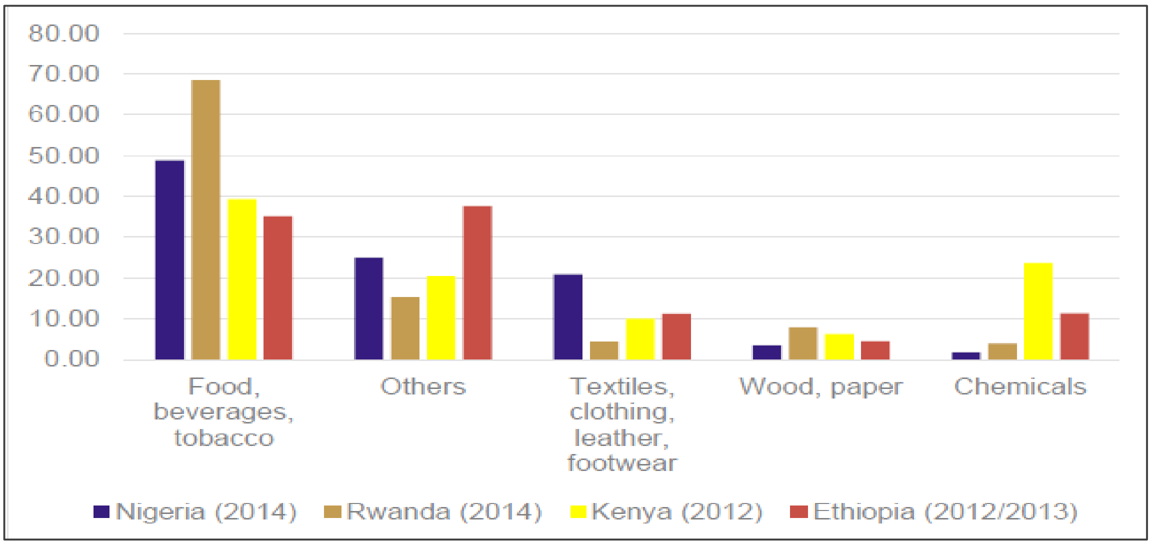
FIGURE 1 – TOTAL VALUE OF MANUFACTURING EXPORTS TO THE WORLD, 2005 AND 2014 ($ MILLIONS)



Source: ODI (2016).

A study by ODI published earlier this year looked at data from Ethiopia, Kenya, Nigeria and Rwanda and the distribution of gross value addition by manufacturing subsector (Figure 2).

FIGURE 2 – DISTRIBUTION OF GROSS VALUE ADDITION BY MANUFACTURING SUBSECTOR (%)



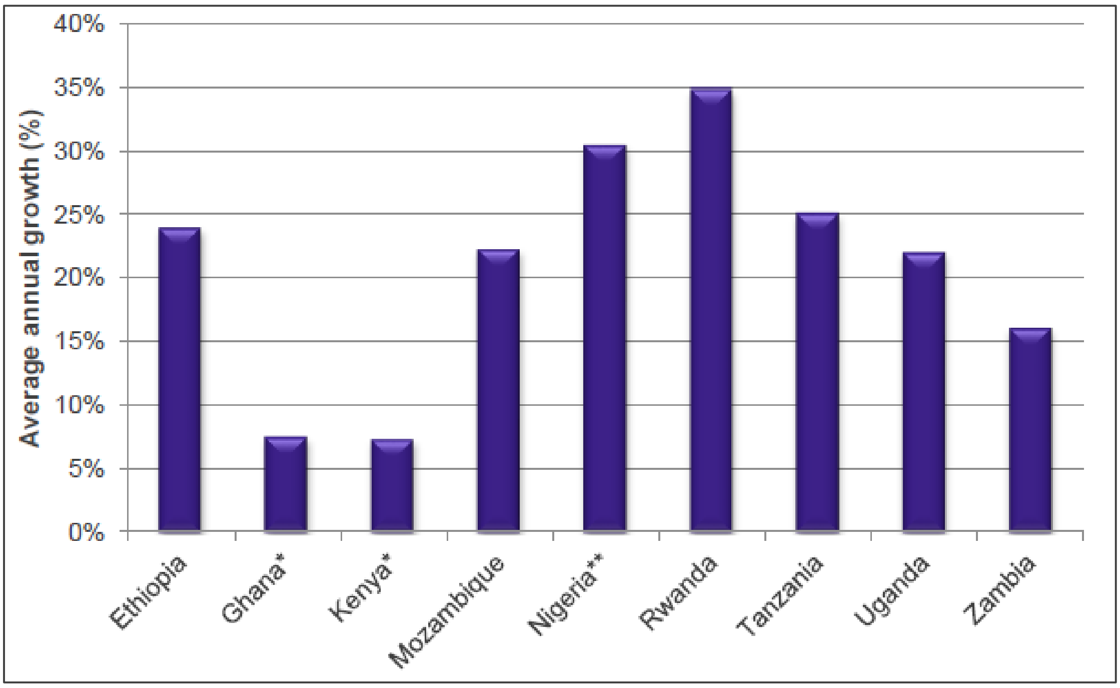
Source: ODI (2016).

Food and beverages (usually a domestically-oriented industry) is the dominant manufacturing sector (40–70%), followed by textiles and clothing, which is more likely to be export-oriented. The 'other' category is a mixed bag; for example, 6% for cement in Nigeria, 12% for machinery and transport equipment in Kenya and 5% for non-metallic mineral products in Rwanda (ODI, 2016).

2.2 MANUFACTURING IN KENYA IN COMPARISON WITH COUNTRIES IN EAST AFRICA

In terms of regional comparison, with other East African countries, interviewees were of the view that Kenya has the largest and most sophisticated manufacturing sector. However, there is an appreciation of the fact, although the manufacturing sector in Kenya is the largest, in terms of growth trends other countries in East Africa are growing much faster. Data from ODI support this position (Figure 3).

FIGURE 3 – AVERAGE ANNUAL GROWTH IN THE VALUE OF MANUFACTURING EXPORTS TO THE WORLD, 2005–2014 (%)



Source: ODI (2016).

As Figure 3 shows, the manufacturing sector in Kenya is growing far slower than those in Ethiopia, Rwanda, Tanzania and Uganda. If this trend continues, other East African countries will begin to dominate manufacturing in the region. Further, governments in East Africa seem to be putting more pronounced effort into building manufacturing through the creation of industrial parks (Ethiopia) and making land available for manufacturing, particularly labour-intensive manufacturing. Uganda and Tanzania are also determinedly positioning themselves as investment destinations for manufacturing in the region. Kenya does not seem to be echoing this impetus.

While Kenya remains an attractive investment destination for manufacturing, other countries are aggressively courting such investment. For example, one interviewee shared that they were working with a client in 2015 looking at setting up a manufacturing plant in either Kenya or Ethiopia. The client ended up choosing Ethiopia because there was too much bureaucracy and corruption in Kenya, as well as great difficulty in getting the right information on requirements linked to building manufacturing plants in the country. Ethiopia was more straightforward in terms of process and ethical issues.

The good news from a regional perspective is related to the fact that the East African Community (EAC) is aligning itself as the next global manufacturing destination. Such regional initiatives can be leveraged by the manufacturing sector in Kenya and catalyse its growth. There is clearly room for growth, evidenced in the fact that the combined manufacturing sector in the seven countries in Eastern Africa as a whole is only about one-third the size of the manufacturing sector in Vietnam, which has a population one-third the size of the seven countries (AfDB, 2014).[1]

2.3 GLOBAL DYNAMICS AND MANUFACTURING IN KENYA

Key global dynamics that are informing manufacturing in Kenya include the reorientation of the Chinese economy from being export-driven to being consumer-driven. Further, the Brookings Institution estimates that China will shed about 85 million jobs in manufacturing between 2016 and 2030; this presents an

[1] Burundi, Ethiopia, Kenya, Rwanda, Seychelles, Tanzania and Uganda.

opportunity for Kenya to absorb these jobs. That said, China still has excess capacity in manufacturing and a great deal of unutilised capacity, and, although wages in China are rising, cheaper labour in Kenya is not nearly as productive. Further, China is automating quickly as labour gets more expensive. Thus even fewer people will be required in the manufacturing process in China.

Second, productivity in manufacturing globally is growing faster than demand in manufacturing, which means the rate of growth at which consumers are buying manufactured products at a global level is slower than that of manufacturing productivity, which will likely lead to an oversupply of manufactured products from a global perspective.

Third, low interest rates in other parts of the world, such as Asia, translate to an ability of the manufacturing sector in those countries to access credit at more affordable levels, thereby catalysing the development of the sector abroad.

Additionally, given the level of manufacturing capacity at the global level, particularly in Asia, it will be harder for African countries – Kenya included – to use manufacturing to pull millions out of poverty. This is because the manufacturing sector will have to contend with stiff competition from global players.

Finally, Brexit is an emerging issue with which Kenya manufacturing will have to contend. One direct impact of Brexit is the depreciation of the British pound. As the value of the pound falls, manufactured exports to the UK will be more expensive for British consumers, which can negatively inform purchase. Further, if Brexit is linked to a slowdown in the UK economy, Kenya can expect lower levels of foreign direct investment (FDI) from the UK in general, and this will affect the manufacturing sector as well. However, the positive news is that inputs from the UK will be cheaper.

2.4 FORMAL AND INFORMAL SECTORS

Manufacturing in Kenya is characterised by activity from formal and informal firms. A few large formal enterprises and small and medium-sized enterprises (SMEs) play an important role in manufacturing, as does the informal sector. Section 6 looks at the informal sector in more detail.

2.5 STRONGEST SUBSECTORS

Overall, it should be noted that sector strength is informed by the size of the market, both local and external. Some interviewees were of the view that there was insufficient information and data to determine the strength of the different subsectors. However, other interviewees identified the following as the strongest subsectors in formal manufacturing: agro-industry (food and beverages), textiles in the Export Processing Zones (EPZs), pharmaceuticals, sectors related to construction, such as cement and metals, and high-end furniture. According to an interview with a representative of the Kenya Institute of Public Policy and Analysis (KIPPRA), in the past five years average growth in real terms in manufacturing has been at about 3.4%; food and beverages has been growing at about 6% and non-food has been growing at about 2%. Food and beverages are closely linked to agro-processing.

The strongest subsectors in informal manufacturing were identified as furniture-making and metal works. The former was thought to be strong because of the availability of raw materials. The strength of metal works was linked to the manufacturing of farming-related machinery in rural areas as well as the growth in construction in the country.

2.6 WEAKEST SUBSECTORS

In formal manufacturing, sectors identified as the weakest were linked to complex manufacturing, such as vehicle assembly, electronics and other technology-related manufacturing. Lack of data meant there was no clear idea as to the weakest subsector in informal manufacturing. There was a general sense that informal manufacturing outside of furniture and metal works was weak.

3. KEY ACTORS IN MANUFACTURING

Key actors inform the activity and development of the manufacturing sector. This section lists and describes each and how it links to manufacturing.

3.1 KEY GOVERNMENT BODIES

Government ministries, departments and agencies that play an important role in manufacturing in Kenya are as follows:

The **Ministry of Industry, Trade and Cooperatives:** MITC aims to create an enabling environment for a globally competitive and sustainable industrial, enterprise and cooperative sector through an appropriate policy, legal and regulatory framework. The ministry is currently strongly leading the industrialisation agenda with a focus on textiles, leather and agro-processing.

Government energy bodies are responsible for the development, provision, supply and transmission of electricity to the manufacturing sector. These include the Ministry of Energy and Petroleum (MoEP), the Energy Regulatory Commission (ERC), Kenya Electricity Generating Company (KenGen), Kenya Power and Lighting Company, the Rural Electrification Authority (REA), Kenya Electricity Transmission Company (KETRACO), Geothermal Development Company (GDC), Kenya Nuclear Electricity Board (KNEB), Kenya Pipeline Company (KPC), National Oil Corporation of Kenya (NOCK) and the Kenya Petroleum Refinery Ltd.

Kenya Revenue Authority (KRA) is responsible for collecting revenue on behalf of the government of Kenya and has a customs services department. This government body currently does not have the capacity to enforce tax compliance, particularly with regard to informal industry and manufacturing.

According to MITC, the most relevant bodies are as follows:

- The **Micro and Small Enterprise Authority (MSEA)** has a mandate to promote the development of competitive and sustainable micro and small enterprises (MSEs). It aims to spark industrial revolution by undertaking policy reforms and implementing targeted programmes and activities in the MSE sector through the following:
  - creating a conducive working environment for MSEs
  - enhancing MSEs' access to markets
  - providing suitable facilities and funding for MSEs
  - enhancing entrepreneurial and technical skills in the MSE sector
  - developing and promoting gender equality and the participation and inclusion of vulnerable groups
  - establishing and implementing legal, regulatory and operational mechanisms for the MSE sector
  - enhancing coordination of sector players and facilitating integration of programmes and activities relating to MSEs
  - establishing proper management and mobilisation of financial resources

  There is a need ensure MSEA interfaces better with the manufacturing sector, particularly the informal segment.

- The **Kenya Institute of Curriculum Development (KICD)'s** core function is to conduct research and develop curricula for all levels of education below university. It also develops print and electronic curriculum support materials, initiates and conducts curriculum-based research and organises and conducts in-service and orientation programmes for curriculum implementers. The institution also evaluates, vets and approves the curricula and curriculum support materials for basic and tertiary education, as well as offering curriculum-based consultancy services in basic and tertiary education and training. The focus for the manufacturing and industry is the development of a curriculum that meets the skilled labour needs of the sector.

