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Manufacturing Sector

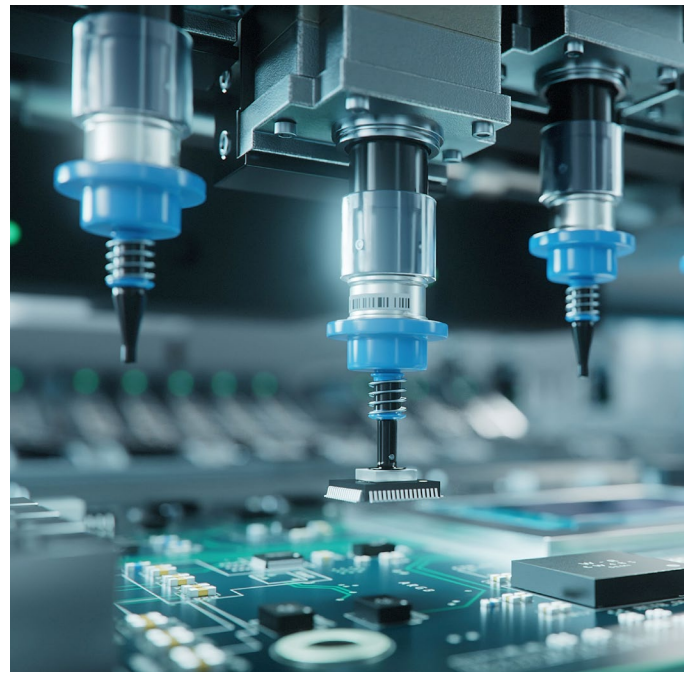
Constraints & Opportunities for Enhanced Growth

A policy paper

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Executive Summary

Executive Summary



This policy position paper presents an analysis of key policy constraints and proposed positions for the Manufacturing Sector. These policy constraints were identified in a preceding policy scoping report that involved in-depth desktop research and review of documentation from public sources informing the key statistics in the report.



An analysis of existing manufacturing policies was carried out, highlighting priorities and current gaps, as well as an analysis of the commercial landscape, which underscores the sector's opportunities and risks.



The purpose of this paper, therefore, is to present an objective analysis of the manufacturing sector policy landscape and propose policy recommendations that would, if adopted, enhance the performance and attract greater investment inflows into the sector.



Historically, according to a Sector Deep-dive Report by the Kenya Association of Manufacturers (KAM)¹, the manufacturing sector's contribution to the economy in Kenya has stagnated at around 10 percent of the gross domestic product (GDP). Following renewed interest in the sector through the Big 4 Agenda, it was expected for GDP contribution to increase to 15 percent by 2022.



However, according to the Economic Survey Report 2022, the share of the sector's real value grew by 6.9 percent compared to a growth of negative 0.4 percent in 2020. The share of manufacturing sector's contribution to GDP was 7.2 percent in 2021, while the sector's volume of output expanded by 6.0 percent in 2021 from a revised growth of 0.2 percent in 2020.

¹ <https://kam.co.ke/kam/wp-content/uploads/2018/10/KAM-Manufacturing-Deep-Dive-Report-2018.pdf>

This paper identifies key policy constraints in the sector including:

- 01 Policy uncertainty** due to frequent shifts in priorities by the national government and overlapping policies.
- 02 Public finance shortfalls** that limit the provision of services to the sector and delay the implementation of enabling projects.
- 03 Counterfeiting** which has led to an estimated loss of between Ksh. 82 billion to Ksh. 100 billion annually².
- 04 Competition from cheaper foreign manufacturing**, particularly given the recent trade/movement liberalization efforts.
- 05 Incremental rise in excise tax**, particularly as the government struggles to reduce fiscal deficits.
- 06 Reduced consumer purchasing power** that has been driven by high costs caused in part by the depreciation of the shilling and reduced disposable income due to economic slowdown.
- 07 Lack of adequate public-private consultation** which has led to a lack of alignment between legislative, policy and regulatory action on the one hand and market evolution on the other.

