

# **THE ROLE OF THE MANUFACTURING SECTOR IN ECONOMIC DIVERSIFICATION, JOBS CREATION AND INDUSTRIALIZATION OF KENYA: Opportunities and Challenges in Fostering Export-led Industrialization**

BY  
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DURING  
HIGH LEVEL POLICY DIALOGUE ON FOSTERING PRODUCTIVE CAPACITIES IN KENYA FOR  
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## Role of Manufacturing/Socio-economic transformation

*“a broad and robust domestic **manufacturing** base is the key to successful **economic development**, since it helps generate virtuous and cumulative **linkages** with other sectors of the economy, drives **technological** progress (industrial revolution), and has the strongest potential for **productivity gains**”,*

UNCTAD TDR 2016.



# Role of Manufacturing/ jobs, export earnings, well being

## ➤ Backbone of the socio-economic transformation:-

- 1) contributes to **food security** thru' provision of chemicals, machinery and equipment for mechanization of agriculture and processing plants in agro-processing to reduce post-harvest losses and add value to agricultural produce
- 2) supports **housing sector** thru' production of construction materials; innovations in buildings designs and construction; and enhancement of the use of local construction materials
- 3) supports the **health sector** thru manufacture of medical equipment and pharmaceutical products, and hygiene products.
- 4) Creates **direct and indirect employment**, including in related services (transport, logistics, financial sector, ICT)



# Policy Framework /Broad Visions

**UN A2030-** promote **inclusive and sustainable** industrialization and raise industry's share of employment and GDP (Goal 9)

**Africa A2063-** Transformed Economies (Goal 4):

- **Sustainable and inclusive** economic growth
- **STI** driven Manufacturing/Industrialization and VA
- Economic **diversification and resilience**

**Kenya V2030 (2008)-** a newly industrializing, globally competitive and middle-income country:- **Robust, diversified and competitive** manufacturing-

- 1) Increase competitiveness of industries- **incentives**
- 2) Strengthen **SMEs** to become the key industries
- 3) Build **knowledge, technology and innovation**
- 4) Improve critical **infrastructure** to increase market access
- 5) Strengthen **business environment**
- 6) Drive critical **institutional reforms** in the sector



# Performance of Manufacturing Sector, 2013 - 2020

% Contribution to GDP	2013	2014	2015	2016	2017	2018	2019	2020
Manufacturing	10.7	10	9.4	9.3	8.7	8.4	7.9	7.6
Agriculture	26.4	27.3	30.4	20.0	20.9	20.3	21.2	23.0
Services	62.9	62.7	60.2	70.7	70.4	71.3	70.9	69.4

Formal Employment, '000	2013	2014	2015	2016	2017	2018	2019	2020
Private Sector	245.4	261.3	269	274.3	317.5	321.3	329.0	293.8
Public Sector	26.0	26.1	26.5	26.6	26.4	26.6	24.3	23.1
<b>Total</b>	<b>271.4</b>	<b>2887.4</b>	<b>295.5</b>	<b>300.9</b>	<b>343.9</b>	<b>347.9</b>	<b>353.3</b>	<b>316.9</b>



# Performance of Manufacturing Sector 2013-2020, KES mn

Year	Value of output	Intermediate consumption	Value added	Compensation of employees
2013	1,735,699	1,231,087	506,612	127,186
2014	1,820,369	1,282,369	537,999	147,453
2015	1,976,793	1,387,196	589,597	163,395
2016	2,003,566	1,295,686	707,880	172,208
2017	2,109,602	1,368,227	741,376	190,339
2018	2,216,547	1,431,178	785,369	206,420
2019	2,309,175	1,501,360	807,814	218,349
2020	2,374,234	1,555,880	818,353	215,564



# Opportunities/National Industrial Policy 2012

*”Transforming Kenya into a globally competitive regional industrial hub”* - Deliver Kenya Vision 2030:

- improving the industrial sector’s **productivity and value addition**;
  - enhancing **linkages** with other sectors to facilitate industrialization
- Policy intervention areas:
- 1) Enabling Business Environment
  - 2) High value addition
  - 4) Human resource skills development
  - 5) Foreign Direct Investment
  - 6) Market Access
  - 7) Industrial Research, Development and innovation
  - 8) SMEs growth and graduation for Industrial Expansion
  - 9) Access to Finance
  - 10) **Priority** Industrial Sub-sectors
    - Stage 1: Labour intensive sectors (agro-based industries)
    - Stage 2: Medium to high technology sectors (light & heavy)
    - Stage 3: Advanced manufacturing sectors (high tech, bio/nano tech.)

**Priority Basis:** Comparative advantage; Competitive advantage; technological innovation; industrial linkages, and regional development.