- **KenInvest** is responsible for facilitating the implementation of new investment projects, providing after care services for existing investments and organising investment promotion activities both locally and internationally.
- **Industrial Development Bank Capital (IDBC)** has a mandate to provide medium- and long-term finance and accompanying financial and corporate advisory services to medium- and large-scale industrial enterprises; it also provides working capital, machinery and finance.
- **Kenya Industrial Property Institute (KIPI)** has a mandate to administer industrial property rights, provide technological information and training in industrial property rights and promote inventiveness and innovation.
- **Kenya Industrial Research and Development Institute (KIRDI)** conducts research and development (R&D) in all industrial and allied technologies, including mechanical, civil, electronics, chemical engineering, energy, environment and commodity technologies.
- **Kenya Bureau of Standards (KEBS)** has a mandate to develop and enforce the standards of industrial and manufactured products. KEBS' approval of a product increases its credibility. However, Kenyans still purchases products from the informal sector without the KEBS seal.
- **Brand Kenya Board** is tasked with identifying and refining the key attributes of Kenya that contribute positively to the country's image and reputation. Its goal is to enhance these characteristics and create an authentic, credible brand for the country that establishes its uniqueness in the global arena. There is a need to work with Brand Kenya to better incorporate manufactured goods as a key part of the Kenyan brand.
- The **Export Processing Zone Authority (EPZA)** is responsible for attracting and retaining export-oriented investments and trade and issues licences for companies directly involved in export-oriented business activities in manufacturing or processing
- **Kenya Industrial Estates Limited (KIE)** seeks to facilitate the development and incubation of micro, small and medium-sized enterprises (MSMEs) countrywide by establishing industrial parks, providing credit and business development services in a sustainable manner
- The **Export Promotion Council (EPC)** promotes and diversifies Kenyan exports and provides information on potential market opportunities.
- **Kenya Accreditation Services (KENAS)** is charged with the provision of accreditation services that promote fair trade, health and safety as well as protection of the environment. Accreditation services include certification bodies, inspection bodies and laboratories (testing, calibration, medical/clinical, veterinary). For manufacturing and industry, the focus is to ensure activity in the sector is properly accredited.
- **Kenya National Trading Corporation (KNTC)** is wholly owned by the government through MITC. It has specific objectives, the most important of which is promoting and growing wholesale and retail trade through its distribution network. KNTC can be leveraged to distribute manufactured products.
- **Kenya Institute for Public Policy Research and Analysis (KIPPRA)** conducts research and analysis on public policy issues with the goal of providing advice to policy-makers. It has a Productive Sector Division under which manufacturing falls.

Other important bodies are as follows:

- **Kenya National Bureau of Statistics (KNBS)** is the principal agency of the government for collecting, analysing and disseminating statistical data in Kenya.
- The **National Treasury** determines policies that affect the sector, such as tax policies.
- The **Ministry of EAC, Labour and Social Protection** promotes trade and investment in the EAC and EAC market integration.
- **Kenya Ports Authority** informs on the entry and exit of goods in Kenya.

Other relevant ministries, departments and agencies are:

- The **National Economic and Social Council (NESC)** is an advisory body to the government on policies required to accelerate social and economic development of the country.

- The **National Industrial Training Authority (NITA)** deals with management and supervisory training, apprenticeship training, craft training, technician training (skills upgrading), National Industrial Attachment Programmes and curriculum development for industry.
- **Kenya Plant Health Inspectorate Service (KEPHIS)** is a government parastatal responsible for assuring the quality of agricultural inputs and produce; it is closely linked to agro-industry.
- The **Pest Control Products Board** aims to provide an efficient and effective regulatory service for the importation, exportation, manufacture, distribution, transportation, sale, disposal and safe use of pest control products and to mitigate potential harmful effects on the environment
- The **Industrial and Commercial Development Corporation (ICDC)** has a mandate of providing finance and equity capital for expansion and development of new and existing medium-sized private sector industrial and commercial enterprises in Kenya.

3.2 KEY MANUFACTURING FIRMS

According to interviewees, key firms in the sector are those in food and beverages, as well as Fast Moving Consumer Goods (FMCG) manufacturers. According to *Africa Business* magazine, manufactures in Kenya that featured on the list of the biggest firms in East Africa were as follows, in order from the largest.

East African Breweries Ltd (EABL) is East Africa's largest alcohol beverage company. In July 2016, EABL recorded a 7% profit growth for the financial year ending 30 June 2016, at KES 10.3 billion compared with KES 9.5 billion in the previous financial period. The largest shareholder of EABL is Diageo Plc. EABL's primary listing is on the Nairobi Securities Exchange (NSE), and it is cross-listed on the Uganda Securities Exchange (USE) and the Dar es Salaam Stock Exchange (DSE). In terms of ownership, the majority is held by Diageo & Associate Companies (50.03%) then others via NSE, USE and DSE (49.97%). Member companies that comprise EABL are:

- *Kenya Breweries Ltd,* Nairobi, Kenya: 100% shareholding. This flagship company of the group, established in 1922, has been the leading brewer in Kenya since it began operations. The company's core business is brewing of beer and bottling of non-alcoholic malt beverages.
- *Central Glass Industries Ltd,* Nairobi, Kenya: 100% shareholding. Established in 1987 to produce glass containers in flint, amber and green to internationally required standards, this company is the leading container glass manufacturer in the East African region. it exports more than 50% of its products to countries such as Uganda, Tanzania, Ethiopia, Rwanda, Burundi, Eritrea, Seychelles, Re-Union, Mauritius, Zimbabwe, Zambia and Angola.
- *Uganda Breweries Limited (UBL),* Port Bell, Uganda: 98.2% shareholding. This has been a leading brewer in Uganda since it began operations in 1946.
- *United Distillers Vintners (UDV) Kenya Ltd*, Nairobi, Kenya: 46.32% shareholding. UDV was established in 1962. UDV Kenya Ltd is majority owned by Diageo plc, which holds a 53.68% share. EABL manages the company on behalf of Diageo. Its core business is the manufacture, marketing and sales of spirit-based alcoholic beverages. It also imports and distributes premium spirit brands from the parent company.
- *International Distillers Uganda Ltd*, Port Bell, Uganda: 100% shareholding. This company was acquired in June 2012 from Selviac Nederland, and is a subsidiary of Guinness UDV. The company manufactures, markets and sells spirits in Uganda.
- *East African Maltings Ltd (EAML) Kenya*, Nairobi, Kenya: 100% shareholding. EAML Kenya plays a vital role in supplying quality brewing raw materials in the form of malt, barley and sorghum to the brewing units of the EABL group in Kenya.
- *EAML Uganda*, Kampala, Uganda: 100% shareholding. EAML Uganda plays a vital role in supplying quality brewing raw materials in the form of malt, barley and sorghum to the brewing units of the EABL group in Uganda.
- *EABL International Ltd (EABLi)*, Nairobi, Kenya: 100% shareholding. EABLi (formerly EABL Venture) was set up in 2009 to focus on building the spirits business in Eastern Africa and drive geographic expansion into new markets such as the Great Lakes Region. EABLi operates in Southern Sudan, Rwanda, Burundi and the Democratic Republic of Congo (DRC) through third

party supply, exports and covering the spirits portfolio for both domestic and duty-free sales as well as beer sales in the markets where the group does not have local operations.

- *Serengeti Breweries Ltd*, Dar es Salaam, Tanzania: 51% shareholding. This is the second largest beer company in Tanzania, with a market share of approximately 28% of the Tanzanian branded beer sector. The company was incorporated in 1988 as Associated Breweries Limited. Its name was changed to Serengeti Breweries Limited in 2002. EABL acquired 51% of the issued share capital in October 2010.
- *East African Beverages South Sudan Ltd*, Juba, South Sudan: 99% shareholding. This company commenced operations in 2013 with the set-up of a depot in Juba from which it would supply beer and spirits to its distributors.

British American Tobacco Kenya has as its parent company the British American Tobacco Group. It is a public listed company on the NSE, with approximately 40% of the shares owned by the public. The six months ending 30 June 2016 profit after tax was KES 2.15, billion versus KES 1.94 billion a year ago.

Bamburi Cement Ltd is the largest cement manufacturing company in the region and its Mombasa plant is the second largest cement plant in sub-Saharan Africa. Bamburi Cement is a member of LafargeHolcim. Profit before tax in 2015 was KES 8.5 billion.

Athi River Mining is a cement manufacturer with operations in Kenya, Rwanda and Tanzania. It has posted a full-year net loss of KES 2.9 billion for the 12 months to December as a result of high costs resulting from expensive short-term loans.

Other key manufacturing firms that are well known are as follows:

- **Chandaria Industries Ltd** manufactures and markets tissue, paper and hygiene products in Kenya, Tanzania and internationally. The company offers toilet rolls, serviettes, facial tissues, hankies, pocket tissues, kitchen towels, various purpose towels, aluminium foils, cling films, cotton wools, hand sanitisers, sanitary pads, dispensers, medispread rolls, toilet seat cover liners, liquid hand wash products and multi-purpose detergents. It also provides napkins and sanitary pads, egg trays, wrapping papers, counter rolls, gum/duka tapes, photocopying paper and spaghetti. In addition, the company produces tissue and paper products from recyclable paper. It also engages in real estate investments business. Chandaria Industries Ltd was founded in 1947 and is based in Nairobi, Kenya
- **Bidco Africa Ltd** manufactures oils and fats, baking products, detergents and laundry soap, personal care and beauty products and animal feeds.
- **Athi Steel** manufactures steel, cement and industrial gases.
- **Crown Paints Kenya Ltd** manufactures decorative, automotive, industrial and road marking paints; intermediate products such as polyfilla; primers and undercoats; and thinners and adhesives.
- **Sameer Group** is a conglomerate, part of which manufactures tea, coffee, dairy products and tyres.
- **Brookside Dairy Ltd** manufactures dairy products.
- **HACO Industries** manufactures pens, plastic shavers, lighters, stationery, food products, hair care, skin care and home care products.
- **RAMCO Group** manufactures packaging: polythene, printing plates and cartons; stainless steel: sheets, rods and pipes, chaffing dishes, swimming pool ladders, safety rails, urinals and bins, mixing and cooling tanks, milk truck storage tankers, dairy processing equipment, refrigerated displays, ovens, commercial kitchen fit-outs, juicers and general kitchen equipment; plastics: storm water and sewage piping, agricultural and borehole piping, domestic plumbing pipes, fire sprinkler piping, roto moulded water storage tanks, bio digesters and dry sanitation toilets; cables: building and house cables, armoured cables, flex cables, aluminium conductors and automotive cables; and chemicals: glues, thinners, turpentine, putty and wood preservatives.
- **Devki Group of Companies** manufactures corrugated galvanised sheets, steel bars, fences, nails, pipes, plates, rolls, sections, wire and cement and paving blocks.

3.3 KEY ASSOCIATIONS RELEVANT TO MANUFACTURING

KENYA ASSOCIATION OF MANUFACTURERS

KAM is the representative organisation for manufacturing value-add industries in Kenya. Established in 1959 as a private sector body, KAM provides links for cooperation, dialogue and understanding with the government by representing the views and concerns of its members to the relevant authorities. KAM promotes trade and investment and standards and encourages the formulation, enactment and administration of sound policies that facilitate a competitive business environment and reduce the cost of doing business.

TABLE 1 - MEMBERSHIP COMPOSITION OF KAM

Sector	Members	%
Service & Consultancy	101	12
Building, Mining & Construction	29	3
Chemical & Allied Sectors	79	9
Energy, Electrical & Electronics	45	5
Food & Beverages	187	22
Leather & Footwear	9	1
Metal & Allied Sector	83	9
Motor Vehicle & Accessories	51	6
Paper & Board	74	9
Pharmaceutical & Medical Equipment	24	3
Plastics & Rubber	77	9
Fresh Produce	11	1
Textiles & Apparels	64	8
Timber, Wood & Furniture	19	2
TOTAL	**853**	**100**

Source: KAM

The organisation has five departments: advocacy, consulting, membership, communication and finance and projects. KAM membership is made up of 40% of manufacturing value-added industries in Kenya and comprises small, medium and large enterprises. Over 80% of these are based in Nairobi; the rest are located in other major towns and regions, including Coast and Nyanza/Western provinces, and Nakuru, Eldoret, Athi River, Nyeri and Thika.

- **Vision:** To be a world-class business membership organisation effectively delivering services to its members wherever they operate.
- **Mission:** To promote competitive local manufacturing in a liberalised market.
- **Purpose:** To create wealth at both corporate and individual levels by advocating for a competitive environment for businesses to operate, thereby creating better industries, growing the economy, creating jobs and hence resulting in better standards of living for Kenyans.

- **Strategic objectives:**
  - To provide proactive, evidence-based and result-focused policy advocacy services for members.
  - To provide quality demand-driven and profitable services to the business community.
  - To ensure KAM is the most preferred business membership organisation for manufacturing value-added industries.
  - To ensure KAM is financially sustainable and motivates professional and committed staff members and adheres to the highest standards of corporate governance.
  - To deliver timely and effective communication to both internal and external stakeholders.

KENYA PRIVATE SECTOR ALLIANCE

KEPSA aims to be the voice of the private sector in Kenya. It was set up in 2003 to bring together the business community in a single voice to engage and influence public policy for an enabling business environment. KEPSA is a limited liability membership organisation and has over 100,000 direct and indirect members organised through business membership organisations and corporate members. KEPSA champions the interests of the Kenyan business community in trade, investment and industrial relations.