Nevertheless, the following measures can be implemented to address these constraints:

- 01 Enhance public-private dialogues** to solve sector-specific priority issues relating to policy, business, and operational challenges, fostering engagement and advocacy by industry players with legislators and policymakers. This will be key to ensure that the government recognizes concerns and commits to budgetary allocations that will better support the sector.
- 02 Implement a progressive IP framework** through collaboration with private sector players, civil society, government agencies and legislators.
- 03 Collaborate with the public sector and development organizations to facilitate capacity building** in the sector to effectively implement anti- counterfeiting measures such as the newly launched Intellectual Property Rights (IPR) Recordation - a database of information about intellectual property rights of a product either locally manufactured or imported.
- 04 Harmonize tax policies** to create efficiency in tax administration by providing consistency and certainty in tax legislation and management of tax expenditures thus creating predictability.

² Kenya Anti-Counterfeit Authority (ACA)

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Background

Background

The growth and development of the manufacturing sector in Kenya is guided by various policy interventions that have been introduced over time dating back to 1965, two years after Kenya's independence. Policy interventions since independence from the Sessional Paper No. 10 of 1965 emphasizing on African socialism to the current Kenya Vision 2030 emphasizing on manufacturing for regional and global exports have had direct impact on the manufacturing sector. This paper, therefore, provides a snapshot of some of the landmark policies the country has developed, constraints and recommendations for a productive manufacturing sector.

3.1 Policies Affecting the Manufacturing Sector

Some of the national economic policies that have had immense impact on the manufacturing sector in Kenya include Sessional Paper No.10 of 1965; Import substitution policy of 1970's; Structural Adjustment Program of the 1990's; and the Economic Recovery for Wealth and Employment Creation policy of the early 2000's. Other, more current policies include:

A | The Kenya Vision 2030

Introduced in 2008, the Kenya Vision 2030 outlines the role of the manufacturing sector in creating employment and wealth under the economic pillar. As the country's development blueprint, Vision 2030 aims to transform Kenya into a newly industrializing middle-income country providing a high-quality life to all its citizens by the year 2030.

The Vision has three pillars namely;



Political



social



Economic

The Economic Pillar aims create a robust, diversified and competitive manufacturing sector by boosting local production. It aims at expanding exports of manufactured products to the regional market while taking advantage of global market niches.

The other objectives of the Vision to be pursued are to strengthen capacity and revamp competitiveness. This is expected to increase the generation and use of research and development (R&D) results to raise the share of products in the regional market from 7 percent to 15 percent during the Vision period. A number of interventions have been proposed aimed at making Kenya globally competitive and prosperous. These include development of both small and medium enterprise parks, industrial and technology parks, industrial manufacturing clusters and that of the iron and steel industry by establishing an Integrated Steel Mill, skills development for technical human resources and commercialization of research and development results.

B | The Kenya Industrial Transformation Programme (KITP)

Launched in 2015, the Ministry of Industrialization, Trade and Enterprise Development (MoITED) developed a five-point strategy to capture opportunities to guide Kenya on its journey to industrialization guided by Vision 2030.



It is estimated that the opportunities captured by the strategy will more than double the amount of current formal manufacturing sector jobs to approximately 700,000 and add USD 2–3 billion to the GDP.

To realize 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.

C | The Big 4 Agenda

The Big 4 Agenda covers;



Food
Security



Affordable
Housing



Universal
Health



Manufacturing

Under the manufacturing pillar, the textile, apparel and cotton sub-sectors have been identified as a key priority with the potential for high growth and economic impact. By the end of 2022, cumulative investments in the sub-sector are targeted to increase to \$2 billion, with 500,000 new cotton jobs and 100,000 new apparel jobs. This is expected to be achieved, in part, through policy and incentive reviews, the construction of 5 million square feet of industrial sheds, the planting of 200,000 hectares of cotton and the training of 50,000 youth and women in the sector.



The other priority sub-sector as an example, is pharmaceutical manufacturing. Pharmaceuticals, medicinal chemicals and botanical products recorded the highest price increase of 10.4 percent in 2020 mainly due to increased demand brought about by the COVID-19 pandemic. In 2021, the pharmaceutical products sub-sector expanded by 5.6 per cent.

To take advantage of the emerging opportunities and growing interest, the Government of Kenya through the Kenya BioVax Institute is set to begin local manufacturing of COVID-19 vaccines to supplement the demanding global supply chain of vaccines. The American pharmaceutical firm, Moderna is keen to establish an mRNA facility in Africa to be located in Nairobi following the signing of a memorandum of understanding with the Government of Kenya. Moderna anticipates investing up to USD 500 million into the new facility which will in turn produce approximately 500 million doses annually.

