High Level Policy Dialogue on Fostering Productive Capacities for Industrialization, Export Diversification, and Inclusive Growth in Kenya
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Opening Statement (16 March 2022)

HIGH-LEVEL DIGNITARIES

Betty Maina, Cabinet Secretary, Ministry of Industrialization, Trade and Enterprise Development

Mr. Okeyo, Principal Secretary, State Department for Industrialization

Mr. Stephen Jackson, UN Resident Coordinator

Excellencies, Ladies and Gentlemen,

UNCTAD is very pleased to have organized this workshop in collaboration with the Ministry of Industrialization, Trade and Enterprise Development of Kenya. The objective of this workshop is to seek ways and means for placing the fostering of productive capacities and structural economic transformation at the centre of the country's development policies and strategies.

Kenya is among the countries of focus for UNCTAD's work on building economy-wide productive capacities and kick-starting the process of structural transformation for inclusive growth and development.

What do we mean by productive Capacities and structural economic transformation?

In 2006, UNCTAD defined productive capacities as consisting of three pillars:

- *the productive resources,*
- *entrepreneurial capabilities, and*
- *production linkages,*

which together determine the capacity of a country to produce goods and services and enable it to grow and develop.

These three pillars, which we will focus on today and tomorrow, are key for structural transformation, which is*:*

the process that refers to shifting core productive resources from low economic activity to highly sophisticated and complex economic activities and production processes.

At the request of Economic and Social Council of the United Nations, UNCTAD has moved towards measuring and benchmarking such activities. And we developed a global multidimensional Productive Capacities Index (PCI), the first serious attempt to do this. The PCI, along the eight dimensions and 46 indicators, measures and benchmarks productive capacities in 193 countries and economies. We have shares technical and substantive information on the PCI to your statisticians and experts over the last 2 days.

What next?

After conceptualizing and successively measuring productive capacities, we have now moved towards developing country-specific diagnostics of domestic gaps and limitations. This phase refers to National Productive Capacities Gap Assessments (NPCGAs). They are multidimensional diagnostic analyses that aim to respond to the question of how countries, such as Kenya, formulate and implement policies centred on the fostering of productive capacities. They particularly help in the identification of comparative advantages and binding constraints to economic development, as well as mapping intervention strategies.

The main objective is to guide policies and strategies to address domestic gaps and limitations identified by the PCI. For your information, we have finalized a National Productive Capacities Gap Assessment for Zambia and Angola, have launched the process in Ethiopia and will soon do so in Cambodia, Comoros, Djibouti and Senegal.

UNCTAD has also been requested to initiate regional PCGAs for the South African Development Community (SADC) and the Economic Community of West African States (ECOWAS).

Excellencies, Ladies, and Gentlemen

This event is timely for Kenya given that the Government is attempting to revitalize manufacturing under the “Big 4 Agenda” of its Vision 2030. The workshop will identify gaps in productive capacities that can inform the next steps in fostering manufacturing growth and, more generally, transforming the national economy.

After nearly two decades of impressive socioeconomic performance, we believe Kenya is at a crossroads. The global economic crisis, provoked by the COVID-19 pandemic has interrupted production and trade and laid bare Kenya’s stalled industrialization project. Without an adjustment in strategy, Kenya’s objectives for economic growth and transformation may be at risk.

Coming out of the current pandemic is a natural point to consider how Kenya can resume its growth and development trajectory.

There are 4 key questions I feel that need to be asked:

1) What is needed to recover and rebuild the economy?

2) How can Kenya structure its recovery to put it on a solid footing to achieve its Vision 2030 and the SDGs?

3) What should be the role of national stakeholders, the private sector and civil society - in contributing to the recovery process? AND

4) How can international development and trade partners, including the United Nations, best support Kenya’s development endeavours?

We already know that, despite rapid economic growth, socioeconomic progress was mixed prior to the pandemic. Poverty rates and income inequality fell slowly but steadily throughout the previous two decades, which is an important achievement.