KEPSA's **vision** is to be a world-class private sector apex body. The primary **mission** is to ensure year-on-year improvement in the overall business environment for Kenya by working together with the government and other stakeholders. The mission is driven by the organisation's **business strategy**, which has the main objective of pursuing an enabling business environment over the next five years by ensuring a year-on-year improvement in three key global business rankings:

- the Ease of Doing Business Index (World Bank)
- the Global Competitiveness Index (World Economic Forum)
- the Bribery Index (Transparency International)

As per the strategy, KEPSA's work seeks to steer the country along the road to improved performance to see its ranking on the Ease of Doing Business Index move from the current position of 136 (as at 2014) to 50 or below in the next five years. On the Global Competitiveness Index, the goal is to move from a rank of 96 in 2013 to 50 or below by 2017. Similarly, the strategy aims to move Kenya from 146th on the Bribery Index as at 2013 to 100 or below.

In addition to the three global business rankings, the business strategy directs KEPSA to partner with the government and other stakeholders in pursuit of an improved Human Development Index position, of 100 or below by 2024, as well as a GDP growth rate of between 5% and 7% in 2018 and between 7% and 10% by 2024.

The **National Business Agenda**, developed in line with Kenya's Vision 2030 second Medium-Term Plan and the KEPSA Business Strategy (2014–18), guides KEPSA's advocacy work. It has a five-year implementation period and stipulates the core cross-cutting issues, aligned with the overall goals of the Vision 2030, that KEPSA wishes to pursue on behalf of businesses with the government. The present National Business Agenda II (2013–18) is split into five broad thematic areas: Governance and Business Regulatory Environment; Upgrading Security; Infrastructure Development; Enhancing Trade and Investment; and Promoting Human Capital Development and Entrepreneurship.

Some of KEPSA's work in relation to business reforms (i.e. public–private dialogues on policy, legislative and institutional reforms) include presidential roundtables; ministerial stakeholder forums; speaker's roundtables (both for the Senate and for the National Assembly); Council of Governors roundtables the Chief Justice Forum and the Attorney General's Forum.

In terms of economic and political reforms, KEPSA has participated in the Economic Recovery Strategy (2003); the Private Sector Development Strategy (2006–10); Vision 2030 and its medium-term plans; peace-building initiatives, particularly during the 2008 post-election violence through the Mkenya Daima Campaign; development of the Constitution in 2010; and the Constitution implementation process.

KEPSA services

- *Professional growth and prosperity:* From peer-to-peer networking events to professional development sessions, from business leader roundtables to policy committees, KEPSA offers opportunities to get involved in activities that allow members to grow professionally as well as to influence policy- and decision-making to the benefit of the private sector.
- *Policy development:* By participating in the KEPSA sector boards and thereby submitting respective policy resolutions for discussion during the ministerial stakeholder forums, KEPSA members shape the country's private sector advocacy agenda.
- *Access to information:* Through its various communications vehicles and direct access to its policy experts, membership with KEPSA opens the door to a wealth of information on local and international legislation and business initiatives.
- *Resources:* KEPSA provides the private sector direct access to economic development professionals to facilitate relationships and support for private sector members. By pooling its membership, private sector members have access to a network of professionals who are the institutional backbone for business development policy courtesy of the advocacy agenda.
- *Meeting with overseas delegations:* As many overseas trade representatives, delegations and diplomats visit Kenya, KEPSA members are invited to meet them to identify and seek business and investment opportunities locally and abroad.
- *Government intervention:* KEPSA carries out follow-up on company-specific issues where companies have faced obstacles and advocates top officials for government involvement in members' activities, for example workshops and consideration for government business delegation travel slots for KEPSA.

KENYA AGRI-BUSINESS AND AGRO-INDUSTRY ALLIANCE

KAAA is a private, not for profit membership organisation dedicated to strengthening Kenyan agro-industrial competitiveness. Programmes highlight trade and development potential and broad issues that encompass several individual agri-business sectors and require a 'value chain' approach. The alliance has recently partnered with MITC to lead the agro-processing component of the Kenya Industrial Transformation Programme (KITP).

Membership

KAAA has several membership schemes – Corporate, SME, Business Mentorship and Anchor – through which members access services, such as:

- linkage to both SMEs and smallholder farmers
- selection for participation in KAAA's promotional TV farming programme
- increased visibility through brand recognition on various KAAA platforms
- representation in lobbying and advocacy initiatives such as agricultural roundtable meetings to influence policy development on issues affecting the agri-business sector
- participation in business networking platforms that will provide potential opportunities for marketing, collaboration and partnerships
- participation in KAAA programmes geared towards developing and commercialising agriculture and agri-business
- facilitation for trade and investment at local, regional and international levels
- linkages to the latest agri-business technologies, innovations and information
- access to KAAA-developed investment profiles

There are 13 Anchor members: Nestle, Brookside Dairy, Bidco Group, Sygenta Kenya, Kenya Nut Company, Wheat Foundation, Equity Bank, KCB Bank, IFC, BrazAfrica Enterprise Ltd, Sangana East Africa, Amiran Kenya and VegPro.

Priority value chains for KAAA are dairy, livestock, horticulture, cotton and grain and cereal. KAAA works with players in these value chains through capacity-building, resource mobilisation and market linkages.

KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY

KNCCI promotes, coordinates and protects commercial and industrial interests in Kenya. It is a non-profit, autonomous, private sector institution and membership-based organisation. KNCCI's mission is mainly to effectively play a central and catalytic role in facilitating the growth of the Kenyan economy through entrepreneurial development, in an enabling and conducive environment for business, geared to result in the creation of wealth and employment. It also has a vision to promote, protect and develop commercial, industrial and investment interests of members in particular, and those of the entire business community in general. The chamber aims at influencing development policies, strategies and support measures so as to achieve the best economic climate for these varied interests. Chamber services include facilitating joint ventures with foreign investors, start-up advice, staging trade fairs and exhibitions, arbitrating disputes, business match-making, executive training programmes, SME support programmes, writing introduction letters for visas and issuing certificates of origin.

AFRICAN COTTON AND TEXTILE INDUSTRIES FEDERATION

ACTIF promotes trade and increased market access for the cotton, textiles and apparel industry in Africa. It has its headquarters in Kenya and its **core services** are as follows:

- **Advocacy activities:** addressing policy issues that have an impact on regional and international Trade. ACTIF plays a lead role in championing advocacy issues on behalf of the cotton, textiles and apparel sectors in Africa to promote a favorable policy environment regionally and internationally. This includes engagement with regional economic blocs (EAC, the Southern African Development Community (SADC) and the Common Market for East and Southern Africa (COMESA)), engagement with US Government under the African Growth and Opportunity Act (AGOA), engagement with EU under European Partnership Agreements (EPAs) and engagement with China.
- **Enhancing competitiveness*:*** promoting knowledge transfer, new investment and technology uprades. ACTIF in partnership, with various development partners and national associations, organises capacity-building activities nationally and regionally to improve the competitiveness of the sector. Some of the key subject areas covered include risk management, optimisation of production, quality enhancement, international trade and sourcing trends, among others.
- **Trade linkages:** promoting a regional supply chain, business-to-business (B2B) activities and developing trade linkages with key markets including the US, the EU, India and China. Promoting trade linkages is one of the key services ACTIF offers. This is done through various avenues, including the Online Trade link at the website www.cottonafrica.com, organising B2B activities and linking companies with regional and international buyers on sourcing missions, among others. ACTIF organises annual trade events under the brand of Origin Africa. This is an on-going effort dedicated to improving the African cotton, textiles and apparel trade. It involves collaboration with producers across the cotton value chain from farm to fashion, including accessories suppliers, to develop, guide and promote African trade. Key components of the event include a trade expo, an investment forum, B2B activities, a seminar series and a designer showcase.
- **Information service:** exchange of information, sharing of market data, country profiles. ACTIF's website, www.cottonafrica.com, is its primary portal for sharing information with members. This includes supply- and demand-side reports, country focus reports and other policy documents. A new member section has also been created, where members can share information directly with each other. Regional stakeholders meetings are organised to faciliate sharing of country information and best practices.

3.4 KEY INFORMAL SECTOR PLAYERS

The key informal sector players are considered to be institutions that bring the whole sector or individual subsectors together. These include the following:

- **Kenya National Federation of Jua Kali Associations** brings together informal manufacturing, particularly metal works and furniture. It is referred to as Jua Kali.
- **Informal associations for the leather sector** include Kenya Hides and Skins Dealers Association, Kenya Hides and Skins Tanners and Traders Association, the Leather Articles

Entrepreneurs Association, the Cobblers Association of Kenya and Kenya Footwear Manufacturers' Association.

- **Africa Fashion Designer Kenya** aims to promote, nurture and represent the best of fashion design in Kenya for a global platform. It also aspires to promote the fashion industry as a reputable, viable and self-sustaining business venture that can add economic value to the nation. The association is particularly relevant to the textiles industry.

3.5 KEY DEVELOPMENT FINANCE INSTITUTIONS IN MANUFACTURING

Key development finance institutions (DFIs) in the manufacturing sector in Kenya include the following:

- the **World Bank Group**
- the **African Development Bank (AfDB)**
- **Japan International Cooperation Agency (JICA)**
- the **East African Development Bank**, which has the objective of promoting social and economic development of member states through:
  - financing of projects in all productive sectors of member states' economies
  - supplementing the activities of national development agencies of member states by joint financing operations, technical assistance and use of such agencies as channels for financing specific projects
  - supporting both public and private sector projects that are professionally run, technically feasible and financially viable in all the productive sectors of member states' economies

  To enhance its regional development objective, EADB places emphasis on:
  - projects that have regional orientation (cross-border projects)
  - projects with a comparative advantage in the utilisation of local raw materials in the production of goods for local consumption in the region or for export
  - projects that utilise resources common to member states
- **Kenya government development finance institutions** (including KIE, IDBC and ICDC)

3.6 ACADEMIA, THINK-TANKS AND RESEARCH BODIES IN MANUFACTURING

Universities considered relevant to the manufacturing space are the University of Nairobi Innovation Hub, the University of Nairobi's Science and Technology Park, Jomo Kenyatta University of Agriculture and Technology Cybercomb Innovation Hub

The **Institute of Economic Affairs** is a think-tank that provides a platform for informed discussions in order to influence public policy in Kenya. It seeks to promote pluralism of ideas through open, active and informed debate on public policy issues. It undertakes research and conducts public education on key economic and topical issues in public affairs in Kenya and the region, and utilises the outcomes of the research for policy dialogue and to influence policy-making. Its **mission** is to inform decision-making in Kenya through policy innovation, research, analysis and dialogue. Its **vision** is for a prosperous Kenya that has a well-managed economy and that upholds constitutional principles of governance.

DFIs here include the World Bank Group and AfDB.

Government bodies include the Cotton Development Authority, KIRDI, Kenya Leather Development Council, KIPPRA, NESC and KIPI.

4. KEY GOVERNMENT POLICIES AND STRATEGIES THAT AFFECT MANUFACTURING

4.1 KEY POLICIES AND STRATEGIES

The Kenyan government has developed several policies and strategies aimed at developing local manufacturing.

The first is Vision 2030 Manufacturing Sector, which states that the role of the manufacturing sector in Vision 2030 is to create employment and wealth. The sector's overall goal is to increase its contribution to GDP by at least 10% per annum. A number of interventions are proposed in the Vision aimed at making Kenya globally competitive and prosperous. The objectives to be pursued are:

- to strengthen the capacity and local content of domestically manufactured goods
- to increase the generation and use of R&D results
- to raise the share of products in the regional market from 7% to 15%
- to develop niche products for existing and new markets

To achieve these objectives, a set of key target areas have been identified and specific goals and targets have been set to steer industrial growth. These include:

- development of the iron and steel industry through establishment of an integrated steel mill
- development of SME parks, industrial and technology parks and industrial manufacturing clusters
- upgrading of products from SMEs
- skills development for technical human resources for the manufacturing sector
- commercialisation of R&D results and attraction of strategic investors for strategic sectors (e.g. iron and steel industries, agro-processing, machine tools and machinery, motor vehicle assembly and manufacture of spare parts)

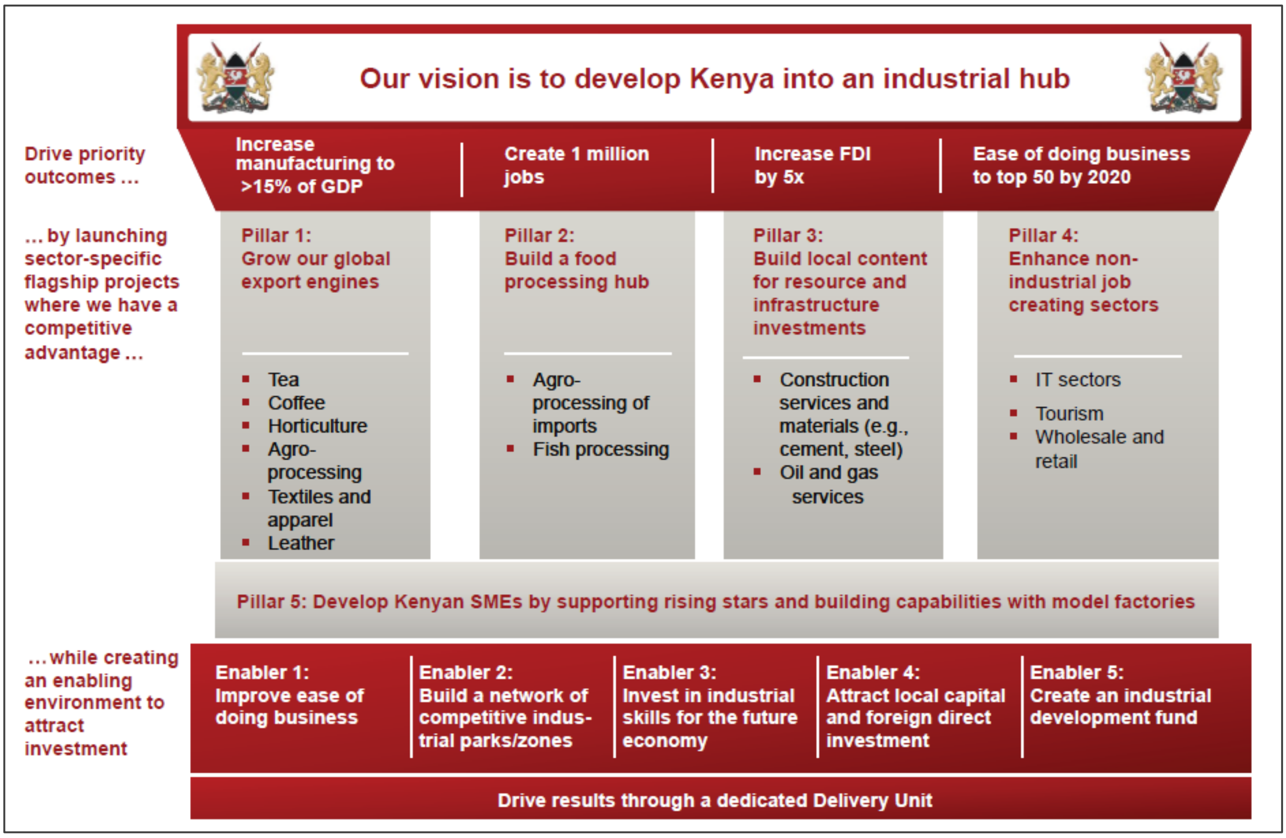
The second key government document is KITP, launched in 2015. According to this, the programme is guided by Kenya Vision 2030, the country's economic development blueprint, which aims to transform Kenya into a newly industrialising middle-income country providing a high-quality life to all its citizens by the year 2030. The objective of the Economic Pillar of Vision 2030 is to create a robust, diversified and competitive manufacturing sector in three ways:

1. boosting local production
2. expanding to the regional market
3. taking advantage of global market niches

MITC has identified opportunities that will more than double the amount of current formal manufacturing sector jobs to approximately 700,000 and add $2–3 billion to GDP. To realise these opportunities, KITP identifies the need to overcome six challenges: infrastructure and land availability, skills and capabilities in priority sectors, quality of inputs, cost of operation, access to markets and investor-friendly policies. Key activities under the KITP are:

- launch sector-specific flagship projects in agro-processing, textiles, leather, construction services and materials, oil and gas and mining services and IT-related sectors that build on Kenya's comparative advantages;
- develop Kenyan SMEs by supporting rising stars and building capabilities with model factories;
- can enabling environment to accelerate industrial development through industrial parks/zones along infrastructure corridors, technical skills, supporting infrastructure and ease of doing business;
- create an industrial development fund;
- drive results through the newly formed Ministerial Delivery Unit.

FIGURE 4 – KITP OVERALL STRATEGY



Source: MITC.

Another key policy is the National Industrialisation Policy Framework (2012) and the National Industrialisation and Industrial Development Bill, which Cabinet has approved for publication and tabling in Parliament. The policy focuses on value addition and has prioritised seven sectors out of the 22 identified, based on their potential for growth, employment and wealth creation and availability of national resource base. The seven priority sectors are both labour-intensive and medium-high technology sectors, and include agro-processing, textiles and clothing, leather and leather products, iron and steel, machine tools and spares, agro-machinery and pharmaceuticals.

The policy aims to facilitate forward and backward linkages with other economic sectors and provides a framework for addressing enablers, a funding mechanism and institutional arrangements to revitalise the industrial sector.

JICA developed a Master Plan for Kenya's Industrial Development in 2007/08; further details are not available.

Additionally, the Special Economic Zones Act (2015), which has been signed by the President, defines SEZs as areas designated as a single sector or multiple sector, which may include, but are not limited to:

- free trade zones
- industrial parks
- free ports
- information and communication technology parks
- science and technology parks
- agricultural zones
- tourist and recreational zones
- business service parks
- livestock zones

The new policy on SEZs stipulates that goods be produced closer to raw material sources and investors handed preferential terms on matters such as licensing. The SEZ Act provides incentives for industries to operate in designated zones, including Naivasha, near the Ol Karia geothermal power plants. Manufacturers in the SEZs in Naivasha will, for instance, be offered discounts on power bills because of lower transmission costs from the power plants to the industrial hubs. The Act provides for numerous tax incentives for investors, including exemption from all existing taxes and duties payable under the Customs and Excise Act, Income Tax Act, EAC Customs Management Act and Value-Added Tax Act (VAT) on all SEZ transactions. Enterprises in SEZs will enjoy several tax incentives under a tightly monitored set-up to avoid losses of government revenue. The preferential tax terms will include VAT exemption on all supplies of goods and services to enterprises, reduction in corporate tax to 10% from 30% for a period of 10 years of operation and 15% for the next 10 years. The government plans to freeze new investments within its EPZs before the end of this year as it takes up the SEZ model. SEZs are currently undergoing a pilot programme in Mombasa, Lamu and Kisumu.

Additional policy initiatives include the Buy Kenya Build Kenya Policy formulated by MITC, aimed at promoting local industry through procurement of locally made products. In this sense it is a market access policy but it is yet to be published. Additionally, there is active engagement on Ease of Doing Business issues by MITC, as seen in a conference held in May 2016 on this specific issue.

4.2 FEATURES, STRENGTHS AND CHALLENGES IN THE MANUFACTURING POLICY AND STRATEGY SPACE

MITC, through the KITP and Vision 2030 Manufacturing Sector agenda, is leading policy and government in the manufacturing and industry space. During an interview with MITC, it was stated that three focus sectors have been identified for KITP: textiles and apparel, leather and agro-processing. The rationale for this choice lies in the ability of these sectors to generate employment and positively contribute to GDP using assets present in Kenya. As part of its mandate to develop the sector, MITC has been engaged in bilateral discussions with other countries to develop the manufacturing industry and technology transfer, as well as creating new opportunities under fiscal and non-fiscal incentives for manufacturing industries to build on competiveness by reducing the cost of power and finance and by increasing production. Further, MITC identifies the following as factors with a positive impact on its work and the development of industry and manufacturing in the country:

- open discussion with various stakeholders on public–private partnerships (PPPs)
- developing policies towards growth and increase of competitiveness for industrialisation
- government actively seeking to understand sector challenges and to play a role in reducing the negative impact of the same by creating specific policies on intervention
- working on innovation centres to support manufacturing and industry start-up development and growth
- helping existing and new investors with a pool of workers trained to meet the specific needs of the industry
- support to research institutions to boost primary inputs such as seeds for value addition
- creating B2B meetings regionally to build on market access
- setting ethical standards of production in trade to bring integrity and good governance

This said, there are several concerns with regard to government policy and strategy formulation. An interview with MITC identified the following as constraints with which it has to grapple as it leads strategy and policy in the sector:

- lack of a strong team to coordinate KITP within the ministry
- lack of an industrial fund that SMEs can afford to access
- lack of capacity-building and related programmes to build SMEs
- delay in setting up training centres, which delays the set-up of industrial manufacturing activities in key subsectors
- lack of availability of key information on demand and supply
- delay in the development of curriculum and research for the sector

- even with political will present, difficulties in changing the perceptions of integrity in Kenya and integrating ethics concerns into the value chain

In addition to constraints MITC itself is encountering, there are additional challenges. First is the overlapping mandate of policies and strategies. The government seems to be developing too many policies and strategies that do not have clear operating mandates. The development of so many policies and strategies translates to poor implementation of the same. At the moment, KITP is dominant, almost killing all the other policies and strategies.

Second are the conflicting priorities articulated in the numerous policies and strategies. For example, Vision 2030 Manufacturing Sector agenda has a focus on developing the iron and steel industries whereas KITP emphasises agro-industry, leather and textiles development.

Third, the policies and strategies generally do not explicitly address or incorporate the informal sector. We might suppose that the focus on SMEs includes informal industry but this cannot be assumed, as there are thousands of SMEs that operate formally. There is a need for a specific focus on informal industry and manufacturing.

There is also a challenge in linking policy and research, particularly when it comes to prioritising certain subsectors. It is not clear what has informed the identification of priority sectors, and there is a sense that there is a reliance on intuition when developing sector priorities. So, although government's emphasis on employment creation means that priority is given to those sectors perceived as having the greatest potential to create the most employment, is this based on research? Should contribution to employment or contribution to GDP, or some other variable, be the most important?

There are also questions as to the extent of the linkage between research and policy formulation, implementation and refinement. There is a need for the government to create a platform for government policy bodies to interact with researchers on manufacturing in Kenya. It was noted that, while some universities do research in this space, there were questions as to its relevance. Are the recommendations made politically feasible? Do they address pressing issues in the sector?

Finally, with regard to implementation, once a policy or strategy is developed, there is very poor monitoring of implementation. There has been poor assignment and clarity of roles; there is no clear and strict timeframe for implementation; and there are no ready answers or analysis as to why policy or strategy objectives have not been met – and no consequences for any lapses. Thus there is a sense that there is no impetus to implement government policies and strategies. As a result, what seems to happen is that previously unimplemented policies are left and new ones developed without asking why the former policies and strategies were not effectively implemented and did not meet their objectives.

However, KITP seems to be changing this dynamic: there has been improvement in terms of clarity of roles and a clearer timeframe. Further, through the Presidential Delivery Unit, progress on KITP is to be reported to the president every six months. This should help in tracking the strategy's implementation, key player performance and coordination with cabinet secretaries of all related ministries. However, it is not clear whether this reporting is actually happening.

5. FACTORS THAT AFFECT THE MANUFACTURING SECTOR

Numerous factors inform the manufacturing sector positively or negatively. Often, each factor has a mixed impact on the sector.

5.1 GOVERNMENT ACTIVITY AND ITS EFFECT ON FORMAL MANUFACTURING

KITP is MITC's priority initiative, focusing on the priority areas of leather, textiles and agro-processing. Advisors to drive implementation of the strategy have been appointed for leather and textiles; the appointment for agro-processing has yet to be made.

A key issue hampering the manufacturing sector has to do with tax policy implementation. VAT refunds from KRA take too long to come through, which constrains activity in the manufacturing sector and limits cash flows. This is a concern for a sector that is capital-intensive. Government has yet to pay VAT refunds from pre-2013. This has become a key worry for industry players, as the money could be used for industry activity. Further, there are concerns about government tariff application: some interviewees state that, often, the staff at customs are not sufficiently trained to apply the right tariff to products. This makes the customs process for manufacturers more problematic than it ought to be.

Additionally, although public procurement has a 40% local content requirement under the Public Procurement and Disposal Act, this is often not adhered to. Indeed, with regard to the Standard Gauge Railway, there was an issue in 2015 where the contractor was not meeting local content obligations in the construction of the railway line, arguing that goods and services did not meet the approved quality threshold. Although this issue has since been resolved, the sector continues to fail to fully benefit from local content requirements in public procurement, because local goods can be dismissed on the basis of quality concerns. As there is no clear feedback mechanism between public procurement structures and manufacturers, there is no means for relevant subsectors to improve product quality. There is a need to enforce local content requirements and create feedback loops so quality issues can be addressed.

5.2 EFFECT OF DEVOLUTION ON MANUFACTURING

Devolution seems to be having a mixed effect on manufacturing. Devolution in Kenya refers to a form of decentralisation and the transfer of decision-making and implementation powers, functions, responsibilities and resources to legally constituted and popularly elected local governments (ICJ, 2013).

In terms of the positive effects of devolution, an interview with KIPPRA on devolution status revealed that there had been an improvement in infrastructure by county and national governments, which is important to improve the county-level business environment. Further, as each county is allocated funds, county governments engage the private sector in implementing required activities as well as sourcing supplies. Further, greater cash flow at county level and related government activity seems to be having a positive effect on purchasing power and is expanding buying power to purchase manufactured products.

Additionally, devolution seems to be encouraging counties to determine key strengths and how these can drive county growth. With a more localised focus, county governments are better able to determine opportunities in which the manufacturing sector can be engaged. Devolution has also opened up the country: the localised county focus provides opportunities for manufacturers to identify opportunities to build new firms or scale up existing ones at county level. This is important as labour costs are cheaper in rural counties and other counties can be closer to raw materials.

Finally, devolution is engendering competition between counties in terms of who is doing well with regard to improvements in infrastructure and service delivery, with each county trying to position itself as the ideal investment destination. Such competition is positive as it makes each county strive to improve performance, including making itself more conducive to investment in manufacturing. A sub-regional, county-focused assessment on the investment environment would be useful.

In terms of negative effects, devolution has divided Kenya into 47 counties, which are small, dispersed and reduced economies of scale. Further, there are too many disparate policy initiatives at county level, and devolution has made it difficult for investors as it increases transaction costs for investment. Further, there is no capacity at county level to promote manufacturing, and county governments have difficulty generating the necessary documentation to attract serious investment. So, while there is a general understanding of strengths at county level, with several counties holding investment conferences, often such conferences are seen as not worth the time because county governments have difficulty translating strengths into investment opportunities, with the concrete data and information required to make informed investment decisions. This is particularly pronounced with regard to manufacturing, as counties do not have capacity to explicitly create manufacturing opportunities at county level.

Further, counties do not seem to have the capacity to generate revenue creatively. As a result, they are hampering business activity by introducing new fees and licences that negatively affect manufacturers.

Further, inter-county movement of goods now attracts a fee charged by each county the goods pass through, pushing up the cost of doing business even more.

5.3 ACCESS TO FINANCE

Access to finance is a key issue for the manufacturing sector. This section does not constitute a detailed overview of all the financing options available to the sector but reviews the interviews conducted.