Moreover, the Government has also partnered with the World Health Organization (WHO) and launched an Africa Health Emergency Hub in Nairobi which will include a Centre of Excellence for the Health Emergency Workforce, an initiative to train emergency responders from across the continent.

D | The Kenya National African Continental Free Trade Area (AfCFTA) Implementation Strategy (2022-2027)

Kenya is an active player in Africa's economic integration initiatives. Kenya was among the first countries to ratify and deposit instruments of ratification of the AfCFTA. When fully implemented, the AfCFTA will cover an estimated 1.3 billion people with a revenue potential of approximately \$3.4 trillion. As of July 2022, 54 countries had signed and 43 ratified the agreement, enabling members to embark on the implementation stage.

Kenya's National AfCFTA Implementation Strategy (2022- 2027) was developed to deliver the expected outcomes of the AfCFTA. Launched in August 2022, the Strategy is anchored within Kenya's national trade and development frameworks and aspires to contribute towards national development. It aims to consolidate, diversify, and expand Kenya's exports to African markets ensuring its manufacturing sector attains 5 percent real value-added increases per annum.

It is envisioned that this will be achieved through securing markets for goods and services within the African region and promoting value addition and the diversification of products in markets by leveraging protection of intellectual property rights, creating conditions for increased participation of MSMEs, women, youth and persons with disabilities in trade and investment, and promoting 'safe trade' with mitigating interventions on the impact of COVID-19.

With tariff liberalizations under the AfCFTA and commensurate government interventions to tackle production and supply constraints and improve export competitiveness, there is scope for increasing Kenya's manufacturing value.

Companies in manufacturing and service re-exports can benefit from Kenya's AfCFTA implementation strategy. In June 2022, Kenya was designated as one of seven countries (including Egypt, Ghana, Cameroon, Mauritius, Rwanda, and Tanzania) to pilot the AfCFTA rollout. Targeted export products under the rollout program include fisheries, medicine, fertilizer, paper, industrial chemicals, livestock, fruits, vegetables, spices, handcrafts, mining, and oil and gas. Priority service exports include professional services, tourism, education, healthcare, financial services, ICT, cultural and sports services, and transport and logistics.



E | Kenya Kwanza Manifesto

Kenya's new administration under the Kenya Kwanza party had in their campaign manifesto a commitment to develop and grow value chains across a number of industries such as:

LEATHER

Kenya's leather sector has huge potential. The sector is currently valued at

KSh15 billion

accounting for

17,000 jobs

(7,000 formal, 10,000 informal).

Estimated potential is

KSh120 billion

creating

100,000 jobs

Key challenges however are low recovery and poor quality of hides and skins, and lack of skills. Improvement in recovery and quality of hides can be addressed through the provision of feedlot. The Kenya Kwanza administration seeks to leverage on public procurement to build capacity.

With an identified potential market in uniformed services and schools, the Kenya Kwanza government has committed to set up leather industry clusters in Athi River, Narok, Isiolo and Wajir and secure linkages with and technical support from overseas markets.

BUILDING PRODUCTS

These are already one of Kenya's leading manufactured exports to neighbouring countries (iron sheets, building steel, etc). There is potential to leverage on housing programmes to scale up and broaden the range of products. Establishing standards will enable Jua Kali (informal sector small-scale manufacturers) to produce mass fittings such as, windows and doors.

GARMENTS AND TEXTILES

The Kenya Kwanza government intends to produce and convert cotton into fabric competitively pegged on local growing of BT cotton. Pilot projects over the last two years show good results with irrigation, but high vulnerability to drought. The Kenya Kwanza government has committed to work with the apparel export industry to develop a viable cotton raw material supply chain.

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Sector Policy Constraints

Sector Policy Constraints

The following are some identified constraints affecting performance of the sector.

4.1 Inconsistent Tax Regime

Despite manufacturing being a key pillar in development agenda, the country generally lacks a predictable and stable tax policy that gives manufacturers a long-term view to enable them to make appropriate growth and development plans. For example, in the Income Tax Act (2018), the government introduced an electricity rebate which entitled manufacturers to an extra deduction of up to 30 percent of their electricity cost.

The introduction of the rebate was a welcome move, as it was expected to enhance the competitiveness of local manufacturers in line with the government's Big 4 Agenda of increasing the contribution of the manufacturing sector to GDP to 15 percent by 2022. The rebate was repealed effective 25 April 2020, aligned to a move to shore up government revenue by reducing tax incentives. The impact of the policy reversal was however not tested.