But, as elsewhere in sub-Saharan Africa (SSA), income per capita grew at a slower rate than the economy as a whole. And, in terms of the structure of the economy, the shares of both services and industry in the total economy have contracted over the last five years or more, in favour of agriculture, which has undercut productivity and wage growth.

All of this complicates Kenya's efforts to become a "*newly industrializing, middle-income country providing a high-quality life to all its citizens by the year 2030*".

These trends suggest that the transformation of Kenya's economy towards more productive, higher-value industries had stalled, even before the pandemic.

Excellencies, Ladies and Gentlemen,

How, then, should Kenya move forward?

We believe that there is significant reason for optimism *Kenya has political stability, a highly literate population, a vibrant private sector and its position as a regional trade hub.* These are key levers in driving structural transformation.

Where it may fall short, however, is in delivering the productive capacities that accelerate the transformation process such as electricity, ICT, transport and institutions that enable entrepreneurs to establish a business, and produce and trade, value added goods and services.

Developing productive capacity is necessary to diversify an economy, build human capital and increase productivity and wages – all of which reinforce an economy's long-term resilience to shocks.

Responding to Kenya’s experience, UNCTAD believes that productive capacities are the key to delivering broad-based development, that is:

- Generating inclusive and sustained economic growth; while also
- Leading to capital accumulation, innovation, and technological learning;
- Fostering the structural transformation of the economy, towards more productive activities; and
- Breaking the middle-income trap and delivering development over time.

Productive capacities include inputs necessary for business operations, such as skilled workers, energy, transportation, and ICT services. The availability and quality of these inputs influence whether businesses can compete, innovate and grow.

Similarly, an economy’s “soft” productive capacities – such as institutions, the ease of doing business and the state’s ability to allocate resources – influence the feasibility of investing in new, more productive industries.

According to UNCTAD's Productive Capacities Index (PCI), Kenya had an overall score of 25.73 in 2018, ranking 149th in the world. This represents steady progress, up from a score of 19.47 and rank of 173rd in 2000. However, as with many countries in sub-Saharan Africa, Kenya's PCI performance lags behind that of other developing countries and top performers from the African region, such as Mauritius, South Africa and Tunisia.

Furthermore, Kenya's overall PCI score is just above the average among the 46 economies in sub-Saharan Africa (SSA), scoring better on components such as human capital and the private sector business environment, but lagging in relation to transport, energy and ICTs.

Building on this expertise, this workshop will examine the gaps in Kenya's productive capacities, the factors underlying those gaps, and potential remedies, in the form of policies and investments.

Excellencies, Ladies and Gentlemen,

As you know, the implementation of the African Continental Free Trade Area (AfCFTA) is progressing. Much of the agreement is devoted to increasing intra-African trade, so many new opportunities will flow through cross-border trade and regional value chains.

Currently, however most cross-border trade in Africa is informal, carried out by micro and small enterprises. By contrast, formal businesses of medium to large scale are more likely to capture the new opportunities generated under the AfCFTA.

In this context, Kenya needs to re-double its efforts to incentivize and equip entrepreneurs to formalize their businesses, grow and compete.

This will involve reducing the time and cost for entrepreneurs to, for example, register their business, procure land, obtain necessary permits, and export their goods. It is also critical to improve access to and reduce the cost of credit for small and medium enterprises.

Without investment and working capital, they simply won't be able to invest, expand, and achieve the scale necessary to compete at the regional level.

We will examine these and other challenges to Kenya's efforts to build productive capacities. This is the first step in the

Productive Capacities Gap Assessment, after which UNCTAD will assist Kenya in formulating remedies, in the form of policies and investments. Once we have identified a plan of action, UNCTAD will support Kenya with tailored technical assistance to operationalize these strategies.

Excellencies, Ladies and Gentlemen,

We look forward to working with the government and stakeholders on strengthening productive capacities in Kenya.

Thank you for your attention.