SOURCES OF FINANCING

The manufacturing sector sources financing mainly locally, partly informed by the relatively developed financial sector in the country. Firms also self-finance and use family funds and financing from friends. Commercial banks are the most sought-out source of financing for the manufacturing sector outside of financing sourced from personal sources. Additionally, local savings and credit cooperatives have increased borrowing power.

This is not to say there is no foreign financing of the sector: National Cement, a member of the Devki Group of Companies, has embarked on a KES 6.1 billion expansion plan across East Africa financed by the International Financial Corporation (IFC). IFC has also invested KES 2 billion in Bidco Oil Refineries' expansion. In the case of firms listed on the NSE, most financing comes from foreign sources: 70% of the financing of this market is foreign. Indeed, the NSE made the point that international markets are still looking at frontier and emerging markets, given attractive returns, thus there tend to be positive responses to capital calls via the NSE.

TYPES OF FINANCING

Debt is the main type of financing leveraged in the manufacturing sector, for several reasons. First, firms, particularly family businesses, some of which are the biggest in the sector in Kenya, prefer debt because they do not want to cede control to outsiders. Second, Kenyans lean towards debt because they understand this type of financing; the equity world is an unknown. Even on the NSE debt preponderates, because private companies feel they will lose control on equity deals. With regard to alternative sources of financing, there is a reluctance to list on the NSE because once a company is listed it is open to more scrutiny and new regulations. Another constraint in equity financing is that many manufacturing firms are simply too small for consideration. Some equity deals begin at the $5 million mark; such criteria cut out SME manufacturers from leveraging equity.

In cases where equity financing is leveraged, there seems to be a preference of partnering with DFIs because there is a sense that there are no personal interests or personality issues with this source of financing. Although the Kenyan private sector is beginning to realise that equity has its positives, such as affordability and being a patient source of capital, the private equity space in the country is still very young.

CONDITIONS OF FINANCING

Although there is a willingness to finance the manufacturing sector, conditions of financing are unfavourable and reduce uptake. Interest rates are very high, often around the 18% range and, although smaller financing is available via microfinance institutions, this is at even higher rates. Second, low tenure is partly informed by banks wanting to limit exposure to risks associated with the uncertainty of doing business in Kenya. Indeed, an interview with a major financier revealed that willingness to invest in the sector depends on capital commitment of the investee of at least 30% of the investment required. According to the financier, this not only reduces risk but also demonstrates a seriousness of commitment by the investee. This commitment is not always forthcoming, which reduces investor appetite.

As they stand, conditions of financing are difficult because the manufacturing sector needs patient capital of longer duration, as working capital cycles last six months on average. Thus, although it is relatively easy for formal manufacturers to obtain access to finance, because of the presence of assets that act as collateral, conditions of financing are negative. Both the interest rates and the duration of debt in local markets translate to an inability to access financing for many firms.

The interest rate issue is of particular concern and puts the manufacturing sector in Kenya at a disadvantage because it is competing with international players, some of whom can access financing at interest rates of 2–3%. Thus foreign manufacturing firms not only can take up such financing but also do not have to push for large profits to meet debt servicing obligations. They can make a 10% margin and still service the loan. In Kenya, the margin has to be far higher if a firm is to service the loan.

FINANCING THE ENABLING ENVIRONMENT

It should be noted that some financing that will be of benefit to the manufacturing sector does not finance the sector itself but rather is aimed at improving the business environment and enablers. For example, AfDB currently does not directly finance manufacturing but provides support to local banks through partial guarantee facilities, which enhance the capacity of banks to provide financing and increase opportunities for businesses to access financing. AfDB also finances hard and soft infrastructure in the country and region, which are important enablers. AfDB has also earmarked the High 5 Bank Priorities, which include industrialising Africa, through opportunities to enhance development of industry.

Beyond direct financing via IFC, the World Bank is also financing the enabling environment, and this is a priority over sector specific financing. The focus is on improving electricity and water access as well as financing the development of infrastructure, to improve the working environment for manufacturers.

5.4 BUSINESS ENVIRONMENT ISSUES

The World Bank Kenya Economic Update (2016) notes that comparing the World Bank's Enterprise Surveys from 2007 and 2013 suggests the business climate is deteriorating. Firms in 2013 experienced higher financing costs, higher insecurity and more unreliable access to infrastructure. Kenyan firms make 30 contributions a year, and take 201 staff hours to calculate, file and pay their taxes. For traders, logistics are a major hindrance. On average, the procedures and documentation needed to import or export take 26 days; connecting to the power grid in Nairobi requires six steps, takes more than five months and costs on average 10 times the per capita gross national income. Specific elements of this business environment negatively affect the manufacturing sector.

Registration and licensing is a concern as there is no one-stop shop for investors looking to start manufacturing in the country. There is no check-list on how to set up a business and what is required. If there were, all the different requirements come from completely different and unrelated entities.

Second, electricity is an on-going concern. According to the World Bank, only 23% of the population has access to electricity. However, one interviewee pointed out that the issue is not so much electricity supply in terms of volume but distribution and transmission. The Kenyan population and industrial activity have grown but the transmission and distribution infrastructure has not. Thus, even if power is available, poor transmission and distribution infrastructure leads to erratic power supply and outages.

Another concern expressed by interviewees concerning electricity related to high tariffs, which increases the cost of making goods, leading to a heightened price of the end product. An additional constraint linked to electricity is power outages, which costs manufactures as it leads to idle time. Further, power outages mean manufacturers are forced to buy generators, which are an added cost in terms of purchases and operations. The quality of the electricity supply is an additional concern: fluctuations in power and power outages lower productivity as machines have to be restarted and machine lifetime is shortened. Early breakdown can occur because of the sensitivity of machines used in production.

Another constraint in the business environment is land. Land tenancy establishment is difficult in Kenya, in that land titles are not clear and sometimes overlap. Thus land issues (land title disputes, long transaction times, corruption) make it difficult to establish business activity.

Fourth are value chain issues: a key concern is managing inputs, particularly local inputs. Manufacturers cannot always rely on suppliers, and thus are not guaranteed to get inputs of the right quality at the right price within the right time period. As a result, manufacturers often have to get into building their own inputs or quasi-owning input firms, which is an added cost to the firm.

Fifth, although interviewees acknowledged that there have been improvements in transport infrastructure and new infrastructure development, transport is still largely viewed as a constraint. The movement of goods from the port in Mombasa to Kisumu and Eldoret is expensive, given the generally poor state of roads. This translates to higher vehicle maintenance costs, which then leads to higher costing of transport services. In addition, congestion is a concern: the movement of goods takes a longer time, thus increasing the cost. A final issue related to transport is corruption, with police often demanding bribes from transporters, thereby driving transport pricing up.

Finally, well-organised corruption negatively informs the business environment in Kenya. This is addressed in section 5.12.

5.5 MARKET ACCESS

Market access dynamics for manufactured goods pertain to access to national, regional and global markets.

NATIONAL MARKETS

National market access differs depending on the product being sold. For example, the leather and apparel subsectors technically have a massive market at their disposal, but in reality suffer with market access issues because the national market is saturated with second hand clothes and shoes (*mitumba*), largely sold by informal traders. This translates to a lack of a domestic market for products in these subsectors. This creates an interesting tension because, often, locally manufactured leather and textile products are more expensive than second hand products. Thus, from a consumer perspective, *mitumba* is positive; indeed, one DFI interviewed was of the view that this second hand market allowed Kenyans, even low-income Kenyans, to dress well at an affordable price and to select from a wide array of styles and colours. However, from a manufacturing point of view, the presence of the second hand product range is difficult, as leather and textile products often cannot compete in terms of price point as well as variety. Thus local manufactures in leather and textiles have to be globally competitive if they are to access the domestic market. Further, the ban on second hand clothes has been put in place without any strategy to increase local production.

REGIONAL MARKETS

An on-going issue that negatively affects the uptake of locally manufactured products in the national market as well as in EAC and COMESA markets is pricing. Cost of production in Kenya remains high, thus cheap imports from India and China routinely undercut locally manufactured equivalents. Indeed, one interviewee made the point that Kenya can be a member of as many regional blocs as it wants but if the products are expensive who will buy them?

In terms of regional access, Kenya is part of regional trading blocs such as the EAC and COMESA, and will be a part of the tripartite trade zone of COMESA–EAC–SADC when this materialises. However, barriers exist that make accessing such markets difficult. In the EAC, several dynamics are muting Kenya exports to the region. The World Bank Kenya Economic Update makes the point that the weak growth in exports within the EAC has coincided with the start of the fully fledged EAC customs union, which has terminated preferential access for goods produced under various export promotions schemes.

Additionally, Kenya is operating in a context where neighbouring countries are building their manufacturing sectors, and players in this sector target the domestic market, pushing Kenyan products out of the market. The Kenyan manufacturing sector has long had an advantage with regard to accessing EAC countries but, as these countries overcome challenges in their manufacturing sectors, Kenyan products will face stiff competition from domestic products in export countries. Already, the sector has seen the volume of manufactured products to Uganda and Tanzania decrease. This is also partly informed by the entry of cheap to imports from China and India into regional markets.

Another dynamic related to this is that the competition emerging as a result of manufacturing development in neighbouring countries has created a scenario where neighbours want to reserve domestic markets for domestically manufactured products where possible. Thus there is a sense that neighbouring countries in the EAC seek to prevent Kenyan goods from entering because they want to keep domestic markets to themselves As a result, EAC markets are not as open as one would assume.

Kenyan manufacturers routinely face non-tariff barriers (NTBs), such as lengthy clearance times at borders and the use of the Rules of Origin specification to prevent Kenyan goods from entering EAC markets. Thus the lived reality of the free movement of goods in the EAC and even COMESA is lacklustre. Indeed, one interviewee stated that in recent years some countries in the EAC and COMESA had begun to renege on open market access and had started protecting various sectors, manufacturing included. Indeed, the tripartite free trade area that was to comprise EAC–SADC–COMESA did not come to pass in June 2016 because some countries did not want to open up their markets to foreign competition. South Africa is wary of opening up its domestic market and its export market in Botswana, Lesotho, Namibia and Swaziland, which are members of the Southern African Customs Union, to selected items, especially maize, wheat, electronics and equipment, from other blocs. Thus, while there is a lot of talk about regional market access, the reality is different. Indeed, there is a sense that everyone but Kenya has started to limit market access, particularly through NTBs; thus, some are of the view that Kenya needs to stop playing the role of big brother and stop keeping borders so open.

GLOBAL MARKETS

In terms of international market access, Kenya is party to preferential market access agreements such as AGOA and EPAs with the EU. These expand the market for manufactured products beyond Kenya's borders. Organisations such as KAM played in important role in the renewal of AGOA to 2025 for Kenya and EPAs with the EU. According to the World Bank's Kenya Economic Update, Kenya's trade with the US now exceeds that with the UK and is largely driven by preferential access through AGOA. Indeed, there is acknowledgement that Kenya is exporting far less than it could to the US with regard to the range and volume of manufactured goods. While some companies, especially those in textiles and apparel, are making use of AGOA, others, particularly SMEs, struggle with access issues. This is because of low levels of awareness, particularly among smaller firms, of preferential trade agreements and how to access such opportunities. Additionally, it is complex to qualify to access AGOA markets, given the complexity in product qualification, product entry requirements and obtaining AGOA visas. Finally, EPZ firms are targeted with incentives by government to facilitate access to export markets, yet many firms exist outside the EPZs and would benefit from tax relief and other incentive schemes to boost their ability to access export markets.

5.6 MANAGEMENT IN THE MANUFACTURING SECTOR

In general, Kenya is perceived to have a relatively high level of management skills when compared with Africa and certainly the East Africa region. That said, Kenyan management skills should be strengthened through executive education courses and the development of local case studies during management training. However, in the view of some, management is a relatively small issue compared with other factors, such as electricity and access to finance, in terms of negative impacts on manufacturers.

Nevertheless, the sector has several management challenges. First off, in many ways, Kenya cannot attract good managers into manufacturing because the sector is so small – and perhaps the slow growth of the sector is precisely because management capacity is low.

Meanwhile, sometimes it is difficult for companies to develop niche management expertise because one company manufactures several different products, making it hard to develop capacity and style for a specific product type. Some companies choose to move into manufacturing new products rather than scaling up existing manufacturing, for several reasons. First, size of the market and market access may create reluctance to scale up the manufacture of a certain product if the firm is not certain the increased supply will be consumed. Second, in some cases it is easier for firms to diversify into other product spaces and capture market share and expand profitability in this way rather than through further up-scaling. However, although diversification of product range may buffer firms from issues in certain product markets, the spread of goods being produced may negatively inform a firm's ability to develop niche management expertise. Linked to this is a factor mentioned before, whereby management not only is responsible for firm activity but also has to get involved in managing or owning supplier firms to ensure inputs of the right quality and price during the right time period. As a result, management cannot necessarily focus on sector-specific issues as it is managing input firms as well.

An interesting feature of the manufacturing space in Kenya is the presence of numerous large and high-profile family businesses in the sector. There is a clear difference in view as to whether this is positive or negative for management. For some, family-owned businesses negatively inform management in several ways. First, in family businesses the best and brightest managers may not necessarily rise through the ranks and become senior management because owners would rather a family member occupy such a position. Second, family-owned businesses may be dominated by family-made decisions. Thus, although there may be management and board meetings, some of the serious decisions are made at the family level. Thus, a situation may emerge where the input of non-family members is not considered in key decisions. Some feel that the dominance of family-owned and family-managed businesses in the manufacturing sector leads to a high-handed, closed, family-driven management style, with no learning from global management practices. In fact, one interviewee commented that multinational companies that did not have the family business mind-set had a 'sense of standards' and were willing to poach good managers, not being constrained by family considerations.

