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 INDUSTRIALIZATION, EXPORT DIVERSIFICATION AND INCLUSIVE GROWTH
NAIRBI,
16-18 MARCH 2022
“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

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<td>Manufacturing</td>
<td>10.7</td>
<td>10.0</td>
<td>9.4</td>
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<td>8.7</td>
<td>8.4</td>
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<td>Agriculture</td>
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<td>27.3</td>
<td>30.4</td>
<td>20.0</td>
<td>20.9</td>
<td>20.3</td>
<td>21.2</td>
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<td>Services</td>
<td>62.9</td>
<td>62.7</td>
<td>60.2</td>
<td>70.7</td>
<td>70.4</td>
<td>71.3</td>
<td>70.9</td>
<td>69.4</td>
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<tbody>
<tr>
<td>Private Sector</td>
<td>245.4</td>
<td>261.3</td>
<td>269</td>
<td>274.3</td>
<td>317.5</td>
<td>321.3</td>
<td>329.0</td>
<td>293.8</td>
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<td>Public Sector</td>
<td>26.0</td>
<td>26.1</td>
<td>26.5</td>
<td>26.6</td>
<td>26.4</td>
<td>26.6</td>
<td>24.3</td>
<td>23.1</td>
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<tr>
<td>Total</td>
<td>271.4</td>
<td>287.4</td>
<td>295.5</td>
<td>300.9</td>
<td>343.9</td>
<td>347.9</td>
<td>353.3</td>
<td>316.9</td>
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Source: Economic Surveys
## Performance of Manufacturing Sector 2013-2020, KES mn

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

Source: Economic Surveys
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.
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
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