In another policy review, a presidential directive was issued to review the Power Purchase Agreements (PPAs) in December 2021, to establish a pathway for the reduction of electricity prices by 33 percent by December 24, 2021. The reduction in costs would be done in two phases with a 15 percent reduction to be realized with respect to December electricity bills and the rest to be deferred.

The initial 15 percent saving was effected by the Energy and Petroleum Regulatory Authority (EPRA) in January 2022 through a revision of the Schedule of Tariffs, prescribing the tariff, charges, prices and rates charged by KPLC. The rest was to be achieved through other measures including the review of existing PPAs by the end of March 2022. As of April 2022, the remaining reduction in electricity costs was yet to be made. This delay in policy implementation creates an environment of unpredictability for the manufacturing sector.

Another example is changes introduced through the Finance Act, 2021 where the word 'imported' was deleted from the current provision of excise duty tax in relation to sugar confectionery and white chocolate, chocolate in bloc, slabs or bars. This means that both imported and locally manufactured sugar confectionery of tariff 17.04 and chocolate of the stated tariff numbers are subject to excise duty. Further, the Finance Act, 2022 increased the tariff rate per kg.

With effect from 1st July 2022, the rate of excise duty levied on imported on chocolate of specific tariffs increased from Ksh 220.31 per kg to Ksh 242.29 per kg while imported sugar confectionery increased from Ksh 36.74 per kg to Ksh 40.37 per kg. (Finance Act, 2022). Since the introduction of excise duty on chocolate in 2018, the rate asymmetrically increased by more than 1000% from Kshs 20.00 per kg to the current rate of Kshs 242.29 per kg. The proposal to increase excise duty based on inflationary adjustment at the rate of 6.3% which in effect means that excise duty levied on imported on chocolate of specific tariffs will increase from Ksh 242.29 per kg to Ksh 257.55 per kg while imported sugar confectionery will increase from Ksh 40.37 per kg to Ksh 42.92 per kg. Excise duty is basically a 'sin' tax yet the Government currently applies it to a variety of commodities such as imported polyster, imported ready to use sim cards and imported cellular phones .

¹ <https://www.kra.go.ke/news-center/public-notice/1777-imposition-of-excise-duty-on-excisable-goods-services-introduced-by-the-finance-act.-2022>

² <https://kam.co.ke/wp-content/uploads/2022/02/MANUFACTURING-PRIORITY-AGENDA-2022-Final-Copy.pdf>



4.1.1 Impact on the Sector

The Kenya Association of Manufacturers (KAM) Priority Agenda 2022 , indicates that Kenyan industrialists pay the highest amount of electricity in the region and beyond, paying between \$0.16 and \$0.18 per kw/h, compared to neighbors Uganda (\$0.05 per kw/h); Tanzania at \$0.08 per kw/h and Egypt, South Africa and Ethiopia, whose energy cost range between \$0.06 and \$0.08 per kw/h. This, despite the fact that Kenya has managed to produce more electricity than it consumes, even at peak demand. These costs disadvantage the Kenyan manufacturing sector, making it uncompetitive. This further impacts its ability to penetrate regional and continental markets. Furthermore, Kenyan products may not be able to take advantage of emerging opportunities such as those afforded by the AfCFTA. The unpredictable tax environment also impacts investors capacity for long term investment. It is likely that companies may no longer be in a position to sustain the high operational expenses of running their business in Kenya and this may result in loss of employment and livelihoods for the people who benefit directly and indirectly from these businesses.

4.1.2 Impact on Investment Landscape

The unpredictability or uncertainty in tax policy continues to hamper Kenya's attractiveness and competitiveness. Investors in manufacturing require a predictable and stable policy environment due to the capital-intensive nature of the sector requiring long-term planning. Ad-hoc policy changes affecting the industry should therefore be avoided as is the current case with the cyclical budget process where adjustments in certain classes of taxes are made every cycle leaving very little room for companies to comply before the commencement of the next cycle.