However, there is an opposing view. Family-owned businesses may develop strong management practices because family members are mentored and have a sense of the issues the firm faces from an early stage. This mentorship leads to the development of competence and expertise in firm and sector issues as well as ways to manage the firm going forward. Family members may also be more willing to share difficult issues with incoming family managers, knowing the information will remain within certain circles. Thus family managers may have a much greater sense of the on-going dynamics in the business, and this can be leveraged for better management. Additionally, ownership at the family level incentivises the development of management of expertise along generational lines and engenders generational buy-in. If the owner or top manager of a family firm dies, it is likely that family members will step in and ensure the company continues running. This may not be the case for other businesses, which may die if the owner dies, having not brought in family members. Further, family businesses do not rely solely on family members, even at senior management levels; many companies in the manufacturing space bring in expats and Africans to manage the firm. Further, family businesses listen to the advice of non-family managers they have appointed. Thus it can be argued that they leverage both generational family expertise and that of non-family members. The main downside of this model, however, is that, if an incompetent family member is brought in, they can run the company down.

5.7 PRODUCTIVITY IN MANUFACTURING

Productivity in Kenya is relatively problematic. The World Bank Kenya Economic Update makes the point that the economy has created more jobs in recent years but these are low-productivity, mainly in the informal services sector, and not associated with higher value addition. Within the private formal sector, more productive and more established firms offer better job conditions and higher wages, but these opportunities are limited.

There was a view in interviews that, although Kenya has productivity issues in manufacturing, productivity is higher than in other African and specifically East African countries. However, there was clear acknowledgement that, when compared with other parts of the world, productivity in Kenya is clearly wanting. There is concern that productivity in manufacturing is stagnating or even marginally deteriorating. While larger firms are more productive than smaller enterprises, MSMEs account for 67% of enterprises within the sector. Thus, the large number of smaller enterprises with low productivity pulls down the aggregate productivity of the sector. Low productivity in small (formal) enterprises is related to use of obsolete technologies, lack of access to finance to improve firm activity and difficulties in attracting and retaining skilled individuals. There is also a concern that assembly lines are not designed to maximise productivity in some cases. One interviewee made the point that he employed twice as many people as a factory of a similar scale elsewhere. But there are unique concerns in Kenya that inform this, such as the need to hire security staff, who make up 10% of his staff.

Labour productivity in manufacturing is becoming an increasingly scrutinised issue: if Africa and Kenya specifically pitch themselves as countries with low wages, if such labour has low productivity, investors may be more willing to take up more expensive but far more productive labour forces in other parts of the world. A complicating factor previously mentioned is that, at a global level, productivity in manufacturing is growing faster than demand, which means the rate of growth at which consumers are buying products at a global level is growing slower than manufacturing productivity. This is likely to lead to an oversupply of manufactured products from a global perspective. Indeed, intimately linked to the productivity question in terms of firm and labour efficiency is the need to ensure deeper market access for Kenyan manufacturers so investments made to improve productivity are rewarded, especially in export markets.

5.8 TECHNOLOGY AND THE MANUFACTURING SECTOR

Three elements related to technology in the manufacturing sector need to be analysed. The first is the use of technology, the second is related to the manufacturing of technology products in Kenya and the third is the extent to which the large tech community in Kenya intersects with the manufacturing sector.

In terms of the prevalence of modern technology, as previously mentioned, MSMEs constitute 67% of manufacturing firms in Kenya, and most of these do not and/or cannot effectively leverage technology, usually because of the related cost of doing so. Thus, while larger players use technology effectively, smaller entities cannot. Thus numerous manufacturers are using out-dated technologies, running out-dated systems and using obsolete machines. Some textile firms use obsolete machines that run at 200 rpm; in other parts of the world these run at 18,000 rpm. In short, many players are aware of technological advancements but cannot afford to make use of them. An interviewee with KIPPRA noted that a census by KNBS in 2010 noted that use of out-dated technology was a key factor contributing to cost of production, given low levels of energy efficiency. Thus, even if the government can reduce the cost of electricity, firms' continued use of energy-inefficient technologies will mean cost savings will not be fully transferred. That said, segments of the manufacturing sector modernise machinery to keep up with competitiveness in terms of quality, price and design variety. Further, there are opportunities for new industry to take advantage of technology that is cheaper and more efficient to develop truly efficient and productive plants.

The second issue relates to the development of technological products by the manufacturing sector in Kenya. Kenya has a strong technology sector, and is considered the leading technology and innovation hub in Africa. The sector has developed home-grown manufactured technology solutions such as BRCK and KioKit, and there is clear potential for the country to become a force in technology manufacturing on the continent. However, there are several constraints here, according to firms active in manufacturing technological products in the country. First, although there is more capacity in software development, there are not enough individuals skilled in firmware and hardware development – a skills set required if *bona fide* technology manufacture capacity is to be domiciled in Kenya. Moreover, value chain issues exist: there is no technology ecosystem that produces the different components required to make electronic products. Local tech manufacturers have to import the components that constitute the end product, and duty is so high on specific technological components required to make products locally that it is easier for the product to be made elsewhere and shipped to Kenya. A best case scenario is of the end product being assembled in Kenya. Further, the low number of Kenyans being trained in the requisite skills required to domicile technology manufacturing is an issue. The sector requires support from expat tech professionals, yet the government requirement for permits makes the entry and stay of such professionals difficult.

The third issue linked to technology pertains to the extent to which the Kenyan technology sector can address issues that manufacturers face operating in the country. For example, a common complaint by manufacturers is linked to erratic power supply and the negative effect this has on machine operations and life span. The local technology sector should be the first place the manufacturing sector should go to address this issue, using indigenous solutions that understand the issues linked to running a manufacturing firm in Kenya. However, the intersection between the local technology and manufacturing sectors is weak. The manufacturing sector does not articulate its technology needs to the tech sector and does not actively seek input from local technology companies in solving its problems. This may be for several reasons, including a general lack of awareness in the manufacturing sector of how advanced the local technology scene truly is. It may also be informed by a stubborn perception that local tech firms are not as sophisticated as foreign firms and cannot develop effective solutions to local problems in manufacturing – the default is to call in a foreigner to fix the problem. Finally, because of lack of engagement between the two sectors, the tech community does not know what types of problems manufacturers face and therefore cannot develop solutions.

5.9 LABOUR AND SKILLS

On the issue of labour and skills, one interviewee made the point that the Kenyan labour force is well educated but not well skilled. This is echoed by the World Bank Kenya Economic Update, which states that Kenya has a relatively well-educated labour force but a majority of adults remain functionally illiterate. Productive jobs require a skilled labour force. The manufacturing sector, like many sectors in the country, has identified issues with skills in its labour force, with a clear gap between education and skills. Again, the mismatch is not as large as that in most of Africa and the region, but it constrains the growth of the sector. It is clear there is an insufficient number of technicians to service the manufacturing sector or even public infrastructure projects.

First, there is a structural issue: not many Kenyans are training to work in manufacturing because the sector is not seen to be as vibrant as the services sector, for example, and is perceived as having limited employment opportunities. Thus, not much labour is training to enter manufacturing and as a result manufacturing does not get the labour it needs to develop more effectively; this creates a vicious cycle. One interviewee said the sector had to take off for people to be incentivised to train to be a part of it. Until this point is reached, the sector should not be surprised to find it difficult to attract skilled labour.

Second, the formal education system is widely known to be inadequate in terms of skilling up the labour force. The main complaint is that the system is too theoretically heavy, allowing for limited practical application. As a result, firms have to pay to train staff in the skills required to do their jobs more effectively. Manufacturing firms are aware of this and generally have funds set aside for such up-skilling.

Third, the Kenyan post-secondary education system has been through a process whereby public technical vocational schools and polytechnics were converted to universities. This is considered to have been negative, as such polytechnics were the avenue through which labour was trained in practical skills. Conversion to universities may mean theory will again dominate.

Fourth, even in cases where post-secondary institutions train Kenyans in practical skills, many use out-dated and obsolete machines, teach out-dated curricula and do not expose students to practical problems faced in the manufacturing sector. Apprenticeships are few and far between. Graduates cannot be employed and work productively without added on-the-job training; such training is an added cost borne by manufacturers.

The good news is that the government recognises that industrial skills development has been weak and has made an effort to revive institutions that develop technical skills, such NITA. NITA not only trains students but also refunds companies when they train staff in industry-related skills. The question here is how relevant the training of institutions such as NITA is to the industry, the extent to which firms are refunded and what other measures are being developed to address the skills gap in the Kenya labour pool.

5.10 RESEARCH AND DEVELOPMENT IN MANUFACTURING

It is generally acknowledged that R&D is an under-funded and under-utilised docket in Kenya; in the manufacturing sector the situation is no different. Several factors related to R&D affect the sector: the paucity of R&D by manufacturing firms themselves, the weakness of the link between university R&D and industry needs and finally the factors that prevent think-tanks and research institutes from feeding actionable R&D into the sector.

Manufacturers in Kenya, particularly SMEs, have very limited funding earmarked for R&D, for several reasons. The high cost of production constrains the extent to which firms can set aside funds for R&D. At times, firms may be faced with a choice of allocating funds to R&D or funding activity that will have an immediate positive impact on firm activity. One interviewee stated that, for example, companies might focus on market surveillance for counterfeits rather than funding R&D. They are aware of the importance of R&D but, until the cost of production comes down and factors such as counterfeiting, which threaten profitability, are addressed, we can expect the continued marginalisation of R&D in manufacturing.

With regard to universities, one think-tank member argued that, while some are doing research related to manufacturing, the sector views this as largely irrelevant in that there is a sense that research is not linked to practical projects such as the development of new products. There is respect in some corners for individual lecturers from certain universities but universities as an institutional bloc are not considered the best source of R&D for manufacturing; this is not the case in other sectors, such as technology. This may be informed by the fact that firms routinely have to retrain fresh university graduates, as we have seen. Thus it is not completely surprising that the manufacturing sector is of the view that universities are out of touch with the realities of the manufacturing's needs and thus do not seek their input in R&D.

Other players in the R&D space are research institutes and think-tanks, which include government and private research institutes as well as DFIs. One association interviewed stated that these institutes were considered useful in terms of highlighting phenomena such as trends in the sector; key shifts in manufacturing nationally, regionally and globally; cost of doing business issues; and a sense of the performance of the sector in comparison with in other countries. However, research uptake from such institutes in the private sector is low, partly because linkages between them and the manufacturing sector have never been strongly established. In addition, the meagre amount of money allocated to R&D by manufacturing firms makes it difficult for research bodies to undertake R&D for firms.

There are also practical constraints such as timeframe issues. One think-tank interviewee pointed out that firms feel research takes too long in a context where they want answers quickly. Additionally, communicating research findings is a considerable challenge. Often, the technicality of terms and concepts used to address specific research questions are such that the data and analysis cannot be easily understood or consumed. If findings are not framed in a more accessible manner, they will not be used. Yet, after researchers have spent months on research activity, it is difficult to ask them to produce popular versions as this requires additional time which they often do not have. Sometimes, researchers do not have the skills to make their findings easier to access.

R&D is also constrained because manufacturing firms do not have a platform where they can place research questions they seek to unravel. As a result, research institutes do not know what key questions and R&D concerns firms have. Linked to this, even if a firm has a research question, sometimes the way it frames its questions may lead to the wrong information and data being gathered and analysed.

An additional important factor in relation to research institutes, think-tanks and DFIs is the issue of the institutional mandate that guides research activity for each organisation, which is usually informed by vested interests. One think-tank interviewee openly stated that some institutes in research competed for funding from the same sources. Thus, rather than a spirit of cooperation within the research space there is a spirit of competition: institutes seek to outdo each other and be at the top in terms of expertise and influence, be it over government, investors, the private sector or other stakeholders. These factors make the lived opportunities for collaboration in research thin. A serious consequence of this lack of coordination is that manufacturing companies and other stakeholders are asked similar questions by a barrage of institutes time and time again. This is creating a sense of exhaustion in the sector, especially when there are no discernible improvements despite numerous research interviews taking place.

This lack of collaboration is creating another difficult dynamic, this time in terms of the generation of information and data on the sector. Useful information on the sector exists but is held in silos in the vaults of different research players. Those looking for information on manufacturing must read numerous large reports located in different places. The large amount of labour and time associated with reading reams of analysis by different institutes mean many reports are left unread and insights are unused.

Additionally, because there is a general lack of communication between different research bodies, the risk of replication in research and analytical work is high.

Finally, R&D information is difficult to find. Often, it is possible to learn of a certain report only by having a meeting with the organisation and specifically asking for reports on manufacturing. Documents rarely show up on internet searches. This is an important concern because it is often what is found online on manufacturing in Kenya that informs perceptions of the state of manufacturing in Kenya, even if it is not comprehensive or is out-dated. Thus there is a need for research institutes to organise their files online in a manner that ensures they come up when keywords are typed in search engines.

5.11 POLITICS IN KENYA AND THE MANUFACTURING SECTOR

Political dynamics in Kenya affect the manufacturing sector both positively and negatively.

In terms of positive effects, the current government seems committed to improving the business environment. Indeed, Kenya has climbed up 21 places on the World Bank's Ease of Doing Business Index to stand at 108 in 2016. But, as previously stated, the World Bank's Enterprise Surveys from 2007 and 2013 suggest the business climate is deteriorating. Thus there is no clear consensus on this issue.