# Opportunities in Manufacturing

## ➤ **BIG FOUR AGENDA MANUFACTURING sub-sectors**

- 1) Textile and Apparels;
- 2) Leather products;
- 3) Agro- processing and Fish Processing;
- 4) Construction materials;
- 5) Automotive, plant and machinery
- 6) Pharmaceuticals & Medical Equipment
- 7) Iron and Steel;
- 8) ICT (Assembly of Electricals and Electronics);
- 9) Furniture and wood products, and
- 10) Oil, Mining and Gas

## ➤ **Strategies**

- 1) **value chain approach**- diagnosis of challenges, action plans on solutions
- 2) intensify **investment promotion** and working with County Governments
- 3) addressing the **enablers** including improved business environment
- 4) negotiate for **market access** for manufactured products
- 5) promotion of **local consumption and exports** of locally manufactured goods
- 6) engage stakeholders on **skills development** for the manufacturing sector





## Opportunities in Manufacturing/Others.....

- 1) Science, Technology and Innovation (STI)- capturing the 4IR in Manufacturing, including Digital Trade
- 2) Green Manufacturing – e-mobility, reduction of GHGs
- 3) Implementation of the AfCFTA to unlock new opportunities for integration and diversification of trade;
- 4) Development of Industrial Infrastructure (SEZs, EPZs and IPs) to attract FDI for expanded global markets (large scale jobs; supporting a wider economic reform strategy);
- 5) Development of industrial clusters and economic corridors- thru' connective infrastructure to promote the agglomeration of economic activity



# Opportunities/Kenya Industrial Transformation Plan, 2015 (KITP)

**“An integrated plan to implement NIP 2012 and guide the path to industrialization” .**

- 1) KITP focused on:
  - boosting local **production**
  - expanding local and **regional markets** and
  - taking advantage of **global market** niches.
  
- 2) Kenya's **strong agricultural sector** accounts for 25-30% of GDP; agro-processing VA USD 1.3 billion; Kenya's largest manufacturing sector.
  
- 3) Agriculture- Kenya's 75% **industrial raw materials** and 65% of exports:
  - Agro-processing only contributed 3.2% of GDP, 2.4% of formal employment and 8.5% of exports.
  - only 16% of agricultural exports were processed
  
- 4) priority sub-sectors- agro-processing including processed high value crops (tea, coffee, fruits/veg), fisheries, textiles and apparel, leather, etc



# Challenges/ National Trade Policy, 2017

*“Transforming Kenya into a Competitive Export-Led and Efficient Domestic Economy”*

## ➤ Constraints and challenges to **international trade**:

- 1) Limited capacity for diversification and low value addition in production;
- 2) Increased use of NTBs in export markets;
- 3) Lack of competitiveness due to inefficient trade facilitation infrastructure;
- 4) Lack of medium and long term finance for SMEs;
- 5) Limited availability of affordable trade finance;
- 6) Limited negotiation capacity and uncoordinated negotiation processes; and,
- 7) Preference erosion



## Challenges/ Integrated National Export Development & Promotion Strategy, 2018 (INEDPS)

### ➤ Constraints to Exports of Manufactured Products:

- 1) Prohibitive **business environment**;
- 2) High cost of **electricity, labour and inputs**;
- 3) Lack of adequate and affordable **land** to support establishment of competitive manufacturing ventures;
- 4) Inadequate **fiscal policies** (VAT refund, VAT computation and taxation of raw and intermediate products);
- 5) Inadequate **awareness** of export driven manufacturing sector opportunities;
- 6) Inadequate **capacity** of Standards and SPS competent authorities;
- 7) Weak value and **supply chains** characterized by severe shortage of raw material and excess capacity;
- 8) Inadequate **finance** instruments (long terms and short term);



# Challenges/ Integrated National Export Development & Promotion Strategy, 2018

## ➤ Constraints to Exports of Manufactured Products.....:

- 9) Inadequate awareness of manufacturing **technology**;
- 10) Weak and inadequate **skills** capability;
- 11) Inadequate **capacity SMEs** for sustainable supply;
- 12) Weak **trade facilitation** support (Standards, SPS, Customs, Logistics);
- 13) Regional and international markets **NTBs**;
- 14) Lack of awareness of destination market opportunities and **market access requirements**;
- 15) Weak **export promotion** and foreign market representation of Kenyan brands;
- 16) Low uptake of **research development and innovation**
- 17) Influx of illicit goods and **counterfeits**.



## Challenges/ National Trade Policy, 2017

### Main constraints and challenges to trade in services:

- existence of **parallel domestic legislation** that contradict regional commitments on liberalization of trade in services
- Lack of **coherent framework** for promotion of trade in services
- development of **E-commerce** hampered by:
  - 1) Lack of **legal and regulatory framework** for E-commerce
  - 2) Low levels of **access** by Digital Access Index
  - 3) Low levels of **ICT usage** by Digital Opportunity Index
  - 4) Relatively high **Internet access costs**
  - 5) Network security problems and **insufficient security safeguards**
  - 6) Inadequate **skilled human resources**
  - 7) Insufficient **telecommunication infrastructure** and internet connectivity



# Policy Framework /ERS for 2022 and Beyond

## Post COVID-19 Economic Recovery Strategy (ERS)

- 1) Foster a secure and **conducive business environment** by maintaining macroeconomic stability, enhancing security; improving business regulations;
- 2) Fast track development of **critical infrastructure** so as to reduce the cost of doing business as well as promote competitiveness;
- 3) Transform **economic sectors** for broad based sustainable economic growth;
- 4) Improve access to **education**, strengthen **health care** systems and enhance cash transfers to support the vulnerable members of our society;
- 5) Support **youth, women and persons with disability** to enable them actively contribute to the economic recovery agenda;
- 6) Facilitate the **County Governments** in strengthening their systems to enhance service delivery; and
- 7) Implement various **structural reforms** to enhance the efficiency of public service delivery-Governance, Public Finance Management reforms, financial sector reforms



# Conclusion

**Economic Diversification and  
Structural Transformation has not  
been achieved:  
What are the binding constraints?  
What lessons can we learn?  
Who can we learn from?,  
How can UNCTAD intervention help?**





**Thank you**