4.1.3 Policy Position

Cognizant of the tax regime challenges; the Kenyan Government published a draft National Tax Policy from which the exchequer is expected to develop the medium-term revenue strategy (MTRS) set to outline tax reforms. The National Tax Policy, if implemented, is expected to contribute towards a more predictable environment thus enhancing investor relations. The policy seeks to grow revenue and promote predictability in tax environment. Although Kenya is currently the economic and transport hub within Eastern Africa with the potential to expand its influence on the wider Sub-Saharan region, the unpredictable and unfriendly tax environment risks the country losing its position to other countries. The implementation of the National Tax Policy will be critical to prevent shifting investments to countries with attractive incentives, friendly and predictable tax environments.

³ <https://www.treasury.go.ke/wp-content/uploads/2022/07/DRAFT-NATIONAL-TAX-POLICY-16.06.-2022-.pdf>

4.1.4 Policy Recommendations



Prioritize the adoption and implementation the National Tax Policy. The tax system should be simple, fair, predictable and implementable. This will increase the country's competitiveness and attractiveness for investment.



Provide targeted and enhanced incentives in areas where it is critical to attract investment. Incentives should be validated through engagement and sensitization with relevant private sector stakeholders.



Develop a framework for determining such qualifying investments, including parameters such as the value of the investment, the number of jobs created and alignment to priority development agenda being considered. This framework should be developed in conjunction with the private sector to ensure acceptance and applicability of the framework.

4.2 Incidents of Non-compliance and Lack of Alignment Among EAC Partner States

For nearly a decade since the East African Community (EAC) free-market area was established, partner countries have failed to fully align and/or abide by regional trade and tariff policies. There have also been several incidents of countries within the bloc banning certain imports from their fellow partner states with retaliatory measures taken in response.

For instance, Kenya has over the years been involved in intermittent trade spats with Tanzania and Uganda over tariff and non-tariff rules. This has prompted interventions by respective states. Traders and producers have blamed persistent trade disputes among partner states of the EAC on incidents of dishonest traders breaking the rules of cross-border commerce. The Cabinet Secretary for East African Community and Regional Development attributed disputes between Kenya and its neighbors in recent months to non-conformity with controls and standards governing trade, with some private business entities abusing the rules in place.

However, it is not just Kenyan manufacturers that are victims of poor trade practices. According to Uganda Manufacturers Association (UMA), the Government of Kenya has ignored the EAC Common Market commitments and has on different occasions barred Ugandan goods from entering the Kenyan market. This is done through intensified non-tariff barriers (NTBs), informed by fears of a possible takeover of the trade balance of power, an act that contradicts EAC Common Market commitments.

Further, with regards to non-alignment and non-harmonization, whereas the EAC Common External Tariff (CET) on mobile phones is zero, the Government of Kenya sought and was granted an exemption allowing it to apply 25 percent on imported phones for one year. This is in addition to the 10 percent excise duty imposed by the Finance Act of 2022. Uganda also sought and was granted permission to apply 10 percent import duty on imported phones for one year. The exemption is not enjoyed by the other partner states thus creating tax disharmony and non-alignment in the Community.

4.2.1 Impact on the Sector

The ongoing trade disputes among EAC partner states has slowed growth in intra-regional trade. The East Africa Barometer Trade Report, 2020⁴, estimated trade figures at 15 percent of total volumes, despite the bloc being the most integrated in Africa. The differences among the EAC partners have been blamed for denying businesses and citizens of the region the full benefits of integration, despite the bloc offering a ready market for local businesses and manufacturers.

4.2.2 Impact on Investment Landscape

Non-compliance with regional policies by partner states could push investors towards investing in countries with favorable investment climates. For instance, cigarettes manufactured in Kenya are charged excise duty that is 80 percent higher than cigarettes manufactured in Tanzania. On the other hand, these poor practices could see investors dissuaded from investing in the region in general given the uncertainty brought about by differing practices among partner states.

4.2.3 Policy Position

Despite the clear disadvantages that have arisen from disputes and a lack of alignment within the EAC bloc, the bloc holds immense potential as a regional economic community that can drive economic growth through the full implementation of the common market protocol. In addition, there are concerns over the success of larger free trade areas in the future, including the AfCFTA due to the inability of the EAC to function as it should. The partner states should make a deliberate effort to comply and align their policies with the provisions of the instruments establishing the Community, its institutions and protocols.

⁴<https://allafrica.com/stories/202109010133.html>

⁵<https://eabc-online.com/download/eac-trade-report/>

4.2.4 Policy Recommendations



Harmonize the region's implementation of the Common External Tariff (CET) to boost intra-EAC trade.