In terms of negative effects, the first concern is that politics can lead to imprudent decisions made for political gain, not for the sector's commercial and economic interest. An example of this is Mumias Sugar Factory, which has been riddled with poor management and profitability issues. In late 2015, Mumias posted KES 6.3 billion in pre-tax losses (Michira, 2015). Additional media reports indicate that eight managers were sacked in 2014 on corruption-related charges; in 2015, appointment of new managers was among the conditions that the government and creditors required the sugarcane miller to fulfil before giving it part of the money needed to revive operations (Andae, 2015). Acrimony arose when it emerged that Kenya was importing cheap sugar from Uganda. As a member of the EAC, the economic logic that should have dominated is that cheap sugar imports from Uganda are an effective means of addressing Kenya's sugar deficit issue affordably. However, political dynamics overrode such logic because the region in Kenya that dominates in sugar cane production is the western part of the country, which is a stronghold of the political opposition. Thus, rather than the government arguing that the sugar sector and specifically Mumias be scrutinised to determine why sugar production is so expensive in Kenya and to openly address management and profitability issues, the government reiterated its commitment to supporting Mumias and sugarcane growers. The conversation should have been centred on whether the sugarcane sector should be saved, and if so how to make it more economically viable. However, political considerations of appeasing opposition strongholds predominated.

Meanwhile, political uncertainty discourages investment in the country and negatively affects the manufacturing sector. Areas prone to politically instigated ethnic violence are particularly unstable during election periods, when ethnic tensions tend to be more pronounced. Further, political instability makes it difficult for government to address manufacturing concerns and issues consistently. Linked to this point is that political dynamics lead to an inconsistent focus on manufacturing. During campaign season, government and opposition parties are more willing to engage the manufacturing sector and promises are made. However, implementation of these promises is left to one side once the elections are over. Thus there is a cycle of promises being made every five years with poor follow-through thereafter.

It can be argued that the government's Go East Policy is problematic because it has led to Kenya opening up the local marker to cheap manufactured products from India and China, thereby undermining the manufacturing sector.

Finally, there is pressure from national government on county governments to enhance county revenue collection. The political demands on counties to increase revenue have led to the introduction of new fees, which negatively inform business activity, including in the manufacturing sector. An example of this is Nairobi county, which in 2013 introduced and raised fees for various business activities payable to the county government. According to media reports, these include the following:

- Fees for large transport companies with more than 50 vehicles increased to KES 100,000 for operating licences up from KES 80,000. This increases transport costs for manufacturers.
- Marketing budgets were affected as the cost of erecting billboards increased by KES 10,000 to KES 36,000 for the first 3 m^2 of a 12x6 m display. Each additional 1 m^2 costs KES 5,733. This increases advertising costs for manufacturers.

- The operating licence fee for supermarkets with more than 100 employees and shop floors of more than 5,001 m^2 went up to KES 100,000 from KES 60,000. This increases supermarket space usage for manufacturers (Business Daily, 2013).

As manufacturers use all the services above, these hikes in fees by the council affected them negatively.

5.12 ETHICS AND INTEGRITY

Ethics and integrity issues are viewed as a concern for the country in general. Transparency International has ranked Kenya 139th out of 168 in a list of the most corrupt countries in the world. A report by the Ethics and Anti-Corruption Commission published this year stated that two out of every 10 people are forced to bribe to get access to services. Indeed, one interviewee shared an example in which they were involved where a textile consortium chose to invest in Ethiopia rather than Kenya and a key element informing this decision was the presence of corruption in Kenya. Often the position is that this is a problem in government; however, the private sector, through KAM, says those issuing bribes should also be blamed.

With regard to how ethics and integrity affect the sector, the full extent cannot be determined partly because there has been no study on this focused on the manufacturing sector and questions on corruption are often not answered openly. However, interviewees made several comments, with some stating that corruption was seen as a part of doing business in Kenya and that companies risk losing out if they avoid engaging in corruption. For example, one interviewee argued that corruption shortens the timeframe of ‘getting things done’ and can be more affordable than going the legal route, which can take longer and be costlier. It was also stated that, if companies do not pay bribes, operations can be threatened with shutdowns on technicalities; indeed, bribes may be considered necessary to create and maintain good relations, particularly with government officials. In many ways, it can be argued that corruption has been normalised in the country; some may not view bribes as an ethics issues but rather as tokens of appreciation.

Grey areas in ethics and integrity are not exclusive to Kenyan parties. Last year, tension rose in the cement sector as a result of what one interviewee asserted was related to problematic ethics on the part of Chinese contractors who had been commissioned with infrastructure construction. The interviewee argued that the Chinese contractor analysed the general standard of local cement and then set a higher standard not in place locally, necessitating cement imports from China. However, this was opposed by the private sector, which argued that the 40% local content requirement under the Public Procurement and Disposal Act was not being adhered to. While this issue has now been resolved, it is an example of questionable ethical behaviour by foreigners affecting manufacturing subsectors.

Another important ethics and integrity issue relates to counterfeits. The presence of counterfeits in Kenya is partially caused by poor enforcement by relevant government bodies: counterfeiters can bribe their way out of compliance so the authorities fail to punish companies that do not adhere to legal manufacturing standards. Poor implementation of laws and regulations works against those in the sector that are compliant, and undercuts their performance.

However, there is a growing sense in the business community that paying bribes is not a sustainable long-term process as it leads to short-term protection and those who engage in it implicate themselves and their companies in the process. Further, it cannot be said that all officials are corrupt; some public servants are ethical. However, ethical heterogeneity leads to inconsistent application of rules and regulations, which is also problematic.

It should be noted, however, that ethics and integrity is becoming a key consideration for investors interested in Kenya. An interviewee from the NSE made the point that investors analyse the sustainability of the companies in which they are interested and a key element of that sustainability lies in the governance of the company. Investors seek information on board structures, audit records and CEO and management track records. Strong ethical behaviour by companies is seen as a part of having a long-term sustainably profitable, well-managed business. Further, the process of listing on the NSE requires a certificate of good conduct, tax compliance certificates and management CVs. The exchange also has a list of blacklisted companies.

In addition to this, the private sector is making efforts to promote ethics and integrity, and the manufacturing sector is spearheading this effort, evidenced in the fact that the UN Global Compact Network Kenya representative is the KAM CEO. The UN Global Compact is an initiative that was set up to push for responsible and sustainable business. Its principle of anti-corruption forms the basis of the business code of ethics that companies in Kenya sign on to. The code is a guide to how companies can institute good governance, transparency and honesty in their structures. Over 500 companies in Kenya have signed it so far.

6. THE INFORMAL SECTOR IN MANUFACTURING AND INDUSTRY

The informal economy can be defined as economic activity that is not subject to government regulation, taxation or observation (IIED, 2015). Another definition sees the informal economy as covering all economic activities by workers and economic units that are, in law or practice, not covered or insufficiently covered by formal arrangements (ILO, 2013). Additional elements of the informal economy relate to informal enterprises that are not registered for and often do not have a Personal Identification Number (PIN) with KRA, and do not have a business licence or VAT number, yet are trading, conducting business and contributing to the economy.

6.1 FEATURES OF INFORMAL MANUFACTURING

A study by the World Bank (2016b) on informal enterprise found that 48% of the firms were in informal manufacturing. As mentioned, the informal manufacturing subsectors that are considered strongest are furniture-making and metal works. However informal manufacturing and industry produce numerous products, as follows (Kinyanjui, 2010):

- **extractive industries:** saw milling; soapstone and other small-scale mining; sand harvesting
- **manufacturing:** agro-processing and value addition; metal – grills, gates, autoparts, school trunks, household appliances; garments – child, women and men’s wear; school uniforms; furniture – household, office, recreational facility furniture, upholstery, school equipment; leather and shoe making; chemicals – candles, paints, spirits, soaps, detergents.

Information in the sections below comes from World Bank (2016b).

FINANCING INFORMAL FIRMS

An overwhelming majority of informal firms surveyed use their own funds to finance working capital requirements; internal funds serve as a source of financing for working capital for 87% of firms surveyed. This is followed by money from friends and relatives (used by 35% of firms), credit and advances from suppliers and customers (19%), microfinance institutions (16%), moneylenders (9%) and banks (9%). However, sampled firms in the furniture industry are an anomaly as they are less likely to use their own funds (75%).

GROWTH AND EXPANSION

In terms of expansion, manufacturing firms outperform services firms, with 31% of manufacturing firms experiencing expansion compared with 24% of services firms. It should be noted that this difference between manufacturing and services firms is driven entirely by the furniture industry. Approximately 43% of firms in the furniture industry surveyed experienced expansion, compared with a significantly lower 27% of firms in the rest of manufacturing and 24% of firms in the services sector.

INTEREST IN REGISTERING

Manufacturing firms report wanting to register significantly more than services firms, but, again, this difference owes entirely to the furniture sector. A total of 70% of surveyed firms in the furniture industry reported wanting to register, and this was significantly higher than the 53% in the remaining manufacturing sector and 49% in the services sector. Costs associated with registering and taxes that registered businesses have to pay are the most common reasons for firms not registering. Indeed, taxes following registration were cited as a reason for not registering for 57% of the firms, followed by the cost of registering (56%), and no benefit from registering (47%).

COST OF LABOUR

The average cost of workers per month is KES 12,679, although there are substantial differences by sector: KES 16,448 in manufacturing vs. KES 9,056 in services.

CORRUPTION

Corruption appears to be widespread, with 33% of sampled firms reporting it as a severe obstacle, 60% reporting harassment by government officials during the previous month and 53% reporting that they believed bribes were required to stay in business. This figure is significantly higher among surveyed firms in the manufacturing sector vs. the services sector (80.0% vs. 31.6%).

PRODUCTIVITY

Labour productivity is much higher in the manufacturing sector compared with in the services sector. However, productivity in the informal sector is lower than that in the formal sector. Indeed, the mean value of labour productivity for micro firms is about 8.4 times that of informal firms surveyed. Low productivity is the result of a myriad of factors, including poor management skills, low education levels and lack of access to finance, technology and innovations. The education level of managers is highly correlated with the level of labour productivity. Labour productivity for firms with managers that have no education or only primary education is only 72% of that of firms with managers that have vocational training or a university degree.

6.2 KEY STRENGTHS OF THE INFORMAL SECTOR

This section looks at the strengths of informal manufacturing in general when compared with formal manufacturing. The first strength of informal manufacturing is its job creation ability. The sector creates jobs cheaply and large numbers of individuals, who would otherwise be unemployed and a burden to society, become gainfully employed (Hope, 2014).

Second, and linked to the point above, the informal economy allows Kenyans with lower skills sets to earn a living. Formal manufacturing jobs often require higher levels of education and educational qualifications, thus barring the entry of millions Kenyans into the formal sector as the average number of years of schooling in Kenya is 6.5 years. Thus the informal sector is an important absorber of Kenyans, many of whom do not have qualifications to enter and be employed in formal manufacturing.

Third, the informal sector provides goods and services at a relatively cheaper price. There is an intersection between the informal economy and affordability. This may be because informal economy players do not have to meet the expenses linked to formal activity, such as through tax compliance; paying the minimum wage; employee welfare laws and regulations; and statutory payments, among others. As a result, informal manufacturers can sell goods and services more cheaply to consumers. This benefits low-income groups and is important in a country where poverty levels remain high.

Finally, the informal economy is an indication of the spirit of innovation and entrepreneurship in Kenya (Hope, 2014). For example, thousands of Kenyans migrate from rural to urban areas to earn a better living, acquire skills to enable them to survive and have a better quality of life. In some cases, even skilled individuals are absorbed into the informal economy when they lose formal sector jobs, or are beginners in self-employment, breaking away from the system of wage labour.

6.3 KEY CHALLENGES FACING THE INFORMAL SECTOR

Interviewees noted that informal manufacturing is a key source of counterfeit goods. Some informal manufacturers imitate formal sector goods, under-cutting the profitability of formal manufacturers, particularly in FMCG.

Informal manufacturing also exposes the general public to dangerous, unlicensed and non-standardised goods. The manufacturing activity in this sector is often unregulated and products often do not necessarily meet legal standards in terms of the process of manufacture and the end product itself. This is of particular concern for FMCG and agro-processing activity.

In the World Bank Survey on Informal Enterprises (2016b), firms were provided with a list of eight obstacles in running their business and asked to choose the most important. The obstacles included access to finance, access to land, corruption, power supply or electricity, crime, water supply, access to technology and inadequately educated workers. These constraints make it difficult for informal businesses to scale, and they often remain operating in shacks often on the side of the road.

Facilities used for manufacture by the informal sector are often of very low quality, with some operating with no secure electricity or water lines. This negatively affects how the firms operate. Further, interviewees made the point that, because of their informality, manufacturers in the sector often do not own the land on which they operate and thus can be evicted at any point in time.

Corruption is an issue in informal manufacturing too: expensive encounters with corruption occur precisely because businesses are informal and are a soft target for bribe extraction, especially by government officials.

For the most part, informal manufacturers cannot access machines and tools to increase the quality of their goods. One interviewee made the point that adopting technology to improve productivity would not be particularly useful because individuals spend the whole day at work whether or not they are making goods. What would be useful in terms of increasing profitability is accessing tools that increase the quality of their goods, which they can then sell at a higher price.

6.4 DYNAMICS BETWEEN FORMAL AND INFORMAL MANUFACTURERS

Interviewees stated that formal enterprises, particularly larger players, are more professionalised, with skilled employees and deep local and international networks. They participate in industry associations, can afford to up-skill employees, have links with government, qualify for larger contracts, including government procurement requirements and qualify for capital. The informal sector does not have access to most of these benefits; unskilled labour is more prominent, has marginal links with government, often does not qualify for government contracts and often does not have to access to finance, training or sector information. The dynamics thus favour formal and large firms, which can create a non-level playing field even for formal MSMEs. Large firms tend to dominate market share to the extent that they can distort the market. Further, the presence of a few very large firms (by Kenyan standards) makes effective competition difficult. Moreover, formal firms can wield influence over the sector and occupy positions on organisations and government departments that supervise relevant subsectors.