Remove non-tariff barriers (NTBs) which hinder the growth of intra-EAC trade, with some countries having protectionist policies and practices.



EAC countries should finalize and submit tariff offers under the AfCFTA in a timely fashion to avoid the issues encountered in the EAC free trade area.

The development and harmonization of tariffs and tariff rules is a critical process that requires the engagement of private sector stakeholders to whom these tariffs would apply. Establishing regular public-private dialogue with industry associations to assess proposals and sensitize sector players will be key to building cross border support.

4.3 Cheap or Counterfeit Imports

The Economic Survey 2021⁶ revealed that manufacturing declined as a result of reduced domestic and international demand for locally produced goods. The decline was significantly influenced by the COVID-19 pandemic. However, the local manufacturing sector has long struggled to compete with foreign, often more affordable products.

This report was particularly concerning given the rejection by Parliament of a proposal aimed at boosting local manufacturing to maintain and spur job creation proposed within the Public Procurement and Asset Disposal (Amendment) Bill 2020.

Lawmakers justified their rejection of the proposal to compel, subject to availability, all foreign tenderers participating in international contracts to source at least 40 percent of local goods and services, with a blanket condemnation of local products as being of poor quality and low standards.

⁶ <https://www.knbs.or.ke/wp-content/uploads/2021/09/Economic-Survey-2021.pdf>

Data from the Kenya Association of Manufacturers (KAM) shows that in the last five years, a total of 34 local companies have shut down, mostly due to competition from cheap imports.

According to the Economic Survey 2021, cheap imports have risen two- and-a-half times in the last decade from about.

KES 144.52 to KES 361.3 billion in 2020.

This has affected both large industries and the informal manufacturing sector which employs at least 3 million people as of 2020.

It is also worth noting that counterfeit products are not only being imported but manufactured locally. According to the Anti-Counterfeit Authority (ACA), illegal trade within the country is valued at KES 826 billion, with the alcohol industry one of the most significantly impacted. A report by multi-agency market surveillance teams between January 2019 and June 2020 revealed that at least eight million Kenyans consume sub-standard alcoholic drinks every year. In an effort to curb the importation of Anti-counterfeit goods, ACA issued a notice in relation to the commencement of the recordation of Intellectual Property Rights for all imports into the country with effect from January 2023. It will henceforth be an offence for any person to import goods that have not been recorded with the ACA.

4.3.1 Impact on the Sector

While cheap imports and counterfeit products are having a negative impact on the production and revenue generation of local manufacturers, they are on the other hand benefiting local (primarily informal) traders, creating a challenge for the government on who to support. However, with manufacturing a key pillar of the government's development agenda and its potential to contribute to economic growth and job creation on a larger scale, containing the losses being incurred by manufacturers needs to be a priority.

4.3.2 Impact on Investment Landscape

The illicit goods trade, cheap imports and limited government enforcement is counterproductive in attracting investments. It impacts investor confidence and may influence investment decisions in favor of countries with stronger anticounterfeit measures enforcement, higher local demand, lower costs and/or less competition.

4.3.3 Policy Position

Counterfeit products and cheap imports are issues faced in all economies. However, the extent of the problem in Kenya is critical, especially for the already struggling manufacturing sector. Decisive government intervention on the control of cheap and counterfeit goods is critical for the development of the manufacturing sector.

4.3.4 Policy Recommendations



Develop effective surveillance and enforcement mechanisms including the deployment of technology solutions to counter the influx and trade in counterfeits.



Encourage and facilitate the compliance of local manufacturers to global standards to remain competitive.



Reduce the cost of doing business to enhance competitiveness of manufactured goods in Kenya.

4.4 Public-Private Engagement and Coordination

Kenya has in place a robust Public-Private Partnership Act, 2021 which has encouraged private sector participation in public sector activities. This has primarily benefited the energy sector, as well as the transport and other infrastructure sub-sectors. The manufacturing sector has not seen many benefits from PPPs recently, although there is growing interest, particularly in the pharmaceutical manufacturing space. This may be because manufacturing activities are largely a private sector affair and governments are not expected to engage in business other than for public goods and services.

In February 2021, the National Assembly passed the Public-Private Partnership Act 2021. The Act provides for the participation of the private sector in the financing, construction, development, operation or maintenance of infrastructure or development projects through Public-Private Partnerships (PPPs). Similarly, to the previously mentioned Act, manufacturing seems to be a low priority sector despite it being a key pillar in the government's development agenda. Proper implementation of the Act will ensure transparency in the way public-private partnerships are undertaken both at the county and the national level. This will hopefully enhance investor confidence resulting in increased uptake of public-private partnerships in Kenya.

⁷ Public Notice No. 1 & 2/2022 by the ACA

4.4.1 Impact on the Sector

The manufacturing sector has been an underperforming sector in the country, and this was compounded by the economic restrictions brought about by the COVID-19 pandemic. Without the support of and coordination with the government, the manufacturing sector risks slowing its recovery which could lead to even lower local production and less affordable local products, as well as a rise in foreign imports.

4.4.2 Impact on Investment Landscape

The perception that the manufacturing sector is a low priority with regards to public-private partnerships impacts investor confidence and could prove a significant deterrent to potential investors.

4.4.3 Policy Position

Public-private collaboration is critical for the growth and recovery of the manufacturing sector, particularly given the hesitancy of investors in the current economic climate. The government needs to prioritize the manufacturing sector in the PPP space in order to boost the industry in line with its development agenda. Failure to do this could result in the further deterioration of the sector and have a negative impact on Kenya's economy and regional influence.

4.4.4 Policy Recommendations



For Kenya to increase the contribution of manufacturing sector in the economy, the country should consider adoption of a robust public-private partnership (PPP) model especially if the country is to catapult from the present level leveraging the fourth Industrial Revolution technologies.



Public-private dialogue to develop the framework and support the implementation of the Public Private Partnership Act, 2021 will be key. This will enhance the participation of the private sector in the financing, construction, development, operation, or maintenance of manufacturing projects. It will also support harmonization of the institutional framework for the implementation of public-private partnership projects.

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General Policy Recommendations

The policy constraints within the manufacturing sector can be addressed through the following measures:

5.1 Establish Better Control of Trade Practices

Trade practices that are not in line with EAC regulations create a hostile trade and business environment in the region. While neighboring countries may also be going against EAC regulations, Kenya as a regional leader should set a good example and encourage better practices.

It should refrain from retaliatory trade practices and adjusting tariffs in order to have an advantage from the other trading blocs that fellow EAC partners may not be a part of, such as COMESA.

Additionally, Kenya should establish better control of imports into the country, particularly those that can be produced locally, and step up the crackdown of both locally and internationally produced counterfeit products.



5.2 Enhance Public-Private Partnerships (PPPs)

Given the challenge being faced by the government in developing the manufacturing sector, PPPs will be critical in ensuring it reaches its full potential. Successful engagement between the public and private sector allows for the former to invest in long-term programmes and underpinning core infrastructure.

5.3 Increase Competitiveness through Reduced Cost of Doing Business

Reducing the cost of doing business will enhance Kenya's competitiveness as an investment destination. This would include reducing the high cost of production especially energy/electricity, reducing project development cycles and minimizing bureaucratic red tape.

5.4 Enhance Policy and Regulatory Certainty

A predictable policy and tax regime enables businesses to plan especially when making intermediate and long-term investment decisions, which are the drivers for growth. Frequent changes and multiplicity of policies and regulations make it difficult for businesses to plan long-term and create uncertainty. A system that is constantly in flux with major changes discourages investment. With many companies selling their products across counties, consistency in legislation across counties is key in improving the business environment.

5.5 Establish Strong Governance and Enforcement Mechanisms

Implementation and enforcement of regulations is critical including strong enforcement against counterfeits to ensure sufficient protection of intellectual property for businesses to operate.

5.6 Adaptability to Global Standards

As a country, keeping up with and making room for changing global standards, practices and innovation creates new drivers for growth. In line with this, policy and regulation that nurtures, supports, and preserves new technologies and innovation in the manufacturing space is critical for long-term growth.

5.7 Improve Market Access

Majority of Africa's imports are manufactured goods. The AfCFTA has the potential to increase preference for African products by removing import duties on 90 percent of tariff lines, displacing imports from outside the region. The proposed US-Kenya Trade Agreement and the EU interim Economic Partnership Agreement (iEPA) both present an opportunity for deepening trade cooperation. The result is increased market access, opening up bigger markets for the manufacturing sector, which in turn propels the growth of manufacturing, driving more investment and job creation.



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