Furthermore, because formal firms are more organised, they have the capacity to manufacture large volumes and meet bulk orders, giving them access to export markets as well as government contracts. They are also able to meet high-volume obligations with products of a consistent level. Consistency in the quality of products produced by the informal sector cannot be guaranteed.

However, the informal sector does negatively affect the formal sector, as it is a key source of counterfeits, undercutting formal firm profits. Further, in certain subsectors, FMCG in particular, informal players can price their products more affordably, which can eat into certain sectors of the formal firm consumer market.

At the moment there is limited intersection between formal and informal enterprises in terms of formal firms building the informal sector into supply chains. There is a sense that once the sector is more organised and formalised, formal players, including large industry, will be more willing to subcontract.

7. KEY OPPORTUNITIES FOR MANUFACTURING

There are numerous opportunities locally, regionally and globally that can be leveraged to strengthen the manufacturing sector.

7.1 LOCAL OPPORTUNITIES

SECTOR MAPPING

The greatest opportunity and need is to map the sector, both formal and informal segments, and collect data such as total number of firms, number of people employed, number of firms in each subsector, firm size, etc. This should be done with KNBS in partnership with MITC.

MANAGEMENT

Analysis of family firm management in the manufacturing sector: Family firms are an important component of the manufacturing sector. As we have seen, there are conflicting views on the effectiveness of management in family businesses in manufacturing in Kenya. Research into family firm management practices would be instructive for a better understanding.

Management skills development platform: There is a need to create more platforms between industry and learning institutions to identify current skills requirements, particularly in management. Focus can be on executive education programmes in management for manufacturing. It was also suggested that programmes be developed on factory floor management to make factory floors and production lines more efficient.

Management mentorship programmes: It was suggested that management coaching and mentorship programmes be developed, as courses alone are not sufficient.

Management focus on excelling on sustainability issues: A factor in the growing focus by developed economies on Africa as a sourcing destination for manufactured products relates to sustainability issues in countries such as China. Developed economies and consumers are becoming increasingly sensitive on sustainability manufacturing; China is perceived as an increasingly unregulated and unsustainable manufacturing base, and this is having an adverse effect on the ‘Made in China’ brand. Recently, there has been increased media scrutiny of major organisations, such as Apple, and the practices employed at the Chinese factories manufacturing their products; ‘fast fashion’ is now attracting similar attention (ACCA, 2012). Kenya should exploit this trend and position itself as a sustainable manufacturing hub. Priority action in manufacturing can focus on addressing social inequalities, improving environmental pollution, use of green energy, energy conservation and environmental protection.

Subscribe to ethics and integrity initiatives: Corruption is a key governance issue in Kenya, with spill-overs into the manufacturing sector. Improving ethics and integrity standards in manufacturing can be a key element in addressing this constraint. As KAM is leading in the UN Global Impact Initiative, the Code of Ethics should be shared widely in the manufacturing sector.

Strengthen R&D: There is a need to better coordinate research in and on the manufacturing sector so management is better informed on issues in the sector. Key areas of R&D relate first to the specific needs of manufacturing firms and second to the collection of data and information and related research and analysis on the sector. In terms of the first objective, manufacturers pooling resources to fund research on common questions and concerns can meet this. Companies along value chains can also pool financing to address issues pertinent to their value chain. There should also be a platform linking companies and research institutes on which subsectors and individual companies can list their research needs. Research institutes will then have a good sense of the research questions they can investigate and address. Doing this will encourage manufacturers to consume research that learning and research institutes in Kenya produce. In terms of the second objective, this can be met by means of better coordination of the different research activities by numerous organisations and convening research and analysis in a manner that is easily accessible by manufacturing firms. This can be done by creating an umbrella body with a common mandate that research institutes can subscribe to. This can be followed by a mapping of institutes’ research foci so that gaps are identified and replication is minimised.

FINANCING

Manufacturing financing portal: Efforts should be made to better map the key financiers of manufacturing in Kenya. This should coincide with the development of an online manufacturing financing portal on which financiers can post financing opportunities for the sector.

Awareness drives for alternative financing options: Access to finance is a constraint that impedes the performance of the sector, and part of this entails the sector's failure to access alternative sources of financing beyond bank loans. The current predominance of debt keeps rates high because debt financiers meet lending and profit targets. A financing awareness drive should be undertaken to demonstrate the advantages of leveraging alternative financing options, such as equity, in firm investment strategies. The sector should also be linked with alternative financing bodies such as private equity firms, venture capitalists and the NSE.

ADDRESSING INFORMALITY

Incentivise registration: Government should make it easier for informal sector players to formalise. It should reduce one-time costs, since registration represents one of the most visible barriers to formalisation. Reducing the complexity and fees of formalisation will lower this barrier and facilitate a transition for informal firms interested in formalisation. Government should create offices at county level specifically for this purpose. Second, government should offer a tax reprieve during the initial stages of formalisation. Once an informal businesses registers and is assigned PIN and VAT numbers, etc., they should be offered a tax holiday for a certain period of time. Third, government can open SME industrial parks that are secure with good-quality facilities and infrastructure, which informal manufacturers can use on the journey to formalisation.

Informal sector supply chain analysis: Given the presence of a sizeable informal sector in Kenya, manufacturing companies should undertake a supply chain analysis to determine the points of intersection with the informal sector, particularly in sales and marketing. This is because, depending on the product, points of sale of manufactured products are often in informal shops and trading areas. Thus manufacturing companies can map the extent to which products are consumed through informal points of sale in order to better tweak marketing for informal market consumers.

Deeper research and analysis of informal manufacturing and Industry (Jua Kali): Key stakeholders in the sector, including MITC, KAM, KNCCI, educational institutions, research and policy institutes and DFIs, should be encouraged to study more deeply informal manufacturing and industry, and their subsectors. There can be an initial focus, in line with KITP, on informality in textiles, leather and agro-processing. Although some institutions are already conducting research on the informal sector, more needs to be done, with key findings shared among key stakeholders such as government.

Strengthen informal associations and cooperatives: At the moment, the activities of informal manufacturer associations/cooperatives are not coordinated and they often function in silos. Strengthening associations requires a number of interventions, such as in skills training, financing and organisation of members. It is important to build the voice of the informal economy, and associations are a means through which this sector can articulate its issues and concerns and amplify the voice of the sector so that government, investors, private sector and other stakeholders take note. Government can also develop laws and regulations to increase the intersection between formal and informal businesses.

Support the development of informal manufacturing and industry (Jua Kali): More sector-specific analysis of the informal sector will engender a better understanding of the dynamics of the informal sector, such as factors that incentivise informality and how formalisation can be encouraged. Strategies on the development of informal sector skills level, facilities, access to finance and supportive policy interventions need to be devised. Additionally, a key constraint in the sector is low levels of productivity. Studies on the informal sector should be seriously considered and measures to rectify this issue should inform interventions by stakeholders such as government and DFIs. In short, there should be efforts to support informal firms so they are in a stronger position to start the journey to formalisation.

Build manufacturing and market space for informal manufacturers: Informal manufacturers require spaces for the manufacture and sale of their products that are secure and fitted with good access to electricity and water.

OTHER

Natural resource mapping: Map the natural resources in the country that feed into different manufacturing value chains. This should be done with the following in mind:

- natural resources that pertain to the development of agro-processing, leather and textiles manufacture as per KITP
- natural resources that are readily developed or easily exploited to drive manufacturing forward

Identify industry clusters: There is a need to map industry clusters and the strength of each to determine the country's current competitive advantage in manufacturing, which is not clear at the moment. This should lead to the development of a strategy on how to support identified manufacturing clusters through government SEZ establishment.

Infrastructure development: Kenya is currently undertaking aggressive development of both energy and transport infrastructure. The country can identify inputs required in such projects that can be manufactured locally, including cables, insulators, transformers, poles, steel beams, nails and cement.

Liaise closely with government on KITP and SEZ development: It is crucial that the manufacturing sector, particularly the agro-processing, textiles and leather subsectors, stay tuned into the implementation of KITP and advise on the process. Further, manufacturers, SMEs included, should have a central role in making use of the SEZs to drive manufacturing forward. A strategy needs to be developed to determine how firms currently operating in manufacturing in EPZs can transfer to the SEZ, where this is prudent. One way this can be done is through the establishment of regular reports between MITC and representatives of the formal manufacturing sector (through KAM) and the informal manufacturing sector (through Jua Cali). Further, through the Presidential Delivery Unit, progress on KITP is to be reported to the president every six months. As such, there should be at least quarterly meetings between MITC and both the formal and the informal manufacturing sectors so as to incorporate progress, concerns and recommendations of the sector into content presented to the president. At the moment, MITC itself concedes that there is no strong team to coordinate KITP within the ministry. Thus a first step would be to build up the KITP team and in the process link this to formal and informal manufacturers with a mandate to drive KITP forward and report to the president.

Public procurement: Strengthen lobbying to promote the procurement of locally manufactured goods in public procurement such that the 40% local content requirement is enforced through the creation of favourable regulations in line with the Public Procurement and Disposal Act and Buy Kenya Build Kenya. KAM has stated in the media that there is a lack of proper enforcement of the local content clause under the Act, and this has created loopholes that favour foreign firms and imports, both of which negatively affect local industry. A practical first step would be for the manufacturing sector through KAM to identify all loopholes in the Act and make concrete recommendations on how to refine it to better support local industry. This should then be formally submitted to MITC and tabled to national legislators.

Leverage devolution: The sector should encourage the development of a county competitiveness index to identify which counties are the most favourable for private sector activity, particularly manufacturing activity. Devolution has opened up the country by creating local decision-making structures at county level. County governments should go beyond the presentation of generic business opportunities and present specific information on opportunities that manufacturers can leverage.

Leverage subnational regional economic blocs: An emerging development is of counties coming together to form economic blocs. These blocs include Lake Region Bloc, Jumuia ya Kaunti za Pwani in Coast province, Northern Rift Economic Bloc, Mt Kenya and Aberdares Economic Bloc and Northern Frontier Bloc in North Eastern province. The manufacturing sector should link with these economic blocs to leverage economies of scale and coordinate the development of manufacturing and industrial policy and initiatives across counties. Lake Region Bloc is at the most advanced stage of activity.

Connect with the Kenyan technology sector: Facilitate linkages between the information and communications technology and manufacturing sectors to determine productive collaborations. GearBox and BRCK are good organisations to start with.

Demystify export market access: A key constraint, particularly for SMEs, lies in accessing export markets through the EAC, COMESA, AGOA and EPAs with the EU. The government should have centres to facilitate accessing information on how SMEs in manufacturing can make use of trade agreements such as AGOA. Efforts also should be directed at training SMEs on the opportunities, qualification requirements and process involved in accessing export markets. This can be done in partnership with EPC.

7.2 REGIONAL OPPORTUNITIES

Address issues in accessing EAC and COMESA markets: Kenyan exports to the EAC have been declining, and NTBs are a part of what informs this. The manufacturing sector should track the NTBs faced and advise government on the same in order to either develop local strategies that address the concerns or address the issues through diplomatic dialogue.

Access regional markets: Manufacturers through KAM can partner with institutions such as TradeMark East Africa, which works to increase access to EAC markets. The sector should actively engage in EAC initiatives and dialogue so that the priorities and concerns of manufacturers are considered.

Leverage regional projects: Regional projects, particularly in regional infrastructure, such as the Northern Corridor and the Lamu Port–South Sudan–Ethiopia Transport Corridor, exist that the manufacturing sector should leverage. These projects are partly informed by an interest in advancing the East African Common Market Protocol by boosting linkages that facilitate the movement of goods and services across regional borders. The problem is that procurement regimes in East African countries are not harmonised; there is no procurement law that is applicable in all of them: Kenya has its own, as do the other EAC member states. So, while there is an East African Procurement Forum, agreement is yet to be reached on a common legal framework to facilitate integration. The manufacturing sector should make active efforts to engage in efforts to establish an EAC procurement secretariat; this was one of the resolutions of the recent EAC procurement forum in Kigali last year.

EAC coordination along manufacturing value chains: It was suggested that value chains be developed at regional level. The example given related to textiles value chains where, for example, Tanzania or Uganda grow cotton which is then processed in Kenya.

7.3 GLOBAL OPPORTUNITIES

Map local products of international quality: Kenya's furniture subsector, which is dominated by the informal sector, has players that produce international quality furniture, such as Swahili furniture, still mainly bought in Lamu. This represents an opportunity to map the existence of such products and facilitate access to global markets in particular.

Position Kenya and East Africa as a global manufacturing hub: Wages in Asia are continuing to rise, and in China's coastal factories notable increases in wages have occurred over the past 10 years. This has made the country a less attractive manufacturing hub. As a result, factories may relocate; some may move to inland China, Bangladesh or Cambodia but Africa has also appeared on the radar as a viable option. The World Bank reports that Ethiopian factory wages for unskilled labour are a quarter of Chinese wages. Indeed, East Africa in general is increasingly becoming a focus of attention for the development of manufacturing in Africa; interest in textiles and apparel is particularly high. A report by McKinsey notes that, within sub-Saharan Africa, East African countries, especially Ethiopia and Kenya, are of interest to international apparel buyers. Indeed, for the first time, an Africa country, Ethiopia, has appeared on the list of countries expected to play a more important role in apparel manufacturing. Kenya and Ethiopia are the top two countries in Africa where global apparel buyers expect to start or increase apparel sourcing. Kenya should thus focus on how to manage labour costs and increase productivity because the country currently performs worse than both Uganda and Ethiopia on these metrics. With textiles a key component of KITP, multi-stakeholder efforts should go beyond improving the enabling environment to focus on subsector- and firm-level dynamics, so as to make the country a manufacturing hub. Without a focus on constraints here, the country will be unable to build the industry so it can meet the bulk product requirements of markets such as the US.

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